

NEW FOUNDATIONS HOME FOR CHILDREN, INC.

REPORT ON FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 AND 2017

NEW FOUNDATIONS HOME FOR CHILDREN, INC.

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CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
New Foundations Home for Children, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of New Foundations Home for Children, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 New Foundations Home for Children, 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on pages 6 - 7 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Love Bailey & Associates, LLC

Love Bailey & Associates, LLC

Laurens, South Carolina

October 26, 2018

NEW FOUNDATIONS HOME FOR CHILDREN, INC.
STATEMENTS OF FINANCIAL POSITION

	JUNE 30,	
	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 232,688	\$ 400,312
Investments - certificate of deposits	1,027,709	1,018,242
Accounts receivable	409,216	280,149
Prepaid Insurance	19,641	10,620
Mortgage note receivable, current portion	24,876	125,074
Total current assets	<u>1,714,130</u>	<u>1,834,397</u>
PROPERTY, PLANT AND EQUIPMENT, net	1,822,217	1,932,207
NON-CURRENT ASSETS		
Deferred debit issue costs	-	868
Mortgage note receivable, long-term portion	189,170	97,450
Total non-current assets	<u>189,170</u>	<u>98,318</u>
Total assets	<u><u>\$ 3,725,517</u></u>	<u><u>\$ 3,864,922</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 40,459	\$ 56,617
Accrued payroll and related liabilities	73,805	58,773
Compensated absences	130,353	121,390
Held on behalf of others	3,722	1,823
Capital lease payable, current portion	3,598	5,837
Mortgage payable, current portion	39,224	47,163
Total current liabilities	<u>291,161</u>	<u>291,603</u>
NONCURRENT LIABILITIES		
Mortgages payable, long-term portion	1,091,366	1,220,839
Capital lease payable, long-term portion	-	3,597
Total non-current liabilities	<u>1,091,366</u>	<u>1,224,436</u>
Total liabilities	<u>1,382,527</u>	<u>1,516,039</u>
NET ASSETS		
Unrestricted		
Invested in property, plant and equipment	688,029	654,771
Other	1,566,890	1,594,945
Total unrestricted assets	<u>2,254,919</u>	<u>2,249,716</u>
Temporarily restricted	88,071	99,167
Total net assets	<u>2,342,990</u>	<u>2,348,883</u>
Total liabilities and net assets	<u><u>\$ 3,725,517</u></u>	<u><u>\$ 3,864,922</u></u>

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

NEW FOUNDATIONS HOME FOR CHILDREN, INC.
STATEMENTS OF ACTIVITIES

	YEARS ENDED JUNE 30,					
	2018			2017		
	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL	UNRESTRICTED	TEMPORARILY RESTRICTED	TOTAL
REVENUES, GAINS AND OTHER SUPPORT						
Program service fees	\$ 4,221,792	\$ -	\$ 4,221,792	\$ 4,294,996	\$ -	\$ 4,294,996
Grants and contributions	134,282	164,055	298,337	130,109	119,000	249,109
Special events	15,774	-	15,774	23,209	-	23,209
Investment income	15,696	-	15,696	13,196	-	13,196
Other revenues, gains, losses and support	66,227	-	66,227	70,710	-	70,710
Net assets released from restrictions	175,151	(175,151)	-	45,108	(45,108)	-
Total revenues, gains and other support	4,628,922	(11,096)	4,617,826	4,577,328	73,892	4,651,220
FUNCTIONAL EXPENSES						
Program services						
Treatment	3,524,616	-	3,524,616	3,480,345	-	3,480,345
Family counseling	222,401	-	222,401	273,630	-	273,630
Therapeutic Foster Care	139,174	-	139,174	8,931	-	8,931
Supporting services						
Management and general	667,665	-	667,665	704,766	-	704,766
Fundraising	69,863	-	69,863	97,970	-	97,970
Total functional expenses	4,623,719	-	4,623,719	4,565,642	-	4,565,642
Changes in net assets	5,203	(11,096)	(5,893)	11,686	73,892	85,578
Net assets, beginning of year	2,249,716	99,167	2,348,883	2,238,030	25,275	2,263,305
Net assets, end of year	\$ 2,254,919	\$ 88,071	\$ 2,342,990	\$ 2,249,716	\$ 99,167	\$ 2,348,883

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

NEW FOUNDATIONS HOME FOR CHILDREN, INC.
STATEMENTS OF CASH FLOWS

	YEAR ENDED JUNE 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (5,893)	\$ 85,578
Adjustments to reconcile changes in net assets to net cash provided by operating activities		
Depreciation and amortization	146,282	146,354
(Gain)Loss on sale of property, plant and equipment	-	(25,047)
(Increase) decrease in:		
Accounts receivable, net	(129,067)	378,550
Pledges receivable	-	25,275
Prepaid expenses	(9,021)	(3,193)
Increase (decrease) in:		
Accounts payable	(16,158)	10,732
Accrued expenses	25,894	(105,790)
Net cash provided by operating activities	<u>12,037</u>	<u>512,459</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(9,467)	(116,513)
Purchases of property, plant and equipment	(35,424)	(156,490)
Principal collections on note receivable	8,478	(97,385)
Deposit/proceeds for sale of asset	-	136,120
Net cash used in investing activities	<u>(36,413)</u>	<u>(234,268)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net payments on notes	(137,412)	(52,211)
Net payments on capital leases	(5,836)	(5,443)
Net cash used in financing activities	<u>(143,248)</u>	<u>(57,654)</u>
Net (decrease) increase in cash	(167,624)	220,537
Cash, beginning of year	<u>400,312</u>	<u>179,775</u>
Cash, end of year	<u>\$ 232,688</u>	<u>\$ 400,312</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	<u>\$ 55,313</u>	<u>\$ 66,027</u>

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

NEW FOUNDATIONS HOME FOR CHILDREN, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018

	Program Services				Supporting Services		
	Treatment	Family Counseling	Therapeutic Foster Care	Total	Management and General	Fundraising	Total
Personnel and related expenses	\$ 2,641,561	\$ 182,322	\$ 90,083	\$ 2,913,966	\$ 602,486	\$ 21,713	\$ 3,538,165
Food	19,834	-	-	19,834	143,540	-	163,374
Client expenses	45,949	-	-	45,949	5,030	4,244	55,223
Supplies	21,715	-	-	21,715	27,003	-	48,718
Vehicle expenses	36,342	-	-	36,342	3,079	-	39,421
Office expenses	66,866	8,231	696	75,793	32,845	18,442	127,080
Professional fees	29,295	22,068	-	51,363	34,759	-	86,122
Membership	-	-	700	700	10,376	-	11,076
Travel	47,355	-	2,607	49,962	2,557	179	52,698
Training	8,531	-	222	8,753	559	-	9,312
Depreciation and amortization	-	-	-	-	146,282	-	146,282
Utilities	83,959	7,943	1,853	93,755	61,968	-	155,723
Insurance	-	-	-	-	33,834	-	33,834
Repairs and maintenance	22,623	1,327	9	23,959	18,823	-	42,782
Interest expense	-	-	-	-	55,313	-	55,313
Other	2,027	371	16,373	18,771	15,313	24,512	58,596
Total expenses before Allocated Costs	3,026,057	222,262	112,543	3,360,862	1,193,767	69,090	4,623,719
Allocated costs	498,559	139	26,631	525,329	(526,102)	773	-
Total expenses	\$ 3,524,616	\$ 222,401	\$ 139,174	\$ 3,886,191	\$ 667,665	\$ 69,863	\$ 4,623,719

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

NEW FOUNDATIONS HOME FOR CHILDREN, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017

	Program Services				Supporting Services		
	Treatment	Family Counseling	Therapeutic Foster Care	Total	Management and General	Fundraising	Total
Personnel and related expenses	\$ 2,559,047	\$ 216,394	\$ 7,354	\$ 2,782,795	\$ 598,273	\$ 53,889	\$ 3,434,957
Food	19,386	-	-	19,386	156,878	-	176,264
Client expenses	51,614	-	-	51,614	5,284	5,350	62,248
Supplies	28,129	-	-	28,129	27,180	-	55,309
Vehicle expenses	42,718	-	-	42,718	4,533	-	47,251
Office expenses	41,020	10,123	17	51,160	38,950	15,059	105,169
Professional fees	34,268	29,330	92	63,690	29,432	-	93,122
Membership	-	-	560	560	15,311	-	15,871
Travel	53,245	94	-	53,339	1,533	-	54,872
Training	10,648	-	-	10,648	162	-	10,810
Depreciation and amortization	-	-	-	-	146,354	-	146,354
Utilities	82,230	9,332	-	91,562	67,902	-	159,464
Insurance	-	-	-	-	31,113	-	31,113
Repairs and maintenance	23,407	1,250	2,296	26,953	19,947	-	46,900
Interest expense	-	-	-	-	66,027	-	66,027
Other	5,728	9,198	-	14,926	14,743	30,242	59,911
Total expenses before Allocated Costs	2,951,440	275,721	10,319	3,237,480	1,223,622	104,540	4,565,642
Allocated costs	528,905	(2,091)	(1,388)	525,426	(518,856)	(6,570)	-
Total expenses	\$ 3,480,345	\$ 273,630	\$ 8,931	\$ 3,762,906	\$ 704,766	\$ 97,970	\$ 4,565,642

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

NEW FOUNDATIONS HOME FOR CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – NATURE OF BUSINESS AND ACCOUNTING POLICIES

Nature of Business – New Foundations Home for Children, Inc. (the “Organization”) is a not-for-profit organization formed in 1974 as a treatment center for children by a group of concerned community leaders and was incorporated on June 29, 1976.

The Organization specializes in the treatment of children and families who have suffered traumatic experiences throughout their lives and is dedicated to caring for emotionally disturbed children, adolescents and families. The Organization’s revenues are derived primarily from charges for client services which are primarily paid by government agencies. Programs include the following:

- * Group Care Level 3
- * Group Care Level 3 Independent Living Focus
- * Rehabilitative Psychosocial Services
- * Family Counseling Center – Assessment and Therapy Services
- * Community Based Prevention Services – Family Strengthening
- * Therapeutic Foster Care

The Organization is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes. The Organization has also been classified as an entity that is not a private foundation within the meaning of Section 509 (a).

The Organization’s information returns are subject to examination by the Internal Revenue Service for three years subsequent. Open tax years at June 30, 2018 include fiscal years 2015, 2016 and 2017.

Basis of Accounting – The Organization’s policy is to prepare its financial statements on the accrual basis of accounting in accordance with U.S. Generally Accepted Accounting Principles. Consequently, revenues are recognized when earned rather than received, and expenses are recognized when the obligation is incurred rather than when cash is disbursed.

Net Assets – The statement of net assets reports amounts separately by class of net assets:

Unrestricted net assets – Those net assets which are currently available to the Board for use in the Organization’s activities.

Temporarily restricted net assets – Those net assets which are restricted by donors for specific purposes or time periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets. Temporarily restricted net assets of \$88,071 was time and/or purpose-restricted at June 30, 2018 and \$99,167 at June 30, 2017, respectively. Purpose restrictions were primarily for the Therapeutic Foster Care. The Organization met the time and purpose restrictions of \$175,151 in the year ended June 30, 2018 primarily for the Family Counseling Center and Therapeutic Foster Care.

(Continued)

NEW FOUNDATIONS HOME FOR CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – NATURE OR BUSINESS AND ACCOUNTING POLICIES, Continued

Permanently restricted net assets – Those net assets which are subject to donor-imposed stipulations that require that they be maintained permanently by the Organization. Generally, the donors of these assets permit the use of all or part of the income earned on the related investments for general or specific purposes. The Organization has no permanently restricted net assets.

Cash and Cash Equivalents – All cash in bank accounts and short-term investments with a maturity of three months or less are considered cash and cash equivalents.

The Organization held \$3,722 and \$1,823 as an agent for children residing in its facilities at June 30, 2018 and 2017, respectively. Cash restricted for this purpose is recorded in the Statements of Financial Position as both an asset (cash) and as a liability.

Long-term Investments – Investments in marketable securities with readily determinable fair values are valued at their fair values in the Statements of Financial Position. The Organization reports investment income and gains and losses on investments as increases or decreases in unrestricted net assets unless a donor or law temporarily or permanently restricts their use.

Donations – The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. The Organization did not receive any donated services which met the recognition criteria during fiscal years 2018 and 2017. However, it received \$9,600 in donated use of space for one of its programs in both the years ended June 30, 2018 and 2017.

The Organization regularly uses volunteers, primarily to help with program services and fundraising activities throughout the year, whose services were not recognized as contributions in the financial statements since the recognition criteria were not met. The value of such services was not determined at June 30, 2018 and 2017.

Promises to Give – Unconditional promises to give are recorded in pledges receivable when the promise is made. Pledges receivable are reported as current assets when they are expected to be collected within one year. Pledges receivable expected to be collected within one year are recorded at net realizable value. Significant pledges receivable not expected to be collected within one year are reported at fair market value at the date they are recognized in the Statement of Financial Position.

(Continued)

NEW FOUNDATIONS HOME FOR CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – NATURE OF BUSINESS AND ACCOUNTING POLICIES, Continued

Accounts Receivable – Accounts receivable are reported at the estimated net realizable amounts from third-party payers and others for services rendered.

The Organization provides for estimated losses on accounts receivable based upon prior bad debt experience and a review of existing receivables. Individual accounts receivable are charged off as uncollectible when all potential avenues of payment have been exhausted. There was no estimated allowance for doubtful accounts at both June 30, 2018 and 2017. As most receivables traditionally are from government payers under contract, uncollectible accounts have not been significant in the last several years.

Property, Plant and Equipment – Property, plant and equipment purchased are recorded at cost. Donations of property, plant and equipment to the Organization are recorded at fair value at the time of the gift. The Organization records gifts of property, plant and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used.

Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations or donor restrictions when the donated or acquired long-lived assets are placed in service.

Acquisitions of property, plant and equipment in excess of \$1,000 are capitalized and carried at cost less accumulated depreciation. Depreciation is computed largely using the straight-line method. Depreciable lives are as follows:

Buildings and improvements -	7 to 40 years
Furniture and equipment -	5 to 7 years
Vehicles -	5 years

The Organization recognizes the cost of using up future economic benefit of service potential of their long-lived tangible assets, the cumulative of which is recognized in the Statements of Financial Position as accumulated depreciation.

Program Service Fee Revenue Recognition – The Organization receives its revenue primarily under contract with public and private entities to provide services to children. It recognizes these fees when earned (when services are provided).

Compensated Absences – Employees of the Organization are entitled to be paid for vacation and paid sick days, depending on job classification, length of service and other factors. They can accumulate a maximum of 240 hours per year to carry over to the next year. However, the financial payout is capped at 120 hours when an employee leaves.

The Organization has recorded a liability for the value of vacation time earned but not used by employees as of each year-end. The liability for compensated absences was \$130,353 and \$121,390 at June 30, 2018 and 2017, respectively. (Continued)

NEW FOUNDATIONS HOME FOR CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – NATURE OF BUSINESS AND ACCOUNTING POLICIES, Continued

Functional Expenses – The costs of providing the various programs and activities have been summarized on a functional basis in the Statements of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Accounting Estimates – The preparation of a statement of financial position in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of assets and liabilities at the date of the statement of financial position. Actual results could differ from those estimates.

NOTE 2 – CONCENTRATIONS OF RISK

Financial instruments which potentially subject the company to concentrations of credit risk consist primarily of cash and cash equivalents. The Organization places its temporary cash investments with a single financial institution where balances often exceeded federally insured limits during the fiscal year June 30, 2018. The Organization's bank balances did not exceed the FDIC insured amount at June 30, 2018. The Organization has not adopted a policy with regard to managing this risk.

At June 30, 2018 and 2017, approximately 92% and 90%, respectively, of accounts receivable was due from contracts with state government agencies. A majority of revenues was generated under contracts with state government agencies. Treatment services accounted for approximately 86% and 88% of the Organization's revenues in the years ended June 30, 2018 and 2017, respectively.

NOTE 3 – INVESTMENTS

At June 30, 2018 and 2017, the Organization had investments in certificates of deposit issued by banks totaling \$1,027,709 and \$1,018,242, respectively. These investments are insured by the Federal Deposit Insurance Corporation but actively trade on a secondary market and, therefore, the market value may fluctuate between issuance and maturity. However, the face value at maturity is guaranteed and therefore is not considered to be subject to credit risk. For the years ended June 30, 2018 and 2017 investment income consisted of investment income on certificates of deposit and interest earned on a mortgage note receivable (Note 5) and was \$15,696 and \$13,196, respectively.

NOTE 4 – PLEDGES RECEIVABLE

The Organization did not have any contributions or pledges receivable at June 30, 2018 or 2017.

NEW FOUNDATIONS HOME FOR CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 5 – MORTGAGE NOTE RECEIVABLE

On December 20, 2012, the Organization entered into a mortgage note receivable in the amount of \$150,000 in exchange for the sale of one of its buildings. The note is to be repaid over a 5-year period at 5.5 percent interest with monthly payments of \$1,226 with a balloon payment of \$114,159 due on December 20, 2017. The note was modified on January 20, 2018 with all terms remaining the same except with a balloon payment of \$64,164 due on November 20, 2022. This note is secured by a mortgage on the land and building.

On October 13, 2016, the Organization entered into a mortgage note receivable in the amount of \$119,400 in exchange for the sale of one of its buildings. The note is to be repaid over an 83 months at zero interest with monthly payments of \$663 with a balloon payment of \$64,344 due on November 1, 2023. The note is secured by a mortgage on the land and building.

Scheduled payments on the note receivable at June 30, 2018 are:

<u>Current</u>	
2019	\$ 24,876
<u>Long-Term</u>	
2020	\$ 17,421
2021	17,955
2022	18,519
2023	77,625
2024	57,650
	<u>\$ 189,170</u>

Interest earned and included in investment income on the note in the years ended June 30, 2018 and 2017 totaled \$6,230 and \$6,682, respectively.

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following at June 30, 2018 and 2017:

	2018	2017
Land	\$ 175,383	\$ 175,383
Building	3,076,744	3,062,947
Leasehold improvements	74,507	60,949
Furniture and equipment	183,038	179,161
Vehicles	236,306	234,306
Total property, plant and equipment	3,745,978	3,712,746
Less: accumulated depreciation	(1,923,761)	(1,780,539)
	<u>\$ 1,822,217</u>	<u>\$ 1,932,207</u>

(Continued)

NEW FOUNDATIONS HOME FOR CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT, Continued

Depreciation expense, which includes amortization of assets under capital lease, totaled \$146,282 and \$146,354 in the years ended June 30, 2018 and 2017 respectively.

NOTE 7 – LONG-TERM DEBT

On December 11, 2012, the Organization refinanced its existing mortgage with a new \$1,400,000 mortgage loan amortized over 20 years at an annual interest rate of 5 percent. Repayment is due in monthly installments of principal and interest of \$9,827 over five years with a balloon payment of \$1,248,140 due on December 19, 2017. On August 31, 2017, the Organization modified its existing mortgage extending the maturity date to September 15, 2022. The interest rate was reduced to 4.26 percent and the monthly payments were reduced to \$7,219. The loan is secured by a building and adjacent land with a net book value of \$1,463,825 at June 30, 2018. The balance on the loan was \$1,130,590 and \$1,268,002 at June 30, 2018 and 2017. This loan requires the Organization to maintain a debt coverage ratio of 1:1 which the Organization met at June 30, 2018 and 2017.

In conjunction with this loan, the Organization entered into a \$100,000 line of credit with the same bank at a floating rate equal to an applicable index plus 2.00 percent, or the floor rate of 5.00 percent, whichever is greater. The line, which is renewed annually, is secured by a first priority security interest in all of the Organization's assets. The balance on the line was \$0 at June 30, 2018 and 2017.

Note payable	\$ 1,130,590
Less current portion	(39,224)
Long-term portion	<u>\$ 1,091,366</u>

Principal maturities are as follows for the years ending June 30:

2020	\$ 40,928
2021	42,706
2022	44,561
2023	963,171
Total	<u>\$ 1,091,366</u>

Interest expense incurred and recognized as expense totaled \$55,313 and \$66,027 in the years ended June 30, 2018 and 2017 respectively.

NEW FOUNDATIONS HOME FOR CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 8 – CAPITAL LEASES

Capital assets recorded under capital lease which are reported in fixed assets were as follows at June 30, 2018:

Equipment	\$ 27,826
Less: Accumulated amortization	<u>(24,734)</u>
	<u>\$ 3,092</u>

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 2018:

2019	\$ 3,682
Less: Interest	<u>(84)</u>
	<u>\$ 3,598</u>

NOTE 9 – OPERATING LEASES

The Organization leases a property as a residential building for its clients from the City of Anderson, South Carolina for \$1 annually. The Organization and the City believe the property has been leased to the Organization since about 1976 for \$1 per year and neither party is aware of a written lease agreement. In-kind contributions and related rent expense of \$9,600 for the fair market value of the space have been recognized in these financial statements for each of the years ended June 30, 2018 and 2017. The Organization also leases certain office equipment under non-cancelable operating leases. Copier leases include terms for additional payment based on usage.

Rent expense totaled \$28,010 and \$28,262 in the years ended June 30, 2018 and 2017.

The Organization leases certain of its other real estate to unrelated third parties on a monthly or informal basis (Note 5). The Organization recognized \$0 and \$600 in rental income in the years ended June 30, 2018 and 2017 respectively.

NEW FOUNDATIONS HOME FOR CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 10 – FAIR VALUES

Generally accepted accounting principles (GAAP) establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under GAAP are described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in in active markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The fair value measurement level within the hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used should maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodology used for assets measured at fair value.

Certificate of Deposit: Valued at amortized cost.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2018:

Fair Value Measurements at June 30, 2018				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ -	\$ 1,027,709	\$ -	\$ 1,027,709
Total Assets At Fair Value	<u>\$ -</u>	<u>\$ 1,027,709</u>	<u>\$ -</u>	<u>\$ 1,027,709</u>

NEW FOUNDATIONS HOME FOR CHILDREN, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 11 – SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through October 26, 2018, the date which the financial statements were available to be issued.