

Report of Independent Auditor

**DELAWARE GUIDANCE SERVICES  
FOR CHILDREN AND YOUTH, INC.**  
Wilmington, Delaware

Years Ended  
December 31, 2014 and 2013



**HAGGERTY & HAGGERTY, P.A.**

CERTIFIED PUBLIC ACCOUNTANTS  
& MANAGEMENT CONSULTANTS

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DELAWARE GUIDANCE SERVICES FOR CHILDREN AND YOUTH, INC.

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**HAGGERTY & HAGGERTY, P.A.**  
CERTIFIED PUBLIC ACCOUNTANTS  
& MANAGEMENT CONSULTANTS

American Institute of CPA  
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**Report of Independent Auditor**

Board of Directors  
**Delaware Guidance Services**  
**For Children and Youth, Inc.**  
Wilmington, Delaware

**Report of the Financial Statements**

We have audited the accompanying financial statements of Delaware Guidance Services For Children and Youth, Inc. [a nonprofit organization], which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Delaware Guidance Services For Children and Youth, Inc. as of December 31, 2014 and 2013, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2015 on our consideration of Delaware Guidance Services For Children and Youth, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and in considering Delaware Guidance Services For Children and Youth, Inc.'s internal control over financial reporting and compliance.

*Haggerty & Haggerty, P.A.*  
Certified Public Accountants

June 1, 2015  
Wilmington, Delaware

**DELAWARE GUIDANCE SERVICES FOR CHILDREN AND YOUTH, INC.**  
 STATEMENTS OF FINANCIAL POSITION  
 As of December 31, 2014 and 2013

	2014	2013
<b>ASSETS</b>		
Cash and equivalents	\$ 406,560	\$ 272,716
Receivables, net of allowance:		
Governments	920,483	1,114,640
Trade	292,497	319,175
Other	2,902	21,250
Unconditional promises to give:		
Grant-in-aid funding for next year	130,989	130,989
Pledges available for next year	15,471	5,009
Prepayments and other assets	68,276	41,117
Investments at fair value	623,563	878,716
Property and equipment, net of depreciation	<u>5,319,681</u>	<u>5,677,565</u>
<b>TOTAL ASSETS</b>	<b><u>\$7,780,422</u></b>	<b><u>\$8,461,177</u></b>
<b>LIABILITIES</b>		
Lines of credit	\$ . . .	\$ 178,000
Accounts payable and other	193,177	134,261
Accrued incentive compensation	108,298	42,649
Notes payable	776,049	821,347
Capital lease obligations	89,026	95,660
Compensated absences liability	246,695	243,761
Pending and unrevealed claims liability	<u>480,584</u>	<u>485,206</u>
<b>Total liabilities</b>	<b><u>1,893,829</u></b>	<b><u>2,000,884</u></b>
<b>NET ASSETS</b>		
Unrestricted:		
Designated for improvement of facilities	1,325	171,219
Designated for USDA loan reserve	37,800	37,800
Designated for subsidized services	40,000	42,500
Designated for long-term investment	882,102	878,716
Net investment in property and equipment	4,454,606	4,760,558
Undesignated	<u>339,771</u>	<u>417,412</u>
Total unrestricted	5,755,604	6,308,205
Temporarily restricted	<u>130,989</u>	<u>152,088</u>
<b>Total net assets</b>	<b><u>5,886,593</u></b>	<b><u>6,460,293</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$7,780,422</u></b>	<b><u>\$8,461,177</u></b>

The accompanying notes are an integral part of the basic financial statements

**DELAWARE GUIDANCE SERVICES FOR CHILDREN AND YOUTH, INC.**  
**STATEMENTS OF ACTIVITIES**  
**Years Ended December 31, 2014 and 2013**

	2014			2013		
	Unrestricted	Temporarily Restricted	Totals	Unrestricted	Temporarily Restricted	Totals
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>						
Contributions	\$ 50,041	\$ 217,661	\$ 267,702	\$ 59,187	\$ 138,857	\$ 198,044
Special events revenue	74,884	...	74,884	66,141	...	66,141
Allocations by United Ways	17,246	238,858	256,104	21,466	238,858	260,324
Grant-in-aid allocation	130,989	130,988	261,977	130,989	130,988	261,977
Program service fees	11,057,530	...	11,057,530	10,660,968	...	10,660,968
Interest income	150	...	150	717	...	717
Gain (loss) on disposal of capital assets	(80,960)	...	(80,960)	...	...	...
Miscellaneous revenue	<u>2,823</u>	<u>...</u>	<u>2,823</u>	<u>3,397</u>	<u>...</u>	<u>3,397</u>
<b>Total revenues and gains</b>	<b>11,252,703</b>	<b>587,507</b>	<b>11,840,210</b>	<b>10,942,865</b>	<b>508,703</b>	<b>11,451,568</b>
Net assets released from restriction	<u>608,606</u>	<u>(608,606)</u>	<u>...</u>	<u>487,603</u>	<u>(487,603)</u>	<u>...</u>
<b>Total revenues, gains, and other support</b>	<b>11,861,309</b>	<b>(21,099)</b>	<b>11,840,210</b>	<b>11,430,468</b>	<b>21,100</b>	<b>11,451,568</b>
<b>EXPENSES AND LOSSES</b>						
Program services	11,553,899	...	11,553,899	10,861,316	...	10,861,316
Supporting services:						
Management and general	633,325	...	633,325	732,223	...	732,223
Fundraising costs	171,975	...	171,975	187,511	...	187,511
Special events expense	<u>58,113</u>	<u>...</u>	<u>58,113</u>	<u>49,971</u>	<u>...</u>	<u>49,971</u>
<b>Total expenses and losses</b>	<b>12,417,312</b>	<b>...</b>	<b>12,417,312</b>	<b>11,831,021</b>	<b>...</b>	<b>11,831,021</b>
<b>CHANGES IN NET ASSETS</b>						
<b>BEFORE NET INVESTMENT APPRECIATION</b>	(556,003)	(21,099)	(577,102)	(400,553)	21,100	(379,453)
<b>NET INVESTMENT APPRECIATION</b>	<u>3,402</u>	<u>...</u>	<u>3,402</u>	<u>82,598</u>	<u>...</u>	<u>82,598</u>
<b>CHANGES IN NET ASSETS</b>	(552,601)	(21,099)	(573,700)	(317,955)	21,100	(296,855)
<b>NET ASSETS</b>						
Beginning of year	<u>6,308,205</u>	<u>152,088</u>	<u>6,460,293</u>	<u>6,626,160</u>	<u>130,988</u>	<u>6,757,148</u>
End of year	<u>\$ 5,755,604</u>	<u>\$ 130,989</u>	<u>\$ 5,886,593</u>	<u>\$ 6,308,205</u>	<u>\$ 152,088</u>	<u>\$ 6,460,293</u>

The accompanying notes are an integral part of the basic financial statements

**DELAWARE GUIDANCE SERVICES FOR CHILDREN AND YOUTH, INC.**  
STATEMENTS OF FUNCTIONAL EXPENSES  
Years Ended December 31, 2014 and 2013

	2014				2013			
	Program Services	Supporting Services Management & General	Fund Raising	Total Expenses	Program Services	Supporting Services Management & General	Fund Raising	Total Expenses
<b>EXPENSES AND LOSSES</b>								
Salaries	\$ 7,184,383	\$ 427,640	\$ 104,934	\$ 7,716,957	\$ 6,681,528	\$ 355,735	\$ 108,353	\$ 7,145,616
Employees other benefits	1,008,841	60,050	14,735	1,083,626	962,985	51,271	15,616	1,029,872
Employees retirement benefits	367,874	21,897	5,373	395,144	347,919	18,524	5,642	372,085
Payroll taxes	509,621	30,334	7,444	547,399	486,376	25,895	7,888	520,159
<b>Total personnel costs</b>	<b>9,070,719</b>	<b>539,921</b>	<b>132,486</b>	<b>9,743,126</b>	<b>8,478,808</b>	<b>451,425</b>	<b>137,499</b>	<b>9,067,732</b>
Clinical consultant fees	604,589	...	...	604,589	736,288	...	...	736,288
Professional fees	199,257	14,330	324	213,911	109,664	138,808	1,143	249,615
Supplies	105,637	1,629	153	107,419	99,610	5,009	6,301	110,920
Information technology	67,380	4,847	2,500	74,727	90,207	16,311	5,465	111,983
Telephone and internet	137,318	1,187	...	138,505	110,017	19,652	822	130,491
Postage and freight	6,022	38	2,634	8,694	8,293	254	2,429	10,976
Occupancy cost	278,614	16,602	4,074	299,290	273,257	22,506	6,627	302,390
Printing and publications	14,487	1,850	8,671	25,008	19,279	6,032	5,419	30,730
Transportation	30,858	4,211	1,527	36,596	14,052	11,674	1,278	27,004
Conferences and staff development	35,682	1,777	1,266	38,725	29,432	22,432	1,129	52,993
Membership dues	28,780	514	1,285	30,579	14,854	290	...	15,144
Equipment rental and maintenance	29,455	...	220	29,675	26,137	9,102	1,198	36,437
Miscellaneous	13,659	2,225	748	16,632	14,065	3,384	1,325	18,774
Interest expense	40,874	20,047	...	60,921	40,937	1,686	...	42,623
Insurance	153,704	...	396	154,100	159,769	2,659	1,615	164,043
Public relations	13,982	2,602	10,404	26,988	23,396	1,315	5,652	30,363
Recruitment	60,918	...	...	60,918	64,693	2,363	533	67,589
Vehicle leases and maintenance	152,213	...	...	152,213	141,420	...	...	141,420
Bad debt expense	122,088	...	...	122,088	41,136	...	...	41,136
Capital outlay-minor purchases	25,445	...	...	25,445	14,289	1,762	2,277	18,328
Special events expense	...	...	58,113	58,113	...	...	49,971	49,971
<b>Total other expenses</b>	<b>2,120,962</b>	<b>71,859</b>	<b>92,315</b>	<b>2,285,136</b>	<b>2,030,795</b>	<b>265,239</b>	<b>93,184</b>	<b>2,389,218</b>
<b>TOTAL EXPENSES AND LOSSES BEFORE DEPRECIATION EXPENSE</b>	<b>11,191,681</b>	<b>611,780</b>	<b>224,801</b>	<b>12,028,262</b>	<b>10,509,603</b>	<b>716,664</b>	<b>230,683</b>	<b>11,456,950</b>
Depreciation expense	362,218	21,545	5,287	389,050	351,713	15,559	6,799	374,071
<b>TOTAL EXPENSES AND LOSSES</b>	<b>\$11,553,899</b>	<b>\$ 633,325</b>	<b>\$ 230,088</b>	<b>\$12,417,312</b>	<b>\$10,861,316</b>	<b>\$ 732,223</b>	<b>\$ 237,482</b>	<b>\$11,831,021</b>

The accompanying notes are an integral part of the basic financial statements

**DELAWARE GUIDANCE SERVICES FOR CHILDREN AND YOUTH, INC.**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2014 and 2013**

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from contributors	\$ 255,190	\$ 183,258
Cash received from United Ways	256,104	260,324
Cash received from special events	53,030	46,096
Cash received from government award	261,977	196,482
Cash received from program services	11,156,277	10,079,846
Interest income received	150	717
Other revenues received	2,823	3,397
Cash paid to employees and suppliers	(11,707,283)	(11,351,020)
Interest paid	(60,921)	(42,623)
<b>Net cash provided (used) by operating activities</b>	<b>217,347</b>	<b>(623,523)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property and equipment	(112,126)	(123,446)
Proceeds from sale of investments	987,654	1,171,002
Purchases of investments	(756,180)	(1,162,498)
Investment income received	30,867	27,179
Investment management fees paid	(3,786)	(6,111)
<b>Net cash provided (used) by investing activities</b>	<b>146,429</b>	<b>(93,874)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from lines of credit	2,650,750	1,566,000
Payment of lines of credit	(2,828,750)	(1,388,000)
Proceeds from issuance of note obligations	74,813	41,015
Payment of principal on notes	(89,546)	(91,675)
Payment of principal on capital leases	(37,199)	(30,234)
<b>Net cash provided (used) by financing activities</b>	<b>(229,932)</b>	<b>97,106</b>
<b>NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS</b>	<b>133,844</b>	<b>(620,291)</b>
<b>CASH AND EQUIVALENTS</b>		
Beginning of year	272,716	893,007
End of year	\$ 406,560	\$ 272,716

Continued . . .

The accompanying notes are an integral part of the basic financial statements



**DELAWARE GUIDANCE SERVICES FOR CHILDREN AND YOUTH, INC.**STATEMENTS OF CASH FLOWS (continued)  
Years Ended December 31, 2014 and 2013

	2014	2013
<b>RECONCILIATION OF CHANGES IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Changes in net assets	\$ (573,700)	\$ (296,855)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	389,050	374,071
Loss on disposal of capital assets	80,960	...
Realized investment (gain) loss	(6,949)	(25,037)
Unrealized investment (gain) loss	30,628	(36,493)
Investment income	(30,867)	(27,179)
Investment management fees	3,786	6,111
Changes in operating assets and liabilities:		
Receivables-governments	194,157	(450,032)
Receivables-trade	26,678	(81,692)
Receivables-other	18,348	...
Unconditional promises to give:		
Grant-in-aid funding for next year	...	(65,495)
Pledges available for next year	(10,462)	(14,786)
Prepayments and other assets	(27,159)	(1,443)
Accounts payable and other	58,916	25,686
Accrued expenses	65,649	(79,026)
Refundable advances	...	(8,262)
Compensated absences liability	2,934	(2,733)
Pending and unrevealed claims liability	(4,622)	59,642
Total adjustments	<u>791,047</u>	<u>(326,668)</u>
Net cash provided (used) by operating activities	<u>\$ 217,347</u>	<u>\$ (623,523)</u>

**SCHEDULE OF NONCASH INVESTING ACTIVITIES**

Sale or disposal of property and equipment:		
Cost basis	\$ 107,615	\$ 58,601
Accumulated depreciation	(26,655)	(58,601)
Loss on disposal of capital assets	<u>(80,960)</u>	<u>...</u>
Proceeds from disposal of capital assets	<u>\$ ...</u>	<u>\$ ...</u>
Special events and other in-kind contributions	<u>\$ 23,904</u>	<u>\$ 20,045</u>

The accompanying notes are an integral  
part of the basic financial statements

**NOTE 1 - NATURE OF THE ORGANIZATION**

The mission of Delaware Guidance Services for Children and Youth, Inc. [the "Organization"] is to provide quality mental health services for children, youth, and their families. The Organization believes that all children have a right to positive mental health and should have access to quality therapeutic care, regardless of ability to pay.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader. The financial statements and notes are representations of management, who is responsible for their integrity and objectivity.

Basis of Presentation

The financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards' Accounting Standards Codification [FASB ASC] Topic 958, *Not-for-Profit Entities*. Under FASB ASC Topic 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The net assets and revenues, expenses, gains and losses are classified based on the existence of or the absence of donor-imposed restrictions. Accordingly, the net assets and the changes therein are classified and reported as follows:

**Unrestricted net assets**-Net assets that are not subject to donor-imposed restrictions. The unrestricted net assets may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

**Temporarily restricted net assets**-Net assets subject to donor-imposed stipulations that may or will be fulfilled by the Organization's actions and/or passage of time, to meet the stipulations or become unrestricted at the date specified by the donor. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

**Permanently restricted net assets**-Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors permit the Organization to use all or part of the investment return on these net assets for general or specific purposes. The Organization has no permanently restricted net assets as of the date of the statement of financial position.

Use of Estimates

Preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, the actual results could differ from those estimates.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Basis of Accounting

The policy of the Organization is to prepare the financial statements on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Cash and Equivalents

For purposes of the statement of cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Receivables-Trade

Bad debt expense is provided on the allowance method of accounting based on the Organization's historical experience and management evaluation of outstanding receivables. At December 31, 2014 and 2013, the allowance for doubtful accounts is \$177,146 and \$65,288, respectively.

Promises to Give

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of benefits received. Allowances are provided for amounts estimated to be uncollectible, which are based on industry trends, geographic area, and an analysis of the collectibility of each individual pledge received.

Conditional promises to give are recognized when the conditions on which they depend are substantially met. The Organization has no conditional promises to give for the years presented.

Prepayments and Other Assets

Certain payments to vendors reflect costs applicable to future years and are recorded as prepayments and other assets. At December 31, the prepayments and other assets consist of the following:

Description	2014	2013
Prepaid insurance	\$ 67,216	\$ 39,863
Security deposit-rental activity	1,000	1,000
Other assets	60	254
Total prepayments and other assets	<u>\$ 68,276</u>	<u>\$ 41,117</u>

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Fair values are estimated based upon quoted market prices. Realized and unrealized gains and losses are included in the statement of activities.

Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met [either a stipulated time period ends or a purpose restriction is accomplished] in the reporting period in which the income and gains are recognized.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Property and Equipment

Property and equipment is carried at cost and consists of land, buildings and improvements, furniture and equipment, computer hardware and software, and automotive equipment. Expenditures for maintenance and repairs are charged to expense as incurred and the cost of renewals and betterments is capitalized. When capital assets are sold or otherwise disposed of, the cost and the related accumulated depreciation are removed from the accounts, and any gain or loss is included in the statement of activities. The Organization follows the practice of capitalizing all expenses for capital assets with an initial, individual cost of \$2,500 or more and a useful life in excess of one year.

Depreciation is computed using the straight-line method over the estimated useful life of a capital asset ranging from 5 to 40 years.

Impairment of Long-Lived Assets

In accordance with Financial Accounting Standards Board statement on "*Accounting for the Impairment or Disposal of Long-Lived Assets*", the Organization reviews its capital assets for impairment whenever events or changes in circumstances indicate that the carrying value of a capital asset may not be recoverable. If the fair value is less than the carrying amount of the capital asset, an impairment loss is recognized for the difference. No impairment loss is recognized for the years presented.

Donated Assets

Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair value as of the donation date.

Donated Property and Equipment

Donations of property and equipment are recorded as support at their estimated fair value as of the date of the donation. Such donations are reported as unrestricted support unless the donor restricted the donated capital asset to a specific purpose. Capital assets donated with explicit restrictions regarding their use, and contributions of cash that are used to acquire such capital assets, are reported as restricted support. Absent donor stipulations regarding how long those donated capital assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired capital assets are placed in service as instructed by the donor. The Organization reclassifies the temporarily restricted net assets to unrestricted net assets at that time.

Donated Services

The Organization recognizes donated services that create or enhance the nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The Organization did not receive donated services that met this criteria for the years presented. However, to fulfill its mission, the Organization depends on many individuals volunteering their services to perform a variety of tasks.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Compensated Absences Liability

A maximum of a one year vacation allotment, depending on date of hire, may be accumulated by each employee. The Organization accrues a liability for compensated absences which meets the following criteria:

- Obligation related to the employee's right to receive compensation for future absences is attributable to services already rendered.
- Obligation relates to rights that vest or accumulate.
- Payment of the compensation is probable.
- The amount can be easily estimated.

In accordance with the above criteria, the Organization has accrued a liability for vacation pay which has been earned but not taken by the employees as of the date of the statement of financial position. The liability for compensated absences is recorded as an accrued liability in accordance with established guidelines.

Refundable Advances

Governmental grant awards that are accounted as exchange transactions are recorded as refundable advances until the related restrictions are met, at which time they are recognized as revenues.

Pending and Unrevealed Claims Liability

The Organization is self-insured in regards to unemployment risks. The Organization requires the establishment of a liability for future potential unemployment risks. The amount is estimated based on a similar method used by the Delaware Department of Unemployment.

Advertising Costs

The Organization uses advertising to promote the various programs and activities to the public it serves. The cost of advertising is expensed the first time the advertising occurs. Total advertising costs incurred are \$26,545 and \$30,008 for the years ended December 31, 2014 and 2013, respectively.

Net Patient Service Revenue

The Organization has agreements with third-party payors that provide payments at amounts different from its established billing rates. The payment arrangements include discounted charges and per diem payments. Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for the services rendered by the Organization.

Charity Care

The Organization provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established billing rates. Because the Organization does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue in the financial statements.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Allocation of Expenses

The cost of providing various programs and activities has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are included in the statement of functional expenses.

Risk Management

The Organization purchases commercial insurance policies in response to risks of loss related to errors or omissions; torts; theft, damage or destruction of assets; injuries to employees; or acts of God. The payment of premiums for the commercial policies is recorded as an expense of the Organization, and insurance settlements have not exceeded the insurance coverage for the years presented.

Income Tax Status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Service [IRS] Code. However, income from certain activities not directly related to the Organization's tax exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation.

The Financial Accounting Standards Board on statements pertaining to the "Accounting for Uncertainty in Income Taxes" recognized in the financial statements prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a return. The federal returns of the Organization for the three prior years are subject to examination by the IRS, generally for three years after they are filed. The tax positions taken by the Organization during these years are based on clear and unambiguous tax law; management has a high level of confidence in the technical merits of the positions taken.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

Subsequent Events

Management has evaluated subsequent events through the date of the auditor's report, the date on which the financial statements were available to be issued. Management has determined that no additional disclosures or adjustments are necessary.

**NOTE 3 - CONCENTRATION OF CREDIT RISK**

The Organization has the following concentration of credit risk:

Cash and Equivalents

At December 31, 2014 and 2013, the Organization's deposits were held by several financial institutions. These deposits are insured by the Federal Deposit Insurance Corporation [FDIC]. The deposits totaling \$437,001 and \$328,272, held by these financial institutions, are in excess of FDIC insurance limits in the amounts of \$134,594 and \$0, respectively.

Receivables/Program Service Fees

The Organization contracts a substantial portion of its services with the State of Delaware in one form or another. At December 31, 2014 and 2013, total receivables outstanding with the State are \$920,483 and \$1,114,640, respectively. The Organization received approximately 75% for 2014 and 76% for 2013 of its operating revenue from the State of Delaware.

**NOTE 4 - FAIR VALUE MEASUREMENTS**

The Organization adopted the provisions of Financial Accounting Standards Board statement on "*Fair Value Measurements*". Under this statement, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants. The statement also establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The fair value hierarchy is categorized into three levels based on inputs as follows:

**Level 1** - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

**Level 2** - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

**Level 3** - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

Investment fair value measured on a recurring basis at December 31 is:

<u>Description</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
December 31, 2014:				
Investments [See Note 5]	\$ 623,563	\$ 596,112	\$ ...	\$ 27,451
December 31, 2013:				
Investments [See Note 5]	\$ 878,716	\$ 851,714	\$ ...	\$ 27,002

Level 3 detail is not disclosed since the changes are not significant to the financial statement presentation.

**DELAWARE GUIDANCE SERVICES FOR CHILDREN AND YOUTH, INC.**  
NOTES TO FINANCIAL STATEMENTS

**NOTE 5 - INVESTMENTS AT FAIR VALUE**

At December 31, the Organization's investments are presented at fair value in the financial statements, and consist of the following:

Description	2014		2013	
	Cost	Market	Cost	Market
Money market funds	\$ ...	\$ ...	\$ 16,150	\$ 16,150
Mutual funds	590,013	596,112	485,646	521,491
Stocks, options, ETFs	...	...	303,165	314,073
Delaware Community Fdn.	16,084	27,451	16,084	27,002
<b>Total investments</b>	<b>\$ 606,097</b>	<b>\$ 623,563</b>	<b>\$ 821,045</b>	<b>\$ 878,716</b>

Following is a summary of investment return and its classification in the statement of activities for the years ended December 31:

Description	2014	2013
Investment [dividends and interest] income	\$ 30,867	\$ 27,179
Realized investment gain	6,949	25,037
Unrealized investment gain (loss)	(30,628)	36,493
Investment management fees	(3,786)	(6,111)
<b>Total return on investments</b>	<b>\$ 3,402</b>	<b>\$ 82,598</b>

The Board designated investments are managed by independent investment advisors in accordance with the Board established investment policy.

**NOTE 6 - PROPERTY AND EQUIPMENT**

The following is a summary of changes in the property and equipment:

Description	As of and Year Ended December 31, 2014			
	Beginning Balances	Additions	Adjustment /Deletions	Ending Balances
Land	\$ 766,175	\$ ...	\$ ...	\$ 766,175
Buildings and improvements	5,860,145	11,180	...	5,871,325
Furniture and equipment	707,083	...	173,149	533,934
Computer hardware/software	595,292	100,946	(73,139)	769,377
Automotive equipment	724,540	...	7,605	716,935
Total book value	8,653,235	112,126	107,615	8,657,746
Accumulated depreciation	2,975,670	389,050	26,655	3,338,065
<b>Net book value</b>	<b>\$5,677,565</b>	<b>\$ (276,924)</b>	<b>\$ 80,960</b>	<b>\$5,319,681</b>

Description	As of and Year Ended December 31, 2013			
	Beginning Balances	Additions	Adjustment /Deletions	Ending Balances
Land	\$ 766,175	\$ ...	\$ ...	\$ 766,175
Buildings and improvements	5,848,174	11,971	...	5,860,145
Furniture and equipment	592,535	114,548	...	707,083
Computer hardware/software	595,292	...	...	595,292
Automotive equipment	672,206	110,935	58,601	724,540
Construction in progress	114,008	(114,008)	...	...
Total book value	8,588,390	123,446	58,601	8,653,235
Accumulated depreciation	2,660,200	374,071	58,601	2,975,670
<b>Net book value</b>	<b>\$5,928,190</b>	<b>\$ (250,625)</b>	<b>\$ ...</b>	<b>\$5,677,565</b>



**DELAWARE GUIDANCE SERVICES FOR CHILDREN AND YOUTH, INC.**  
NOTES TO FINANCIAL STATEMENTS

**NOTE 7 - LINES OF CREDIT**

The Organization has a line of credit with M&T Bank for the purpose of providing working capital in an amount not to exceed \$1,000,000. The line of credit carries an interest rate based on the financial institution's national commercial rate, on the basis of a 360-day year and charged for the actual number of days elapsed. At December 31, 2014, the interest rate is 4.50%. The line of credit is unsecured and payable on demand. At December 31, 2014 and 2013, the outstanding balance is \$0 and \$178,000, respectively. During 2014 and 2013 the line of credit was drawn down for \$2,650,750 and \$1,566,000, respectively. Total interest paid is \$21,439 and \$1,686 for the years ended December 31, 2014 and 2013, respectively.

The Organization has a second line of credit with M&T Bank for the purpose of providing capital for the purchase of equipment in an amount not to exceed \$500,000. The line of credit carries an interest rate based on the financial institution's national commercial rate, on the basis of a 360-day year and charged for the actual number of days elapsed. At December 31, 2014, the interest rate is 4.50%. The line of credit is unsecured and payable on demand. At December 31, 2014 and 2013, the available balance is \$433,322 and \$500,000, respectively. Once the funds are drawn down against the capital line of credit, such funds convert to a 36-month note payable with a rate of interest effective at the time of the borrowing.

**NOTE 8 - NOTES PAYABLE**

At December 31, principal maturities of notes payable are as follows:

Description	2014	2013
Note issued to USDA, Rural Development in the amount of \$700,000. The note is payable in monthly installments of \$3,150 and matures August 15, 2048. The note carries a fixed interest rate of 4.50%, and secured with real property located in Seaford, Delaware.	\$ 653,964	\$ 662,136
Note issued on December 1, 2009 to M&T Bank in the amount of \$34,300. The note was payable in monthly installments of \$664.48 and matured December 1, 2014. The note carried a fixed interest rate of 6.00%, and was secured with three 2010 Ford Focus.	...	7,717
Two notes issued on September 14, 2009 to Honda Financial Services in the amount of \$17,740 per vehicle. Each note was payable in monthly installments of \$348.30 and matured September 28, 2014. Each note carried a fixed interest rate of 6.54%, and was secured with a 2009 Honda Civic.	...	6,102
Two notes issued on August 16, 2010 to Honda Financial Services in the amount of \$18,525 per vehicle. Each note is payable in monthly installments of \$315.90 and matures September 20, 2015. Each note carries a fixed interest rate of 0.90%, and is secured with a 2010 Honda Civic.	5,036	12,536
Eight notes issued on November 10, 2010 to Honda Financial Services in the amount of \$18,988 per vehicle. Each note is payable in monthly installments of \$331.98 and matures December 10, 2015. Each note carries a fixed interest rate of 1.90%, and is secured with a 2010 Honda Civic.	<u>25,326</u>	<u>54,904</u>
Subtotals [carried forward]	<u>684,326</u>	<u>743,395</u>

**DELAWARE GUIDANCE SERVICES FOR CHILDREN AND YOUTH, INC.**  
NOTES TO FINANCIAL STATEMENTS

**NOTE 8 - NOTES PAYABLE** (continued)

Description	2014	2013
Subtotals [brought forward]	\$ 684,326	\$ 743,395
Note issued on February 14, 2011 to Honda Financial Services in the amount of \$17,487. The note is payable in monthly installments of \$330.46 and matures February 28, 2016. The note carries a fixed interest rate of 4.99%, and is secured with a 2011 Honda Civic.	4,492	8,133
Two notes issued on August 26, 2011 to Honda Financial Services in the amount of \$28,743 per vehicle. Each note is payable in monthly installments of \$530.08 and matures September 10, 2016. Each note carries a fixed interest rate of 3.99%, and is secured with a 2011 Honda Odyssey.	21,474	32,410
Two notes issued on April 26, 2013 to M&T Bank in the amount of \$9,328 per vehicle. Each note is payable in monthly installments of \$155.45 plus interest, and matures April 26, 2018. Each note carries a fixed interest rate of 4.39%, and is secured with a 2010 Honda Civic.	12,438	16,168
Two notes issued on September 20, 2013 to M&T Bank in the amount of \$11,179 per vehicle. Each note is payable in monthly principal installments of \$186.32 plus interest, and matures September 20, 2018. Each note carries a fixed interest rate of 5.63%, and is secured with a 2014 Ford Focus.	16,768	21,241
Note issued on June 1, 2014 to M&T Bank in the amount of \$9,585 for IT equipment. The note is payable in monthly installments of \$282.24, and matures May 1, 2017. The note carries a fixed interest rate of 3.83%.	7,806	...
Note issued on June 1, 2014 to M&T Bank in the amount of \$34,663 for IT equipment. The note is payable in monthly installments of \$1,020.72, and matures May 1, 2017. The note carries a fixed interest rate of 3.83%.	28,745	...
Total notes payable	776,049	821,347
Less: Current portion	76,125	81,879
Long-term portion	\$ 699,924	\$ 739,468

Long-term principal maturities of notes payable are as follows:

Years Ending December 31	Amount
2016	\$ 42,198
2017	26,008
2018	14,375
2019	10,231
2020	10,700
2021 and thereafter	596,412
Total principal maturities of notes payable	\$ 699,924

Total interest paid on the notes is \$34,143 and \$36,069 for the years ended December 31, 2014 and 2013, respectively.

**DELAWARE GUIDANCE SERVICES FOR CHILDREN AND YOUTH, INC.**  
NOTES TO FINANCIAL STATEMENTS

**NOTE 9 - CAPITAL LEASE OBLIGATIONS**

At December 31, capital lease arrangements principal obligations are:

Description	2014	2013
The Organization entered into a 60 month lease purchase arrangement with Enterprise FM Trust in the amount of \$16,907. The arrangement is payable in monthly installments of \$327.11, matures on October 5, 2016, and carries a fixed interest rate of 6.03%. The arrangement is for a 2012 Ford Focus.	\$ 6,504	\$ 10,664
The Organization entered into a 60 month lease purchase arrangement with Enterprise FM Trust in the amount of \$17,188. The arrangement is payable in monthly installments of \$332.48, matures on October 5, 2016, and carries a fixed interest rate of 6.03%. The arrangement is for a 2012 Ford Focus.	6,612	10,830
The Organization entered into a 60 month lease purchase arrangement with Enterprise FM Trust in the amount of \$16,752. The arrangement is payable in monthly installments of \$324.15, matures on October 5, 2016, and carries a fixed interest rate of 6.02%. The arrangement is for a 2012 Ford Focus.	6,445	10,567
The Organization entered into a 60 month lease purchase arrangement with Enterprise FM Trust in the amount of \$17,192. The arrangement is payable in monthly installments of \$332.55, matures on October 5, 2016, and carries a fixed interest rate of 6.04%. The arrangement is for a 2012 Ford Focus.	6,613	10,832
The Organization entered into a 60 month lease purchase arrangement with Enterprise FM Trust in the amount of \$16,752. The arrangement is payable in monthly installments of \$324.07, matures on November 1, 2016, and carries a fixed interest rate of 6.02%. The arrangement is for a 2012 Ford Focus.	6,734	10,587
The Organization entered into a 60 month lease purchase arrangement with Enterprise FM Trust in the amount of \$16,752. The arrangement is payable in monthly installments of \$324.07, matures on November 1, 2016, and carries a fixed interest rate of 6.02%. The arrangement is for a 2012 Ford Focus.	6,734	10,587
The Organization entered into a 60 month lease purchase arrangement with Enterprise FM Trust in the amount of \$16,752. The arrangement is payable in monthly installments of \$324.07, matures on November 1, 2016, and carries a fixed interest rate of 6.02%. The arrangement is for a 2012 Ford Focus.	6,734	10,587
The Organization entered into a 60 month lease purchase arrangement with Enterprise FM Trust in the amount of \$16,388. The arrangement is payable in monthly installments of \$320.91, matures on January 14, 2017, and carries a fixed interest rate of 5.93%. The arrangement is for a 2012 Ford Focus.	7,530	10,827
The Organization entered into a 60 month lease purchase arrangement with Enterprise FM Trust in the amount of \$16,492. The arrangement is payable in monthly installments of \$332.48, matures on August 27, 2017, and carries a fixed interest rate of 4.89%. The arrangement is for a 2013 Ford Focus.	<u>9,442</u>	<u>10,179</u>
Subtotals [carried forward]	<u>63,348</u>	<u>95,660</u>

**DELAWARE GUIDANCE SERVICES FOR CHILDREN AND YOUTH, INC.**  
NOTES TO FINANCIAL STATEMENTS

**NOTE 9 - CAPITAL LEASE OBLIGATIONS** (continued)

Description	2014	2013
Subtotals [brought forward]	\$ 63,348	\$ 95,660
The Organization entered into a 36 month lease purchase arrangement with Dell Corporation in the amount of \$30,565. The arrangement is payable in monthly installments of \$849.02, carries no rate of interest, and matures on April 1, 2017. The arrangement is for IT equipment.		
Total capital lease obligation	<u>25,678</u>	<u>...</u>
Less: Current portion	<u>89,026</u>	<u>95,660</u>
	<u>42,440</u>	<u>30,408</u>
Long-term portion	\$ <u>46,586</u>	\$ <u>65,252</u>

Long-term principal maturities of capital lease arrangements are:

Years Ending December 31	Amount
2016	\$ 38,485
2017	<u>8,101</u>
Total principal maturities of capital lease arrangements	\$ <u>46,586</u>

Total interest paid on capital leasing arrangements is \$5,319 and \$4,868 for the years ended December 31, 2014 and 2013, respectively.

**NOTE 10 - RESTRICTION ON NET ASSETS**

At December 31, temporarily restricted net assets are available for the following purposes or periods:

Description	2014	2013
Grant-in-aid funding for next year	\$ 130,988	\$ 130,988
Bilingual/bicultural therapist position	<u>...</u>	<u>21,100</u>
Total temporarily restricted net assets	\$ <u>130,988</u>	\$ <u>152,088</u>

Net assets were released from the following restrictions:

Description	Years Ended	
	2014	2013
Satisfaction of time restriction	\$ 130,988	\$ 130,988
Satisfaction of specific restriction:		
United Way of Delaware	238,858	238,858
Various other contributions	<u>238,760</u>	<u>117,757</u>
Net assets released from restriction	\$ <u>608,606</u>	\$ <u>487,603</u>

**NOTE 11 - OPERATING LEASING ARRANGEMENTS**

The Organization's operating leasing arrangements are as follows:

Vehicle Leases

The Organization leased vehicles under operating leasing arrangements which generally were for periods of 36 months. These arrangements had varying expiration dates through 2014, and required monthly payments ranging from \$254.50 to \$449.57.

Office Space Lease

The Organization leases office space located at Kirkwood Highway and Polly Drummond Road, Newark, Delaware. The leasing arrangement was originally for a five-year term commencing September 1, 2000 and expiring August 31, 2005 with two five year renewal options. The lessee exercised the right to renew its options with the final term expiring August 31, 2015. On January 1, 2012, the Organization increased the leased space by 568 square feet and on July 1, 2012 added an additional 2,070 square feet increasing the total square footage to 4,845, and thereby increasing the monthly base rent to \$6,616.61. The minimum rent shall be adjusted at the end of each lease year by applying the following formula: Using the first year as the base year, minimum rent shall be adjusted upwards by the percentage of change in the U.S. Department of Labor Cost of Living Index, all items. Said adjustment shall commence on the renewal date of each lease year. In the event the Cost of Living Index declines during the lease term, in no event shall the Tenant be required to pay less than the original base year amount [minimum 2% with a maximum of 5%]. The future minimum lease payments required have been calculated using the 2% minimum of the Cost of Living Index. Total rental expense charged to operations is \$81,248 and \$80,838 for the years ended December 31, 2014 and 2013, respectively. At December 31, 2014, the monthly rental payment is \$6,962.27.

Office Equipment Leases

The Organization leases digital copier systems and mailing equipment under operating leasing arrangements with varying expiration dates through July of 2018. The leasing arrangements require monthly payments ranging from \$163.44 to \$776.74 prior to August 1, 2013, and thereafter \$1,520.06 for various digital copier systems and \$17.95 to \$158.50 for the mailing equipment.

Summary of Required Future Estimated Minimum Lease Payments

The following schedule summarizes the estimated minimum future lease payments required under non-cancelable operating leasing arrangements:

<u>Years Ending December 31</u>	<u>Vehicles</u>	<u>Office</u>		<u>Total</u>
		<u>Space</u>	<u>Equipment</u>	
2015	\$ ...	\$ 55,698	\$ 18,241	\$ 73,939
2016	...	...	18,241	18,241
2017	...	...	18,241	18,241
2018	...	...	10,658	10,658
<b>Total payments required</b>	<b>\$ ...</b>	<b>\$ 55,698</b>	<b>\$ 65,381</b>	<b>\$ 121,079</b>

The total lease payments are \$114,828 and \$127,923 for the years ended December 31, 2014 and 2013, respectively.

**NOTE 12 - TAX-DEFERRED PENSION PLAN**

The Organization sponsors a tax-deferred pension plan qualified under Section 403(b) of the Internal Revenue Code [IRC]. The plan covers all full-time employees [as defined by the plan] of the Organization. The Organization contributes semi-monthly a base contribution equal to 6.00% of monthly compensation for qualified employees. This base contribution will be made whether or not an employee contributes to the plan. The employees can make contributions to the plan up to the maximum amount allowed by the IRC. The Organization will make a matching contribution equal to 100% of the first 2.00% of gross compensation contributed in the plan year. Total contributions to the plan are \$395,144 and \$372,085 for the years ended December 31, 2014 and 2013, respectively.

**NOTE 13 - RISKS AND UNCERTAINTIES**

Due to the following as well as other factors affecting the assets of the Organization, past financial performance should not be considered a reliable indicator of future performance, and users of these financial statements should not use historical trends to anticipate results or trends in future periods.

The Organization invests in certain investment vehicles substantially held by one financial institution. These investments are exposed to such risks as interest rate, market, and credit risks. Due to the level of risk associated with the investment activity, it is reasonable possible that changes in the value of the investments will occur in the near term and those changes could materially affect the account balances and amounts reported in the financial statements. The Organization intends to hold its investments long-term.

**NOTE 14 - COMMITMENTS AND CONTINGENCIES**

In the course of business, there are outstanding various commitments and contingencies in addition to the normal purchases of goods and services. The Organization does not anticipate material losses as a result of these commitments and contingencies.

Government Contracts

The Organization participates in certain state assisted contracts. These contracts may be subjected to oversight audits by the contractors or their representatives. No audits have been conducted of these contracts as of December 31, 2014. Accordingly, the Organization's compliance with the applicable contract requirements will be established at some future date. The amount, if any, of costs which may be disallowed by these agencies cannot be determined at this time although the Organization expects such amounts to be immaterial to the financial statements.

Self-Insurance

The Organization is self-insured in regards to unemployment risks and has established a liability for potential future claims in the amount of \$480,584 and \$485,206 at December 31, 2014 and 2013, respectively. The Organization believes that its liability is adequate to cover for any potential future claims. The Organization paid unemployment claims of \$16,306 and \$6,312 for the years ended December 31, 2014 and 2013, respectively.