

NORTHEAST PARENT AND CHILD SOCIETY, INC.

**Financial Statements as of
June 30, 2019
Together with
Independent Auditor's Report**

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

October 28, 2019

To the Board of Directors of
Northeast Parent and Child Society, Inc.:

We have audited the accompanying financial statements of Northeast Parent and Child Society, Inc. (a New York not-for-profit corporation), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northeast Parent and Child Society, Inc. as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT

(Continued)

Change in Accounting Principle

As described in Note 2 to the financial statements, Northeast Parent and Child Society, Inc. implemented Accounting Standards Update 2016-14, and the effects of the implementation have been included in these financial statements. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Northeast Parent and Child Society, Inc.'s 2018 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated October 25, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the 2019 financial statements as a whole. The supplementary information in Schedule I is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2019 supplemental information is fairly stated in all material respects in relation to the financial statements as a whole.

The 2018 supplementary information is presented for the purpose of additional analysis and it is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2018 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2018 supplementary information is fairly stated in all material respects in relation to the financial statements from which it has been derived.

NORTHEAST PARENT AND CHILD SOCIETY, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2019

(With Comparative Totals for 2018)

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS:		
Cash	\$ 40,613	\$ 123,282
Accounts receivable, net	8,149,832	8,152,591
Due from affiliates	95,954	145,075
Investments	2,845,514	2,658,844
Prepaid expenses and inventory	<u>56,960</u>	<u>56,731</u>
Total current assets	<u>11,188,873</u>	<u>11,136,523</u>
INVESTMENTS, restricted	<u>608,256</u>	<u>587,018</u>
PROPERTY AND EQUIPMENT	<u>14,014,110</u>	<u>15,082,433</u>
OTHER ASSETS:		
Deposits	16,033	16,033
Beneficial interest in trusts	<u>1,665,528</u>	<u>1,668,111</u>
Total other assets	<u>1,681,561</u>	<u>1,684,144</u>
TOTAL ASSETS	<u>\$ 27,492,800</u>	<u>\$ 28,490,118</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Line of credit	\$ 123,544	\$ 455,256
Accounts payable	528,544	474,576
Due to affiliates	116,598	39,371
Accrued salaries and expenses	2,196,502	1,900,805
Due to third party	83,279	586,496
Refundable advances	261,322	214,822
Capital lease obligations, current portion	457,289	480,682
Notes payable, current portion	500,000	-
Mortgages payable, current portion	65,888	64,684
Bonds payable, current portion	<u>295,497</u>	<u>265,497</u>
Total current liabilities	<u>4,628,463</u>	<u>4,482,189</u>
LONG-TERM LIABILITIES:		
Deferred revenue	349,098	-
Capital lease, net of current portion	2,866,449	3,323,738
Notes payable, net of current portion	1,000,000	1,500,000
Mortgages payable, net of current portion	737,881	803,852
Bonds payable, net of current portion	<u>8,697,605</u>	<u>8,979,554</u>
Total long-term liabilities	<u>13,651,033</u>	<u>14,607,144</u>
TOTAL LIABILITIES	<u>18,279,496</u>	<u>19,089,333</u>
NET ASSETS		
Without donor restrictions	7,409,287	7,600,693
With donor restrictions	<u>1,804,017</u>	<u>1,800,092</u>
TOTAL NET ASSETS	<u>9,213,304</u>	<u>9,400,785</u>
	<u>\$ 27,492,800</u>	<u>\$ 28,490,118</u>

The accompanying notes are an integral part of these statements.

NORTHEAST PARENT AND CHILD SOCIETY, INC.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019
(With Comparative Totals for 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	
SUPPORT AND REVENUE:				
Program service fees	\$ 36,212,686	\$ -	36,212,686	\$ 35,124,578
Fundraising	101,850	-	101,850	91,945
Change in value of beneficial interest in trusts	-	(2,583)	(2,583)	54,987
Rent	281,934	-	281,934	196,461
Miscellaneous	93,311	-	93,311	23,274
Total support and revenue	<u>36,689,781</u>	<u>(2,583)</u>	<u>36,687,198</u>	<u>35,491,245</u>
EXPENSE:				
Program service	32,882,505	-	32,882,505	30,849,576
Management and general	3,823,449	-	3,823,449	3,277,066
Fundraising and non-operating	384,210	-	384,210	344,578
Total expense	<u>37,090,164</u>	<u>-</u>	<u>37,090,164</u>	<u>34,471,220</u>
OPERATING GAIN (LOSS)	(400,383)	(2,583)	(402,966)	1,020,025
NON-OPERATING REVENUE (EXPENSE):				
Investment income, net	208,977	6,508	215,485	178,883
Prior period depreciation	-	-	-	(87,638)
Loss on disposition of property and equipment	-	-	-	(805,682)
Total non-operating gain (loss), net	208,977	6,508	215,485	(714,437)
CHANGE IN NET ASSETS	<u>(191,406)</u>	<u>3,925</u>	<u>(187,481)</u>	<u>305,588</u>
NET ASSETS - beginning of year	<u>7,600,693</u>	<u>1,800,092</u>	<u>9,400,785</u>	<u>9,095,197</u>
NET ASSETS - end of year	<u>\$ 7,409,287</u>	<u>\$ 1,804,017</u>	<u>\$ 9,213,304</u>	<u>\$ 9,400,785</u>

The accompanying notes are an integral part of these statements.

NORTHEAST PARENT AND CHILD SOCIETY, INC.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2019 (With Comparative Totals for 2018)

	<u>2019</u>	<u>2018</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (187,481)	\$ 305,588
Adjustments to reconcile change in net assets to net cash flow from operating activities:		
Depreciation	842,466	1,146,318
Amortization of bond premium	(5,497)	(5,497)
Amortization of capital lease	480,681	-
Interest expense - bond issuance costs	23,548	23,548
Loss on disposition of property and equipment	-	805,682
Gains on investments	(154,282)	(88,982)
Change in value of beneficial interest in trusts	2,583	(54,987)
Changes in:		
Accounts receivable	2,759	(3,497,347)
Due from affiliate	49,121	(33,876)
Prepaid expenses and inventory	(229)	(747)
Accounts payable	53,968	31,929
Due to affiliate	77,227	(151,214)
Accrued salaries and expenses	295,697	(4,214)
Due to third parties	(503,217)	586,496
Refundable advances	46,500	(12,900)
Deferred revenue	<u>349,098</u>	<u>-</u>
Net cash flow from operating activities	<u>1,372,942</u>	<u>(950,203)</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(254,824)	(30,050)
Purchase of capital lease asset	-	(3,804,420)
Proceeds from sale of property and equipment	-	2,436,681
Purchase of investments	(1,422,906)	(913,182)
Proceeds from sale of investments	<u>1,369,280</u>	<u>915,130</u>
Net cash flow from investing activities	<u>(308,450)</u>	<u>(1,395,841)</u>
CASH FLOW FROM FINANCING ACTIVITIES:		
Net proceeds (repayments on) line of credit	(331,712)	111,955
Repayment of bonds payable	(270,000)	(271,666)
Proceeds of capital lease obligations	-	3,804,420
Repayment of capital lease obligations	(480,682)	(16,439)
Repayment of notes payable	-	(7,945)
Repayment of mortgages payable	<u>(64,767)</u>	<u>(1,687,025)</u>
Net cash flow from financing activities	<u>(1,147,161)</u>	<u>1,933,300</u>
CHANGE IN CASH	(82,669)	(412,744)
CASH - beginning of year	<u>123,282</u>	<u>536,026</u>
CASH - end of year	<u>\$ 40,613</u>	<u>\$ 123,282</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest Paid	<u>\$ 617,282</u>	<u>\$ 733,213</u>

The accompanying notes are an integral part of these statements.

NORTHEAST PARENT AND CHILD SOCIETY, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019**

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising and Non-operating</u>	<u>Total</u>
FUNCTIONAL EXPENSES:				
Salaries	\$ 18,114,633	\$ -	\$ 6,232	\$ 18,120,865
Employee health and retirement benefits	2,554,764	-	493	2,555,257
Payroll taxes	<u>1,917,098</u>	<u>-</u>	<u>860</u>	<u>1,917,958</u>
Total compensation and benefits	<u>22,586,495</u>	<u>-</u>	<u>7,585</u>	<u>22,594,080</u>
Charges from parent organization	-	3,285,039	-	3,285,039
Boarding home	2,511,558	-	-	2,511,558
Purchase of services	2,033,508	21,399	122,424	2,177,331
Rent	804,122	166,330	219,161	1,189,613
Auto and transportation	970,819	339	1,265	972,423
Depreciation and amortization	848,757	9,853	7,403	866,013
Interest	600,300	-	-	600,300
Insurance	507,935	-	321	508,256
Supplies and equipment	485,184	119	248	485,551
Telecommunications	231,703	13,668	19,626	264,997
Utilities and property taxes	258,679	-	3,185	261,864
Food	260,934	-	-	260,934
Repair and maintenance	131,895	7,234	1,455	140,584
Recreation	135,439	-	-	135,439
Publicity	131,050	909	7	131,966
Conferences and administrative expense	92,913	18,009	963	111,885
Allowances	106,176	300,000	-	406,176
Office supplies and expense	58,581	236	515	59,332
Staff development	39,747	-	-	39,747
Legal and professional fees	5,171	-	-	5,171
Dues, licenses and permits	27,755	314	51	28,120
Clothing	25,983	-	-	25,983
Subscription and publications	15,011	-	-	15,011
Bedding	7,603	-	-	7,603
Postage and shipping	3,785	-	1	3,786
School expense	<u>1,402</u>	<u>-</u>	<u>-</u>	<u>1,402</u>
TOTAL OPERATING EXPENSES	<u>\$ 32,882,505</u>	<u>\$ 3,823,449</u>	<u>\$ 384,210</u>	<u>\$ 37,090,164</u>

The accompanying notes are an integral part of these statements.

NORTHEAST PARENT AND CHILD SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

1. THE SOCIETY

Northeast Parent and Child Society, Inc. (the Society) is a New York non-profit corporation that was formed for the purpose of providing therapeutic, educational and other related services to children and their families, through the operation of residential, non-residential and supporting service programs. The Society is exempt from income tax under Section 501 (c)(3) of the Internal Revenue Code.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Society's financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP).

Change in Accounting Principle

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, with the purpose of improving financial reporting by not-for-profit (NFP) entities. ASU 2016-14 includes many changes affecting the presentation and accounting for the Society's financial statements including:

- Reducing the number of classes of net assets from three to two (net assets with donor restrictions and net assets without donor restrictions);
- Requiring the presentation of expenses in both natural and functional classifications; and
- Requiring qualitative and quantitative disclosure regarding the Society's liquidity and availability of resources (Note 3).

ASU 2016-14 is effective for the Society's fiscal year ending June 30, 2019 and was applied retrospectively with the exception of the presentation of expenses in both natural and functional classifications and the disclosures regarding liquidity and the availability of resources. The effects of this ASU have been included in these financial statements.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Cash

Cash includes investments in highly liquid debt instruments with an initial maturity of three months or less. The Society's cash balances may at times exceed federally insured limits. The Society has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk with respect to cash and cash equivalents.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable

Accounts receivable include uncollateralized obligations from numerous sources including Medicaid; local, New York State; contracts; and third-party reimbursement programs. Substantially all programs are billed on a monthly basis under customary payment terms associated with the Society's various funding sources. Payment is normally received within thirty to sixty days. Accounts for which no payment has been received for several months are considered delinquent and customary collection efforts are begun. After all collection efforts are exhausted, the account is written off.

The carrying amount of accounts receivable is reduced by a valuation that reflects management's best estimate of amounts that will not be collected. Management reviews receivable balances and estimates the portion of the balance that will not be collected based on historical collection percentages and review of open accounts. Accounts receivable are stated net of an allowance for doubtful accounts in the amount of \$350,000 and \$50,000 as of June 30, 2019 and 2018, respectively.

Investments

The Society records investments in equities, mutual funds and debt securities at their fair value. Realized and unrealized gains and losses are included in the change in net assets in the accompanying statements of activities. Investment securities are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the accompanying financial statements.

Inventory

Inventory consists of food supplies on hand and is stated at the lower of cost (first in, first out) or market value.

DASNY (Dormitory Authority of the State of New York) Bond Funds

The DASNY Bond Funds were created as the result of the issuance of the Series 2008 A-1 for the construction of a new Children's Home. These funds were held by a Trustee and payments were made only upon proper authorization.

Debt Service Funds – Payments of principal and interest are made from these funds.

Debt Service Reserve Funds – These funds will be used to augment the funds in the Debt Service Funds if the amounts in the Debt Service Funds are insufficient to make required payments.

These bond funds are classified as restricted investments on the statement of financial position.

Property and Equipment

All expenditures for land, buildings and equipment in excess of \$5,000 with a useful life of two years or more, are capitalized and recorded at cost. Property and equipment that is donated is recorded at its fair value at the time of the donation. The estimated lives used in determining depreciation are as follows:

Land improvements	20 years
Buildings	20 - 40 years
Leasehold improvements	3 - 10 years
Equipment	3 - 10 years
Automobiles	3 - 10 years

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment (Continued)

Building and equipment under capital lease is capitalized at the present value of future minimum lease payments at the inception of the lease. Assets subject to capital leases are amortized over either the lease term or the life of the related assets, depending upon available purchase options and lease renewal features. Amortization related to assets subject to capital leases is included within depreciation expense.

Maintenance and repairs are charged to operations when incurred; betterments and renewals are capitalized. When property and equipment is sold or otherwise disposed of, the asset account and related accumulated depreciation are relieved, and any gain or loss is included in operations.

Long-Lived Assets

The Society assesses its long-lived assets for impairment when events or circumstances indicate their carrying amounts may not be recoverable. This is accomplished by comparing the expected undiscounted future cash flows of the long-lived assets with the respective carrying amount as of the date of assessment. If the expected undiscounted future cash flows exceed the respective carrying amount as of the date of assessment, the long-lived assets are considered not to be impaired. If the expected undiscounted future cash flows are less than the carrying value, an impairment loss is recognized and measured as the difference between the carrying value and the fair value of the long-lived assets. No impairment of long-lived assets was recognized in 2019 and 2018.

Beneficial Interest in Perpetual Trusts

The Society is the beneficiary of five perpetual trusts. The Society has the right to receive the income earned on the trusts' assets in perpetuity, but will never receive the assets held in the trust. The beneficial interest is recorded at the fair value of the underlying assets, based upon the market value of the investments held by trusts. The net increase or decrease in the fair value of the underlying assets is reflected in the statement of activities as change in value of beneficial interests in trusts, within the net assets with donor restrictions fund class.

Refundable Advances

The Society receives advances from New York State funding agencies. If the amounts received are not spent or are in excess of maximum funding limits during the period they are received, they are reported as refundable advances in the accompanying financial statements. At the funding agencies' discretion, the amounts will be used to offset future amounts receivable or recouped against future payments. Accordingly, these amounts have been reflected as a liability in the accompanying financial statements. During the years ended June 30, 2019 and 2018, no amount was paid back to the funding agencies.

Financial Reporting

The Society reports its activities and the related net assets using two net asset categories: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions include resources which are available for the support of the Society's operating activities and are not subject to donor-imposed stipulations.

Net assets with donor restrictions represent donor-imposed restrictions that permit the Society to use up or expend the donated assets as specified. This restriction is satisfied by the passage of time or by actions of the Society. This classification of net assets includes the beneficial interest in perpetual trusts as noted above. These restrictions are described in Note 9.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statement of Activities

The statement of activities is divided into operating and non-operating components. All revenue and expenses directly associated with the day-to-day operations are included in income or loss from operations. Contributions, bequests, investment gains and losses and other non-operating items are classified as non-operating income or expense.

Contributions

The Society reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. If restricted support is received and used in the same year, it is reported as net assets without donor restrictions.

The Society reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how those long-lived assets must be maintained, the Society reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. The Society reports donor restricted contributions as unrestricted support provided that the restrictions are met in the same year the contributions are received.

Donated Materials and Services

Donated materials and supplies are recorded as contributions at estimated fair value at the date of gift. The Society receives a significant amount of donated services from unpaid volunteers who assist in fundraising and special projects. The value of the services have not been reflected in these financial statements because they do not meet the criteria for recognition.

Fair Value Measurement – Definition and Hierarchy

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and GAAP provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The valuation methodology used for the Society's assets measured at fair value is to value the investments at quoted market prices on the last business day of the fiscal year.

The Society has financial instruments in the accompanying financial statements, including cash and equivalents and investments including money market funds, debt securities, equities, mutual funds, and beneficial interest in perpetual trusts. The carrying value of cash and equivalents, and investments in equities, and mutual funds notes are a reasonable approximation of fair value due to the short-term nature of the instruments and are considered to be a level 1 measurement. The fair value of the corporate debt securities, and beneficial interest in perpetual trusts are determined to be a level 2 measurement using the market approach as the carrying amount of these investments approximates fair value based on the value of similar assets at which the Society could invest.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses

The Society's directly identifiable expenses related to a singular program or supporting service are charged fully and directly. Expenses related to more than one program or supporting service are charged as such using specific allocation methods. Fringe benefit expenses are charged to departments based on actual salary expenses, occupancy related expenses are charged to departments based on square footage, and parent organization charges from Northern Rivers are charged to departments based on a ratio value of applicable revenue. By using these various allocation methods, the Society is able to fully understand the true cost of operating each individual program or supporting service run by the Society.

Income Taxes

The Society is exempt from federal income tax under Section 501 (c)(3) of the Internal Revenue Code. In addition, the Society qualifies for charitable contribution deductions and has been classified as an organization other than a private foundation.

Reclassifications

Certain reclassifications have been made to the 2018 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Society's financial statements as of and for the year ended June 30, 2018, from which the summarized information was derived.

3. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Society is substantially supported by grants and support from New York State funding sources. The following reflects the Society's financial assets as of the statement of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date:

Cash	\$	40,613
Accounts receivable, net		8,149,832
Investments		3,453,770
Beneficial interest in trusts		<u>1,665,528</u>
Total financial assets		13,309,743
Less: those unavailable for general expenditure due to:		
Long-term debt collateral		(2,400,000)
Donor restrictions		(1,804,017)
Debt service reserves		<u>(486,034)</u>
Total financial assets available	\$	<u>8,619,692</u>

As part of the Society's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures and other obligations come due. The ability to meet cash needs is highly dependent on funding from government agencies and the timely collection of accounts receivable. The Society has designed procedures to bill and collect from these payors as quickly as possible, however, this can sometimes be difficult to predict.

3. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (Continued)

Should the Society need to, they can manage vendor relationships to extend payment terms, utilize their available line-of-credit, or request support from one of their related parties.

4. INVESTMENTS

A summary of investments measured at fair value at June 30 is as follows:

	<u>2019</u>	<u>2018</u>
Investment Management Account:		
U.S. Government and Agencies	\$ 100,441	\$ 131,485
Fixed Income Funds	1,173,687	915,574
Common Stock	992,483	828,854
Equity Funds	485,950	648,133
Cash Equivalents	92,953	134,798
Total investment management account	<u>2,845,514</u>	<u>2,658,844</u>
Restricted Gifts:		
U.S. Government and Agencies	-	15,162
Fixed Income Funds	50,679	31,704
Equity Funds	68,694	67,851
Cash Equivalents	2,849	3,561
Total restricted gifts	<u>122,222</u>	<u>118,278</u>
DASNY Funding Project - Residence:		
U.S. Government	484,313	466,886
Cash Management Funds	1,721	1,854
Total DASNY funding project	<u>486,034</u>	<u>468,740</u>
	<u>\$ 3,453,770</u>	<u>\$ 3,245,862</u>

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Land	\$ 99,030	\$ 99,030
Buildings and improvements	21,260,923	21,199,590
Furniture, vehicles and equipment	2,640,894	2,633,214
Vehicles	339,742	181,617
Construction in progress	27,686	-
Less: accumulated depreciation	<u>(13,677,903)</u>	<u>(12,835,438)</u>
	<u>\$ 10,690,372</u>	<u>\$ 11,278,013</u>
Assets under capital lease	\$ 3,804,420	\$ 3,804,420
Less: accumulated amortization	<u>(480,682)</u>	<u>-</u>
	<u>\$ 14,014,110</u>	<u>\$ 15,082,433</u>

5. PROPERTY AND EQUIPMENT (CONTINUED)

Depreciation and amortization expense was \$842,466 and \$1,146,318 for the years ended June 30, 2019 and 2018, respectively.

6. LINE OF CREDIT

The Society has a revolving line-of-credit with Key Bank, totaling approximately \$3,000,000. The line bears interest at prime (5.50% at June 30, 2019) and expires May 31, 2020. There was no balance outstanding on this line of credit as of June 30, 2019. There was a balance due of \$455,256 as of June 30, 2018. In accordance with the terms of the security agreement, the Society is required to provide their financial statements within 120 days from year end. As of June 30, 2019, the covenant was met.

The Society has a revolving line-of-credit with Key Bank, totaling approximately \$1,000,000. The line bears interest at prime (5.50% at June 30, 2019) and expires May 31, 2020. There was a balance due of \$123,544 as of June 30, 2019. There was no balance outstanding on this line of credit as of June 30, 2018. In accordance with the terms of the security agreement, the Society is required to provide their financial statements within 120 days from year end. As of June 30, 2019, the covenant was met.

7. LONG-TERM DEBT

Notes Payable

2019

2018

Term loan with NBT Bank. Interest at one-month LIBOR plus 1.5%. Equal payments through maturity, December 31, 2021. Secured by approximately \$2.4M of investment securities held at NBT. Certain financial covenants apply to this note. Those covenants were met as of June 30, 2019.

\$ 1,500,000

\$ 1,500,000

Capital Lease Obligations

2019

2018

Present value of net minimum principal lease payments under a capital lease held by the Society, with an unrelated third party, interest at 2.5%.

\$ 3,323,738

\$ 3,804,420

7. LONG-TERM DEBT (Continued)

Mortgage Notes Payable	<u>2019</u>	<u>2018</u>
Mortgage agreement with Citizens Bank secured by real property located at Genium Plaza, Schenectady, NY. The rate of interest is computed at the floating one-month LIBOR plus 1.91%. Principal payments in the amount of \$3,327 will be paid in addition to interest at a floating one-month LIBOR plus 1.91%.	\$ 252,826	\$ 292,746
Mortgage note payable with Citizens Bank secured by real estate, due July 2022. Principal payments are due monthly with interest based on a 30 day LIBOR rate plus 1.65%. Certain financial covenants apply to this note. These covenants were met as of June 30, 2019. Secured by property at Abbottsford Road, Schenectady, NY.	386,277	400,423
Mortgage note payable with First Niagara Funding secured by real estate located at Park Avenue, Schenectady, NY, furniture and fixtures and assignments of rents and leases, due January, 2020. Principal payments are due monthly with interest based on 200 basis points per annum above the FHLB Rate not to fall below 5.99%. The interest rate at June 30, 2019 was 5.99%.	73,920	78,724
Mortgage note payable secured by real estate at Eastern Parkway, Schenectady, NY, furniture and fixtures and assignments of rents and leases, due January 2020. Principal payments are due monthly with interest based on 200 basis points per annum above the FHLB Rate not to fall below 5.99%. The interest rate at June 30, 2019 was 5.99%	<u>90,746</u>	<u>96,643</u>
	<u>803,769</u>	<u>868,536</u>
Total debt	5,627,507	6,172,956
Less current installments	<u>1,023,177</u>	<u>545,366</u>
Total, long-term debt, net	<u>\$ 4,604,330</u>	<u>\$ 5,627,590</u>

7. LONG-TERM DEBT (Continued)

Principal payments due on notes, capitalized lease obligations and mortgaged property notes payable for the years subsequent to June 30, 2019 are as follows:

	<u>Mortgages and Loans Payable</u>	<u>Capital Lease Obligations</u>	<u>Total</u>
2020	\$ 565,888	\$ 500,000	\$ 1,065,888
2021	567,242	500,000	1,067,242
2022	568,617	500,000	1,068,617
2023	70,059	500,000	570,059
2024	71,570	500,000	571,570
Thereafter	460,393	1,625,000	2,085,393
	<u>2,303,769</u>	<u>4,125,000</u>	<u>6,428,769</u>
Less: Amount representing interest	-	(801,262)	(801,262)
	<u>\$ 2,303,769</u>	<u>\$ 3,323,738</u>	<u>\$ 5,627,507</u>

Tax Exempt Bonds Payable

In June of 2008, DASNY issued Series 2008 Bonds for a total of \$11,150,000. These bonds were issued as part Serial and part Term Bonds. The funds were used for the construction of a new Children's Home. Payment of principal and interest of these bonds is guaranteed by a municipal bond insurance policy issued by the State of New York Mortgage Agency (SONYMA).

The Series 2008 Bonds require an account control agreement by and among the residential provider, DASNY, the Trustee and the residential provider's bank. The agreement requires that allotments received from any school district, social service district or any other payor on accounts for residential services provided must be deposited into this account immediately upon receipt of such amounts. In addition, the provider is required to grant DASNY a security interest in the respective account. Each month an amount necessary to satisfy the provider's next due payment obligation will be automatically transferred to the Trustee to be utilized per the agreement. Monies on deposit in the account are available to the provider only after payment of amounts then due DASNY.

7. LONG-TERM DEBT (Continued)

Tax Exempt Bonds Payable (Continued)

The following summarizes the outstanding bonds at June 30:

Dormitory Authority of the State of New York Services 2008 A-1 Bonds:

	<u>2019</u>	<u>2018</u>
Series Bonds: Maturing June 1, 2011 through June 1, 2028 with interest rates varying during these years beginning at 3.50% and ending at 5.00%.	\$ 3,220,000	\$ 3,490,000
Term Bond: 5.00% due June 1, 2038	2,560,000	2,560,000
Term Bond: 5.00% due June 1, 2038	<u>3,345,000</u>	<u>3,345,000</u>
Total Dormitory Authority Bonds	9,125,000	9,395,000
Premium on Issuance of Bonds	<u>103,990</u>	<u>109,488</u>
Total Tax Exempt Bonds Payable	9,228,990	9,504,488
Less: Unamortized debt issuance costs	<u>235,888</u>	<u>259,437</u>
Bonds Payable, net	<u>\$ 8,993,102</u>	<u>\$ 9,245,051</u>

Annual maturities of bonds payable for the years succeeding June 30, 2019, are as follows:

2020	\$ 295,497
2021	310,497
2022	330,497
2023	345,497
2024	360,497
Thereafter	<u>7,586,505</u>
Total	<u>\$ 9,228,990</u>

Interest Expense

Interest expense on all obligations for the years ended June 30, 2019 and 2018, was \$600,300 and \$739,276, respectively, including amortization of debt issuance costs.

8. PENSION PLANS

The Society participates in the Northern Rivers Family Service's 401(K) Plan, a related party (see Note 12). The plan covers substantially all full-time employees of the Society that are 18 years of age and older with no years of service requirement. Employees who contribute to the plan and have met eligibility requirements are eligible for the Society's matching contribution that is discretionary up to 2% of an employee's compensation. The Society may also provide a discretionary contribution on behalf of employees meeting eligibility requirements. Pension costs for the year ended June 30, 2019 and 2018 were \$475,612 and \$191,428, respectively.

9. POST-RETIREMENT BENEFIT

During the year ended June 30, 2002, the Society approved a lifetime post-retirement benefit for its former Executive Director and spouse. The Society will provide a benefit for health and dental insurance equal to 50% of the cost. These benefits will be coordinated with Medicare benefits and any other federal health care. The benefits commenced July 1, 2003. An accrual of \$31,695 was made at June 30, 2003 to establish the estimated present value of these future benefit obligations. For accrual measurement purposes, a 10% annual rate of increase in the per capita cost of health care was assumed for the benefit period. In addition, an 8% projected discount factor was utilized for the present value computation. The benefit is unfunded. During the year ended June 30, 2019 and 2018, the Society amortized \$1,241 and \$2,619, respectively, of benefit, resulting in a balance of \$13,937 and \$14,987 for the present value of this future benefit obligation, which has been recorded as a liability in these financial statements.

10. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at June 30 consisted of the following:

	<u>2019</u>	<u>2018</u>
Income from these funds may be utilized for the benefit of the Organization *	\$ 11,974	\$ 11,974
Income from these funds is restricted to scholarships for children or parents of children enrolled in Northeast Parent and Child Society, Inc. programs *	115,846	115,846
Restricted investment income	10,669	4,161
Beneficial Interest in Perpetual Trusts *	<u>1,665,528</u>	<u>1,668,111</u>
	<u>\$ 1,804,017</u>	<u>\$ 1,800,092</u>

11. FAIR VALUE MEASUREMENTS

The following are measured at fair value on a recurring basis at:

June 30, 2019

	Level 1 <u>Inputs</u>	Level 2 <u>Inputs</u>	Level 3 <u>Inputs</u>	<u>Total</u>
Money Markets	\$ 97,523	\$ -	\$ -	\$ 97,523
Common Stock	992,483	-	-	992,483
Mutual Funds	1,779,010	-	-	1,779,010
Government Debt Securities	-	584,754	-	584,754
Beneficial Interests in Trusts	-	1,665,528	-	1,665,528
	<u>\$ 2,869,016</u>	<u>\$ 2,250,282</u>	<u>\$ -</u>	<u>\$ 5,119,298</u>

June 30, 2018

	Level 1 <u>Inputs</u>	Level 2 <u>Inputs</u>	Level 3 <u>Inputs</u>	<u>Total</u>
Money Markets	\$ 140,213	\$ -	\$ -	\$ 140,213
Common Stock	828,854	-	-	828,854
Mutual Funds	1,663,262	-	-	1,663,262
Government Debt Securities	-	613,533	-	613,533
Beneficial Interests in Trusts	-	1,668,111	-	1,668,111
	<u>\$ 2,632,329</u>	<u>\$ 2,281,644</u>	<u>\$ -</u>	<u>\$ 4,913,973</u>

12. RELATED PARTIES

Northern Rivers Family Services, Inc.

Northern Rivers Family Services, Inc. (the Organization) is the sole corporate member of the Society. The Organization provides Executive, Finance, HR, Communications, Quality Management, IT, Strategic Planning, and Development.

Generally, all intercompany loans are non-interest bearing and payment is expected within 12-36 months, unless otherwise arranged. Intercompany loans are typically paid back within 30 days.

The Society paid \$3,523,449 and \$3,277,066 in fees to Northern Rivers Family Services, Inc. during the years ended June 30, 2019 and 2018, respectively. Northern Rivers Family Services also paid rent to the Society for occupancy, equipment, telecommunications, and maintenance related services. The Society charged rent to Northern Rivers Family Services, Inc. in the amount of \$238,882 and \$468,355, for the years ended June 30, 2019 and 2018, respectively.

Parsons Child and Family Center

The Center is related through common control to Parsons Child and Family Center (Center).

Generally, all intercompany loans are non-interest bearing and payment is expected within 12-36 months, unless otherwise arranged.

12. RELATED PARTY TRANSACTIONS (Continued)

The Society recorded expenses of \$125,000 for training services provided by Parsons Child and Family Center during both the years ended June 30, 2019 and 2018.

The Society also charged rent to Parsons Child and Family Center in the amount of \$281,462 and \$192,585, for the years ended June 30, 2019 and 2018, respectively. These amounts are included in rent income in the accompanying statement of activities. The Society contracts with Parsons to provide waiver services. The Society paid \$227,341 and \$213,978 to Parsons for these services for the years ended June 30, 2019 and 2018, respectively.

The balances due to and from related parties consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
<u>Due From Related Party:</u>		
Northern Rivers Family Services, Inc.	\$ 40,951	\$ 72,625
Parson Child and Family Center	<u>55,003</u>	<u>72,450</u>
	<u>\$ 95,954</u>	<u>\$ 145,075</u>
<u>Due To Related Party:</u>		
Northern Rivers Family Services, Inc.	\$ 28,843	\$ 13,364
Parson Child and Family Center	<u>87,755</u>	<u>26,007</u>
Total	<u>\$ 116,598</u>	<u>\$ 39,371</u>

13. COMMITMENTS AND CONTINGENCIES

Self-Funded Unemployment Insurance

The Society's Unemployment Compensation Insurance program is self-funded. Unemployment benefits that separated employees receive are determined by New York State statute and are administered by New York State Department of Labor (NYSDOL). The Society is billed quarterly by NYSDOL for benefits paid to former employees. Unemployment is budgeted annually based on prior year results. The Society incurred costs of \$58,105 and \$57,480 for 2019 and 2018, respectively.

Reimbursement Rates

The Society files financial reports annually with various New York State departments to report operating revenues, costs, statistical and other operating data. This information is utilized by the rate setting units to evaluate and adjust historical rates and to set future reimbursement rates. In addition, reimbursement rates are subject to audit by the New York State departments which provide funding. The potential financial impact of this process cannot be readily determined, therefore, no future obligation has been recognized in these financial statements.

13. COMMITMENTS AND CONTINGENCIES (Continued)

Operating Leases

The Society leases various equipment, vehicles and space under non-cancellable operating leases. At June 30, 2019 the minimum rental commitment under these operating leases have remaining terms in excess of one year is as follows:

2020	\$	970,926
2021		821,997
2022		579,153
2023		532,591
2024		<u>532,591</u>
Total	\$	<u>3,437,258</u>

Total premises rent expense for the years ended June 30, 2019 and 2018 was \$888,328 and \$451,480, respectively.

14. SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 28, 2019, which is the date the financial statements were available to be issued.

NORTHEAST PARENT AND CHILD SOCIETY, INC.

Schedule I

**SCHEDULE OF REVENUE AND FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019
(With Comparative Totals for 2018)**

	2019										2018
	Residential Care	Family Foster Care	Prevention Services	Case Management Services	Behavioral Health Services	Respite Services	Education Services	Management And General	Fundraising and Non-Operating	Total	
REVENUE	\$ 9,936,539	\$ 6,695,076	\$ 4,382,582	\$ 5,950,307	\$ 1,723,541	\$ 334,929	\$ 7,229,657	\$ -	\$ 673,449	\$ 36,926,080	\$ 34,864,446
FUNCTIONAL EXPENSES:											
Salaries	\$ 4,960,955	\$ 2,164,613	\$ 2,426,291	\$ 2,973,674	\$ 1,156,305	\$ 222,780	\$ 4,210,015	\$ -	\$ 6,232	\$ 18,120,865	\$ 17,359,699
Employee Health and Retirement Benefits	701,200	307,141	335,825	428,627	162,979	28,504	590,488	-	493	2,555,257	2,114,798
Payroll Taxes	568,658	216,786	244,366	290,473	105,897	19,051	471,867	-	860	1,917,958	1,676,782
Total compensation and benefits	6,230,813	2,688,540	3,006,482	3,692,774	1,425,181	270,335	5,272,370	-	7,585	22,594,080	21,151,279
Allowances - children	21,982	-	1,164	-	-	-	30,036	-	-	53,182	38,995
Allowances - parents	1,768	10	1,126	-	-	-	70	-	-	2,974	2,927
Allowances - uncollectible receivables	76	54	723	-	45,299	-	3,868	300,000	-	350,020	110,942
Auto and transportation	32,230	261,396	103,276	484,601	2,469	58,679	28,168	339	1,265	972,423	945,611
Bedding	7,603	-	-	-	-	-	-	-	-	7,603	1,516
Boarding home	-	2,493,571	-	-	-	17,987	-	-	-	2,511,558	2,429,750
Charges from parent organizations	-	-	-	-	-	-	-	3,285,039	-	3,285,039	2,812,590
Clothing	25,927	-	-	56	-	-	-	-	-	25,983	42,934
Conferences and administrative expense	28,215	26,014	3,412	27,446	3,242	360	4,224	18,009	963	111,885	107,944
Dues, licenses and permits	5,068	584	591	6,069	7,706	88	7,649	314	51	28,120	24,601
Food	253,197	7	7,730	-	-	-	-	-	-	260,934	289,618
Insurance	250,889	48,796	20,058	36,991	35,506	-	115,695	-	321	508,256	481,131
Interest	501,691	24,577	15,488	17,543	4,691	616	35,694	-	-	600,300	739,276
Legal and professional fees	5,063	-	-	-	108	-	-	-	-	5,171	39,855
Office supplies and expense	20,774	7,186	4,730	8,730	4,623	183	12,355	236	515	59,332	48,415
Postage and shipping	301	1,663	151	1,308	4	1	357	-	1	3,786	6,527
Publicity	20,883	48,930	251	793	58,759	4	1,430	909	7	131,966	86,680
Purchase of health services	164,081	800	-	-	-	-	-	-	-	164,881	240,655
Purchase of services - other	916,298	131,658	149,420	164,871	168,745	6,275	331,360	21,399	122,424	2,012,450	1,613,121
Recreation	59,813	1,175	7,788	20,592	-	1,092	44,979	-	-	135,439	163,787
Rent	-	131,468	175,463	88,329	118,580	2,318	-	156,310	215,860	888,328	451,480
Rent - furnishings and equipment	20,342	10,986	11,520	9,351	6,423	493	15,295	10,020	3,301	87,731	97,382
Rent - vehicles	85,091	61,157	6,836	-	-	-	60,470	-	-	213,554	200,724
Repair and Maintenance	7,088	8,398	6,513	27,421	6,314	565	12,591	7,037	1,231	77,158	91,738
Repair and Maintenance - vehicles	37,588	694	5,321	195	118	11	19,078	197	224	63,426	64,756
School expense	1,402	-	-	-	-	-	-	-	-	1,402	674
Staff development	12,462	1,422	2,014	14,123	2,300	(265)	7,691	-	-	39,747	55,494
Subscription and publications	5,089	152	1,051	1,759	-	-	6,960	-	-	15,011	9,745
Supplies and equipment	249,115	18,989	12,856	20,960	4,519	2,042	91,984	119	248	400,832	315,169
Supplies and equipment - medical	78,348	215	-	6,071	85	-	-	-	-	84,719	180,586
Telecommunications	38,461	44,175	42,392	38,180	13,097	915	54,483	13,668	19,626	264,997	241,051
Utilities and property taxes	113,038	22,814	22,617	16,618	4,617	1,074	77,901	-	3,185	261,864	325,587
Depreciation and amortization	571,883	26,203	15,403	23,055	1,197	1,423	209,593	9,853	7,403	866,013	1,058,680
Total operating expenses	\$ 9,766,579	\$ 6,061,634	\$ 3,624,376	\$ 4,707,836	\$ 1,913,583	\$ 364,196	\$ 6,444,301	\$ 3,823,449	\$ 384,210	\$ 37,090,164	\$ 34,471,220
Operating gain (loss)	\$ 169,960	\$ 633,442	\$ 758,206	\$ 1,242,471	\$ (190,042)	\$ (29,267)	\$ 785,356	\$ (3,823,449)	\$ 289,239	\$ (164,084)	\$ 393,226

The accompanying notes are an integral part of these schedules.