

Consolidated Financial Statements Together with  
Report of Independent Certified Public Accountants

**THE ACTORS' FUND OF AMERICA AND SUBSIDIARIES**

As of December 31, 2012 and 2011

# THE ACTORS' FUND OF AMERICA AND SUBSIDIARIES

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Trustees of  
**The Actors' Fund of America:**

We have audited the accompanying consolidated financial statements of The Actors' Fund of America and Subsidiaries ("The Actors Fund"), which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's responsibility for the financial statements**

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

### **Auditor's responsibility**

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

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

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

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Actors Fund of America and Subsidiaries as of December 31, 2012 and 2011, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Grant Thornton LLP*

New York, New York  
September 26, 2013

**THE ACTORS' FUND OF AMERICA AND SUBSIDIARIES**  
**Consolidated Statements of Financial Position**  
**As of December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 1,656,595	\$ 1,368,935
Security deposits	477,676	461,062
Cash held on behalf of others (Note 2)	2,593,203	2,353,842
Accounts and other receivables, less allowance for doubtful accounts of \$187,000 and \$211,000 in 2012 and 2011, respectively	1,963,424	1,584,482
Bequests, contributions and pledges receivable, net (Note 2)	4,316,636	5,465,009
Prepaid expenses and other assets (Note 7)	447,673	582,980
Long-term investments (Note 3)	16,312,771	14,467,350
Annuity fund investments (Note 5)	2,494,735	2,435,674
Value of interest in split-interest agreements (Note 5)	4,782,533	4,370,708
Property and equipment, net (Notes 4 and 6)	<u>20,785,401</u>	<u>21,305,433</u>
Total assets	<u>\$ 55,830,647</u>	<u>\$ 54,395,475</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 3,754,184	\$ 3,364,148
Cash held on behalf of others (Note 2)	2,593,203	2,353,842
Deferred revenue (Note 4)	117,880	108,941
Annuities payable (Notes 3 and 5)	3,534,415	3,600,286
Other liabilities	1,042,226	960,636
Bonds and mortgages payable (Note 7)	6,213,709	6,463,253
Line of credit (Note 9)	1,000,000	1,500,000
Postretirement benefit obligations, net of plan assets of \$9,157,062 and \$8,005,274 in 2012 and 2011, respectively (Note 8)	<u>7,637,758</u>	<u>9,176,195</u>
Total liabilities	<u>25,893,375</u>	<u>27,527,301</u>
<b>COMMITMENTS AND CONTINGENCIES (Note 10)</b>		
<b>NET ASSETS (Note 10)</b>		
Unrestricted	9,692,744	7,307,856
Temporarily restricted (Note 2)	3,789,679	4,328,046
Permanently restricted (Note 2)	<u>16,454,849</u>	<u>15,232,272</u>
Total net assets	<u>29,937,272</u>	<u>26,868,174</u>
Total liabilities and net assets	<u>\$ 55,830,647</u>	<u>\$ 54,395,475</u>

*The accompanying notes are an integral part of these consolidated financial statements.*

**THE ACTORS' FUND OF AMERICA AND SUBSIDIARIES**  
**Consolidated Statement of Activities**  
**For the year ended December 31, 2012**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>OPERATING ACTIVITIES</b>				
Support and revenues:				
Contributions and private grants	\$ 6,451,150	\$ 193,444	\$ 815,162	\$ 7,459,756
BC/EFA grants (Note 2)	4,435,000	-	-	4,435,000
Special events	2,390,374	-	-	2,390,374
Government grants and contracts	2,707,143	-	-	2,707,143
Net patient and resident services revenue (Note 2)	9,441,052	-	-	9,441,052
Friedman Residence, LLC rental income	1,954,299	-	-	1,954,299
Bequests	2,666,075	-	-	2,666,075
Investment return designated for operations (Note 3)	724,337	-	-	724,337
Net assets released from restrictions (Note 2)	<u>1,085,371</u>	<u>(1,085,371)</u>	<u>-</u>	<u>-</u>
Total support and revenues	<u>31,854,801</u>	<u>(891,927)</u>	<u>815,162</u>	<u>31,778,036</u>
<b>EXPENSES</b>				
Program services:				
Social services	7,681,315	-	-	7,681,315
Employment and training	1,649,088	-	-	1,649,088
Health services	1,955,637	-	-	1,955,637
Housing	3,896,252	-	-	3,896,252
Patient and resident services	<u>11,196,673</u>	<u>-</u>	<u>-</u>	<u>11,196,673</u>
Total program services	<u>26,378,965</u>	<u>-</u>	<u>-</u>	<u>26,378,965</u>
Supporting services:				
General and administrative	1,199,276	-	-	1,199,276
Advancement	<u>3,878,879</u>	<u>-</u>	<u>-</u>	<u>3,878,879</u>
Total supporting services	<u>5,078,155</u>	<u>-</u>	<u>-</u>	<u>5,078,155</u>
Total expenses	<u>31,457,120</u>	<u>-</u>	<u>-</u>	<u>31,457,120</u>
Changes in net assets from operating activities	<u>397,681</u>	<u>(891,927)</u>	<u>815,162</u>	<u>320,916</u>
<b>NONOPERATING ACTIVITIES</b>				
Change in value of split-interest agreements (Note 5)	-	(337,533)	407,415	69,882
Realized and unrealized gains on investments (Note 3)	412,323	691,093	-	1,103,416
Pension expense, other than net periodic pension cost	(1,510,201)	-	-	(1,510,201)
Pension curtailment gain	3,111,259	-	-	3,111,259
Net loss on disposal of property and equipment	<u>(26,174)</u>	<u>-</u>	<u>-</u>	<u>(26,174)</u>
Total nonoperating activities	<u>1,987,207</u>	<u>353,560</u>	<u>407,415</u>	<u>2,748,182</u>
Changes in net assets	2,384,888	(538,367)	1,222,577	3,069,098
Net assets, beginning of the year	<u>7,307,856</u>	<u>4,328,046</u>	<u>15,232,272</u>	<u>26,868,174</u>
Net assets, end of the year	<u>\$ 9,692,744</u>	<u>\$ 3,789,679</u>	<u>\$ 16,454,849</u>	<u>\$ 29,937,272</u>

*The accompanying notes are an integral part of this consolidated financial statement.*

**THE ACTORS' FUND OF AMERICA AND SUBSIDIARIES**  
**Consolidated Statement of Activities**  
**For the year ended December 31, 2011**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>OPERATING ACTIVITIES</b>				
Support and revenues:				
Contributions and private grants	\$ 5,577,353	\$ 581,393	\$ 4,333,383	\$ 10,492,129
BC/EFA grants (Note 2)	4,083,500	-	-	4,083,500
Special events	2,460,630	-	-	2,460,630
Government grants and contracts	2,298,794	-	-	2,298,794
Net patient and resident services revenue (Note 2)	9,428,363	-	-	9,428,363
Friedman Residence, LLC rental income	1,454,898	-	-	1,454,898
Bequests	914,100	-	25,000	939,100
Investment return designated for operations (Note 3)	540,229	-	-	540,229
Net assets released from restrictions (Note 2)	749,537	(749,537)	-	-
Total support and revenues	<u>27,507,404</u>	<u>(168,144)</u>	<u>4,358,383</u>	<u>31,697,643</u>
<b>EXPENSES</b>				
Program services:				
Social services	7,213,792	-	-	7,213,792
Employment and training	1,522,528	-	-	1,522,528
Health services	1,821,847	-	-	1,821,847
Housing	3,416,739	-	-	3,416,739
Patient and resident services	11,086,265	-	-	11,086,265
Total program services	<u>25,061,171</u>	<u>-</u>	<u>-</u>	<u>25,061,171</u>
Supporting services:				
General and administrative	1,076,938	-	-	1,076,938
Advancement	4,072,201	-	-	4,072,201
Total supporting services	<u>5,149,139</u>	<u>-</u>	<u>-</u>	<u>5,149,139</u>
Total expenses	<u>30,210,310</u>	<u>-</u>	<u>-</u>	<u>30,210,310</u>
Changes in net assets from operating activities	<u>(2,702,906)</u>	<u>(168,144)</u>	<u>4,358,383</u>	<u>1,487,333</u>
<b>NONOPERATING ACTIVITIES</b>				
Change in value of split-interest agreements	-	(223,728)	(305,740)	(529,468)
Realized and unrealized losses on investments (Note 3)	(266,716)	(49,584)	-	(316,300)
Pension expense, other than net periodic pension cost	(2,644,263)	-	-	(2,644,263)
Contribution received in acquisition of The Aurora (Note 1)	238,447	-	-	238,447
Total nonoperating activities	<u>(2,672,532)</u>	<u>(273,312)</u>	<u>(305,740)</u>	<u>(3,251,584)</u>
Changes in net assets	(5,375,438)	(441,456)	4,052,643	(1,764,251)
Net assets, beginning of the year	<u>12,683,294</u>	<u>4,769,502</u>	<u>11,179,629</u>	<u>28,632,425</u>
Net assets, end of the year	<u>\$ 7,307,856</u>	<u>\$ 4,328,046</u>	<u>\$ 15,232,272</u>	<u>\$ 26,868,174</u>

*The accompanying notes are an integral part of this consolidated financial statement.*

**THE ACTORS' FUND OF AMERICA AND SUBSIDIARIES**  
**Consolidated Statement of Functional Expenses**  
**For the year ended December 31, 2012**

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	<b>Program Services</b>	<b>Supporting Services</b>		<b>Total</b>
		<b>General and Administrative</b>	<b>Advancement</b>	
Program activities and financial assistance	\$ 5,516,162	\$ -	\$ -	\$ 5,516,162
Salaries	10,551,047	584,583	1,400,469	12,536,099
Payroll benefits and taxes	2,854,782	121,163	311,339	3,287,284
Retirement benefits	1,302,415	76,418	191,725	1,570,558
Fundraising and events	-	-	1,195,192	1,195,192
Communications and public relations	26,568	2,415	14,381	43,364
General office expense	1,519,207	78,560	297,766	1,895,533
Professional fees and outside services	1,025,501	167,167	141,669	1,334,337
Occupancy and facilities	2,199,593	101,374	291,677	2,592,644
Interest expense	261,922	55,132	-	317,054
Depreciation and amortization	1,121,768	12,464	34,661	1,168,893
	<u>\$ 26,378,965</u>	<u>\$ 1,199,276</u>	<u>\$ 3,878,879</u>	<u>\$ 31,457,120</u>

*The accompanying notes are an integral part of this consolidated financial statement.*



**THE ACTORS' FUND OF AMERICA AND SUBSIDIARIES**  
**Consolidated Statement of Functional Expenses**  
For the year ended December 31, 2011

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	<b>Program Services</b>	<b>Supporting Services</b>		<b>Total</b>
		<b>General and Administrative</b>	<b>Advancement</b>	
Program activities and financial assistance	\$ 4,825,343	\$ -	\$ -	\$ 4,825,343
Salaries	10,040,456	521,266	1,351,337	11,913,059
Payroll benefits and taxes	2,756,624	112,168	277,794	3,146,586
Retirement benefits	1,265,548	67,617	203,012	1,536,177
Fundraising and events	-	-	1,326,333	1,326,333
Communications and public relations	25,440	2,313	14,070	41,823
General office expense	1,463,779	70,339	395,595	1,929,713
Professional fees and outside services	860,285	164,958	135,331	1,160,574
Occupancy and facilities	2,037,148	101,151	325,152	2,463,451
Interest expense	306,184	23,393	-	329,577
Depreciation and amortization	1,480,364	13,733	43,577	1,537,674
	<u>\$ 25,061,171</u>	<u>\$ 1,076,938</u>	<u>\$ 4,072,201</u>	<u>\$ 30,210,310</u>

*The accompanying notes are an integral part of this consolidated financial statement.*

**THE ACTORS' FUND OF AMERICA AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows**  
**For the years ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 3,069,098	\$ (1,764,251)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,168,893	1,537,674
Change in allowance and discount on bequests, contributions and pledges receivable	(191,616)	236,642
Change in provision for doubtful accounts	(13,505)	46,000
Curtailed of postretirement benefits	(3,111,259)	-
Net realized and unrealized (gains) losses on investments	(1,406,698)	321,567
Donated securities	(286,312)	(545,685)
Contributions restricted to annuity agreements and endowments	(1,007,723)	(157,214)
(Gain)/loss on disposal of property and equipment	26,174	62,340
Changes in operating assets and liabilities:		
Security deposits	(16,614)	(22,159)
Accounts and other receivables	(365,437)	339,344
Bequests, contributions and pledges receivable	1,339,989	(2,669,966)
Annuity fund investments	(59,061)	94,714
Value of split-interest agreements	(411,825)	314,142
Prepaid expenses	109,663	136,243
Cash held on behalf of others	(239,361)	(195,292)
Accounts payable and accrued expenses	390,036	(386,866)
Deferred revenue	8,939	(1,318,208)
Annuities payable	(65,871)	116,276
Other liabilities	342,924	254,093
Postretirement benefit obligations	1,572,822	3,621,068
Net cash provided by operating activities	<u>853,256</u>	<u>20,462</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from maturities and sales of investments	3,260,629	14,039,726
Purchase of investments	(3,413,040)	(14,050,977)
Acquisition of property and equipment	<u>(616,947)</u>	<u>(1,131,238)</u>
Net cash used in investing activities	<u>(769,358)</u>	<u>(1,142,489)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Contributions restricted to annuity agreements and endowments	1,007,723	157,214
Proceeds from/ payments of line of credit	(500,000)	1,500,000
Principal payments on capital lease obligations	(21,973)	(12,339)
Principal payments on bond payable	(277,682)	(266,890)
Principal payments on mortgages payable	(4,306)	(4,229)
Release of deposits with bond trustee	<u>-</u>	<u>101,861</u>
Net cash provided by financing activities	<u>203,762</u>	<u>1,475,617</u>
Net increase in cash and cash equivalents	287,660	353,590
Cash and cash equivalents, beginning of year	<u>1,368,935</u>	<u>1,015,345</u>
Cash and cash equivalents, end of year	<u>\$ 1,656,595</u>	<u>\$ 1,368,935</u>
Supplemental disclosure of cash flow information:		
Equipment acquired under capital lease obligations	<u>\$ 3,595</u>	<u>\$ 36,840</u>
Cash paid for interest	<u>\$ 317,054</u>	<u>\$ 296,301</u>
Assets acquired pertaining to acquisition of Aurora Associates L.P.	<u>\$ (32,174)</u>	<u>\$ 300,788</u>

*The accompanying notes are an integral part of these consolidated financial statements.*

# THE ACTORS' FUND OF AMERICA AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

December 31, 2012 and 2011

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### 1. ORGANIZATION

The Actors' Fund of America ("The Actors Fund") was established in 1882 to provide assistance to performing arts and entertainment industry professionals in the United States of America. The Actors Fund provides various human services and operates a 124-bed nursing and assisted living facility in Englewood, New Jersey ("The Home"). The Actors Fund also provides affordable and supportive housing in New York City; 178 housing units in the Dorothy Ross Friedman Residence (formerly, The Aurora) as an owner operator and 217 housing units in Schermerhorn through its participation as co-general partner of Schermerhorn Housing Development Fund Corporation. In 2009, The Actors Fund Housing Development Corporation ("AFHDC"), a subsidiary of The Actors Fund, was incorporated in New York State to provide senior, supportive and/or affordable housing.

The Actors Fund is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code") and is not a private foundation within Section 509(a) of the Code.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Financial Statement Presentation

The accompanying consolidated financial statements which include the statements of financial position and changes in net assets of The Actors' Fund of America and its two subsidiaries: AFHDC and the Friedman Residence, LLC, The Actors Fund, have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Actors Fund has elected to present statements of functional expenses as part of its 2012 and 2011 consolidated financial statements. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Actors Fund is required to report information regarding its consolidated financial position and consolidated changes in net assets according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Unrestricted net assets represent net assets of The Actors Fund that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

#### Donor-Restricted Funds

Temporarily restricted net assets represent gifts of cash and other assets received with donor stipulations that limit the use of the donated assets or are restricted as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported on the consolidated statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

At December 31, 2012, temporarily restricted net assets of \$3,789,679 consist of \$10,841 of purpose restricted funds and \$3,778,838 restricted as to the passage of time. At December 31, 2011, temporarily restricted net assets of \$4,328,046 consist of \$268,803 of purpose restricted funds and \$4,059,243 restricted as to the passage of time. During the years ended December 31, 2012 and 2011, amounts released from restriction represent funds spent for the donor-stipulated purpose and/or the passage of time.

# THE ACTORS' FUND OF AMERICA AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

December 31, 2012 and 2011

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Permanently restricted net assets represent net assets resulting from contributions and other inflows of assets whose use is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled by actions of The Actors Fund and must be maintained in perpetuity. At December 31, 2012, permanently restricted net assets of \$16,454,849 consist of \$8,699,084 restricted to investment in endowment funds, \$3,103,533 of pledges receivable restricted to investment in endowment and \$4,652,232 of perpetual trusts established by several donors. At December 31, 2011, permanently restricted net assets of \$15,232,272 consist of \$7,750,422 restricted to investment in endowment funds, \$3,237,032 of pledges receivable restricted to investment in endowment funds and \$4,244,818 of perpetual trusts established by several donors. Investment income derived from perpetual trusts is used to provide support for operations and the changes in fair values of such trusts is reported in the permanently restricted category.

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant management estimates and assumptions relate to the determination of allowances for doubtful accounts; discounts for present value on pledges receivable; the determination of postretirement benefit obligations; the allocation of costs amongst program and supporting services activities; the fair values assigned to certain financial instruments; and, the useful lives assigned to fixed assets. Actual results could differ from those estimates.

### Bequests, Contributions and Pledges Receivable, Net

Bequests and contributions, which include unconditional promises to give, are recognized as revenue in the period received. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Contributions to be received after one year are discounted using an appropriate discount rate commensurate with the risks involved (credit adjusted) which articulates with the collection period of the respective pledge. Discount rates once assigned to a respective pledge are not subsequently adjusted. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-stipulated restrictions, if any.

Bequests, contributions and pledges receivable, net, consist of the following unconditional promises to give at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Amounts due in:		
Less than one year	\$ 1,486,011	\$ 1,843,048
One to five years	2,413,131	2,821,083
More than five years	<u>653,650</u>	<u>1,228,650</u>
	4,552,792	5,892,781
Less: allowance for doubtful accounts and unamortized discount (at discount rates ranging from 1.14% to 4.25%)	<u>(236,156)</u>	<u>(427,772)</u>
	<u>\$ 4,316,636</u>	<u>\$ 5,465,009</u>

# THE ACTORS' FUND OF AMERICA AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

December 31, 2012 and 2011

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The Actors Fund has been notified of certain intentions to give under various wills and trust agreements, the realizable amounts of which are not presently determinable. The Actors Fund's share of such bequests is recorded when The Actors Fund has an irrevocable right to the bequest and the proceeds are measurable. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

### Investments

Investments in marketable securities are carried at fair value with realized and unrealized gains and losses reflected on the consolidated statement of activities. Donated investments are recorded at fair value at date of donation. Interest and dividends are recognized when earned.

### Cash and Cash Equivalents

The Actors Fund considers all highly liquid financial instruments, with original maturities of 90 days or less from the date of purchase, to be cash equivalents, except for certain cash equivalents which are part of The Actors Fund's long-term investment strategy and are included as part of investments.

### Property and Equipment

Property and equipment are recorded at cost if purchased or fair value at the date of donation. The Actors Fund capitalizes property and equipment costing more than \$2,500 and with useful lives greater than five years. Property and equipment, with the exception of land, are depreciated by the straight-line method, using the half-year convention, over the estimated lives of the respective assets, as follows:

Leasehold improvements	Lesser of lease term or economic life of betterment
Buildings and improvements	10 to 27.5 years
Furniture and fixtures	5 to 10 years
Equipment	5 to 7 years

### Conditional Asset Retirement Obligations

Under U.S. GAAP, The Actors Fund is required to recognize the costs associated with the eventual remediation and abatement of asbestos located within the construction of The Home. However, based on the results of a site-specific survey, performed by an independent qualified environmental consultant, The Actors Fund concluded that the cost of remediation is immaterial to the accompanying consolidated financial statements and, accordingly, has not recognized a liability for this obligation as of December 31, 2012 and 2011.

### Net Patient and Resident Services Revenue

Net patient and resident services revenue is reported based on the estimated net realizable amounts expected to be collected from residents, third-party payors and others for services rendered. At December 31, 2012 and 2011, the allowance for doubtful accounts for net patient and resident services was \$177,000 and \$182,000, respectively. The allowance for doubtful accounts is estimated at 10% of accounts receivable after adjusting for a specific allowance recorded for certain balances which have a strong likelihood of being uncollectible and Medicaid pending reserve balances. During 2012 and 2011, the net revenue from Medicaid constituted 42% and 51% of total net patient and resident services revenues, respectively.

# **THE ACTORS' FUND OF AMERICA AND SUBSIDIARIES**

## **Notes to Consolidated Financial Statements**

### **December 31, 2012 and 2011**

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Patient service revenue is presented net of reserve for Medicaid Pending and Nursing Home Provider Assessment.

Revenue under third-party payor agreements is subject to audit and retroactive adjustment. Provisions for estimated third-party payor settlements are provided in the period the related services are rendered. Differences between the estimated amounts accrued and interim and final settlements are reported as part of operations.

#### **Contributed Services**

The Actors Fund benefits from contributed services associated with special theatrical performances which occur on its behalf. The Actors Fund does not recognize the value of these special performances on its consolidated financial statements since The Actors Fund has historically had these performances contributed and has never paid for such performances. As such, the criteria for recognition under U.S. GAAP has not been met. In addition, during 2012 and 2011, The Actors Fund received contributed medical services, with a fair value of approximately \$373,000 and \$326,000, respectively, which have been reflected as a component of contribution revenue and health services expense on the accompanying consolidated statements of activities.

#### **Government and Private Grants and Contracts**

The Actors Fund receives grant and contract funding from various governmental agencies and private sources. The Actors Fund recognizes revenue under these arrangements as related program costs are incurred or services are provided during the respective grant or contract period.

#### **Special Events**

Revenues and expenses relative to special events are recognized upon occurrence of the respective event. Expenses associated with such events are included as part of advancement expenses on the consolidated statement of activities.

#### **Human Services Contributions**

Broadway Cares/Equity Fights AIDS, Inc. ("BC/EFA") currently provides grants to The Actors Fund to be used for program services. For the years ended December 31, 2012 and 2011, total contributions received were \$4,435,000 and \$4,083,500, respectively.

#### **Security Deposits**

Tenants' security deposits relative to tenant and commercial units within The Friedman Residence, LLC's rental property are recorded as an asset when received and are also included as part of other liabilities on the consolidated statement of financial position.

Resident security deposits relative to nursing home and assisted living units within The Home are recorded as an asset when received and are also included as part of other liabilities on the accompanying consolidated statement of financial position.

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#### **Friedman Residence, LLC Rental Income**

Tenant rental income is recognized as rentals become due. Rental payments received in advance are deferred until earned.

#### **Measure of Operations**

The accompanying consolidated statements of activities distinguish between operating and nonoperating activities. Operating activities principally include all revenues and expenses that are an integral part of The Actors Fund's programs, and supporting services, special events, and social services activities and investment return designated for operations. Nonoperating activities principally include investment return in excess of, or less than, the amount distributed under The Actors Fund's spending policy (see Note 3) pension related activity other than net periodic pension cost; change in the value of split-interest agreements; and, other activities considered to be more of an unusual or nonrecurring nature.

#### **Functional Allocation of Expenses**

The cost of providing The Actors Fund's programs and services have been summarized on a functional basis on the accompanying consolidated statements of activities. Accordingly, certain costs have been allocated amongst the program and supporting services benefited.

#### **Concentration of Credit Risk**

Cash, cash equivalents, and investments are exposed to various risks, such as interest rate, market, and credit. To minimize such risks, The Actors Fund has a diversified investment portfolio managed by independent investment managers in a variety of asset classes. The Actors Fund regularly evaluates its investments including performance thereof. Due to inherent risks and potential volatility in investment valuations, the amounts reported on the accompanying consolidated financial statements can vary substantially from year to year. The Actors Fund maintains its cash and cash equivalents in various bank deposit accounts which, at times, may exceed federally insured limits. The Actors Fund's cash accounts were placed with high credit quality financial institutions and, accordingly, The Actors Fund does not expect nonperformance. The Actors Fund received 49% and 34%, respectively, of its total contributions, private grants and Broadway Cares/Equity Fights AIDS grants revenues from organizations related to its Board of Trustees during the years ended December 31, 2012 and 2011. The Actors Fund believes that its credit risks are not significant.

#### **Fair Value of Financial Instruments**

The Actors Fund follows guidance for fair value measurements that defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. As required by U.S. GAAP, for fair value measurements, The Actors Fund uses a fair value hierarchy that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available.

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Observable inputs are inputs that market participants would use in pricing the respective asset or liability based on market data obtained from independent sources as of the measurement date. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the transparency of inputs as follows:

- Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the measurement date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.
- Level 2 - Pricing inputs other than quoted prices in active market, which are either directly or indirectly observable as of the measurement date. The nature of these securities include investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed. Also included in Level 2 are investments measured using a net asset value ("NAV") per share, or its equivalent, that may be redeemed at NAV at the statement of financial position date or in the near term, which the Actors Fund has determined to be within 90 days.
- Level 3 - Securities that have little to no pricing observability as of the measurement date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation. Also included in Level 3 are investments measured using a NAV per share, or its equivalent, that can never be redeemed at NAV at the statement of financial position date or in the near term or for which redemption at NAV is uncertain due to lockup periods or other investment restrictions.

The Actors Fund does not have any financial instruments classified within Level 2 as of December 31, 2012 and 2011.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by an entity. The Actors Fund considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to The Actors Funds' perceived risk of that instrument.

The carrying amounts of cash and cash equivalents, accounts receivable and other receivables, bequests, contributions and pledges receivable, prepaid expenses, deferred charges and other assets, and accounts payable and accrued expenses and other liabilities approximate fair value due to the short maturity of these financial instruments.



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The fair values assigned to long-term investments and annuity fund investments are based on the quoted market values of the underlying securities.

The Actors Fund estimates that the carrying value of its bonds payable approximates fair value because the bond bears interest at a rate that is not significantly different than current market rates for loans with similar maturities and credit qualities.

**Cash Held on Behalf of Others – Unclaimed Coogan Trust**

Cash held on behalf of others represents unclaimed funds entrusted to The Actors Fund collected from the entertainment employers for un-emancipated minors rendering artistic or creative services pursuant to California state law. The establishment of such account is known as the “Coogan Cash Account” in the industry. The Actors Fund has been designated as the trustee of the unclaimed funds collected and pays the funds to the stipulated beneficiaries or transfers the funds to their Coogan Cash Account once the respective minor reaches the age of maturity or becomes emancipated or to the estate of the respective beneficiaries. Cash held on behalf of beneficiaries is offset by a corresponding liability on the consolidated statement of financial position. Amounts held on behalf of others consist of funds invested principally in money market funds and fixed-income securities and as of December 31, 2012 and 2011 are classified within Level 1 within the fair value hierarchy.

**Reclassification**

Certain prior period amounts have been reclassified in order to conform to the 2012 presentation. Such reclassifications did not change total assets, liabilities, revenues, expenses or changes in net assets as reflected in the 2011 consolidated financial statements.

**Subsequent Events**

The Actors Fund has evaluated events occurring after December 31, 2012 through September 26, 2013, which represents the date the consolidated financial statements were issued. The Actors Fund is not aware of any material subsequent events which would require recognition or disclosure in the accompanying consolidated financial statements other than as disclosed in Note 9.

**3. LONG-TERM INVESTMENTS**

Investments at December 31, 2012 and 2011 consist of the following:

	<b>2012</b>		<b>2011</b>	
	<b>Fair Value</b>	<b>Cost</b>	<b>Fair Value</b>	<b>Cost</b>
Cash and cash equivalents	\$ 994,528	\$ 994,403	\$ 1,377,975	\$ 1,377,975
Common stocks	2,475,706	2,223,972	1,479,215	1,384,279
Mutual funds	9,779,540	9,150,332	8,196,883	8,194,704
Corporate bonds	1,861,873	1,779,695	2,060,913	1,888,539
Government bonds	1,201,124	1,132,384	1,352,364	1,248,184
	<u>\$ 16,312,771</u>	<u>\$ 15,280,786</u>	<u>\$ 14,467,350</u>	<u>\$ 14,093,681</u>

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The Actors Fund's investments are classified under Level 1 within the fair value hierarchy as of December 31, 2012 and 2011.

Included in the investment balances above is \$3,681,447 for 2012 and \$3,540,264 for 2011 pertaining to charitable remainder unitrusts in which The Actors Fund is the trustee of and is responsible for making annuity payments to specified life tenant beneficiaries. The liability as of December 31, 2012 and 2011 is \$2,064,877 and \$2,045,641, respectively, and has been reflected as part of annuities payable on the accompanying consolidated statements of financial position.

Investments are allocated amongst the net asset categories as follows:

	<u>2012</u>	<u>2011</u>
Unrestricted	\$ 3,931,364	\$ 3,176,319
Temporarily restricted	3,682,323	3,540,609
Permanently restricted	<u>8,699,084</u>	<u>7,750,422</u>
	<u>\$ 16,312,771</u>	<u>\$ 14,467,350</u>

Permanently restricted endowment funds, excluding perpetual trusts, at December 31, 2012 and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
Percy Williams	\$ 3,254,762	\$ 3,254,762
Dorothy Ross Friedman	1,246,013	996,350
Lillian Booth	1,000,000	1,000,000
Gladys' Living Rooms Fund	1,000,000	301,001
Edwin Forrest	772,250	772,250
Noel Murphy	566,691	566,691
John Drew Fund	320,117	320,117
Joseph Callaway	281,461	281,461
May V. Smith	112,500	112,500
Rosetta Brown	92,290	92,290
Willard Swire Scholarship Fund	28,000	28,000
Charles Hollerith	25,000	25,000
	<u>\$ 8,699,084</u>	<u>\$ 7,750,422</u>

The Board of Trustees of The Actors Fund has adopted an investment spending policy which permits the use of 5% to 7% annually of the average investment portfolio's fair value.

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The following schedule summarizes investment gains (losses) and their classification on the accompanying consolidated statements of activities. For the years ended December 31, 2012 and 2011, realized and unrealized gains (losses) pertaining to gift annuity and pooled life income funds, totaled \$133,934 and \$(72,619), respectively, and are included in the following chart.

	<u>2012</u>	<u>2011</u>
Dividends and interest (net of expenses of \$124,077 and \$175,342 in 2012 and 2011, respectively)	\$ 421,055	\$ 545,496
Net realized gains	386,193	151,566
Net unrealized gains (losses)	<u>1,020,505</u>	<u>(473,133)</u>
Total investment return	1,827,753	223,929
Investment return designated for current operations	<u>(724,337)</u>	<u>(540,229)</u>
Investment return (deficit), net of amounts designated for current operations	<u>\$ 1,103,416</u>	<u>\$ (316,300)</u>

**4. PROGRAM-RELATED PROPERTIES AND NOTES, NET**

**Friedman Residence, LLC**

The Dorothy Ross Friedman Residence (formerly The Aurora), a 30-story high-rise condominium, consists of shared rental units and one-bedroom apartments which provide 178 affordable housing units for the elderly or disabled, working poor and persons with AIDS. Since its opening in February 1996, The Actors Fund has been providing on-site social services to residents.

On March 23, 2011, The Actors Fund exercised its legal option and assigned its rights to The Actors Fund Housing Development Corporation, a subsidiary of The Actors Fund. The Actors Fund Housing Development Corporation, through its single member LLC, The Friedman Residence, LLC, acquired the Aurora rental property in exchange for \$63,345 in cash and the assumption of the Aurora Associates, L.P.'s mortgage indebtedness. In connection with the acquisition and in accordance with ASC 958-805, a valuation of the assets and liabilities of The Aurora was conducted. Accordingly, contribution revenue has been recognized in an amount equal to the difference between the carrying value of the assets acquired, as previously reported by The Aurora, and their fair value, net of liabilities assumed, also at fair value, and has been included on the accompanying 2011 consolidated statement of activities.

In addition, general assignment, commercial unit lease and residential unit leases assignment were assumed by The Friedman Residence, LLC. Accordingly, The Friedman Residence, LLC recorded the four notes and interest payable to The Actors Fund and such amounts have been eliminated in the accompanying 2012 and 2011 consolidated financial statements and only the net property value is presented which is being depreciated consistent with the established policies of The Actors Fund.

The Dorothy Ross Friedman Residence continues to operate as commercial and affordable rental property. At the date of acquisition, the appraised value of The Dorothy Ross Friedman Residence was \$7,700,000 and is reflected as an asset of the Friedman Residence, LLC and the second floor condominium unit with an appraised value of \$1,800,000 which is owned by The Actors Fund of America.

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**Palm View Limited Partnership**

On April 15, 1997, The Actors Fund agreed to lend \$2,500,000 to Palm View Limited Partnership ("Palm View L.P.") to finance affordable housing at 980 North Palm Avenue, West Hollywood, California (the "Palm View Facility"), consistent with its programmatic mission. Sponsored and developed by the West Hollywood City Housing Corporation, the Palm View Facility houses the clients of The Actors Fund in the entertainment community who are suffering from AIDS. This note receivable will mature in 2027 and will accrue interest at 3.0% per annum through January 1, 2014, and 6.5% per annum thereafter. Any unpaid principal and interest balance converts to an equity ownership interest in the Palm View property at the maturity date of the note. The underlying property has significant regulatory restrictions that do not expire until fiscal 2047. The implications of such restrictions are at present difficult to assess and have caused uncertainty in determining the amounts that will ultimately be realized by The Actors Fund.

Accordingly, given the fact that Palm View L.P.'s cash flow appears insufficient to satisfy required principal and interest payments as they become due, and the uncertainty of assessing the impact of the regulatory restrictions attached to the property, the note, along with all accrued interest, has been fully reserved for. The total gross outstanding loan balance and accrued interest receivable at December 31, 2012 and 2011 total \$3,291,139 and \$3,217,521, respectively.

**5. SPLIT-INTEREST AND ANNUITY FUND AGREEMENTS**

The Actors Fund has established an annuity fund which is invested in equity securities, money market funds and bonds. The income beneficiaries of the annuity fund receive annual distributions during their lives. The Actors Fund receives the remaining principal upon death of the life beneficiaries. The assets of the annuity fund at December 31, 2012 and 2011 totaled \$2,494,735 and \$2,435,674, respectively, and have been classified as Level 1 investments. Liabilities pertaining to the annuity fund agreements totaled \$1,469,539 and \$1,554,645 as of December 31, 2012 and 2011, respectively. The gift annuity fund liabilities are based on discount rates ranging between 1.2% and 8.2%, consistent with mortality tables provided by the Internal Revenue Service and the pooled income fund liabilities have a discount rate of 1.2%.

The Actors Fund is also the beneficiary of other split-interest agreements, which it is not the trustee of, and, therefore, have been classified as Level 3 within the fair value hierarchy and consist of the following at December 31, 2012 and 2011:

	<b>Charitable Remainder Trusts</b>	<b>Perpetual Trusts</b>	<b>Total</b>
<b>Balance as of December 31, 2011</b>	\$ 125,890	\$ 4,244,818	\$ 4,370,708
Unrealized gains	<u>4,411</u>	<u>407,414</u>	<u>411,825</u>
<b>Balance as of December 31, 2012</b>	<u>\$ 130,301</u>	<u>\$ 4,652,232</u>	<u>\$ 4,782,533</u>
<b>Balance as of December 31, 2010</b>	\$ 134,293	\$ 4,550,557	\$ 4,684,850
Unrealized losses	<u>(8,403)</u>	<u>(305,739)</u>	<u>(314,142)</u>
<b>Balance as of December 31, 2011</b>	<u>\$ 125,890</u>	<u>\$ 4,244,818</u>	<u>\$ 4,370,708</u>

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**6. PROPERTY AND EQUIPMENT, NET**

Property and equipment, net, at December 31, 2012 and 2011 consists of the following:

	<u>2012</u>	<u>2011</u>
Buildings and leasehold improvements	\$ 26,983,856	\$ 26,901,095
Furniture, fixtures and equipment	4,762,937	4,655,365
Less: accumulated depreciation and amortization	<u>(15,792,466)</u>	<u>(14,680,342)</u>
	15,954,327	16,876,118
Land	3,600,000	3,600,000
Construction in progress	<u>1,231,074</u>	<u>829,315</u>
Property and equipment, net	<u>\$ 20,785,401</u>	<u>\$ 21,305,433</u>

Depreciation expense for the years ended December 31, 2012 and 2011 totaled \$1,143,251 and \$1,511,598, respectively. The Actors Fund disposed of fully depreciated assets totaling \$31,127 during the year ended December 31, 2012 and recorded a gain of \$6,000 pertaining to these asset disposals. The Actors Fund disposed of assets of \$1,718,746 during the year ended December 31, 2011 and recorded a loss of \$62,340 pertaining to these asset disposals. Construction in progress at December 31, 2012 and 2011 consists principally of costs incurred to complete the Nursing and Assisted Living facility expansion and the Friedman residence capital improvements.

The Actors Fund owns approximately 2,400 burial plots, which existed since 1930, that are substantially occupied, in New York and Pennsylvania for which no value has been assigned to on the accompanying consolidated financial statements. The value of these burial plots, which would have been recognized at fair value on the date of gift, is not material to The Actors Fund's consolidated financial statements.

**7. BONDS PAYABLE AND MORTGAGES PAYABLE**

**Bonds Payable**

In December of 2007, The Actors Fund issued, through the New Jersey Economic Development Authority ("NJEDA"), \$7,000,000 of Economic Development Bonds (The Actors' Fund of America Project) (the "Bond") to provide funding for the expansion and renovation of The Home. Pursuant to a Bond Agreement dated December 11, 2007 (the "Bond Agreement"), among The Actors Fund, the NJEDA, and Commerce Bank, National Association ("Commerce"), now TD Bank, Commerce purchased the Bond from the NJEDA and the proceeds of the sale were loaned by NJEDA to The Actors Fund (the "Loan"). The term of the Loan is twenty (20) years, and during the initial ten (10) years of the term, interest accrues on the unpaid principal balance of the Loan at a rate of 4.18% per annum. For the period December 1, 2017 through December 11, 2027 a fixed rate will be used per annum equal to seventy percent (70%) of the then-in-effect Ten (10) Year United States Treasury Securities Index, as made available by the Federal Reserve Board plus two-hundred (200) basis points and set three (3) business days prior to December 1, 2017. The Actors Fund's obligation to repay the Loan is secured by: (i) a Mortgage and Security Agreement covering the real property commonly known by the street address of 155-175 West Hudson Avenue, Englewood, New Jersey (the "Englewood Property") and certain fixtures and other personal property located thereon, (ii) an

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Assignment of Leases and Rents covering the Englewood Property, and (iii) a security interest in and to all funds deposited from time to time in the Escrow Fund established under the Bond Agreement.

In addition to customary operating covenants, the Bond Agreement includes the following financial covenants:

- (a) The Actors Fund must maintain a Debt Service Coverage Ratio of at least 1.20 to 1.00. Compliance with this covenant is tested annually based upon The Actors Fund's audited consolidated financial statements. "Debt Service Coverage Ratio" is defined as: (i) the sum of net profit plus depreciation and amortization expense plus interest expense divided by (ii) the current portion of long-term debt plus interest expense.
- (b) Without the prior consent of TD Bank, The Actors Fund cannot incur additional indebtedness: (i) in excess of \$500,000, or (ii) for a term exceeding one year. In addition, The Actors Fund is prohibited from guarantying additional indebtedness and from making loans and advances to third parties. Finally, The Actors Fund must provide notice to TD Bank if advances under its existing line of credit facility, with HSBC exceed, in the aggregate, \$500,000.

During fiscal 2012, The Actors Fund drew on its available line of credit in excess of \$500,000 and provided notice to TD Bank.

In connection with the bond issuance, The Actors Fund incurred financing costs of \$380,217, which are being amortized over the maturity period of the bonds, twenty years. Deferred financing costs of \$249,904 and \$275,548 as of December 31, 2012 and 2011, respectively, are included in prepaid expenses and other assets on the accompanying consolidated statements of financial position.

Maturities of the bonds payable at December 31, 2012 are as follows:

2013	\$ 290,423
2014	302,973
2015	316,066
2016	329,126
2017	343,947
Thereafter	<u>4,371,821</u>
	<u>\$ 5,954,356</u>

Total interest expense associated with the Bonds for the years ended December 31, 2012 and 2011 totaled \$258,479 and \$269,310, respectively.

### **Mortgages Payable**

On March 23, 2011, The Actors Fund assumed a 30-year loan agreement with the City of New York, Department of Housing Preservation and Development ("HPD"), dated June 30, 1995, in the amount of \$50,000. The note bears interest at 1% per annum and is payable annually from available cash flows, as defined. Principal and interest are due June 30, 2025 and amounts outstanding as of December 31, 2012 and 2011 total \$58,500 and \$58,000, respectively. The loan is nonrecourse and is secured by a mortgage in the same amount encumbering real property and investments thereon (The Dorothy Ross Friedman Residence) and an assignment of the rents, income and other benefits.

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On March 23, 2011, The Actors Fund assumed an additional 30-year loan agreement with the City of New York HPD, dated May 30, 2005, in the amount of \$200,853, which is outstanding at December 31, 2012. The note is non-interest bearing and is payable on the Maturity Date, defined as 30 years after the date of Substantial Completion of the Improvements, as defined in the Building Loan Contract. In addition, if after the 25<sup>th</sup> anniversary of the Substantial Completion Date certain conditions are met, the unpaid principal balance shall be reduced and deemed paid in 5 equal annual decrements of 20% on each of the 26<sup>th</sup> through 30<sup>th</sup> anniversaries of the Substantial Completion Date. The loan is nonrecourse and is secured by a mortgage in the same amount encumbering the property and improvements thereon (The Dorothy Ross Friedman Residence).

**8. RETIREMENT BENEFITS**

The Actors Fund has provided a noncontributory defined benefit pension plan for eligible employees. In order to be eligible for coverage, employees must attain age 21 and complete one year of service. On February 23, 2012, The Actors Fund's Board of Trustees froze the pension plan. As of April 15, 2012, the Plan ceased further benefit accruals for all active participants and is closed to new participants. The accrued benefits for active participants are based solely on credited service accumulated through April 15, 2012 and compensation received through April 15, 2012.

The Actors Fund uses a December 31<sup>st</sup> measurement date for purposes of calculating its pension obligations.

The following summarizes the funded status of the plan and associated costs as of and for the years ended December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Reconciliation of benefit obligation:		
<b>Accumulated benefit obligation at January 1st</b>	\$ 17,181,469	\$ 13,579,354
Service cost	342,984	950,809
Interest cost	725,899	759,391
Actuarial loss	1,931,008	2,146,395
Benefits paid	(275,281)	(254,480)
Curtailement	(3,111,259)	-
<b>Accumulated benefit obligation at December 31st</b>	<u>\$ 16,794,820</u>	<u>\$ 17,181,469</u>
Projected benefit obligation	\$ (16,794,820)	\$ (17,181,469)
Fair value of plan assets	<u>9,157,062</u>	<u>8,005,274</u>
Funded status	<u>\$ (7,637,758)</u>	<u>\$ (9,176,195)</u>

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The curtailment credit reflected above for calendar 2012 totaling \$3,111,259, in the reconciliation of the projected benefit obligation, represents the cumulative impact of eliminating the value of future pay increases eligible from benefits earned by eligible plan participants in the Actors' Fund of America Pension Plan in accordance with the curtailment of benefit accruals under the Plan as of April 15, 2012.

	<u>2012</u>	<u>2011</u>
Amounts recognized on the consolidated statements of financials position consist of:		
Accrued benefit cost	\$ (3,061,221)	\$ (2,998,600)
Unrestricted net assets	<u>(4,576,537)</u>	<u>(6,177,595)</u>
Total accrued benefit liability	<u>\$ (7,637,758)</u>	<u>\$ (9,176,195)</u>
Service cost	\$ 342,984	\$ 950,809
Interest cost	725,899	759,391
Actual return on plan assets	(681,500)	(658,790)
Amortization of prior service cost	7,087	26,076
Amortization of loss	<u>216,096</u>	<u>199,817</u>
Net periodic pension cost	<u>\$ 610,566</u>	<u>\$ 1,277,303</u>
Curtailment impact	<u>72,055</u>	<u>-</u>
Net periodic pension cost	<u>\$ 682,621</u>	<u>\$ 1,277,303</u>

The estimated net actuarially gain, transition asset obligation and prior service cost for the pension plan that will be amortized from unrestricted net assets into net periodic benefit cost in the next calendar year total \$(330,639), \$0 and \$0, respectively.

Amounts recognized in unrestricted net assets as of December 31, 2012 and 2011 consist of the following:

	<u>2013</u>	<u>2012</u>
Prior service credit	\$ -	\$ (79,142)
Actuarial gain	<u>(4,576,530)</u>	<u>(6,098,453)</u>
Amounts recognized in unrestricted net assets	<u>\$ (4,576,530)</u>	<u>\$ (6,177,595)</u>

The weighted-average assumptions used to determine benefit obligations at December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Discount rate	4.02 %	4.80 %
Rate of compensation increase	3.75 %	3.75 %



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The weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Discount rate	4.02 %	5.68 %
Expected return on plan assets	8.00 %	8.00 %
Rate of compensation increase	3.75 %	3.75 %

The net periodic pension costs included the following components:

	<u>2012</u>	<u>2011</u>
Benefit costs	\$ 610,566	\$ 1,277,303
Employer contribution	620,000	300,000
Benefits paid	(275,281)	(254,480)

Benefits paid for the pension plan include approximately \$66,000 and \$78,000 of investment management fees in 2012 and 2011, respectively.

The Actors Fund's pension plan weighted-average asset allocations at December 31, 2012 and 2011 are as follows:

<u>Asset Category</u>	<u>Allocation of Plan Assets at December 31, 2012</u>	<u>Allocation of Plan Assets at December 31, 2011</u>
Common stocks	61.80 %	52.40 %
Fixed income securities	35.10 %	37.80 %
Cash and cash equivalents	3.10 %	9.80 %
Total	<u>100.00 %</u>	<u>100.00 %</u>

The investments of the pension plan as of December 31, 2012 and 2011 are classified as Level 1 within the fair value hierarchy.

The following pension benefit payments, which reflect expected future service, are expected to be paid as follows:

<u>Year Ending December 31,</u>	<u>Pension Benefits</u>
2013	\$ 450,694
2014	461,327
2015	597,513
2016	676,499
2017	704,775
Years 2018 – 2022	3,943,395

# THE ACTORS' FUND OF AMERICA AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

### December 31, 2012 and 2011

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#### **Deferred Compensation Arrangements**

The Actors Fund provides variable universal life insurance policies to qualified executives to supplement its retirement plan. Distribution costs under these arrangements totaled \$87,695 and \$79,283 for the years ended December 31, 2012 and 2011, respectively.

#### **401(k) Defined Contribution Plan**

The Actors Fund sponsors a defined contribution plan covering all eligible employees. The Plan permits elective deferrals pursuant to Internal Revenue Code Section 401(k), up to the maximum amount by law of pre-tax annual compensation, as defined in the Plan. The Actors Fund makes discretionary matching contributions on participant deferrals. In 2012 The Actors Fund added 3% safe harbor contributions and discretionary profit sharing contributions. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). Total contributions to the plan by The Actors Fund during 2012 and 2011 totaled \$814,000 and \$188,000, respectively.

## **9. COMMITMENTS AND CONTINGENCIES**

#### **Laws and Regulations**

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement laws and regulations, anti-referral laws, and false claims prohibitions. In recent years, government activity has increased with respect to investigations and allegations concerning possible violations of reimbursement, false claims and anti-referral statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs as well as imposition of significant fines and penalties, and significant repayments for patient services previously reimbursed. The Actors Fund believes it is in compliance with all laws and regulations and that the result of any future government review would not have a material impact on The Actors Fund's consolidated financial position, changes in net assets or cash flows.

#### **Lease Obligations**

The Actors Fund has entered into operating lease agreements for office space located in New York City, Chicago and Los Angeles, and equipment leases, with lease terms expiring at various dates through 2019. These lease agreements have renewal clauses which range from three to five years, exercisable at the option of The Actors Fund. All office space leases have rent escalation clauses that are based upon anticipated increases in real estate taxes, building expenses and utility charges.

Rental expense for the years ended December 31, 2012 and 2011 totaled \$1,420,041 and \$1,436,253, respectively. The deferred rent liability included in accounts payable and accrued expenses on the accompanying consolidated statements of financial position totals \$476,132 and \$507,869 as of December 31, 2012 and 2011, respectively.

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Included in furniture, fixtures and equipment within property and equipment on the accompanying consolidated statements of financial position is equipment acquired under capital lease arrangements with a cost of \$120,990 and \$117,395 at December 31, 2012 and 2011, respectively, with accumulated amortization of \$64,048 and \$37,921 at December 31, 2012 and 2011, respectively. Principal payments for the years ended December 31, 2012 and 2011 under all capital leases totaled \$21,973 and \$12,339, respectively. Amounts outstanding under these capital leases are included in other liabilities on the accompanying consolidated statements of financial position at December 31, 2012 and 2011 and total \$70,708 and \$89,085, respectively. At December 31, 2012, future minimal annual payments due under both operating and capital leases are as follows:

<b>Year Ending December 31,</b>	<b>Operating Leases</b>	<b>Capital Leases</b>	<b>Total</b>
2013	\$ 1,228,561	\$ 53,760	\$ 1,282,321
2014	1,246,242	36,960	1,283,202
2015	983,291	13,603	996,894
2016	404,264	7,413	411,677
2017 - 2019	1,136,556	1,253	1,137,809
	<u>\$ 4,998,914</u>	<u>\$ 112,989</u>	<u>\$ 5,111,903</u>

Interest expense under capital leases for the years ended December 31, 2012 and 2011, totaled \$25,823 and \$23,030, respectively.

**Line of Credit**

As of December 31, 2012 and 2011, The Actors Fund had a credit facility for \$4 million with HSBC bank with \$1,000,000 and \$1,500,000 in outstanding borrowings, respectively. Such credit facility is collateralized by The Actors Fund's long-term investments and The Actors Fund pays an interest rate of prime rate which, at December 31, 2012 was 3.25%. Subsequent to December 31, 2012, the line of credit was repaid in full and the credit facility was terminated.

**Income Taxes**

Under the Accounting Standards Codification Topic 740, "Accounting for Uncertainty in Income Taxes," issued by the Financial Accounting Standards Board ("FASB") guidance was issued which clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This standard provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The standard also provides guidance on measurement, classification, interest and penalties, and disclosure. The Actors Fund does not believe it has any uncertain tax positions. The Actors Fund has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; determine its filing and tax obligations in jurisdictions for which it has nexus; and, to review other matters that may be considered tax positions. The tax years ending 2010, 2011 and 2012 remain open to audit for both federal and state purposes.

# THE ACTORS' FUND OF AMERICA AND SUBSIDIARIES

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### 10. PERMANENTLY RESTRICTED NET ASSETS

The Actors Fund adopted the provisions of “*Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds.*” This standard provides guidance on classifying the net assets associated with donor-restricted endowment funds held by organizations subject to the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”), passed by the State of New York in September 2010, and also requires additional disclosures about endowments for both donor-restricted funds and board-designated funds.

The Actors Fund has interpreted New York State UPMIFA (“NYPMIFA”) as requiring the preservation of the fair value of the original gift, as of the gift date of the donor-restricted endowment fund, absent explicit donor stipulations to the contrary. As a result of this interpretation, The Actors Fund classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment; and, (c) accumulations to the permanent endowment made in accordance with the directions of the applicable donor gift instrument, at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until such amounts are appropriated for expenditure by The Actors Fund in a manner consistent with the standard of prudence prescribed by NYPMIFA.

In accordance with NYPMIFA, The Actors Fund considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the purpose, duration, and preservation of the endowment fund; expected total return of investments; general economic conditions; the possible effects of inflation and deflation; other resources of The Actors Fund; and, the investment policy of The Actors Fund.

The Actors Fund has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that The Actors Fund must hold in perpetuity or for donor-specified periods. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of appropriate benchmarks without putting the assets at imprudent risk. To satisfy its long-term objectives, The Actors Fund relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). The Actors Fund targets a diverse asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

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The following table presents the composition of The Actors Fund's donor-restricted endowment fund, which consists of permanently restricted net assets and excludes perpetual trusts, in which The Actors Fund is not the trustee of, and pledges receivables, as of December 31, 2012 and 2011 and the changes in the endowment fund for the years then ended. The Actors Fund does not have a board-designated endowment fund as of December 31, 2012 and 2011.

	<b>2012</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Endowment net assets, beginning of year</b>	\$ (511,383)	\$ 345	\$ 7,750,422	\$ 7,239,384
New endowments	-	-	948,662	948,662
Investment return:				
Investment income	<u>817,938</u>	<u>876</u>	<u>-</u>	<u>818,814</u>
Total investment return	817,938	876	948,662	1,767,476
Appropriation of investment return for expenditure	<u>(387,176)</u>	<u>(345)</u>	<u>-</u>	<u>(387,521)</u>
<b>Endowment net assets, end of year</b>	<u>\$ (80,621)</u>	<u>\$ 876</u>	<u>\$ 8,699,084</u>	<u>\$ 8,619,339</u>
	<b>2011</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Endowment net assets, beginning of year</b>	\$ (351,003)	\$ 3,083	\$ 6,629,072	\$ 6,281,152
New endowments	-	-	1,121,350	1,121,350
Investment return:				
Investment income	<u>167,991</u>	<u>345</u>	<u>-</u>	<u>168,336</u>
Total investment return	167,991	345	1,121,350	1,289,686
Appropriation of investment return for expenditure	<u>(328,371)</u>	<u>(3,083)</u>	<u>-</u>	<u>(331,454)</u>
<b>Endowment net assets, end of year</b>	<u>\$ (511,383)</u>	<u>\$ 345</u>	<u>\$ 7,750,422</u>	<u>\$ 7,239,384</u>