

THE DETROIT INSTITUTE FOR CHILDREN

AUDITED FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

Year ended June 30, 2014

THE DETROIT INSTITUTE FOR CHILDREN

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
The Detroit Institute for Children

Report on the Financial Statements

We have audited the accompanying financial statements of Detroit Institute for Children, which are comprised of statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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. 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.

Board of Trustees
The Detroit Institute for Children
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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 Detroit Institute for Children as of June 30, 2014 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

UHY LLP

Farmington Hills, Michigan
July 1, 2015

THE DETROIT INSTITUTE FOR CHILDREN
STATEMENT OF FINANCIAL POSITION
June 30, 2014

	<u>Continuing Operations</u>	<u>Discontinued Operations</u>	<u>Total</u>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 86,130	\$ -	\$ 86,130
Marketable securities	3,409	-	3,409
Patient and contract accounts receivable, net	304,917	67,253	372,170
Other receivables	70	64,697	64,767
Prepaid expenses and deposits	12,923	6,638	19,561
	<u>407,449</u>	<u>138,588</u>	<u>546,037</u>
Total current assets	407,449	138,588	546,037
PROPERTY AND EQUIPMENT, NET	<u>40</u>	<u>-</u>	<u>40</u>
TOTAL ASSETS	<u>\$ 407,489</u>	<u>\$ 138,588</u>	<u>\$ 546,077</u>
LIABILITIES AND NET ASSETS (DEFICIT)			
CURRENT LIABILITIES			
Accounts payable	\$ 43,642	\$ 119,484	\$ 163,126
Current portion of advance payable	-	40,000	40,000
Current portion of long-term debt	-	10,000	10,000
Accrued expenses	11,591	238,118	249,709
	<u>55,233</u>	<u>407,602</u>	<u>462,835</u>
Total current liabilities	55,233	407,602	462,835
ADVANCE PAYABLE	-	208,426	208,426
LONG-TERM DEBT	<u>-</u>	<u>25,000</u>	<u>25,000</u>
Total liabilities	<u>55,233</u>	<u>641,028</u>	<u>696,261</u>
NET ASSETS (DEFICIT)			
Unrestricted net assets (deficit)	352,256	(596,557)	(244,301)
Temporarily restricted	-	94,117	94,117
	<u>352,256</u>	<u>(502,440)</u>	<u>(150,184)</u>
Total net assets (deficit)	352,256	(502,440)	(150,184)
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	<u>\$ 407,489</u>	<u>\$ 138,588</u>	<u>\$ 546,077</u>

THE DETROIT INSTITUTE FOR CHILDREN
STATEMENT OF ACTIVITIES
Year ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and support			
Net patient service revenue	\$ 1,578,344	\$ -	\$ 1,578,344
Gifts and bequests	859,569	68,417	927,986
United Way Community Services	24,455	-	24,455
Investment gain	617	-	617
Miscellaneous	3,272	-	3,272
Net assets released from restrictions	66,149	(66,149)	-
Total revenue and support	<u>2,532,406</u>	<u>2,268</u>	<u>2,534,674</u>
Expenses			
Program services			
Patient services	2,149,921	-	2,149,921
Supporting services			
Management and general	98,554	-	98,554
Fundraising	163,317	-	163,317
Total expenses	<u>2,411,792</u>	<u>-</u>	<u>2,411,792</u>
Increase in net assets before discontinued operations	120,614	2,268	122,882
Loss on discontinued operations	<u>(534,403)</u>	<u>-</u>	<u>(534,403)</u>
Decrease in net assets	(413,789)	2,268	(411,521)
Net assets, beginning of year	<u>169,488</u>	<u>91,849</u>	<u>261,337</u>
Net assets (deficit), end of year	<u>\$ (244,301)</u>	<u>\$ 94,117</u>	<u>\$ (150,184)</u>

THE DETROIT INSTITUTE FOR CHILDREN
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2014

	<u>Patient Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total Functional Expenses</u>
Salaries and wages	\$ 1,202,059	\$ 36,591	\$ 105,334	\$ 1,343,984
Taxes - payroll	130,434	3,900	10,464	144,798
Employee benefits	117,869	8,244	8,771	134,884
Employee parking	10,923	77	112	11,112
Professional fees	507,183	30,761	19,656	557,600
Supplies	11,618	1,062	1,185	13,865
Purchased services	11,876	1,388	903	14,167
Utilities	18,338	1,796	3,130	23,264
Insurance	35,835	4,216	2,108	42,159
Printing	3,186	375	6,360	9,921
Rent	64,746	6,594	3,297	74,637
Other expense	22,634	1,995	1,219	25,848
Depreciation and amortization	13,220	1,555	778	15,553
	<u>\$ 2,149,921</u>	<u>\$ 98,554</u>	<u>\$ 163,317</u>	<u>\$ 2,411,792</u>

THE DETROIT INSTITUTE FOR CHILDREN
STATEMENT OF CASH FLOWS
Year ended June 30, 2014

OPERATING ACTIVITIES	
Change in net assets	\$ (411,521)
Adjustments to reconcile change in net assets to net change in cash from operating activities:	
Depreciation and amortization	15,553
Change in contractual allowances	110,520
Gain on disposal of assets	(40,016)
Net realized and unrealized gain on investments	(544)
Changes in current assets and liabilities:	
Patient and contract accounts receivable	(123,323)
Other receivables	(43,477)
Prepaid expenses	12,692
Accounts payable and accrued expenses	50,534
Deferred revenue	(3,052)
	<u>(432,634)</u>
Net cash used in operating activities	
INVESTING ACTIVITY	
Proceeds from the sale of property and equipment	<u>72,517</u>
FINANCING ACTIVITY	
Payments of long-term debt	<u>(17,225)</u>
NET CHANGE IN CASH	(377,342)
CASH, Beginning of year	<u>463,472</u>
CASH, End of year	<u><u>\$ 86,130</u></u>

THE DETROIT INSTITUTE FOR CHILDREN
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Institute and Nature of Activities

The Detroit Institute for Children ("the Institute") provides comprehensive diagnostic care and treatment for children and young adults of southeastern Michigan with various multiple physical and neurological disorders. The Institute receives a significant portion of its funding from donor contributions.

Children with special health care needs in the community have come to the Institute for the highest quality care available for more than 90 years. The Institute is committed to serving children with severe physical disabilities, regardless of the financial challenges of individual families. Children receive physical therapy, occupational therapy and speech therapy. One of the unique features of the Institute is the coordinated care that a child receives - one visit to the Institute may contain 3 or 4 appointments with rehab staff, a benefit often unheard of in large facilities. This service was discontinued during the year.

The Institute also provides therapeutic and mental health services including occupational and physical therapy, speech and language pathology, social work and psychological evaluations and consultations in schools across the metro Detroit Area. Additionally, workshops are provided at little or no cost to parents and professionals who provide care and support to children with special needs.

The mission of the Institute is to care for children with physical or developmental disabilities, neurological or behavioral special needs in a way that is positive, passionate, integrated and family-centered so that the children can maximize their potential within their families and the community.

Basis of Presentation

The Institute follows accounting standards set by the Financial Accounting Standards Board (FASB). The FASB sets generally accepted accounting principles (GAAP) that the Institute follows to ensure they consistently report their financial condition, and results of operations and cash flows. References to GAAP issued by the FASB in the following footnotes are the *FASB Accounting Standards Codification (ASC)*.

Financial statement presentation follows the recommendations of the ASC topic presentation of Financial Statements for Not-for-Profit Entities. The Institute 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. No permanently restricted assets were held by the Institute and accordingly, these financial statements do not reflect any activities related to this class of net assets.

THE DETROIT INSTITUTE FOR CHILDREN
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Use of Estimates

The preparation of the financial statements in conformity with 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 at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include, but are not limited to, allowances for bad debts and contractual allowance and estimated useful lives of assets.

Concentration of Credit Risk

The Institute grants credit without collateral to its patients, most of whom are local residents who are insured under third-party payor agreements. Significant concentrations as a percentage of accounts receivable at June 30, 2014 are as follows:

School Districts	42 %
Blue Cross Blue Shield	10
Other	48
Total	<u>100 %</u>

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits in banks and cash on hand. For the purpose of the statement of cash flows, the Institute considers all highly-liquid investments that are not included with marketable securities and purchased with original maturities of three months or less to be cash equivalents. The Institute had, at times throughout the year, bank balances that exceeded FDIC federally insured limits. Management has deemed this as a normal business risk.

Investments

The Institute records its investments in marketable equity securities in accordance with ASC topic Not-for-Profit entities Investments. Accordingly, investments in equity securities with readily determinable fair values and all investments in debt securities are stated at fair market value. Any related gains or losses are reported in the statement of activities and changes in net assets.

THE DETROIT INSTITUTE FOR CHILDREN
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Accounts Receivable and Revenue Recognition

The Institute records net patient service revenue from the Medicaid program and other insurance carriers principally from fee for service arrangements for services provided. Net patient service revenue is reported at the estimated net realizable amounts from patients, third party payors, and others for services rendered.

The provision for uncollectible and contractual allowances is based on management's assessment of historical and expected net collections considering business and economic conditions, trends in health care coverage, and other collection indicators. Periodically throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write off experience by payor category. The results of this review are then used to make any modifications to the provision for bad debts to establish an appropriate allowance for uncollectible receivables. After satisfaction of amounts due from insurance, the Institute follows established guidelines for placing certain past due patient balances with collection agencies. The organization does not require collateral for its receivables. Patient accounts receivable are recorded net of contractual and uncollectible allowances of \$292,894 at June 30, 2014.

Pledges and Grants Receivable

The pledges receivable consist of unconditional promises to give with no specific payment terms, but are expected to be received within the next fiscal year, and are carried at their net realizable value. There were no pledge receivables at June 30, 2014.

Property and Equipment and Depreciation and Amortization

Purchased property and equipment are stated at cost. Donated property and equipment is recorded at fair market value at the date of the gift. Major improvements and renewals are capitalized while ordinary maintenance and repairs are expensed. Management annually reviews these fixed assets to determine whether carrying values have been impaired. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets, which range from 3 to 7 years.

THE DETROIT INSTITUTE FOR CHILDREN
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Contributions are recognized as unrestricted when the donor makes a promise to give to the Institute that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Income Taxes

The Institute is a not-for-profit organization exempt from income tax under Section 501(c) (3) of the Internal Revenue Code and is exempt from similar state and local taxes.

ASC guidance regarding accounting for uncertainty in income taxes clarifies the accounting for income taxes by prescribing the minimum recognition threshold an income tax position is required to meet before being recognized in the financial statements and applies to all income tax positions. Each income tax position is assessed using a two-step process. A determination is first made as to whether it is more likely than not that the income tax position will be sustained, based upon technical merits, upon examination by the taxing authorities. If the income tax position is expected to meet the more likely than not criteria, the benefit recorded in the financial statements equals the largest amount that is greater than 50% likely to be realized upon its ultimate settlement. At June 30, 2014, there were no uncertain tax positions that require accrual.

The Institute believes that it has been operating within its tax exempt status and has no unrelated business income. Further, it is not currently under examination by the Internal Revenue Service or state authorities, however, fiscal year 2011 and later remain subject to examination.

Interest Expense

No interest expense was incurred for the year ended June 30, 2014.

THE DETROIT INSTITUTE FOR CHILDREN
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 2 – MARKETABLE SECURITIES

The cost and fair value of the Institute’s investments at June 30, 2014 are as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain</u>
Common stocks	<u>\$ 1,597</u>	<u>\$ 3,409</u>	<u>\$ 1,812</u>

The composition of investment income for the year ended June 30, 2014 is as follows:

Interest and dividend income	\$ 73
Realized and unrealized gain	<u>544</u>
Total investment income	<u>\$ 617</u>

NOTE 3 – FAIR VALUE MEASUREMENTS

ASC topic *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC topic *Fair Value Measurements* are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Institute has the abilities to access.

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means

If the asset or liability has a specific (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

THE DETROIT INSTITUTE FOR CHILDREN
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 3 – FAIR VALUE MEASUREMENTS (Continued)

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value.

Equities: Valued at the closing price reported in the active market on which the individual securities are traded.

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

All of the Institute's assets were level one assets on the fair value hierarchy as of June 30, 2014.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2014:

Equipment	\$	2,994
Less accumulated depreciation and amortization		<u>2,954</u>
Property and equipment, net	\$	<u><u>40</u></u>

THE DETROIT INSTITUTE FOR CHILDREN
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 5 – ADVANCE PAYABLE

The Institute received an advance from the State of Michigan to supplement untimely Medicaid payments that were due to the Institute. The advance is non-interest bearing and is payable in varying monthly amounts through March 2018. The total amount due related to the advance as of June 30, 2014 is as follows:

Advance payable, long term portion	\$ 248,426
Less portion due within one year	<u>40,000</u>
	<u><u>\$ 208,426</u></u>

Maturities of the advance payable are as follows:

<u>Year ended June 30,</u>	<u>Total</u>
2015	\$ 40,000
2016	67,000
2017	85,000
2018	<u>56,426</u>
	<u><u>\$ 248,426</u></u>

NOTE 6 – LONG-TERM DEBT

Long-term debt consists of the following at June 30, 2014:

Note payable to the previous members of Pediatric Potential, LLC in annual payments of \$5,000 including interest at 2.69%. The note is due March 2020 and is unsecured. Currently, the Institute is in arrears on this note by \$5,000.	\$ 35,000
Less portion due within one year	<u>10,000</u>
	<u><u>\$ 25,000</u></u>

THE DETROIT INSTITUTE FOR CHILDREN
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 6 – LONG- TERM DEBT (Continued)

Maturities of long-term debt are as follows:

<u>Year ended June 30,</u>	<u>Total</u>
2015	\$ 10,000
2016	5,000
2017	5,000
2018	5,000
2019	5,000
Subsequent to 2019	<u>5,000</u>
	<u><u>\$ 35,000</u></u>

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following purpose or time restrictions at June 30, 2014:

Relocation expense	\$ 57,583
Rehabilitation equipment	<u>36,534</u>
Total temporarily restricted net assets	<u><u>\$ 94,117</u></u>

Subsequent to year end, the donor released the \$57,583 of funds temporarily restricted for relocation to be used in general operations.

NOTE 8 – OPERATING LEASES

The Institute leases office space for \$26,714 through August 2014. Subsequent to year end, the Institute renegotiated this lease, and under the new lease, the monthly payment will be \$1,450 per month through August 2015. Lease expense for the year ended June 30, 2014 was \$127,657.

The Institute leased other office space for various monthly payments through June 2014. Total lease expense for the year ended June 30, 2014 was \$136,303.

The Institute leases various office equipment for payments totaling \$800 per month expiring at various dates through November 2016. Lease expense for the year ended June 30, 2014 was \$19,150.

Total lease expense for the year ended June 30, 2014 was \$283,110.

THE DETROIT INSTITUTE FOR CHILDREN
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 8 – OPERATING LEASES (Continued)

Minimum future rental payments under non-cancelable operating leases having initial or remaining terms in excess of one year as of June 30, 2014 for each of the next two years are:

<u>Years ending June 30,</u>	<u>Amount</u>
2015	\$ 37,962
2016	<u>5,310</u>
	<u>\$ 43,272</u>

NOTE 9 – RETIREMENT PLAN

The Institute has a defined contribution retirement plan available to substantially all employees. Participants may make basic tax-free contributions of their compensation up to the legal limit prescribed by Section 403(b) of the Internal Revenue Code. The Institute can make a discretionary contribution to the Plan based on 2% of employee’s annual gross income for those employees who contribute 2% or more of their eligible annual gross income. No match was made for the year ended June 30, 2014. Employer contributions are vested after working three (3) calendar years with at least 1,000 hours in each of the three years. The Institute incurred no expenses related to this plan, including fees, during the year ended June 30, 2014.

NOTE 10 – DISCONTINUED OPERATIONS

During the fiscal year 2014 the Institute determined that the changes in insurance regulations and billing including changes in the State of Michigan reimbursements and Medicaid funding made it financially prohibitive to continue to offer therapy in its outpatient locations. Thus, in June 2014 the Institute discontinued these services and closed its four locations to enable the Institution to concentrate on providing therapy to children with special needs in schools, Head Start and Early Intervention centers as well as educational workshops in Detroit and surrounding communities.

The Institution terminated all therapy employees working in these outpatient locations in June 2014 and moved out of the therapy locations by July 2014. Equipment maintained at the site locations was sold. The carrying value of these assets was \$32,501 and the gain related to the sale was \$40,016. This gain, along with the results of operation for therapy facilities amount to a net loss of \$534,403 and is presented as a *loss of discontinued operations* on the Statement of Activities for the year ended June 30, 2014.

THE DETROIT INSTITUTE FOR CHILDREN
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 10 – DISCONTINUED OPERATIONS (Continued)

The results of discontinued operations are as follows:

Revenue and support	
Net patient service revenue	\$ 927,711
Contract services	735
Gifts and bequests	1,850
Miscellaneous	3,287
Gain on sale of assets	<u>40,016</u>
Total revenue and support	<u>973,599</u>
Expenses	
Program services	
Patient services	1,493,927
Supporting services	
Management and general	55,499
Fundraising	<u>56,848</u>
Total expenses	<u>1,606,274</u>
Decrease in net assets before other changes	(632,675)
Other changes	
Gain on forgiveness of debt	<u>98,272</u>
Decrease in net assets	<u><u>\$ (534,403)</u></u>

THE DETROIT INSTITUTE FOR CHILDREN
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

NOTE 10 – DISCONTINUED OPERATIONS (Continued)

Functional expense for discontinued operations are as follows:

	Patient Services	Management and General	Fund Raising	Total Functional Expenses
Salaries and wages	\$ 962,280	\$ 12,571	\$ 21,749	\$ 996,600
Taxes - payroll	93,040	1,504	2,024	96,568
Employee benefits	52,553	563	2,388	55,504
Employee parking	1,533	117	59	1,709
Professional fees	68,005	8,001	4,000	80,006
Supplies	12,615	970	485	14,070
Purchased services	31,882	3,743	1,872	37,497
Utilities	74,864	8,808	4,404	88,076
Special events	-	-	10,257	10,257
Rent	165,114	16,140	8,070	189,324
Other expense	32,041	3,082	1,540	36,663
	<u>\$ 1,493,927</u>	<u>\$ 55,499</u>	<u>\$ 56,848</u>	<u>\$ 1,606,274</u>

NOTE 11 – CONTINGENCY

During the year ended June 30, 2013, the Institute filed for a distressed termination with the Pension Benefit Guarantee Corporation (“PBGC”) requesting a termination date as of October 8, 2012 for their defined benefit pension plan (Plan). The distressed termination was accepted by the PBGC on July 3, 2013, effective as of October 8, 2012. After the distress termination was accepted, the Institute received a letter from the PBGC regarding the terminated Plan. Based on the letter received, the PBGC noted that under section 4062(b) of ERISA, the Institute owed the unfunded liability of the Plan and the PBGC requested information to establish a payment plan or a compromise amount. The Institute submitted a letter to the PBGC with a settlement offer of \$-0-.

Subsequent to the year ended June 30, 2014, the PBGC accepted that settlement offer. However, the PBGC will continue to actively monitor the Institute’s financial situation, and the Institute is required to submit quarterly and annual financial statements to the PBGC, and to inform the PBGC of any changes in the financial situation of the Institute. The PBGC has reserved the right to pursue collection of any liabilities if the financial situation of the Institute strengthens.