The New England Center for Children®

A leader in autism research and education

AND AFFILIATE

COMBINED FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

Contents
June 30, 2017 and 2016

AAFCPAs
great minds | great hearts

50 Washington Street
Westborough, MA 01581
508.366.9100
aafcpa.com

Independent Auditor's Report

To the Board of Directors of
The New England Center for Children, Inc. and Affiliate:

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of The New England Center for Children, Inc. (a Massachusetts corporation, not for profit) and Affiliate, which comprise the combined statements of financial position as of June 30, 2017 and 2016, and the related combined statements of activities and changes in net assets, cash flows and functional expenses for the years 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 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 audits 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.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of The New England Center for Children, 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.

Alexander, Aronson, Finning & Co., P.C.

Boston, Massachusetts
November 6, 2017

THE NEW ENGLAND CENTER FOR CHILDREN, INC. AND AFFILIATE

Combined Statements of Financial Position
June 30, 2017 and 2016

Assets	**2017**	**2016**
Current Assets:		
Cash and cash equivalents	$ 4,646,432	$ 6,281,329
Accounts receivable, net	14,801,389	12,984,717
Prepaid expenses and other current assets	644,878	1,036,369
Total current assets	20,092,699	20,302,415
Capital Campaign Pledges Receivable, net of discount and reserve for uncollectible pledges	2,121,338	3,548,687
Property and Equipment, net	46,153,270	39,693,953
Total assets	$ 68,367,307	$ 63,545,055
Liabilities and Net Assets		
Current Liabilities:		
Line of credit	$ 2,700,000	$ -
Current portion of long-term debt	1,214,446	1,188,283
Accounts payable	2,238,831	1,594,783
Accrued expenses and employee withholdings	6,627,906	5,946,535
Deferred revenue	552,605	521,266
Total current liabilities	13,333,788	9,250,867
Accumulated Unrealized Loss on Interest Rate Swap Contract	2,099	133,397
Long-Term Debt, net	4,578,227	5,768,979
Total liabilities	17,914,114	15,153,243
Net Assets:		
Unrestricted:		
Operating	10,073,992	15,773,286
Property and equipment	40,358,498	32,603,294
Total unrestricted	50,432,490	48,376,580
Temporarily restricted	20,703	15,232
Total net assets	50,453,193	48,391,812
Total liabilities and net assets	$ 68,367,307	$ 63,545,055

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

Combined Statements of Activities and Changes in Net Assets
For the Years Ended June 30, 2017 and 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Operating Revenue:						
Tuition and fees	$ 96,831,748	$ -	$ 96,831,748	$ 88,859,394	$ -	$ 88,859,394
Consulting	4,079,401	-	4,079,401	3,828,245	-	3,828,245
Contributions	790,772	18,989	809,761	745,767	15,232	760,999
Special events	763,350	-	763,350	556,533	-	556,533
Other	157,296	-	157,296	155,056	-	155,056
Grants	39,564	-	39,564	26,528	-	26,528
In-kind	28,375	-	28,375	887,023	-	887,023
Net assets released from purpose restrictions	13,518	(13,518)	-	10,000	(10,000)	-
Total operating revenue	102,704,024	5,471	102,709,495	95,068,546	5,232	95,073,778
Operating Expenses:						
Program services	92,513,278	-	92,513,278	83,554,944	-	83,554,944
Management and general	7,129,950	-	7,129,950	6,743,685	-	6,743,685
Fundraising	930,364	-	930,364	742,917	-	742,917
Special events - direct benefits to donors	210,507	-	210,507	157,702	-	157,702
Total operating expenses	100,784,099	-	100,784,099	91,199,248	-	91,199,248
Changes in net assets from operations	1,919,925	5,471	1,925,396	3,869,298	5,232	3,874,530
Non-Operating Activities:						
Unrealized gain (loss) on carrying value of interest rate swap contract	131,298	-	131,298	(88,119)	-	(88,119)
Capital campaign contributions	103,416	-	103,416	166,900	-	166,900
Net assets released from capital restrictions	-	-	-	9,860,325	(9,860,325)	-
Loss on sale or disposal of property and equipment	(98,729)	-	(98,729)	-	-	-
Total non-operating activities	135,985	-	135,985	9,939,106	(9,860,325)	78,781
Changes in net assets	2,055,910	5,471	2,061,381	13,808,404	(9,855,093)	3,953,311
Net Assets:						
Beginning of year	48,376,580	15,232	48,391,812	34,568,176	9,870,325	44,438,501
End of year	$ 50,432,490	$ 20,703	$ 50,453,193	$ 48,376,580	$ 15,232	$ 48,391,812

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

THE NEW ENGLAND CENTER FOR CHILDREN, INC. AND AFFILIATE

Combined Statements of Cash Flows
For the Years Ended June 30, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities:		
Changes in net assets	$ 2,061,381	$ 3,953,311
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	2,311,158	1,921,599
Interest - amortization of debt issuance costs	23,694	23,694
Loss on sale or disposal of property and equipment	98,729	-
Capital campaign contributions	(103,416)	(166,900)
Unrealized (gain) loss on carrying value of interest rate swap contract	(131,298)	88,119
Changes in operating assets and liabilities:		
Accounts receivable	(1,816,672)	(3,287,661)
Prepaid expenses and other current assets	391,491	(480,807)
Accounts payable	476,099	(118,504)
Accrued expenses and employee withholdings	681,371	606,676
Deferred revenue	31,339	195,529
Net cash provided by operating activities	4,023,876	2,735,056
Cash Flows from Investing Activities:		
Net decrease in restricted cash	-	5,053,895
Acquisitions of property and equipment	(8,744,258)	(12,279,396)
Proceeds from sales of property and equipment	43,003	12,870
Net cash used in investing activities	(8,701,255)	(7,212,631)
Cash Flows from Financing Activities:		
Proceeds from draws on line of credit	2,700,000	-
Principal payments on long-term debt	(1,188,283)	(1,162,243)
Capital campaign contributions received	1,530,765	1,424,643
Net cash provided by financing activities	3,042,482	262,400
Net Change in Cash and Cash Equivalents	(1,634,897)	(4,215,175)
Cash and Cash Equivalents:		
Beginning of year	6,281,329	10,496,504
End of year	$ 4,646,432	$ 6,281,329
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$ 200,638	$ 166,815
Supplemental Disclosures of Non-Cash Transactions:		
Cost basis of sold or disposed property and equipment	$ 404,185	$ 60,449
Property and equipment financed by accounts payable	$ 989,634	$ 821,685

THE NEW ENGLAND CENTER FOR CHILDREN, INC. AND AFFILIATE

Combined Statement of Functional Expenses
For the Year Ended June 30, 2017

	Program Services							
	Residential	Severe	Adult	Day Care	Consulting	Partner Classrooms	Intensive Instruction	Home Based
Salaries and wages	$ 1,687,503	$ 18,208,503	$ 803,958	$ 510,305	$ 1,882,399	$ 3,997,093	$ 6,883,060	$ 1,642,770
Payroll taxes and employee benefits	386,854	4,318,322	194,947	98,109	454,922	963,869	1,638,439	418,077
Supplies and expenses	127,648	1,549,829	81,002	8,876	117,522	12,888	519,270	21,593
Occupancy	159,896	1,899,079	122,581	54,877	15,486	32,056	459,555	15,063
Professional fees	16,625	189,195	4,164	2,643	1,588,035	20,704	71,064	8,509
Depreciation	96,234	984,954	52,435	46,534	6,800	26,134	232,630	53,703
Transportation	22,063	174,277	24,002	-	174,701	10,836	22,948	192,349
Interest	7,214	56,776	4,956	-	-	-	43,203	-
Total operating expenses	$ 2,504,037	$ 27,380,935	$ 1,288,045	$ 721,344	$ 4,239,865	$ 5,063,580	$ 9,870,169	$ 2,352,064

	Program Services (Continued)								
	Grants	Foreign Programs	Intermediate Residential	Abu Dhabi School	London	Total Programs	Management and General	Fundraising	Total
Salaries and wages	$ 25,053	$ 1,379,156	$ 7,411,050	$ 18,382,538	$ 127,939	$ 62,941,327	$ 3,015,745	$ 454,656	$ 66,411,728
Payroll taxes and employee benefits	8,868	370,326	1,728,983	3,393,436	5,895	13,981,047	740,425	104,714	14,826,186
Supplies and expenses	7,043	61,843	1,086,988	1,076,338	1,555	4,672,395	2,330,733	283,829	7,286,957
Occupancy	239	192,167	1,240,445	991,590	3,140	5,186,174	32,052	6,992	5,225,218
Professional fees	4,491	28,402	77,875	157,137	12,791	2,181,635	513,183	36,744	2,731,562
Depreciation	819	6,674	378,345	14,614	-	1,899,876	396,419	14,863	2,311,158
Transportation	607	143,215	88,464	589,657	8,843	1,451,962	77,699	28,566	1,558,227
Interest	-	-	86,713	-	-	198,862	23,694	-	222,556
Total operating expenses	$ 47,120	$ 2,181,783	$ 12,098,863	$ 24,605,310	$ 160,163	$ 92,513,278	$ 7,129,950	$ 930,364	$ 100,573,592

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

THE NEW ENGLAND CENTER FOR CHILDREN, INC. AND AFFILIATE

Combined Statement of Functional Expenses
For the Year Ended June 30, 2016

	Program Services							
	Residential	**Severe**	**Adult**	**Day Care**	**Consulting**	**Partner Classrooms**	**Intensive Instruction**	**Home Based**
Salaries and wages	$ 2,438,226	$ 17,646,491	$ 721,369	$ 481,999	$ 781,939	$ 4,214,981	$ 6,840,366	$ 1,546,963
Payroll taxes and employee benefits	585,157	4,264,247	178,189	66,089	216,703	1,042,690	1,609,931	416,393
Supplies and expenses	226,205	1,714,363	82,338	11,812	136,704	14,337	404,343	16,012
Occupancy	258,728	2,037,557	85,028	45,341	12,137	36,804	290,984	17,792
Professional fees	22,807	192,863	3,893	2,535	747,941	22,749	72,917	8,349
Depreciation	135,124	886,319	41,086	44,208	4,894	29,853	197,982	46,400
Transportation	30,996	208,030	25,930	-	140,802	4,330	21,453	199,115
Interest	11,136	74,680	2,902	-	-	-	28,199	-
Total operating expenses	$ 3,708,379	$ 27,024,550	$ 1,140,735	$ 651,984	$ 2,041,120	$ 5,365,744	$ 9,466,175	$ 2,251,024

	Program Services (Continued)								
	Grants	**Foreign Programs**	**Intermediate Residential**	**Abu Dhabi School**	**London**	**Total Programs**	**Management and General**	**Fundraising**	**Total**
Salaries and wages	$ 13,106	$ 1,391,480	$ 6,023,187	$ 16,048,165	$ 130,707	$ 58,278,979	$ 2,722,424	$ 365,067	$ 61,366,470
Payroll taxes and employee benefits	3,057	363,670	1,410,823	2,081,828	8,022	12,246,799	688,374	85,614	13,020,787
Supplies and expenses	8,233	151,081	648,081	949,741	3,808	4,367,058	2,456,403	243,904	7,067,365
Occupancy	169	179,536	603,047	803,800	2,531	4,373,454	26,172	2,729	4,402,355
Professional fees	4,638	22,033	67,166	75,328	17,910	1,261,129	500,428	14,037	1,775,594
Depreciation	393	6,674	261,563	9,326	-	1,663,822	246,827	10,950	1,921,599
Transportation	-	97,554	89,030	370,497	11,215	1,198,952	79,363	20,616	1,298,931
Interest	-	-	47,834	-	-	164,751	23,694	-	188,445
Total operating expenses	$ 29,596	$ 2,212,028	$ 9,150,731	$ 20,338,685	$ 174,193	$ 83,554,944	$ 6,743,685	$ 742,917	$ 91,041,546

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS AND NONPROFIT STATUS

The New England Center for Children, Inc. (the Agency) is a Massachusetts nonprofit corporation established in September 1974. The Agency provides residential and day treatment educational programs for children with autism and other disabilities. While most of the Agency's activities are carried out at its corporate offices and school located in Massachusetts, the Agency has also established a day school in Abu Dhabi serving 184 and 166 students for the years ended June 30, 2017 and 2016, respectively.

The New England Center for Children London Limited (the Affiliate) was incorporated in the United Kingdom during fiscal year 2010 as a private company limited by guarantee. One hundred percent of the capital stock of the Affiliate is owned by the Agency. The Affiliate provides educational programs for children with autism and other disabilities.

The Agency is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). The Agency is also exempt from state income taxes. Donors may deduct contributions made to the Agency within the IRC requirements.

SIGNIFICANT ACCOUNTING POLICIES

The Agency and the Affiliate prepare their combined financial statements in accordance with generally accepted accounting standards and principles (U.S. GAAP) established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

Adoption of New Accounting Standard

During fiscal year 2017, the Agency adopted FASB's Accounting Standards Update (ASU) 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, which requires that debt issuance costs related to long-term debt be presented in the combined statements of financial position as a direct reduction from the carrying balance of the long-term debt (see Note 5), consistent with debt discounts. Previously, the Agency reflected unamortized debt issuance costs as deferred financing costs, net in the accompanying fiscal year 2016 combined statement of financial position. The Agency has retroactively reclassified the fiscal year 2016 amounts in accordance with this ASU. The reclassification reduced total assets and long-term debt at June 30, 2016, by $132,287.

In addition, amortization of debt issuance costs is required to be reflected as interest expense in the accompanying combined statements of functional expenses. Accordingly, amortization expense of $23,694 for the fiscal year ended June 30, 2016, has been reclassified to be included with interest expense. This reclassification increased interest expense and decreased depreciation expense by $23,694 for the year ended June 30, 2016.

The adoption of this ASU did not impact the Agency's net assets, changes in net assets, or cash flows for the years ended June 30, 2017 and 2016.

Principles of Combination

The combined financial statements include the accounts of the Agency and the Affiliate (collectively, the Center). All significant intercompany transactions and balances have been eliminated in the accompanying combined financial statements.

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Combined Statements of Activities and Changes in Net Assets

Transactions deemed by management to be ongoing, major, or central to the provision of residential and day treatment educational programs for children with autism and other disabilities are reported as operating revenues and operating expenses in the accompanying combined statements of activities and changes in net assets. Non-operating activities include unrealized gain (loss) on the carrying value of interest rate swap contract and capital activity.

Estimates

The preparation of combined financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Tuition and fees are recorded as revenue when services are performed. Fees and deposits received in advance of services provided are recorded as deferred revenue. Grants are recorded over the grant period as services are provided.

Restricted contributions are recorded as temporarily restricted revenues and net assets when received or unconditionally pledged. Transfers are made to unrestricted net assets as costs are incurred or time restrictions or program restrictions have lapsed. Donor restricted grants received and satisfied in the same period are included in unrestricted net assets. Unrestricted contributions are recorded as revenue when received or unconditionally pledged. Special event revenue is recorded when the event occurs. Consulting revenue is recorded as it is earned. All other revenues are recorded when they are earned.

Net Assets

Unrestricted Net Assets

Unrestricted net assets are those net resources that bear no external restrictions and are generally available for use by the Center. The Center has grouped its unrestricted net assets into the following categories:

> **Operating net assets** represent net assets which are available for operations and bear no external restrictions.
>
> **Property and equipment net assets** represent amounts expended and resources available for property and equipment, net of related debt.

Temporarily Restricted Net Assets

Temporarily restricted net assets represent amounts received or unconditionally committed with donor restrictions which have not yet been expended for their designated purpose (purpose restricted) or amounts for unrestricted use in future periods (time restricted). At June 30, 2017 and 2016, all temporarily restricted net assets are purpose restricted.

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

The Center follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements,* for qualifying assets and liabilities. Fair value is defined as the price that the Center would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

The Center uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the Center. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable.

Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

Interest Rate Swap Agreement

The fair value of an interest rate swap agreement is the estimated amount that the Center would have to pay to receive or terminate the agreement as of the combined statement of financial position date, taking into account current interest rates and the current creditworthiness of the swap counterparty. These inputs to the fair value estimate are considered Level 3 in the fair value hierarchy (see Note 5).

All Other Assets and Liabilities

The carrying value of all other qualifying assets and liabilities, including notes and bonds payable, does not differ materially from its estimated fair value and are considered Level 1 in the fair value hierarchy.

Expense Allocation

Expenses related directly to a function are distributed to that function, while other expenses are allocated based upon management's estimate of the percentage attributable to each function.

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For the purpose of the combined statements of cash flows, management considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Property and Equipment and Depreciation

Purchased property and equipment are recorded at cost (see Note 3). Donated property and equipment are recorded at fair value at the time of donation. Renewals and betterments are capitalized, while repairs and maintenance are expensed as they are incurred. Depreciation is computed using the straight-line method and the half-year convention for additions over the following estimated useful lives:

Land improvements	20 years
Buildings	40 years
Building improvements	5 - 20 years
Leasehold improvements	5 - 20 years
Furniture, fixtures and equipment	5 - 7 years
Vehicles	3 - 5 years

Land is not depreciated. Depreciation expense for the years ended June 30, 2017 and 2016, was $2,311,158 and $1,921,599, respectively.

Debt Issuance Costs

Costs incurred in connection with debt issuance are being amortized on the straight-line method over the life of the related debt (see Note 5).

Debt issuance costs consist of the following as of June 30:

	2017	2016
Debt issuance costs	$ 236,935	$ 236,935
Less - accumulated amortization	128,342	104,648
Unamortized debt issuance costs (see Note 5)	$ 108,593	$ 132,287

Interest expense - amortization of debt issuance costs was $23,694 for each of the years ended June 30, 2017 and 2016, and is included in interest expense in the accompanying combined statements of functional expenses.

Annual interest expense - amortization of debt issuance costs for the next four years is expected to be $23,694. Annual Interest expense - amortization of debt issuance costs in year five is expected to be $13,817.

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts and Pledges Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is based on specific identification of probable losses and an estimate of additional losses based on historical write-off experience. Management reviews the allowance for doubtful accounts monthly. Account balances are charged off against the allowance when it is determined that the receivable will not be recovered. There was a $100,000 reserve for accounts receivable at June 30, 2017 and 2016.

Pledges Receivable and Reserve for Uncollectible Pledges

Pledges receivable at June 30, 2017 and 2016, consist of contributions committed to the Center for capital campaign and operating purposes. Pledges are recorded at their net present value when unconditionally committed (see Note 2). The reserve for uncollectible pledges is based on management's best estimate of the amount of uncollectible pledges. The reserve is based on past collection experience together with a review of the current status of the existing pledges. Account balances are charged off against the reserve when it is probable the pledge will not be recovered. Capital campaign pledges receivable are presented as long-term assets regardless of their expected collection dates due to the long-term nature of the intended usage of those contributions.

Donated Goods and Services

The Center receives donated goods and professional services. These goods and services are reflected in the accompanying combined financial statements based upon the estimated value assigned to them by the donating volunteers, agencies, or by management and are reflected as in-kind in the accompanying combined statements of activities and changes in net assets. The value recorded for these goods and services for the years ended June 30, 2017 and 2016, was $28,375 and $887,023, respectively.

Every three years, the Center is eligible to apply to a donor for a significant donation of technology-related goods. The Center received donated goods of approximately $866,000 from this donor in fiscal year 2016. No such donated goods were received in fiscal year 2017.

Special Events

The results of the annual special events for the years ended June 30, 2017 and 2016, are as follows:

	2017	2016
Special events contributions and support	$ 656,740	$ 436,556
Special events revenue	106,610	119,977
Total special events	$ 763,350	$ 556,533

Subsequent Events

Subsequent events have been evaluated through November 6, 2017, which is the date the combined financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the combined financial statements, except as disclosed in Notes 3, 7, and 8.

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting for Uncertainty in Income Taxes

The Center accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the combined financial statements regarding a tax position taken or expected to be taken in a tax return. The Center has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the combined financial statements at June 30, 2017 and 2016. The Center files income tax and information returns in the United States Federal, Massachusetts and Florida state and United Kingdom jurisdictions. The returns filed in the United States Federal, Massachusetts, and Florida jurisdictions are subject to examination by the Federal and state jurisdictions and generally remain open for the most recent three years. Returns filed in the United Kingdom jurisdiction are generally subject to examination by tax authorities for the most recent four years.

2. CAPITAL CAMPAIGN PLEDGES RECEIVABLE

During fiscal year 2012, the Center launched a comprehensive campaign to raise funds which were used to complete the construction of the Autism Institute and Student Center located in Southborough, Massachusetts (see Note 3). Through June 30, 2017, the Center has received approximately $11.1 million in cash and pledges in connection with the campaign.

The Center has capital campaign pledges receivable at June 30, 2017 and 2016, which are due as follows:

	2017	2016
Due in less than one year	$ 1,233,121	$ 1,850,460
Due in one to five years	1,043,272	1,971,446
	2,276,393	3,821,906
Less - discount	41,235	82,124
	2,235,158	3,739,782
Less - reserve for uncollectible pledges	113,820	191,095
	$ 2,121,338	$ 3,548,687

Long-term pledges have been discounted using discount factors based on U.S. Treasury note rates.

Approximately 64% of gross pledges receivable at June 30, 2017, were due from four donors. Approximately 42% of gross pledges receivable at June 30, 2016, were due from three donors.

The entirety of the Center’s capital campaign pledges receivable are reflected as long-term assets as they will be converted into long-term property and equipment upon collection and expenditure of the funds in accordance with the donors’ restrictions.

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30:

	2017	2016
Land	$ 5,383,484	$ 5,331,484
Land improvements	252,876	-
Buildings	39,542,897	28,184,770
Building improvements	15,902,102	11,971,339
Furniture, fixtures and equipment	6,008,467	3,796,008
Leasehold improvements	2,120,152	2,125,972
Vehicles	1,816,975	1,717,339
Assets not placed in service	1,581,747	10,973,766
	72,608,700	64,100,678
Less - accumulated depreciation	26,455,430	24,406,725
	$ 46,153,270	$ 39,693,953

Certain assets included above are security for long-term debt (see Note 5).

Assets not placed in service at June 30, 2017, are primarily related to construction in progress of a new adult group home (see Note 7), which was completed and placed in service in September 2017. Assets not placed in service at June 30, 2016, were primarily related to construction in progress for the Autism Institute and Student Center (see Note 2). This facility was completed and placed in service in October 2016.

4. RETIREMENT PLANS

Target Benefit Plan

The Center maintains a target benefit retirement plan (the Plan) which covers all eligible employees. Each year, the Center contributes an actuarially determined amount to the Plan that will be sufficient to pay a predetermined target benefit amount for each participant. Pension expense attributed to participants' service provided during the years ended June 30, 2017 and 2016, totaled $1,605,897 and $1,348,097, respectively, and is included in payroll taxes and employee benefits in the accompanying combined statements of functional expenses.

Supplemental Employee Benefit Plan

The Center also maintains a supplemental employee benefit plan. Each year, a Board of Directors' vote determines the total contribution to the plan. The allocation of the contribution to eligible employees is based on an actuarially determined formula including employee's age and salary. The total amount contributed to the plan for each of the years ended June 30, 2017 and 2016, was $750,000 and is included in payroll taxes and employee benefits in the accompanying combined statements of functional expenses.

4. **RETIREMENT PLANS** (Continued)

Section 403(b) Retirement Plan

The Center has adopted an IRC Section 403(b) Retirement Plan (the 403(b) Plan). The 403(b) Plan covers all employees and is funded solely by employee elective contributions.

IRC Section 457(f) Deferred Compensation Plans

The Center has IRC Section 457(f) deferred compensation plans (the 457(f) Plans) with three of its key executives. Under the terms of the 457(f) Plans, monies deposited by the Center, as well as reinvested investment income, remain the property of the Center until the key executives vest in them. The key executives vest in these contributions in accordance with the terms of the 457(f) Plans. At June 30, 2017 and 2016, the Center has approximately $95,487 and $69,000, respectively, deposited in a related account, which is included in prepaids and other current assets in the accompanying combined statements of financial position. A corresponding liability has been recorded and is included in accrued expenses and employee withholdings in the accompanying combined statements of financial position at June 30, 2017 and 2016. Compensation expense under these agreements was $18,000 for each of the years ended June 30, 2017 and 2016, and is included in payroll taxes and employee benefits in the accompanying combined statements of functional expenses.

IRC Section 457(b) Deferred Compensation Plan

The Center has an IRC Section 457(b) deferred compensation plan (the 457(b) Plan) for key executives, as defined in the 457(b) Plan. Under the terms of the 457(b) Plan, the Center made available to the key executives additional compensation within the IRC limits, which vest immediately. The employees may decide to defer additional compensation in accordance with IRC limits. Compensation expense under this agreement was $54,000 for each of the years ended June 30, 2017 and 2016, and is included in payroll taxes and employee benefits in the accompanying combined statements of functional expenses.

United Arab Emirates Pension Plan

As required for operations in Abu Dhabi, the Emirati employees in Abu Dhabi are covered under a pension plan administered by the government of the United Arab Emirates. The Center is obligated to contribute 15% of each Emirati employee's salary to the pension plan. The total amount contributed to the plan by the Center for each of the years ended June 30, 2017 and 2016, was $552,982 and $520,890, respectively, and is included in payroll taxes and employee benefits in the accompanying combined statements of functional expenses.

5. LONG-TERM DEBT

Long-term debt consists of the following at June 30:

	2017	2016
In 2012, the Center issued $11,950,000 of Massachusetts Development Finance Agency (MDFA) Revenue Bonds (The New England Center for Children, Inc. Project, Series, 2012), which were issued to pay the Center's existing long-term debt and to provide partial financing for the Pleasant Street Daycare Project which was completed in 2013. The bonds bear interest at a variable interest rate based on the thirty-day London Interbank Offered Rate (LIBOR) (1.17% and 0.45% at June 30, 2017 and 2016, respectively), plus 1.47%, and are payable in varying annual installments through February 2022. As collateral for the bonds, the Center mortgaged specific property owned on February 2, 2002, with MDFA, and has granted MDFA a second security interest in all gross receipts.	$ 5,901,266	$ 7,089,549
Less - current portion	1,214,446	1,188,283
Less - unamortized debt issuance costs (see page 10)	108,593	132,287
	$ 4,578,227	$ 5,768,979

To hedge against potential interest rate exposure under the floating rate note, the Center entered into an interest rate swap agreement, which effectively fixed interest rates on the note proceeds:

Initial Notional Amount	$ 11,950,000
Fixed Rate Assumed by Center	1.125%
Basis for Variable Rate Assumed by Counterparty	Thirty-Day LIBOR plus 1.47%
Term	Ten years
Effective Date	February 8, 2012
Counterparty	RBS Citizens, N.A.

The initial notional amount of the swap contract declines according to a predetermined schedule such that the proportion of the amortizing note swapped remains approximately the same throughout the term of the agreement as the underlying debt amortizes. The notional amount of the swap contract is approximately $5,900,000 and $7,090,000 at June 30, 2017 and 2016, respectively.

Gains and losses in the value of the swap contract are recorded as changes in unrestricted net assets. For the years ended June 30, 2017 and 2016, the Center recorded an unrealized gain of $131,298 and an unrealized loss of $88,119, respectively, on this swap contract, which are reflected as unrealized gain (loss) on carrying value of interest rate swap contract in the accompanying combined statements of activities and changes in net assets.

5. LONG-TERM DEBT (Continued)

Aggregate maturities of long-term debt over the next five years are as follows:

Fiscal Year	
2018	$ 1,214,446
2019	$ 1,241,185
2020	$ 1,268,357
2021	$ 1,296,439
2022	$ 880,839

Under the terms of the bond, the Center must maintain certain financial ratios and maintain levels of working capital as specified in the agreement. The Center was in compliance with these ratios and covenants at June 30, 2017 and 2016.

6. LINE OF CREDIT

The Center has available up to $5,000,000 ($3,000,000 as of June 30, 2016) under a line of credit agreement with a bank, which renews annually in November. Borrowings under the agreement are due on demand and interest is payable monthly at the bank's prime rate (4.25% and 3.50% at June 30, 2017 and 2016, respectively), plus .50%. The line of credit is secured by a first security interest in all gross receipts and accounts receivable. As of June 30, 2017, $2,700,000 was outstanding under this agreement. As of June 30, 2016, there were no outstanding balances under this agreement. The Center must maintain certain financial ratios and maintain levels of working capital as specified in the agreement. The Center was in compliance with these financial ratios and covenants at June 30, 2017 and 2016.

7. LEASES

The Center leases office equipment under various operating leases expiring through December 2020. The initial terms of these lease agreements are from one to six years. Monthly payments range from $341 to $2,826.

The Center also leases space under two operating leases that expire through January 2021, as well as other space as a tenant-at-will. Monthly payments range from $1,500 to $4,125. Certain lease agreements contain renewal options, which have been exercised. The Center is also responsible for certain operating costs as defined in the lease agreements. Rent expense under these leases was $136,361 and $156,235 for the years ended June 30, 2017 and 2016, respectively, which is included in occupancy in the accompanying combined statements of functional expenses.

Future minimum lease payments under these leases are as follows for the years ending June 30:

	Space	Equipment
2018	$ 88,113	$ 65,831
2019	$ 24,738	$ 65,831
2020	$ 24,738	$ 65,831
2021	$ 14,430	$ 13,914

Subsequent to year end, in September 2017, the Center entered into a capital land lease agreement with a related party (see Note 8), on which the Center is building a new adult group home (see Note 3). The Center shall pay the related party a base rent amount of $25,000. The lease will terminate in September 2116, and the parties have an option to extend the lease. Future minimum payments on this lease are expected to be $25,000 per annum through fiscal year 2117.

8. RELATED PARTY TRANSACTIONS

The Center rents a facility and storage space as a tenant-at-will from a corporation controlled by a member of the Center's Board of Directors. During fiscal years 2017 and 2016, the Center paid this corporation approximately $18,000 under this agreement in each year, which is included in occupancy in the accompanying combined statements of functional expenses.

Subsequent to year end, the Center entered into a capital land lease agreement (see Note 7) with a member of its Board of Directors, who owns the land.

These transactions were entered into in accordance with the Center's conflict of interest policy.

9. CONTINGENCIES

The Center receives significant funding under government unit-rate contracts. These reimbursements are subject to audit by the appropriate governmental agency. In the opinion of management, the results of such audits, if any, will not have a material effect on the combined financial position of the Center as of June 30, 2017 and 2016, or on the changes in its net assets for the years then ended.

In the normal course of operations, the Center is, from time-to-time, the respondent in various legal actions brought against it. As of June 30, 2017, management believes that such known legal actions will not have a material adverse effect on the Center or its financial condition.

10. CONCENTRATIONS

The Center maintains its cash balances in two banks in Massachusetts and two foreign banks. Approximately 34% and 7% of the Center's cash and cash equivalents at June 30, 2017 and 2016, respectively, was in the foreign banks. The Federal Deposit Insurance Corporation (FDIC) insures balances at each Massachusetts bank up to certain amounts. Cash balances typically exceed the insured amounts. The Center has not experienced any losses in such accounts. Management believes it is not exposed to any significant credit risk on cash and cash equivalents.

Approximately 32% and 30% of the Center's total operating revenue for the years ended June 30, 2017 and 2016, respectively, was from foreign programs. Approximately 32% and 49% of the Center's accounts receivable at June 30, 2017 and 2016, was from foreign programs.

See also Note 2.

11. RECLASSIFICATION

Certain amounts in the fiscal year 2016 combined financial statements have been reclassified to conform with the fiscal year 2017 presentation.