

Variety Child Learning Center

Independent Auditor's Report and Financial Statements

June 30, 2018 and 2017

Variety Child Learning Center

June 30, 2018 and 2017

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Independent Auditor's Report

Board of Trustees
Variety Child Learning Center
Syosset, New York

We have audited the accompanying financial statements of Variety Child Learning Center, which comprise the balance sheet as of June 30, 2018, and the related statements of activities, functional expenses and cash flows for the year 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 Variety Child Learning Center as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Year Audited by Other Auditors

The 2017 financial statements were audited by other auditors, and their report thereon, dated October 4, 2017, expressed an unmodified opinion.

BKD, LLP

New York, New York
November 28, 2018

Variety Child Learning Center

Balance Sheet

June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Cash and cash equivalents	\$ 1,307,710	\$ 1,578,972
Investments	1,731,555	1,542,107
Tuition receivable – net	1,995,503	1,203,205
Governmental and other grant receivables	112,581	163,860
Contributions receivable – current	418,752	91,720
Prepaid expenses and other assets	51,343	18,255
Fixed assets – net	<u>3,365,191</u>	<u>3,410,763</u>
Total assets	<u>\$ 8,982,635</u>	<u>\$ 8,008,882</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 580,965	\$ 579,930
Accrued retirement benefits	220,816	79,019
Line of credit	1,000,000	365,000
Mortgage payable	<u>1,326,710</u>	<u>1,392,071</u>
Total liabilities	<u>3,128,491</u>	<u>2,416,020</u>
Net assets		
Unrestricted	5,515,778	5,359,928
Temporarily restricted	<u>338,366</u>	<u>232,934</u>
Total net assets	<u>5,854,144</u>	<u>5,592,862</u>
Total liabilities and net assets	<u>\$ 8,982,635</u>	<u>\$ 8,008,882</u>

Variety Child Learning Center
Statements of Activities
Years Ended June 30, 2018 and 2017

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues and Other Support						
Student tuition and fees						
Preschool	\$ 11,860,550			\$ 11,336,710		
School age	2,451,701			2,409,320		
Itinerant services	726,026			630,322		
Early intervention	1,859,282			1,790,472		
Related services	182,935			155,125		
Evaluations	149,692			161,044		
	\$ 17,230,186	\$ -	\$ 17,230,186	\$ 16,482,993	\$ -	\$ 16,482,993
Other fees	525,825	-	525,825	567,064	-	567,064
Grants	-	665,990	665,990	-	669,200	669,200
Contributions and other support	576,507	149,637	726,144	16,621	80,179	96,800
United Way contributions	13,555	-	13,555	14,948	-	14,948
Special event revenue	214,158			218,523		
Less direct costs of special events	(54,018)			(58,425)		
Net revenue from special events	122,620	37,520	160,140	146,373	13,725	160,098
Interest and dividends	13,610	-	13,610	15,870	-	15,870
Net assets released from restriction	747,715	(747,715)	-	766,142	(766,142)	-
Total revenues and other support	19,230,018	105,432	19,335,450	18,010,011	(3,038)	18,006,973
Expenses						
Program services						
Education programs	16,769,317	-	16,769,317	15,786,308	-	15,786,308
Other programs	640,526	-	640,526	738,219	-	738,219
Total program services	17,409,843	-	17,409,843	16,524,527	-	16,524,527
Supporting services						
Management and general	1,810,666	-	1,810,666	1,678,112	-	1,678,112
Fund raising	97,495	-	97,495	111,302	-	111,302
Total supporting services	1,908,161	-	1,908,161	1,789,414	-	1,789,414
Total expenses	19,318,004	-	19,318,004	18,313,941	-	18,313,941
Change in net assets before realized and unrealized gain on investments and loss on swap agreement	(87,986)	105,432	17,446	(303,930)	(3,038)	(306,968)
Realized and unrealized gain (loss) on investments	200,628	-	200,628	357,339	-	357,339
Gain on swap agreement	43,208	-	43,208	73,443	-	73,443
Change in Net Assets	155,850	105,432	261,282	126,852	(3,038)	123,814
Net assets, Beginning of Year	5,359,928	232,934	5,592,862	5,233,076	235,972	5,469,048
Net Assets, End of Year	\$ 5,515,778	\$ 338,366	\$ 5,854,144	\$ 5,359,928	\$ 232,934	\$ 5,592,862

Variety Child Learning Center
Statements of Functional Expenses
Years Ended June 30, 2018 and 2017

	2018									2017
	Program Services			Supporting Services						
	Education Programs	Other Programs	Total	Management and General	Fund Raising	Direct Costs of Special Events		Total	Total	
Salaries	\$ 12,621,721	\$ 487,988	\$ 13,109,709	\$ 1,024,374	\$ 28,837	\$ -	\$ 1,053,211	\$ 14,162,920	\$ 13,815,225	
Payroll taxes and employee benefits	2,541,512	83,249	2,624,761	168,081	11,083	-	179,164	2,803,925	2,450,389	
Total salaries and related expenses	15,163,233	571,237	15,734,470	1,192,455	39,920	-	1,232,375	16,966,845	16,265,614	
Contracted services	180,441	5,079	185,520	84,451	10,188	-	94,639	280,159	242,227	
Professional fees	5,490	-	5,490	70,299	-	-	70,299	75,789	66,542	
Supplies and equipment	182,911	6,947	189,858	65,709	14,026	-	79,735	269,593	284,629	
Utilities	172,881	8,181	181,062	7,997	-	-	7,997	189,059	165,388	
Telephone	43,730	2,354	46,084	7,402	-	-	7,402	53,486	50,161	
Insurance	114,157	2,849	117,006	14,010	-	-	14,010	131,016	124,062	
Interest	60,812	-	60,812	44,696	-	-	44,696	105,508	106,989	
Rent	271,222	22,048	293,270	-	-	-	-	293,270	200,000	
Repairs and maintenance	234,259	3,424	237,683	15,741	578	-	16,319	254,002	135,720	
Leased equipment and vehicles	49,747	1,051	50,798	2,772	-	-	2,772	53,570	57,700	
Venue, catering and entertainment	-	-	-	-	-	54,018	54,018	54,018	58,425	
Depreciation	245,530	3,537	249,067	189,328	-	-	189,328	438,395	405,330	
Miscellaneous	44,904	13,819	58,723	115,806	32,783	-	148,589	207,312	209,579	
Total expenses	16,769,317	640,526	17,409,843	1,810,666	97,495	54,018	1,962,179	19,372,022	18,372,366	
Less direct costs of special events deducted directly on the statements of activities	-	-	-	-	-	(54,018)	(54,018)	(54,018)	(58,425)	
Total expenses reported by function on the statements of activities	\$ 16,769,317	\$ 640,526	\$ 17,409,843	\$ 1,810,666	\$ 97,495	\$ -	\$ 1,908,161	\$ 19,318,004	\$ 18,313,941	

Variety Child Learning Center
Statements of Functional Expenses
Years Ended June 30, 2018 and 2017

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

Variety Child Learning Center
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Activities		
Change in net assets	\$ 261,282	\$ 123,814
Items not requiring (providing) operating activities cash flows		
Gain on swap agreement	(43,208)	(73,443)
Depreciation	438,395	405,330
Amortization of debt issuance costs included in interest expense	4,239	4,239
Net realized and unrealized gain on investments	(200,628)	(357,339)
Changes in		
Tuition receivable	(792,298)	1,193,226
Governmental and other grant receivables	51,279	40,699
Contributions receivable	(327,032)	(905)
Prepaid expenses and other assets	10,120	10,279
Accounts payable and accrued expenses	1,035	(76,047)
Accrued retirement benefits	141,797	(357,253)
Net cash provided by (used in) operating activities	<u>(455,019)</u>	<u>912,600</u>
Investing Activities		
Fixed asset acquisitions	(392,823)	(359,802)
Purchase of investments	(307,628)	(289,210)
Proceeds from sale of investments	318,808	496,466
Net cash used in investing activities	<u>(381,643)</u>	<u>(152,546)</u>
Financing Activities		
Proceeds from line of credit	2,926,000	3,285,000
Principal payments on line of credit	(2,291,000)	(3,610,000)
Principal payments on mortgage payable	(69,600)	(69,600)
Net cash provided by (used in) financing activities	<u>565,400</u>	<u>(394,600)</u>
Increase (decrease) in Cash and Cash Equivalents	(271,262)	365,454
Cash and Cash Equivalents, Beginning of Year	<u>1,578,972</u>	<u>1,213,518</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,307,710</u>	<u>\$ 1,578,972</u>
Supplemental Cash Flows Information		
Interest paid, net of capitalized interest	\$ 101,269	\$ 102,750

Variety Child Learning Center

Notes to Financial Statements

June 30, 2018 and 2017

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

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.

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. At June 30, 2018 and 2017, cash equivalents consisted of money market accounts.

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, 2018 and 2017.

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.

Variety Child Learning Center

Notes to Financial Statements

June 30, 2018 and 2017

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, 2018 and 2017, the allowance for tuition receivable was \$20,000.

Fixed Assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset.

The estimated useful lives for each major depreciable classification of fixed assets are as follows:

Building and building improvements	5-40 years
Furniture, fixtures and equipment	5-10 years

Debt Issuance Costs

Debt issuance costs are reflected as a reduction of the carrying amount of the related debt and are amortized 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.

Variety Child Learning Center

Notes to Financial Statements

June 30, 2018 and 2017

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 statements of activities as net assets released from restrictions.

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.

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.

Measure of Operations

VCLC excludes from the definition of operations realized and unrealized gain (loss) on investments.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Certain costs have been allocated among the program, management and general and fund raising categories based on the square footage and other methods.

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, 2015 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent Events

Subsequent events have been evaluated through November 28, 2018, which is the date the financial statements were available to be issued.

Variety Child Learning Center

Notes to Financial Statements

June 30, 2018 and 2017

Note 2: Fixed Assets

	<u>2018</u>	<u>2017</u>
Land	\$ 43,300	\$ 43,300
Building and improvements	7,930,932	7,812,319
Furniture and equipment	<u>2,610,863</u>	<u>2,439,715</u>
	10,585,095	10,295,334
Accumulated depreciation	<u>(7,219,904)</u>	<u>(6,884,571)</u>
	<u>\$ 3,365,191</u>	<u>\$ 3,410,763</u>

Note 3: 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, 2018 and 2017 was \$220,816 and \$79,019, respectively. The retirement expense was allocated to employees' accounts in proportion to compensation. As of June 30, 2018 and 2017, the outstanding balance due to the plan was \$220,816 and \$79,019, respectively.

Note 4: Line of Credit

VCLC had an available line of credit with a financial institution in the amount of \$2,300,000. As of June 30, 2018 and 2017, the line of credit bears interest on the outstanding balance at the minimum interest rate permitted under the line of 3.5% for 2018 and 2017. Interest is charged at a rate equal to 2.25% in excess of LIBOR or the bank's prime rate of 5.00%, 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 and matures on June 1, 2019. As of June 30, 2018 and 2017, the balance is \$1,000,000 and \$365,000, respectively. Interest expense was \$41,477 and \$39,963 in 2018 and 2017, respectively.

Variety Child Learning Center

Notes to Financial Statements

June 30, 2018 and 2017

Note 5: 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 and was 4.38% and 3.45% as of June 30, 2018 and 2017, 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, 2018 and 2017, \$1,351,400 and \$1,421,000 was outstanding, respectively. Interest expense was \$59,792 and \$62,787 in 2018 and 2017, respectively.

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

2019	\$	69,600
2020		69,600
2021		69,600
2022		69,600
2023		69,600
Thereafter		<u>1,003,400</u>
		1,351,400
Less unamortized debt issuance costs		<u>(24,690)</u>
Total	\$	<u><u>1,326,710</u></u>

Note 6: Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30 are available for the following purposes:

	<u>2018</u>	<u>2017</u>
Building, furniture and equipment	\$ 128,074	\$ 141,633
Education, research projects, and training	186,564	76,027
Needy family support	13,166	6,155
Parent events	<u>10,562</u>	<u>9,119</u>
	<u>\$ 338,366</u>	<u>\$ 232,934</u>

Variety Child Learning Center
Notes to Financial Statements
June 30, 2018 and 2017

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

	2018	2017
Building, furniture and equipment	\$ 39,696	\$ 42,435
Education, research projects, and training	32,138	39,194
Family respite	124,346	142,618
Needy family support	9,891	15,313
IDEA Section 611/619	541,644	526,582
	\$ 747,715	\$ 766,142

Note 7: Significant Estimates and 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.

At June 30, 2018 and 2017, VCLC's cash accounts exceeded federally insured limits by approximately \$564,000 and \$776,000, respectively.

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.

For the years ended June 30, 2018 and 2017, VCLC received approximately 69% and 71%, respectively, of its operating revenue from Nassau County. As of June 30, 2018 and 2017, VCLC has a receivable due from Nassau County of approximately 65% in 2018 and 38% in 2017 of total receivables.

Note 8: 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 \$43,208 and \$73,443 in 2018 and 2017, respectively. The fair value of the swap agreement was a receivable of \$43,607 and \$398 at June 30, 2018 and 2017, respectively. The swap receivable is 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.

Variety Child Learning Center

Notes to Financial Statements

June 30, 2018 and 2017

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, 2018 and 2017 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 9: 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, 2018 and 2017 was \$251,066 and \$285,086, respectively and has been included in accounts payable and accrued expenses on the balance sheet.

Note 10: Operating Leases

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. 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.

On September 1, 2017, VCLC entered into an agreement to lease instructional and related services space in connection with two special classes in an integrated setting. The lease will expire June 30, 2019. The lease can be terminated upon ninety days’ written notice. Payments for the space and expenses are \$3,500 for each location.

Variety Child Learning Center
Notes to Financial Statements
June 30, 2018 and 2017

Future minimum lease payments are as follows:

2019	\$	309,000
2020		225,000
2021		225,000
2022		225,000
2023		250,000
Thereafter		<u>1,090,616</u>
	<u>\$</u>	<u>2,324,616</u>

Rent expense was \$293,270 and \$200,000 for the years ended June 30, 2018 and 2017, respectively.

Note 11: Fair Value Measurements and Disclosures

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2018 as compared to those used at June 30, 2017.

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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Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2018 and 2017:

	2018			2017		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Equity securities						
Consumer goods	\$ 301,622		\$ 301,622	\$ 268,109		\$ 268,109
Financial	76,199		76,199	95,844		95,844
Health care	433,784		433,784	380,386		380,386
Services	519,404		519,404	374,111		374,111
Technology	373,306		373,306	394,820		394,820
Total equity securities	<u>1,704,315</u>		<u>1,704,315</u>	<u>1,513,270</u>		<u>1,513,270</u>
Total investments reported on the fair value hierarchy	<u>\$ 1,704,315</u>		1,704,315	<u>\$ 1,513,270</u>		1,513,270
Investments at NAV						
Money market funds			<u>27,240</u>			<u>28,837</u>
Total investments			<u>\$ 1,731,555</u>			<u>\$ 1,542,107</u>
Swap (liability) receivable		<u>\$ 43,607</u>	<u>\$ 43,607</u>		<u>\$ 398</u>	<u>\$ 398</u>

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.

Note 13: Related Party Transactions

A member of the Board of Trustees is employed by the legal firm that VCLC used and incurred legal cost of \$5,940 in 2017. The board member did not receive any direct compensation during 2017 in connection with this transaction.