

Forestdale, Inc.

Financial Statements

June 30, 2023

Independent Auditors' Report

Board of Directors
Forestdale, Inc.

Opinion

We have audited the accompanying financial statements of Forestdale, Inc. ("Forestdale"), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Forestdale as of June 30, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Forestdale and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Policy

As discussed in Note 2 to the financial statements, Forestdale adopted Financial Accounting Standards Board ("FASB") Topic 842, Leases, which resulted in the recognition of a right of use asset and related lease liability, effective July 1, 2022. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Forestdale's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, if they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Forestdale's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Forestdale's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited Forestdale, Inc.'s June 30, 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 2, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022 is consistent, in all material respects, with the audited financial statements from which it has been derived.

PKF O'Connor Davies, LLP

October 24, 2023

Forestdale, Inc.

Statement of Financial Position
June 30, 2023
(with comparative amounts at June 30, 2022)

| | <u>2023</u> | <u>2022</u> |
|---|----------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 198,413 | \$ 641,612 |
| Due from governmental agencies | 8,567,444 | 7,227,057 |
| Prepaid expenses and other assets | 287,638 | 137,814 |
| Investments | 22,866,481 | 21,575,659 |
| Property, plant and equipment, net | 1,373,886 | 1,121,402 |
| Operating right of use asset, net | 1,274,659 | - |
| Restricted investments | <u>187,295</u> | <u>187,295</u> |
| | <u>\$ 34,755,816</u> | <u>\$ 30,890,839</u> |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 799,564 | \$ 600,687 |
| Accrued payroll and benefits | 1,287,200 | 1,042,670 |
| Accrued foster care payments | 732,266 | 464,833 |
| Operating lease liabilities | 1,321,056 | - |
| Line of credit | <u>700,000</u> | <u>750,000</u> |
| Total Liabilities | <u>4,840,086</u> | <u>2,858,190</u> |
| Net Assets | | |
| Without Donor Restrictions | | |
| Operating | 4,066,259 | 4,027,658 |
| Investment in property, plant and equipment | 1,373,886 | 1,121,402 |
| Board designated | <u>22,702,231</u> | <u>21,442,111</u> |
| Total Net Assets Without Donor Restrictions | <u>28,142,376</u> | <u>26,591,171</u> |
| With donor restrictions | <u>1,773,354</u> | <u>1,441,478</u> |
| Total Net Assets | <u>29,915,730</u> | <u>28,032,649</u> |
| | <u>\$ 34,755,816</u> | <u>\$ 30,890,839</u> |

See notes to financial statements

Forestdale, Inc.

Statement of Activities
Year Ended June 30, 2023
(with summarized totals for the year ended June 30, 2022)

| | Without Donor Restrictions | With Donor Restrictions | 2023 Total | 2022 Total |
|--|----------------------------------|-------------------------------|---------------|---------------|
| OPERATING INCOME | | | | |
| Foster boarding homes | \$ 19,739,351 | \$ - | \$ 19,739,351 | \$ 15,323,079 |
| Medicaid | 4,525,973 | - | 4,525,973 | 4,785,724 |
| Preventive services | 10,903,855 | - | 10,903,855 | 9,709,855 |
| Child Success NYC | 1,421,159 | - | 1,421,159 | 1,055,663 |
| Forestdale fathering initiative | 425,896 | - | 425,896 | 387,210 |
| Contributions and grants | 154,491 | 1,375,215 | 1,529,706 | 1,231,378 |
| In-kind contributions | 141,054 | - | 141,054 | 140,188 |
| Special events, net of direct donor benefit of \$82,609 and \$9,362 | 170,372 | - | 170,372 | 122,587 |
| NYS - Hoyt and CBCAP | 150,000 | - | 150,000 | 164,129 |
| Maternal infant health | 107,719 | - | 107,719 | 110,550 |
| Investment return used in operations | 903,000 | - | 903,000 | 620,000 |
| Net assets released from restrictions | 1,081,041 | (1,081,041) | - | - |
| Total Operating Income | 39,723,911 | 294,174 | 40,018,085 | 33,650,363 |
| OPERATING EXPENSES | | | | |
| Program services | 35,959,877 | - | 35,959,877 | 30,514,798 |
| Supporting Services | | | | |
| Management and general | 3,269,918 | - | 3,269,918 | 2,804,344 |
| Fundraising | 214,679 | - | 214,679 | 175,036 |
| Total Operating Expenses | 39,444,474 | - | 39,444,474 | 33,494,178 |
| Excess of Operating Income over Operating Expenses | 279,437 | 294,174 | 573,611 | 156,185 |
| NON-OPERATING ACTIVITY | | | | |
| Investment return | 1,271,768 | 37,702 | 1,309,470 | (4,244,484) |
| Change in Net Assets | 1,551,205 | 331,876 | 1,883,081 | (4,088,299) |
| NET ASSETS | | | | |
| Beginning of year | 26,591,171 | 1,441,478 | 28,032,649 | 32,120,948 |
| End of year | \$ 28,142,376 | \$ 1,773,354 | \$ 29,915,730 | \$ 28,032,649 |

See notes to financial statements

Forestdale, Inc.

Statement of Functional Expenses Year Ended June 30, 2023 (with summarized totals for the year ended June 30, 2022)

| | Program Services | | | | | | Supporting Services | | | 2023 Total | 2022 Total |
|--|---|---------------------|------------------------|------------------------------------|---------------------------------------|---------------------|------------------------------|---------------------------|-------------------|----------------------|----------------------|
| | Foster Boarding Homes (FBH, MTFC, TFFC) | Medicaid | Preventive Services | Child Success NYC Preventive | Forestdale Fathering Initiative | Other Programs | Total Program Services | Management and General | Fundraising | | |
| PERSONNEL | | | | | | | | | | | |
| Salaries | \$ 4,741,099 | \$ 2,085,337 | \$ 6,304,991 | \$ 1,007,623 | \$ 262,212 | \$ 1,462,622 | \$ 15,863,884 | \$ 1,823,759 | \$ 110,458 | \$ 17,798,101 | \$ 15,390,603 |
| Employee benefits and payroll taxes | 1,425,333 | 626,922 | 1,895,491 | 302,925 | 78,830 | 439,713 | 4,769,214 | 548,283 | 33,207 | 5,350,704 | 5,131,631 |
| Total Personnel | <u>6,166,432</u> | <u>2,712,259</u> | <u>8,200,482</u> | <u>1,310,548</u> | <u>341,042</u> | <u>1,902,335</u> | <u>20,633,098</u> | <u>2,372,042</u> | <u>143,665</u> | <u>23,148,805</u> | <u>20,522,234</u> |
| OTHER EXPENSES | | | | | | | | | | | |
| Children's allowances and pass-through (including in-kind of \$141,054 and \$140,188 for fiscal 2023 and 2022) | 8,440,921 | - | - | 25,000 | - | 313,245 | 8,779,166 | - | - | 8,779,166 | 6,321,545 |
| Transportation and workers expense | 53,938 | 14,007 | 38,218 | 516 | 3,509 | 30,050 | 140,238 | 27,580 | - | 167,818 | 88,209 |
| Purchase of services | 1,232,663 | 284,958 | 420,678 | 2,365 | 7,045 | 568,215 | 2,515,924 | 102,576 | 141,679 | 2,760,179 | 2,164,768 |
| Purchase of health services | - | 967,925 | 178,347 | - | - | - | 1,146,272 | - | - | 1,146,272 | 1,489,037 |
| Supplies and equipment | 116,223 | 19,916 | 22,158 | 5,916 | - | 10,000 | 174,213 | 28,115 | - | 202,328 | 155,724 |
| Supplies and equipment - medical | - | 38,399 | - | - | - | - | 38,399 | - | - | 38,399 | 35,668 |
| Rent - office space | - | - | 457,274 | - | - | - | 457,274 | - | - | 457,274 | 424,388 |
| Utilities | 69,679 | 11,940 | 35,201 | 3,547 | - | - | 120,367 | 16,856 | - | 137,223 | 115,404 |
| Repairs and maintenance | 348,704 | 59,753 | 247,588 | 17,748 | - | - | 673,793 | 84,352 | - | 758,145 | 628,793 |
| Telephone | 87,186 | 25,758 | 84,691 | 4,204 | 4,610 | 10,715 | 217,164 | 49,207 | 801 | 267,172 | 248,603 |
| Postage | 4,232 | 1,424 | 4,306 | 98 | 297 | 132 | 10,489 | 1,245 | 75 | 11,809 | 6,950 |
| Dues, licenses and permits | 31,100 | 20,000 | - | - | - | - | 51,100 | 19,496 | - | 70,596 | 63,520 |
| Office supplies | 46,719 | 15,723 | 69,001 | 1,078 | 3,281 | 3,127 | 138,929 | 13,745 | 833 | 153,507 | 124,135 |
| Subscriptions and publications | - | 672 | 152 | - | - | - | 824 | 36,149 | 5,906 | 42,879 | 33,206 |
| Conferences | - | - | - | - | - | - | - | 350 | - | 350 | - |
| Administrative | - | - | - | - | - | - | - | 10,867 | - | 10,867 | 4,611 |
| Staff development | 3,047 | - | 1,232 | 1,689 | - | 6,600 | 12,568 | 131,856 | 980 | 145,404 | 114,404 |
| Publicity and recruitment | 28,092 | - | - | - | - | - | 28,092 | 31,551 | - | 59,643 | 49,143 |
| Professional services | 302,116 | 11,082 | 33,506 | 760 | 11,130 | 2,028 | 360,622 | 161,674 | 587 | 522,883 | 418,174 |
| Insurance | 154,933 | 52,142 | 157,651 | 3,576 | 42,678 | 9,281 | 420,261 | 45,602 | 2,762 | 468,625 | 352,613 |
| Debt-service interest | - | - | - | - | - | - | - | 10,569 | - | 10,569 | 1,484 |
| Depreciation and amortization | 11,000 | - | 9,350 | - | - | 20,734 | 41,084 | 126,086 | - | 167,170 | 140,927 |
| Total Other Expenses | <u>10,930,553</u> | <u>1,523,699</u> | <u>1,759,353</u> | <u>66,497</u> | <u>72,550</u> | <u>974,127</u> | <u>15,326,779</u> | <u>897,876</u> | <u>153,623</u> | <u>16,378,278</u> | <u>12,981,306</u> |
| Total Functional Expenses | <u>17,096,985</u> | <u>4,235,958</u> | <u>9,959,835</u> | <u>1,377,045</u> | <u>413,592</u> | <u>2,876,462</u> | <u>35,959,877</u> | <u>3,269,918</u> | <u>297,288</u> | <u>39,527,083</u> | <u>33,503,540</u> |
| Less: cost of direct benefit to donors | - | - | - | - | - | - | - | - | (82,609) | (82,609) | (9,362) |
| Total Expenses Reported by Function on Statement of Activities | <u>\$ 17,096,985</u> | <u>\$ 4,235,958</u> | <u>\$ 9,959,835</u> | <u>\$ 1,377,045</u> | <u>\$ 413,592</u> | <u>\$ 2,876,462</u> | <u>\$ 35,959,877</u> | <u>\$ 3,269,918</u> | <u>\$ 214,679</u> | <u>\$ 39,444,474</u> | <u>\$ 33,494,178</u> |

See notes to financial statements

Forestdale, Inc.

Statement of Cash Flows
Year Ended June 30, 2023

(with comparative amounts for the year ended June 30, 2022)

| | <u>2023</u> | <u>2022</u> |
|--|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 1,883,081 | \$ (4,088,299) |
| Adjustments to reconcile change in net assets to net cash from operating activities | | |
| Depreciation and amortization | 167,170 | 140,927 |
| Realized gain on investments | (224,872) | (266,153) |
| Unrealized (gain) loss on investments | (1,449,898) | 4,432,652 |
| Amortization of right of use asset | 459,159 | - |
| Changes in operating assets and liabilities | | |
| Due from governmental agencies | (1,340,387) | (80,518) |
| Prepaid expenses and other assets | (149,824) | 38,894 |
| Accounts payable and accrued expenses | 242,634 | (143,807) |
| Government agency contingent liability | - | (415,360) |
| Accrued payroll and benefits | 244,530 | 14,813 |
| Accrued foster care payments | 267,433 | 6,502 |
| Payments on lease liability | (456,519) | - |
| Net Cash from Operating Activities | <u>(357,493)</u> | <u>(360,349)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property, plant and equipment | (419,654) | - |
| Purchase of investments | (526,052) | (571,410) |
| Proceeds from sale of investments | <u>910,000</u> | <u>658,797</u> |
| Net Cash from Investing Activities | <u>(35,706)</u> | <u>87,387</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayment on line of credit | (750,000) | - |
| Drawdown on line of credit | <u>700,000</u> | <u>750,000</u> |
| Net Cash from Financing Activities | <u>(50,000)</u> | <u>750,000</u> |
| Net Change in Cash and Cash Equivalents | (443,199) | 477,038 |
| CASH AND CASH EQUIVALENTS | | |
| Beginning of year | <u>641,612</u> | <u>164,574</u> |
| End of year | <u>\$ 198,413</u> | <u>\$ 641,612</u> |
| SUPPLEMENTAL CASH FLOW INFORMATION | | |
| Cash paid for interest | \$ 10,569 | \$ 1,484 |

See notes to financial statements

Forestdale, Inc.

Notes to Financial Statements
June 30, 2023

1. Organization and Tax Status

Forestdale, Inc. ("Forestdale") is a not-for-profit organization which provides services to children in the New York metropolitan area. These services include foster boarding homes, preventive services, and Forestdale fathering initiative, among others.

Forestdale was incorporated in the State of New York and is exempt from income taxes under section 501(c)(3) of the Internal Revenue Code.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") which 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. Accordingly, actual results could differ from those estimates.

Change in Accounting Policy

Leases

Forestdale adopted Financial Accounting Standards Board ("FASB") Topic 842, Leases, using the effective date method with July 1, 2022, as the date of initial adoption. In adopting Topic 842, Forestdale elected to use the modified retrospective transition method, which applies the provisions of the standard at the effective date without any adjustment to the comparative periods presented. Forestdale adopted the following practical expedients and elected the following accounting policies related to this standard: Carry forward of historical lease classifications and accounting treatment. Accordingly, Forestdale will recognize lease payments on a straight-line basis over the lease term and variable payments in the period when the corresponding obligation is incurred.

As a result of the adoption of the new lease accounting guidance, on July 1, 2022, Forestdale recognized a lease liability of \$1,537,776, that represents the present value of the remaining operating lease payments of \$1,624,571, discounted using the normalized risk-free rate of 2.85% and a right-of-use asset of \$1,494,019, which represents the operating lease liability of \$1,537,776, adjusted for deferred rent of \$43,757.

Adoption of the standard had a material impact on Forestdale's statement of financial position but did not have an impact on the statements of activities and cash flows. The most significant impact was the recognition of the right-of-use asset and lease liability for operating leases.

Forestdale, Inc.

Notes to Financial Statements
June 30, 2023

2. Summary of Significant Accounting Policies *(continued)*

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid fixed income investments with a maturity of three months or less at time of purchase.

Allowance for Doubtful Accounts

Forestdale believes that all amounts due from governmental agencies are collectible and no allowance has been provided.

Fair Value Measurements

Forestdale follows U.S. GAAP guidance on *Fair Value Measurements* which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest level of reliance and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable inputs and are used to the extent that observable inputs do not exist.

Investment Valuations

Investments are carried at fair value and are solely comprised of mutual funds. Mutual funds are valued at the net asset value of shares held by Forestdale at June 30, 2023 and 2022 as determined by quoted market prices. As of June 30, 2023 and 2022, all of Forestdale's investments were valued using level 1 inputs.

Investment Income Recognition

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Realized and unrealized gains and losses are included in the determination of the change in net assets.

Forestdale, Inc.

Notes to Financial Statements
June 30, 2023

2. Summary of Significant Accounting Policies *(continued)*

Property, Plant and Equipment

Property, plant and equipment are stated at cost or, if received by donation, at fair value on the date of the gift. Forestdale capitalizes all expenditures in excess of \$5,000 for property, plant and equipment. Depreciation and amortization are computed over the estimated useful lives of the assets using the straight line method for financial reporting purposes as follows:

| | |
|--------------------------------|-------------|
| Buildings and improvements | 10-40 years |
| Furniture and equipment | 5-10 years |
| Computer software and hardware | 3 years |
| Vehicles | 3 years |

Property, plant and equipment are reviewed for impairment if the use of the asset significantly changes or another indicator of possible impairment is noted. If the carrying amount for the asset is not recoverable, the value is written down to the asset's fair value. There were no asset impairments for fiscal 2023 and 2022.

Net Asset Presentation

Resources for various purposes are classified for accounting and reporting purposes into net asset categories established according to nature and purpose as follows:

Without donor restrictions – consist of resources available for the general support of Forestdale's operations. Net assets without donor restrictions may be used at the discretion of Forestdale's management and Board of Directors.

With donor restrictions – represent amounts restricted by donors to be used for specific activities or at some future date, or which require Forestdale to maintain in perpetuity, including funds that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity and the income be used for specific or general purposes. When a donor restriction expires, that is, when a time restriction ends or a purpose restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Income and gains earned on endowment fund investments are available to be used in the "with donor restrictions" or "without donor restrictions" net asset classes based upon stipulations by the donors.

Operating Measure

The statement of activities separately reports changes in net assets from operating and non-operating activities. Operating activities consist principally of revenues and expenses related to ongoing activities. Non-operating activities include investment return, net of amounts appropriated for operating purposes.

Forestdale, Inc.

Notes to Financial Statements
June 30, 2023

2. Summary of Significant Accounting Policies *(continued)*

Contributions and Promises to Give

Contributions or promises to give from donors that are unconditional, are recognized by Forestdale as net assets without donor restrictions in the period received. Contributions or promises to give from donors with donor-imposed conditions are reported as net assets with donor restrictions in the period received. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from restrictions. Conditional contributions and investment income having donor stipulations which are satisfied in the period the gift is received and the investment income is earned are recorded as revenue without donor restrictions.

In-kind Contributions

In-kind contributions are recorded as income and expenses at the time the items are received, which is also the time they are placed into service. Donated services are reported as income and expense at their fair value if such services create value or would have been purchased if not provided by donation, require special skills, and are provided by individuals possessing such specialized skills.

Forestdale received donated contributions and services for the years ended June 30, as follows:

| | 2023 | 2022 | Usage in Program/Activities | Donor Restriction | Fair Value Techniques |
|--|------------|------------|--------------------------------|----------------------|---|
| Children's allowances and pass-through | \$ 141,054 | \$ 140,188 | Program | None | In valuing clothing, toys, and similar donations, Forestdale estimated fair values based on wholesale values that would be received for selling similar products and services in the United States. |

Third-Party Reimbursement and Revenue Recognition

Forestdale receives substantially all its revenue for services provided to approved clients from third-party reimbursement agencies, primarily New York City Administration for Children's Services ("ACS") and Medicaid. These revenues are based on predetermined rates based on cost reimbursement principles and are subject to audit and retroactive adjustment by the respective third-party fiscal intermediary. Forestdale records an estimated liability to governmental agencies for excess reimbursement over allowable costs and underspending of interim rates. Revenue is recognized from rate-based programs when services are provided (e.g. care days and clinic visits). Contract revenue is recognized as expenses for these programs are incurred to the maximum of the contract award. Medicaid revenue is recognized as performance obligations are satisfied, which is ratably over the period services are provided. Generally, Forestdale bills monthly.

Forestdale, Inc.

Notes to Financial Statements
June 30, 2023

2. Summary of Significant Accounting Policies *(continued)*

Third-Party Reimbursement and Revenue Recognition (continued)

Due from governmental agencies and Medicaid revenue result from health care services provided by Forestdale and are reported at the amount that reflects the consideration to which Forestdale expects to be entitled in exchange for providing services. Provisions for settlements are accrued on an estimated basis in the period in which the related services are rendered and are included in due to governmental agencies.

Forestdale uses a portfolio approach as a practical expedient to account for Medicaid revenue contracts as a collective group, rather than recognizing revenue on an individual contract basis. The portfolio consists of major payor classes for patient services visits.

The financial statement effects of using this practical expedient are not materially different from an individual contract approach. Substantially all its performance obligations relate to contracts with a duration of less than one year.

The guidance requires Forestdale to not recognize revenue until it is probable of collection. Based on strong collection experience, Forestdale has concluded that all revenue recognized is probable of collection.

At June 30, 2023 and 2022, contract assets consisted of government contract and service fee receivables of \$167,937 and \$345,140. At July 1, 2021, the contract assets consisted of government contract and service fees receivable \$465,853. There were no contract liabilities at June 30, 2023 and 2022, and July 1, 2021.

Functional Allocation of Expenses

The financial statements report categories of expenses that are attributable to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The salary of the Executive Director is allocated 100% to administration; all other salaries are allocated on the basis of time and effort. Direct program costs such as children's allowances, transportation and worker's expense, client services, program-related professional fees and purchase of health services are allocated directly to the programs. All other costs that are not charged directly to a program are allocated either by percentage of overall salary allocation or by square footage.

Reclassifications

Certain amounts in the June 30, 2022 financial statements have been reclassified to conform to the June 30, 2023 presentation.

Forestdale, Inc.

Notes to Financial Statements
June 30, 2023

2. Summary of Significant Accounting Policies *(continued)*

Summarized Financial Information

The statements of activities and functional expenses include prior year summarized comparative information in total only, which does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the financial statements as of and for the year ended June 30, 2022 from which the summarized information was derived.

Accounting for Uncertainty in Income Taxes

Forestdale recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that Forestdale had no uncertain tax positions that would require financial statement recognition and/or disclosure. Forestdale is no longer subject to examinations by the applicable taxing jurisdictions for periods prior to fiscal 2020.

Leases

As of July 1, 2022, Forestdale leases office space and determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use assets ("ROU assets") and operating lease liabilities on the accompanying statement of financial position.

ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. When leases do not provide an implicit borrowing rate, Forestdale uses a risk-free rate based on the information available at the commencement date in determining the present value of lease payments. The operating lease ROU asset includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease. When it is reasonably certain that Forestdale will exercise that option, such amounts are included in ROU assets and lease liabilities. Lease expense for the lease payments is recognized on a straight-line basis of the lease term.

Forestdale's lease agreement does not contain any material residual value guarantees or material restrictive covenants.

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which date is October 24, 2023.

Forestdale, Inc.

Notes to Financial Statements June 30, 2023

3. Liquidity and Availability of Financial Assets

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following at June 30:

| | <u>2023</u> | <u>2022</u> |
|---|---------------------|---------------------|
| Cash | \$ 198,413 | \$ 641,612 |
| Due from governmental agencies | 8,567,444 | 7,227,057 |
| Less: assets with donor restrictions | <u>(1,421,809)</u> | <u>(1,120,635)</u> |
| Total Available for General Expenditure | <u>\$ 7,344,048</u> | <u>\$ 6,748,034</u> |

Forestdale's endowment funds consist of investments designated by the board as endowments and donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use.

Forestdale's board-designated endowment of \$22,702,231 at June 30, 2023 is subject to an annual spending rate of 4% as described in Note 7. Although Forestdale does not intend to spend from the board-designated endowment, other than amounts appropriated for general expenditure as part of the annual budget approval and appropriation, these amounts could be made available if necessary.

As part of Forestdale's liquidity management, Forestdale strives to maintain funds to cover all donor restricted, non-endowed funds in the checking account. Amounts appropriated for expenditure are transferred from investments to the checking account. During fiscal 2023, \$910,000 of appropriated amounts were transferred.

4. Concentration of Credit Risk

Financial instruments which potentially subject Forestdale to a concentration of credit risk consist primarily of cash and cash equivalents in excess of Federal Deposit Insurance Corporation's ("FDIC") limits. Management believes that credit risk related to these accounts is minimal. There were no cash balances exposed in excess of the FDIC limitation as of June 30, 2023. The cash balances exposed in excess of the FDIC limit were \$138,602 as of June 30, 2022.

The investment portfolio is managed by professional investment advisors and managers and with an objective of diversifying by type of investments and industry concentrations so that no individual investment or group of investments represents a significant concentration of market risk.

Forestdale provides program services that are covered under various third party agreements. Receivables from such arrangements totaled \$8,567,444 and \$7,227,057 as of June 30, 2023 and 2022. Management has determined that all receivables due from governmental agencies are collectible, and there is no need for an allowance at June 30, 2023 and 2022.

Forestdale, Inc.

Notes to Financial Statements
June 30, 2023

4. Concentration of Credit Risk (continued)

The percentage of the total amount due from governmental agencies by third party payors was 98% and 94% at June 30, 2023 and 2022 for New York City agencies. For Medicaid, the amounts were 2% and 6% at June 30, 2023 and 2022.

5. Property, Plant and Equipment

Property, plant and equipment consist of the following at June 30:

| | 2023 | 2022 |
|---|--------------|--------------|
| Land | \$ 100,868 | \$ 100,868 |
| Buildings and improvements | 2,064,898 | 1,666,441 |
| Furniture and equipment | 121,687 | 121,687 |
| Computer software and hardware | 26,800 | 26,800 |
| Vehicles | 147,051 | 125,854 |
| | 2,461,304 | 2,041,650 |
| Accumulated depreciation and amortization | (1,087,418) | (920,248) |
| | \$ 1,373,886 | \$ 1,121,402 |

6. Net Assets with Donor Restrictions

Changes in the net assets with donor restrictions consist of the following for the years ended June 30:

| Purpose / Restriction | 2023 | | | |
|--|----------------------|--------------|------------------------|----------------|
| | Beginning of Year | Additions | Net Assets Released | End of Year |
| Restricted by Time | \$ 1,162 | \$ - | \$ - | \$ 1,162 |
| Restricted by Purpose | | | | |
| Hyde & Watson | - | 10,000 | (10,000) | - |
| Child Welfare Fund/Dammann Fund/ Shoolman Fund/NY Community Trust | 156,813 | 50,000 | (143,021) | 63,792 |
| Robin Hood Fund | 25,000 | 200,000 | - | 225,000 |
| Scholarships | 7,580 | 103,000 | (92,488) | 18,092 |
| Solutions-based Casework | 119,881 | 75,000 | (177,987) | 16,894 |
| Strong Mothers/Fathers | 485,335 | 520,962 | (507,473) | 498,824 |
| Trauma Systems Therapy | 107,820 | - | (54,174) | 53,646 |
| Dave Thomas Foundation | - | 30,807 | (30,807) | - |
| NYC Council Grant: Pandemic Support | - | 18,000 | (2,025) | 15,975 |
| Workforce Development | 217,044 | 130,266 | (56,066) | 291,244 |
| Guaranteed Income Project | - | 237,180 | - | 237,180 |
| Unappropriated endowment earnings | 133,548 | 37,702 | (7,000) | 164,250 |
| Total Restricted by Purpose | 1,253,021 | 1,412,917 | (1,081,041) | 1,584,897 |
| Perpetual in nature | 187,295 | - | - | 187,295 |
| Total Net Assets with Donor Restrictions | \$ 1,441,478 | \$ 1,412,917 | \$ (1,081,041) | \$ 1,773,354 |

Forestdale, Inc.

Notes to Financial Statements
June 30, 2023

6. Net Assets with Donor Restrictions (continued)

| Purpose / Restriction | 2022 | | | |
|--|----------------------|---------------------|------------------------|---------------------|
| | Beginning of Year | Additions | Net Assets Released | End of Year |
| Restricted by Time | \$ 95,000 | \$ - | \$ (93,838) | \$ 1,162 |
| Restricted by Purpose | | | | |
| Hyde & Watson | - | 15,000 | (15,000) | - |
| Child Welfare Fund/Dammann Fund/ Shoolman Fund/NY Community Trust | 130,767 | 95,000 | (68,954) | 156,813 |
| Robin Hood Fund | - | 25,000 | - | 25,000 |
| Scholarships | 15,284 | 102,500 | (110,204) | 7,580 |
| Solutions-based Casework | 119,881 | - | - | 119,881 |
| Strong Mothers/Fathers | 546,601 | 352,500 | (413,766) | 485,335 |
| Trauma Systems Therapy | 109,752 | 133,212 | (135,144) | 107,820 |
| Dave Thomas Foundation | - | 29,412 | (29,412) | - |
| NYC Council Grant: Pandemic Support | - | 130,941 | (130,941) | - |
| Workforce Development | 120,115 | 209,071 | (112,142) | 217,044 |
| Unappropriated endowment earnings | 185,521 | (44,973) | (7,000) | 133,548 |
| Total Restricted by Purpose | <u>1,227,921</u> | <u>1,047,663</u> | <u>(1,022,563)</u> | <u>1,253,021</u> |
| Perpetual in nature | 187,295 | - | - | 187,295 |
| Total Net Assets with Donor Restrictions | <u>\$ 1,510,216</u> | <u>\$ 1,047,663</u> | <u>\$ (1,116,401)</u> | <u>\$ 1,441,478</u> |

7. Endowment Funds

Forestdale maintains two endowment funds (the "Funds"). The Funds include a donor-restricted fund and a fund designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Purpose

Forestdale's donor-restricted endowment fund was established in 1948 to be held in perpetuity with the income to be used for general operations. Forestdale's Board of Directors designated a portion of net assets without donor restrictions to be used for future program operations and capital improvements.

Application of Law

New York Prudent Management of Institutional Funds Act ("NYPMIFA") requires the preservation of the value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary, and except in those cases where the law allows appropriation for spending of the original gift amounts. As a result, Forestdale classifies as net assets with donor restrictions (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations of investment returns to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund is restricted until appropriated for expenditure by the board in a manner consistent with the standard of prudence prescribed by NYPMIFA.

Forestdale, Inc.

Notes to Financial Statements
June 30, 2023

7. Endowment Funds (continued)

Investment Strategy

Forestdale employs a strategic asset allocation strategy with its asset allocations diversified over multiple classes and sub classes. Forestdale's investment objective is for the asset value, exclusive of contributions or withdrawals, to grow over the long run and earn, through a combination of investment income and capital appreciation, a time weighted total rate of return in excess of the established medium and long term benchmarks.

Forestdale expects the portfolio's asset allocation to reflect the investment objectives, goals, time horizon, risk tolerances and any investment restrictions that may exist within the policy.

Spending Policy

The spending policy of Forestdale stipulates that 4% of the market value of the investment portfolio may be disbursed annually. These calculations are made on an annual basis.

The following is a reconciliation of the board designated and donor-restricted endowment funds for the years ended June 30:

| | 2023 | | |
|--|----------------------|----------------------------|----------------------|
| | Board Designated | With Donor Restrictions | Total |
| Balance, beginning of year | \$ 21,442,111 | \$ 320,843 | \$ 21,762,954 |
| Investment income, net | 517,113 | 9,012 | 526,125 |
| Realized/unrealized gain on investments | 1,646,007 | 28,690 | 1,674,697 |
| Appropriation for expenditure | <u>(903,000)</u> | <u>(7,000)</u> | <u>(910,000)</u> |
| Balance, end of year | <u>\$ 22,702,231</u> | <u>\$ 351,545</u> | <u>\$ 23,053,776</u> |
| | 2022 | | |
| | Board Designated | With Donor Restrictions | Total |
| Balance, beginning of year | \$ 25,644,024 | \$ 372,816 | \$ 26,016,840 |
| Investment income, net | 531,881 | 7,732 | 539,613 |
| Realized/unrealized loss on investments | (4,113,794) | (52,705) | (4,166,499) |
| Appropriation for expenditure | <u>(620,000)</u> | <u>(7,000)</u> | <u>(627,000)</u> |
| Balance, end of year | <u>\$ 21,442,111</u> | <u>\$ 320,843</u> | <u>\$ 21,762,954</u> |

Forestdale, Inc.

Notes to Financial Statements June 30, 2023

8. Pension Plan

Forestdale has a defined contribution pension plan which covers all employees meeting eligibility requirements. Pension expense was \$975,476 and \$1,049,652 for the years ended June 30, 2023 and 2022.

9. Line of Credit

During 2023, Forestdale obtained a \$2,000,000 credit agreement with TD Bank (the "Bank") with a maturity date of May 31, 2024. Borrowings bear an interest rate of 8.25% per annum, except where certain conditions apply. For the years ended June 30, 2023 and 2022, the interest expense was \$10,569 and \$1,484. The outstanding borrowing on the line of credit totaled \$700,000 and \$750,000 at June 30, 2023 and 2022. During July 2023, the balance was repaid.

10. Economic Dependency

Forestdale is an authorized social service agency under the regulations of the New York State Office of Children and Family Services. Reimbursement rates for the services provided by Forestdale are promulgated by this department and payments for such services are received through various governmental agencies. Forestdale is economically dependent on these funds to continue operations.

11. Commitments

Operating Leases

On February 25, 2020, Forestdale entered into a five-year lease agreement for office space in Jamaica, New York. The lease commenced on September 22, 2020 and includes rent abatements for the second and thirteenth months of the lease. On March 31, 2020, Forestdale entered into two lease agreements for office space in Brooklyn, New York. The lease agreements have terms of five years, with lease commitment dates of March 31, 2020. The leases commenced on October 26, 2020. Forestdale entered into a two-year lease agreement during fiscal 2023 for another property in St. Albans, New York.

Rent expense for the above operating leases is calculated on a straight-line basis over the term of the respective leases. Rent expense for the lease agreements is \$458,202 and \$424,388 for the years ended June 30, 2023 and 2022, respectively, and is included within Rent – office spaces in the statement of functional expenses.

The right-of-use asset and corresponding liability associated with future lease payments on the above noted lease as of June 30, 2023 are shown below:

| | |
|--------------------|--------------|
| Right-of-use asset | \$ 1,274,659 |
| Lease liability | \$ 1,321,056 |

Weighted Average:

| | |
|-------------------------------|-------|
| Discount rate | 3.13% |
| Remaining lease term in years | 2.84 |

Forestdale, Inc.

Notes to Financial Statements
June 30, 2023

11. Commitments (continued)

Operating Leases (continued)

ROU asset is net of \$459,159 accumulated amortization at June 30, 2023.

Future minimum rental payment under the lease arrangement are as follows:

| <u>Year Ended June 30:</u> | <u>Amount</u> |
|-------------------------------------|---------------------|
| 2024 | \$ 528,243 |
| 2025 | 464,415 |
| 2026 | 271,165 |
| 2027 | <u>114,374</u> |
| Total Future Minimum Lease Payments | 1,378,197 |
| Less Imputed Interest | <u>(57,141)</u> |
| Total Operating Lease Liability | <u>\$ 1,321,056</u> |

Supplemental cash flow information related to operating leases was as follows for the year ended June 30, 2023:

| | |
|--|--------------|
| Cash paid for amounts included in the measurement of operating lease liabilities | \$ 456,519 |
| ROU assets recognized upon adoption of new lease guidance | \$ 1,494,019 |
| ROU assets recognized during the fiscal year | \$ 198,862 |

12. Risks and Uncertainties

Global and domestic economic uncertainty has resulted in significant volatility in financial markets. This volatility has affected, and may continue to affect, the value of Forestdale's investments. The effects of economic and market conditions subsequent to June 30, 2023 are not reflected in these financial statements and future effects on the effects on Forestdale's investments cannot be predicted.

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