



The New England Center  
for Children®

*A leader in autism research and education*

**AND AFFILIATE**

**COMBINED FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019**

**THE NEW ENGLAND CENTER FOR CHILDREN, INC. AND AFFILIATE**

Contents  
June 30, 2020 and 2019

---

	<u>Pages</u>
<b>Independent Auditor's Report</b> .....	1
<b>Combined Financial Statements:</b>	
Combined Statements of Financial Position .....	2
Combined Statements of Activities and Changes in Net Assets .....	3
Combined Statements of Cash Flows .....	4
Combined Statements of Functional Expenses .....	5 - 6
Notes to Combined Financial Statements .....	7 - 19



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, 2020 and 2019, 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, 2020 and 2019, 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.

*AAFCPAs, Inc.*

Boston, Massachusetts  
November 6, 2020

**THE NEW ENGLAND CENTER FOR CHILDREN, INC. AND AFFILIATE**

Combined Statements of Financial Position  
June 30, 2020 and 2019

<b>Assets</b>	<b>2020</b>	<b>2019</b>
Current Assets:		
Cash and cash equivalents	\$ 14,646,650	\$ 15,356,193
Accounts receivable, net	10,280,004	6,876,052
Pledges receivable, net	395,387	420,626
Prepaid expenses and other current assets	1,163,261	1,395,097
Total current assets	26,485,302	24,047,968
Pledges Receivable, net of discount	-	117,061
Accumulated Unrealized Gain on Interest Rate Swap Contract	-	3,101
Property and Equipment, net	42,059,051	43,682,551
Total assets	\$ 68,544,353	\$ 67,850,681
<b>Liabilities and Net Assets</b>		
Current Liabilities:		
Current portion of long-term debt	\$ 1,296,439	\$ 1,268,357
Accounts payable	918,639	1,139,093
Accrued expenses and employee withholdings	6,209,471	7,020,740
Refundable advances	402,498	294,322
Total current liabilities	8,827,047	9,722,512
Accumulated Unrealized Loss on Interest Rate Swap Contract	20,008	-
Long-Term Debt, net	843,516	2,115,926
Total liabilities	9,690,571	11,838,438
Net Assets:		
Without donor restrictions:		
Operating	18,942,026	15,678,284
Property and equipment	39,899,088	40,301,369
Total without donor restrictions	58,841,114	55,979,653
With donor restrictions	12,668	32,590
Total net assets	58,853,782	56,012,243
Total liabilities and net assets	\$ 68,544,353	\$ 67,850,681

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

Page 2

**THE NEW ENGLAND CENTER FOR CHILDREN, INC. AND AFFILIATE**

Combined Statements of Activities and Changes in Net Assets  
For the Years Ended June 30, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Operating Revenue:</b>						
Tuition and fees	\$ 107,014,746	\$ -	\$ 107,014,746	\$ 103,094,241	\$ -	\$ 103,094,241
Consulting	4,573,905	-	4,573,905	4,550,602	-	4,550,602
Special events	1,144,506	-	1,144,506	1,048,839	-	1,048,839
Contributions	936,400	10,000	946,400	743,717	28,576	772,293
Other	230,755	-	230,755	277,522	-	277,522
Net assets released from purpose restrictions	29,922	(29,922)	-	1,874	(1,874)	-
Total operating revenue	<u>113,930,234</u>	<u>(19,922)</u>	<u>113,910,312</u>	<u>109,716,795</u>	<u>26,702</u>	<u>109,743,497</u>
<b>Operating Expenses:</b>						
Program services	102,867,800	-	102,867,800	98,493,046	-	98,493,046
Management and general	7,204,260	-	7,204,260	7,093,326	-	7,093,326
Fundraising	706,028	-	706,028	762,930	-	762,930
Special events - direct benefits to donors	229,190	-	229,190	206,686	-	206,686
Total operating expenses	<u>111,007,278</u>	<u>-</u>	<u>111,007,278</u>	<u>106,555,988</u>	<u>-</u>	<u>106,555,988</u>
Changes in net assets from operations	<u>2,922,956</u>	<u>(19,922)</u>	<u>2,903,034</u>	<u>3,160,807</u>	<u>26,702</u>	<u>3,187,509</u>
<b>Non-Operating Activities:</b>						
Capital campaign contributions	-	-	-	21,866	-	21,866
Unrealized loss on carrying value of interest rate swap contract	(23,109)	-	(23,109)	(52,012)	-	(52,012)
Gain (loss) on sale or disposal of property and equipment	(38,386)	-	(38,386)	1,307	-	1,307
Total non-operating activities	<u>(61,495)</u>	<u>-</u>	<u>(61,495)</u>	<u>(28,839)</u>	<u>-</u>	<u>(28,839)</u>
Changes in net assets	2,861,461	(19,922)	2,841,539	3,131,968	26,702	3,158,670
<b>Net Assets:</b>						
Beginning of year	<u>55,979,653</u>	<u>32,590</u>	<u>56,012,243</u>	<u>52,847,685</u>	<u>5,888</u>	<u>52,853,573</u>
End of year	<u>\$ 58,841,114</u>	<u>\$ 12,668</u>	<u>\$ 58,853,782</u>	<u>\$ 55,979,653</u>	<u>\$ 32,590</u>	<u>\$ 56,012,243</u>

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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>Cash Flows from Operating Activities:</b>		
Changes in net assets	\$ 2,841,539	\$ 3,158,670
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	2,499,065	2,570,074
Interest - amortization of debt issuance costs	23,690	23,694
Bad debt	5,756	125,650
(Gain) loss on sale or disposal of property and equipment	38,386	(1,307)
Change in discount and allowance on capital campaign contributions	-	(49,826)
Unrealized loss on carrying value of interest rate swap contract	23,109	52,012
Changes in operating assets and liabilities:		
Accounts receivable	(3,409,708)	3,970,045
Prepaid expenses and other current assets	231,836	108,096
Accounts payable	(121,242)	(15,326)
Accrued expenses and employee withholdings	(811,269)	482,409
Refundable advances	108,176	223,486
	<u>1,429,338</u>	<u>10,647,677</u>
<b>Cash Flows from Investing Activities:</b>		
Acquisitions of property and equipment	(1,056,729)	(1,418,094)
Proceeds from sales of property and equipment	43,566	36,444
	<u>(1,013,163)</u>	<u>(1,381,650)</u>
<b>Cash Flows from Financing Activities:</b>		
Capital campaign contributions received	142,300	833,570
Payments on line of credit, net	-	(500,000)
Principal payments on long-term debt	(1,268,018)	(1,241,185)
	<u>(1,125,718)</u>	<u>(907,615)</u>
<b>Net Change in Cash and Cash Equivalents</b>	(709,543)	8,358,412
<b>Cash and Cash Equivalents:</b>		
Beginning of year	<u>15,356,193</u>	<u>6,997,781</u>
End of year	<u>\$ 14,646,650</u>	<u>\$ 15,356,193</u>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid for interest	<u>\$ 59,660</u>	<u>\$ 102,971</u>
<b>Supplemental Disclosures of Non-Cash Transactions:</b>		
Property and equipment financed by accounts payable	<u>\$ 6,840</u>	<u>\$ 106,052</u>

THE NEW ENGLAND CENTER FOR CHILDREN, INC. AND AFFILIATE

Combined Statement of Functional Expenses  
For the Year Ended June 30, 2020

	Program Services						Total Program Services	Management and General	Fundraising	Special Events	Total
	Residential	Abu Dhabi School	Consulting and Partner Classrooms	Intensive Instruction	London	Other					
Salaries and wages	\$ 30,997,527	\$ 19,844,693	\$ 10,318,986	\$ 7,061,536	\$ 146,955	\$ 3,189,141	\$ 71,558,838	\$ 3,260,431	\$ 411,588	\$ -	\$ 75,230,857
Payroll taxes and employee benefits	7,183,875	2,984,530	2,222,475	1,635,334	8,114	730,978	14,765,306	791,204	91,685	-	15,648,195
Occupancy	2,931,848	2,672,034	254,097	447,809	4,137	279,895	6,589,820	35,246	4,169	-	6,629,235
Supplies and other	2,272,826	858,875	227,239	525,743	6,861	132,990	4,024,534	2,071,281	169,982	-	6,265,797
Depreciation	1,371,893	136,953	67,198	233,033	936	144,068	1,954,081	531,878	13,106	-	2,499,065
Transportation	324,942	1,305,226	362,657	11,733	7,938	145,995	2,158,491	85,580	10,050	-	2,254,121
Professional fees	316,541	93,240	1,229,207	79,835	9,478	28,769	1,757,070	404,950	5,448	-	2,167,468
Direct benefit to donors	-	-	-	-	-	-	-	-	-	229,190	229,190
Interest	37,935	6,271	1,479	13,162	-	813	59,660	23,690	-	-	83,350
<b>Total operating expenses</b>	<b>\$ 45,437,387</b>	<b>\$ 27,901,822</b>	<b>\$ 14,683,338</b>	<b>\$ 10,008,185</b>	<b>\$ 184,419</b>	<b>\$ 4,652,649</b>	<b>\$ 102,867,800</b>	<b>\$ 7,204,260</b>	<b>\$ 706,028</b>	<b>\$ 229,190</b>	<b>\$ 111,007,278</b>

THE NEW ENGLAND CENTER FOR CHILDREN, INC. AND AFFILIATE

Combined Statement of Functional Expenses  
For the Year Ended June 30, 2019

	Program Services						Total Program Services	Management and General	Fundraising	Special Events	Total
	Residential	Abu Dhabi School	Consulting and Partner Classrooms	Intensive Instruction	London	Other					
Salaries and wages	\$ 27,824,369	\$ 19,770,153	\$ 8,895,878	\$ 7,303,289	\$ 155,533	\$ 2,859,722	\$ 66,808,944	\$ 3,075,891	\$ 369,152	\$ -	\$ 70,253,987
Payroll taxes and employee benefits	6,655,369	3,159,632	1,929,633	1,737,001	12,800	679,824	14,174,259	805,094	84,755	-	15,064,108
Occupancy	3,282,224	2,718,673	197,770	554,754	2,550	311,558	7,067,529	42,829	4,324	-	7,114,682
Supplies and other	2,706,195	805,009	220,634	545,401	7,652	168,064	4,452,955	2,065,028	278,024	-	6,796,007
Depreciation	1,524,927	15,239	3,831	307,160	-	145,942	1,997,099	557,841	15,134	-	2,570,074
Transportation	423,373	1,404,162	349,911	23,214	16,835	209,936	2,427,431	107,177	9,470	-	2,544,078
Professional fees	306,814	120,925	895,697	81,230	33,052	26,147	1,463,865	415,772	2,071	-	1,881,708
Direct benefit to donors	-	-	-	-	-	-	-	-	-	206,686	206,686
Interest	74,450	-	-	24,949	-	1,565	100,964	23,694	-	-	124,658
<b>Total operating expenses</b>	<b>\$ 42,797,721</b>	<b>\$ 27,993,793</b>	<b>\$ 12,493,354</b>	<b>\$ 10,576,998</b>	<b>\$ 228,422</b>	<b>\$ 4,402,758</b>	<b>\$ 98,493,046</b>	<b>\$ 7,093,326</b>	<b>\$ 762,930</b>	<b>\$ 206,686</b>	<b>\$ 106,555,988</b>



## THE NEW ENGLAND CENTER FOR CHILDREN, INC. AND AFFILIATE

Notes to Combined Financial Statements  
June 30, 2020 and 2019

---

### 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 and adults with autism and other disabilities. The Agency's activities are carried out at its corporate offices and school located in Massachusetts, as well as a day school in Abu Dhabi serving 212 students for the years ended June 30, 2020 and 2019.

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.

#### Adoption of New Accounting Standards

##### *Revenue Recognition - Revenue from Contracts with Customers*

On July 1, 2019, the Center adopted FASB's Accounting Standard Update (ASU) 2014-09 Topic 606, *Revenue from Contracts with Customers*. The standard's core principle is that an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The Center adopted Topic 606 using the modified retrospective method. Results for reporting periods beginning after July 1, 2019, are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with the Center's historic accounting under Topic 605. As a result, fiscal year 2019 statements have not been restated and there was no cumulative effect adjustment to operating net assets as of July 1, 2019.

## THE NEW ENGLAND CENTER FOR CHILDREN, INC. AND AFFILIATE

Notes to Combined Financial Statements  
June 30, 2020 and 2019

---

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

#### SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Adoption of New Accounting Standards (Continued)

###### *Revenue Recognition - Contributions*

On July 1, 2019, the Center adopted FASB's ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies and improves guidance for contributions received and contributions made and provides guidance to organizations on how to account for certain exchange transactions. In addition, it clarifies whether a contribution is conditional. As a result, it enhances comparability of financial information among not-for-profit entities. The Center adopted ASU 2018-08 using a modified retrospective method effective July 1, 2019. Under the modified retrospective method, this ASU only applies to agreements not completed or entered (revenue or expense that has not yet been recognized) as of July 1, 2019. As a result, the 2019 financial statements are not restated and there was no cumulative-effect adjustment to operating net assets as of July 1, 2019.

##### 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 and adults with autism and other disabilities are reported as operating revenue 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.

##### Revenue Recognition

The Center's primary sources of revenue are from various state and local agencies as well as client fees which are included in tuition and fees on the combined statements of activities and changes in net assets. Amounts received under contracts with various state and local agencies, and grants and contributions have been recorded in accordance with Topic 958 (see above). Consulting revenues and special event fees are recorded in accordance with Topic 606 (see page 7).

In accordance with ASC Subtopic 958-605, *Revenue Recognition*, the Center must determine whether a contribution (or a promise to give) is conditional or unconditional for transactions deemed to be a contribution. A contribution is considered to be a conditional contribution if an agreement includes a barrier that must be overcome and either a right of return of assets or a right of release of a promise to transfer assets exists. Indicators of a barrier include measurable performance-related barriers or other measurable barriers, a stipulation that limits discretion by the recipient on the conduct of an activity, and stipulations that are related to the purpose of the agreement. Topic 958 prescribes that the Center should not consider probability of compliance with the barrier when determining if such awards are conditional and should be reported as refundable advance liabilities until such conditions are met.

## THE NEW ENGLAND CENTER FOR CHILDREN, INC. AND AFFILIATE

Notes to Combined Financial Statements  
June 30, 2020 and 2019

---

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

#### SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Revenue Recognition (Continued)

Revenue from Federal, state and private contract and grant agreements, which are generally considered non-exchange transactions, are conditional upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Revenues are recognized upon meeting of said conditions. Funding received in advance of recognition is recorded as refundable advances.

At June 30, 2020, revenues from Federal, state and private contracts and grants approximating \$669,000, of which no amounts had been received in advance, have not been recognized in the accompanying combined financial statements because the conditions have not been met.

Grants and contributions with donor restrictions are recorded as revenues and net assets with donor restrictions when unconditionally received or pledged. Transfers are made to net assets without donor restrictions as costs are incurred or time restrictions or program restrictions have lapsed. Grants and contributions received with donor-imposed conditions and restrictions that are met in the same year are reported as unrestricted grants and contributions and increase net assets without donor restrictions.

##### *Revenue Recognition – Special Events*

The Center conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event - the exchange component, and a portion represents a contribution to the Center (see page 13). Unless a verifiable objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the Center. The contribution component is the excess of the gross proceeds over the fair value of the direct donor benefit. Special event revenues and contributions are recognized in the period the event takes place. The direct costs of the special events, which ultimately benefit the donor rather than the Center, are recorded as costs of direct donor benefits in the combined statements of activities and changes in net assets.

##### *Revenue Recognition – Contracts with Customers*

Contracts for consulting contain a single performance obligation and revenue is recognized over time as the services are rendered (output method), provided that no significant obligations remain, and collection of the receivable is considered probable.

##### *Contract Balances*

The timing of revenue recognition, billings, and cash collections results in billed accounts receivable (contract assets) and deferred revenue (contract liabilities) on the combined statements of financial position. Amounts are billed as work progresses in accordance with agreed-upon contractual terms. Generally, the Center is able to receive certain billings in advance or deposits from customers before revenue is recognized, resulting in contract liabilities, and recorded as deferred revenue. As of June 30, 2020, the Center recognized \$682,652 in contracts assets which is included in accounts receivable, net in the accompanying statement of financial position. There were no contract liabilities recognized as of June 30, 2020.

## THE NEW ENGLAND CENTER FOR CHILDREN, INC. AND AFFILIATE

Notes to Combined Financial Statements  
June 30, 2020 and 2019

---

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

#### SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Net Assets

##### *Without Donor Restrictions*

Net assets without donor restrictions are those net resources that bear no external restrictions and are generally available for use by the Center. The Center has grouped its net assets without donor restrictions into the following categories:

**Operating net assets** represent net assets that 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.

##### *With Donor Restrictions*

Net assets with donor restrictions represent amounts received or unconditionally committed with donor restrictions which have not yet been expended for their designated purpose (purpose restricted) or amounts for use in future periods (time restricted). At June 30, 2020 and 2019, all net assets with donor restrictions 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. 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.

## THE NEW ENGLAND CENTER FOR CHILDREN, INC. AND AFFILIATE

Notes to Combined Financial Statements  
June 30, 2020 and 2019

---

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

#### SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Fair Value Measurements (Continued)

##### *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 bonds payable, does not differ materially from its estimated fair value and is 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.

Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, payroll taxes and employee benefits, professional fees, and transportation, which are allocated based on an estimate of time and level of effort spent on the Center's program and supporting functions. Occupancy, depreciation, interest, and supplies are allocated based on salaries and wages allocated to the program or function and related student census for the individual programs.

##### 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.

## THE NEW ENGLAND CENTER FOR CHILDREN, INC. AND AFFILIATE

Notes to Combined Financial Statements  
June 30, 2020 and 2019

---

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

#### SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### 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:

	<u>2020</u>	<u>2019</u>
Debt issuance costs	\$ 236,935	\$ 236,935
Less - accumulated amortization	<u>199,420</u>	<u>175,730</u>
Unamortized debt issuance costs (see Note 5)	<u>\$ 37,515</u>	<u>\$ 61,205</u>

Interest expense - amortization of debt issuance costs was \$23,690 and \$23,694 for the years ended June 30, 2020 and 2019, respectively, and is included in interest expense in the accompanying combined statements of functional expenses. Annual interest expense - amortization of debt issuance costs for fiscal years 2021 and 2022 is expected to be \$23,694 and \$13,821, respectively.

##### 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 \$300,000 reserve for accounts receivable at June 30, 2020 and 2019.

##### Pledges Receivable and Reserve for Uncollectible Pledges

Pledges receivable at June 30, 2020 and 2019, 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 reflects management's best estimate of the amount of uncollectible pledges based on past collection experience together with a review of the current status of existing pledges (see Note 2). Account balances are charged off against the reserve when it is probable the pledge will not be recovered.

##### 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, 2020 and 2019, was \$69,703 and \$35,591, respectively, which is included in contributions in the accompanying combined statements of activities and changes in net assets.

## THE NEW ENGLAND CENTER FOR CHILDREN, INC. AND AFFILIATE

Notes to Combined Financial Statements  
June 30, 2020 and 2019

---

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

#### SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Special Events

The revenue from the annual special events for the years ended June 30, 2020 and 2019, is as follows:

	<u>2020</u>	<u>2019</u>
Special events contributions and support	\$ 1,072,002	\$ 946,954
Special events revenue	<u>72,504</u>	<u>101,885</u>
Total special events	<u>\$ 1,144,506</u>	<u>\$ 1,048,839</u>

##### Subsequent Events

Subsequent events have been evaluated through November 6, 2020, 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, 2020 and 2019. 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 John and Diane Kim Autism Institute and the Dillon Arledge Student Center located in Southborough, Massachusetts. Through June 30, 2020, the Center has received approximately \$11.1 million in cash and pledges in connection with the campaign.

**THE NEW ENGLAND CENTER FOR CHILDREN, INC. AND AFFILIATE**

Notes to Combined Financial Statements  
June 30, 2020 and 2019

**2. CAPITAL CAMPAIGN PLEDGES RECEIVABLE (Continued)**

The Center has capital campaign pledges receivable at June 30, 2020 and 2019, which are due as follows:

	<u>2020</u>	<u>2019</u>
Due in less than one year	\$ 430,387	\$ 448,957
Due in one to five years	-	<u>117,661</u>
	<u>430,387</u>	566,618
Less - discount	-	600
Less - reserve for uncollectible pledges	35,000	28,331
Less - current portion	<u>395,387</u>	<u>420,626</u>
	<u>\$ -</u>	<u>\$ 117,061</u>

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

Approximately 85% of gross pledges receivable at June 30, 2020, were due from four donors. Approximately 90% of gross pledges receivable at June 30, 2019, were due from five donors.

**3. PROPERTY AND EQUIPMENT**

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

	<u>2020</u>	<u>2019</u>
Land	\$ 5,448,484	\$ 5,448,484
Land improvements	325,666	319,766
Buildings	41,556,115	41,556,115
Building improvements	16,940,223	16,783,543
Furniture, fixtures and equipment	4,080,030	3,946,304
Leasehold improvements	1,801,569	1,801,569
Vehicles	2,013,765	1,948,625
Construction in process	<u>396,521</u>	<u>-</u>
	72,562,373	71,804,406
Less - accumulated depreciation	<u>30,503,322</u>	<u>28,121,855</u>
	<u>\$ 42,059,051</u>	<u>\$ 43,682,551</u>

Included in property and equipment in the accompanying combined statement of financial position is \$396,521 of a project in process as of June 30, 2020, which is not being depreciated until the asset is placed into service. This project consists of the purchase and renovation of a new program site in Marlborough, MA.

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



## THE NEW ENGLAND CENTER FOR CHILDREN, INC. AND AFFILIATE

Notes to Combined Financial Statements  
June 30, 2020 and 2019

---

### 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, 2020 and 2019, totaled \$1,775,574 and \$1,692,363, 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. Contributions to the plan for the year ended June 30, 2019, were \$700,000 and are included in accrued expenses and employee withholdings in the accompanying combined statements of financial position and in payroll taxes and employee benefits in the accompanying combined statements of functional expenses. There were no contributions made to the plan for the year ended June 30, 2020.

#### 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 certain 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, 2020 and 2019, the Center has approximately \$58,000 and \$49,000, 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, 2020 and 2019. Compensation expense under these agreements was \$6,000 for the years ended June 30, 2020 and 2019, 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 \$19,000 and \$18,500 for the years ended June 30, 2020 and 2019, respectively, and is included in payroll taxes and employee benefits in the accompanying combined statements of functional expenses.

## THE NEW ENGLAND CENTER FOR CHILDREN, INC. AND AFFILIATE

Notes to Combined Financial Statements  
June 30, 2020 and 2019

---

### 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 (UAE). 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, 2020 and 2019, was approximately \$644,000 and \$672,000, respectively, and is included in payroll taxes and employee benefits in the accompanying combined statements of functional expenses.

In addition to the UAE government pension plan, the Center is required to pay certain employees up to two years' salary upon termination of employment. The amount due is based upon the employee's current wage rate and the number of years employed by the Center. The liability for those employed as of June 30, 2020 and 2019, of approximately \$1,185,000 and \$1,256,000, respectively, is reimbursable to the Center as part of the Abu Dhabi government contract and is therefore reduced to zero by an offsetting receivable. As of June 30, 2020 and 2019, the liabilities arising for new employees and wage increases of approximately \$1,092,000 and \$642,000, respectively, are included in accrued expenses and employee withholdings in the accompanying combined statements of financial position. For the years ended June 30, 2020 and 2019, the Center incurred expenses totaling approximately \$577,000 and \$642,000, respectively, towards the program which are 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:

	<u>2020</u>	<u>2019</u>
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) (.16% and 2.40% at June 30, 2020 and 2019, 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.	\$ 2,177,470	\$ 3,445,488
Less - current portion	1,296,439	1,268,357
Less - unamortized debt issuance costs (see page 12)	<u>37,515</u>	<u>61,205</u>
	<u>\$ 843,516</u>	<u>\$ 2,115,926</u>

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, 2020 and 2019.

## THE NEW ENGLAND CENTER FOR CHILDREN, INC. AND AFFILIATE

Notes to Combined Financial Statements  
June 30, 2020 and 2019

---

### 5. LONG-TERM DEBT (Continued)

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 \$2,180,000 and \$3,450,000 at June 30, 2020 and 2019, respectively.

Gains and losses in the value of the swap contract are recorded as changes in net assets without donor restrictions. For the years ended June 30, 2020 and 2019, the Center recorded unrealized losses of \$23,109 and \$52,012, respectively, on this swap contract, which is reflected as unrealized loss on carrying value of interest rate swap contract in the accompanying combined statements of activities and changes in net assets.

Aggregate maturities of long-term debt are as follows:

<u>Fiscal Year</u>	
2021	\$ 1,296,439
2022	\$ 881,031

### 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 (3.25% and 5.50% at June 30, 2020 and 2019, 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, 2020 and 2019, there were no amounts 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, 2020 and 2019.

### 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 \$1,375 to \$2,061. 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.

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. 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 year through fiscal year 2117.

## THE NEW ENGLAND CENTER FOR CHILDREN, INC. AND AFFILIATE

Notes to Combined Financial Statements  
June 30, 2020 and 2019

---

### 7. LEASES (Continued)

Rent expense under these leases was \$106,230 and \$99,452 for the years ended June 30, 2020 and 2019, respectively, which is included in occupancy in the accompanying combined statements of functional expenses.

The Center leases office equipment under various operating leases expiring through April 2024. The initial terms of these lease agreements are from one to six years. Monthly payments range from \$321 to \$6,231.

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

	<u>Land and Space</u>	<u>Equipment</u>
2021	\$ 47,680	\$ 92,542
2022	25,000	78,628
2023	25,000	78,628
2024	25,000	57,366
2025	25,000	-
Thereafter	<u>2,275,000</u>	<u>-</u>
	<u>\$ 2,422,680</u>	<u>\$ 307,164</u>

### 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 2020 and 2019, 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, 2020 and 2019, 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, 2020, management believes that such known legal actions will not have a material adverse effect on the Center or its financial condition.

The COVID-19 pandemic in the United States has caused business disruption and a reduction in economic activity. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. Although the Center expects this matter to negatively impact its operating results, the related financial impact and duration cannot be reasonably estimated at this time.

## THE NEW ENGLAND CENTER FOR CHILDREN, INC. AND AFFILIATE

Notes to Combined Financial Statements  
June 30, 2020 and 2019

---

### 10. CONCENTRATIONS

The Center maintains its cash balances in two banks in Massachusetts and two foreign banks. Approximately 47% and 33% of the Center's cash and cash equivalents at June 30, 2020 and 2019, 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.

Of the Center's total operating revenue for the years ended June 30, 2020 and 2019, approximately 31% and 32% was from foreign programs, respectively.

Approximately 19% of the Center's accounts receivable at June 30, 2020, is due from one government agency. There were no such amounts as of June 30, 2019.

### 11. LIQUIDITY

The Center's financial assets available within one year from the combined statements of financial position date for general operating expenses are as follows:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 14,646,650	\$ 15,356,193
Accounts receivable, net	<u>10,280,004</u>	<u>6,876,052</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 24,926,654</u>	<u>\$ 22,232,245</u>

The Center receives restricted contributions from time-to-time. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Center must maintain sufficient resources to meet those responsibilities to its donors. Thus, some financial assets may not be available for general expenditure within one year. As part of the Center's liquidity management, the Center has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Center invests cash in excess of daily requirements in short-term investments. In the event of an unanticipated liquidity need, the Center could draw upon \$5,000,000 of available line of credit (see Note 6).