

Combined Financial Statements and Independent  
Auditors' Report

**Eden Autism Services Foundation, Inc. and Affiliate**

June 30, 2018 and 2017

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## **Independent Auditors' Report**

To the Board of Trustees  
Eden Autism Services Foundation, Inc. and Affiliate

### **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 statement of financial position as of June 30, 2018, the related combined statements of activities, and cash flows for the year then ended, and the related notes to the combined financial statements.

### **Management's Responsibility for the Combined 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 financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

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

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

## **Independent Auditors' Report (Continued)**

### **Opinion**

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Organization as of June 30, 2018, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matter**

The combined financial statements of the Organization, as of and for the year ended June 30, 2017, were audited by other auditors, whose report, dated December 12, 2017, expressed an unmodified opinion on those statements.

*Mercedien, P.C.*

*Certified Public Accountants*

December 20, 2018

**COMBINED STATEMENTS OF FINANCIAL POSITION**

June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,000,865	\$ 1,108,698
Restricted cash	522,932	519,341
Investments	10,632,594	8,164,127
Accounts and note receivable	2,621,608	1,058,130
Grants Receivable	-	417,182
Contribution and trust receivables	476,214	497,678
Prepaid expenses and other assets	284,969	195,896
Property and equipment, net	<u>18,535,209</u>	<u>18,114,873</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 35,074,391</u></b>	<b><u>\$ 30,075,925</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES:</b>		
Accounts payable	\$ 323,009	\$ 424,911
Accrued expenses	953,078	787,539
Line of credit	-	958,000
Note payable	4,760,439	4,403,402
Bonds payable	10,313,887	10,595,787
Refundable Advances	-	273,898
Deferred revenue	<u>599,595</u>	<u>83,119</u>
Total liabilities	<u>16,950,008</u>	<u>17,526,656</u>
<b>NET ASSETS:</b>		
Unrestricted	\$ 7,060,207	\$ 2,367,109
Temporarily restricted	8,536,514	7,672,722
Permanently restricted	<u>2,527,662</u>	<u>2,509,438</u>
Total net assets	<u>18,124,383</u>	<u>12,549,269</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 35,074,391</u></b>	<b><u>\$ 30,075,925</u></b>

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

**COMBINED STATEMENT OF ACTIVITIES**

For the year ended June 30, 2018

(With summarized information for the year ended June 30, 2017)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
<b>SUPPORT AND OTHER REVENUES</b>					
Medicaid	\$ 11,600,030	\$ -	\$ -	\$ 11,600,030	\$ 850,859
Contributions	3,034,524	430,302	18,224	3,483,050	2,651,086
Grants	6,256,868	-	-	6,256,868	12,314,381
Tuition and client fees	845,937	8,304,077	-	9,150,014	9,040,513
Client Housing	715,016	-	-	715,016	-
Other fees and program services	189,954	-	-	189,954	407,094
Rental Income	49,392	-	-	49,392	49,392
Investment income	-	569,931	-	569,931	722,954
Gain on sale of assets	3,515	-	-	3,515	512,970
Other revenues	-	10,620	-	10,620	11,681
Net assets released from restrictions	8,451,138	(8,451,138)	-	-	-
<b>Total support and other revenues</b>	<b>31,146,374</b>	<b>863,792</b>	<b>18,224</b>	<b>32,028,390</b>	<b>26,560,930</b>
<b>EXPENSES</b>					
Salaries & Overtime	15,620,919	-	-	15,620,919	14,600,037
Payroll Taxes	1,234,111	-	-	1,234,111	1,157,979
Employee Benefits	2,763,338	-	-	2,763,338	2,546,306
Consultants/Temp Help	351,763	-	-	351,763	296,003
Materials	894,169	-	-	894,169	884,082
Facilities	1,716,724	-	-	1,716,724	1,629,114
Depreciation & Amortization	660,930	-	-	660,930	641,330
Bond & Debt Interest	479,603	-	-	479,603	485,790
Transportation	645,837	-	-	645,837	642,495
Information Technology	688,645	-	-	688,645	557,190
Professional Expense	332,527	-	-	332,527	193,316
Travel & Employee Services	270,949	-	-	270,949	197,554
Community Experience	149,449	-	-	149,449	125,218
Participant Employment	27,535	-	-	27,535	39,796
Marketing	136,860	-	-	136,860	216,169
Cash Option	37,859	-	-	37,859	53,853
Development Event Expense	286,684	-	-	286,684	282,353
Donations	155,374	-	-	155,374	95,164
<b>Total expenses</b>	<b>26,453,276</b>	<b>-</b>	<b>-</b>	<b>26,453,276</b>	<b>24,643,749</b>
<b>CHANGE IN NET ASSETS</b>	<b>4,693,098</b>	<b>863,792</b>	<b>18,224</b>	<b>5,575,114</b>	<b>1,917,181</b>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<b>2,367,109</b>	<b>7,672,722</b>	<b>2,509,438</b>	<b>12,549,269</b>	<b>10,632,088</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 7,060,207</b>	<b>\$ 8,536,514</b>	<b>\$ 2,527,662</b>	<b>\$ 18,124,383</b>	<b>\$ 12,549,269</b>

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

## Eden Autism Services Foundation, Inc. &amp; Affiliate

**COMBINED STATEMENTS OF CASH FLOWS**

For the years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 5,575,114	\$ 1,917,181
Adjustments to reconcile change in net assets to net cash and cash equivalents from operating activities:		
Depreciation	660,930	641,330
Amortization of deferred financing fees	23,232	23,232
Provision for bad debt	-	(1,414)
Gain on disposition of property and equipment	(3,515)	(512,970)
Unrealized/realized gain on investments	(348,308)	(538,833)
Contributions restricted for long-term purposes	(18,224)	(15,419)
Change in operating assets and liabilities:		
Restricted Cash	(3,591)	(7,049)
Accounts and notes receivable	(1,762,403)	316,422
Contributions and other receivables	220,389	(35,996)
Prepaid expenses and other assets	(89,073)	(54,282)
Grants Receivable	417,182	(151,140)
Accounts payable and accrued expenses	63,637	(157,000)
Deferred revenues	516,476	32,951
Refundable advances	<u>(273,898)</u>	<u>(148,103)</u>
Net cash from activities	<u>4,977,948</u>	<u>1,308,910</u>
<b>INVESTING ACTIVITIES:</b>		
Net purchases/proceeds of investments	(2,120,159)	(3,270,062)
Sales of property and equipment	3,515	569,530
Purchases of property and equipment	<u>(1,081,266)</u>	<u>(551,494)</u>
Net cash from investing activities	<u>(3,197,910)</u>	<u>(3,252,026)</u>
<b>FINANCING ACTIVITIES:</b>		
Contributions restricted for long-term purposes	18,224	15,419
New notes payable	380,000	359,000
Repayment of notes and bonds payable	(328,095)	(312,408)
(Repayment of) Borrowing from Line of credit	<u>(958,000)</u>	<u>958,000</u>
Net cash from financing activities	<u>(887,871)</u>	<u>1,020,011</u>
Net change in cash and cash equivalents	892,167	(923,105)
Cash and cash equivalents at beginning of year	<u>1,108,698</u>	<u>2,031,803</u>
Cash and cash equivalents at end of year	<u>\$ 2,000,865</u>	<u>\$ 1,108,698</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ 434,093</u>	<u>\$ 431,396</u>

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

**NOTES TO COMBINED FINANCIAL STATEMENTS**

June 30, 2018 and 2017

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 and Eden’s Board of Trustees. The financial statements of Eden Autism Services Foundation, Inc. and Affiliate (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 ninety days 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. Restricted cash has been restricted per the terms of the bond agreement.



**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

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.

**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

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 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. The Organization considers all accounts and 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 revenues, 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. Certain prior year amounts have been reclassified to conform to the current year presentation. The reclassifications had no significant effect on the change in net assets.

**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

## 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 2015.

13. Financial Dependency

The Organization receives funding from the State of New Jersey and is economically dependent on these grants, 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, 2019. Additionally, the Organization has become economically dependent on Medicaid funding for Adult Services during the year ending June 30, 2018.

14. Subsequent Events

Management has evaluated subsequent events that occurred after the combined statement of financial position date, and through December 20, 2018, the date the combined financial statements were available to be issued.

## NOTE B - FAIR VALUE AND INVESTMENTS

Investments carried at fair value as of June 30, 2018 and 2017, by valuation hierarchy, are as follows:

<u>Description</u>	<u>2018</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>
Mutual funds	\$6,629,309	-	-
Bond funds	4,003,285	-	-
	<u>\$ 10,632,594</u>	<u>\$ -</u>	<u>\$ -</u>

**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

## NOTE B - FAIR VALUE AND INVESTMENTS - Continued

<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 funds	3,078,439	-	-
	<u>\$ 8,164,127</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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Investment returns:		
Interest and dividends	\$ 286,292	\$ 184,121
Realized and unrealized gain	<u>348,308</u>	<u>538,833</u>
Total investment return	<u>\$ 634,600</u>	<u>\$ 722,954</u>

## NOTE C - CONTRIBUTIONS AND TRUST RECEIVABLES

Contributions and trust receivables consist of the following at June 30, 2018:

Due in one year or less	\$ 212,616
Charitable lead annuity trust	<u>340,366</u>
Total contribution and trust receivables	552,982
Less: discount to net present value	<u>(76,768)</u>
Total	<u>\$ 476,214</u>

**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

## NOTE D - PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Land	\$ 2,943,104	\$ 2,742,854
Building and improvements	20,267,474	19,429,628
Equipment and vehicles	1,206,254	1,311,764
Furniture and fixtures	804,284	804,284
Construction in progress	<u>46,120</u>	<u>193,743</u>
Subtotal	25,267,236	24,482,273
Accumulated depreciation and amortization	<u>(6,732,027)</u>	<u>(6,367,398)</u>
Property and equipment, net	<u>\$ 18,535,209</u>	<u>\$ 18,114,875</u>

Depreciation expense was \$660,930 and \$641,330, respectively, for the years ended June 30, 2018 and 2017.

## NOTE E - RESTRICTIONS ON NET ASSETS

1. Temporarily Restricted Net Assets

The Organization 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 Organization will be paid \$35,828 annually for a period of twenty years, representing an undiscounted receivable of \$340,366 and \$367,237 as of June 30, 2018 and 2017, respectively.

Temporarily restricted net assets are available for the following purposes at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Charitable lead annuity trust	\$ 189,826	\$ 216,717
Private School for Students with Disabilities working capital	1,237,661	1,184,658
Purpose and time restrictions	<u>7,109,027</u>	<u>6,271,347</u>
Total	<u>\$ 8,536,514</u>	<u>\$ 7,672,722</u>

Net assets were released from donor restrictions as follows for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Adult Residential Program	\$ 53,759	\$ 213,283
Adult Employment Program	33,262	151,433
Eden School	8,352,117	7,899,559
Other	<u>12,000</u>	<u>-</u>
Total	<u>\$ 8,451,138</u>	<u>\$ 8,264,275</u>

**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

NOTE E - RESTRICTIONS ON NET ASSETS - Continued

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 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%. For the years ended June 30, 2018 and 2017, no amounts were appropriated or spent on program support as a result of this endowment spending policy.

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.

**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

## NOTE F - ENDOWMENT POLICY - Continued

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, 2018 and 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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	<u>-</u>	<u>787,997</u>	<u>2,509,438</u>	<u>3,297,435</u>
Investment return:				
Investment income	\$ -	\$ 83,170	\$ -	\$ 83,170
Net appreciation	-	150,754	-	150,754
Total investment return	-	233,924	-	233,924
Contributions	-	-	18,224	18,224
Less broker fees	-	(9,559)	-	(9,559)
Endowment net assets, June 30, 2018	<u>\$ -</u>	<u>\$ 1,012,362</u>	<u>\$ 2,527,662</u>	<u>\$ 3,540,024</u>

**NOTES TO COMBINED FINANCIAL STATEMENTS - CONTINUED**

June 30, 2018 and 2017

## NOTE G - NOTES PAYABLE

Notes payable consists of five mortgages collateralized by four properties located in New Jersey. One mortgage has monthly payments of \$1,675 through September 2023, with a balloon payment of \$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 balances of \$190,000 will be forgiven by the County of Mercer after the payment of these ten installments. The fourth mortgage is also issued by the County of Mercer, totaling \$240,000 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 by the County of Mercer after the payment of these ten installments. The fifth mortgage is from the New Jersey Housing and Mortgage Finance Agency. This loan is a 30-year interest-free loan with repayment subject to available cash flow as defined. This loan will be repaid from 25% of available cash flow remaining after the payment of operating expenses on the Schenk Place group home. The group home incurred a loss in Fiscal 2018, its first year of operations and no repayment was due.

Total maturities of these notes payable as of June 30, 2018, are as follows:

<u>Year ending June 30,</u>	
2019	\$ 24,028
2020	24,708
2021	25,420
2022	26,168
2023	26,951
Thereafter	<u>1,174,754</u>
Total	<u>\$ 1,302,029</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, 2018 and 2017.

## 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. There were no balances outstanding on the line of credit at June 30, 2018, and there was \$958,000 outstanding at June 30, 2017. 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, 2018 and 2017 were 3.18% and 2.42%, 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, 2018 and 2017

## 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, 2018:

<u>Fiscal year</u>	
2019	\$ 310,000
2020	320,000
2021	330,000
2022	335,000
2023	350,000
Thereafter	<u>9,180,000</u>
Subtotal	10,825,000
Amortization & Bond Issuance Costs	<u>(511,113)</u>
Total	<u>\$ 10,313,887</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, 2018 and 2017, the Organization made contributions to the Plan of \$214,430 and \$215,124 respectively.

## NOTE K - CONCENTRATION OF RISK

The Organization received approximately 29% of its total support and revenues from New Jersey Public School districts for the year ended June 30, 2018; and 34% in 2017. Tuition revenue is subject to financial and compliance requirements and possible audits by the Department of Education. The Organization also received approximately 20% of its total support and revenues through grants from the State of New Jersey for the year ended June 30, 2018; and 46% in 2017. The Organization received approximately 36% of its total support and revenues from Medicaid for the year ended June 30, 2018; and 3% in 2017. 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, 2018 and 2017

## 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, 2018 and 2017, 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, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Program services	\$ 21,445,668	\$ 19,774,972
Management, general and fundraising	<u>5,007,608</u>	<u>4,868,777</u>
Total	<u>\$ 26,453,276</u>	<u>\$ 24,643,749</u>