



**ELIOT COMMUNITY HUMAN SERVICES, INC.
AND AFFILIATES**

**COMBINED FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

ELIOT COMMUNITY HUMAN SERVICES, INC. AND AFFILIATES

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June 30, 2018 and 2017

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Independent Auditor's Report

To the Board of Directors of
Eliot Community Human Services, Inc. and Affiliates:

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of Eliot Community Human Services, Inc. and Affiliates (Massachusetts corporations, not for profit), 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 the combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

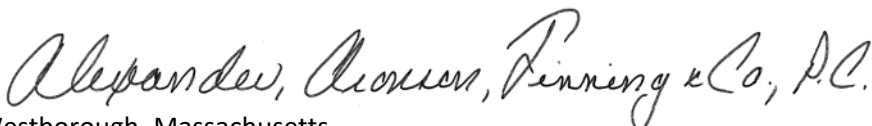
Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance 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 Eliot Community Human Services, Inc. and Affiliates 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.



Westborough, Massachusetts
October 22, 2018

ELIOT COMMUNITY HUMAN SERVICES, INC. AND AFFILIATES

Combined Statement of Financial Position

June 30, 2018

(With Summarized Comparative Totals for the Year Ended June 30, 2017)

Assets	2018			2017	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Current Assets:					
Cash and cash equivalents	\$ 5,894,740	\$ 2,568,093	\$ -	\$ 8,462,833	\$ 8,140,930
Client custodial funds	1,764,524	-	-	1,764,524	1,658,806
Contracts, grants and other receivables	10,201,163	-	-	10,201,163	10,313,295
Patient accounts receivable, net of allowance for doubtful accounts of approximately \$1,541,000 and \$1,132,000 at June 30, 2018 and 2017, respectively	3,300,065	-	-	3,300,065	2,973,917
Current portion of pledges receivable	122,666	62,400	-	185,066	66,775
Prepaid expenses	2,512,901	-	-	2,512,901	2,624,263
Property held for sale	35,233	-	-	35,233	-
Total current assets	<u>23,831,292</u>	<u>2,630,493</u>	<u>-</u>	<u>26,461,785</u>	<u>25,777,986</u>
Pledges Receivable, net of current portion	-	56,029	-	56,029	-
Investments	<u>930,312</u>	<u>2,894,313</u>	<u>12,611,562</u>	<u>16,436,187</u>	<u>17,043,363</u>
Due (To) From	<u>(2,522,475)</u>	<u>2,522,475</u>	<u>-</u>	<u>-</u>	<u>-</u>
Property and Equipment:					
Land	4,861,400	-	-	4,861,400	2,652,247
Buildings and improvements	11,843,186	-	-	11,843,186	8,453,633
Leasehold improvements	517,130	-	-	517,130	524,697
Furniture and equipment	3,413,133	-	-	3,413,133	3,484,257
Motor vehicles	-	-	-	-	42,699
	<u>20,634,849</u>	<u>-</u>	<u>-</u>	<u>20,634,849</u>	<u>15,157,533</u>
Less - accumulated depreciation	<u>7,298,516</u>	<u>-</u>	<u>-</u>	<u>7,298,516</u>	<u>6,626,232</u>
Net property and equipment	<u>13,336,333</u>	<u>-</u>	<u>-</u>	<u>13,336,333</u>	<u>8,531,301</u>
Construction in Process	<u>8,100</u>	<u>-</u>	<u>-</u>	<u>8,100</u>	<u>5,672,185</u>
Deposits	<u>401,613</u>	<u>-</u>	<u>-</u>	<u>401,613</u>	<u>402,210</u>
Beneficial Interests in Trusts	<u>-</u>	<u>-</u>	<u>3,432,438</u>	<u>3,432,438</u>	<u>3,295,951</u>
Total assets	<u>\$ 35,985,175</u>	<u>\$ 8,103,310</u>	<u>\$ 16,044,000</u>	<u>\$ 60,132,485</u>	<u>\$ 60,722,996</u>
Liabilities and Net Assets					
Current Liabilities:					
Current portion of long-term debt	\$ 358,334	\$ -	\$ -	\$ 358,334	\$ 339,763
Current portion of capital lease obligation	19,596	-	-	19,596	18,443
Accounts and subcontract payable	2,246,657	-	-	2,246,657	2,081,234
Client custodial funds	1,764,524	-	-	1,764,524	1,658,806
Accrued expenses	6,835,962	-	-	6,835,962	6,985,802
Pension liability	-	-	-	-	3,577,910
Total current liabilities	<u>11,225,073</u>	<u>-</u>	<u>-</u>	<u>11,225,073</u>	<u>14,661,958</u>
Long-Term Debt, net of current portion	<u>6,171,028</u>	<u>-</u>	<u>-</u>	<u>6,171,028</u>	<u>6,520,826</u>
Capital Lease Obligation, net of current portion	<u>26,196</u>	<u>-</u>	<u>-</u>	<u>26,196</u>	<u>45,823</u>
Total liabilities	<u>17,422,297</u>	<u>-</u>	<u>-</u>	<u>17,422,297</u>	<u>21,228,607</u>
Net Assets:					
Unrestricted:					
Operating	11,541,813	-	-	11,541,813	9,613,715
Property and equipment	6,769,279	-	-	6,769,279	7,191,488
Board designated:					
Board designated - Eliot	227,155	-	-	227,155	226,928
Board designated - other	24,631	-	-	24,631	24,255
Total unrestricted	<u>18,562,878</u>	<u>-</u>	<u>-</u>	<u>18,562,878</u>	<u>17,056,386</u>
Temporarily restricted	-	8,103,310	-	8,103,310	6,530,490
Permanently restricted	-	-	16,044,000	16,044,000	15,907,513
Total net assets	<u>18,562,878</u>	<u>8,103,310</u>	<u>16,044,000</u>	<u>42,710,188</u>	<u>39,494,389</u>
Total liabilities and net assets	<u>\$ 35,985,175</u>	<u>\$ 8,103,310</u>	<u>\$ 16,044,000</u>	<u>\$ 60,132,485</u>	<u>\$ 60,722,996</u>

ELIOT COMMUNITY HUMAN SERVICES, INC. AND AFFILIATES

Combined Statement of Financial Position
June 30, 2017

Assets	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Current Assets:				
Cash and cash equivalents	\$ 7,650,158	\$ 490,772	\$ -	\$ 8,140,930
Client custodial funds	1,658,806	-	-	1,658,806
Contracts, grants and other receivables	10,313,295	-	-	10,313,295
Patient accounts receivable, net of allowance for doubtful accounts of approximately \$1,132,000 at June 30, 2017	2,973,917	-	-	2,973,917
Pledges receivable	66,775	-	-	66,775
Prepaid expenses	2,624,263	-	-	2,624,263
Total current assets	25,287,214	490,772	-	25,777,986
Investments	921,484	3,510,317	12,611,562	17,043,363
Due (To) From	(2,529,401)	2,529,401	-	-
Property and Equipment:				
Land	2,652,247	-	-	2,652,247
Buildings and improvements	8,453,633	-	-	8,453,633
Leasehold improvements	524,697	-	-	524,697
Furniture and equipment	3,484,257	-	-	3,484,257
Motor vehicles	42,699	-	-	42,699
	15,157,533	-	-	15,157,533
Less - accumulated depreciation	6,626,232	-	-	6,626,232
Net property and equipment	8,531,301	-	-	8,531,301
Construction in Process	5,672,185	-	-	5,672,185
Deposits	402,210	-	-	402,210
Beneficial Interests in Trusts	-	-	3,295,951	3,295,951
Total assets	\$ 38,284,993	\$ 6,530,490	\$ 15,907,513	\$ 60,722,996
Liabilities and Net Assets				
Current Liabilities:				
Current portion of long-term debt	\$ 339,763	\$ -	\$ -	\$ 339,763
Current portion of capital lease obligation	18,443	-	-	18,443
Accounts and subcontract payable	2,081,234	-	-	2,081,234
Client custodial funds	1,658,806	-	-	1,658,806
Accrued expenses	6,985,802	-	-	6,985,802
Pension liability	3,577,910	-	-	3,577,910
Total current liabilities	14,661,958	-	-	14,661,958
Long-Term Debt, net of current portion	6,520,826	-	-	6,520,826
Capital Lease Obligation, net of current portion	45,823	-	-	45,823
Total liabilities	21,228,607	-	-	21,228,607
Net Assets:				
Unrestricted:				
Operating	9,613,715	-	-	9,613,715
Property and equipment	7,191,488	-	-	7,191,488
Board designated:				
Board designated - Eliot	226,928	-	-	226,928
Board designated - other	24,255	-	-	24,255
Total unrestricted	17,056,386	-	-	17,056,386
Temporarily restricted	-	6,530,490	-	6,530,490
Permanently restricted	-	-	15,907,513	15,907,513
Total net assets	17,056,386	6,530,490	15,907,513	39,494,389
Total liabilities and net assets	\$ 38,284,993	\$ 6,530,490	\$ 15,907,513	\$ 60,722,996

ELIOT COMMUNITY HUMAN SERVICES, INC. AND AFFILIATES

Combined Statement of Activities and Changes in Net Assets
 For the Year Ended June 30, 2018
 (With Summarized Comparative Totals for the Year Ended June 30, 2017)

	2018			2017	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
Operating Support and Revenues:					
Contracts and grants	\$ 83,626,272	\$ 1,889,763	\$ -	\$ 85,516,035	\$ 86,512,910
Net patient service revenue	29,938,236	-	-	29,938,236	27,836,116
Residential client fees	1,944,650	-	-	1,944,650	2,007,628
Contributions	1,101,470	461,794	-	1,563,264	1,068,463
Investment return designated for current operations	1,001,937	-	-	1,001,937	2,001,916
Fundraising events, net	559,293	-	-	559,293	683,701
Interest and other	387,547	-	-	387,547	555,321
Community Chest / United Way	285,940	-	-	285,940	357,945
Net assets released from purpose restrictions	155,807	(155,807)	-	-	-
Total operating support and revenues	119,001,152	2,195,750	-	121,196,902	121,024,000
Operating Expenses:					
Program services	105,533,823	-	-	105,533,823	106,051,322
Management and general	11,681,687	-	-	11,681,687	12,655,877
Fundraising	844,589	-	-	844,589	678,716
Total operating expenses	118,060,099	-	-	118,060,099	119,385,915
Changes in net assets from operations	941,053	2,195,750	-	3,136,803	1,638,085
Non-Operating Revenues (Expenses):					
Pension related changes other than net periodic pension cost	563,212	-	-	563,212	1,108,699
Investment return	227	379,007	-	379,234	1,372,494
Change in carrying value of beneficial interests in trusts	-	-	136,487	136,487	194,465
Bequests	2,000	-	-	2,000	1,415,074
Investment return designated for current operations	-	(1,001,937)	-	(1,001,937)	(2,001,916)
Total non-operating revenues (expenses)	565,439	(622,930)	136,487	78,996	2,088,816
Changes in net assets	1,506,492	1,572,820	136,487	3,215,799	3,726,901
Net Assets:					
Beginning of year	17,056,386	6,530,490	15,907,513	39,494,389	18,725,441
Net asset transfer	-	-	-	-	17,042,047
End of year	\$ 18,562,878	\$ 8,103,310	\$ 16,044,000	\$ 42,710,188	\$ 39,494,389

ELIOT COMMUNITY HUMAN SERVICES, INC. AND AFFILIATES

Combined Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating Support and Revenues:				
Contracts and grants	\$ 86,512,910	\$ -	\$ -	\$ 86,512,910
Net patient service revenue	27,836,116	-	-	27,836,116
Residential client fees	2,007,628	-	-	2,007,628
Contributions	849,263	219,200	-	1,068,463
Investment return designated for current operations	2,001,916	-	-	2,001,916
Fundraising events, net	683,701	-	-	683,701
Interest and other	555,321	-	-	555,321
Community Chest / United Way	357,945	-	-	357,945
Net assets released from purpose restrictions	435,059	(435,059)	-	-
Net assets released from time restrictions	30,000	(30,000)	-	-
	<u>121,269,859</u>	<u>(245,859)</u>	<u>-</u>	<u>121,024,000</u>
Operating Expenses:				
Program services	106,051,322	-	-	106,051,322
Management and general	12,655,877	-	-	12,655,877
Fundraising	678,716	-	-	678,716
	<u>119,385,915</u>	<u>-</u>	<u>-</u>	<u>119,385,915</u>
Changes in net assets from operations	<u>1,883,944</u>	<u>(245,859)</u>	<u>-</u>	<u>1,638,085</u>
Non-Operating Revenues (Expenses):				
Pension related changes other than net periodic pension cost	1,108,699	-	-	1,108,699
Investment return	227	1,372,267	-	1,372,494
Change in carrying value of beneficial interests in trusts	-	-	194,465	194,465
Bequests	-	-	1,415,074	1,415,074
Investment return designated for current operations	-	(2,001,916)	-	(2,001,916)
	<u>1,108,926</u>	<u>(629,649)</u>	<u>1,609,539</u>	<u>2,088,816</u>
Changes in net assets	2,992,870	(875,508)	1,609,539	3,726,901
Net Assets:				
Beginning of year	18,311,422	297,272	116,747	18,725,441
Net asset transfer	(4,247,906)	7,108,726	14,181,227	17,042,047
End of year	<u>\$ 17,056,386</u>	<u>\$ 6,530,490</u>	<u>\$ 15,907,513</u>	<u>\$ 39,494,389</u>

ELIOT COMMUNITY HUMAN SERVICES, INC. AND AFFILIATES

Combined Statements of Cash Flows
For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ 3,215,799	\$ 3,726,901
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Bad debts	244,023	341,618
Depreciation	1,003,615	867,700
Mortgage interest - amortization of debt issuance costs	5,017	5,017
Change in carrying value of beneficial interests in trusts	(136,487)	(194,465)
Realized and unrealized gains on investments	(252,399)	(1,285,913)
Pension related changes other than net periodic pension cost	(563,212)	(1,108,699)
Bequests	(2,000)	(1,415,074)
Change in discount on pledges receivable	1,571	-
Changes in operating assets and liabilities:		
Contracts, grants and other receivables	112,132	(858,506)
Patient accounts receivable	(571,271)	(1,382,324)
Pledges receivable	(174,791)	21,939
Prepaid expenses and deposits	111,959	(419,772)
Accounts and subcontract payable	252,566	54,296
Accrued expenses	(149,840)	952,403
Pension liability	(3,014,698)	223,432
Net cash provided by (used in) operating activities	<u>81,984</u>	<u>(471,447)</u>
Cash Flows from Investing Activities:		
Proceeds from sale of investments	2,998,623	2,289,103
Purchases of investments	(2,139,048)	(1,789,380)
Cash acquired via merger	-	939,890
Cash paid for construction in process	(95,243)	(5,585,042)
Acquisition of property and equipment	(171,695)	(204,528)
Net cash provided by (used in) investing activities	<u>592,637</u>	<u>(4,349,957)</u>
Cash Flows from Financing Activities:		
Capital grants	-	135,946
Principal payments on capital lease obligation	(18,474)	(17,357)
Principal payments on long-term debt	(336,244)	(222,034)
Proceeds from long-term debt	-	4,440,000
Proceeds from bequests	2,000	1,415,074
Net cash provided by (used in) financing activities	<u>(352,718)</u>	<u>5,751,629</u>
Net Change in Cash and Cash Equivalents	321,903	930,225
Cash and Cash Equivalents:		
Beginning of year	<u>8,140,930</u>	<u>7,210,705</u>
End of year	<u>\$ 8,462,833</u>	<u>\$ 8,140,930</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest, net of interest capitalized	<u>\$ 353,586</u>	<u>\$ 217,138</u>
Supplemental Disclosure of Non-Cash Items:		
Construction in process placed in service	<u>\$ 5,672,185</u>	<u>\$ -</u>
Construction in process included in accounts and subcontract payable	<u>\$ -</u>	<u>\$ 87,143</u>
Property and equipment acquired from merger	<u>\$ -</u>	<u>\$ 984,169</u>

ELIOT COMMUNITY HUMAN SERVICES, INC. AND AFFILIATES

Combined Statement of Functional Expenses
For the Year Ended June 30, 2018

(With Summarized Comparative Totals for the Year Ended June 30, 2017)

	2018							2017				
	Program Services							Management and General	Fundraising	Total	Total	
	Ambulatory Services	Adult Programs	Youth Residential Programs	Youth Wrap Around Services	Foster Care and Adoption Services	Pregnancy and Parenting Support	Advocacy Services	Total Program Services				
Personnel and Related Costs:												
Salaries and wages	\$ 9,470,069	\$ 28,029,595	\$ 14,644,358	\$ 9,760,671	\$ 593,818	\$ 2,779,540	\$ 323,928	\$ 65,601,979	\$ 5,369,154	\$ 554,272	\$ 71,525,405	\$ 73,091,614
Fringe benefits	1,414,819	4,817,885	1,972,274	1,489,953	90,656	443,813	36,581	10,265,981	916,325	71,335	11,253,641	11,246,429
Payroll taxes	848,943	2,581,336	1,430,848	922,317	52,056	278,860	25,703	6,140,063	578,411	45,548	6,764,022	6,736,614
Direct care, relief consultants and temporary help	322,473	1,274,657	73,257	64,858	371,988	6,851	-	2,114,084	114,285	-	2,228,369	2,305,282
Total personnel and related costs	12,056,304	36,703,473	18,120,737	12,237,799	1,108,518	3,509,064	386,212	84,122,107	6,978,175	671,155	91,771,437	93,379,939
Occupancy:												
Rent	342,920	3,130,786	493,113	617,214	59,226	440,940	19,486	5,103,685	129,916	33,127	5,266,728	5,604,852
Facility maintenance and utilities	188,417	1,444,414	601,864	207,374	13,924	85,590	2,329	2,543,912	392,774	5,185	2,941,871	2,970,676
Equipment repairs and maintenance	18,954	62,722	32,558	55,637	4,780	39,762	776	215,189	996,929	95	1,212,213	1,128,696
Furniture and equipment	200,240	176,413	46,936	64,653	701	34,038	134	523,115	75,116	567	598,798	448,907
Mortgage interest	-	74,800	26,648	5,801	-	-	-	107,249	188,641	-	295,890	153,718
Leased equipment	22,736	59,345	40,086	59,070	4,998	37,479	786	224,500	22,681	1,338	248,519	274,284
Taxes and insurance	4,550	42,181	32,525	6,564	495	3,757	107	90,179	27,473	810	118,462	122,363
Total occupancy	777,817	4,990,661	1,273,730	1,016,313	84,124	641,566	23,618	8,807,829	1,833,530	41,122	10,682,481	10,703,496
Direct Program Costs:												
Subcontract	-	3,505,256	-	552,432	381,570	5,426	-	4,444,684	-	-	4,444,684	3,467,841
Travel	53,321	639,970	142,847	336,619	30,510	115,066	2,131	1,320,464	123,380	4,352	1,448,196	1,550,431
Meals	23,772	661,939	333,687	19,562	12,928	16,549	247	1,068,684	50,339	1,590	1,120,613	1,193,708
Vehicle leases and operating costs	-	681,254	372,866	-	-	-	-	1,054,120	63,273	-	1,117,393	1,109,589
Supplies	35,529	396,215	318,718	63,913	8,933	54,319	1,049	878,676	57,050	47,436	983,162	1,024,621
Client activities and services	18,394	107,570	69,521	71,585	29,463	36,285	2	332,820	1,470	3	334,293	373,543
Consultants	26,242	22,900	16,450	6,329	394	11,077	18,353	101,745	107,428	-	209,173	508,311
Interest	2,430	-	-	-	-	-	-	2,430	60,283	-	62,713	68,436
Total direct program costs	159,688	6,015,104	1,254,089	1,050,440	463,798	238,722	21,782	9,203,623	463,223	53,381	9,720,227	9,296,480
Other Costs:												
Telephone and internet	109,937	560,000	104,625	187,031	14,512	70,402	1,959	1,048,466	169,686	3,090	1,221,242	1,331,315
Management fees	-	-	-	127	53	715	-	895	649,469	-	650,364	595,742
Professional fees	13,246	588	371	1,480	205,801	-	23,928	245,414	357,589	-	603,003	825,046
Liability insurance	49,804	283,235	78,518	42,950	2,476	14,977	1,201	473,161	115,709	2,817	591,687	539,734
Office supplies and postage	39,770	74,962	17,265	61,884	40,006	37,827	1,575	273,289	231,898	24,054	529,241	385,970
Dues and subscriptions	7,861	45,873	1,969	28,063	8,785	175	12,249	104,975	194,638	30,406	330,019	269,176
Other	9,166	53,314	26,146	9,325	29,267	2,030	46,140	175,388	112,798	5,644	293,830	306,943
Bad debts	225,989	7,453	-	10,581	-	-	-	244,023	-	-	244,023	341,618
Staff training and conferences	20,369	60,374	9,620	33,393	69,359	5,482	4	198,601	21,528	275	220,404	369,385
Advertising and recruitment	3,990	827	1,385	75	-	-	-	6,277	182,093	10,156	198,526	173,371
Total other costs	480,132	1,086,626	239,899	374,909	370,259	131,608	87,056	2,770,489	2,035,408	76,442	4,882,339	5,138,300
Total expenses before depreciation	13,473,941	48,795,864	20,888,455	14,679,461	2,026,699	4,520,960	518,668	104,904,048	11,310,336	842,100	117,056,484	118,518,215
Depreciation	39,879	194,734	349,963	27,157	3,786	13,308	948	629,775	371,351	2,489	1,003,615	867,700
Total expenses	\$ 13,513,820	\$ 48,990,598	\$ 21,238,418	\$ 14,706,618	\$ 2,030,485	\$ 4,534,268	\$ 519,616	\$ 105,533,823	\$ 11,681,687	\$ 844,589	\$ 118,060,099	\$ 119,385,915

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

ELIOT COMMUNITY HUMAN SERVICES, INC. AND AFFILIATES

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

	Program Services							Management and General	Fundraising	Total	
	Ambulatory Services	Adult Programs	Youth Residential Programs	Youth Wrap Around Services	Foster Care and Adoption Services	Pregnancy and Parenting Support	Advocacy Services				Total Program Services
Personnel and Related Costs:											
Salaries and wages	\$ 8,155,001	\$ 27,434,389	\$ 18,122,122	\$ 9,446,924	\$ 588,559	\$ 2,875,362	\$ 271,521	\$ 66,893,878	\$ 5,767,911	\$ 429,825	\$ 73,091,614
Fringe benefits	1,135,019	4,556,464	2,162,038	1,410,880	37,268	481,390	33,800	9,816,859	1,373,573	55,997	11,246,429
Payroll taxes	733,347	2,527,278	1,725,516	885,556	50,751	257,139	23,839	6,203,426	495,357	37,831	6,736,614
Direct care, relief consultants and temporary help	210,721	1,016,375	183,861	34,010	657,427	363	-	2,102,757	202,525	-	2,305,282
Total personnel and related costs	10,234,088	35,534,506	22,193,537	11,777,370	1,334,005	3,614,254	329,160	85,016,920	7,839,366	523,653	93,379,939
Occupancy:											
Rent	331,194	3,307,768	658,531	631,728	24,592	482,408	18,871	5,455,092	123,844	25,916	5,604,852
Facility maintenance and utilities	207,509	1,363,033	748,410	220,668	12,036	49,666	5,955	2,607,277	360,241	3,158	2,970,676
Equipment repairs and maintenance	19,703	56,980	43,724	28,481	2,281	17,014	588	168,771	959,893	32	1,128,696
Furniture and equipment	50,343	124,863	94,046	69,322	1,986	57,253	6,213	404,026	38,664	6,217	448,907
Mortgage interest	-	30,726	26,134	12,490	-	-	-	69,350	84,368	-	153,718
Leased equipment	19,990	54,812	48,111	69,921	4,182	34,599	592	232,207	41,046	1,031	274,284
Taxes and insurance	4,621	39,699	33,518	11,923	1,044	9,044	171	100,020	21,425	918	122,363
Total occupancy	633,360	4,977,881	1,652,474	1,044,533	46,121	649,984	32,390	9,036,743	1,629,481	37,272	10,703,496
Direct Program Costs:											
Subcontract	-	2,970,239	-	342,850	109,220	38,532	7,000	3,467,841	-	-	3,467,841
Travel	55,791	672,613	223,102	324,090	29,137	124,865	4,400	1,433,998	112,994	3,439	1,550,431
Meals	18,397	629,750	442,597	15,344	20,796	22,789	3,674	1,153,347	39,055	1,306	1,193,708
Vehicle leases and operating costs	415	629,680	407,611	10	-	-	-	1,037,716	71,858	15	1,109,589
Supplies	27,018	368,411	458,158	37,892	3,311	59,045	1,975	955,810	58,611	10,200	1,024,621
Client activities and services	13,526	169,100	93,702	75,912	14,097	6,978	77	373,392	20	131	373,543
Consultants	23,365	1,579	24,260	7,249	662	1,028	20,401	78,544	429,767	-	508,311
Interest	2,495	-	-	-	-	-	-	2,495	65,941	-	68,436
Total direct program costs	141,007	5,441,372	1,649,430	803,347	177,223	253,237	37,527	8,503,143	778,246	15,091	9,296,480
Other Costs:											
Telephone and internet	127,093	559,398	129,614	176,665	8,398	53,892	736	1,055,796	274,267	1,252	1,331,315
Management fees	-	-	-	-	-	-	-	-	595,742	-	595,742
Professional fees	-	9,887	-	595	200,568	583	7,000	218,633	606,413	-	825,046
Liability insurance	42,134	254,427	83,512	28,520	1,437	8,162	702	418,894	119,047	1,793	539,734
Office supplies and postage	33,135	62,829	26,554	64,825	11,024	43,797	1,696	243,860	121,261	20,849	385,970
Dues and subscriptions	7,647	82,512	260	1,487	9,938	16	19,365	121,225	124,930	23,021	269,176
Other	4,084	41,774	29,084	16,469	17,472	7,278	136	116,297	184,333	6,313	306,943
Bad debts	306,213	23,972	-	11,433	-	-	-	341,618	-	-	341,618
Staff training and conferences	14,838	87,190	34,999	60,403	71,288	15,909	45,639	330,266	38,993	126	369,385
Advertising and recruitment	635	8,689	1,795	2,232	-	76	-	13,427	113,258	46,686	173,371
Total other costs	535,779	1,130,678	305,818	362,629	320,125	129,713	75,274	2,860,016	2,178,244	100,040	5,138,300
Total expenses before depreciation	11,544,234	47,084,437	25,801,259	13,987,879	1,877,474	4,647,188	474,351	105,416,822	12,425,337	676,056	118,518,215
Depreciation	38,117	164,214	380,205	35,604	2,995	12,492	873	634,500	230,540	2,660	867,700
Total expenses	\$ 11,582,351	\$ 47,248,651	\$ 26,181,464	\$ 14,023,483	\$ 1,880,469	\$ 4,659,680	\$ 475,224	\$ 106,051,322	\$ 12,655,877	\$ 678,716	\$ 119,385,915

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

ELIOT COMMUNITY HUMAN SERVICES, INC. AND AFFILIATES

Notes to Combined Financial Statements
June 30, 2018 and 2017

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS AND NONPROFIT STATUS

Eliot Community Human Services, Inc. (Eliot) was incorporated in Massachusetts during 1963 as a not-for-profit corporation. Eliot was formed to provide human services through a broad range of mental health, developmentally disabled, and youth programs for the public benefit. Many programs are provided under contracts with various Commonwealth of Massachusetts' social service agencies. Eliot also provides clinical, residential, and day service programs to several communities within Massachusetts.

Eliot Community Human Services Trust (the Trust) was organized to lease property and equipment to Eliot. Eliot and the Trust are related by common Board of Directors.

On July 1, 2016, Eliot became the sole corporate member of Massachusetts Society for the Prevention of Cruelty to Children (MSPCC). MSPCC is a statewide social service agency focused on providing care and protection to children, enhancing family life, improving community standards affecting children and their families, and assisting in the enforcement and development of laws affecting children.

The following is a summary of MSPCC assets, liabilities and net assets assumed on July 1, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Cash and cash equivalents	\$ 553,398	\$ 386,492	\$ -	\$ 939,890
Client service fees receivable	318,071	-	-	318,071
Contracts and other receivables	1,352,846	-	-	1,352,846
Pledges receivable	35,794	52,920	-	88,714
Prepaid expenses and other	305,751	-	-	305,751
Due (to) from	(2,521,916)	2,521,916	-	-
Investments	-	4,147,398	11,079,741	15,227,139
Beneficial interests in trusts	-	-	3,101,486	3,101,486
Property and equipment	984,169	-	-	984,169
Accounts payable and accrued expenses	731,219	-	-	731,219
Pension liability	4,463,177	-	-	4,463,177
Capital lease obligations	81,623	-	-	81,623
Unrestricted net assets	(4,247,906)	-	-	(4,247,906)
Temporarily restricted net assets	-	7,108,726	-	7,108,726
Permanently restricted net assets	-	-	14,181,227	14,181,227

The net assets as of July 1, 2016, are shown as net asset transfer on the accompanying combined statement of activities and changes in net assets for the year ended June 30, 2017.

Eliot, the Trust, and MSPCC are exempt from Federal income taxes as organizations (not private foundations) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). Donors may deduct contributions made to Eliot, the Trust, and MSPCC within the IRC requirements.

SIGNIFICANT ACCOUNTING POLICIES

Eliot, the Trust, and MSPCC 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).

ELIOT COMMUNITY HUMAN SERVICES, INC. AND AFFILIATES

Notes to Combined Financial Statements
June 30, 2018 and 2017

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Principles of Combination

The combined financial statements include the net assets of Eliot, the Trust, and MSPCC (collectively, the Agency). All significant balances between classes of net assets, intercompany balances and transactions have been eliminated in the accompanying combined financial statements.

Description of 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 Agency. The Agency has classified its unrestricted net assets into the following categories:

Operating consists of amounts relating to program and other operating activities, which bear no external restrictions and are currently available for operations.

Property and equipment reflects the activities relating to property and equipment, net of related debt.

Board designated includes funds designated by the Board of Directors for a variety of purposes, including:

Board designated - Eliot consists of funds set aside by the Board of Directors as funds functioning as endowment.

Board designated - Other consists of funds set aside by the Board of Directors for the Umana Development Fund. These funds may only be used with the approval of the Board of Directors.

Temporarily Restricted Net Assets:

Temporarily restricted net assets represent funds contributed by donors that are restricted for specific purposes or time periods. Temporarily restricted net assets also include appreciation and investment earnings on permanently restricted net assets (endowment) in accordance with Massachusetts state law and the Agency's spending policy (see pages 14 and 15).

Temporarily restricted net assets consist of the following at June 30:

	<u>2018</u>	<u>2017</u>
Accumulated appreciation and earnings on permanently restricted investments (see Note 5)	\$ 5,416,788	\$ 6,039,718
Purpose restricted	<u>2,686,522</u>	<u>490,772</u>
	<u>\$ 8,103,310</u>	<u>\$ 6,530,490</u>

Permanently Restricted Net Assets:

Permanently restricted net assets represent amounts received from donors with the stipulation that the principal will be held in perpetuity and only the investment income can be spent (see Note 6).

ELIOT COMMUNITY HUMAN SERVICES, INC. AND AFFILIATES

Notes to Combined Financial Statements
June 30, 2018 and 2017

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Contracts and grants, net patient service revenue, and residential client fees are recorded when services are provided and costs are incurred. The Agency establishes fees for services to patients based upon the patient's ability to pay for those services. Unrestricted grants, contributions and Community Chest/United Way are recorded as revenue when received or unconditionally committed. Other revenue is recorded as it is earned.

Net patient service revenue reflects the amounts to be collected after provisions for contractual allowances and free care. Contractual allowances are accrued on an estimated basis in the period the related services are rendered. Net patient service revenue is adjusted as required based on final settlements. Contractual allowances were approximately \$11,655,000 and \$10,085,000 for the years ended June 30, 2018 and 2017, respectively. There were no material amounts of free care provided in fiscal year 2018 or 2017.

Restricted grants and contributions are recorded as temporarily or permanently restricted support and revenues and net assets when received or unconditionally 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.

Fundraising events, net in the accompanying combined statements of activities and changes in net assets at June 30, 2018 and 2017, include the results of annual special events and other fundraising efforts of the Agency (see page 16).

Subsequent Events

Subsequent events have been evaluated through October 22, 2018, which is the date the combined financial statements were available to be issued. See Note 13 for events that met the criteria for disclosure in the combined financial statements.

Advertising

The Agency expenses advertising costs as they are incurred. These costs are included in advertising and recruitment in the accompanying combined statements of functional expenses.

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 and cash equivalents, except for money market fund accounts included in investments (see Note 5). Cash and cash equivalents do not include client custodial funds as described below.

Client Custodial Funds

Client custodial funds represent funds that the Agency holds on behalf of clients for which the Agency is the representative payee. These amounts are disbursed by the Agency to pay for client expenses on their behalf. All amounts held by the Agency can only be used for the specific client's expenses.

ELIOT COMMUNITY HUMAN SERVICES, INC. AND AFFILIATES

Notes to Combined Financial Statements
June 30, 2018 and 2017

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Doubtful Accounts

The allowance for doubtful accounts is recorded based on management's analysis of specific accounts and their estimate of amounts that may be uncollectible. The allowance is based upon collection experience, third-party contracts, and other circumstances which may affect the ability of the Agency to collect. The Agency writes off uncollectible patient accounts receivable upon determining they will not be collected. There was no allowance for doubtful accounts for contracts, grants, and other receivables as all amounts have been deemed collectible at June 30, 2018 and 2017.

Property and Equipment and Depreciation

Property and equipment are recorded at cost, if purchased, or at fair value at the time of donation. The Agency expenses repairs and maintenance as incurred. Renovations and betterments that extend the useful life of the asset are capitalized. Depreciation for property and equipment, excluding land, is computed using the straight-line method over the following estimated useful lives:

Buildings and improvements	5 - 40 years
Leasehold improvements	Lesser of lease term or 5 years
Furniture and equipment	3 - 10 years
Motor vehicles	4 years

Property and equipment with a net book value of approximately \$455,000 and \$684,000 as of June 30, 2018 and 2017, respectively, have been acquired with funds received from the Commonwealth of Massachusetts (the Commonwealth). The Commonwealth maintains a reversionary interest in these assets.

Construction in Process

Construction in process as of June 30, 2017, consisted of costs incurred to purchase and renovate an administrative building. These costs were placed in service in July 2017. Construction in process as of June 30, 2018, consists of renovations to a program site which is expected to be completed during fiscal year 2019.

Property Held for Sale

Property held for sale is estimated based on the lower of fair value or historical cost of the property and consists of the Agency's former administrative building. The Agency sold this building during September 2018 (see Note 13).

Fair Value Measurements

The Agency 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 Agency would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

ELIOT COMMUNITY HUMAN SERVICES, INC. AND AFFILIATES

Notes to Combined Financial Statements
June 30, 2018 and 2017

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

The Agency 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 Agency. 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.

Cash and Cash Equivalents

Cash and equivalents are considered Level 1 in the fair value hierarchy.

Investments

Investments are recorded in the combined financial statements at fair value. If an investment is directly held by the Agency and an active market with quoted prices exists, the market price of an identical security is used to report fair value. Reported fair values of shares in mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year. The Agency's interests in hedge funds, limited partnerships and limited liability companies are generally reported at the net asset value (NAV) reported by fund managers, which is used as a practical expedient to estimate the fair value, unless it is probable that all or a portion of the investment will be sold for an amount different from NAV. As of June 30, 2018 and 2017, the Agency had no plans to sell investments at amounts different from NAV.

Pension Benefit Obligations

The pension benefit obligation considers anticipated payout patterns as well as investment returns on available assets prior to payment. This obligation is measured using Level 1 inputs (market values of publicly traded investments), Level 2 inputs (discount rates, default rates, and other factors), and Level 3 inputs (actuarial assumptions, mortality expectancy and projected investment returns). The total pension liability was paid during fiscal year 2018 and the pension plan was terminated. As such, the entire amount is classified as a current liability in the accompanying combined statement of financial position as of June 30, 2017.

ELIOT COMMUNITY HUMAN SERVICES, INC. AND AFFILIATES

Notes to Combined Financial Statements
June 30, 2018 and 2017

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

Beneficial Interests in Trusts

MSPCC has beneficial interests in perpetual trusts held by third party trustees on behalf of various not-for-profit organizations. The principal is restricted in perpetuity. The interest and dividend income generated by the investments is distributed each year to the beneficiaries, and is reported by MSPCC as unrestricted contributions. For the years ended June 30, 2018 and 2017, MSPCC recognized unrestricted contributions of \$137,157 and \$133,450, respectively, from these trusts, which are included in contributions in the accompanying combined statements of activities and changes in net assets. MSPCC has recorded \$3,432,438 and \$3,295,951 in the accompanying combined statements of financial position at June 30, 2018 and 2017, respectively, representing the fair value of its beneficial interests in the trusts as permanently restricted net assets.

Gains and losses on investments are considered changes in the present value of expected cash flows and are recognized as permanently restricted gains or losses on perpetual trusts. These inputs to the fair value estimate are considered Level 3 in the fair value hierarchy.

MSPCC is named as the final beneficiary of an irrevocable charitable remainder trust (the Trust), which is controlled by a third party trustee on behalf of the donor. The Trust agreement requires its assets be used to provide support for its named beneficiaries over the course of their lives. Upon death of the beneficiaries and other financial disbursements being made as outlined in the agreement, MSPCC will receive the remainder of the Trust's assets. The Trust's assets are largely invested in equities and fixed income securities and have a market value of \$10,582,075 and \$9,795,803 as of June 30, 2018 and 2017, respectively. The amount to be received by MSPCC, if any, cannot be determined and, therefore, is not reflected in the accompanying combined financial statements.

All Other Assets and Liabilities

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

Investment Spending Policy

Subject to the intent of a donor, the Agency may appropriate for expenditure or accumulate so much of an endowment fund as the Agency determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. The assets in an endowment fund are donor-restricted assets until appropriated for expenditure by the Agency. The Agency has adopted investment and spending policies for endowment assets that aim to safeguard the purchasing power of the endowment principal, generate an ongoing revenue source, and to provide for growth of the investment principal in accordance with Uniform Prudent Management of Institutional Funds Act. The amount of return available for spending during a fiscal year is expected to be set at a prudent level, and presented as part of the Agency's annual budget proposal subject to the review and recommendation of the Finance Committee and the ultimate approval of the Board of Directors.

The Board of Directors of the Agency voted to use approximately \$1,000,000 and \$2,000,000 of total investment return for operations for the years ended June 30, 2018 and 2017, respectively, with any additional amounts required at their discretion. Transfers to the operating net assets, in accordance with this policy, are reflected in the combined statements of activities and changes in net assets as investment return designated for current operations.

ELIOT COMMUNITY HUMAN SERVICES, INC. AND AFFILIATES

Notes to Combined Financial Statements
June 30, 2018 and 2017

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Spending Policy (Continued)

Risk and diversification parameters have been established and the endowment is maintained and rebalanced, if necessary, according to the Agency's investment policy. Under this policy, the endowment assets are invested to provide a competitive total rate of return commensurate with prudent diversification and moderate risk.

Pledges Receivable

Pledges receivable at June 30, 2018, consist of contributions committed to MSPCC. Pledges are recorded at their net present value when unconditionally committed. As of June 30, 2018 and 2017, MSPCC has unconditional pledges which are due as follows:

	<u>2018</u>	<u>2017</u>
Due within one year	\$ 185,066	\$ 68,075
Due in two to three years	<u>60,000</u>	<u>-</u>
	245,066	68,075
Less - allowance for uncollectible pledges	2,400	1,300
Less - discount	<u>1,571</u>	<u>-</u>
	241,095	66,775
Less - current portion	<u>185,066</u>	<u>66,775</u>
Pledges receivable, net of current portion	<u>\$ 56,029</u>	<u>\$ -</u>

The pledges have been discounted using a 2.69% interest rate at June 30, 2018. One and two donors' balances represent approximately 49% and 92% of the total outstanding pledge balance at June 30, 2018 and 2017, respectively.

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.

Estimates

The preparation of combined financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of 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.

Donated Goods and Services

The Agency receives services of volunteers in various aspects of its programs. The value of these services is not reflected in the accompanying combined financial statements, since the value assigned to these services by the donating volunteers is not ascertainable and does not meet the criteria recognition of *Accounting for Contributions Received and Contributions Made* standards.

ELIOT COMMUNITY HUMAN SERVICES, INC. AND AFFILIATES

Notes to Combined Financial Statements
June 30, 2018 and 2017

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Goods and Services (Continued)

The Agency also receives donated goods and professional services, some of which are associated with its fundraising events. These goods and services are reflected in the accompanying combined financial statements based upon the estimated value assigned to them by the donating individuals, agencies, or by management. There were no donated goods and services for the year ended June 30, 2018. The value of donated goods and services is as follows for the year ended June 30, 2017, and is included in interest and other in the accompanying combined statement of activities and changes in net assets:

Legal services	\$ 62,069
Supplies	<u>10,093</u>
	<u>\$ 72,162</u>

Bequests

The Agency is and may be named a beneficiary of various trusts and wills. The amounts to be received, if any, cannot be determined and, therefore, are reflected in the Agency's combined financial statements when the amounts are received or become known.

Fundraising Events

Included in fundraising events, net are the results of the annual special events, which are shown net of related expenses in the accompanying combined statements of activities and changes in net assets and consist of the following for the years ended June 30:

	<u>2018</u>		<u>2017</u>
Special events:			
Special events contributions and support	\$ 519,877		\$ 746,933
Special events revenue	\$ 144,235	\$ 66,330	
Less - direct expenses	<u>(104,819)</u>	39,416	<u>(116,493)</u>
			(50,163)
Other:			
Other fundraising revenues	-		770
Other fundraising expenses	<u>-</u>		<u>(13,839)</u>
Total fundraising events, net	<u>\$ 559,293</u>		<u>\$ 683,701</u>

Income Taxes

The Agency 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 Agency 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 Agency's information returns are subject to examination by the Federal and state jurisdictions.

ELIOT COMMUNITY HUMAN SERVICES, INC. AND AFFILIATES

Notes to Combined Financial Statements
June 30, 2018 and 2017

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Combined Statements of Activities and Changes in Net Assets

Transactions deemed by management to be ongoing, major, or central to the provision of program services are reported as operating support and revenues and operating expenses in the accompanying combined statements of activities and changes in net assets. Non-operating revenues (expenses) include investment activity, change in carrying value of beneficial interests in trusts, pension related changes other than net periodic pension cost, and bequests.

2. LEASE AGREEMENTS

Operating Leases

The Agency rents various facilities, equipment and vehicles under operating lease agreements, as well as tenant-at-will agreements. The agreements expire at various dates through fiscal year 2026.

Future minimum lease payments under non-cancelable operating leases are as follows:

	<u>Facilities</u>	<u>Equipment</u>	<u>Vehicles</u>	<u>Total</u>
2019	\$ 2,965,728	\$ 180,442	\$ 438,592	\$ 3,584,762
2020	\$ 2,197,334	\$ 94,022	\$ 315,537	\$ 2,604,893
2021	\$ 1,693,405	\$ 37,732	\$ 232,762	\$ 1,963,899
2022	\$ 1,305,802	\$ -	\$ 102,487	\$ 1,408,289
2023	\$ 1,525,551	\$ -	\$ 18,467	\$ 1,544,018
Thereafter	\$ 94,000	\$ -	\$ -	\$ 94,000

Facility rent expenses for the years ended June 30, 2018 and 2017, were \$5,266,728 and \$5,604,852, respectively. Total lease expense on all equipment and vehicles was \$839,727 and \$857,612 for the years ended June 30, 2018 and 2017, respectively, and is included in leased equipment, vehicle leases and operating costs in the accompanying combined statements of functional expenses.

One of the above leases includes an option to purchase the building as outlined in the lease agreement. Commencing on August 1, 2014, monthly lease payments are \$6,000, and an additional \$5,000 per month in escrow as a credit towards the option to purchase. Escrow payments are included in prepaid expenses in the accompanying combined statements of financial position as of June 30, 2018 and 2017. The Agency may elect to exercise its option to purchase at any time during the lease, until January 31, 2019. If the Agency does not exercise the option, the deposits are refundable.

Capital Lease

The Agency has a capital lease agreement with a financial institution to lease a phone system over a five-year term. This agreement met the criteria to be recorded as a capital lease. The cost of the phone system was approximately \$94,000, with a monthly lease payment of \$1,820, plus taxes, beginning in October 2015.

ELIOT COMMUNITY HUMAN SERVICES, INC. AND AFFILIATES

Notes to Combined Financial Statements
June 30, 2018 and 2017

2. LEASE AGREEMENTS (Continued)

Capital Lease (Continued)

The interest rate under this agreement is 6.08%. Future minimum lease payments under this agreement are as follows:

2019	\$ 21,842
2020	21,842
2021	<u>5,460</u>
Total future minimum payments	49,144
Less - interest	3,352
Less - current portion	<u>19,596</u>
Long-term portion of capital lease	<u>\$ 26,196</u>

Depreciation expense on equipment purchased under capital leases was \$18,794 for the years ended June 30, 2018 and 2017.

3. RELATED PARTY TRANSACTION

A former member of the Board of Directors is a member of a religious organization that leases its facilities to the Agency. The Agency paid approximately \$87,100 to lease the facilities and \$10,500 for the utilities and insurance relating to the occupancy for fiscal year 2017. The member joined the Board subsequent to the signing of the original lease agreement in 1999, and left the Board in September 2016.

4. FUNDING

The Agency receives significant funding under government unit-rate and cost reimbursable contracts. These reimbursements are subject to audit by the appropriate governmental agency. In the opinion of management, the results of such audits, if any, will not have a material effect on the combined financial position of the Agency as of June 30, 2018 and 2017, or on the changes in its net assets for the years then ended.

The following sources provided a significant portion of the Agency's total operating support and revenues for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Commonwealth of Massachusetts:		
Department of Mental Health	34%	34%
Department of Youth Services	14%	16%
Department of Children and Families	9%	10%

The following sources represented a significant portion of the Agency's contracts, grants and other receivables as of June 30:

	<u>2018</u>	<u>2017</u>
Commonwealth of Massachusetts:		
Department of Mental Health	32%	27%
Department of Youth Services	30%	29%
Department of Children and Families	12%	15%

ELIOT COMMUNITY HUMAN SERVICES, INC. AND AFFILIATES

Notes to Combined Financial Statements
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5. INVESTMENTS

Investments (see Note 1) consist of the following at June 30:

<u>Investment Type</u>	2018			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Absolute Return:				
Hedge funds*	\$ -	\$ -	\$ -	\$ 6,561,635
Limited partnerships*	-	-	-	2,721,960
Total absolute return	-	-	-	9,283,595
Other Investments:				
Mutual funds	5,317,936	-	-	5,317,936
Certificates of deposit	1,047,059	-	-	1,047,059
Money market	770,097	-	-	770,097
Equities	17,500	-	-	17,500
Total other investments	7,152,592	-	-	7,152,592
Total investments	\$ 7,152,592	\$ -	\$ -	\$ 16,436,187
<u>Investment Type</u>	2017			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Absolute Return:				
Hedge funds*	\$ -	\$ -	\$ -	\$ 7,391,794
Limited partnerships*	-	-	-	3,727,642
Limited liability company*	-	-	-	9,387
Total absolute return	-	-	-	11,128,823
Other Investments:				
Mutual funds	3,571,944	-	-	3,571,944
Certificates of deposit	1,038,231	-	-	1,038,231
Money market	1,284,585	-	-	1,284,585
Equities	19,780	-	-	19,780
Total other investments	5,914,540	-	-	5,914,540
Total investments	\$ 5,914,540	\$ -	\$ -	\$ 17,043,363

* In accordance with FASB ASC Subtopic 820-10, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying combined statements of financial position (see Note 1).

Certificates of deposit mature at various dates through November 2020. Since it is the Agency's intent to keep the investments for long-term purposes, the investments are presented as non-current assets in the accompanying combined statements of financial position.

Investments are not insured and are subject to market fluctuations. All investment fair market values have been provided by investment managers.

ELIOT COMMUNITY HUMAN SERVICES, INC. AND AFFILIATES

Notes to Combined Financial Statements
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5. INVESTMENTS (Continued)

The following schedule summarizes the investment return and its classification in the accompanying combined statements of activities and changes in net assets for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Realized gain on sale of investments	\$ 1,706,197	\$ 953,693
Investment income	126,835	86,581
Unrealized gain (loss) on investments	<u>(1,453,798)</u>	<u>332,220</u>
	<u>\$ 379,234</u>	<u>\$ 1,372,494</u>

The Agency incurred investment management fees totaling \$67,106 and \$73,608 for the years ended June 30, 2018 and 2017, respectively, which are included in professional fees in the accompanying combined statements of functional expenses.

6. ENDOWMENT FUNDS

Changes in endowment net assets by class are as follows for the years ended June 30, 2018 and 2017:

	<u>Unrestricted</u>	<u>Donor Restricted</u>			<u>Total</u> <u>Endowment</u>
	<u>Board</u> <u>Designated</u>	<u>Temporarily</u> <u>Restricted</u>	<u>Permanently</u> <u>Restricted</u>	<u>Total Donor</u> <u>Restricted</u>	
Endowment net assets, June 30, 2016	<u>\$ 226,701</u>	<u>\$ -</u>	<u>\$ 116,747</u>	<u>\$ 116,747</u>	<u>\$ 343,448</u>
Endowment funds received from MSPCC merger	<u>-</u>	<u>6,669,367</u>	<u>11,079,741</u>	<u>17,749,108</u>	<u>17,749,108</u>
Contributions	<u>-</u>	<u>-</u>	<u>1,415,074</u>	<u>1,415,074</u>	<u>1,415,074</u>
Investment returns:					
Net realized gains	-	953,693	-	953,693	953,693
Investment income	227	86,354	-	86,354	86,581
Net unrealized gains	<u>-</u>	<u>332,220</u>	<u>-</u>	<u>332,220</u>	<u>332,220</u>
Total investment returns	<u>227</u>	<u>1,372,267</u>	<u>-</u>	<u>1,372,267</u>	<u>1,372,494</u>
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(2,001,916)</u>	<u>-</u>	<u>(2,001,916)</u>	<u>(2,001,916)</u>
Endowment net assets, June 30, 2017	<u>226,928</u>	<u>6,039,718</u>	<u>12,611,562</u>	<u>18,651,280</u>	<u>18,878,208</u>
Investment returns:					
Net realized gains	-	1,706,197	-	1,706,197	1,706,197
Investment income	227	126,608	-	126,608	126,835
Net unrealized losses	<u>-</u>	<u>(1,453,798)</u>	<u>-</u>	<u>(1,453,798)</u>	<u>(1,453,798)</u>
Total investment returns	<u>227</u>	<u>379,007</u>	<u>-</u>	<u>379,007</u>	<u>379,234</u>
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(1,001,937)</u>	<u>-</u>	<u>(1,001,937)</u>	<u>(1,001,937)</u>
Endowment net assets, June 30, 2018	<u>\$ 227,155</u>	<u>\$ 5,416,788</u>	<u>\$ 12,611,562</u>	<u>\$ 18,028,350</u>	<u>\$ 18,255,505</u>

ELIOT COMMUNITY HUMAN SERVICES, INC. AND AFFILIATES

Notes to Combined Financial Statements
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6. ENDOWMENT FUNDS (Continued)

In accordance with the Agency's investment spending policy, the Board of Directors approved a draw up to \$1,000,000 and \$2,000,000 for fiscal years 2018 and 2017, respectively. The additional \$1,937 and \$1,916, respectively, represents earnings on permanently restricted gifts appropriated for program use.

7. NOTE PAYABLE TO A BANK

The Agency has available up to \$5,000,000 under a line of credit agreement with a bank. Borrowings under the agreement are due on demand and interest is payable monthly at a rate equal to the London Interbank Offered Rate (LIBOR) daily floating rate (2.09% and 1.22% as of June 30, 2018 and 2017, respectively), plus 2%. The line of credit is secured by certain real property owned by the Trust and all assets located at these facilities. The line of credit is cross-collateralized and cross-defaulted with other debt provided by the bank (see Note 8). This agreement expires on December 31, 2018, and is subject to annual renewal. There was no outstanding balance as of June 30, 2018 and 2017.

The Agency must maintain certain financial ratios and levels of working capital as specified in the agreement. The Agency must also meet certain covenants before any advances may be drawn. The Agency was in compliance with these financial ratios and other covenants at June 30, 2018 and 2017.

MSPCC had available up to \$3,000,000 under a revolving line of credit agreement with a bank through January 31, 2017. Borrowings under the agreement bore interest at the prime lending rate plus .25%, subject to a floor of 4.5%. The line of credit was collateralized by a first lien on all assets of MSPCC, as well as the non-permanently restricted portion of its investments. The revolving line of credit expired during fiscal year 2017 and was not renewed.

8. LONG-TERM DEBT

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

	<u>2018</u>	<u>2017</u>
Ten-year mortgage payable with a bank which bears interest at 4.65% per annum through March 2027. The mortgage is secured by real property located in Lexington, Massachusetts. Payments of principal and interest of \$28,617 are due monthly, and a balloon payment of \$2,752,000 and unpaid interest are due upon maturity in March 2027.	\$ 4,265,048	\$ 4,403,896
Tax-exempt bond payable agreement with Massachusetts Development Finance Agency (MDFA), due in monthly principal and interest payments of \$14,296. The twenty-year bond payable bears interest at 5.89% per annum through July 2027, and is secured by property and other assets located in Everett, Lexington, Medford, and Malden, Massachusetts.	1,193,117	1,290,230
Twenty-year note payable with a bank which bears interest at 7.61% per annum through July 2027. The note is secured by real property and other assets located in Everett, Lexington, Medford, and Malden, Massachusetts. Payments of principal and interest of \$8,188 are due monthly, and all remaining principal and unpaid interest are due upon maturity. The note payable is cross-collateralized and cross-defaulted with the line of credit provided by the bank (see Note 7).	636,498	683,982

ELIOT COMMUNITY HUMAN SERVICES, INC. AND AFFILIATES

Notes to Combined Financial Statements
June 30, 2018 and 2017

8. LONG-TERM DEBT (Continued)

	<u>2018</u>	<u>2017</u>
Ten-year mortgage payable with a bank which bears interest at 3.80% per annum through February 2026. The mortgage is secured by real property located in Braintree, Massachusetts. Payments of principal and interest of \$6,073 are due monthly, and all remaining principal and unpaid interest are due upon maturity.	479,846	532,645
Total long-term debt	6,574,509	6,910,753
Less - current portion	358,334	339,763
Less - debt issuance costs	45,147	50,164
	<u>\$ 6,171,028</u>	<u>\$ 6,520,826</u>

The note, mortgages and bond have certain covenants associated with them. The Agency was in compliance with these covenants as of June 30, 2018 and 2017.

The second and third notes listed on page 21 were paid off during September 2018, with the proceeds from the sale of property (see Note 13).

Debt issuance costs associated with the issuance of a bond payable are being amortized over the term of the bond, and are shown net of accumulated imputed interest of \$55,178 and \$50,161 as of June 30, 2018 and 2017, respectively. Amortization of debt issuance costs was \$5,017 in fiscal years 2018 and 2017 and is included in mortgage interest in the accompanying combined statements of functional expenses. Net debt issuance costs are reported in the accompanying combined statements of financial position as a direct reduction of the related long-term debt.

Future minimum principal payments and amortization of debt issuance costs relating to notes payable over the next five years are as follows:

	<u>Principal Payments</u>	<u>Amortization of Debt Issuance Costs</u>
2019	\$ 358,334	\$ 5,017
2020	\$ 377,447	\$ 5,017
2021	\$ 398,717	\$ 5,017
2022	\$ 420,684	\$ 5,017
2023	\$ 443,925	\$ 5,017

9. CONCENTRATION OF CREDIT RISK

The Agency maintains its primary operating cash balances at Bank of America and certificates of deposit and other savings accounts in other Massachusetts banks. At certain times during the year, cash balances in some of these accounts exceeded the Federal Deposit Insurance Corporation's (FDIC's) insured amounts. Management aims to keep its balances insured within the FDIC's limits whenever possible. Management monitors, on a regular basis, the financial condition of these financial institutions, along with their balances, to keep this potential risk to a minimum. The Agency maintains additional insurance coverage over the exposed balances of their certificates of deposit.

See Note 4 for additional concentrations.

ELIOT COMMUNITY HUMAN SERVICES, INC. AND AFFILIATES

Notes to Combined Financial Statements
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10. CONTINGENCY

In the ordinary course of the Agency's business, the Agency is, from time-to-time, involved in potential litigation. The Agency denies any wrongdoing in these cases and is taking the appropriate legal steps in defense of these disputes. It is the Agency's opinion that any potential settlement would not be material to the accompanying combined financial statements.

11. RETIREMENT PLANS

401(k) Plan

The Agency has an IRC Section 401(k) defined contribution pension plan covering all eligible employees. Employees become eligible to participate immediately upon their date of hire. The Agency is not required to make matching contributions, but may make discretionary contributions throughout the year. The Agency contributed \$431,357 and \$371,646 for the years ended June 30, 2018 and 2017, respectively, which are included in fringe benefits in the accompanying combined statements of functional expenses.

403(b) Plans

The Agency maintains an IRC Section 403(b) Tax-Deferred Annuity Plan. The Tax-Deferred Annuity Plan covers all eligible employees excluding non highly compensated employees and any employee covered by another employer-sponsored 401(k) or 403(b) plan. The Agency did not contribute to this plan during the years ended June 30, 2018 and 2017.

MSPCC maintained a discretionary employer contribution retirement plan under IRC Section 403(b) covering all employees. Only those employees who had attained the age of twenty-one and had completed one-year of service with at least 1,000 hours were eligible to receive the employer match, if any. This matching contribution was discretionary and was decided on an annual basis by the Board of Directors. Employees' contributions to the plan vested immediately. Employer matching contributions vested over a period of one year. MSPCC made no contributions to this plan during fiscal year 2017. This plan was closed and transferred to the Agency's Tax-Deferred Annuity Plan in May 2017.

Deferred Compensation Plan

The Agency also maintains a deferred compensation plan in accordance with IRC Section 457(b) for key members of management. Under the plan, the members of management may elect to defer salary within IRC limits. All employee contributions and related earnings are vested upon the first day of the calendar quarter immediately following twelve months of service. The Agency may contribute up to 1% of the annual salary paid out to each member. The Agency contributed \$54,898 and \$45,272 for the years ended June 30, 2018 and 2017, respectively, which is included in fringe benefits in the accompanying combined statements of functional expenses. The deferred compensation investment vehicles and managers will be solely appointed by the Board of Directors. All gains or losses shall accrue to the participant's account.

Defined Benefit Plan

MSPCC sponsored a noncontributory defined benefit plan (the Plan) which covered all employees who were participants prior to February 1, 2004. The Plan was subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

MSPCC froze the Plan as of February 1, 2004. The effect of this freeze was to eliminate new participants and the further accrual of benefits to participants.

ELIOT COMMUNITY HUMAN SERVICES, INC. AND AFFILIATES

Notes to Combined Financial Statements
June 30, 2018 and 2017

11. RETIREMENT PLANS (Continued)

Defined Benefit Plan (Continued)

MSPCC made contributions of \$3,159,156 to the Plan assets during fiscal year 2018 in order to fully fund the Plan. In fiscal year 2017, the Board of Directors voted to terminate the Plan. All plan assets were fully distributed as of January 31, 2018, eliminating the pension liability as of June 30, 2018.

Obligations, funded status and other information are as follows at June 30, 2017:

Funded Status:	
Fair value of plan assets	\$ 3,807,700
Projected benefit obligation	<u>(7,385,610)</u>
Total pension liability	(3,577,910)
Less - current portion	<u>3,577,910</u>
Pension liability, net of current portion	<u>\$ -</u>

Other disclosures:

	<u>2018</u>	<u>2017</u>
Interest cost	\$ 165,330	\$ 292,912
Expected return on plan assets	(162,052)	(216,126)
Amortization of net loss	<u>141,180</u>	<u>292,308</u>
Net periodic pension expense recognized	<u>\$ 144,458</u>	<u>\$ 369,094</u>
Benefits paid other than for settlement	<u>\$ 83,080</u>	<u>\$ 219,277</u>

Other changes in plan assets and benefit obligations recognized in non-operating revenues (expenses) in the accompanying combined statements of activities and changes in net assets for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Net gain	\$ 563,212	\$ 857,094
Effect of settlement	<u>2,326,313</u>	<u>251,605</u>
Total pension related changes	<u>\$ 2,889,525</u>	<u>\$ 1,108,699</u>

During fiscal year 2018, MSPCC distributed all plan assets totaling \$6,937,511. These distributions resulted in a settlement cost of \$2,326,313 which is shown net with total gain on the Plan of \$2,889,525 in the accompanying statement of activities and changes in net assets as of June 30, 2018.

Future Plan Benefit Payments and Employer Contributions

During fiscal year 2017, a group of participants in the Plan elected to receive a lump-sum distribution which totaled \$642,666. These distributions from the Plan exceeded the sum of the interest and service cost, resulting in a settlement charge of \$251,605 for fiscal year 2017. Net periodic pension expense recognized for the years ended June 30, 2018 and 2017, is included in fringe benefits in the accompanying combined statements of functional expenses.

ELIOT COMMUNITY HUMAN SERVICES, INC. AND AFFILIATES

Notes to Combined Financial Statements
June 30, 2018 and 2017

11. RETIREMENT PLANS (Continued)

Defined Benefit Plan (Continued)

Future Plan Benefit Payments and Employer Contributions (Continued)

The following assumptions were used to determine net periodic benefit costs for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Weighted average discount rate	3.85%	3.53%
Long-term return on plan assets	4.80%	5.40%

The following assumptions were used to determine benefit obligations as of and for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Weighted average discount rate	N/A	3.85%
Rate of compensation increase	N/A	N/A

Plan Assets

MSPCC held its plan assets in a diversified portfolio allocation. The allocation in this portfolio was weighted 96% in a mutual fund and 4% in cash to minimize risk and maximize return as of June 30, 2017. These assets were considered Level 1 in the fair value hierarchy (see Note 1).

12. LABOR AGREEMENT

MSPCC had a bargaining agreement with Service Employees International Union Local 509 governing its metro Boston region and its western region. On October 30, 2016, the MSPCC employees under this union contract were added to Eliot's contract.

The Agency has a bargaining agreement with Service Employees International Union Local 509 that expired on June 30, 2017. The contract was renewed through June 30, 2020. Approximately 74% and 78% of the Agency's labor force was covered under these agreements as of June 30, 2018 and 2017, respectively.

13. SUBSEQUENT EVENTS

In August 2017, the Agency was selected by the Commonwealth of Massachusetts Executive Office of Health and Human Services to enter into contract negotiations to become a Behavioral Health Community Partner (CP) under the redesigned MassHealth program. MassHealth started to contract with the CP for certain behavioral health services beginning on July 1, 2018.

In September 2018, the property held for sale (see Note 1) was sold \$2,025,000. This property served as collateral for the bond payable and one of the notes payable (see Note 8) and the Agency repaid the bond and a note from the sale proceeds.

14. RECLASSIFICATION

Certain amounts in the June 30, 2017 combined financial statements have been reclassified to conform to the June 30, 2018 presentation.