

Combined Financial Statements and Report of
Independent Certified Public Accountants

Eden Autism Services Foundation, Inc. and Affiliate

June 30, 2017 and 2016

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Report of Independent Certified Public Accountants

To the Board of Trustees
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Report on the financial statements

We have audited the accompanying combined financial statements of Eden Autism Services Foundation, Inc. and Affiliate (the “Organization”), which comprise the combined statements of financial position as of June 30, 2017 and 2016, and the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined financial statements.

Management’s responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Eden Autism Services Foundation, Inc. and Affiliate as of June 30, 2017 and 2016, 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

Philadelphia, Pennsylvania

December 12, 2017

COMBINED STATEMENTS OF FINANCIAL POSITION

June 30,

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 1,108,699	\$ 2,031,803
Restricted cash	519,346	512,292
Investments	8,164,127	4,355,232
Accounts and notes receivable	1,058,130	1,174,213
Grants receivable	417,182	266,042
Contributions and trust receivables	497,678	660,607
Prepaid expenses and other assets	195,896	141,614
Property and equipment, net	<u>18,114,874</u>	<u>18,261,269</u>
TOTAL ASSETS	<u>\$ 30,075,932</u>	<u>\$ 27,403,072</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 424,911	\$ 527,003
Accrued expenses	787,539	842,447
Line of credit	958,000	-
Notes payable	4,403,402	4,061,792
Bonds payable, net	10,595,787	10,867,573
Refundable advances	273,898	422,001
Deferred revenue	<u>83,119</u>	<u>50,168</u>
Total liabilities	<u>17,526,656</u>	<u>16,770,984</u>
NET ASSETS		
Unrestricted	2,367,116	1,354,415
Temporarily restricted	7,672,722	6,783,654
Permanently restricted	<u>2,509,438</u>	<u>2,494,019</u>
Total net assets	<u>12,549,276</u>	<u>10,632,088</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 30,075,932</u>	<u>\$ 27,403,072</u>

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

COMBINED STATEMENT OF ACTIVITIES

For the year ended June 30, 2017

(With summarized information for the year ended June 30, 2016)

	Unrestricted	Temporarily restricted	Permanently restricted	2017	2016
SUPPORT AND OTHER REVENUES					
Medicaid	\$ 850,859	\$ -	\$ -	\$ 850,859	\$ 166,775
Contributions	2,233,176	402,492	15,419	2,651,087	3,678,694
Grants	12,314,381	-	-	12,314,381	12,135,372
Tuition and client fees	1,012,617	8,027,897	-	9,040,514	8,617,624
Other fees and program services	407,094	-	-	407,094	277,199
Rental income	49,392	-	-	49,392	57,606
Investment gain	-	722,954	-	722,954	28,642
Gain on sale of assets	512,970	-	-	512,970	634,518
Other revenues	11,681	-	-	11,681	10,226
Net assets released from restrictions	8,264,275	(8,264,275)	-	-	-
Total support and other revenues	25,656,445	889,068	15,419	26,560,932	25,606,656
EXPENSES					
Salaries	14,524,320	-	-	14,524,320	13,733,625
Payroll taxes	1,152,783	-	-	1,152,783	1,128,099
Employee benefits	2,544,747	-	-	2,544,747	2,393,750
Respite aid to families	53,853	-	-	53,853	135,604
Facility costs	1,517,113	-	-	1,517,113	1,644,416
Food and clothing	418,781	-	-	418,781	387,428
Program expense	318,706	-	-	318,706	306,548
Materials and supplies	256,534	-	-	256,534	286,344
Insurance	174,559	-	-	174,559	190,513
Computer software	28,956	-	-	28,956	27,773
Consulting and professional	621,943	-	-	621,943	506,012
Public relations and advertising	215,775	-	-	215,775	126,522
Telephone and communications	372,449	-	-	372,449	359,740
Vehicle and transportation costs	539,072	-	-	539,072	553,536
Travel	63,660	-	-	63,660	135,448
Depreciation and amortization	664,496	-	-	664,496	744,819
Special projects and events	279,989	-	-	279,989	288,689
Interest	462,559	-	-	462,559	483,478
Endowment and planned giving	32,607	-	-	32,607	44,193
Donations	95,164	-	-	95,164	49,179
Recovery of bad debt	(1,414)	-	-	(1,414)	(4,003)
Other	307,092	-	-	307,092	332,912
Total expenses	24,643,744	-	-	24,643,744	23,854,625
CHANGE IN NET ASSETS	1,012,701	889,068	15,419	1,917,188	1,752,031
NET ASSETS AT BEGINNING OF YEAR	1,354,415	6,783,654	2,494,019	10,632,088	8,880,057
NET ASSETS AT END OF YEAR	<u>\$ 2,367,116</u>	<u>\$ 7,672,722</u>	<u>\$ 2,509,438</u>	<u>\$ 12,549,276</u>	<u>\$ 10,632,088</u>

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

COMBINED STATEMENT OF ACTIVITIES

For the year ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>2016</u>
SUPPORT AND OTHER REVENUES				
Medicaid	\$ 166,775	\$ -	\$ -	\$ 166,775
Contributions	989,353	2,565,361	123,980	3,678,694
Grants	12,135,372	-	-	12,135,372
Tuition and client fees	1,482,944	7,134,680	-	8,617,624
Other fees and program services	277,199	-	-	277,199
Rental income	57,606	-	-	57,606
Investment gain	2,207	26,435	-	28,642
Gain on sale of assets	634,518	-	-	634,518
Other revenues	10,226	-	-	10,226
Other adjustment	-	-	-	-
Net assets released from restrictions	<u>7,359,195</u>	<u>(7,359,195)</u>	<u>-</u>	<u>-</u>
Total support and other revenues	23,115,395	2,367,281	123,980	25,606,656
EXPENSES				
Salaries	13,733,625	-	-	13,733,625
Payroll taxes	1,128,099	-	-	1,128,099
Employee benefits	2,393,750	-	-	2,393,750
Respite aid to families	135,604	-	-	135,604
Facility costs	1,644,416	-	-	1,644,416
Food and clothing	387,428	-	-	387,428
Program expense	306,548	-	-	306,548
Materials and supplies	286,344	-	-	286,344
Insurance	190,513	-	-	190,513
Computer software	27,773	-	-	27,773
Consulting and professional	506,012	-	-	506,012
Public relations and advertising	126,522	-	-	126,522
Telephone and communications	359,740	-	-	359,740
Vehicle and transportation costs	553,536	-	-	553,536
Travel	135,448	-	-	135,448
Depreciation and amortization	744,819	-	-	744,819
Special projects and events	288,689	-	-	288,689
Interest	483,478	-	-	483,478
Endowment and planned giving	44,193	-	-	44,193
Donations	49,179	-	-	49,179
Recovery of bad debt	(4,003)	-	-	(4,003)
Other	<u>332,912</u>	<u>-</u>	<u>-</u>	<u>332,912</u>
Total expenses	<u>23,854,625</u>	<u>-</u>	<u>-</u>	<u>23,854,625</u>
CHANGE IN NET ASSETS	(739,230)	2,367,281	123,980	1,752,031
NET ASSETS AT BEGINNING OF YEAR	<u>2,093,645</u>	<u>4,416,373</u>	<u>2,370,039</u>	<u>8,880,057</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,354,415</u>	<u>\$ 6,783,654</u>	<u>\$ 2,494,019</u>	<u>\$ 10,632,088</u>

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

Eden Autism Services Foundation, Inc. and Affiliate

COMBINED STATEMENTS OF CASH FLOWS

For the years ended June 30,

	<u>2017</u>	<u>2016</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 1,917,188	\$ 1,752,031
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	641,264	721,587
Amortization of deferred financing fees	23,232	23,232
Recovery of bad debt	(1,414)	(4,003)
Gain on disposition of property and equipment	(506,760)	(634,518)
Unrealized/realized (gain) loss on investments	(538,833)	44,867
Contributions restricted for long-term purposes	(15,419)	(123,980)
Change in operating assets and liabilities:		
Restricted cash	(7,049)	(2,143)
Accounts and notes receivable	316,422	(57,219)
Contributions and other receivables	(35,996)	166,772
Prepaid expenses and other assets	(54,282)	114,046
Grants receivable	(151,140)	(116,158)
Accounts payable and accrued expenses	(157,000)	(589,446)
Deferred revenue	32,951	(102,195)
Refundable advances	(148,103)	(14,453)
	<u>1,315,061</u>	<u>1,178,420</u>
Net cash provided by operating activities		
INVESTING ACTIVITIES		
Net purchases/proceeds of investments	(3,270,063)	(355,009)
Sales of property and equipment	563,381	1,829,324
Purchases of property and equipment	(551,494)	(1,546,392)
	<u>(3,258,176)</u>	<u>(72,077)</u>
Net cash used in investing activities		
FINANCING ACTIVITIES		
Contributions restricted for long-term purposes	15,419	123,980
Issuance of notes payable	359,001	240,000
Repayment of notes and bonds payable	(312,409)	(749,130)
Net proceeds from line of credit	958,000	-
	<u>1,020,011</u>	<u>(385,150)</u>
Net cash provided by (used in) financing activities		
NET (DECREASE) INCREASE IN CASH	(923,104)	721,193
Cash and cash equivalents at beginning of year	<u>2,031,803</u>	<u>1,310,610</u>
Cash and cash equivalents at end of year	<u>\$ 1,108,699</u>	<u>\$ 2,031,803</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ 431,396</u>	<u>\$ 483,478</u>

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

NOTES TO COMBINED FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Nature of Organization

Eden Autism Services Foundation, Inc. (the “Foundation”) is a nonprofit supporting organization. The principal function of the Foundation is to raise funds which are to be used to support the affiliate organization. The affiliate, Eden Autism Services, Inc. (“Eden”), is a nonprofit organization that provides education for autistic or autistic-like language and behavioral disordered individuals, provides and maintains residential care facilities for individuals with autism located primarily in the State of New Jersey, and provides training and development of practice skills to individuals with autism. Eden was approved by the Department of Education, State of New Jersey (the “DOE”) to service students classified as autistic from various public school districts.

The Foundation is related to Eden and shares the same management team. Additionally, the same individuals serve on the Foundation’s and Eden’s Board of Trustees. The financial statements of Eden Autism Services Foundation, Inc. and Affiliate (collectively, the “Organization”) represent the combined financial position and activities of the Foundation and Eden. All significant intercompany accounts and transactions have been eliminated in combination.

2. Basis of Accounting

The combined financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

3. Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions:

- Unrestricted net assets - net assets not subject to donor-imposed stipulations.
- Temporarily restricted net assets - net assets subject to donor-imposed stipulations that will be met by actions of the Organization and/or by the passage of time.
- Permanently restricted net assets - net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or donor-specified purposes.

4. Cash and Cash Equivalents

All highly liquid investments with original maturities of three months or less are considered to be cash equivalents. The Organization maintains cash balances which may exceed federally insured limits. It historically has not experienced any credit-related losses.

(Continued)

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

5. Investments

The Organization carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the combined statements of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying combined statements of activities. Interest and dividend income is recognized when earned. The Organization values investments using quoted market prices in active markets for identical investments to the extent possible (Level 1). To the extent that such market prices are not available, the Organization values such investments using observable measurement criteria, including quoted market prices of similar investments in active markets and other corroborated factors (Level 2). In the event that quoted market prices in active markets and other observable measurement criteria are not available, the Organization will develop measurement criteria based on the best information available (Level 3).

6. Contributions Receivable and Revenue

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Unconditional promises to give due in the next year are reflected as current promises to give and are recorded at their net realizable values. Unconditional promises to give due in subsequent years are reflected as long-term promises to give and are recorded at the present values of their net realizable values, using risk-adjusted interest rates (approximately 7.5%) applicable to the years in which the promises are received to discount the amounts. Conditional promises to give are recognized when the conditions on which they are dependent are substantially satisfied.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statements of activities as net assets released from restrictions.

Contributions of donated non-cash assets are recorded at their fair values in the periods received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, and are recorded at their fair values in the periods received.

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

The Organization considers all amounts receivable to be fully collectible; accordingly, no allowances for uncollectible amounts are required.

(Continued)

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

7. Tuition

Tuition for public school students in the State of New Jersey is billed to their respective school districts based upon a tentative public school placement tuition rate determined by the DOE. The billing is then adjusted at year end when the actual tuition rate is determined based upon actual allowable costs plus provision for working capital needs. Tuition for school students outside the State of New Jersey is billed and recognized as unrestricted support based upon agreed-upon rates and is not adjusted based upon actual expenditures. Income received from program fees and services is deferred and recognized when the related program services are provided. State grant awards are classified as refundable advances until expended for the purpose of the grants.

8. Accounts, Notes and Grants Receivable

For accounts receivable, the change in net assets is charged with an allowance for estimated uncollectible accounts based on past experience and an analysis of current accounts receivable collectability. Accounts deemed uncollectible are charged to the allowance in the year they are deemed uncollectible. At June 30, 2017 and 2016, the Organization recorded an allowance for doubtful accounts of \$-0- and \$19,677, respectively. Additionally, the Organization considers all grants receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is required.

9. Deferred Financing Costs

Bond issue costs are being amortized over the life of the bonds.

10. Property and Equipment

Buildings and improvements, equipment, vehicles and leasehold improvements costing \$2,000 or more are capitalized and are depreciated or amortized on a straight-line basis, based upon an estimated useful life of 5 to 35 years for buildings and improvements and 3 to 7 years for equipment and vehicles. Repairs and maintenance which do not extend the useful lives of the related assets are expensed as incurred.

Land and buildings acquired by grants or contracts are considered owned by the Organization while used in the program for which they were purchased or in other future authorized programs; however, the grantors have reversionary interests in certain land and buildings. Disposition of these assets, as well as ownership of any proceeds therefrom, is subject to certain regulation.

11. Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect reported amounts of revenue, expenses, assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

(Continued)

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

12. Income Taxes

The Foundation and Eden have received determination letters from the Internal Revenue Service concluding that they are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation and Eden have been classified as organizations that are not private foundations under Section 509(a)(2) of the Internal Revenue Code and qualify for deductible contributions as provided in Section 170(b)(1)(A).

The Organization accounts for uncertainty in income taxes recognized in the combined financial statements using a recognition threshold of more likely than not as to whether the uncertainty will be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. Management determined there were no tax uncertainties that met the recognition threshold. The Organization's federal exempt organization returns are no longer subject to examination by the Internal Revenue Service for years prior to 2014.

13. Financial Dependency

The Organization receives funding from the State of New Jersey and is economically dependent on these grant, tuition and client fee awards to carry on its operations. The State of New Jersey has approved the continuing grant awards for the year ending June 30, 2018. Additionally, the Organization will become economically dependent on Medicaid funding for Adult Services during the year ending June 30, 2018.

14. Reclassifications

Certain reclassifications have been made to prior year balances in order to conform to the current year presentation.

15. Subsequent Events

Management has evaluated subsequent events that occurred after the combined statement of financial position date, but before December 12, 2017, the date the combined financial statements were available to be issued.

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

NOTE B - FAIR VALUE AND INVESTMENTS

Investments carried at fair value as of June 30, 2017 and 2016, by valuation hierarchy, are as follows:

<u>Description</u>	<u>2017</u>		
	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Money markets	\$ 177,110	\$ -	\$ -
Mutual funds	4,908,578	-	-
Bond mutual funds	<u>3,078,439</u>	<u>-</u>	<u>-</u>
	<u>\$ 8,164,127</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Description</u>	<u>2016</u>		
	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Money markets	\$ 349,746	\$ -	\$ -
Mutual funds	2,302,576	-	-
Bond mutual funds	1,403,745	-	-
Other mutual fund	<u>299,165</u>	<u>-</u>	<u>-</u>
	<u>\$ 4,355,232</u>	<u>\$ -</u>	<u>\$ -</u>

The following table summarizes the total investment return and its classification in the combined statements of activities for the years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Investment returns:		
Interest and dividends	\$ 184,121	\$ 73,509
Realized and unrealized gains (losses)	<u>538,833</u>	<u>(44,867)</u>
Total investment return	<u>\$ 722,954</u>	<u>\$ 28,642</u>

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

NOTE C - CONTRIBUTIONS AND TRUST RECEIVABLES

Contributions and trust receivables consist of the following at June 30, 2017:

Due in one year or less	\$	242,431
Due 1-5 years		56,335
Charitable lead annuity trust		<u>367,237</u>
Total contributions receivable		666,003
Less: discount to net present value		<u>(168,325)</u>
Total	\$	<u>497,678</u>

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Land	\$ 2,742,854	\$ 2,478,838
Building and improvements	19,429,627	19,137,876
Equipment and vehicles	1,311,764	1,302,639
Furniture and fixtures	804,284	804,284
Construction in progress	<u>193,743</u>	<u>535,372</u>
Subtotal	24,482,272	24,259,009
Accumulated depreciation and amortization	<u>(6,367,398)</u>	<u>(5,997,740)</u>
Property and equipment, net	\$ <u>18,114,874</u>	\$ <u>18,261,269</u>

Depreciation expense was \$641,264 and \$721,587, respectively, for the years ended June 30, 2017 and 2016.

NOTE E - RESTRICTIONS ON NET ASSETS

1. Temporarily Restricted Net Assets

The Foundation is the beneficiary of a charitable lead annuity trust agreement entered into during the fiscal year ended June 30, 2008. The terms of the trust agreement are such that the Foundation will be paid \$35,828 annually for a period of 20 years, representing an undiscounted receivable of \$367,237 and \$394,108, respectively, as of June 30, 2017 and 2016.

(Continued)

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

NOTE E - RESTRICTIONS ON NET ASSETS - Continued

Temporarily restricted net assets are available for the following purposes at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Charitable lead annuity trust	\$ 216,717	\$ 243,608
Private School for Students with Disabilities working capital	1,184,658	1,054,872
Purpose and time restrictions	<u>6,271,347</u>	<u>5,485,174</u>
Total	<u>\$ 7,672,722</u>	<u>\$ 6,783,654</u>

2. Permanently Restricted Net Assets

Permanently restricted net assets are endowment funds restricted in perpetuity to continue the purpose of the Organization. Income generated by these assets can be used for operating activities.

NOTE F - ENDOWMENT POLICY

Over the past several years, the Organization has received contributions to establish endowment funds. Earnings, such as interest and dividends from the endowment are expendable but restricted in use to support programs. The change in market value of the invested funds is charged to temporarily restricted net assets.

1. Endowment Description and Interpretation of Relevant Law

The endowments may consist of domestic equity, international equity, fixed income investments and cash equivalents. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. In June 2009, the State of New Jersey enacted a version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") which replaced the prior Uniform Management of Institutional Funds Act ("UMIFA"). During 2010, the Board of Trustees (the "Board") interpreted the new act as allowing the Organization the powers to manage and invest the funds in good faith and with the care an ordinarily prudent person, in a like position, would exercise under similar circumstances. As a result of this interpretation, the Organization has not changed the way permanently restricted net assets are classified. The original value of all gifts donated to the endowment fund will be classified as permanently restricted net assets, with endowment earnings classified as temporarily restricted net assets until those amounts are appropriated for expenditure.

2. Endowment Spending Policy

At this time, earnings are reinvested within the respective endowment; however, such earnings are reflected within temporarily restricted net assets for financial reporting purposes. A spending policy was adopted on November 20, 2012 which provided for a 2% spend on the three-year average market value of the endowment, subject to annual budgetary approval. Once the endowment reaches \$5 million, the spend percentage will increase to 4.5%.

(Continued)

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

NOTE F - ENDOWMENT POLICY - Continued

3. Endowment Investment Policies

The Organization adopted an investment policy on September 11, 2006, as revised and approved on November 20, 2012, that establishes the criteria for matching long-term objectives to an appropriate investment plan. It provides a frame of reference that will help keep it focused on long-term objectives. This focus is especially valuable during periods of market volatility when there may be a tendency to focus on short-term factors. It establishes the criteria against which progress can be measured. An Investment Sub-Committee under the Finance Committee is in the process of reviewing and updating this policy.

Under the provisions of the UPMIFA accounting guidance, losses in the market value of donor-restricted endowment funds are required to be offset by reductions in temporarily restricted net assets or unrestricted net assets, or both. The permanently restricted net assets of such endowment funds should always equal their historic dollar value. An endowment fund that has become “underwater” will therefore result in decreases in temporarily restricted or unrestricted net assets, despite the absence of any legal obligation to restore the endowment fund for such losses. Unrestricted net assets that have been reduced because of this requirement will be restored from future gains from the endowment. Endowment activity for the years ended June 30, 2017 and 2016 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2015	\$ -	\$ 732,473	\$ 2,370,039	\$ 3,102,512
Investment return:				
Investment income	-	53,943	-	53,943
Net depreciation	-	(27,508)	-	(27,508)
Total investment return	-	26,435	-	26,435
Contributions	-	-	123,980	123,980
Less broker fees	-	(17,506)	-	(17,506)
Endowment net assets, June 30, 2016	-	741,402	2,494,019	3,235,421
Investment return:				
Investment income	-	85,157	-	85,157
Net appreciation	-	264,956	-	264,956
Total investment return	-	350,113	-	350,113
Appropriations	-	(290,000)	-	(290,000)
Contributions	-	-	15,419	15,419
Less broker fees	-	(13,518)	-	(13,518)
Endowment net assets, June 30, 2017	\$ -	\$ 787,997	\$ 2,509,438	\$ 3,297,435

(Continued)

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

NOTE G - NOTES PAYABLE

The note payable collateralized by property owned in Naples, Florida was paid in full on May 31, 2016 from the proceeds of the sale of that property.

Notes payable also includes four mortgages collateralized by four properties located in New Jersey. One mortgage has monthly payments of \$1,675 through September 2023, with a balloon payment \$216,135 in October 2023, and an interest rate of 4.74%. The second mortgage has monthly payments of \$1,262 through September 2023, with a balloon payment of \$162,841 in October 2023, and an interest rate of 4.74%. The third mortgage, totaling \$240,000 has 10 annual payments of \$5,000 from January 2017 through January 2026, interest-free. The remaining balance of \$190,000 will be forgiven by the County of Mercer after the payment of these 10 installments. The fourth mortgage is also issued by the County of Mercer, and has 10 annual payments of \$5,000 from January 2018 through January 2027, interest-free. The remaining balance of \$190,000 will also be forgiven.

Total maturities of these notes payable as of June 30, 2017 are as follows:

<u>Year ending June 30,</u>	
2018	\$ 23,379
2019	24,028
2020	24,708
2021	25,420
2022	26,168
Thereafter	<u>821,289</u>
Total	<u>\$ 944,992</u>

Additionally, in the event that any of the residential facilities cease to function as residential care facilities, the Organization will be liable to the State of New Jersey, Department of Human Services, for grants made to purchase land, buildings and equipment, and the return of such property or proceeds therefrom would revert to the State of New Jersey. Amounts due to the State of New Jersey pursuant to various capital funding agreements with the State of New Jersey in the amount of \$3,458,410 been reflected as a component of notes payable to the State of New Jersey in the combined statements of financial position at June 30, 2017 and 2016.

NOTE H - LINE OF CREDIT FACILITY

In August 2009, the Organization entered into a revolving line of credit facility with a bank for a total availability of \$600,000, which was subsequently increased to \$1,500,000 through an amended loan agreement in December 2009. Interest is charged at the option of the Foundation at either: a) LIBOR plus 1.25%, or b) the base rate, which is defined as the greater of prime or the daily LIBOR rate plus 1.25%. The effective interest rates at June 30, 2017 and 2016 were 2.42% and 1.65%, respectively, based on the LIBOR plus option. The line of credit is secured by certain property of the Foundation.

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

NOTE I - BONDS PAYABLE

In July 2010, the Foundation issued, with a guarantee from the Trustees of Princeton University, tax exempt bonds by the New Jersey Economic Development Authority in the amount of \$12,000,000 for the construction of a new school building in the Princeton Forrestal Village. The bond indenture and guarantee agreement with Princeton University contains certain financial and other covenants. These bonds will mature on the dates and in the amounts and bear interest at the rates set forth in the agreement, which specifies interest rates and terms based on each bond Committee on Uniform Securities Identification Procedures (“CUSIP”). Interest rates vary between 1.300% and 4.125%, with maturities in the calendar years 2014 through 2040. Interest on the bonds is payable semi-annually.

Sinking fund or principal payment requirements are as follows as of June 30, 2017:

<u>Fiscal year</u>	
2018	\$ 310,000
2019	320,000
2020	330,000
2021	335,000
2022	350,000
Thereafter	<u>9,485,132</u>
	11,130,132
Less deferred financing fees	<u>(534,345)</u>
Total	\$ <u>10,595,787</u>

NOTE J - RETIREMENT PLAN

The Organization provides a defined contribution retirement plan (the “Plan”) covering substantially all employees under arrangements with Principal Financial Group; this plan provides for the purchase of investments for employees. The Plan was established in July 1, 1983, as amended January 1, 2009, and is a qualified plan under and in conformity with the Employee Retirement Income Security Act of 1974 and its successor legislations. An employee becomes eligible for the Plan after completing one year of service of at least 1,000 hours and attaining age 21. Plan matching contributions are based on a discretionary match. For the years ended June 30, 2017 and 2016, the Organization made contributions to the Plan of \$215,124 and \$134,267, respectively.

NOTE K - CONCENTRATION OF RISK

The Organization received approximately 34% of its total support and revenues from New Jersey Public School districts for the year ended June 30, 2017, and 33% for the year ended June 30, 2016. Tuition revenue is subject to financial and compliance requirements and possible audits by the Department of Education. The Organization also received approximately 46% of its total support and revenues through grants from the State of New Jersey for the year ended June 30, 2017, and 47% for the year ended June 30, 2016.

The Organization maintains cash and investment balances that may exceed federally insured limits, but historically has not experienced any credit-related losses.

NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED

June 30, 2017 and 2016

NOTE L - CONTINGENCIES

The Organization receives financial assistance from the State of New Jersey in the form of grants. Entitlement to these resources is conditional upon compliance with the terms and conditions of the grant agreements and applicable regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Additionally, the Organization is subject to audits by the DOE for tuition and fees generated from public school students in the State of New Jersey. Entitlement to public school revenues in the State of New Jersey is based upon compliance with various mandates of the DOE, including allowable cost and maintenance of various records. As of June 30, 2017 and 2016, management estimates that no liability will result from such audits.

The Organization is a party to certain claims and litigation arising in the ordinary course of business. In the opinion of management, the resolution of such claims and litigation will not materially affect the Organization's financial position.

NOTE M - FUNCTIONAL EXPENSES

Expenses by functional category for the years ended June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Program services	\$ 19,774,967	\$ 18,920,219
Management, general and fundraising	<u>4,868,777</u>	<u>4,934,406</u>
Total	<u>\$ 24,643,744</u>	<u>\$ 23,854,625</u>