



CHILD MIND INSTITUTE, INC.

FINANCIAL STATEMENTS

SEPTEMBER 30, 2013 and 2012

INDEPENDENT AUDITORS' REPORT

Board of Directors
Child Mind Institute, Inc.
New York, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the Child Mind Institute, Inc. ("CMI"), which comprised the statement of financial position as of September 30, 2013, and the related statement 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

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain 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 organization'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 organization'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 Child Mind Institute, Inc. as of September 30, 2013, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of the Child Mind Institute, Inc. as of and for the year ended September 30, 2012 were audited by other auditors, whose report dated April 10, 2013, expressed an unqualified opinion.



New York, New York
April 28, 2014

CHILD MIND INSTITUTE, INC.**Statements of Financial Position**

	September 30,	
	2013	2012
ASSETS		
Cash and cash equivalents	\$ 7,295,735	\$ 6,649,460
Accounts receivable	26,729	
Due from related party - financial aid	53,871	
Contributions receivable	4,349,179	2,821,575
Investments	858,079	327,901
Prepaid expenses and other assets	346,960	333,611
Property and equipment, net	2,145,901	2,701,228
Due from related party - shared services	1,638,141	779,148
	<u>\$ 16,714,595</u>	<u>\$ 13,612,923</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 320,587	\$ 873,040
Accrued salaries and vacation	206,539	142,229
Due to related party - sub-contracted services		200,411
Deferred compensation liability	445,819	109,300
Deferred rent liability	974,087	1,319,987
Total liabilities	<u>1,947,032</u>	<u>2,644,967</u>
Commitments and contingencies (Note J)		
Net assets:		
Unrestricted	7,863,450	7,787,923
Temporarily restricted	6,904,113	3,180,033
Total net assets	<u>14,767,563</u>	<u>10,967,956</u>
	<u>\$ 16,714,595</u>	<u>\$ 13,612,923</u>

CHILD MIND INSTITUTE, INC.

Statements of Activities

	Year Ended September 30,					
	2013			2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Public support and revenue:						
Foundations, corporations and individuals (including in-kind services of \$205,163 and \$16,234 in 2013 and 2012, respectively)	\$ 1,884,428	\$ 5,179,050	\$ 7,063,478	\$ 2,089,583	\$ 2,785,000	\$ 4,874,583
Special event revenue (net of direct benefit to donors of \$267,887 and \$246,081 in 2013 and 2012, respectively)	5,222,649	608,347	5,830,996	4,644,501	70,500	4,715,001
Investment income	123,455		123,455	5,396		5,396
Miscellaneous revenue	25,279		25,279	14,859		14,859
Total public support and revenue before net assets released from restrictions	7,255,811	5,787,397	13,043,208	6,754,339	2,855,500	9,609,839
Net assets released from restrictions	2,063,317	(2,063,317)	0	1,571,078	(1,571,078)	0
Total public support and revenue	9,319,128	3,724,080	13,043,208	8,325,417	1,284,422	9,609,839
Expenses:						
Program services:						
Education and outreach	1,546,247		1,546,247	1,040,598		1,040,598
Research and clinical	4,028,518		4,028,518	3,074,396		3,074,396
Total program services	5,574,565		5,574,565	4,114,994		4,114,994
Supporting services:						
Management and general	2,110,103		2,110,103	1,860,718		1,860,718
Fund-raising	1,558,933		1,558,933	1,421,119		1,421,119
Total supporting services	3,669,036		3,669,036	3,281,837		3,281,837
Total expenses	9,243,601		9,243,601	7,396,831		7,396,831
Increase in net assets	75,527	3,724,080	3,799,607	928,586	1,284,422	2,213,008
Net assets, beginning of year (as restated, see Note A [16])	7,787,923	3,180,033	10,967,956	6,859,337	1,895,611	8,754,948
Net assets, end of year	\$ 7,863,450	\$ 6,904,113	\$ 14,767,563	\$ 7,787,923	\$ 3,180,033	\$ 10,967,956

See notes to financial statements

CHILD MIND INSTITUTE, INC.

Statements of Functional Expenses

Year Ended September 30,

	2013				2012			
	Program Services	Management and General	Fund-Raising	Total	Program Services	Management and General	Fund-Raising	Total
Salaries	\$ 2,240,005	\$ 797,825	\$ 493,877	\$ 3,531,707	\$ 1,837,618	\$ 584,757	\$ 581,963	\$ 3,004,338
Payroll taxes and employee benefits	378,963	451,347	78,828	909,138	322,787	329,139	83,609	735,535
Travel and meals	76,090	47,516	43,911	167,517	61,532	50,191	20,842	132,565
Occupancy	182,290	64,533	56,065	302,888	391,441	214,185	132,942	738,568
Office expenses	26,284	10,958	13,524	50,766	35,209	19,840	12,151	67,200
Professional and consulting fees	775,987	441,948	577,929	1,795,864	231,588	388,435	381,086	1,001,109
Event consultants			66,500	66,500			45,246	45,246
Conference and meetings	3,722	570	2,183	6,475	4,370	1,983	1,189	7,542
Telephone	5,107	15,410	1,176	21,693	10,616	13,444	2,123	26,183
Insurance	13,882	33,046	4,083	51,011	36,818	16,388	5,704	58,910
Computers and equipment	101,904	55,103	20,703	177,710	87,469	75,659	22,026	185,154
Printing	22,905	24,645	53,911	101,461	13,093	3,024	33,348	49,465
Postage	6,502	2,001	15,451	23,954	7,159	803	5,524	13,486
Staff development	26,769	12,690	1,405	40,864	16,114	1,095		17,209
Sub-contractors	471,546	1,750		473,296	372,601			372,601
Financial aid	581,635			581,635	262,476			262,476
Events expense	233	1,667	3,860	5,760	1,765	541	6,989	9,295
Dues and subscriptions	7,323	6,774	4,741	18,838	2,358	2,784	4,411	9,553
Bank fees	35,740	18,575	28,670	82,985	22,120	16,863	8,192	47,175
Web development and design	142,050	19,504	24,794	186,348	56,880	18,657	21,915	97,452
Advertisement	38,887	500	3,925	43,312	4,412	3,330		7,742
Depreciation and amortization	436,741	103,741	63,397	603,879	336,568	119,600	51,859	508,027
Total expenses	<u>\$ 5,574,565</u>	<u>\$ 2,110,103</u>	<u>\$ 1,558,933</u>	<u>\$ 9,243,601</u>	<u>\$ 4,114,994</u>	<u>\$ 1,860,718</u>	<u>\$1,421,119</u>	<u>\$ 7,396,831</u>

See notes to financial statements

CHILD MIND INSTITUTE, INC.**Statements of Cash Flows**

	Year Ended September 30,	
	2013	2012
Cash flows from operating activities:		
Increase in net assets	\$ 3,799,607	\$ 2,213,008
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	603,879	508,027
Unrealized (gain) loss on investments	(330,166)	14,099
Realized gains	(759)	
Donated securities	(268,664)	
Proceeds from sales of donated securities	69,411	
Changes in:		
Accounts receivable	(26,729)	
Due from related party - financial aid	(53,871)	
Contributions receivable	(1,527,604)	(1,464,182)
Prepaid expenses and other assets	(13,349)	(23,713)
Due from related party - shared services	(858,994)	(368,674)
Accounts payable and accrued expenses	(552,452)	541,587
Accrued salaries and vacation	64,310	110,037
Due to related party - sub-contracted services	(200,411)	200,411
Deferred compensation liability	336,519	109,300
Deferred rent liability	(345,900)	641,212
Net cash provided by operating activities	<u>694,827</u>	<u>2,481,112</u>
Cash flows from investing activities:		
Purchases of investments		(342,000)
Purchases of property and equipment	<u>(48,552)</u>	<u>(760,846)</u>
Net cash used in investing activities	<u>(48,552)</u>	<u>(1,102,846)</u>
Net increase in cash and cash equivalents	646,275	1,378,266
Cash and cash equivalents, beginning of year	<u>6,649,460</u>	<u>5,271,194</u>
Cash and cash equivalents, end of year	<u>\$ 7,295,735</u>	<u>\$ 6,649,460</u>
Supplemental disclosure of cash flow information:		
In-kind services	<u>\$ 205,163</u>	<u>\$ 16,234</u>

CHILD MIND INSTITUTE, INC.

Notes to Financial Statements September 30, 2013 and 2012

NOTE A - ORGANIZATION AND NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

[1] Organization:

The Child Mind Institute ("CMI"), incorporated in New York in 2009, is devoted to transforming mental health care for the world's children to enable them to reach their full potential. CMI is passionately committed to finding more effective treatments for childhood psychiatric and learning disorders, building the science of healthy brain development, and empowering children and their families with the information they need to get help, hope, and answers.

CMI is exempt from federal income tax under Section 501(c)(3) of the U.S. Internal Revenue Code and state and local taxes under comparable laws.

[2] Basis of accounting:

The accompanying financial statements of CMI have been prepared using the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations.

[3] Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as the disclosure of contingent assets and liabilities. Actual results may differ from those estimates.

[4] Cash and cash equivalents:

For financial-reporting purposes, CMI considers all highly liquid investments, with maturities of three months or less when purchased, to be cash equivalents.

[5] Investments:

Investments in equity securities with readily determinable fair values are reported at their fair values in the accompanying statements of financial position, with realized and unrealized gains and losses included in the accompanying statements of activities. Donated securities are recorded at their fair values at the dates of donation and subsequently sold upon receipt.

CMI has an alternative investment in a security which is an ownership interest in a limited partnership for which a market value is not readily obtainable. Because of the inherent uncertainty of the valuation of this investment, CMI and its investment manager monitor this interest closely to reduce the risk of potential losses due to obvious changes in fair value or the failure of counterparties to perform. The estimated value of this interest that is provided by the investment manager, and that is reported in these financial statements, may differ from actual value had a ready market for this investment existed.

Investment transactions are recorded on a trade-date basis. Realized gains or losses on investments are determined by comparison of the average cost of acquisition to proceeds at the time of disposition. The earnings from dividends and interest are recognized when earned.

CHILD MIND INSTITUTE, INC.

Notes to Financial Statements September 30, 2013 and 2012

NOTE A - ORGANIZATION AND NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[6] Property and equipment:

Property and equipment are stated at their original costs at the date of acquisition, or, if contributed, at their fair values at the dates of donation. CMI capitalizes items of property and equipment that have a cost of \$3,000 or more and a useful life greater than one year. Likewise, leasehold improvements are amortized over the term of the underlying lease. Depreciation and amortization are provided on the straight-line basis over the estimated useful lives of the related assets, which range from 3 to 15 years.

[7] Net assets:

(i) Unrestricted:

Unrestricted net assets represent those resources that are not subject to donor restrictions and are available for current operations.

(ii) Temporarily restricted:

Temporarily restricted net assets represent those resources the use of which has been restricted by donors to specific purposes and/or the passage of time. When a donor restriction expires, that is, when a stipulated time restriction ends, or a purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and are reported in the accompanying statements of activities as "net assets released from restrictions."

[8] Contributions and grants:

Contributions to CMI are recognized as revenue upon the receipt of either cash or other assets or of unconditional pledges. Contributions are recorded as either temporarily or permanently restricted if they are received with donor stipulations or time considerations as to their use. Conditional contributions are recorded when the conditions have been met. Contributions to be received over periods longer than a single year are discounted at an interest rate commensurate with the risk involved.

Grant revenue is recognized based on the terms of each individual grant, and is available for unrestricted use, unless the donor or grantor restricts the use thereof, either on a temporary or permanent basis.

[9] Accrued vacation:

Accrued vacation is included as a liability in the accompanying financial statements and represents CMI's obligation for the cost of unused employee vacation time payable in the event of employee terminations; the obligation is recalculated every year. At September 30, 2013 and 2012, the accrued vacation obligation was \$165,556 and \$105,479, respectively.

[10] Advertising:

CMI expenses the cost of advertising as incurred. Advertising expense for fiscal-years 2013 and 2012 was approximately \$42,800 and \$7,700, respectively.

[11] Donated services:

Donated services are recognized in the financial statements if the services or goods (i) enhance or create non-financial assets or require specialized skills, (ii) are provided by individuals possessing these skills, and (iii) would typically need to be purchased if not provided by donation. CMI records contributions in kind at their fair value. For the fiscal-years 2013 and 2012, CMI received accounting, legal, and other professional services that totaled approximately \$205,000 and \$16,200, respectively.

CHILD MIND INSTITUTE, INC.

Notes to Financial Statements September 30, 2013 and 2012

NOTE A - ORGANIZATION AND NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[12] Functional allocation of expenses:

The costs of providing the various programs and the supporting services have been summarized on a functional basis in the accompanying statements of activities and functional expenses. Accordingly, certain costs have been allocated by management, among the program, management and general, and fund-raising areas, using appropriate measurement methodologies.

[13] Income tax uncertainties:

CMI is subject to the provisions of the Financial Accounting Standards Board's (the "FASB") Accounting Standards Codification ("ASC") Topic 740-10-05 relating to accounting and reporting for uncertainty in income taxes. Because of CMI's general tax-exempt status, ASC Topic 740-10-05 has not had, and is not anticipated to have, a material impact on CMI's financial statements.

The annual compliance filings of CMI for 2011, 2012, and 2013 are subject to examination by the Internal Revenue Service, as well as by other various state and local authorities, generally for three years after they were filed.

[14] Fair-value measurement:

CMI reports a fair-value measurement of all applicable financial assets and liabilities, including investments, receivables, and short-term payables.

[15] Reclassification:

Certain information in the prior fiscal-year's financial statements has been reclassified to conform to the current fiscal-year's presentation.

[16] Restatement of net assets:

Unrestricted net assets have been decreased by \$655,617, effective October 1, 2011, to reflect an adjustment in the balance of CMI's deferred rent liability. The restatement does not reflect any change in the past or future operating activities of CMI.

[17] Subsequent events:

CMI considers the accounting treatments and the related disclosures in the current fiscal-year's financial statements, that may be required as the result of all events or transactions that occur after the fiscal year-end through the date of the independent auditors' report.

NOTE B - INVESTMENTS

At each fiscal year-end, investments consisted of the following:

	September 30,			
	2013		2012	
	Fair Value	Cost	Fair Value	Cost
Equity securities	\$ 196,400	\$ 200,012		
Limited partnership	<u>661,679</u>	<u>342,000</u>	\$ 327,901	\$ 342,000
	<u>\$ 858,079</u>	<u>\$ 542,012</u>	<u>\$ 327,901</u>	<u>\$ 342,000</u>

CHILD MIND INSTITUTE, INC.

**Notes to Financial Statements
September 30, 2013 and 2012**

NOTE B - INVESTMENTS (CONTINUED)

During each fiscal year, net investment income consisted of the following:

	<u>September 30,</u>	
	<u>2013</u>	<u>2012</u>
Interest and dividends	\$ 15,049	\$ 14,795
Realized gains	759	
Unrealized gains (losses)	<u>107,647</u>	<u>(9,399)</u>
	<u>\$ 123,455</u>	<u>\$ 5,396</u>

The FASB's ASC Topic 820-10-05 establishes a three-level valuation hierarchy of fair-value measurements. These valuation techniques are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions. These two types of inputs create the following fair-value hierarchy:

- Level 1: Valuations are based on observable inputs that reflect quoted market prices in active markets for the same or identical assets and liabilities at the reporting date.
- Level 2: Valuations are based on (i) quoted prices for those investments, or similar investments in active markets, or (ii) quoted prices for those investments, or similar investments in markets that are not active, or (iii) pricing inputs other than quoted prices that are directly or indirectly observable at the reporting date. Level 2 assets include those investments that are redeemable at or near the balance sheet date and for which a model was derived for valuation.
- Level 3: Valuations are based on pricing inputs that are unobservable and include situations where (i) there is little, if any, market activity for the investments, or (ii) the investments cannot be independently valued, or (iii) the investments cannot be immediately redeemed at or near the fiscal year-end.

Investments classified in Level 3 consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the net-asset value reported by each fund is used as a practical expedient to estimate the fair value of CMI's interest therein, its classification in Level 3 is based on CMI's ability to redeem its interest at or near fiscal year-end. If the interest can be redeemed in the near term, the investment is classified as Level 2. The classification of investments in the fair-value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

The following table summarizes the fair values of CMI's assets at fiscal year-end:

	<u>September 30,</u>				
	<u>2013</u>			<u>2012</u>	
	<u>Level 1</u>	<u>Level 3</u>	<u>Total</u>	<u>Level 3</u>	<u>Total</u>
Equity securities	\$ 196,400		\$ 196,400		
Limited partnership		<u>\$ 661,679</u>	<u>661,679</u>	<u>\$ 327,901</u>	<u>\$ 327,901</u>
	<u>\$ 196,400</u>	<u>\$ 661,679</u>	<u>\$ 858,079</u>	<u>\$ 327,901</u>	<u>\$ 327,901</u>

CHILD MIND INSTITUTE, INC.

**Notes to Financial Statements
September 30, 2013 and 2012**

NOTE B - INVESTMENTS (CONTINUED)

The following summarizes the changes in fair values of CMI's Level 3 investments for each fiscal-year:

	<u>September 30,</u>	
	<u>2013</u>	<u>2012</u>
Beginning balance - October 1	\$ 327,901	
Subscriptions		\$ 342,000
Unrealized gains (losses)	<u>333,778</u>	<u>(14,099)</u>
Ending balance - September 30	<u>\$ 661,679</u>	<u>\$ 327,901</u>

The FASB provides accounting guidance on measuring the fair value of certain investments, such as private equity funds and hedge funds, to offer investors a practical expedient for measuring the fair value of investments in certain entities that calculate net asset value ("NAV"). Under this practical expedient, entities are permitted to use NAV without adjustment for certain investments that qualified under the guidance. CMI's investment in the fund fitting this description, classified within Level 3 of the fair-value hierarchy, is carried at fair value based on NAV. Investments in these types of funds are subject to withdrawal restrictions, and, for this Level 3 investment CMI does not have the ability to withdraw at reported NAV at September 30, 2013, or within a reasonable period of time. CMI's investment in the limited partnership is valued based on the valuation policies and procedures of the general partner. The general partner performs oversight of the underlying managers' material positions both on an investment level and from a risk perspective. The general partner is responsible for ensuring that investments are valued according to the policies and procedures adopted by the partnership. CMI places reliance upon those procedures and records this investment at fair value, as determined by the general partner.

This investment is as follows:

	<u>September 30, 2013</u>			
	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Alternative investments in limited partnership:				
Thayer Street Holdings, LLC	\$ 661,679	None	Monthly	45 days

NOTE C - CONTRIBUTIONS RECEIVABLE

At each fiscal year-end, contributions receivable were estimated to be due as follows:

	<u>September 30,</u>	
	<u>2013</u>	<u>2012</u>
Less than one year	\$ 1,955,416	\$ 1,324,328
One year to five years	<u>2,415,000</u>	<u>1,522,009</u>
	4,370,416	2,846,337
Reduction of pledges due in excess of one year to present value, at discount rates ranging from 0.76% to 1.93%	<u>(21,237)</u>	<u>(24,762)</u>
	<u>\$ 4,349,179</u>	<u>\$ 2,821,575</u>

Based on prior history, management believes that substantially all contributions receivable are fully collectible and, accordingly, no allowance for doubtful amounts has been established.

CHILD MIND INSTITUTE, INC.

Notes to Financial Statements September 30, 2013 and 2012

NOTE D - PROPERTY AND EQUIPMENT

At each fiscal year-end property and equipment consisted of the following:

	<u>September 30,</u>	
	<u>2013</u>	<u>2012</u>
Computer software and hardware	\$ 784,038	\$ 738,199
Furniture and equipment	1,009,452	1,009,452
Leasehold improvements	<u>1,765,525</u>	<u>1,762,812</u>
	3,559,015	3,510,463
Less accumulated depreciation and amortization	<u>(1,413,114)</u>	<u>(809,235)</u>
	<u>\$ 2,145,901</u>	<u>\$ 2,701,228</u>

Depreciation and amortization expense for the fiscal-years 2013 and 2012 amounted to \$603,879 and \$508,027, respectively.

NOTE E - RELATED-PARTY TRANSACTIONS

CMI has related activities in common with the Child Mind Medical Practice, PLLC (the "Practice"), a professional limited liability company that provides medical treatment. CMI facilitated the creation of the Practice to provide clinical care and treatment directly to children and adolescents, which under applicable law, CMI could not directly provide, in connection with CMI's research in adolescent brain development. A member of CMI's management team is a member of the Practice; however, there are no shared governing board members between organizations, and CMI does not have a direct ownership interest in the Practice.

The relationship between CMI and the Practice lends itself to a variety of transactions and agreements:

[1] Administrative services agreement:

CMI provides certain administrative services to the Practice, and the Practice reimburses CMI for the value provided to it, based on an agreement between the two organizations. During fiscal-years 2013 and 2012, CMI incurred \$958,992 and \$368,678, respectively, of costs associated with providing administrative services to the Practice, of which \$100,000 has been reimbursed in fiscal-year 2013. As of September 30, 2013 and 2012, total related administrative costs due to CMI from the Practice amounted to \$1,638,141 and \$779,149, respectively.

[2] Financial Aid Program:

CMI instituted the Financial Aid Program in an effort to help children and families receive care and treatment, regardless of economic standing, by clinicians at the Practice. Families complete an application for aid with their healthcare practitioner at the Practice. Eligible families may receive a fee discount between 30%-70% of the cost of services. CMI raises philanthropic funding for financial aid, which the Practice clinicians match with donated services on a dollar-for-dollar basis. Financial aid for approved patients totaled \$581,635 and \$262,476 in fiscal-year 2013 and 2012, respectively.

During fiscal-year 2013, CMI granted financial aid, in the amount of \$53,871, that was subsequently not used by the recipients and that is therefore refundable to CMI. Accordingly, CMI has recorded a related amount due from the Practice in the statements of financial position. Subsequent to September 30, 2013, CMI reduced the next financial aid payment to the Practice by this amount.

CHILD MIND INSTITUTE, INC.

Notes to Financial Statements September 30, 2013 and 2012

NOTE E - RELATED-PARTY TRANSACTIONS (CONTINUED)

[3] Sub-contracting:

CMI has received contributions and grants that require services that it is unable to provide. In these instances, CMI sub-contracts with various agencies, including the Practice, to perform these services. CMI discloses to its donors and grantors that those funds received will be sub-contracted to satisfy the donor's and grantor's requests. During fiscal-years 2013 and 2012, sub-contracted amounts paid to the Practice in performance of these requests amounted to \$258,325 and \$267,011, respectively, and, these amounts are included as part of the "sub-contractors" category in the accompanying statements of functional expenses. As of September 30, 2012, total related sub-contracted services costs due to the Practice amounted to \$200,411.

[4] Medical practice grant:

During fiscal-year 2010, CMI and the Practice entered into an agreement, whereby CMI would provide up to \$750,000 of support to facilitate the creation of the Practice, subject to certain terms and conditions, which will not be reimbursed to CMI. The Practice had drawn down \$690,000 of the support during fiscal-year 2011. During fiscal-year 2012, CMI amended the agreement with the Practice to provide additional support not to exceed \$1,750,000 in the aggregate. No further support has been drawn down by the Practice as of September 30, 2013.

[5] Licensing agreement:

Pursuant to a licensing agreement between CMI and the Practice, CMI granted a royalty-free license of certain of its trademarks and domain names to the Practice, subject to certain terms and conditions, including the termination of the license agreement in the event the Practice breaches the terms and conditions of the agreement.

NOTE F - TEMPORARILY RESTRICTED NET ASSETS

At each fiscal year-end, temporarily restricted net assets consisted of the following:

	<u>September 30,</u>	
	<u>2013</u>	<u>2012</u>
Restricted for the following purposes:		
Science Campaign	\$ 3,339,475	
School based programming	1,000,000	
Research	394,723	\$ 510,000
Hurricane Sandy Response	40,000	
Financial aid	32,735	218,024
Katz Lecture	23,420	25,000
Military families	<u>11,344</u>	
	4,841,697	753,024
Restricted for time	<u>2,062,416</u>	<u>2,427,009</u>
	<u>\$ 6,904,113</u>	<u>\$ 3,180,033</u>

CHILD MIND INSTITUTE, INC.

Notes to Financial Statements September 30, 2013 and 2012

NOTE F - TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

During each fiscal year, net assets released from restrictions were for the following:

	Year Ended September 30,	
	2013	2012
Restricted for the following purposes:		
Research	\$ 325,277	\$ 146,651
Financial aid	563,636	262,476
Katz Lecture	36,580	
Military families	3,231	
	<u>928,724</u>	409,127
Time restrictions satisfied	<u>1,134,593</u>	<u>1,161,951</u>
Total	<u>\$ 2,063,317</u>	<u>\$ 1,571,078</u>

NOTE G - EMPLOYEE-BENEFIT PLAN

CMI maintains a defined-contribution retirement plan, established under section 401(k) of the Internal Revenue Code. Eligible employees may contribute a portion of their annual salaries, immediately upon being hired. Under the terms of the plan, after one year of service CMI may provide a discretionary matching contribution up to 6% of an employee's annual salary, to a maximum of \$10,000 per year. Plan expenses for fiscal-years 2013 and 2012 were \$94,589 and \$69,056, respectively.

NOTE H - DEFERRED-COMPENSATION PLAN

CMI has established a non-qualified, deferred-compensation plan under Section 457(f) of the Internal Revenue Code to encourage the continued employment of the president. Accordingly, during fiscal-year 2012, CMI invested \$342,000 as a means for measuring and determining the amounts that may ultimately be paid to the president. Under the terms of the plan, if the president is employed by CMI on September 30, 2014, CMI will pay the president the proceeds in the investment account on or before December 15, 2014 at its value on September 30, 2014. As of September 30, 2013 and 2012, the balance in the account was \$661,679 and \$327,901, respectively, and the deferred-compensation liability was \$445,819 and \$109,300, respectively, representing two-thirds and one-third of the investment balance, respectively.

CMI prorates unrealized gains or losses on the related investment to the deferred-compensation liability to reflect the fair value of the liability. Unrealized gains (losses) of \$222,519 and \$(4,700) were allocated to the liability balance for fiscal-years 2013 and 2012, respectively.

NOTE I - CREDIT RISK

Financial instruments that potentially subject CMI to concentrations of credit risk consist principally of cash and cash-equivalent accounts deposited in high-credit-quality financial institutions, the balances of which, from time to time, may exceed federal insurance limits. However, management believes that CMI does not face a significant risk of loss on these accounts that would be due to the failure of these institutions.

CHILD MIND INSTITUTE, INC.

Notes to Financial Statements September 30, 2013 and 2012

NOTE J - COMMITMENTS AND CONTINGENCIES

[1] Lease agreements:

In August 2010, CMI entered into an operating lease agreement with an unrelated party for office space, expiring May 31, 2023. Pursuant to this agreement, CMI received a base rent credit of \$1,190,490 to be applied to the rent expense from the commencement of the lease through June 30, 2011. The aggregate minimum lease payments are being amortized using the straight-line method over the lease term. The cumulative difference between rent expense and amounts paid amounted to \$974,087 and \$1,319,987, as of September 30, 2013 and 2012, respectively, and has been reported as deferred rent in the accompanying statements of financial position.

In conjunction with this lease, CMI was required to obtain two separate letters of credit, a junior and senior letter of credit, totaling \$2,828,588, to be held as security in the event of default. As of July 30, 2012, the junior letter of credit in the amount of \$1,400,000, was cancelled and the collateral was released due to certain conditions outlined within the lease agreement being met. The senior letter of credit in the amount of \$1,428,588 automatically renews each year on August 31. There have been no borrowings related to either of these letters of credit.

Future minimum rental commitments for the fiscal-years ended subsequent to September 30, 2013 are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2014	\$ 1,428,588
2015	1,451,264
2016	1,564,644
2017	1,564,644
2018	1,564,644
Thereafter	<u>7,430,169</u>
	<u>\$ 15,003,953</u>

[2] Litigation:

CMI is subject to litigation in the routine course of conducting its operations. In management's opinion, however, there is no current litigation the outcome of which would have a material adverse impact on CMI's financial position or activities.

[3] Government-funded activities:

Government-funded activities are subject to audit by the applicable granting agencies. At September 30, 2013, there were no material obligations outstanding as a result of such audits, and management believes that unaudited projects would not result in any material obligation.