VARIETY CHILD LEARNING CENTER

FINANCIAL STATEMENTS
AND AUDITOR'S REPORT

JUNE 30, 2017 AND 2016

VARIETY CHILD LEARNING CENTER

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LOEB & TROPER LLP

Independent Auditor's Report

Board of Trustees
Variety Child Learning Center

Report on the Financial Statements

We have audited the accompanying financial statements of Variety Child Learning Center, which comprise the balance sheet as of June 30, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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 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.

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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 Variety Child Learning Center as of June 30, 2017 and 2016, 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.

Emphasis of Matters - Change in Accounting Principles

As further disclosed in Notes 2 and 6 to the financial statements, Variety Child Learning Center implemented Accounting Standards Update (ASU) No. 2015-03, Simplifying the Presentation of Debt Issuance Costs. The financial statements for 2016 have been reclassified for this change in accounting principle. Our opinion is not modified with respect to this matter.

As described in Note 2 to the financial statements, Variety Child Learning Center implemented Accounting Standards Update (ASU) No. 2015-17, Fair Value Measurements (Topic 820): Disclosures for Investments in Certain Entities that calculate net assets per share (or its equivalent). The financial statements for 2015 have been modified for this change in accounting principle. Our opinion is not modified with regard to this matter.

Loeb & Troper LLP

October 4, 2017

EXHIBIT A

VARIETY CHILD LEARNING CENTER

BALANCE SHEET

JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
Cash and cash equivalents	$ 1,578,972	$ 1,213,518
Investments (Note 2)	1,542,107	1,392,024
Tuition receivable - net (Note 2)	1,203,205	2,396,431
Governmental and other grant receivables	163,860	204,559
Contributions receivable - current	91,720	90,815
Prepaid expenses and other assets (Note 9)	18,255	28,136
Fixed assets - net (Note 3)	3,410,763	3,456,291
Total assets	$ 8,008,882	$ 8,781,774
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses (Note 10)	$ 579,930	$ 655,977
Accrued retirement benefits (Note 4)	79,019	436,272
Line of credit (Note 5)	365,000	690,000
Swap payable (Note 9)		73,045
Mortgage payable (Note 6)	1,392,071	1,457,432
Total liabilities	2,416,020	3,312,726
Net assets (Exhibit B)		
Unrestricted	5,359,928	5,233,076
Temporarily restricted (Note 7)	232,934	235,972
Total net assets	5,592,862	5,469,048
Total liabilities and net assets	$ 8,008,882	$ 8,781,774

See independent auditor's report.

The accompanying notes are an integral part of these statements.

VARIETY CHILD LEARNING CENTER **EXHIBIT B**

STATEMENT OF ACTIVITIES

YEARS ENDED JUNE 30, 2017 AND 2016

		2017				**2016**		
		Unrestricted	**Temporarily Restricted**	**Total**		**Unrestricted**	**Temporarily Restricted**	**Total**
Revenues and other support								
Student tuition and fees								
Preschool	$ 11,336,710				$ 10,798,382			
School age	2,409,320				2,172,706			
Itinerant services	630,322				734,032			
Early intervention	1,790,472				1,668,293			
Related services	155,125				210,185			
Evaluations	161,044	$ 16,482,993		$ 16,482,993	121,476	$ 15,705,074		$ 15,705,074
Other fees		567,064		567,064		468,290		468,290
Grant income			$ 669,200	669,200			$ 570,578	570,578
Contributions and other support		16,621	80,179	96,800		277,658	165,423	443,081
United Way contributions		14,948		14,948		14,055		14,055
Special event revenue	218,523				305,602			
Less direct costs of special events	(58,425)				(73,637)			
Net revenue from special events		146,373	13,725	160,098		211,736	20,229	231,965
Interest and dividends		15,870		15,870		15,657		15,657
Net assets released from restriction (Note 7)		766,142	(766,142)			640,767	(640,767)	
Total revenues and other support		18,010,011	(3,038)	18,006,973		17,333,237	115,463	17,448,700
Expenses (Exhibit C)								
Program services								
Education programs		15,786,308		15,786,308		15,511,389		15,511,389
Other programs		738,219		738,219		737,028		737,028
Total program services		16,524,527		16,524,527		16,248,417		16,248,417
Supporting services								
Management and general		1,678,112		1,678,112		1,668,329		1,668,329
Fund raising		111,302		111,302		84,966		84,966
Total supporting services		1,789,414		1,789,414		1,753,295		1,753,295
Total expenses		18,313,941		18,313,941		18,001,712		18,001,712
Change in net assets before realized and unrealized gain (loss) on investments and loss on swap agreement		(303,930)	(3,038)	(306,968)		(668,475)	115,463	(553,012)
Realized and unrealized gain (loss) on investments		357,339		357,339		(116,536)		(116,536)
Gain (loss) on swap agreement (Note 9)		73,443		73,443		(79,650)		(79,650)
Change in net assets (Exhibit D)		126,852	(3,038)	123,814		(864,661)	115,463	(749,198)
Net assets - beginning of year		5,233,076	235,972	5,469,048		6,097,737	120,509	6,218,246
Net assets - end of year (Exhibit A)		$ 5,359,928	$ 232,934	$ 5,592,862		$ 5,233,076	$ 235,972	$ 5,469,048

See independent auditor's report.

The accompanying notes are an integral part of these statements.

VARIETY CHILD LEARNING CENTER **EXHIBIT C**

STATEMENT OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2017 AND 2016

	2017								
	Program Services			Supporting Services					
	Education Programs	Other Programs	Total	Management and General	Fund Raising	Direct Costs of Special Events	Total	Total	2016
Salaries	$ 12,285,022	$ 560,375	$ 12,845,397	$ 958,577	$ 11,251		$ 969,828	$ 13,815,225	$ 13,144,133
Payroll taxes and employee benefits	2,204,930	98,762	2,303,692	143,917	2,780		146,697	2,450,389	2,828,943
Total salaries and related expenses	14,489,952	659,137	15,149,089	1,102,494	14,031		1,116,525	16,265,614	15,973,076
Contracted services	121,083	5,213	126,296	97,681	18,250		115,931	242,227	257,394
Professional fees		321	321	66,221			66,221	66,542	65,786
Supplies and equipment	191,312	10,932	202,244	64,759	17,626		82,385	284,629	318,906
Utilities	148,161	9,242	157,403	7,985			7,985	165,388	155,903
Telephone	32,061	2,483	34,544	15,617			15,617	50,161	52,566
Insurance	100,696	2,461	103,157	20,905			20,905	124,062	108,325
Interest	63,617		63,617	43,372			43,372	106,989	103,036
Rent (Note 11)	173,159	26,841	200,000					200,000	150,000
Repairs and maintenance	120,005	3,748	123,753	11,967			11,967	135,720	146,522
Leased equipment and vehicles	53,287	1,469	54,756	2,944			2,944	57,700	52,865
Venue, catering and entertainment						$ 58,425	58,425	58,425	73,637
Depreciation	213,393	4,312	217,705	187,625			187,625	405,330	430,081
Miscellaneous	79,582	12,060	91,642	56,542	61,395		117,937	209,579	187,252
Total expenses	15,786,308	738,219	16,524,527	1,678,112	111,302	58,425	1,847,839	18,372,366	18,075,349
Less direct costs of special events deducted directly on the statement of activities						(58,425)	(58,425)	(58,425)	(73,637)
Total expenses reported by function on the statement of activities (Exhibit B)	$ 15,786,308	$ 738,219	$ 16,524,527	$ 1,678,112	$ 111,302	$ -	$ 1,789,414	$ 18,313,941	$ 18,001,712

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VARIETY CHILD LEARNING CENTER

STATEMENT OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2017 AND 2016

	2016							
	Program Services			Supporting Services				
	Education Programs	Other Programs	Total	Management and General	Fund Raising	Direct Costs of Special Events	Total	Total
Salaries	$ 11,637,681	$ 552,601	$ 12,190,282	$ 940,968	$ 12,883		$ 953,851	$ 13,144,133
Payroll taxes and employee benefits	2,519,038	109,519	2,628,557	196,800	3,586		200,386	2,828,943
Total salaries and related expenses	14,156,719	662,120	14,818,839	1,137,768	16,469		1,154,237	15,973,076
Contracted services	150,202	4,044	154,246	73,771	29,377		103,148	257,394
Professional fees	4,950		4,950	60,836			60,836	65,786
Supplies and equipment	227,227	16,129	243,356	67,941	7,609		75,550	318,906
Utilities	140,889	7,027	147,916	7,987			7,987	155,903
Telephone	36,138	3,133	39,271	13,295			13,295	52,566
Insurance	88,979	1,773	90,752	17,573			17,573	108,325
Interest	66,719		66,719	36,317			36,317	103,036
Rent (Note 11)	127,494	22,506	150,000					150,000
Repairs and maintenance	131,592	3,505	135,097	11,425			11,425	146,522
Leased equipment and vehicles	49,165	1,717	50,882	1,983			1,983	52,865
Venue, catering and entertainment						$ 73,637	73,637	73,637
Depreciation	248,710	2,460	251,170	178,911			178,911	430,081
Miscellaneous	82,605	12,614	95,219	60,522	31,511		92,033	187,252
Total expenses	15,511,389	737,028	16,248,417	1,668,329	84,966	73,637	1,826,932	18,075,349
Less direct costs of special events deducted directly on the statement of activities						(73,637)	(73,637)	(73,637)
Total expenses reported by function on the statement of activities (Exhibit B)	$ 15,511,389	$ 737,028	$ 16,248,417	$ 1,668,329	$ 84,966	$ -	$ 1,753,295	$ 18,001,712

See independent auditor's report.

The accompanying notes are an integral part of these statements.

EXHIBIT D

VARIETY CHILD LEARNING CENTER

STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Cash flows from operating activities		
Change in net assets (Exhibit B)	$ 123,814	$ (749,198)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Loss on swap agreement	(73,443)	79,650
Depreciation	405,330	430,081
Amortization of debt issuance costs included in interest expense	4,239	4,239
Net realized and unrealized loss (gain) on investments	(357,339)	116,536
Decrease (increase) in assets		
Tuition receivable	1,193,226	(460,550)
Governmental and other grant receivables	40,699	33,237
Contributions receivable	(905)	(77,668)
Prepaid expenses and other assets	10,279	(13,287)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(76,047)	425,677
Accrued retirement benefits	(357,253)	(6,560)
Net cash provided (used) by operating activities	912,600	(217,843)
Cash flows from investing activities		
Fixed asset acquisitions	(359,802)	(322,995)
Purchase of investments	(289,210)	(412,131)
Proceeds from sale of investments	496,466	419,275
Net cash used by investing activities	(152,546)	(315,851)
Cash flows from financing activities		
Proceeds from line of credit	3,285,000	5,975,000
Principal payments on line of credit	(3,610,000)	(5,285,000)
Principal payments on mortgage payable	(69,600)	(69,600)
Net cash provided (used) by financing activities	(394,600)	620,400
Net change in cash and cash equivalents	365,454	86,706
Cash and cash equivalents - beginning of year	1,213,518	1,126,812
Cash and cash equivalents - end of year	$ 1,578,972	$ 1,213,518
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	$ 102,750	$ 98,797

See independent auditor's report.

The accompanying notes are an integral part of these statements.

NOTE 1 - NATURE AND PURPOSE OF ORGANIZATION

Variety Child Learning Center (VCLC), located in Syosset, New York is a not-for-profit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. VCLC serves primarily young children with learning, language and behavioral problems and autism, and their families. VCLC also provides training to early childhood professional personnel, and performs programmatic research.

VCLC operated the following programs during the year:

The Education programs provide special education and related services to children from birth to eight years of age, in addition to support services and parent education for their families. The primary support for these services is student tuition and fees.

The Other programs provide additional activities for the students in the areas of socialization, recreation, respite, and educational skills. Support for these programs is from user fees, contributions, and government grants and fees.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting **-** The financial statements are prepared on the accrual basis of accounting.

Use of estimates **-** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents **-** Cash and cash equivalents include highly liquid investments with initial maturities, when acquired, of three months or less.

Investments **-** Investments are recorded at fair value. Investment securities, in general, are exposed to various risks such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, based on market fluctuations, and that such changes could materially affect the amounts reported in the financial statements.

Tuition receivable **-** VCLC records receivables based on established rates and units of service provided. VCLC has determined that an allowance for uncollectible accounts for certain receivables is necessary as of June 30, 2017 and 2016.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

***Governmental and other grant receivables* -** VCLC records grants receivable based on established contracts with the government and other agencies. Management has determined that an allowance for uncollectibles is not necessary.

***Contributions receivable* -** Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

***Allowance for doubtful accounts* -** Factors used to determine whether an allowance should be recorded include the age of the receivable, review of payments subsequent to year end, as well as current economic conditions, historical information, and other factors. Receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Interest income is not accrued or recorded on receivables. As of June 30, 2017 and 2016, the allowance for tuition receivable was $20,000.

***Fixed assets* -** Fixed assets are stated at cost. Individual items with a cost in excess of $1,000 and an estimated useful life greater than one year are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets.

***Debt issuance costs* -** Debt issuance costs are reflected as a reduction of the carrying amount of the related debt and are amortized on the straight-line basis over the life of the associated debt. Amortization of debt issuance costs is included in interest expense.

***Unrestricted net assets* -** Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors.

***Temporarily restricted net assets* -** Temporarily restricted net assets are those whose use by VCLC has been limited by donors to a specific time period or purpose.

***Revenues* -** Revenues for tuition-funded students are recognized on a per diem basis from the first day of a student's enrollment in VCLC. At the beginning of each school year, VCLC is granted a provisional rate for its funded students by The New York State Education Department (SED). This provisional rate is adjusted by SED based upon a final expenditure report submitted to them by VCLC subsequent to year end. It is VCLC's policy to reflect any increase or decrease in the tuition rate based upon this report in its current financial statements.

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VARIETY CHILD LEARNING CENTER

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions **-** Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as temporarily 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 as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Government grants **-** Government grants are recorded as revenues to the extent that expenses have been incurred for the purposes specified by the grantors. To the extent amounts received exceed amounts spent, VCLC establishes advances from government funders.

Functional allocation of expenses **-** The costs of providing services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Operating lease **-** Operating lease payments are charged to rent expense. The lease is cancellable at June 30 of each fiscal year with six months' notice to the lessor. Accordingly, rent has been recorded based on the actual lease rather than on the straight-line basis.

Uncertainty in income taxes **-** VCLC has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending June 30, 2014 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events **-** Subsequent events have been evaluated through October 4, 2017, which is the date the financial statements were available to be issued.

New accounting pronouncement **-** In April 2015, FASB issued Accounting Standards Update (ASU) No. 2015-03 - Simplifying the Presentation of Debt Issuance Costs. This update was issued as part of an initiative to reduce complexity in accounting standards. This amendment updates Subtopic 835-30 - Interest - Imputation of Interest and requires that debt issuance costs related to a recognized debt liability be presented in the statement of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The amendments to this update are effective for financial statements issued for fiscal years beginning after December 15, 2015.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements

Fair Value Measurements establishes a framework for measuring fair value. The 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 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that VCLC has the ability to access. 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 inactive 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 asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no change in the methodologies used at June 30, 2017 as compared to those used at June 30, 2016.

Money market funds **-** Valued at the net asset value ("NAV") of shares held at year end.

Equity securities **-** Valued at the closing price reported on the active market on which the individual securities are traded.

Swap receivable **-** Valued based on the present value of cash flows for future settlements using similar instruments with similar terms and credit rating.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while VCLC believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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VARIETY CHILD LEARNING CENTER

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in Accounting Principle - Fair Value Measurements

In 2017, VCLC adopted new requirements to exclude investments in certain funds from the fair value hierarchy for which fair value is measured using the net asset value per share (or its equivalent) as a practical expedient. Under the new ASU, these investments are not categorized in the fair value hierarchy but are included in the disclosure to reconcile investments to the balance sheet. This change does not impact the change in net assets or net assets.

The following table sets forth by level and type, within the fair value hierarchy, the assets at fair value as of June 30, 2017 and 2016:

	2017			2016		
	Level 1	**Level 2**	**Total**	**Level 1**	**Level 2**	**Total**
Equity securities						
Consumer goods	$ 268,109		268,109	$ 285,182		285,182
Financial	95,844		95,844	78,360		78,360
Health care	380,386		380,386	306,666		306,666
Services	374,111		374,111	339,080		339,080
Technology	394,820		394,820	340,522		340,522
Total equity securities	1,513,270		1,513,270	1,349,810		1,349,810
Total investments reported on the fair value hierarchy	$ 1,513,270		1,513,270	$ 1,349,810		1,349,810
Investments at NAV						
Money market funds			28,837			42,214
Total investments			$ 1,542,107			$ 1,392,024
Swap (liability) receivable		$ 398	$ 398		$ (73,045)	$ (73,045)

Reclassification - Money market funds included in the fair value hierarchy table at June 30, 2016 have been reclassified and removed from the fair value hierarchy table to conform to the 2017 presentation.

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VARIETY CHILD LEARNING CENTER

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

NOTE 3 - FIXED ASSETS

	2017	2016	Estimated Useful Life
Land	$ 43,300	$ 43,300	
Building and improvements	7,812,319	7,754,081	5 - 40 years
Furniture and equipment	2,439,715	2,170,527	5 - 10 years
	10,295,334	9,967,908	
Accumulated depreciation	(6,884,571)	(6,511,617)	
	$ 3,410,763	$ 3,456,291	

NOTE 4 - RETIREMENT PLAN

VCLC has a noncontributory defined contribution retirement plan covering all eligible employees, as defined in the plan document. Contributions are determined at the discretion of the Board of Trustees. The retirement plan expense for the year ended June 30, 2017 and 2016 was $79,019 and $436,272, respectively. The retirement expense was allocated to employees' accounts in proportion to compensation. As of June 30, 2017 and 2016, the outstanding balance is $79,019 and $436,272, respectively.

NOTE 5 - LINE OF CREDIT

As of June 30, 2016, VCLC had an available line of credit with a financial institution in the amount of $3,000,000 that expired February 1, 2017. On May 1, 2017 the line of credit was renewed with an amount available of $2,300,000. As of June 30, 2017 and 2016, the line of credit bears interest on the outstanding balance at the minimum interest rate permitted under the line of 3.5% for 2017 and 2016. Interest is charged at a rate equal to 2.25% in excess of LIBOR or the bank's prime rate of 4.00%, subject to the minimum rate described above. Drawdowns may be taken under either index. The line of credit agreement is collateralized by the assets of VCLC. The line of credit matures on May 1, 2018. As of June 30, 2017 and 2016, the balance is $365,000 and $690,000, respectively. Interest expense was $39,963 in 2017 and $32,836 in 2016.

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NOTE 6 - MORTGAGE PAYABLE

The mortgage held by a financial institution matures November 1, 2022. The agreement includes principal payments of $5,800 per month for 119 months. The final payment will include any unpaid principal and interest at that time. Interest will be charged at a variable rate equal to the 1-month LIBOR plus 240 basis points. As of June 30, 2017 and 2016, the variable interest rate was 3.45% and 2.85%, respectively. VCLC also entered into a swap agreement fixing the rate at 4.245%. The mortgage is secured by real property and improvements at 47 Humphrey Drive, Syosset, NY; assignment of rents, leases and profits with respect to the premises; and all furniture and equipment located at premises. As of June 30, 2017 and 2016, $1,421,000 and $1,490,600 was outstanding, respectively. Interest expense was $62,787 and $65,961 in 2017 and 2016, respectively.

Required principal payments based on the loan agreement are as follows:

2018	$ 69,600
2019	69,600
2020	69,600
2021	69,600
2022	69,600
Thereafter	1,073,000
	1,421,000
Less unamortized debt issuance costs	(28,929)
Total	$ 1,392,071

Change in Accounting Principle

In 2017, VCLC adopted new requirements to present debt issuance costs as a reduction of the carrying amount of the related debt rather than as an asset. Under the new requirements, amortization of the debt issuance costs is reported as interest expense rather than as amortization expense. The effect of the change for 2017 and 2016 was to decrease debt issuance costs and net mortgage payable for $28,929 and $33,168, respectively, and record interest expense of $4,239 in 2017 and in 2016, instead of amortization expense. The change does not impact change in net assets or net assets.

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VARIETY CHILD LEARNING CENTER

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2017	2016
Building, furniture and equipment	$ 141,633	$ 163,390
Education, research projects, and training	76,027	55,770
Needy family support	6,155	5,868
Parent events	9,119	10,944
	$ 232,934	$ 235,972

Net assets were released from donor restrictions by incurring expenses satisfying the following temporarily restricted purposes:

	2017	2016
Building, furniture and equipment	$ 42,435	$ 26,367
Education, research projects, and training	39,194	26,548
Family respite	142,618	121,380
Needy family support	15,313	17,274
IDEA Section 611/619	526,582	449,198
	$ 766,142	$ 640,767

NOTE 8 - CONCENTRATIONS

Financial instruments which potentially subject VCLC to a concentration of credit risk are cash accounts with financial institutions in excess of FDIC insurance limits.

For the years ended June 30, 2017 and 2016, VCLC received approximately 71% and 73%, respectively, of its operating revenue from Nassau County. As of June 30, 2017 and 2016, VCLC has a receivable due from Nassau County of approximately 38% in 2017 and 73% in 2016.

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NOTE 9 - DERIVATIVE FINANCIAL INSTRUMENTS

In October 2013, VCLC entered into an interest rate swap agreement with a financial institution in order to convert the interest rate on its mortgage to a fixed rate of 4.245%. The swap agreement resulted in a mark-to-market unrestricted gain of $73,443 in 2017 and an unrestricted loss of $79,650 in 2016. At June 30, 2017, the fair value of the swap agreement was a receivable of $398 and a liability of $73,045 at June 30, 2016. The swap receivable of $398 was reported in prepaid expenses and other assets on the balance sheet.

The swap is designated to hedge the risk of changes in interest payments on the note caused by changes in LIBOR. The notional amounts do not represent actual amounts exchanged by the parties, but instead represent the amounts on which the contracts are based.

The swap was issued at market terms so that it had no fair value or carrying value at its inception. The carrying amount of the swap has been adjusted to its fair value at the end of the year which, because of changes in forecasted levels of LIBOR, resulted in reporting a receivable at June 30, 2017 and a liability at June 30, 2016 for the fair value of the future net payments forecasted under the swap. The swap contract permits settlement prior to maturity only through termination by VCLC. The settlement amount is determined based on forecasted changes in interest rates required under fixed and variable legs of the swap. VCLC believes the settlement amount is the best representation of the fair value of the swap and has adjusted its carrying amount to the settlement amount at the end of the year.

Since the critical terms of the swap and the mortgage are approximately the same, the swap is assumed to be effective as a hedge, and the changes in fair values are included as an “other change in net assets.” If the swap is terminated early, the corresponding carrying amount would be reclassified into revenues and gains or expenses before other changes.

NOTE 10 - WORKERS’ COMPENSATION INSURANCE

VCLC was a member of Community Residences Insurance Saving Self-Insurance Trust (the Trust) from 2001 through August 2010 for workers’ compensation coverage. A liability has been recorded as part of accounts payable and accrued expenses for VCLC’s share of claims outstanding from the time VCLC participated in the group. A final settlement in the amount of $293,591 for outstanding claims has been recorded as per the agreement with NYS Workers Compensation Board. Payments towards the liability began on April 1, 2017 in the amount of $2,835 plus 3% interest to be paid monthly over a 10 year period. The balance as of June 30, 2017 is $285,086 and has been included in accounts payable and accrued expenses on the balance sheet.

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VARIETY CHILD LEARNING CENTER

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

NOTE 11 - OPERATING LEASE

On July 1, 2014, VCLC entered into an agreement to lease instructional and related services space in connection with certain of VCLC's educational, social and family support programs. The lease was set to expire on June 30, 2018. Subsequently to year end, the lease was amended and will now expire on June 30, 2027. The lease can be terminated with at least six (6) months' prior written notice by VCLC and nine (9) months prior written notice by the school district. However, if VCLC terminates the lease during the first four years of the lease other than for cause, VCLC might be subject to certain termination fees.

Future minimum lease payments are as follows:

2018	$ 225,000
2019	225,000
2020	225,000
2021	225,000
2022	225,000
Thereafter	1,340,616
	$ 2,465,616

Rent expense was $200,000 and $150,000 for the years ended June 30, 2017 and 2016, respectively.

NOTE 12 - COMMITMENT

VCLC's Chief Executive Officer and Chief Financial Officer have entered into three-year contracts with an expiration date of June 30, 2020. The agreements provide for severance payments equal to 12 months' compensation in the event of termination in certain circumstances, as defined in the agreements.