

Audited Financial Statements

**Associates for Human Services, Inc.**

June 30, 2018

# Associates for Human Services, Inc.

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## Audited Financial Statements

June 30, 2018

INDEPENDENT AUDITORS' REPORT	1
AUDITED FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	3
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS	4
STATEMENTS OF FUNCTIONAL EXPENSES	5
STATEMENTS OF CASH FLOWS	7
NOTES TO FINANCIAL STATEMENTS	8



## **Independent Auditors' Report**

Board of Directors  
Associates for Human Services, Inc.

We have audited the accompanying financial statements of Associates for Human Services, Inc. (a Massachusetts nonprofit organization), which comprise the statements of financial position as of June 30, 2018, and 2017, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Associates for Human Services, Inc. as of June 30, 2018 and 2017, and the changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*G. T. Reilly + Company*

G.T. Reilly & Company

Milton, Massachusetts  
September 12, 2018

# Associates For Human Services, Inc.

## Statements of Financial Position

June 30

	<u>2018</u>	<u>2017</u>
<b><u>Assets</u></b>		
CURRENT ASSETS		
Cash and equivalents	\$ 856,651	\$ 1,123,706
Contracts and other receivables, net of an allowance for doubtful accounts of \$62,000 in 2018	1,031,770	936,977
Investments	693,333	684,928
Prepaid expenses	21,898	17,368
TOTAL CURRENT ASSETS	<u>2,603,652</u>	<u>2,762,979</u>
PROPERTY AND EQUIPMENT		
Land	439,900	439,900
Buildings and improvements	3,950,913	3,857,116
Equipment and fixtures	394,946	303,285
	<u>4,785,759</u>	<u>4,600,301</u>
Less: accumulated depreciation	1,250,113	1,141,071
	<u>3,535,646</u>	<u>3,459,230</u>
TOTAL ASSETS	<u>\$ 6,139,298</u>	<u>\$ 6,222,209</u>
<b><u>Liabilities and Net Assets</u></b>		
CURRENT LIABILITIES		
Accounts payable	\$ 225,632	\$ 313,940
Accounts payable - construction	-	221,487
Accrued payroll	327,889	357,041
Accrued vacation	173,194	156,746
Accrued unemployment	10,000	13,810
Accrued expenses and withholdings	167,292	168,904
Deferred revenue	6,300	15,841
Mortgage notes payable, due within one year, net	98,864	54,735
TOTAL CURRENT LIABILITIES	<u>1,009,171</u>	<u>1,302,504</u>
MORTGAGE NOTES PAYABLE, due after one year, net	<u>2,403,826</u>	<u>2,236,208</u>
UNRESTRICTED NET ASSETS	<u>2,726,301</u>	<u>2,683,497</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,139,298</u>	<u>\$ 6,222,209</u>

# Associates For Human Services, Inc.

## Statements of Activities and Changes in Net Assets

For the Year Ended June 30

	<u>2018</u>	<u>2017</u>
<b>OPERATING REVENUE AND SUPPORT</b>		
Mass. Department of Developmental Services	\$ 148,394	\$ 148,394
Mass. Department of Public Health	838,338	748,566
Mass. Department of Public Welfare	2,236,741	2,213,424
Early Head Start	494,842	473,771
Early Head Start Partnership	1,248,034	1,726,430
Taunton Area School to Career	226,756	257,117
Department of Education	27,417	29,835
In-kind contributions	710,575	623,454
Third party billings and other revenue	3,030,835	2,951,199
Donations, grants and fundraising	127,189	106,127
Rental income	56,731	55,973
Interest income	2,821	2,224
	<u>9,148,673</u>	<u>9,336,514</u>
<b>TOTAL OPERATING REVENUE AND SUPPORT</b>		
<b>EXPENSES</b>		
Program services	8,217,833	8,196,378
General and administrative	869,428	819,300
Rental expenses	24,736	22,894
	<u>9,111,997</u>	<u>9,038,572</u>
<b>TOTAL OPERATING EXPENSES</b>		
<b>INCREASE IN NET ASSETS FROM OPERATIONS</b>	<b>36,676</b>	<b>297,942</b>
<b>NON-OPERATING ACTIVITIES</b>		
Net gain on investments	6,128	11,234
	<u>42,804</u>	<u>309,176</u>
<b>INCREASE IN NET ASSETS</b>		
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<b>2,683,497</b>	<b>2,374,321</b>
	<u>2,683,497</u>	<u>2,374,321</u>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 2,726,301</b>	<b>\$ 2,683,497</b>
	<u>\$ 2,726,301</u>	<u>\$ 2,683,497</u>

# Associates For Human Services, Inc.

## Statement of Functional Expenses

Year Ended June 30, 2018

	Early Intervention	Individual Services For Elders	Taunton Area School To Career	Literacy	Early Head Start		Total Program Services	General & Administrative Services	Rental Activities	Total
					Expansion	Partnership				
Salaries and wages	\$ 3,015,206	\$ 490,019	\$ 206,292	\$ 1,463	\$ 506,268	\$ 961,873	\$ 5,181,121	\$ 471,647	\$ -	\$ 5,652,768
Fringe benefits	652,867	102,223	43,929	-	70,356	96,796	966,171	97,482	-	1,063,653
Consultants	519,794	2,110	-	-	41,141	392,113	955,158	7,225	-	962,383
Staff training	13,284	1,152	574	-	13,645	25,525	54,180	2,133	-	56,313
Occupancy costs	93,277	77,161	15,749	-	9,710	15,523	211,420	146,128	15,654	373,202
Vehicle expenses	-	59,439	1,961	-	4,042	-	65,442	-	-	65,442
Postage	-	-	-	-	112	197	309	4,272	-	4,581
Printing	8,949	1,280	1,038	-	719	709	12,695	3,964	-	16,659
Office supplies & expense	1,357	-	42	-	-	-	1,399	3,342	-	4,741
Audit fees	-	-	-	-	4,500	5,500	10,000	20,668	-	30,668
Insurance	10,205	7,375	1,581	-	1,080	1,826	22,067	5,054	2,152	29,273
Telephone	22,065	3,575	1,491	-	2,945	2,404	32,480	3,831	-	36,311
Meals	-	49,893	103	-	78	37	50,111	-	-	50,111
Repairs and maintenance	10,447	2,591	953	-	621	43,870	58,482	14,153	5,491	78,126
Travel	171,874	415	2,892	-	22,772	12,591	210,544	1,068	-	211,612
Advertising	3,864	1,866	149	-	-	-	5,879	2,345	-	8,224
License and fees	1,999	1,901	51	-	1,581	2,342	7,874	3,678	-	11,552
Student Work Activity	-	2,510	-	-	1,358	1,523	5,391	-	-	5,391
Donations expense	19,443	-	9,669	-	-	-	29,112	30,128	-	59,240
Program supplies & equipment	36,298	9,577	5,531	7,497	6,257	38,359	103,519	16,755	-	120,274
Bad debt expense	62,000	-	-	-	-	-	62,000	-	-	62,000
Other direct expenses	5,601	1,476	325	-	1,996	163,081	172,479	35,555	1,439	209,473
	<u>\$ 4,648,530</u>	<u>\$ 814,563</u>	<u>\$ 292,330</u>	<u>\$ 8,960</u>	<u>\$ 689,181</u>	<u>\$ 1,764,269</u>	<u>\$ 8,217,833</u>	<u>\$ 869,428</u>	<u>\$ 24,736</u>	<u>\$ 9,111,997</u>

# Associates For Human Services, Inc.

## Statement of Functional Expenses

Year Ended June 30, 2017

	Early Intervention	Individual Services For Elders	Taunton Area School To Career	Early Head Start		Total Program Services	General & Administrative Services	Rental Activities	Total
				Literacy	Expansion				
Salaries and wages	\$2,903,927	\$ 474,438	\$212,356	\$ 917	\$ 414,530	\$4,984,190	\$ 466,118	\$ -	\$5,450,308
Fringe benefits	586,007	92,473	45,209	-	65,240	887,329	92,437	-	979,766
Consultants	385,505	844	-	-	32,543	826,631	7,763	-	834,394
Staff training	11,738	812	340	-	6,871	100,323	1,053	-	101,376
Occupancy costs	87,367	83,010	14,757	-	16,142	224,921	93,959	15,021	333,901
Vehicle expenses	-	58,438	1,743	-	6,073	66,254	-	-	66,254
Postage	-	-	-	-	139	304	11,510	-	11,814
Printing	9,435	804	1,159	-	144	11,743	5,322	-	17,065
Office supplies & expense	39,484	-	504	-	-	41,319	3,668	-	44,987
Audit fees	-	-	-	-	3,000	8,000	21,044	-	29,044
Insurance	6,377	6,672	258	-	1,723	18,245	7,410	2,152	27,807
Telephone	20,886	3,238	4,360	-	2,901	34,366	4,270	-	38,636
Meals	-	50,343	978	-	171	51,558	-	-	51,558
Repairs and maintenance	8,957	2,880	1,876	-	690	432,194	9,216	4,351	445,761
Travel	169,104	288	3,075	-	23,945	209,670	866	-	210,536
Advertising	250	1,308	1,784	-	1,521	5,006	2,231	-	7,237
Licenses and fees	2,312	1,970	393	-	749	6,527	4,017	-	10,544
Student Work Activity	-	1,293	693	-	1,069	4,247	-	-	4,247
Donations expense	-	-	8,863	-	-	8,863	29,270	-	38,133
Program supplies & equipment	29,978	9,514	2,935	10,186	6,241	122,596	14,229	1,370	138,195
Other direct expenses	9,144	1,381	159	-	878	152,092	44,917	-	197,009
	<b>\$4,270,471</b>	<b>\$ 789,706</b>	<b>\$ 301,442</b>	<b>\$ 11,103</b>	<b>\$ 584,570</b>	<b>\$8,196,378</b>	<b>\$ 819,300</b>	<b>\$ 22,894</b>	<b>\$9,038,572</b>

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

# Associates For Human Services, Inc.

## Statements of Cash Flows

### Years Ended June 30

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 42,804	\$ 309,176
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	111,691	70,085
Changes in operating assets and liabilities:		
Contracts and other receivables, net	(94,793)	171,526
Prepaid expenses	(4,530)	9,558
Accounts payable	(88,308)	93,529
Accrued expenses and withholdings	(18,126)	113,231
Deferred revenue	(9,541)	(74,222)
<b>NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>	<u>(60,803)</u>	<u>692,883</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to property and equipment	(409,594)	(1,189,260)
Net change in investments	(8,405)	(12,965)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>(417,999)</u>	<u>(1,202,225)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Drawdowns on tax exempt bond	312,256	2,220,946
Prepayment of mortgage note	-	(1,214,521)
Principal payments on mortgage note	(100,509)	(209,799)
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<u>211,747</u>	<u>796,626</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>(267,055)</u>	<u>287,284</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>1,123,706</u>	<u>836,422</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 856,651</u>	<u>\$ 1,123,706</u>
<b><u>Supplemental Disclosure of Cash Flow Information</u></b>		
Interest paid and expensed	<u>\$ 78,608</u>	<u>\$ 51,426</u>
Interest paid and capitalized	<u>\$ 10,402</u>	<u>\$ 20,454</u>
<b><u>Noncash Investing Activities</u></b>		
Accounts payable for property additions	<u>\$ -</u>	<u>\$ 221,487</u>

# Associates for Human Services, Inc.

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## Notes to Financial Statements

June 30, 2018

### Note 1 – Summary of Significant Accounting Policies

Nature of Activities – Associates for Human Services, Inc. (“AHS”) is a non-profit human service organization that delivers early childhood (Early Intervention and Early Head Start Programs), and adult day health care services in the Taunton, Massachusetts area and surrounding towns. AHS’ primary sources of revenue are contracts with the Commonwealth of Massachusetts Department of Developmental Services (DDS) and Department of Public Health (DPH), and the Federal Government.

Financial Statement Presentation – AHS reports information regarding its financial position and activities according to three classes of net assets determined by donor-imposed restrictions as follows:

Unrestricted Net Assets – Unrestricted net assets are those net resources that bear no external restrictions, and are available for general use by AHS. Unrestricted contributions are recorded as support when received or unconditionally committed.

Temporarily Restricted Net Assets – Restricted grants and contributions are recorded as temporarily restricted support and net assets when received or committed. Transfers are made to unrestricted net assets as costs are incurred or time restrictions or program restrictions have lapsed. Donor restricted grants and contributions received and satisfied in the same period are included in unrestricted net assets. AHS has no temporarily restricted net assets at June 30, 2018 or 2017.

Permanently Restricted Net Assets – Contributions established by donor restrictions to permanently maintain the principal, while allowing the use of income generated therefrom, are classified as permanently restricted support and net assets. Income derived from the investment of permanently restricted funds is reported as unrestricted revenue or as restricted revenue depending on the terms of the donor instrument. Unrealized gains or losses on permanently restricted fund investments are reported as increases or decreases in unrestricted net assets unless the donor explicitly states otherwise. AHS has no permanently restricted net assets at June 30, 2018 or 2017.

At its discretion, the Board of Directors may designate funds for specific purposes. Such board-designated funds are included in unrestricted net assets.

Revenue Recognition – Contract revenue is recorded in the period services are provided and costs are incurred. Grants and other revenue are recorded when earned. Non-contribution revenue received in advance of being earned is recorded as deferred revenue.

Third-party insurance and Medicaid revenue are recorded as services are provided, and reflect the amounts to be collected after provisions for contractual allowances and free care.

Expense Allocation – Expenses related directly to a program are charged to that program, while other expenses are allocated based upon management’s estimate of the percentage attributable to each program.

Use of Estimates – The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions. Significant management estimates in the financial statements include useful lives of depreciable assets, allocation of common expenses to program functions, and satisfaction of program restrictions for the release of restricted net assets.

## Note 1 – Summary of Significant Accounting Policies (Cont.)

Cash and Cash Equivalents – AHS considers cash on hand, demand deposits, and highly-liquid investments with original maturity dates of three months or less to be cash and cash equivalents for the purpose of the statement of cash flows. Cash and cash equivalents held by investment managers are considered part of investments.

Contracts Receivable – Accounts receivable from contracts are stated at the contracted amounts. Accounts receivable from third parties and DPH are stated at the amount which management expects to collect from the outstanding balance. When considered necessary by management, accounts receivable are stated net of an allowance for doubtful accounts, which would be reported on the face of AHS' statement of financial position. The allowance is established via a provision for bad debts charged to operations. On a periodic basis, management evaluates its accounts receivable and establishes or adjusts its allowance to an amount that it believes will be adequate to absorb possible losses on accounts that may become uncollectible, based on evaluations of the collectability of individual accounts and on current economic conditions. Accounts are charged against the allowance when management believes that the collectability of the specific account is unlikely.

Fair Value Measurements – AHS follows Accounting Standards Codification (ASC) Topic 820, "Fair Value Measurements and Disclosures", for assets and liabilities that are measured and recorded at fair value on a recurring basis, principally its investments (see below). This standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements.

Investments – Investments are recorded at fair value with the corresponding realized and unrealized gains and losses included in the statements of activities and changes in net assets (see Note 2).

Property and Equipment – Property and equipment are recorded at cost if purchased, or at fair market value at the time of donation. Expenditures for maintenance and repairs are charged to expense as incurred, whereas major betterments are capitalized as additions to property and equipment. AHS capitalizes interest incurred on borrowings during the active construction period of assets. Capitalized interest is added to the cost of the assets and depreciated over the estimated useful lives of the assets. Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Estimated Useful Lives</u>
Buildings	27.5 – 39 years
Building improvements	27.5 – 39 years
Furniture and equipment	5 – 10 years
Vehicles	3 years

Equipment purchased with funds from Federal or State contracts are capitalized as assets and depreciated over their estimated useful lives. The Federal government, or the Commonwealth of Massachusetts, retain reversionary interests in these assets. Such assets are reported as furniture and equipment in the statement of financial position at a cost of \$137,248, with related accumulated depreciation of \$137,248 at June 30, 2018 and 2017.

During the year ended June 30, 2017, AHS completed a 7,200 square foot expansion of its main facility located on Allison Avenue in Taunton, MA. The \$1.483 million expansion provided AHS with additional classrooms, offices and meeting spaces. The project was funded from the proceeds of a \$2.90 million drawdown bond from its principal financial institution (see Note 4).

Deferred Finance Costs – Costs associated with procuring AHS' mortgage loans are deferred from recognition and amortized over the terms of the financing agreements, 26 and 20 years, respectively. If the related loans are repaid or refinanced before maturity, any unamortized deferred costs are written off by a charge to operations. AHS presents unamortized deferred financing costs as a direct reduction to the carrying amount of the related mortgage liability on the balance sheets (Note 4). In addition, amortization of deferred financing costs is charged to interest expense on the statements of activities and changes in net assets.

## Note 1 – Summary of Significant Accounting Policies (Cont.)

Advertising Expense – AHS charges the cost of advertising to expense as incurred.

Income Taxes – AHS is exempt from federal income taxes as an organization formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code. AHS is also exempt from Massachusetts state income taxes and, therefore, has made no provision for federal or state income taxes in the accompanying financial statements.

Subsequent Events – In accordance with generally accepted accounting principles, management has evaluated subsequent events involving AHS for potential recognition or disclosure in the accompanying financial statements. Subsequent events are events or transactions that occurred after June 30, 2018 up to September 12, 2018, the date the financial statements were authorized to be issued.

## Note 2 – Investments

Valuation techniques used to measure the fair values of investments maximize the use of observable inputs and minimize the use of unobservable inputs, under a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value. The three tiers are defined as:

Level 1 – Observable inputs such as quoted prices in active markets.

Level 2 – Inputs other than Level 1 inputs that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable, or can be corroborated by observable market data for substantially the full term of the assets.

Level 3 – Unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions that are significant to the fair value measurement.

The following is a schedule of investments at fair value by level within the fair value hierarchy at June 30:

	Level 1	Level 2	Level 3	Total
<b>2018</b>				
Mutual funds	\$ 77,979	\$ -	\$ -	\$ 77,979
Certificates of deposits	203,966	-	-	203,966
Money market funds	411,388	-	-	411,388
	<u>\$ 693,333</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 693,333</u>
<b>2017</b>				
Mutual funds	\$ 71,805	\$ -	\$ -	\$ 71,805
Certificates of deposits	203,122	-	-	203,122
Money market funds	410,001	-	-	410,001
	<u>\$ 684,928</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 684,928</u>

The level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following is a description of the valuation methodologies used for investments measured at fair value, including the general description of such instruments pursuant to the valuation hierarchy.

Mutual Funds – These investments are public investment vehicles valued using the Net Asset Value (NAV) provided by the administrator of the fund. The NAV is a quoted price in an active market.

Certificates of Deposit – The carrying values of the bank certificates of deposit approximate their fair values due to the relatively short-term maturity of the certificates of deposit, six months or less.

## Note 2 – Investments (Cont.)

Money Market Funds – These investments are valued using the Net Asset Value (NAV) provided by the administrator of the fund. The NAV is a quoted price in an active market and it is classified within Level 1 of the valuation hierarchy.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term, and that such changes could materially affect the amounts reported in the accompanying statements of net assets.

The net gain on investments as reported on the statements of activities of \$6,128 and \$11,234 for the years ended June 30, 2018 and June 30, 2017, respectively, are comprised entirely of unrealized gains as there were no sales of investments during either fiscal year.

## Note 3 – Line of Credit

AHS has a \$500,000 line of credit agreement with its principal bank. The interest rate under the agreement is the bank's base lending rate plus 1%, and borrowings are collateralized by accounts receivable and a first position UCC filing on all business assets of AHS. AHS did not utilize the line of credit during 2018 or 2017, and there was no balance outstanding as of June 30, 2018 or 2017. The line of credit expires on November 30, 2018.

## Note 4 – Long-Term Debt

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

	<u>2018</u>	<u>2017</u>
On September 9, 2016, AHS obtained a \$2,900,000 tax-exempt draw-down revenue bond to fund the expansion of the Allison Drive property. Under the terms of the bond agreement, advances were allowed for the twelve months ending September 9, 2017, during which AHS was required to make interest-only payments. Required monthly principal and interest payments of \$14,597 commenced on October 9, 2017. On October 9, 2032, the interest rate will be adjusted as detailed in the agreement for next the 120 monthly payments of principal and interest. The bond matures on September 9, 2042, and the initial interest rate is 3.5%. The bond is collateralized by a first mortgage on the property at Allison Drive, Taunton, MA.	<b>\$ 2,338,182</b>	\$2,118,114
3.75% mortgage note payable to its principal bank, payable in monthly principal and interest payments of \$1,262 through May 29, 2032, collateralized by a first mortgage on property at Ralph Road, Raynham, MA.	<u>164,508</u>	<u>172,829</u>
	<b>2,502,690</b>	2,290,943
Less amounts due within one year	<u>98,864</u>	<u>54,735</u>
Amounts due after one year	<u><b>\$ 2,403,826</b></u>	<u>\$2,236,208</u>

#### Note 4 – Long-Term Debt (Cont.)

A summary of the annual principal maturities of long-term debt, net of unamortized deferred financing costs is as follows:

<u>Year Ending June 30</u>	<u>Principal Maturities</u>	<u>Unamortized Finance Costs</u>	<u>Net</u>
2019	\$ 101,004	\$ (2,140)	\$ 98,864
2020	104,447	(2,140)	102,307
2021	108,453	(2,140)	106,313
2022	112,405	(2,140)	110,265
2023	116,461	(2,140)	114,321
Thereafter	2,011,283	(40,663)	1,970,620
	<u>\$ 2,554,053</u>	<u>\$ (51,363)</u>	<u>\$ 2,502,690</u>

#### Note 5 – In-Kind Contributions

AHS operates an Early Head Start program whereby it is required to provide matching funds or in-kind donations of 20% of the total program expenditures which were met for the years ended June 30, 2018 and 2017.

#### Note 6 – Financial Instruments, Credit Risk and Concentrations of Credit Risk

AHS' financial instruments that may be subject to concentrations of credit risk consist primarily of cash, cash equivalents, investments, contracts receivable and debt instruments.

AHS maintains its cash and cash equivalents in several high-quality financial institutions. At times, the amounts on deposit at any institution are in excess of insured limits. At June 30, 2018, based on bank balances, AHS has deposits in excess of the federal insured limits of approximately \$40,000. AHS has investments in several mutual funds, certificates of deposits and money market funds.

Several of AHS' Programs are partially or fully funded by several departments of the Commonwealth of Massachusetts. In fiscal 2018 and 2017, the Early Intervention program received \$838,338 and \$748,566, respectively, of revenue from the Commonwealth of Massachusetts Department of Public Health (DPH), representing 9% and 8% of total operating revenue and support for 2018 and 2017, respectively. In addition, AHS received \$2,236,741 in fiscal 2018 and \$2,213,424 in fiscal 2017 from the Commonwealth of Massachusetts Department of Public Welfare, which represents approximately 24% of AHS' total operating revenue and support for fiscal 2018 and 2017. As of June 30, 2018, the following amounts represented significant concentrations of contracts and other amounts receivable: \$268,000 from DPH (25% of accounts receivable) and \$206,000 from the Commonwealth of Massachusetts, Department of Health and Human Services (19% of accounts receivable).

All of AHS's financial borrowings, approximately \$2.5 million at June 30, 2018, are through one financial institution (see Notes 3 and 4).

## Note 7 – Occupancy Costs and Rental Income

Occupancy costs include interest on the real estate mortgages, depreciation expense on buildings, building improvements, and furniture and fixtures, as well as the amortization expense on deferred financing costs as follows:

	<u>2018</u>	<u>2017</u>
Depreciation	\$ 111,691	\$ 70,085
Mortgage interest	<u>80,835</u>	<u>53,209</u>
	<u>\$ 192,526</u>	<u>\$ 123,294</u>

AHS rents its two residential homes to various agencies under tenant at will arrangements. Rental income received by AHS for the years ended June 30, 2018 and 2017 approximated \$57,000 and \$56,000, respectively.

## Note 8 – Related Party Transactions

A member of the Board of Directors is also an officer of AHS' principal bank in which AHS maintains substantially all of its cash accounts. In addition, the bank has provided substantially all of the financing arrangements to AHS as detailed in Notes 3 and 4.

## Note 9 – Retirement Plan

AHS maintains a 403(b) retirement plan for the benefit of its employees whereby it contributes 200% of employee deferrals up to a maximum contribution of 4% of eligible employee compensation. For the years ended June 30, 2018 and 2017, AHS made contributions to the plan of \$126,283 and \$107,415, respectively.

## Note 10 – Surplus Revenue

Under the Commonwealth of Massachusetts Division of Purchased Services' accounting and reporting policy relative to its regulations concerning "Not-for-Profit Surplus Revenue Retention", not-for-profit providers, such as AHS, are permitted to retain a "surplus" of up to 5% of revenues attributable to agreements with the Commonwealth of Massachusetts for the provision of social services, and to utilize such surplus for its established charitable purpose. The regulations also limit the cumulative total of such retained surplus to an amount equal to 20% of the prior year's related gross revenue from Commonwealth of Massachusetts purchasing agencies.

Excess surplus revenues may be recouped by the Commonwealth via price reductions in future agreements, by the return of such funds to the Commonwealth, or by the Commonwealth stipulating the use of such funds.

Under the policy, surplus revenue retention within the allowable limits is to be reported or disclosed as a component of unrestricted net assets. Any surplus revenue retained in excess of the aforementioned limits is to be reported as a liability. AHS has no "surplus revenue" that would be required to be reported as a liability at June 30, 2018 and 2017.

Unrestricted net assets consists of the following at June 30:

	<u>2018</u>	<u>2017</u>
Unrestricted Net Assets:		
Unrestricted	\$ 2,637,268	\$ 2,600,605
Surplus revenue retention	<u>89,033</u>	<u>82,892</u>
	<u>\$ 2,726,301</u>	<u>\$ 2,683,497</u>