The New England Center for Children®

A leader in autism research and education

AND AFFILIATE

COMBINED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Contents
June 30, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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, 2018

THE NEW ENGLAND CENTER FOR CHILDREN, INC. AND AFFILIATE

Combined Statements of Financial Position
June 30, 2018 and 2017

Assets	**2018**	**2017**
Current Assets:		
Cash and cash equivalents	$ 6,997,781	$ 4,646,432
Accounts receivable, net	10,971,747	14,801,389
Prepaid expenses and other current assets	1,503,193	644,878
Total current assets	19,472,721	20,092,699
Capital Campaign Pledges Receivable, net of discount and reserve for uncollectible pledges	1,321,431	2,121,338
Accumulated Unrealized Gain on Interest Rate Swap Contract	55,113	-
Property and Equipment, net	44,784,975	46,153,270
Total assets	$ 65,634,240	$ 68,367,307
Liabilities and Net Assets		
Current Liabilities:		
Line of credit	$ 500,000	$ 2,700,000
Current portion of long-term debt	1,241,185	1,214,446
Accounts payable	1,069,726	2,238,831
Accrued expenses and employee withholdings	6,538,331	6,627,906
Deferred revenue	70,836	552,605
Total current liabilities	9,420,078	13,333,788
Accumulated Unrealized Loss on Interest Rate Swap Contract	-	2,099
Long-Term Debt, net	3,360,589	4,578,227
Total liabilities	12,780,667	17,914,114
Net Assets:		
Unrestricted:		
Operating	12,609,371	10,073,992
Property and equipment	40,238,314	40,358,498
Total unrestricted	52,847,685	50,432,490
Temporarily restricted	5,888	20,703
Total net assets	52,853,573	50,453,193
Total liabilities and net assets	$ 65,634,240	$ 68,367,307

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

THE NEW ENGLAND CENTER FOR CHILDREN, INC. AND AFFILIATE

Combined Statements of Activities and Changes in Net Assets
For the Years Ended June 30, 2018 and 2017

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Operating Revenue:						
Tuition and fees	$ 99,523,896	$ -	$ 99,523,896	$ 96,831,748	$ -	$ 96,831,748
Consulting	3,927,683	-	3,927,683	4,079,401	-	4,079,401
Special events	1,138,588	-	1,138,588	763,350	-	763,350
Contributions	829,586	4,090	833,676	858,711	18,989	877,700
Other	446,835	-	446,835	157,296	-	157,296
Net assets released from purpose restrictions	18,905	(18,905)	-	13,518	(13,518)	-
Total operating revenue	105,885,493	(14,815)	105,870,678	102,704,024	5,471	102,709,495
Operating Expenses:						
Program services	95,481,466	-	95,481,466	92,513,278	-	92,513,278
Management and general	6,960,217	-	6,960,217	7,129,950	-	7,129,950
Fundraising	859,742	-	859,742	930,364	-	930,364
Special events - direct benefits to donors	289,192	-	289,192	210,507	-	210,507
Total operating expenses	103,590,617	-	103,590,617	100,784,099	-	100,784,099
Changes in net assets from operations	2,294,876	(14,815)	2,280,061	1,919,925	5,471	1,925,396
Non-Operating Activities:						
Capital campaign contributions	78,883	-	78,883	103,416	-	103,416
Unrealized gain on carrying value of interest rate swap contract	57,212	-	57,212	131,298	-	131,298
Loss on sale or disposal of property and equipment	(15,776)	-	(15,776)	(98,729)	-	(98,729)
Total non-operating activities	120,319	-	120,319	135,985	-	135,985
Changes in net assets	2,415,195	(14,815)	2,400,380	2,055,910	5,471	2,061,381
Net Assets:						
Beginning of year	50,432,490	20,703	50,453,193	48,376,580	15,232	48,391,812
End of year	$ 52,847,685	$ 5,888	$ 52,853,573	$ 50,432,490	$ 20,703	$ 50,453,193

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, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities:		
Changes in net assets	$ 2,400,380	$ 2,061,381
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	2,635,801	2,311,158
Interest - amortization of debt issuance costs	23,694	23,694
Bad debt	161,196	16,083
Loss on sale or disposal of property and equipment	15,776	98,729
Change in discount and allowance on capital campaign contributions	(76,298)	(103,416)
Unrealized gain on carrying value of interest rate swap contract	(57,212)	(131,298)
Changes in operating assets and liabilities:		
Accounts receivable	3,668,446	(1,832,755)
Prepaid expenses and other current assets	(858,315)	391,491
Accounts payable	(200,830)	476,099
Accrued expenses and employee withholdings	(89,575)	681,371
Deferred revenue	(481,769)	31,339
Net cash provided by operating activities	7,141,294	4,023,876
Cash Flows from Investing Activities:		
Acquisitions of property and equipment	(2,305,261)	(8,744,258)
Proceeds from sales of property and equipment	53,704	43,003
Net cash used in investing activities	(2,251,557)	(8,701,255)
Cash Flows from Financing Activities:		
Proceeds (payments) on line of credit	(2,200,000)	2,700,000
Principal payments on long-term debt	(1,214,593)	(1,188,283)
Capital campaign contributions received	876,205	1,530,765
Net cash provided by (used in) financing activities	(2,538,388)	3,042,482
Net Change in Cash and Cash Equivalents	2,351,349	(1,634,897)
Cash and Cash Equivalents:		
Beginning of year	4,646,432	6,281,329
End of year	$ 6,997,781	$ 4,646,432
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$ 181,088	$ 200,638
Supplemental Disclosures of Non-Cash Transactions:		
Cost basis of sold or disposed property and equipment	$ 1,534,171	$ 404,185
Property and equipment financed by accounts payable	$ 21,359	$ 989,634

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, 2018

	Program Services							
	Residential	Severe	Adult	Day Care	Consulting	Partner Classrooms	Intensive Instruction	Home Based
Salaries and wages	$ 1,511,532	$ 19,051,632	$ 1,058,187	$ 516,809	$ 2,122,176	$ 5,153,222	$ 7,481,993	$ 1,492,855
Payroll taxes and employee benefits	344,924	4,694,043	257,239	102,961	483,025	1,240,705	1,717,813	345,898
Supplies and expenses	178,699	1,514,292	94,406	8,740	145,533	13,621	474,655	72,718
Occupancy	184,115	1,767,960	177,748	51,104	5,125	19,634	465,758	2,284
Depreciation	88,200	1,127,816	62,193	51,075	3,304	8,916	315,870	2,283
Professional fees	16,702	206,150	13,959	2,796	1,136,064	27,882	75,463	8,077
Transportation	20,499	236,877	36,038	26	203,857	9,588	23,566	142,199
Interest	13,384	40,923	2,546	-	-	-	44,776	-
Total operating expenses	$ 2,358,055	$ 28,639,693	$ 1,702,316	$ 733,511	$ 4,099,084	$ 6,473,568	$ 10,599,894	$ 2,066,314

	Program Services (Continued)								
	Grants	Foreign Programs	Intermediate Residential	Abu Dhabi School	London	Total Programs	Management and General	Fundraising	Total
Salaries and wages	$ 11,700	$ 1,348,606	$ 6,850,783	$ 18,175,370	$ 148,880	$ 64,923,745	$ 2,952,501	$ 461,580	$ 68,337,826
Payroll taxes and employee benefits	4,883	280,915	1,632,539	4,101,762	11,639	15,218,346	756,190	108,406	16,082,942
Supplies and expenses	14,085	44,917	959,902	1,156,924	7,456	4,685,948	2,091,510	241,755	7,019,213
Occupancy	132	145,515	975,260	1,364,486	3,056	5,162,177	33,555	5,221	5,200,953
Depreciation	512	4,920	365,628	19,902	-	2,050,619	564,985	20,197	2,635,801
Professional fees	280	23,364	87,755	206,387	19,746	1,824,625	432,351	4,464	2,261,440
Transportation	50	115,999	108,511	522,355	19,009	1,438,574	104,123	18,119	1,560,816
Interest	-	-	75,803	-	-	177,432	25,002	-	202,434
Total operating expenses	$ 31,642	$ 1,964,236	$ 11,056,181	$ 25,547,186	$ 209,786	$ 95,481,466	$ 6,960,217	$ 859,742	$ 103,301,425

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
Depreciation	96,234	984,954	52,435	46,534	6,800	26,134	232,630	53,703
Professional fees	16,625	189,195	4,164	2,643	1,588,035	20,704	71,064	8,509
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
Depreciation	819	6,674	378,345	14,614	-	1,899,876	396,419	14,863	2,311,158
Professional fees	4,491	28,402	77,875	157,137	12,791	2,181,635	513,183	36,744	2,731,562
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.

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 212 and 184 students for the years ended June 30, 2018 and 2017, 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).

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.

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 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.

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Consulting revenue is recorded as it is earned. Special event revenue is recorded when the event occurs. 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, 2018 and 2017, all temporarily restricted net assets are purpose restricted.

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.

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

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.

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.

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Debt Issuance Costs

Costs incurred in connection with debt issuance are being amortized over the period the related obligation is outstanding using the straight-line method, which approximates the effective interest method (see Note 5).

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

	2018	2017
Debt issuance costs	$ 236,935	$ 236,935
Less - accumulated amortization	152,036	128,342
Unamortized debt issuance costs (see Note 5)	$ 84,899	$ 108,593

Interest expense - amortization of debt issuance costs was $23,694 for each of the years ended June 30, 2018 and 2017, 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 three years is expected to be $23,694. Annual Interest expense - amortization of debt issuance costs in year four is expected to be $13,817.

Accounts 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 $200,000 and $100,000 reserve for accounts receivable at June 30, 2018 and 2017, respectively.

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pledges Receivable and Reserve for Uncollectible Pledges

Pledges receivable at June 30, 2018 and 2017, consist of contributions committed to the Center for capital campaign and operating purposes. Pledges are recorded at their net present value when unconditionally committed. 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 (see Note 2). 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 recognized at the estimated value assigned to them by the donating volunteers, agencies, or by management. The value recorded for these goods and services for the years ended June 30, 2018 and 2017, was $48,888 and $28,375, respectively, which is included in contributions in the accompanying combined statements of activities and changes in net assets.

Special Events

The revenue from the annual special events for the years ended June 30, 2018 and 2017, is as follows:

	2018	2017
Special events contributions and support	$ 1,026,379	$ 656,740
Special events revenue	112,209	106,610
Total special events	$ 1,138,588	$ 763,350

Subsequent Events

Subsequent events have been evaluated through November 6, 2018, 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.

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, 2018 and 2017. The Center files income tax and information returns in the United States Federal, Massachusetts and Florida states 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 that were used to complete the construction of the Autism Institute and Student Center located in Southborough, Massachusetts (see Note 3). Through June 30, 2018, 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, 2018 and 2017, which are due as follows:

	2018	2017
Due in less than one year	$ 1,113,623	$ 1,233,121
Due in one to five years	286,565	1,043,272
	1,400,188	2,276,393
Less - discount	8,748	41,235
	1,391,440	2,235,158
Less - reserve for uncollectible pledges	70,009	113,820
	$ 1,321,431	$ 2,121,338

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

Approximately 79% of gross pledges receivable at June 30, 2018, were due from five donors. Approximately 64% of gross pledges receivable at June 30, 2017, were due from four donors.

The entirety of the Center's capital campaign pledges receivable are reflected as unrestricted 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:

	2018	2017
Land	$ 5,383,484	$ 5,383,484
Land improvements	319,766	252,876
Buildings	41,256,115	39,542,897
Building improvements	16,672,642	15,902,102
Furniture, fixtures and equipment	4,940,323	6,008,467
Leasehold improvements	2,054,460	2,120,152
Vehicles	1,784,725	1,816,975
Assets not placed in service	-	1,581,747
	72,411,515	72,608,700
Less - accumulated depreciation	27,626,540	26,455,430
	$ 44,784,975	$ 46,153,270

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

Assets not placed in service at June 30, 2017, were 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.

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, 2018 and 2017, totaled $1,722,175 and $1,605,897, 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, 2018 and 2017, was $750,000 and is included in payroll taxes and employee benefits in the accompanying combined statements of functional expenses.

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, 2018 and 2017, the Center has approximately $39,275 and $95,487, respectively, deposited in a related account, which is included in prepaid expenses 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, 2018 and 2017. During fiscal year 2018, two of the participants became vested and withdrew their balances from the plan. Compensation expense under these agreements was $18,000 for each of the years ended June 30, 2018 and 2017, 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 vests immediately. The employees may elect 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, 2018 and 2017, and is included in payroll taxes and employee benefits in the accompanying combined statements of functional expenses.

4. RETIREMENT PLANS (Continued)

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 the years ended June 30, 2018 and 2017, was $799,863 and $1,036,407, 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:

	2018	2017
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) (2.07% and 1.17% at June 30, 2018 and 2017, 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, 2012, with MDFA, and has granted MDFA a second security interest in all gross receipts.	$ 4,686,673	$ 5,901,266
Less - current portion	1,241,185	1,214,446
Less - unamortized debt issuance costs (see page 10)	84,899	108,593
	$ 3,360,589	$ 4,578,227

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 $4,690,000 and $5,900,000 at June 30, 2018 and 2017, 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, 2018 and 2017, the Center recorded an unrealized gain of $57,212 and $131,298, respectively, on this swap contract, which are reflected as unrealized gain 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 are as follows:

Fiscal Year	
2019	$ 1,241,185
2020	$ 1,268,357
2021	$ 1,296,439
2022	$ 880,692

Under the terms of the bond, the Center must maintain certain financial ratios and levels of working capital as specified in the agreement. The Center was in compliance with these covenants at June 30, 2018 and 2017.

6. LINE OF CREDIT

The Center has available up to $5,000,000 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 (5.00% and 4.25% at June 30, 2018 and 2017, 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, 2018 and 2017, $500,000 and $2,700,000, respectively, was outstanding under this agreement. The Center must maintain certain financial ratios and levels of working capital as specified in the agreement. The Center was in compliance with these covenants at June 30, 2018 and 2017.

7. LEASES

The Center 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 $119,168 and $136,361 for the years ended June 30, 2018 and 2017, respectively, which is included in occupancy in the accompanying combined statements of functional expenses.

In September 2017, the Center entered into a land lease agreement with a related party (see Note 8), on which the Center built a new adult group home (see Note 3). The Center is paying the related party an annual base rent 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.

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.

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

	Land and Space	Equipment
2019	$ 84,238	$ 65,831
2020	$ 57,988	$ 65,831
2021	$ 39,430	$ 13,914
2022	$ 25,000	$ -
2023	$ 25,000	$ -
Thereafter	$ 2,350,000	$ -

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 2018 and 2017, the Center paid this corporation approximately $18,000 each year under this agreement, which is included in occupancy in the accompanying combined statements of functional expenses.

The Center has a 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. This funding is 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, 2018 and 2017, 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, 2018, 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 35% of the Center's cash and cash equivalents at June 30, 2018 and 2017, respectively, were held at 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% of the Center's total operating revenue for the years ended June 30, 2018 and 2017, was from foreign programs. Approximately 37% and 32% of the Center's accounts receivable at June 30, 2018 and 2017, was from foreign programs, almost all of which is due from one Abu Dhabi government agency.

11. RECLASSIFICATION

Certain amounts in the fiscal year 2017 combined financial statements have been reclassified to conform with the fiscal year 2018 presentation.