Centerboard, Inc.

Financial Statements

June 30, 2018 and 2017

Worthington, Hughes & Hoar, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report

To the Board of Directors
Centerboard, Inc.:

Report on the Financial Statements
We have audited the accompanying financial statements of Centerboard, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities and changes in net assets, 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 Centerboard, Inc. 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.

Report on Summarized Comparative Information
We have previously audited Centerboard, Inc.'s 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 9, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Worthington, Hughes & Hoar, P.C.

Woburn, Massachusetts
November 14, 2018

Centerboard, Inc.

Statements of Financial Position

June 30, 2018 and 2017

		2018	2017
Assets			
Current assets:			
Cash and cash equivalents (Note 2(f))	$	840,456	1,387,406
Accounts receivable (Notes 2(g) and 3)		1,509,441	1,204,676
Prepaid expenses		126,410	143,982
Total current assets		2,476,307	2,736,064
Property and equipment, net (Notes 2(h), 4 and 10)		7,315,744	3,564,358
Other assets:			
Bond proceeds held in escrow		284,399	-
Fair value of interest rate swap agreement (Note 7)		11,282	-
Cash restricted for investment in property and equipment		-	100,000
Total other assets		295,681	100,000
Total assets	$	10,087,732	6,400,422
Liabilities and Net Assets			
Current liabilities:			
Demand notes payable (Note 5)	$	-	153,902
Current installments of long-term debt (Note 6)		158,329	94,696
Accounts payable		292,627	132,264
Accrued expenses (Note 8)		404,132	549,098
Deferred revenue (Note 9)		-	20,431
Total current liabilities		855,088	950,391
Long-term debt, excluding current installments (Note 6)		5,806,827	2,143,842
Total liabilities		6,661,915	3,094,233
Net assets (Notes 10 and 11):			
Unrestricted		3,100,017	3,179,102
Temporarily restricted		325,800	127,087
Total net assets		3,425,817	3,306,189
Commitments and contingent liabilities (Notes 13, 14 and 17)			
Total liabilities and net assets	$	10,087,732	6,400,422

See accompanying notes to financial statements.

Centerboard, Inc.
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2018
(with comparative totals for 2017)

	Unrestricted	Temporarily Restricted	Total 2018	Total 2017
Support and revenue:				
Program service fees (Note 2(c))	$ 14,124,183	-	14,124,183	14,026,307
Cash contributions (Note 2(d))	104,139	305,360	409,499	32,148
In-kind contributions (Note 2(e))	2,380	-	2,380	2,030
Grants	6,618	51,786	58,404	135,512
Interest income	826	-	826	403
Change in fair value of interest rate swap agreement (Note 7)	11,282	-	11,282	-
Other income	6,760	-	6,760	12,406
Gain on sale of property and equipment	927	-	927	3,156
Net assets released from restriction	158,433	(158,433)	-	-
Total support and revenue	14,415,548	198,713	14,614,261	14,211,962
Expenses and losses:				
Program services:				
Scattered Sites	8,053,549	-	8,053,549	7,257,199
Teen Living	1,753,324	-	1,753,324	1,264,470
Adolescent Group Home	1,086,170	-	1,086,170	1,091,793
Pre-Independent Living	728,120	-	728,120	656,018
Scattered Sites Stabilization	566,732	-	566,732	728,422
Program for Independent Living	305,583	-	305,583	288,601
Family Resource Center	224,059	-	224,059	226,326
Supported Teen Parent Employment	110,401	-	110,401	119,296
Public Arts Project	63,134	-	63,134	-
Victims Assistance Training	6,699	-	6,699	-
Total program services	12,897,771	-	12,897,771	11,632,125
Supporting services:				
General and administrative	1,353,008	-	1,353,008	1,338,446
Fundraising	243,854	-	243,854	174,872
Total expenses and losses	14,494,633	-	14,494,633	13,145,443
Increase (decrease) in net assets	(79,085)	198,713	119,628	1,066,519
Net assets, beginning of year	3,179,102	127,087	3,306,189	2,239,670
Net assets, end of year	$ 3,100,017	325,800	3,425,817	3,306,189

See accompanying notes to financial statements.

Centerboard, Inc.

Statement of Functional Expenses

For the Year Ended June 30, 2018

(with comparative totals for 2017)

	Payroll and Related Expenses	Occupancy	Program/ Operating Expenses	Direct Administrative Expenses	Other Operating Expenses	Depreciation	Total 2018	Total 2017
Program services:								
Scattered Sites	$ 2,260,514	5,294,970	262,447	77,429	45,806	112,383	8,053,549	7,257,199
Teen Living	1,244,364	278,102	106,472	29,140	17,049	78,197	1,753,324	1,264,470
Adolescent Group Home	815,317	117,452	125,771	14,208	8,945	4,477	1,086,170	1,091,793
Pre-Independent Living	517,239	88,542	100,670	12,596	3,922	5,151	728,120	656,018
Scattered Sites Stabilization	215,589	1,954	349,136	-	53	-	566,732	728,422
Program for Independent Living	205,824	65,515	25,426	6,473	2,098	247	305,583	288,601
Family Resource Center	158,980	16,086	37,035	1,122	4,476	6,360	224,059	226,326
Supported Teen Parent Employment	79,108	13,297	9,180	5,098	3,625	93	110,401	119,296
Public Arts Project	15,593	42,177	299	21	5,044	-	63,134	-
Victims Assistance Training	-	-	6,699	-	-	-	6,699	-
Total program services	5,512,528	5,918,095	1,023,135	146,087	91,018	206,908	12,897,771	11,632,125
Supporting services:								
General and administrative	904,084	106,237	26,368	159,798	136,383	20,138	1,353,008	1,338,446
Fundraising	173,269	1,808	12,816	1,475	54,486	-	243,854	174,872
Total expenses	$ 6,589,881	6,026,140	1,062,319	307,360	281,887	227,046	14,494,633	13,145,443

See accompanying notes to financial statements.

Centerboard, Inc.

Statements of Cash Flows

For the Years Ended June 30, 2018 and 2017

		2018	2017
Increase (decrease) in cash and cash equivalents:			
Cash flows from operating activities:			
Increase in net assets	$	119,628	1,066,519
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:			
Depreciation		227,046	147,139
Amortization of loan acquisition costs		57,386	6,292
Amortization of discount on long-term debt		2,439	-
Interest earned on bond proceeds held in escrow		(685)	-
Change in fair value of interest rate swap agreement		(11,282)	-
Gain on sale of property and equipment		(927)	(3,156)
Contributions restricted for investment in property and equipment		(293,852)	(100,000)
Changes in operating assets and liabilities:			
(Increase) decrease in accounts receivable		(304,765)	242,348
(Increase) decrease in prepaid expenses		17,572	(79,170)
Increase (decrease) in accounts payable		160,363	(49,699)
Increase (decrease) in accrued expenses		(144,966)	144,877
Increase (decrease) in deferred revenue		(20,431)	(107,740)
Net cash provided by (used in) operating activities		(192,474)	1,267,410
Cash flows from investing activities:			
Purchases of property and equipment		(1,013,402)	(499,029)
Net proceeds from the sale of property and equipment		4,500	186,319
Insurance proceeds from the disposal of equipment		-	5,421
Net cash used in investing activities		(1,008,902)	(307,289)
Cash flows from financing activities:			
Net repayments of demand notes payable		(1,568)	(110,318)
Proceeds from long-term debt		1,260,513	-
Repayment of long-term debt		(624,151)	(116,384)
Loan acquisition costs paid		(80,368)	(11,536)
Contributions restricted for investment in property and equipment		100,000	-
Net cash provided by (used in) financing activities		654,426	(238,238)
Net increase (decrease) in cash and cash equivalents		(546,950)	721,883
Cash and cash equivalents, beginning of year		1,387,406	665,523
Cash and cash equivalents, end of year	$	840,456	1,387,406

See accompanying notes to financial statements.

(1) Organization

Centerboard, Inc. ("Centerboard" or the "Organization") is a community-based nonprofit Organization whose mission is to revitalize the community of Lynn, MA and surrounding cities and towns, by investing in its people and places. Centerboard supports families and young people through housing, access to employment, education and financial empowerment.

The various programs include:

<u>Scattered Sites Family Emergency Shelter and Stabilization Programs ("SSFES")</u>
The SSFES program consists of approximately 200 apartments in various locations throughout the North Shore. The apartments are managed by private property owners and Centerboard. SSFES case management staff provides comprehensive services to homeless families. Families referred to the SSFES program by the Massachusetts Division of Housing and Community Development are screened for placement in an effort to target families who are motivated and have the ability to live independently.

<u>Teen Living Program ("TLP")</u>
The TLP is a residential program designed to provide a permanent and stable home environment for approximately 35 pregnant or parenting young mothers and their children. In an emergency situation, the program may temporarily accommodate three additional teen mothers and their children until permanent homes are found.

Teen parents must be referred to Centerboard by the Massachusetts Department of Children and Families ("DCF"). Every teen mother must attend school regularly, and participate in skill development. This structured curriculum is balanced with a nurturing support system designed to foster physical and social development for the residents and their children.

<u>Adolescent Group Home</u>
This group home program provides residential treatment for 12 youths (ages 13-18) who are under the care of DCF. This program provides long term care from three months to up to two years. Youths in this program have an array of concerns such as: difficulties in school, issues at home, behavioral issues, and mental health issues. Youths have their medical and mental health needs addressed within the program by a team of professionals. Family members are encouraged to participate in the program whenever possible.

<u>Pre-Independent Living Program ("Pre-ILP")</u>
The Pre-ILP program was developed at the joint request of the DCF and Lutheran Social Service, Inc. ("LSS"). LSS has an agreement with DCF and the Federal Government to provide homes for youths who have entered the United States without families. LSS currently provides services to over 120 individuals, and the number is growing. Centerboard has agreed to accommodate up to 10 individuals. The program is designed to provide a structured home for these individuals. The staffing ratio is 5 clients to 1 staff member, and youths are allowed to come and go independently but must obey house rules and be a part of the household. Individuals must either be working, in job training, or in school. Meals are provided on a daily basis, and a weekly allowance is supplied.

(1) **Organization** (Continued)

Program for Independent Living
The Program for Independent Living allows young men and women the opportunity to live independently in their own apartment but with supervision. Each resident works toward gaining their high school diploma or equivalent, or pursuing further education while gaining the necessary skills to live independently. The residents pay 30% of their income towards rent and an additional 10% into a savings plan. Upon graduation, the resident will receive their savings money to use towards housing, school, etc.

Family Resource Center ("FRC")
The FRC provides a single point of entry for family members to access support services for many human services-related issues. If services cannot be provided to a family member onsite at the FRC, staff will provide information and referral to a network of service providers affiliated with the program. The FRC model's philosophy is to "do whatever it takes" to help the family better meet its needs.

Supported Teen Parent Employment Program ("STEP")
STEP is a six to nine month, apartment model, teen living program. Eligible teen mothers must already be placed in a teen living program, have achieved their service plan goals, be age 18 or older, and have a high school diploma or equivalent. Residents are required to attend twenty hours of group meetings per month including, but not limited to, parenting and house meetings. Because residents will reside in an individual apartment, teens must be able to follow rules, be self-motivated, and have strong parenting skills. STEP strives to foster self-sufficiency through education and employment while promoting personal growth, and ensuring the safety of each resident and her children. STEP residents work with a case manager to perform an extensive housing search. The program is not staffed twenty-four hours a day; however, staff is on-call.

Public Arts Project
Centerboard participates in the growing arts and culture movement in Lynn by spearheading public art projects, supporting the Downtown Lynn Cultural District and operating its art gallery, Visionspace. The public art installations help beautify areas of downtown Lynn while simultaneously creating conversation pieces and instilling pride among both passersby and neighbors. Miscellaneous expenses related to the Public Arts Project for the fiscal year ended June 30, 2017, were included in general and administrative expenses.

Victims Assistance Training
Centerboard received a grant during the fiscal year ended June 30, 2018, to provide training to staff through the Massachusetts Office of Victim's Assistance.

(2) Summary of Significant Accounting Policies

(a) Method of Accounting
The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and pursuant to the accrual basis method of accounting. Under this method of accounting, revenues and expenses are identified with specific periods of time and are recorded as earned or incurred without regard to the date of receipt or disbursement of cash.

(b) Comparative Financial Information
The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

(c) Program Service Fees
Centerboard derives approximately 98% of its revenue from contracts with the Commonwealth of Massachusetts and other local government units. Revenue from certain contracts is recognized when expenditures for allowable goods and services are incurred. These contracts are subject to audit by the funding agency and such audits could result in claims against Centerboard for disallowed costs or noncompliance with restrictions. No provision has been made for any liabilities that may arise from such audits since management believes that it has complied with all contract terms and conditions.

(d) Contributions
Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor-imposed restrictions. Contributions include cash, materials, property and equipment, and services. Contributed services are recorded at fair value and include services which create or enhance non-financial assets or require specialized skills which would typically need to be purchased by Centerboard, if not donated.

(e) In-kind Contributions of Property and Services
Centerboard records the value of donated goods or services when there is an objective basis available to measure their value. Donated goods and services are presented as in-kind contributions and services in the accompanying financial statements. Donated property such as food, clothing, and furniture are recorded at their estimated values at date of receipt. Donated services are valued at the comparable compensation which would be paid to an individual in such paid positions.

(f) Cash and Cash Equivalents
Centerboard considers all highly liquid debt instruments purchased with initial maturities of three months or less to be cash equivalents.

(2) **Summary of Significant Accounting Policies** (Continued)

(g) Accounts Receivable
Accounts receivable are stated at the amount the Organization expects to collect from balances outstanding at year-end. Management provides for uncollectible accounts through a provision for bad debt expense and adjustments to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. An allowance for doubtful accounts was not required as of June 30, 2018 and 2017.

(h) Property, Equipment and Depreciation
The Organization capitalizes all property and equipment having a useful life of more than one year with an original value of more than $3,500. Lesser amounts are expensed. Purchased property and equipment are capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Upon retirement or sale, the asset cost and related accumulated depreciation are removed from the accounts and any gain or loss is reflected on the statement of activities and changes in net assets.

Depreciation is computed using the straight-line method over estimated useful lives as follows:

Category	Estimated Life
Buildings and improvements	20 – 40 years
Motor vehicles	3 - 5 years
Furniture and equipment	5 - 7 years

The Organization periodically reviews the recoverability of its long lived assets. If facts or circumstances indicate the possibility of impairment, the Organization will prepare a projection of the undiscounted future cash flows of the specific assets and determine if the carrying value is recoverable or if an adjustment to the carrying value of the assets is necessary. As of June 30, 2018, the Organization determined that there is no impairment in its long-lived assets.

(i) Loan Acquisition Costs
Loan acquisition costs include legal fees, organization fees and related costs incurred to obtain long-term financing for the purchase of land and buildings. Such costs are being amortized using the effective interest method over the repayment terms of the underlying mortgage loans.

Effective July 1, 2016, the Organization retrospectively adopted the presentation and disclosure requirements of a recent pronouncement of the Financial Accounting Standards Board ("FASB"). Under the new accounting standard, loan acquisition costs are presented on the accompanying statements of financial position as a reduction of the principal amount of the related long-term debt (see Note 6). The purpose of this change is to reduce the complexity in presentation on the statement of financial position, which is consistent with the FASB'S *Simplification Initiative*.

(2) **Summary of Significant Accounting Policies** (Continued)

(j) Tax Status and Income Taxes
Centerboard was incorporated under the provisions of Chapter 180 of the General Laws of the Commonwealth of Massachusetts. The Organization is exempt from income tax under Section 501(a) of the Internal Revenue Code, as an Organization described in Section 501(c)(3). However, the Organization is subject to tax on any unrelated business income. During the years ended June 30, 2018 and 2017, the Organization did not have any unrelated business taxable income and, accordingly, no provision for income taxes has been reflected in the accompanying financial statements.

Accounting principles generally accepted in the United States of America require that a tax position be recognized or derecognized based on a more than likely or not threshold. This applies to tax positions taken or expected to be taken on a tax return. The Organization regularly assesses the potential settlement outcomes resulting from income tax examinations. The Organization does not believe that there are any uncertain tax positions that require recognition in its financial statements. As of the date of this report, the statute of limitations for examination by the Federal and Massachusetts taxing authorities is open for the Organization's 2014 through 2017 tax returns (representing the fiscal years ended June 30, 2015 through 2018).

(k) Functional Allocation of Expenses
Expenses are allocated among program and supporting services directly or on the basis of time records and utilization estimates made by management. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for overall support and direction.

(l) Estimates and Assumptions
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.

(3) **Accounts Receivable**

Accounts receivable consist of the following:

	2018	2017
Program service fees	$ 1,493,277	1,201,686
Miscellaneous	15,899	2,490
Employee payroll advances	265	500
	$ 1,509,441	1,204,676

(4) Property and Equipment

Property and equipment consist of the following:

	2018	2017
Land	$ 1,592,810	605,660
Buildings and improvements	5,772,400	2,924,379
Motor vehicles	303,948	227,117
Furniture and equipment	236,286	109,075
Deposits on real estate acquisitions	10,000	105,450
	7,915,444	3,971,681
Accumulated depreciation	(599,700)	(407,323)
Net property and equipment	$ 7,315,744	3,564,358

Depreciation expense was $227,046 and $147,139 for the years ended June 30, 2018 and 2017.

(5) Demand Notes Payable

The following is a summary of demand notes payable at June 30, 2018 and 2017:

	2018	2017
Demand note payable to bank pursuant to a $3,758,000 revolving line of credit, interest at the applicable London Inter Bank Offering Rate ("LIBOR"), plus 2.50% (approximately 4.50% at June 30, 2018); interest payable monthly; secured by real estate and the general assets of the Organization; matures on August 15, 2019	$ -	-
Demand note payable to seller of real estate purchased in 2014; due in monthly installments of $1,423, including interest at 5%; payable in full upon demand; secured by real estate	-	153,902
Demand note payable to bank pursuant to a $700,000 revolving line of credit, interest at the bank's prime rate (3.75% at June 30, 2017); interest payable monthly; secured by real estate and the general assets of the Organization; cancelled in September 2017	-	-
	$ -	153,902

(6) Long-Term Debt

The following is a summary of long-term debt at June 30, 2018 and 2017:

	2018	2017
Tax-exempt revenue bonds payable to bank, due in fixed monthly installments of principal plus interest at the applicable LIBOR (3.16875% at June 30, 2018); beginning September 29, 2017; subject to a mandatory		

(6) **Long-Term Debt** (Continued)

	2018	2017
purchase provision on August 31, 2027, but extendable at the discretion of the bank, to the stated maturity of August 31, 2047; secured by real estate and the general assets of the Organization	$ 5,812,176	-
Non-interest bearing mortgage loan payable to the Malden Redevelopment Authority; maximum obligation $603,500; matures on April 1, 2038; face value of $543,150 at June 30, 2018, but discounted at the Organization's approximate cost of capital of 3.90%; secured by real estate	251,737	-
Note payable to finance company, due in monthly installments of $512, including interest at 5.95%, through September 2019; secured by a motor vehicle	6,912	12,467
Note payable to finance company, due in monthly installments of $504, including interest at 2.90%, through July 2020; secured by a motor vehicle	11,731	17,337
Note payable to finance company, due in monthly installments of $443, including interest at 2.95%, through July 2019; secured by a motor vehicle	5,671	10,736
Note payable to finance company, due in monthly installments of $444, including interest at 7.06%, through January 2020; secured by a motor vehicle	7,958	12,543
Note payable to finance company, due in monthly installments of $418, including interest at 1.93%, through March 2021; secured by a motor vehicle	13,428	18,137
Note payable to finance company, due in monthly installments of $506, including interest at 2.90%, through July 2020; secured by a motor vehicle	11,754	17,391
Note payable to finance company, due in monthly installments of $588, including interest at 2.90%, through July 2020; secured by a motor vehicle	14,257	20,801
Note payable to finance company, due in monthly installments of $545, including interest at 6.79%, through April 2021; secured by a motor vehicle	16,366	21,601
Note payable to finance company, due in monthly installments of $436, including interest at 2.95%, through August 2022; secured by a motor vehicle	20,503	-

(6) **Long-Term Debt** (Continued)

	2018	2017
Mortgage note payable to Massachusetts Development Finance Agency, due in monthly installments of $5,739, including interest at 4%, beginning November 1, 2015, through March 2024, when a balloon payment of approximately $864,000 will be due; secured by land and building; refinanced in August 2017 as part of the bond issuance	-	1,079,911
Mortgage note payable to bank, due in monthly installments of $3,144, including interest at 4%, beginning July 1, 2016, through March 2026, when a balloon payment of approximately $423,000 will be due; secured by land and building; refinanced in August 2017 as part of the bond issuance	-	574,422
Mortgage note payable to bank, due in monthly installments of $2,660, including interest at 4.04%, through November 2026, when a balloon payment of approximately $360,000 will be due; secured by land and building; refinanced in August 2017 as part of the bond issuance	-	491,930
Total long-term debt	6,172,493	2,277,276
Less unamortized loan acquisition costs	207,337	38,738
Total long-term debt less loan acquisition costs	5,965,156	2,238,538
Less current installments of long-term debt	158,329	94,696
Long term debt, excluding current installments	$ 5,806,827	2,143,842

Interest expense totaled $225,111 and $100,519 for the years ended June 30, 2018 and 2017, respectively. Amortization of loan acquisition costs totaled $57,386 and $6,292 for the years ended June 30, 2018 and 2017, respectively.

The carrying value of the non-interest bearing obligation to the Malden Redevelopment Authority is shown net of the unamortized discount of $291,413 as of June 30, 2018. Amortization of the discount totaled $2,439 for the year ended June 30, 2018.

Aggregate annual maturities of the long-term liabilities are as follows:

Year	Amount
2019	$ 158,329
2020	152,294
2021	131,842
2022	127,578
2023	128,204
Thereafter	5,474,246
	$ 6,172,493

(6) **Long-Term Debt** (Continued)

The Organization is subject to various financial and administrative covenants in connection with the bond described above. As of the date these financial statements were available to be issued, the Organization was not in compliance with two of these covenants. By its letter dated November 13, 2018, the bank waived the violations.

(7) **Interest Rate Swap Agreement**

The Organization follows ASC 815, *Derivatives and Hedging*, as amended, which requires that all derivative instruments be reported on the statement of financial position at fair value. The Organization is subject to market risks, such as changes in interest rates that arise from normal business operations. The Organization assesses these risks and has established business strategies to provide natural offsets supplemented by the use of derivative financial instruments to protect against the adverse effects of these and other market risks. The Organization has established clear policies, procedures and internal controls governing the use of derivatives and does not use them for trading, investing or other speculative purposes.

In August 2017, in order to mitigate some of the cash flow effects of the Variable Rate Revenue Bonds (see Note 6), the Organization entered into an interest rate swap arrangement with Citizens Bank, N.A. as swap counterparty for an original amount of $5,900,000 in bond principal that covers the period from August 31, 2017 through August 31, 2047. Under the swap contract, the Organization pays interest at a fixed rate of approximately 3.90% and the swap counterparty pays interest on the notional principal portion for any portion of the variable bond rate that is greater than those rates. At June 30, 2018, the swap contract represented an asset of $11,282, in the statement of financial position. The mark-to-market adjustment of $11,282 is included in the statement of activities for the year ended June 30, 2018.

(8) **Accrued Expenses**

Accrued expenses consist of the following:

	2018	2017
Payroll and payroll taxes	$ 233,779	400,985
Audit and tax services	38,100	37,000
Compensated absences	113,613	91,667
Client and contract pass-throughs	11,061	10,723
Other expenses	7,579	5,336
Interest	-	3,387
	$ 404,132	549,098

(9) **Deferred Revenue**

Certain state contracts require Centerboard to bill in advance for various client support costs. These funds are to be utilized for back rent, utilities and other delinquent payments so the client can become financially stable, and can also be spent for clothing and other support costs. As of June 30, 2018 and 2017, the excess of the amount of the contracts billed over the

(9) **Deferred Revenue** (Continued)

actual costs incurred is reported as deferred revenue as follows:

	2018	2017
Deferred revenue, beginning of year	$ 20,431	128,171
Contract amounts billed	-	317,675
Support costs incurred	(20,431)	(425,415)
Deferred revenue, end of year	$ -	20,431

(10) **Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes:

	2018	2017
TLP Melrose	$ 291,413	-
Sexual exploitation outreach program	17,600	-
Mentoring program	9,510	13,000
High Rock Tower lighting project	4,693	12,511
Assistance to Lynn fire victims	1,576	1,576
Future fundraising event support	1,008	-
Building improvements	-	100,000
	$ 325,800	127,087

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors, as follows:

	2018	2017
Building improvements	$ 100,000	-
High Rock Tower lighting project	42,005	-
Mentoring program	13,989	-
TLP Melrose	2,439	-
Land and building to be used in the Organization's charitable purpose	-	190,595
Assistance to Lynn fire victims	-	15,370
Motor vehicle operating expenses	-	11,086
Music program	-	550
	$ 158,433	217,601

In April 2018, the Organization received a 20-year non-interest bearing mortgage loan from the Malden Redevelopment Authority in connection with the renovation of real estate located in Melrose, MA. The debt was discounted as described in Note 6, with an offset to temporarily restricted net assets. As the discount on the debt is amortized and interest expense recognized, a corresponding reclassification of the accretion is made from temporarily restricted net assets into unrestricted net assets.

In May 2008, the Organization received a donation of land and buildings located at 148 and 150 Broadway, Saugus, MA, subject to a "Quitclaim Deed With Reversion." The properties were recorded at their estimated fair market values at the date of donation. The

(10) **Temporarily Restricted Net Assets** (Continued)

grantors have retained a life estate interest to use and occupy the premises during their lifetime. Beginning in January 2014, Centerboard commenced using the 150 Broadway location for its Scattered Sites program.

During 2012, the Organization became aware that the heirs of the grantors were contesting the validity of the donation. During 2015, the parties negotiated a settlement and received judicial approval to sell the properties and split the proceeds. The properties were sold in July and October, 2016, resulting in net cash proceeds that were approximately equal to the carrying value as of June 30, 2016.

(11) **Net Assets and Surplus Revenue Retention (Unaudited)**

Beginning July 1, 2015, a Not-For-Profit Provider, as defined, is allowed to retain an annual net surplus of up to 20% of gross revenue derived from delivering services to clients of the Commonwealth of Massachusetts. A current year surplus may be reinvested in program services as stipulated by the purchasing agencies, recouped, or used by the Commonwealth to reduce the price of future contracts. The surplus for the fiscal year ended June 30, 2018, was within the 20% limitation and accordingly, no liability to the Commonwealth exists.

(12) **Retirement Plan**

Centerboard adopted a 403(b) tax sheltered annuity plan effective January 1, 2014. Employees must normally work more than 20 hours per week to participate in this plan. Under the Plan, eligible employees may elect to defer a percentage or their salary, subject to certain limitations imposed by the Internal Revenue Code. Centerboard matches up to a maximum of 3% of qualifying participant salary. Matching contributions for these plans were $57,334 and $58,295 for the years ended June 30, 2018 and 2017, respectively.

(13) **Leasing Arrangements**

Centerboard leases numerous residential apartments in the City of Lynn under one year lease agreements with options to renew for up to three further terms of one year each. These units house families in the Scattered Sites Family Emergency Shelter program. Rent incurred for these facilities during 2018 and 2017 aggregated approximately $3,327,000 and $3,134,000, respectively. Future minimum lease payments are approximately $3,409,000 for the year ended June 30, 2019.

Centerboard leases a multi-family apartment building in the City of Lynn under a three year lease agreement which expired on October 31, 2016, but has been renewed through October 31, 2019. These units also house families in the Scattered Sites Family Emergency Shelter program. Rent incurred for this facility during 2018 and 2017, was $588,953 and $356,685, respectively. Rent of $49,778 was payable monthly through May 31, 2018. Monthly rent of $50,878 is payable from June 1, 2018 through October 31, 2019.

Centerboard also leases several buildings with residential units used in the Teen Living, Adolescent Group Home, Independent Living, and Pre-Independent Living Programs under various one-year lease agreements, all of which expired June 30, 2018. As of the date these financial statements were available to be issued, these leases have not been renewed.

(13) **Leasing Arrangements** (Continued)

Centerboard continues to occupy these buildings on a tenant-at-will basis. Rent incurred for these locations totaled approximately $200,000 and $276,500 for the years ended June 30, 2018 and 2017, respectively. Centerboard also leases other real estate and parking spaces pursuant to various tenant-at-will arrangements. Total rent incurred under these arrangements was approximately $40,000 and $47,000 for the years ended June 30, 2018 and 2017, respectively.

Centerboard rents several suites in the first floor of its administrative building located at 16 City Hall Square, Lynn, MA, to unrelated third parties under various informal month-to-month arrangements. As of June 30, 2018, there are no future minimum rents to be received from these arrangements.

Centerboard leases certain equipment under various non-cancelable operating leases. Total rent expense for the years ended June 30, 2018 and 2017, totaled $40,244 and $28,628, respectively.

Future minimum lease payments under these leases are summarized as follows:

Fiscal Year Ending	Real Estate	Equipment	Total
2019	$ 4,019,835	11,597	4,031,432
2020	203,512	7,610	211,122
2021	-	2,026	2,026
2022	-	2,026	2,026
2023	-	1,013	1,013
	$ 4,223,347	24,272	4,247,619

(14) **Guarantee**

Centerboard maintains a savings account with a local bank which is used to collateralize loans taken out by the Organization's employees. Each employee is personally liable for his or her outstanding loan to the local bank. Repayments are made through payroll deductions and paid directly to the bank by Centerboard's payroll service provider. As of June 30, 2018 and 2017, the outstanding loans were approximately $9,400 and $9,700, respectively. Centerboard has not incurred any losses from this arrangement and believes that the outstanding loan balances are fully collectible. Accordingly, no liability for this guarantee arrangement has been recorded.

(15) **Concentrations of Credit Risk**

The Organization's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and temporary cash investments and trade accounts receivable. The Organization places its cash and temporary cash investments with high credit quality financial institutions. At times, however, such investments may be in excess of the federally insured (Federal Deposit Insurance Corporation) limit of $250,000. The Organization routinely assesses the financial strength of its customers and as a consequence, believes that its trade accounts receivable credit risk exposure is limited.

(16) **Related Party Transactions**

Centerboard has entered into several rental contracts with Affordable Housing Associates of Lynn, Inc. ("AHA"), a non-profit organization related to Centerboard by common management, for use in several programs. Rents paid by Centerboard to AHA were approximately $218,000 and $310,000 for the years ended June 30, 2018 and 2017, respectively. All rents are at established market values. Centerboard bills AHA for repairs and maintenance costs incurred by Centerboard in connection with properties owned by AHA and used by Centerboard in its programs. Centerboard acquired real estate in October 2017 from AHA, at a total cost of $600,000, which was consistent with two independent bank appraisals that were performed on the property prior to closing, as a condition of the bond financing. There are no amounts payable to, or receivable from, AHA as of June 30, 2018 and 2017.

Centerboard and AHA have combined efforts in a number of programs and have used their expertise to apply for grants under joint venture agreements and/or memorandums of understanding. Centerboard's Board of Directors has voted to investigate further collaborative and/or other types of alignment, which would benefit both organizations.

During 2012, Centerboard began renting apartments from limited liability companies that are partially owned by a Board Member. Management believes that the rents are being paid at fair market value, are consistent with amounts paid for similar apartments, and are in the normal course of business of the Organization. Rental payments to these companies totaled $80,300 and $78,000 for the fiscal years ended June 30, 2018 and 2017, respectively. During 2017, Centerboard made payments totaling $21,350 to a realty company owned by the same Board Member for deposits on real estate purchases that closed in September 2017. The Board Member resigned during the fall of 2017.

In August 2016, Centerboard entered into an agreement to rent two apartments from a limited liability company which was managed by Centerboard's Chief Executive Officer and another Board Member, for use in its Scattered Sites program. Rental payments to this company totaled $4,500 for the year ended June 30, 2017. Management believes these rents to be at established fair market value and in the normal course of business. The apartments have since been sold to an unrelated third party and the Chief Executive Officer and Board Member no longer have any beneficial interests thereto.

During 2016, Centerboard began renting an apartment owned by a family member of Centerboard's Chief Operating Officer. Rental payments for the use of this property totaled $17,400 for each of the years ended June 30, 2018 and 2017. Management believes these rents to be at established fair market value and in the normal course of business.

The children of certain staff members, including executive management, are temporarily employed during the summer in various programs, and are paid pre-established hourly rates based on a salary tier system. Hours worked during the fiscal years ended June 30, 2018 and 2017 were nominal. The cost is considered necessary and at market rate.

A member of Centerboard's Board of Directors is also Vice President of a major local financial institution that Centerboard uses for banking purposes in the ordinary course of

(16) **Related Party Transactions** (Continued)

business, including the maintenance and servicing of checking and savings accounts, and prior to the bond issuance, for lines of credit and mortgage lending.

(17) **Commitments and Contingencies**

In August 2017, Centerboard was made aware of a potential environmental remediation issue at its administrative facility located at 16 City Hall Square in Lynn, Massachusetts. Engineers conducted a Phase II subsurface investigation and determined that oil and/or hazardous materials may have impacted the soil and/or groundwater. However, the depth of the impacted soil appeared to be below a level that would require remedial action. The matter has been reported to the Massachusetts Department of Environmental Protection and additional tests were conducted to determine the appropriate action to be taken. In the spring of 2018, the Massachusetts Department of Environmental Protection ruled that no remedial action was necessary.

(18) **Supplemental Cash Flow Information**

The following is a summary of supplemental cash flow information:

	2018	2017
Interest Paid	$ 228,498	100,435

The following is a summary of noncash investing and financing activities:

	2018	2017
Tax-exempt revenue bonds issue for:		
Acquisition of real estate	$ 2,944,293	-
Payment of loan acquisition costs	$ 145,616	-
Financed purchase of motor vehicle	$ 24,310	-
Financed purchase of land and buildings	$ -	498,750

(19) **Subsequent Events**

Management has evaluated subsequent events through November 14, 2018, the date on which the financial statements were available to be issued. Management has determined that no material subsequent events have occurred since June 30, 2018, that required recognition or disclosure in these financial statements.