

JUDSON CENTER, INC. AND SUBSIDIARIES

Royal Oak, Michigan

CONSOLIDATED FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended September 30, 2016 and 2015

JUDSON CENTER, INC. AND SUBSIDIARIES

TABLE OF CONTENTS As of and for the Years Ended September 30, 2016 and 2015

Independent Auditors' Report	1 - 2
Consolidated Financial Statements	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6 - 20
Supplemental Information	
Consolidating Statements of Financial Position	21 - 24
Consolidating Statements of Activities	25 - 26
Consolidating Statements of Program Expenses	27
Consolidating Statements of Management and General Expenses	28
Consolidating Statements of Development Expenses	29

INDEPENDENT AUDITORS' REPORT

Board of Directors
Judson Center, Inc. and Subsidiaries
Royal Oak, Michigan

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Judson Center, Inc. and Subsidiaries (the "Organization"), which comprise the consolidated statement of financial position as of September 30, 2016, and the related consolidated statements of activities 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 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.

Auditors' 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 auditors' 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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of September 30, 2016, 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.

Board of Directors
Judson Center, Inc. and Subsidiaries

Other Matters

Prior Period Financial Statements Audited by a Predecessor Auditor

The financial statements, including consolidating information, of the Organization for the year ended September 30, 2015 were audited by another auditor who expressed an unmodified opinion on those statements on January 25, 2016.

Report on Consolidating Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information as identified on the table of contents, is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets, and cash flows of the individual organizations, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Baker Tilly Virchow Krause, LLP

Southfield, Michigan
March 29, 2017

JUDSON CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of September 30, 2016 and 2015

ASSETS		
	2016	2015
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,251,171	\$ 977,871
Accounts receivable, net	2,159,732	2,376,990
Prepaid expenses and other	136,170	155,495
Total Current Assets	4,547,073	3,510,356
PROPERTY AND EQUIPMENT, NET	3,607,298	3,495,579
OTHER ASSETS		
Investments	10,223,328	10,599,444
Cash surrender value of life insurance	191,242	182,567
Total Other Assets	10,414,570	10,782,011
ASSETS INCLUDED AS PART OF DISCONTINUED OPERATIONS	-	254,416
TOTAL ASSETS	\$ 18,568,941	\$ 18,042,362
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 299,278	\$ 327,138
Accrued expenses	840,006	466,818
Deferred revenue	205,728	147,000
Capital lease, net of long-term portion	4,573	10,817
Total Current Liabilities	1,349,585	951,773
LONG-TERM LIABILITIES		
Capital lease, net of current portion	-	4,573
Pension liability	3,421,415	2,820,930
Accrued postretirement costs	-	199,468
Liabilities included as part of discontinued operations	-	136,142
Total Long-Term Liabilities	3,421,415	3,161,113
Total Liabilities	4,771,000	4,112,886
NET ASSETS		
Unrestricted	13,028,769	13,463,981
Temporarily restricted	769,172	465,495
Total Net Assets	13,797,941	13,929,476
TOTAL LIABILITIES AND NET ASSETS	\$ 18,568,941	\$ 18,042,362

See accompanying notes to financial statements.

JUDSON CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES
For the Years Ended September 30, 2016 and 2015

	2016	2015
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUES AND SUPPORT		
Service fees and grants	\$ 11,182,313	\$ 9,177,423
Autism fee revenue, net of contractual allowance (\$2,357,730 and \$1,953,855 at September 30, 2016 and 2015, respectively)	3,189,514	2,530,036
Public contributions	2,398,943	2,070,399
Interest and dividends	416,857	379,257
Realized and unrealized gain/(loss) on investments	579,405	(661,361)
Unrealized gain/(loss) on cash surrender value of life insurance	1,784	(4,358)
Gain/(loss) on sale of fixed assets	111,660	(19,400)
Rental income	28,353	75,651
Miscellaneous	152,425	460,581
Net assets released from restrictions	112,835	402,011
Total Revenue and Support	18,174,089	14,410,239
EXPENSES		
Program services	14,771,025	12,323,703
Management and general	2,398,047	2,438,972
Development	825,631	862,200
Total Expenses	17,994,703	15,624,875
Change in unrestricted net assets before other changes in net assets	179,386	(1,214,636)
OTHER CHANGES IN NET ASSETS		
Change in pension and postretirement liabilities	(619,598)	(901,239)
Gain on discontinued operations	-	512,715
Total Other Changes in Net Assets	(619,598)	(388,524)
Change in Unrestricted Net Assets	(440,212)	(1,603,160)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Restricted public contributions	414,622	447,964
Interest and dividends	-	2,580
Unrealized gain on cash surrender value of life insurance	6,890	6,226
Net assets released from restrictions	(112,835)	(320,804)
Change in Temporarily Restricted Net Assets	308,677	135,966
CHANGE IN NET ASSETS	(131,535)	(1,467,194)
NET ASSETS - Beginning of year	13,929,476	15,396,670
NET ASSETS - END OF YEAR	\$ 13,797,941	\$ 13,929,476

See accompanying notes to financial statements.

JUDSON CENTER, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS For the Years Ended September 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (131,535)	\$ (1,467,194)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	436,020	418,158
(Gain) loss on disposal of property and equipment	(111,660)	(613,855)
Realized and unrealized loss (gain) on marketable securities	581,304	661,361
Allowance for contractual adjustments and doubtful accounts	249,704	553,970
Unrealized loss (gain) on cash surrender value of life insurance	8,675	4,358
Changes in assets and liabilities		
Accounts receivable	(32,446)	(826,329)
Prepaid expenses and other	19,325	(47,175)
Accounts payable	(27,859)	136,639
Accrued expenses	373,188	(368,869)
Deferred revenue	58,728	40,150
Pension liability	600,485	1,042,253
Accrued postretirement costs	<u>(199,468)</u>	<u>(368,962)</u>
Net cash (used in) operating activities - continuing operations	1,824,461	(1,170,892)
Net cash provided by operating activities - discontinued operations	<u>118,274</u>	<u>335,397</u>
Net Cash Flows from Operating Activities	<u>1,942,735</u>	<u>(835,495)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(562,770)	(350,352)
Proceeds from sale of property and equipment	126,691	813,762
Purchase of investments	(874,503)	(4,336,567)
Proceeds from sale of investments	<u>651,964</u>	<u>4,876,518</u>
Net cash provided by investing activities - continuing operations	(658,618)	189,599
Net cash provided by investing activities - discontinued operations	<u>-</u>	<u>813,762</u>
Net Cash Flows from Investing Activities	<u>(658,618)</u>	<u>1,003,361</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment on capital lease	<u>(10,817)</u>	<u>(9,720)</u>
Net Cash Flows from Financing Activities	<u>(10,817)</u>	<u>(9,720)</u>
Net Change in Cash and Cash Equivalents	1,273,300	158,146
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>977,871</u>	<u>819,725</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 2,251,171</u>	<u>\$ 977,871</u>
Supplemental cash flow disclosures		
Cash paid for interest	\$ 217	\$ 881

See accompanying notes to financial statements.

JUDSON CENTER, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended September 30, 2016 and 2015

NOTE 1 - Summary of Significant Accounting Policies

Nature of Activities

Judson Center, Inc. ("Judson") is a comprehensive, multi-faceted, community based human service center that has been nationally recognized for fostering independence through innovative programs, and for empowering children of all ages and their families to live the best lives possible through the following programs:

Autism Services

Judson Center Autism Connections helps support the needs of children, teens and adults in southeast Michigan with Autism Spectrum Disorders (ASD) including: Autism, Aspergers, PDD-NOS, and other behavioral challenges and developmental disorders. Judson offers diagnostic assessments to help determine the most appropriate treatment for each individual. In addition, Judson provides Applied Behavior Analysis and Art, Music, Play, Speech and Occupational Therapy.

Behavioral Health Services

Judson has committed its resources and staff to keeping families together. Judson provides services to parents of children with severe emotional disturbances.

Child Welfare Services

Guided by the belief that every child deserves a safe, permanent, and loving family where they can grow up to be happy and productive members of their communities, Judson provides family preservation, foster care and adoption, and residential treatment services for children in need throughout southeast Michigan.

Disability Services

Judson has group homes and provides respite care and vocational services for adults with developmental disabilities and mental illnesses.

Judson is organized as a Michigan 501(c)(3) corporation on a non-stock basis.

The Judson Center Foundation (the "Foundation") is a 501(c)(3) 100% controlled subsidiary of Judson. The purpose of the Foundation is to support Judson.

Judson Center Staffing Solutions, Inc. ("Staffing") is a 100% controlled subsidiary. The purpose of Staffing is to help adults with disabilities obtain and maintain gainful employment in the community.

On December 31, 2014, Judson acquired certain assets of Child Safe Michigan ("Child Safe"), and established a 501(c)(3) 100% controlled subsidiary with the same name. The purpose of Child Safe is to meet the needs of neglected, abused and other at-risk children, and their families, with a focus on prevention, treatment, and community outreach.

JUDSON CENTER, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended September 30, 2016 and 2015

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Principles of Presentation

The accompanying consolidated financial statements include the accounts of Judson, Foundation, Staffing, and Child Safe.. Significant interorganization accounts and transactions have been eliminated. The combined entity is referred to as the "Organization" in the remainder of these notes, unless otherwise noted.

Cash and Cash Equivalents

The Organization defines cash and cash equivalents as highly liquid, short-term deposits with a maturity at the date of acquisition of three months or less not held in the Organization's investment accounts. The Organization considers all money market funds to be used for current operations and certificates of deposits purchased with a maturity of three months or less to be cash equivalents. During the normal course of business, the Organization may maintain cash-on-deposit with financial institutions in excess of the federally insured limit of \$250,000. The Organization maintains a policy of making investments only with high quality institutions and believes it is not exposed to any significant credit risk related to cash and cash equivalents.

Accounts Receivable

The Organization receives funding, through contracts, from various governmental agencies and organizations and from private payers and third party insurance carriers. The Organization carries its accounts receivables at the invoice amount, less an allowance for doubtful accounts and contractual adjustments. On a periodic basis, the Organization evaluates its accounts receivable and establishes an allowance for doubtful accounts, when deemed necessary, based on past collection history and current credit conditions. Accounts receivable are shown net of an allowance for doubtful accounts of \$433,053 and \$546,909 at September 30, 2016 and 2015, respectively. The contractual allowance is determined by calculating the amount expected to be received for the services performed from the amount actually billed based on the contracts with various insurance companies. Accounts receivable are shown net of contractual adjustments of \$602,746 and \$241,345 at September 30, 2016 and 2015, respectively.

The Organization's promises to give, included within accounts receivable on the statement of financial position, are comprised primarily of amounts committed from individuals and corporations for the Organization's activities. Revenue is recognized when an unconditional promise to give is received; in the absence of such promise, revenue is recognized when the promise to give is collected. 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 unamortized discount represents the adjustment required to record promises to give expected to be received in future years at their present value. Amortization of the discount is recorded as additional contribution revenue and used in accordance with donor-imposed restrictions over the period of the promise to give.

JUDSON CENTER, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended September 30, 2016 and 2015

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Investments

Investments are generally recorded at fair value based upon quoted market prices, when available, or estimates of fair value. Donated assets are recorded at fair value at the date of donation, or, if sold immediately after receipt, at the amount of sales proceeds received (which are considered a fair measure of the value at the date of donation). Those investments for which fair value is not readily determinable are carried at cost or, if donated, at fair value at the date of donation, or if no value can be estimated, at a nominal value. The Organization records the change of ownership of bonds and stocks on the day a trade is made. Investment income or loss and unrealized gains or losses are included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

Property and Equipment

Property and equipment are stated at cost if purchased or fair market value at date of the gift if donated. All acquisitions of property and equipment in excess of \$1,000 and all expenditures for improvements and betterments that materially prolong the useful lives of assets are capitalized. Maintenance, repairs, and minor improvements are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in income.

Property and equipment are depreciated using the straight-line method over their estimated useful lives.

Impairment of Long-Lived Assets

The Organization reviews long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

Deferred Revenue

Revenues received for special events occurring after year end are deferred until the date of the event. Deferred revenues as of September 30, 2016 and 2015 were \$205,728 and \$147,000, respectively.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization are classified and reported as follows:

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

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations.

JUDSON CENTER, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended September 30, 2016 and 2015

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Net Assets (cont.)

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. There are no permanently restricted net assets as of September 30, 2016 and 2015, respectively.

Tax-Exempt Status

The Organization has received notification that it qualifies as a tax-exempt organization under Section 501 (c)(3) of the U.S. Internal Revenue Code and corresponding provisions of State law and, accordingly, is not subject to federal or state income taxes.

The Organization follows the standard relating to the accounting for uncertainty in income taxes. The tax effects from an uncertain tax position can be recognized in the combined financial statements, only if the position is more likely than not to be sustained on audit, based on the technical merits of the position. The Organization recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would be more likely than not to sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the combined financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized, upon ultimate settlement with the relevant tax authority. The Organization applies the accounting standard to all tax positions for which the statute of limitations remains open.

Based on its evaluation, the Organization has concluded that there are no significant uncertain tax positions requiring recognition in its combined financial statements. The Organization is not currently under examination by any taxing jurisdiction.

Contributions, Fees from Government Agencies and Programs, and Fees for Services

Contributions, including unconditional promises to give, are recognized in the period received. Conditional promises are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. The Organization 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Revenue from government contracts under expense reimbursement programs is recognized in the period during which the related expenses are incurred. In cases where expenses are incurred in advance of receiving the funds, revenue and contract receivable are recorded in the period during which the expenses are incurred. Retroactive determination of allowable costs by resource providers may result in final settlements different from interim payments for reimbursable services submitted by the Organization. Revenue is reported at the estimated net realizable amounts from resource providers for services rendered, including estimated retroactive adjustments under reimbursement agreements. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

JUDSON CENTER, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended September 30, 2016 and 2015

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Contributions, Fees from Government Agencies and Programs, and Fees for Services (cont.)

Program service fees represent the estimated net realizable amounts from clients, third-party payers, and others for services rendered. The Organization records fee revenue from insurance carriers principally from fee for service arrangements for services provided.

In-Kind Contributions

The Organization reports gifts of donated goods and professional services as unrestricted support unless explicit donor stipulations specify how the donated asset must be used. Contributions are stated at fair value at the date of the gift. In-kind donations totaled \$258,006 and \$286,073 in September 30, 2016 and 2015, respectively, which did not meet the criteria for recognition in the Consolidated Statements of Activities as public contributions.

Expense Allocation

The costs of providing the various programs and other 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.

Reclassification

For comparability, certain 2015 amounts have been reclassified to conform with classifications adopted in 2016. The reclassifications have no effect on reported amounts of net assets or change in net assets.

Summarized Information

The consolidating 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 September 30, 2015, from which the summarized information was derived.

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.

Subsequent Events

The Agency has evaluated events through March 29, 2017, which is the date the financial statements were approved and available to be issued.

JUDSON CENTER, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended September 30, 2016 and 2015

NOTE 2 - Investments

Investments are carried at fair value and are summarized as follows at September 30:

	<u>2016</u>	<u>2015</u>
Money market funds	\$ 32,747	\$ 116,824
Bond funds	4,370,365	3,937,327
Equity funds	5,820,216	5,821,523
Alternative investment funds	-	723,770
Total	<u>\$ 10,223,328</u>	<u>\$ 10,599,444</u>

The following schedule summarizes investment income for the years ended September 30:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 416,857	\$ 374,584
Net realized and unrealized gains (losses) on investments	579,405	(662,102)
Total Investment Income	<u>\$ 996,262</u>	<u>\$ (287,518)</u>

NOTE 3 - Fair Value of Financial Instruments

The Organization follows current authoritative guidance, which provides a framework for measuring, reporting and disclosing fair value under generally accepted accounting principles. The guidance applies to all assets and liabilities that are measured, reported and/or disclosed on a fair value basis.

As defined in the guidance, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Organization uses various valuation methods. The assumptions used in the application of these valuation methods are developed from the perspective of market participants pricing the asset or liability. Inputs used in the valuation methods can be either readily observable, market corroborated, or generally unobservable inputs. Whenever possible the Organization attempts to utilize valuation methods that maximize the use of observable inputs and minimizes the use of unobservable inputs. Based on the observability of the inputs used in the valuation methods the Organization is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Assets and liabilities measured, reported and/or disclosed at fair value will be classified and disclosed in one of the following three categories:

Level 1 - Inputs to the valuation methodology are unadjusted quoted market prices in active markets for identical assets or liabilities.

Level 2 - Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3 - Unobservable inputs that are unobservable and not corroborated by market data.

There have been no changes in the methodology used for the years ended September 30, 2016 and 2015.

JUDSON CENTER, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended September 30, 2016 and 2015

NOTE 3 - Fair Value of Financial Instruments (cont.)

The following method was used to estimate the fair value for each class of financial instrument measured at fair value:

- > Money market funds: Valued at cost plus interest earnings through the year end.
- > Equity funds: Valued at the net asset value of shares held by the Organization at year end.
- > Bond funds, common stocks, and alternative investment funds: Valued at the closing price reported in the active market on which the individual securities are traded.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level of input that is significant to the fair value measurement in its entirety. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

While the Organization 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 estimate of fair value at the reporting date.

The table below presents information about the Organization's assets that are measured at fair value on a recurring basis as of September 30, 2016 based upon the three-tier hierarchy:

	September 30, 2016			
	Total	Level 1	Level 2	Level 3
Assets:				
Money market funds	\$ 32,747	\$ -	\$ 32,747	\$ -
Bond funds	4,370,365	4,370,365	-	-
Equity funds	5,820,216	5,820,216	-	-
Total	<u>\$ 10,223,328</u>	<u>\$ 10,190,581</u>	<u>\$ 32,747</u>	<u>\$ -</u>

The table below presents information about Organization's assets that are measured at fair value on a recurring basis as of September 30, 2015 based upon the three-tier hierarchy:

	September 30, 2015			
	Total	Level 1	Level 2	Level 3
Assets:				
Money market funds	\$ 116,824	\$ -	\$ 116,824	\$ -
Bond funds	3,937,327	3,937,327	-	-
Equity funds	5,821,523	5,821,523	-	-
Alternative investment funds	723,770	723,770	-	-
Total	<u>\$ 10,599,444</u>	<u>\$ 10,482,620</u>	<u>\$ 116,824</u>	<u>\$ -</u>

JUDSON CENTER, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended September 30, 2016 and 2015

NOTE 4 - Capital Leases

The Organization has entered into a capital lease agreement for equipment that expires February 2017. The capital lease bears interest at 2.075% and is payable in monthly installments of \$919 which included interest. The Organization also acquired assets under a capital lease agreement for their phone system. The assets and liabilities under the capital lease are recorded at the lower of present value of minimum lease payments for the fair value of the asset. The assets are depreciated over the lower of its related lease terms or its estimated productive lives.

Assets acquired under capital leases have the following book value:

	<u>2016</u>	<u>2015</u>
Phone system	\$ 48,722	\$ 48,722
Less: Accumulated depreciation	<u>44,662</u>	<u>34,917</u>
	<u>\$ 4,060</u>	<u>\$ 13,805</u>

Depreciation on assets under capital lease charged to expense was \$9,745 for the years ended September 30, 2016 and 2015. Interest expense on the capital lease charged to expense was \$217 and \$881 for the years ended September 30, 2016 and 2015, respectively.

NOTE 5 - Operating Leases

The Organization leases meeting space and residential homes with monthly payments totaling \$14,611 expiring through March 2019. The Organization also leases other facilities and equipment on a month-to-month basis. During the year, the Organization entered into a lease for its Macomb Regional office. The lease has increasing monthly payments that begin at \$9,485 per month. The lease expires November 2022.

The following is a schedule of annual future minimum lease payments required under operating leases with initial or remaining non-cancelable lease terms in excess of one year as of September 30, 2016:

Years Ending September 30,

2017	\$ 326,379
2018	282,278
2019	190,832
2020	141,484
2021 and thereafter	<u>322,514</u>
Total Future Minimum Lease Payments	<u>\$ 1,263,487</u>

Total lease expense under these agreements was \$342,110 and \$330,212 for the years ended September 30, 2016 and 2015, respectively.

JUDSON CENTER, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended September 30, 2016 and 2015

NOTE 6 - Pension Plan

The Organization sponsors a single-employer defined benefit retirement plan, Judson Center Defined Benefit Plan (the "Plan"). The Plan's benefits are frozen with no further benefits accruing to existing participants.

The net periodic pension cost was as follows:

	2016	2015
Service cost*	\$ -	\$ -
Interest cost	349,044	318,740
Expected return on plan assets	(338,489)	(366,149)
Amortization of actuarial loss	107,305	219,156
Net Periodic Pension Cost	\$ 117,860	\$ 171,747

*Plan is frozen.

The following table presents the Plan's unfunded status:

	2016	2015
Change in projected benefit obligation:		
Projected benefit obligation, beginning of year	\$ 8,190,673	\$ 7,876,459
Service cost	-	-
Interest cost	349,044	318,740
Actuarial loss	796,696	1,069,728
Benefits paid	(452,226)	(1,074,254)
Projected benefit obligation, end of year	\$ 8,884,187	\$ 8,190,673
Change in plan assets:		
Fair value of plan assets, beginning of year	\$ 5,369,743	\$ 6,097,782
Actual (loss) return on plan assets	408,282	(92,425)
Employer contributions	136,973	438,640
Benefits paid	(452,226)	(1,074,254)
Fair value of plan assets, end of year	\$ 5,462,772	\$ 5,369,743
Unfunded status, end of year		
Projected benefit obligation in excess of plan assets	\$ (3,421,415)	\$ (2,820,930)

JUDSON CENTER, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended September 30, 2016 and 2015

NOTE 6 - Pension Plan (cont.)

The amount of net actuarial loss that arose previously, and is expected to be recognized as a component of net periodic benefit cost over the next fiscal year is \$107,305. The accumulated unrecognized actuarial loss at September 30, 2016 and 2015 was \$5,155,570 and \$4,535,972, respectively. Expected future annual benefit payments to retirees are as follows:

Years ending September 30,	Amount
2017	\$ 324,496
2018	336,596
2019	351,557
2020	365,432
2021	379,190
2022 - 2027	2,012,538

The assumptions used to determine net periodic benefit cost for the Plan were as follows:

	2016		2015	
Discount rate	4.40	%	4.40	%
Expected rate of long-term return on plan assets	6.50	%	6.50	%
Rate of compensation increase	N/A		N/A	

The expected long-term rate of return of Plan assets is determined by reflecting expectations regarding future rates of return at prevailing rates, as published.

The assumptions used to determine the above benefit obligations and fair value of Plan assets include:

	2016		2015	
Discount rate	3.80	%	4.40	%
Expected rate of long-term return on plan assets	6.50	%	6.50	%
Rate of compensation increase	N/A		N/A	

Plan Assets

The allocations of Plan assets were as follows:

	2016		2015	
Equity securities	60.1	%	58.3	%
Debt securities	39.3	%	38.8	%
Other	0.6	%	2.9	%
	100.0	%	100.0	%

JUDSON CENTER, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended September 30, 2016 and 2015

NOTE 6 - Pension Plan (cont.)

The composition of the Plan assets at September 30, 2016 and 2015 is set forth in the following table:

	<u>2016</u>	<u>2015</u>
Cash equivalents	41,212	169,985
Equity securities		
Large cap	1,955,284	1,885,117
Mid cap	251,021	-
Small cap	263,449	459,404
International	809,549	778,635
Fixed income:		
Taxable core funds	<u>2,142,257</u>	<u>2,076,602</u>
Total	<u>\$ 5,462,772</u>	<u>\$ 5,369,743</u>

The above investments are all considered level one within the fair value hierarchy at September 30, 2016 and 2015, respectively.

Contributions

Employer contributions to the Plan were \$136,973 and \$438,640 during the years ended September 30, 2016 and 2015 respectively.

The Organization expects to contribute \$140,000 to the plan in 2017.

NOTE 7 - Post-Retirement Plans

The Organization had a Retiree Health Stipend Plan covering all employees having attained age 21 and 1,000 annual work hours. The benefits were payable upon the attainment of age 65. The Plan was not funded, accordingly, there were no employer or participant contributions made to the Plan. Benefits under the Plan were paid as incurred.

In December 2015, the Organization terminated the Retiree Health Stipend Plan. The accumulated postretirement benefit obligation at September 30, 2015 is the amount that was paid to covered employees when the plan was terminated.

The benefit obligation and net benefit costs were determined using an assumed weighted average discount rate of 4.4% for 2015.

The following relates to postretirement benefits provided by the Organization:

	<u>2015</u>
Accumulated postretirement benefit obligation	\$ 199,468
Net periodic postretirement cost	56,465
Benefits paid	16,560

JUDSON CENTER, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended September 30, 2016 and 2015

NOTE 7 - Post-Retirement Plans (cont.)

Healthcare costs trends have no effect on the Organization's liability and thus sensitivity analysis of those trends is not applicable.

The net periodic cost related to this plan was as follows for the year ended September 30:

	2015
Service cost	\$ 22,580
Interest cost	24,721
Amortization of prior service costs	15,778
Amortization of actuarial loss	(6,614)
Net Periodic Cost	\$ 56,465

In December 2015, the Organization terminated the Retiree Health Stipend Plan. The accumulated postretirement benefit obligation at September 30, 2015 is the amount that was paid to covered employees when the plan was terminated.

NOTE 8 - Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods as of September 30:

	2016	2015
Purpose restrictions:		
Autism Construction	\$ 110,000	\$ -
Lahser respite	136,003	118,908
Autism center	55,182	62,740
Family services- child welfare	56,820	-
Michigan Adoption Resource Exchange	-	5,000
Playscape	18,320	-
Other purpose restrictions	8,162	10,698
Time restrictions:		
Pledges receivable	-	10,000
Other time restrictions	5,815	5,815
Time and purpose restrictions:		
Heart and Ingenuity	216,812	209,921
Certified peer specialist	14,286	32,413
Michigan Adoption Resource Exchange	7,162	10,000
Tele-phycs	84,410	-
Integrated health services	50,000	-
Other	6,200	-
Total	\$ 769,172	\$ 465,495

JUDSON CENTER, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended September 30, 2016 and 2015

NOTE 9 - Defined Contribution Plan

The Organization established the Judson Center Employees' 401(k) Retirement Plan, a defined contribution plan. Employees of Judson and Child Safe are eligible to participate with respect to salary reduction contributions subsequent to the completion of three months of service and attainment of the age of 18.

The plan has a safe harbor provision. With respect to discretionary profit sharing contributions, participants must complete one year of service and have attained the age of 18. The Organization's contributions vest over five years of service. The Organization contributed approximately \$136,973 and \$159,000 to the plan during the years ended September 30, 2016 and 2015, respectively.

NOTE 10 - Community Foundation Endowment Fund

The Organization has assets with the Community Foundation Endowment Fund for Southeast Michigan (the "Foundation") in an endowment fund. The Foundation will make distributions of income earned on the endowment fund to the Organization, subject to the Foundation's spending policy. Distributions received totaled \$98,563 and \$99,449 during the years ended September 30, 2016 and 2015, respectively. The market value of the endowment fund was \$2,010,412 and \$1,933,945 at September 30, 2016 and 2015, respectively.

NOTE 11 - Related Party Transactions

During the years ended September 30, 2016 and 2015, the Organization paid or accrued \$197,616 and \$184,878 respectively for services from companies that are owned by or employ Board members. Amounts still owed to the companies were \$0 and \$412, respectively, as of September 30, 2016 and 2015. The Organization's conflict of interest policies were complied with in all related party transactions.

NOTE 12 - Discontinued Operations

During the fiscal year 2015 the Organization determined that it was financially prohibitive to continue to offer Group Home services. Thus, in 2015 the Organization discontinued these services and closed or were in the process of closing all the locations to enable the Organization to concentrate on all other services offered by the Organization.

The Organization discontinued providing services and sold all but one of the Group Home locations during the year ended September 30, 2015. As of September 30, 2015, one home was still owned by the Organization, but was being operated by another entity, and one home was being operated by the Organization while the new provider was obtaining licensing to take over management of the home. This gain on the sale of the homes, including the estimated gain on the unsold home, along with the results of operation for these services amount to a net gain of \$0 and \$512,715 and is presented as a gain on discontinued operations on the Statement of Activities for the years ended September 30, 2016 and 2015.

JUDSON CENTER, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS As of and for the Years Ended September 30, 2016 and 2015

NOTE 12 - Discontinued Operations (cont.)

Components of discontinued operations as reported on the Statement of Financial Position are as follows as of September 30, 2015:

	<u>2015</u>
Assets:	
Accounts receivable, net	\$ 254,416
Total Assets	<u>\$ 254,416</u>
Liabilities:	
Accounts payable	\$ 96,322
Accrued expenses	39,820
Total Liabilities	<u>\$ 136,142</u>

Components of discontinued operations as reported on the Statement of Activities for the year ending September 30, 2015:

	<u>2015</u>
Revenues and support:	
Service fees and grants	\$ 1,208,231
Gain on sale of fixed assets	755,256
Total Revenues and Support	<u>1,963,487</u>
Expenses:	
Program Services	<u>1,450,772</u>
Gain on Discontinued Operations	<u>\$ 512,715</u>

NOTE 13 - Accounting Pronouncements

During May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. ASU No. 2014-09 establishes principles for recognizing revenue upon the transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. During August 2015, the FASB issued ASU No. 2015-14, which defers the effective date of ASU No. 2014-09. ASU No. 2014-09 is effective for fiscal years beginning after December 15, 2017. The Organization may elect to apply the guidance earlier, but no earlier than fiscal years beginning after December 15, 2016. The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Organization is currently assessing the effect that ASU Nos. 2014-09 and 2015-14 will have on its results of operations, financial position and cash flows.

During February 2016, the FASB issued ASU 2016-02, *Leases*. ASU No. 2016-02 establishes principles that require a lessee to recognize a lease asset and a lease liability for those leases classified as operating leases under previous accounting principles generally accepted in the United States of America. ASU 2016-02 is effective for annual periods beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. The Companies are currently assessing the effect that ASU 2016-02 will have on their results of operations, financial position and cash flows.

JUDSON CENTER, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As of and for the Years Ended September 30, 2016 and 2015

NOTE 13 - Accounting Pronouncements (cont.)

The Financial Accounting Standards Board ("FASB") has issued ASU 2016-14, "Not-for-Profit Entities (Subtopic 958): Presentation of Financial Statements of Not-for-Profit Entities." ASU 2016-14 is intended to simplify and improve current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, expense classifications and cash flows. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. Management is currently evaluating the impact of ASU 2016-14 on the Organization's financial statements.

SUPPLEMENTAL INFORMATION

JUDSON CENTER, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENTS OF FINANCIAL POSITION
For the Year Ended September 30, 2016

	Judson Center, Inc.	Judson Center Foundation, Inc.	Judson Center Staffing Solutions, Inc.	Child Safe Michigan	Eliminations	Total
CURRENT ASSETS						
Cash and cash equivalents	\$ 2,187,672	-	-	\$ 63,499	-	\$ 2,251,171
Accounts receivable, net	2,025,194	-	-	134,538	-	2,159,732
Related party receivable	163,787	7,195	18,085	269,506	(458,573)	-
Prepaid expenses and other	125,144	-	-	11,026	-	136,170
Total Current Assets	<u>4,501,797</u>	<u>7,195</u>	<u>18,085</u>	<u>478,569</u>	<u>(458,573)</u>	<u>4,547,073</u>
PROPERTY AND EQUIPMENT						
Land	237,054	-	-	-	-	237,054
Buildings and building improvements	6,211,388	-	-	-	-	6,211,388
Furniture and fixtures	1,202,684	-	-	-	-	1,202,684
Computer equipment and software	940,693	-	-	-	-	940,693
Transportation equipment	610,745	-	-	-	-	610,745
Construction in process	329,026	-	-	-	-	329,026
Total Property and Equipment	<u>9,531,590</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,531,590</u>
Less accumulated depreciation and amortization	<u>(5,924,292)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,924,292)</u>
Property and Equipment, Net	<u>3,607,298</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,607,298</u>
OTHER ASSETS						
Investments	-	10,223,328	-	-	-	10,223,328
Investment in subsidiary	10,346,792	-	-	-	(10,346,792)	-
Cash surrender value of life insurance	65,879	125,363	-	-	-	191,242
Total Other Assets	<u>10,412,671</u>	<u>10,348,691</u>	<u>-</u>	<u>-</u>	<u>(10,346,792)</u>	<u>10,414,570</u>
TOTAL ASSETS	<u>\$ 18,521,766</u>	<u>\$ 10,355,886</u>	<u>\$ 18,085</u>	<u>\$ 478,569</u>	<u>\$(10,805,365)</u>	<u>\$ 18,568,941</u>

JUDSON CENTER, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENTS OF FINANCIAL POSITION (cont.)
For the Year Ended September 30, 2016

	Judson Center, Inc.	Judson Center Foundation, Inc.	Judson Center Staffing Solutions, Inc.	Child Safe Michigan	Eliminations	Total
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES						
Accounts payable	\$ 298,563	\$ -	\$ -	\$ 715	\$ -	\$ 299,278
Related party payable	294,783	9,092	-	154,696	(458,571)	-
Accrued expenses	769,642	-	18,085	52,279	-	840,006
Deferred revenue	205,728	-	-	-	-	205,728
Capital lease, current portion	4,573	-	-	-	-	4,573
Total Current Liabilities	<u>1,573,289</u>	<u>9,092</u>	<u>18,085</u>	<u>207,690</u>	<u>(458,571)</u>	<u>1,349,585</u>
LONG-TERM LIABILITIES						
Pension liability	<u>3,421,415</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,421,415</u>
Total Liabilities	4,994,704	9,092	18,085	207,690	(458,571)	4,771,000
NET ASSETS						
Unrestricted	12,979,701	10,129,983	-	265,879	-	13,028,769
Temporarily restricted	547,361	216,811	-	5,000	-	769,172
Total Net Assets	<u>13,527,062</u>	<u>10,346,794</u>	<u>-</u>	<u>270,879</u>	<u>(10,346,794)</u>	<u>13,797,941</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 18,521,766</u>	<u>\$ 10,355,886</u>	<u>\$ 18,085</u>	<u>\$ 478,569</u>	<u>\$ (10,805,365)</u>	<u>\$ 18,568,941</u>

JUDSON CENTER, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENTS OF FINANCIAL POSITION
For the Year Ended September 30, 2015

	Judson Center, Inc.	Judson Center Foundation, Inc.	Judson Center Staffing Solutions, Inc.	Child Safe Michigan	Eliminations	Total
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	\$ 784,439	-	-	\$ 193,432	\$ -	\$ 977,871
Accounts receivable, net	2,069,074	100	33,264	307,816	(33,264)	2,376,990
Related party receivable	1,133,537	-	-	-	(1,133,537)	-
Prepaid expenses and other	155,495	-	-	-	-	155,495
Total Current Assets	<u>4,142,545</u>	<u>100</u>	<u>33,264</u>	<u>501,248</u>	<u>(1,166,801)</u>	<u>3,510,356</u>
PROPERTY AND EQUIPMENT						
Land	237,054	-	-	-	-	237,054
Buildings and building improvements	6,126,382	-	-	-	-	6,126,382
Furniture and fixtures	1,188,993	-	-	-	-	1,188,993
Computer equipment and software	810,983	-	-	-	-	810,983
Transportation equipment	759,896	-	-	-	-	759,896
Construction in process	95,587	-	-	-	-	95,587
Total Property and Equipment	<u>9,218,895</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,218,895</u>
Less accumulated depreciation and amortization	<u>5,723,316</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,723,316</u>
Property and Equipment, Net	<u>3,495,579</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,495,579</u>
OTHER ASSETS						
Investments	10	10,599,434	-	-	-	10,599,444
Investment in subsidiary	9,896,893	-	-	-	(9,896,893)	-
Cash surrender value of life insurance	64,095	118,472	-	-	-	182,567
Total Other Assets	<u>9,960,998</u>	<u>10,717,906</u>	<u>-</u>	<u>-</u>	<u>(9,896,893)</u>	<u>10,782,011</u>
Assets included as part of discontinued operations	<u>254,416</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>254,416</u>
TOTAL ASSETS	<u>\$ 17,853,538</u>	<u>\$ 10,718,006</u>	<u>\$ 33,264</u>	<u>\$ 501,248</u>	<u>\$(11,063,694)</u>	<u>\$ 18,042,362</u>

JUDSON CENTER, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENTS OF FINANCIAL POSITION (cont.)
For the Year Ended September 30, 2015

	Judson Center, Inc.	Judson Center Foundation, Inc.	Judson Center Staffing Solutions, Inc.	Child Safe Michigan	Eliminations	Total
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES						
Accounts payable	\$ 327,138	\$ -	\$ -	\$ -	\$ -	\$ 327,138
Related party payable	-	821,114	-	345,687	(1,166,801)	-
Accrued expenses	376,606	-	33,264	56,948	-	466,818
Deferred revenue	147,000	-	-	-	-	147,000
Capital lease, current portion	10,817	-	-	-	-	10,817
Total Current Liabilities	<u>861,561</u>	<u>821,114</u>	<u>33,264</u>	<u>402,635</u>	<u>(1,166,801)</u>	<u>951,773</u>
LONG-TERM LIABILITIES						
Capital lease, net of current portion	4,573	-	-	-	-	4,573
Pension liability	2,820,930	-	-	-	-	2,820,930
Accrued postretirement costs	199,468	-	-	-	-	199,468
Liabilities included as part of discontinued operations	136,142	-	-	-	-	136,142
Total Liabilities	<u>4,022,674</u>	<u>821,114</u>	<u>33,264</u>	<u>402,635</u>	<u>(1,166,801)</u>	<u>4,112,886</u>
NET ASSETS						
Unrestricted	13,582,083	9,686,971	-	91,820	(9,896,893)	13,463,981
Temporarily restricted	248,781	209,921	-	6,793	-	465,495
Total Net Assets	<u>13,830,864</u>	<u>9,896,892</u>	<u>-</u>	<u>98,613</u>	<u>(9,896,893)</u>	<u>13,929,476</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 17,853,538</u>	<u>\$ 10,718,006</u>	<u>\$ 33,264</u>	<u>\$ 501,248</u>	<u>\$ (11,063,694)</u>	<u>\$ 18,042,362</u>

JUDSON CENTER, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENTS OF ACTIVITIES For the Year Ended September 30, 2016

	Judson Center, Inc.	Judson Center Foundation, Inc.	Judson Center Staffing Solutions, Inc.	Child Safe Michigan	Eliminations	Total
CHANGES IN UNRESTRICTED NET ASSETS						
REVENUES AND SUPPORT						
Service fees and grants	\$ 10,512,491	-	-	\$ 681,822	\$ (12,000)	\$ 11,182,313
Autism fee revenue, net of contractual allowance (\$2,357,730)	3,189,514	-	-	-	-	3,189,514
Public contributions	2,196,784	1,000	-	701,159	(500,000)	2,398,943
Interest and dividends	2,095	414,762	-	-	-	416,857
Realized and unrealized gain/(loss) on investments	(1,491)	580,896	-	-	-	579,405
Unrealized gain/(loss) on cash surrender value of life insurance	1,784	-	-	-	-	1,784
Gain/(loss) on sale of fixed assets	111,660	-	-	-	-	111,660
Rental income	28,353	-	-	-	-	28,353
Miscellaneous	223,748	-	439,019	24,677	(535,019)	152,425
Net assets released from restrictions	106,042	-	-	6,793	-	112,835
Total Revenue and Support	<u>16,370,980</u>	<u>996,658</u>	<u>439,019</u>	<u>1,414,451</u>	<u>(1,047,019)</u>	<u>18,174,089</u>
EXPENSES						
Program services	13,530,633	500,000	439,019	1,240,392	(939,019)	14,771,025
Supporting services						
Management and general	2,452,401	53,646	-	-	(108,000)	2,398,047
Development	825,631	-	-	-	-	825,631
Total Expenses	<u>16,808,665</u>	<u>553,646</u>	<u>439,019</u>	<u>1,240,392</u>	<u>(1,047,019)</u>	<u>17,994,703</u>
Change in unrestricted net assets before other changes in net assets	<u>(437,685)</u>	<u>443,012</u>	<u>-</u>	<u>174,059</u>	<u>-</u>	<u>179,386</u>
OTHER CHANGES IN NET ASSETS						
Change in pension and postretirement liabilities	(619,598)	-	-	-	-	(619,598)
Change in investment in subsidiary	449,901	-	-	-	(449,901)	-
Total Other Changes in Net Assets	<u>(169,697)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(449,901)</u>	<u>(619,598)</u>
Change in Unrestricted Net Assets	<u>(607,382)</u>	<u>443,012</u>	<u>-</u>	<u>174,059</u>	<u>(449,901)</u>	<u>(440,212)</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS						
Restricted public contributions	409,622	-	-	5,000	-	414,622
Interest and dividends	-	-	-	-	-	-
Unrealized gain on cash surrender value of life insurance	-	6,890	-	-	-	6,890
Net assets released from restrictions	(106,042)	-	-	(6,793)	-	(112,835)
Change in Temporarily Restricted Net Assets	<u>303,580</u>	<u>6,890</u>	<u>-</u>	<u>(1,793)</u>	<u>-</u>	<u>308,677</u>
CHANGE IN NET ASSETS						
Change in Temporarily Restricted Net Assets	(303,802)	449,902	-	172,266	(449,901)	(131,535)
NET ASSETS - Beginning of year	13,830,864	9,896,892	-	98,613	(9,896,893)	13,929,476
NET ASSETS - END OF YEAR	<u>\$ 13,527,062</u>	<u>\$ 10,346,794</u>	<u>\$ -</u>	<u>\$ 270,879</u>	<u>\$ (10,346,794)</u>	<u>\$ 13,797,941</u>

JUDSON CENTER, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENTS OF ACTIVITIES For the Year Ended September 30, 2015

	Judson Center, Inc.	Judson Center Foundation, Inc.	Judson Center Staffing Solutions, Inc.	Child Safe Michigan	Eliminations	Total
CHANGES IN UNRESTRICTED NET ASSETS						
REVENUES AND SUPPORT						
Service fees and grants	\$ 8,828,846	\$ -	\$ -	\$ 348,577	\$ -	\$ 9,177,423
Autism fee revenue, net of contractual allowance (\$1,953,855)	2,530,036	-	-	-	-	2,530,036
Public contributions	1,984,939	100	-	585,360	(500,000)	2,070,399
Interest and dividends	1,158	378,099	-	-	-	379,257
Realized and unrealized gain/(loss) on investments	741	(662,102)	-	-	-	(661,361)
Unrealized loss on cash surrender value of life insurance	(4,358)	-	-	-	-	(4,358)
Loss on sale of fixed assets	(19,400)	-	-	-	-	(19,400)
Rental income	75,651	-	-	-	-	75,651
Miscellaneous	468,583	-	460,990	67,999	(536,991)	460,581
Net assets released from restrictions	320,804	-	-	81,207	-	402,011
Total Revenue and Support	<u>14,187,000</u>	<u>(283,903)</u>	<u>460,990</u>	<u>1,083,143</u>	<u>(1,036,991)</u>	<u>14,410,239</u>
EXPENSES						
Program services	11,379,793	500,000	460,990	943,910	(960,990)	12,323,703
Supporting services						
Management and general	2,459,223	55,749	-	-	(76,000)	2,438,972
Development	814,787	-	-	47,413	-	862,200
Total Expenses	<u>14,653,803</u>	<u>555,749</u>	<u>460,990</u>	<u>991,323</u>	<u>(1,036,990)</u>	<u>15,624,875</u>
Change in unrestricted net assets before other changes in net assets	<u>(466,803)</u>	<u>(839,652)</u>	<u>-</u>	<u>91,820</u>	<u>(1)</u>	<u>(1,214,636)</u>
OTHER CHANGES IN NET ASSETS						
Change in pension and postretirement liabilities	(901,239)	-	-	-	-	(901,239)
Change in investment in subsidiary	(829,846)	-	-	-	829,846	-
Gain on discontinued operations	512,715	-	-	-	-	512,715
Total Other Changes in Net Assets	<u>(1,218,370)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>829,846</u>	<u>(388,524)</u>
Change in Unrestricted Net Assets	<u>(1,685,173)</u>	<u>(839,652)</u>	<u>-</u>	<u>91,820</u>	<u>829,845</u>	<u>(1,603,160)</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS						
Restricted public contributions	368,964	1,000	-	88,000	-	447,964
Interest and dividends	-	2,580	-	-	-	2,580
Unrealized gain on cash surrender value of life insurance	-	6,226	-	-	-	6,226
Net assets released from restrictions	(239,597)	-	-	(81,207)	-	(320,804)
Change in Temporarily Restricted Net Assets	<u>119,367</u>	<u>9,806</u>	<u>-</u>	<u>6,793</u>	<u>-</u>	<u>135,966</u>
CHANGE IN NET ASSETS	<u>(1,565,806)</u>	<u>(829,846)</u>	<u>-</u>	<u>98,613</u>	<u>829,845</u>	<u>(1,467,194)</u>
NET ASSETS - Beginning of year	<u>15,396,670</u>	<u>10,726,738</u>	<u>-</u>	<u>-</u>	<u>(10,726,738)</u>	<u>15,396,670</u>
NET ASSETS - END OF YEAR	<u>\$ 13,830,864</u>	<u>\$ 9,896,892</u>	<u>\$ -</u>	<u>\$ 98,613</u>	<u>\$ (9,896,893)</u>	<u>\$ 13,929,476</u>

JUDSON CENTER, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF PROGRAM EXPENSES
For the Year Ended September 30, 2016 (with comparative totals for September 30, 2015)

	Judson Center, Inc.											Total		
	Family Preservation	Prevention	Foster Care & Adoption	Autism	Group Homes & Respite	Supported Employment	Mental Health	Total	Judson Center Foundation, Inc.	Judson Center Staffing Solutions, Inc.	Child Safe Michigan	Eliminations	2016	2015
SALARIES AND RELATED EXPENSES														
Salaries	\$ 1,475,528	\$ 194,753	\$ 1,692,282	\$ 1,987,770	\$ 534,282	\$ 1,831,600	\$ 1,026,622	\$ 8,742,847	\$ -	\$ 387,489	\$ 643,066	\$ (397,489)	\$ 9,385,913	\$ 7,575,333
Payroll taxes	129,142	16,409	148,150	204,654	57,096	198,643	86,732	840,828	-	30,408	53,921	(30,408)	893,749	758,052
Benefits	230,351	32,923	297,390	130,221	58,913	179,100	93,952	1,022,450	-	11,122	100,196	(11,122)	1,122,646	831,110
Pension	32,903	5,301	42,264	35,145	12,124	26,644	23,431	177,812	-	-	7,017	-	184,829	237,702
Total Salaries and Related Expenses	1,867,924	249,386	2,180,086	2,357,790	662,427	2,235,987	1,230,337	10,783,937	-	439,019	804,200	(439,019)	11,588,137	9,402,197
OTHER FUNCTIONAL EXPENSES														
Professional fees and services	11,630	2,345	75,228	162,217	7,483	15,764	24,168	298,845	-	-	263,029	-	561,874	421,967
Supplies, food, and equipment	24,147	3,270	72,569	82,391	23,683	15,852	14,779	238,491	-	-	125,423	-	361,914	380,792
Utilities	38,161	3,044	67,865	81,310	17,566	37,727	31,652	277,365	-	-	18,350	-	295,715	289,206
Home expenses	74,825	21,402	130,263	181,644	49,801	37,550	113,764	608,249	-	-	20,726	-	629,975	595,906
Vehicle expenses	151,645	482	126,356	11,566	19,162	140,890	39,975	490,076	-	-	31,732	-	521,808	427,797
Conferences, meetings, and lunches	894	-	19,508	7,453	197	1,334	3,456	32,842	-	-	1,960	-	34,822	30,898
Subscriptions, training, and recruitment	5,908	287	13,115	53,447	5,716	11,330	3,859	93,662	-	-	4,312	-	97,974	99,159
Medical expenses	-	-	590	757	-	-	232,101	233,448	-	-	418	-	233,866	168,433
Bad debt expense	-	-	-	-	-	81	-	81	-	-	-	-	81	34,692
Program specific expenses	102,279	-	183,035	7,051	299	343	370	293,377	500,000	-	(88,049)	(500,000)	205,328	152,280
Miscellaneous	118	-	1,102	210	3,199	66	79	4,774	-	-	1,074	-	5,848	7,142
Total Other Functional Expenses	409,627	30,630	689,451	568,046	127,116	260,937	464,203	2,570,210	500,000	-	378,995	(500,000)	2,949,205	2,608,272
DEPRECIATION AND AMORTIZATION	5,500	1,111	24,232	96,317	18,225	23,469	7,632	176,486	-	-	57,197	-	233,683	313,234
TOTAL PROGRAM EXPENSES	\$ 2,283,051	\$ 281,327	\$ 2,893,769	\$ 3,042,153	\$ 807,768	\$ 2,520,393	\$ 1,702,172	\$ 13,530,633	\$ 500,000	\$ 439,019	\$ 1,240,392	\$ (839,019)	\$ 14,771,025	\$ 12,323,703

JUDSON CENTER, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF MANAGEMENT AND GENERAL EXPENSES
For the Year Ended September 30, 2016 (with comparative totals for September 30, 2015)

	Judson Center, Inc.	Judson Center Foundation, Inc.	Judson Center Staffing Solutions, Inc.	Child Safe Michigan	Eliminations	2016	2015
							Total
SALARIES AND RELATED EXPENSES							
Salaries	\$ 1,307,058	\$ -	\$ -	\$ -	\$ -	\$ 1,307,058	\$ 1,156,684
Payroll taxes	98,555	-	-	-	-	98,555	93,783
Benefits	126,237	-	-	-	-	126,237	103,793
Pension	42,871	-	-	-	-	42,871	107,933
Total Salaries & Related Expenses	<u>1,574,721</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,574,721</u>	<u>1,462,193</u>
OTHER FUNCTIONAL EXPENSES							
Professional fees and services	370,475	53,646	-	-	(108,000)	316,121	503,186
Supplies, food, and equipment	53,571	-	-	-	-	53,571	92,049
Utilities	63,782	-	-	-	-	63,782	30,901
Home expenses	66,864	-	-	-	-	66,864	50,877
Vehicle expenses	16,115	-	-	-	-	16,115	17,529
Conferences, meetings, and lunches	24,779	-	-	-	-	24,779	19,522
Subscriptions, training, and recruitment	72,571	-	-	-	-	72,571	106,371
Bad debts expense	-	-	-	-	-	-	35,533
Program specific expenses	5,194	-	-	-	-	5,194	-
Miscellaneous	9,879	-	-	-	-	9,879	29,640
Total Other Functional Expenses	<u>683,230</u>	<u>53,646</u>	<u>-</u>	<u>-</u>	<u>(108,000)</u>	<u>628,876</u>	<u>885,608</u>
DEPRECIATION AND AMORTIZATION	194,450	-	-	-	-	194,450	91,171
TOTAL MANAGEMENT AND GENERAL EXPENSES	<u>\$ 2,452,401</u>	<u>\$ 53,646</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (108,000)</u>	<u>\$ 2,398,047</u>	<u>\$ 2,438,972</u>

JUDSON CENTER, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF DEVELOPMENT EXPENSES

For the Year Ended September 30, 2016 (with comparative totals for September 30, 2015)

	Total					
	Judson Center, Inc.	Judson Center Foundation, Inc.	Judson Center Staffing Solutions, Inc.	Child Safe Michigan Eliminations	2016	2015
SALARIES AND RELATED EXPENSES						
Salaries	\$ 410,398	\$ -	\$ -	\$ -	\$ 410,398	\$ 336,304
Payroll taxes	32,518	-	-	-	32,518	27,076
Benefits	11,103	-	-	-	11,103	15,231
Pension	11,611	-	-	-	11,611	16,421
Total Salaries and Related Expenses	465,630	-	-	-	465,630	395,032
OTHER FUNCTIONAL EXPENSES						
Professional fees and services	55,419	-	-	-	55,419	46,344
Supplies, food, and equipment	190,202	-	-	-	190,202	160,717
Utilities	7,891	-	-	-	7,891	6,555
Home expenses	9,063	-	-	-	9,063	11,768
Vehicle expenses	903	-	-	-	903	770
Conferences, meetings, and lunches	2,541	-	-	-	2,541	1,952
Subscriptions, training, and recruitment	5,088	-	-	-	5,088	5,486
Bad debts expense	-	-	-	-	-	9,400
Program specific expenses	77,541	-	-	-	77,541	213,883
Miscellaneous	3,467	-	-	-	3,467	2,620
Total Other Functional Expenses	352,115	-	-	-	352,115	459,495
DEPRECIATION AND AMORTIZATION						
	7,886	-	-	-	7,886	7,673
TOTAL DEVELOPMENT EXPENSES	\$ 825,631	\$ -	\$ -	\$ -	\$ 825,631	\$ 862,200

Board of Directors
Judson Center, Inc. and Subsidiaries
Royal Oak, Michigan

Thank you for using Baker Tilly Virchow Krause, LLP ("Baker Tilly") as your auditor.

We have completed our audit of the consolidated financial statements of Judson Center, Inc. and Subsidiaries (the "Organization") for the year ended September 30, 2016, and have issued our report thereon dated March 29, 2017. This letter presents communications required by our professional standards.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America

The objective of a financial statement audit is the expression of an opinion on the consolidated financial statements. We conducted the audit in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the consolidated financial statements prepared by management with your oversight are free of material misstatement, whether caused by error or fraud. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit does not relieve management or the Board of Directors of their responsibilities.

As part of the audit we obtained an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the consolidated financial statements and to design the nature, timing and extent of further audit procedures. The audit was not designed to provide assurance on internal control or to identify deficiencies in internal control.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on October 6, 2016.

Significant Audit Issues

Qualitative Aspect of Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Organization are described in Note 1 to the consolidated financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2016.

We noted no transactions entered into by the Organization during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting estimates are an integral part of the consolidated financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the consolidated financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the consolidated financial statements were:

- 1) Allowance for doubtful accounts
- 2) Useful lives and depreciation methods for fixed assets
- 3) Actuarial estimation of defined benefit plan factors
- 4) Fair value of investments
- 5) Contractual allowance - autism fee revenue

We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the consolidated financial statements taken as a whole.

The disclosures in the consolidated financial statements are neutral, consistent, and clear.

During the year management received a letter from the Pension Benefit Guaranty Corporation (the "PBGC") noting the PBGC would not pursue any liabilities against Judson in connection with the termination of the United Way for Southeastern Michigan and Affiliated Agencies Employee Benefit Plan. As a result, management concluded a commitments and contingency disclosure was no longer needed for the period ending September 30, 2016.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. A summary of uncorrected financial statement misstatements has been provided to you. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the consolidated financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the consolidated financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. If a consultation involves application of an accounting principle to the Organization's consolidated financial statements, or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Management Representations

We have requested certain representations from management that are included in the management representation letter. Management has indicated that they have forwarded these representations to our primary contact within the governance structure.

Significant Issues

Professional standards require us to communicate any significant issues that were discussed, or were the subject of correspondence with management. There were no additional communications or correspondence with management that have not been disclosed in this letter.

Independence

We are not aware of any relationships between Baker Tilly and the Organization that, in our professional judgment, may reasonably be thought to bear on our independence.

Relating to our audit of the consolidated financial statements of the Organization for the year ended September 30, 2016, Baker Tilly hereby confirms that we are, in our professional judgment, independent with respect to the Organization in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants. During the year ended September 30, 2016, Baker Tilly provided the following services to the Organization:

- > Assembly of the financial statements
- > Proposal of journal entries
- > Preparation of the tax returns

Other Audit Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Board of Directors
Judson Center, Inc. and Subsidiaries

Other Matters

With respect to the supplementary information accompanying the consolidated financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the consolidated financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the consolidated financial statements or to the consolidated financial statements themselves.

This information is intended solely for the information and use of the Board of Directors and management of the Organization and is not intended to be and should not be used by anyone other than these specified parties.

Baker Tilly Virchow Krause, LLP

Southfield, Michigan
March 29, 2017