



P.G. Chambers School

Discovering the unique potential within every child.

FINANCIAL STATEMENTS

JUNE 30, 2018



OLSEN & THOMPSON, P.A.

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the
P.G. Chambers School, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of the P.G. Chambers School, Inc. (a nonprofit organization) which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses and cash flows for the years ended June 30, 2018 and 2017 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.

Auditor's 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditor's 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 the P.G. Chambers School, Inc. as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Olsen & Thompson, P.A.

Morristown, New Jersey
October 31, 2018

P.G. CHAMBERS SCHOOL, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018 and 2017

| | 2018 | 2017 |
|--|----------------------------|----------------------------|
| Assets | | |
| Cash and cash equivalents | \$1,878,829 | \$1,739,976 |
| Accounts receivable, net | 954,722 | 1,153,097 |
| Prepaid expenses | 41,968 | 48,033 |
| Investments, at fair value | 13,303,334 | 12,631,710 |
| Other assets | 6,545 | 11,233 |
| Contribution receivable - long-term | 274,000 | 254,000 |
| Cash restricted for property and equipment acquisition | 187,260 | 371,515 |
| Property and equipment, net | <u>4,578,488</u> | <u>4,535,869</u> |
| Total Assets | <u>\$21,225,146</u> | <u>\$20,745,433</u> |
| Liabilities | | |
| Accounts payable and accrued expenses | \$60,897 | \$67,890 |
| Accrued compensation | 789,762 | 726,809 |
| Capital lease payable | 2,506 | 16,865 |
| Mortgage payable | <u>157,472</u> | <u>292,449</u> |
| Total Liabilities | <u>1,010,637</u> | <u>1,104,013</u> |
| Commitments and Contingencies | | |
| Net Assets | | |
| Unrestricted-designated by Board for Investment | 7,929,305 | 7,569,511 |
| Unrestricted-designated by Board for Equipment | 388,733 | 384,903 |
| Unrestricted | <u>8,824,998</u> | <u>8,589,248</u> |
| Total Unrestricted | <u>17,143,036</u> | <u>16,543,662</u> |
| Temporarily Restricted | 1,182,297 | 1,208,582 |
| Permanently Restricted | <u>1,889,176</u> | <u>1,889,176</u> |
| Total Net Assets | <u>20,214,509</u> | <u>19,641,420</u> |
| Total Liabilities and Net Assets | <u>\$21,225,146</u> | <u>\$20,745,433</u> |

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

P.G. CHAMBERS SCHOOL, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|---------------------|
| <i>Public Support and Revenue</i> | | | | |
| Fees and tuition | \$11,294,784 | \$0 | \$0 | \$11,294,784 |
| Contributions | 369,718 | 214,600 | 0 | 584,318 |
| Government contracts | 677,896 | 0 | 0 | 677,896 |
| Special events revenues | 384,872 | 0 | 0 | 384,872 |
| Less: costs of direct benefits to donors | (125,100) | 0 | 0 | (125,100) |
| Net revenues from special events | <u>259,772</u> | <u>0</u> | <u>0</u> | <u>259,772</u> |
| Investment income, net of investment fees | 507,713 | 126,667 | 0 | 634,380 |
| Net assets released from restrictions | <u>367,552</u> | <u>(367,552)</u> | <u>0</u> | <u>0</u> |
| Total Public Support and Revenue | <u>13,477,435</u> | <u>(26,285)</u> | <u>0</u> | <u>13,451,150</u> |
| <i>Expenses</i> | | | | |
| Program services | 12,289,728 | 0 | 0 | 12,289,728 |
| Management and general | 229,464 | 0 | 0 | 229,464 |
| Fund raising | <u>358,869</u> | <u>0</u> | <u>0</u> | <u>358,869</u> |
| Total Expenses | <u>12,878,061</u> | <u>0</u> | <u>0</u> | <u>12,878,061</u> |
| <i>Change in Net Assets</i> | <u>599,374</u> | <u>(26,285)</u> | <u>0</u> | <u>573,089</u> |
| Net Assets at Beginning of Year | <u>16,543,662</u> | <u>1,208,582</u> | <u>1,889,176</u> | <u>19,641,420</u> |
| Net Assets at End of Year | <u>\$17,143,036</u> | <u>\$1,182,297</u> | <u>\$1,889,176</u> | <u>\$20,214,509</u> |

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

P.G. CHAMBERS SCHOOL, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Public Support and Revenue | | | | |
| Fees and tuition | \$11,239,725 | \$0 | \$0 | \$11,239,725 |
| Contributions | 281,619 | 208,290 | 0 | 489,909 |
| Government contracts | 729,913 | 0 | 0 | 729,913 |
| Special events revenues | 582,344 | 0 | 0 | 582,344 |
| Less: costs of direct benefits to donors | (164,678) | 0 | 0 | (164,678) |
| Net revenues from special events | <u>417,666</u> | <u>0</u> | <u>0</u> | <u>417,666</u> |
| Investment income, net of investment fees | 765,604 | 214,105 | 0 | 979,709 |
| Net assets released from restrictions | <u>79,624</u> | <u>(79,624)</u> | <u>0</u> | <u>0</u> |
| Total Public Support and Revenue | <u>13,514,151</u> | <u>342,771</u> | <u>0</u> | <u>13,856,922</u> |
| Expenses | | | | |
| Program services | 12,183,269 | 0 | 0 | 12,183,269 |
| Management and general | 170,828 | 0 | 0 | 170,828 |
| Fund raising | <u>389,726</u> | <u>0</u> | <u>0</u> | <u>389,726</u> |
| Total Expenses | <u>12,743,823</u> | <u>0</u> | <u>0</u> | <u>12,743,823</u> |
| Change in Net Assets | <u>770,328</u> | <u>342,771</u> | <u>0</u> | <u>1,113,099</u> |
| Net Assets at Beginning of Year | <u>15,773,334</u> | <u>865,811</u> | <u>1,889,176</u> | <u>18,528,321</u> |
| Net Assets at End of Year | <u>\$16,543,662</u> | <u>\$1,208,582</u> | <u>\$1,889,176</u> | <u>\$19,641,420</u> |

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

P.G. CHAMBERS SCHOOL, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018

| <u>Type of Expense</u> | Program Services | Supporting Services | | Total Expenses |
|---|---------------------|------------------------------|------------------|---------------------|
| | Direct Services | Management and General | Fund Raising | |
| Salaries | \$9,099,025 | \$114,385 | \$190,680 | \$9,404,090 |
| Employee health and retirement benefits | 1,425,598 | 15,746 | 34,771 | 1,476,115 |
| Payroll taxes | 747,260 | 9,473 | 15,844 | 772,577 |
| Total Salaries and Related Expenses | 11,271,883 | 139,604 | 241,295 | 11,652,782 |
| Professional fees and contract service payments | 108,679 | 63,559 | 32,420 | 204,658 |
| Insurance | 86,525 | 318 | 1,448 | 88,291 |
| Supplies | 125,493 | 489 | 34,035 | 160,017 |
| Communications | 17,904 | 42 | 791 | 18,737 |
| Postage | 8,984 | 1,510 | 5,271 | 15,765 |
| Occupancy | 260,697 | 862 | 3,923 | 265,482 |
| Interest | 13,706 | 4,642 | 242 | 18,590 |
| Membership dues | 14,087 | 1 | 4,669 | 18,757 |
| Conferences, conventions, meetings and travel | 66,719 | 1,903 | 1,855 | 70,477 |
| Subscriptions, reference publications and printing | 3,732 | 6,828 | 16,997 | 27,557 |
| Rental expense | 49,173 | 152 | 691 | 50,016 |
| Miscellaneous expense | 15,438 | 8,255 | 11,290 | 34,983 |
| Total Expenses Before Depreciation | 12,043,020 | 228,165 | 354,927 | 12,626,112 |
| Depreciation | 246,708 | 1,299 | 3,942 | 251,949 |
| Total Expenses | \$12,289,728 | \$229,464 | \$358,869 | \$12,878,061 |

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

P.G. CHAMBERS SCHOOL, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017

| <u>Type of Expense</u> | Program Services | <u>Supporting Services</u> | | Total Expenses |
|---|---------------------|------------------------------|------------------|---------------------|
| | Direct Services | Management and General | Fund Raising | |
| Salaries | \$9,030,145 | \$97,975 | \$181,827 | \$9,309,947 |
| Employee health and retirement benefits | 1,355,545 | 14,407 | 27,881 | 1,397,833 |
| Payroll taxes | 742,682 | 7,926 | 15,374 | 765,982 |
| Total Salaries and Related Expenses | 11,128,372 | 120,308 | 225,082 | 11,473,762 |
| Professional fees and contract service payments | 113,206 | 37,145 | 54,196 | 204,547 |
| Insurance | 74,460 | 289 | 1,303 | 76,052 |
| Supplies | 132,270 | 289 | 36,952 | 169,511 |
| Communications | 12,021 | 47 | 212 | 12,280 |
| Postage | 4,723 | 25 | 10,013 | 14,761 |
| Occupancy | 252,364 | 929 | 4,221 | 257,514 |
| Interest | 18,918 | 73 | 332 | 19,323 |
| Membership dues | 12,410 | 1 | 702 | 13,113 |
| Conferences, conventions, meetings and travel | 60,844 | 1,211 | 3,163 | 65,218 |
| Subscriptions, reference publications and printing | 7,613 | 93 | 31,851 | 39,557 |
| Rental expense | 51,007 | 194 | 874 | 52,075 |
| Miscellaneous expense | 16,728 | 9,133 | 15,891 | 41,752 |
| Total Expenses Before Depreciation | 11,884,936 | 169,737 | 384,792 | 12,439,465 |
| Depreciation | 298,333 | 1,091 | 4,934 | 304,358 |
| Total Expenses | \$12,183,269 | \$170,828 | \$389,726 | \$12,743,823 |

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

P.G. CHAMBERS SCHOOL, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2018 and 2017

| | 2018 | 2017 |
|---|-------------|-------------|
| <i>Cash Flows from Operating Activities</i> | | |
| Change in Net Assets | \$573,089 | \$1,113,099 |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | | |
| Depreciation | 251,949 | 304,358 |
| Amortization of loan fees | 4,688 | 4,688 |
| Net (gain) on sale of property available for sale | 0 | (11,720) |
| Net (gain) on investments | (287,460) | (702,077) |
| Decrease (Increase) in accounts receivable | 198,142 | (206,916) |
| Increase (Decrease) in allowance for doubtful accounts | 233 | (4) |
| (Increase) in contributions receivable long-term | (20,000) | (4,000) |
| Decrease in prepaid expenses | 6,065 | 13,938 |
| (Decrease) in accounts payable and accrued expenses | (6,993) | (27,119) |
| Increase in accrued compensation | 62,953 | 56,207 |
| Net Cash Provided by Operating Activities | 782,666 | 540,454 |
| <i>Cash Flows from Investing Activities</i> | | |
| Purchase of property and equipment | (294,568) | (26,531) |
| Sale of property | 0 | 455,135 |
| Purchase of investments | (2,566,307) | (2,354,291) |
| Proceeds from sale of investments | 2,182,143 | 1,462,635 |
| Net Cash (Used) By Investing Activities | (678,732) | (463,052) |
| <i>Cash Flows from Financing Activities</i> | | |
| Principal payments on mortgage payable | (134,977) | (134,976) |
| Principal payments on capitalized lease | (14,359) | (13,261) |
| Net Cash (Used) By Financing Activities | (149,336) | (148,237) |
| <i>Net Change in Cash, Cash Equivalents and Restricted Cash</i> | (45,402) | (70,835) |
| Cash, Cash Equivalents and Restricted Cash at Beginning of Year | 2,111,491 | 2,182,326 |
| Cash, Cash Equivalents and Restricted Cash at End of Year | \$2,066,089 | \$2,111,491 |

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

P.G. CHAMBERS SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies followed by the P.G. Chambers School, Inc. (the "School") in the preparation of its financial statements.

Organization

Since 1953, the School has been committed to improving the lives of children with special needs while advocating opportunities for all children. The School provides comprehensive special education, therapy and child care programs for more than 800 children and their families each year. The School serves the Northern New Jersey Region from its campus in Cedar Knolls, New Jersey.

Programs sponsored by the School include:

- Early Intervention Program for infants and toddlers
- Private School Program for multiple handicapped students age 3-14 years
- Child Care Program for children with and without special needs
- Physical, Occupational and Speech Therapy
- Community Outreach Services
- Family Education and Support Programs

Financial Statement Presentation

The School's financial statements report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the School is required to present statements of cash flows and functional expenses.

Reclassifications

The School's policy is to reclassify, where appropriate, prior year financial statements to conform to the current year presentation.

Concentrations

The School received approximately 5% of its total revenues from the State of New Jersey in both 2018 and 2017. In addition, approximately 84% and 82% of total revenues were received for tuition and fees from school districts located in Northern New Jersey in 2018 and 2017, respectively. The top five school districts accounted for approximately 30% of fees and tuition in 2018 and 2017.

P.G. CHAMBERS SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Contributions

The School records contributions received as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions that are temporarily restricted are reclassified to unrestricted net assets when the restriction is met. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized.

Promises to Give

Contributions are recognized when the donor makes a promise to give to the School that is unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Tax Status and Incorporation

The School is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code and is incorporated under Title 15 as a New Jersey not-for-profit corporation. The School believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The School's federal tax returns (Form 990) for 2015, 2016, 2017 and 2018 are subject to examination by the Internal Revenue Service, generally for three years after they are filed.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Functional Expenses

Functional expenses have been allocated between Program Services and Supporting Services based on an analysis of personnel time and space utilized for the related activities.

P.G. CHAMBERS SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Donated Materials and Services

Donated materials are reflected as contributions in the financial statements at their fair market value at date of receipt. There were no significant donations of materials in 2018 or 2017. No amounts have been reflected in the financial statements for donated services since the School generally pays for services requiring specific expertise. However, many individuals volunteer their time to assist the School with campaign solicitations and various committee assignments.

Cash Flows, Cash Equivalents and Restricted Cash

For purposes of the statement of cash flows, the School considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. Interest paid in 2018 and 2017 was \$18,590 and \$19,323, respectively. The School elected to early adopt Accounting Standards Update 2016-18, Statement of Cash Flows in 2018. This ASU addresses the presentation of the change in cash, cash equivalents and restricted cash of the School. See Note 14 for reconciliation of these account balances at June 30, 2018 and 2017. The adoption of the ASU did not have an effect on the net assets of the School.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

Net realized and unrealized gains and losses, dividends and interest on investments are accounted for in the statement of activities as increases or decreases in unrestricted net assets unless limited by donor-imposed restrictions.

Investment advisory fees for the years ended June 30, 2018 and 2017 were \$87,763 and \$79,545, respectively, and were netted against investment income on the statement of activities.

Fair Value of Financial Instruments

The School's financial instruments, none of which are held for trading purposes, include cash and cash equivalents, accounts receivable and payable, and other accrued liabilities. Their carrying amounts approximate their fair values due to their short-term maturities. For investments, the estimated fair value amounts have been determined using available market information. See Note 12 for additional information on fair value.

P.G. CHAMBERS SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Land, Building, Equipment and Depreciation

Gifts of land, building and equipment are recorded at fair market value as of date of receipt. Purchased land, building and equipment are recorded at cost. Depreciation of building and equipment is provided on a straight-line basis over the estimated useful lives of the assets. The cost of minor renewals and betterments is expensed; the cost of major renewals and betterments is capitalized.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. A valuation allowance of \$39,617 and \$39,385 was recorded as of June 30, 2018 and 2017, respectively.

Subsequent Events

Subsequent events were evaluated through October 31, 2018, which is the date the financial statements were available to be issued.

NOTE 2 – INVESTMENTS

Investments are composed of the following at June 30, 2018 and 2017:

| | <u>2018</u> | <u>2017</u> |
|-----------------------------|---------------------|---------------------|
| Mutual Funds – Equity | \$ 5,397,271 | \$ 5,162,442 |
| Mutual Funds – Fixed Income | 3,003,562 | 2,852,831 |
| Common Stocks | 2,360,211 | 2,263,756 |
| Bonds | 1,922,047 | 1,782,349 |
| Other Investments | 598,261 | 552,326 |
| Accrued Income | 21,981 | 18,006 |
| Totals | <u>\$13,303,334</u> | <u>\$12,631,710</u> |

The investments are recorded at fair market value based on market quotes. See Note 12 for additional information on fair value of investments. The mutual funds are invested in several funds, all of which are subject to market risks and fluctuations (fair market value has decreased 1.4% as of October 31, 2018.) The other investments consist of investments in various real estate funds, commodities funds and absolute return funds.

**P.G. CHAMBERS SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 2 – INVESTMENTS (Continued)

The following schedule summarizes the investment return for the years ended June 30, 2018 and 2017

| | <u>2018</u> | <u>2017</u> |
|------------------------------|-------------------|-------------------|
| Dividend and Interest Income | \$ 434,503 | \$ 345,457 |
| Gain on sale of property | 0 | 11,720 |
| Gains and (Losses), Net | 287,640 | 702,077 |
| Investment Advisory Fees | <u>(87,763)</u> | <u>(79,545)</u> |
| Investment Income, Net | <u>\$ 634,380</u> | <u>\$ 979,709</u> |

The net gains and (losses) for 2018 are comprised of realized gains of \$171,072, realized losses of (\$113,254) and unrealized gains of \$229,822. The net gains and (losses) for 2017 are comprised of realized gains of \$77,517, realized losses of (\$69,300) and unrealized gains of \$693,860. The investments in corporate and government bonds have stated interest rates of 1.25% - 3.50%, with maturity (par values) in the following fiscal years as of June 30, 2018:

| | |
|-------|--------------------|
| 2019 | \$ 475,000 |
| 2020 | 175,000 |
| 2021 | 50,000 |
| 2022 | 50,000 |
| 2023 | 585,000 |
| 2024 | 90,000 |
| 2025 | 95,000 |
| 2026 | 75,000 |
| 2027 | <u>305,000</u> |
| Total | <u>\$1,900,000</u> |

NOTE 3 – GOVERNMENT CONTRACTS

For the years ended June 30, 2018 and 2017, the School received contract funds from the State of New Jersey in the amounts of \$677,896 and \$729,913, respectively.

NOTE 4 – RETIREMENT BENEFITS

The School has a qualified thrift plan under Internal Revenue Code Section 403(b) for all employees, subject to certain age and service requirements. The School matches all employees' contributions at the rate of 50 percent to a maximum of 3 percent of the employees' annual compensation, subject to certain limitations. The plan also allows for a discretionary match, the amount of which is determined annually by the Board of Trustees (approximately \$126,000 and \$109,000 in 2018 and 2017, respectively). The School's total contribution for the years ended June 30, 2018 and 2017 was \$306,899 and \$289,800, respectively.

**P.G. CHAMBERS SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 5 - COMMITMENTS

The School leases equipment under several non-cancellable operating leases. Lease expense for 2018 and 2017 was \$50,016 and \$52,075, respectively. At June 30, 2018, the required payments under these leases were payable in the fiscal years as follows:

| | |
|------|------------------|
| 2019 | \$ 50,218 |
| 2020 | 46,429 |
| 2021 | 35,119 |
| 2020 | <u>415</u> |
| | <u>\$132,181</u> |

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment and related accumulated depreciation at June 30, 2018 and 2017 were as follows:

| | Estimated Useful Life <u>(Years)</u> | <u>2018</u> | <u>2017</u> |
|--------------------------------|--|--------------------|--------------------|
| Land | | \$1,025,000 | \$1,025,000 |
| Building and improvements | 15-39 | 7,788,547 | 7,524,557 |
| Equipment | 5-7 | <u>416,388</u> | <u>426,830</u> |
| | | 9,229,935 | 8,976,387 |
| Less: Accumulated depreciation | | <u>4,651,447</u> | <u>4,440,518</u> |
| Net property and equipment | | <u>\$4,578,488</u> | <u>\$4,535,869</u> |

Total depreciation expense for the years ended June 30, 2018 and 2017 was \$251,949 and \$304,358, respectively. See Note 7 for information on property available for sale and Note 11 for information on capitalized leased equipment.

NOTE 7 – PROPERTY AVAILABLE FOR SALE

At June 30, 2016, the School had classified \$431,971 as property for sale. The property had an original cost and related capitalized costs of \$631,971 at June 30, 2016, which was reduced by \$200,000 in 2016 as an estimate of the write-down of the property to fair value. The property was sold in 2017 for \$480,000 and after selling expenses, resulted in a net loss of \$188,280. Because of the \$200,000 allowance recorded in 2016, there was a net gain of \$11,720 recorded in 2017.

P.G. CHAMBERS SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes or periods:

| | <u>2018</u> | <u>2017</u> |
|-----------------------------|--------------------|--------------------|
| Periods after June 30 | \$ 105,000 | \$ 70,000 |
| Endowment Fund – Operations | 890,037 | 767,067 |
| Building and Equipment | <u>187,260</u> | <u>371,515</u> |
| | <u>\$1,182,297</u> | <u>\$1,208,582</u> |

As of June 30, 2018 and 2017, cash in the amounts of \$187,260 and \$371,515, respectively, are restricted for building improvements and equipment.

NOTE 9 – CONCENTRATION OF CREDIT RISK IN CASH AND CASH EQUIVALENTS

The School maintains its cash balances at two financial institutions, where the accounts are insured by the Federal Deposit Insurance Corporation. The cash balances exceeded the insured amounts at various times during the year. Also included in cash equivalents are uninsured money market mutual funds. While the funds invest in instruments which the investment advisors believe present minimal credit risks at the time of purchase, there is a risk that an issuer may not be able to make principal and interest payments when due. In addition, the funds are subject to risks related to changes in interest rates. The School did not incur any losses with respect to its investments in these money market mutual funds. Approximately 12% of cash and cash equivalents and cash restricted for property acquisition at June 30, 2018 are insured by a federal agency. The School also has a concentration of credit risk with respect to accounts receivable as collateral is not required of its customers. Receivables at June 30, 2018 and 2017 were comprised of the following:

| | <u>2018</u> | <u>2017</u> |
|------------------------------------|-------------------|--------------------|
| Public school tuition and services | \$ 845,178 | \$1,044,359 |
| Government grants | 66,818 | 131,718 |
| Other receivables | <u>82,343</u> | <u>16,405</u> |
| | 994,339 | 1,192,482 |
| Less allowance | <u>(39,617)</u> | <u>(39,385)</u> |
| | <u>\$ 954,722</u> | <u>\$1,153,097</u> |

P.G. CHAMBERS SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 10 – CONTRIBUTION RECEIVABLE – LONG TERM

In 2016, the School received the ownership of a life insurance policy on the donor and will receive \$500,000 at the time of the donor's death. Based on the donor's life expectancy and an eight percent discount rate, the present value of the life insurance policy is estimated to be \$274,000 and \$254,000 at June 30, 2018 and 2017, respectively, which was recorded as an unrestricted contribution and a contribution receivable-long term.

NOTE 11 – MORTGAGE AND CAPITAL LEASE PAYABLE

The School obtained a mortgage through the New Jersey Health Care Facilities Financing Authority. The land and building of the School have a lien on them for both the current facilities and any future additions. The mortgage agreement has several financial covenants that must be met annually by the School, including liquidity ratio and debt service coverage calculations. The interest rate on the mortgage is determined monthly by the Authority based on its interest rates and program expenses as defined in the Trust Agreement (rate at June 30, 2018 and June 30, 2017 was 4.22% and 3.79%, respectively). The loan was payable in 107 monthly installments of principal beginning November 1, 2003, with the monthly accrued interest added to the principal payment based on the applicable monthly rate. A balloon payment of \$1,009,007 was due September 1, 2012, however, the mortgage was refinanced on November 1, 2011 with changes to the principal payments as follows: 94 monthly installments of \$11,248 effective November 1, 2011.

The future annual principal payments in each fiscal year are as follows at June 30, 2018:

| | |
|------|------------------|
| 2019 | \$134,976 |
| 2020 | <u>22,496</u> |
| | <u>\$157,472</u> |

The School leases equipment under a lease classified as a capital lease. The leased equipment of \$62,440 is included in equipment (see Note 6 to the financial statements) and is depreciated on a straight line basis over 5 years. Total accumulated depreciated related to the leased equipment is \$61,399 at June 30, 2018.

P.G. CHAMBERS SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 11 – MORTGAGE AND CAPITAL LEASE PAYABLE (Continued)

The following schedule shows the future minimum lease payments under capital leases by fiscal years and the present value of the minimum lease payments as of June 30, 2018:

| | |
|-------------------|----------------|
| 2019 | <u>\$2,531</u> |
| Gross payments | 2,531 |
| Less interest | <u>(25)</u> |
| Net lease payable | <u>\$2,506</u> |

NOTE 12 – FAIR VALUE MEASUREMENTS

The FASB ASC 820-10 framework requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for participants. ASC 820 establishes a three-level valuation hierarchy based upon observable and non-observable inputs.

For financial assets and liabilities, fair value is the price the School would receive to sell an asset or pay to transfer a liability in an orderly transaction with a market participant at the measurement date. In the absence of active markets for the identical assets or liabilities, such measurements involve developing assumptions based on market observable data and, in the absence of such data, internal information that is consistent with what market participants would use in a hypothetical transaction that occurs at the measurement date.

Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. Preference is given to observable inputs. These two types of inputs create the following fair value hierarchy:

Level 1 – Quoted prices for identical instruments in active markets

Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 – Significant inputs to the valuation model are unobservable

P.G. CHAMBERS SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 12 – FAIR VALUE MEASUREMENTS (Continued)

The School maintains policies and procedures to value instruments using the best and most relevant data available. The School uses quotes from market prices to determine the fair value of investment securities which are included in Level 1. Level 1 securities include investments in common stocks and mutual funds. The investments in Level 2 securities include investments in bonds and other investments which are valued from market prices of similar securities. The School does not have any investments in Level 3 category. The School believes that the valuations used in the financial statements are reasonable and are appropriately classified in the fair value hierarchy as follows at June 30 (in thousands):

| <u>2018</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-----------------------|-----------------|----------------|----------------|-----------------|
| Cash equivalents | <u>\$ 1,417</u> | <u>\$ 0</u> | <u>\$0</u> | <u>\$ 1,417</u> |
| Investment securities | <u>\$10,783</u> | <u>\$2,520</u> | <u>\$0</u> | <u>\$13,303</u> |
| Totals | <u>\$12,200</u> | <u>\$2,520</u> | <u>\$0</u> | <u>\$14,720</u> |

| <u>2017</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|-----------------------|-----------------|----------------|----------------|-----------------|
| Cash equivalents | <u>\$ 1,230</u> | <u>\$ 0</u> | <u>\$0</u> | <u>\$ 1,230</u> |
| Investment securities | <u>\$10,297</u> | <u>\$2,335</u> | <u>\$0</u> | <u>\$12,632</u> |
| Totals | <u>\$11,527</u> | <u>\$2,335</u> | <u>\$0</u> | <u>\$13,862</u> |

NOTE 13 – ENDOWMENT FUNDS

Board-designated Endowment – At June 30, 2018, the Board of Trustees had designated \$7,929,305 of unrestricted net assets for investments as a general endowment fund to support the mission of the School. Since that amount resulted from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets. The School has a spending policy of appropriating for distribution each year the earnings on the investments in the Board-designated Endowment Fund.

Donor-designated Endowment – As required by generally accepted accounting principles, net assets associated with the donor-designated endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Trustees of the School has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 13 – ENDOWMENT FUNDS (Continued)

fair value of the gifts as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the School classifies as permanently restricted net assets the original value of the gifts donated to the permanent endowment, the original value of the subsequent gifts to the permanent endowment and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the School in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the School considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effects of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the School, and (7) the School's investment policies. The School has not yet made appropriations from the donor-restricted temporarily restricted net assets, but is allowing them to accumulate until such time as they are needed for operations.

The School has adopted an investment policy that attempts to maximize total return consistent with an acceptable level of risk. Endowment assets are invested in a well diversified asset mix, which include equity and debt securities, that are intended to result in a consistent inflation protected rate of return that has sufficient liquidity to allow the distribution of the current earnings. Actual returns in any given year will vary. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Endowment net asset composition by type of fund as of June 30, 2018 is as follows (in thousands):

| | Temporarily Permanently | | | <u>Total</u> |
|-------------------------------------|-------------------------|-------------------|-------------------|-----------------|
| | <u>Unrestricted</u> | <u>Restricted</u> | <u>Restricted</u> | |
| Donor-restricted endowment funds | \$ 0 | \$ 890 | \$1,889 | \$ 2,779 |
| Unrestricted Board designated funds | <u>7,930</u> | <u>0</u> | <u>0</u> | <u>7,930</u> |
| Total Funds | <u>\$7,930</u> | <u>\$ 890</u> | <u>\$1,889</u> | <u>\$10,709</u> |

P.G. CHAMBERS SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 13 – ENDOWMENT FUNDS (Continued)

Changes in endowment net assets for the year ended June 30, 2018 are as follows (in thousands):

| | Temporarily Permanently | | | <u>Total</u> |
|---------------------------------|-------------------------|-------------------|-------------------|-----------------|
| | <u>Unrestricted</u> | <u>Restricted</u> | <u>Restricted</u> | |
| Balance, July 1, 2017 | \$7,570 | \$ 767 | \$1,889 | \$10,226 |
| Designations/Contributions | 16 | 0 | 0 | 16 |
| Investment income | 171 | 97 | 0 | 268 |
| Net appreciation (depreciation) | 173 | 26 | 0 | 199 |
| Appropriations/Expenditures | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Balance, June 30, 2018 | <u>\$7,930</u> | <u>\$ 890</u> | <u>\$1,889</u> | <u>\$10,709</u> |

Endowment net asset composition by type of fund as of June 30, 2017 is as follows (in thousands):

| | Temporarily Permanently | | | <u>Total</u> |
|-------------------------------------|-------------------------|-------------------|-------------------|-----------------|
| | <u>Unrestricted</u> | <u>Restricted</u> | <u>Restricted</u> | |
| Donor-restricted endowment funds | \$ 0 | \$ 767 | \$1,889 | \$ 2,656 |
| Unrestricted Board designated funds | <u>7,570</u> | <u>0</u> | <u>0</u> | <u>7,570</u> |
| Total Funds | <u>\$7,570</u> | <u>\$ 767</u> | <u>\$1,889</u> | <u>\$10,226</u> |

Changes in endowment net assets for the year ended June 30, 2017 are as follows (in thousands):

| | Temporarily Permanently | | | <u>Total</u> |
|---------------------------------|-------------------------|-------------------|-------------------|-----------------|
| | <u>Unrestricted</u> | <u>Restricted</u> | <u>Restricted</u> | |
| Balance, July 1, 2016 | \$6,978 | \$ 565 | \$1,889 | \$ 9,432 |
| Designations/Contributions | 77 | 0 | 0 | 77 |
| Investment income | 137 | 58 | 0 | 195 |
| Net appreciation (depreciation) | 378 | 144 | 0 | 522 |
| Appropriations/Expenditures | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Balance, June 30, 2017 | <u>\$7,570</u> | <u>\$ 767</u> | <u>\$1,889</u> | <u>\$10,226</u> |

P.G. CHAMBERS SCHOOL, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 14 – CASH, CASH EQUIVALENTS AND RESTRICTED CASH

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statements of financial position that sum to the total of such amounts shown in the statements of cash flows as of June 30:

| | <u>2018</u> | <u>2017</u> |
|---|--------------------|--------------------|
| Cash and cash equivalents | \$1,878,829 | \$1,739,976 |
| Cash restricted for property and equipment acquisition | <u>187,260</u> | <u>371,515</u> |
| Total cash, cash equivalents and restricted cash shown in the statement of cash flows | <u>\$2,066,089</u> | <u>\$2,111,491</u> |