

Consolidated Financial Statements and
Supplementary Information Together
with Report of Independent Certified
Public Accountants

The FEDCAP Group

September 30, 2020 and 2019

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of
The FEDCAP Group:

We have audited the accompanying consolidated financial statements of The FEDCAP Group (collectively, "FEDCAP") which comprise the consolidated statements of financial position as of September 30, 2020 and 2019, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to FEDCAP's preparation and fair presentation of the consolidated 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 FEDCAP'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The FEDCAP Group as of September 30, 2020 and 2019, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters**Supplementary information**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.



New York, New York
March 18, 2021

The FEDCAP Group

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of September 30,

	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 24,926,770	\$ 9,821,462
Accounts receivable (net of allowance for doubtful accounts of approximately \$4,394,000 in 2020 and \$2,180,000 in 2019)	56,865,665	54,652,438
Contributions and grants receivable (net of allowance for uncollectible contributions of approximately \$250,000 in 2020 and 2019)	2,131,974	4,352,341
Inventories, net	407,002	111,693
Prepaid expenses and other assets	<u>8,321,637</u>	<u>8,655,835</u>
Total current assets	<u>92,653,048</u>	<u>77,593,769</u>
Investments	9,317,759	8,703,912
Goodwill	842,860	761,776
Property, plant and equipment, net	84,033,493	86,739,150
Beneficial interest in trusts	4,713,515	4,512,345
Other assets	<u>478,067</u>	<u>478,062</u>
Total assets	<u>\$ 192,038,742</u>	<u>\$ 178,789,014</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 30,200,021	\$ 39,601,357
Deferred revenues	6,066,207	1,772,430
Advances from government agency	3,620,421	433,397
Current portion of revolving loans	-	3,000,000
Current portion of obligations under capital leases	2,159,924	2,155,006
Notes payable, current	<u>1,501,527</u>	<u>1,117,418</u>
Total current liabilities	43,548,100	48,079,608
Capital lease obligation	34,181,372	34,773,486
Notes payable	30,515,955	30,368,846
Revolving loans	26,653,273	23,653,273
Payroll Protection Program notes payable	12,481,054	-
Other liabilities	<u>6,586,501</u>	<u>4,274,856</u>
Total liabilities	<u>153,966,255</u>	<u>141,150,069</u>
Commitments and contingencies		
NET ASSETS		
Without donor restrictions	29,925,809	29,006,372
Without donor restrictions - non-controlling interest	(440,118)	133,033
With donor restrictions	<u>8,586,796</u>	<u>8,499,540</u>
Total net assets	<u>38,072,487</u>	<u>37,638,945</u>
Total liabilities and net assets	<u>\$ 192,038,742</u>	<u>\$ 178,789,014</u>

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

The FEDCAP Group

CONSOLIDATED STATEMENTS OF ACTIVITIES

For the years ended September 30,

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues						
Contract services and products	\$ 112,977,906	\$ -	\$ 112,977,906	\$ 117,957,318	\$ -	\$ 117,957,318
Rehabilitation and vocational programs	153,984,201	-	153,984,201	157,515,208	-	157,515,208
Contribution revenues	5,619,460	-	5,619,460	19,615,745	25,000	19,640,745
Inherent contribution	263	-	263	4,771,572	-	4,771,572
Realized and unrealized gains (losses) on investments	391,942	201,169	593,111	23,299	(15,139)	8,160
Interest income	205,383	-	205,383	757,089	-	757,089
Miscellaneous revenue	130,321	-	130,321	231,885	-	231,885
Net assets released from restrictions	113,913	(113,913)	-	144,754	(144,754)	-
Total revenues	273,423,389	87,256	273,510,645	301,016,870	(134,893)	300,881,977
Expenses						
Program services:						
Contract services and products	97,048,935	-	97,048,935	105,974,532	-	105,974,532
Rehabilitation and vocational programs	136,046,180	-	136,046,180	151,992,240	-	151,992,240
	233,095,115	-	233,095,115	257,966,772	-	257,966,772
Supporting services:						
Management and general	36,383,728	-	36,383,728	38,307,140	-	38,307,140
Development	3,598,260	-	3,598,260	4,011,241	-	4,011,241
	39,981,988	-	39,981,988	42,318,381	-	42,318,381
Total expenses	273,077,103	-	273,077,103	300,285,153	-	300,285,153
Change in net assets	346,286	87,256	433,542	731,717	(134,893)	596,824
Net assets at beginning of year	29,139,405	8,499,540	37,638,945	28,407,688	8,634,433	37,042,121
Net assets at end of year	<u>\$ 29,485,691</u>	<u>\$ 8,586,796</u>	<u>\$ 38,072,487</u>	<u>\$ 29,139,405</u>	<u>\$ 8,499,540</u>	<u>\$ 37,638,945</u>

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

The FEDCAP Group

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the year ended September 30, 2020

	Program Services			Supporting Services			Total Expenses
	Contract Services and Products	Rehabilitation and Vocational Programs	Total	Management and General	Development	Total	
Salaries and related expenses	\$ 74,358,692	\$ 82,121,469	\$ 156,480,161	\$ 13,141,708	\$ 1,478,745	\$ 14,620,453	\$ 171,100,614
Professional fees	152,185	20,662,291	20,814,476	2,260,231	794,585	3,054,816	23,869,292
Professional development and evaluation	11,472	360,983	372,455	227,206	5,382	232,588	605,043
Materials and supplies	3,445,688	2,007,974	5,453,662	146,699	15,591	162,290	5,615,952
Commissions	2,514,416	12,459	2,526,875	-	-	-	2,526,875
Telephone	86,175	331,392	417,567	1,002,765	5,194	1,007,959	1,425,526
Postage and shipping	171,723	78,718	250,441	92,182	131,337	223,519	473,960
Insurance	1,034,048	1,272,779	2,306,827	846,226	22,442	868,668	3,175,495
Occupancy costs	2,250,654	10,961,025	13,211,679	2,836,553	178,884	3,015,437	16,227,116
Equipment rental and maintenance	967,444	608,978	1,576,422	254,953	35,717	290,670	1,867,092
Equipment purchases	320,484	119,100	439,584	41,580	1,036	42,616	482,200
Client transportation and travel	242,530	1,490,685	1,733,215	415,420	88,195	503,615	2,236,830
Subscription and printing	49,070	296,847	345,917	503,126	40,841	543,967	889,884
Technology	329,854	1,683,260	2,013,114	2,264,647	31,918	2,296,565	4,309,679
Interest expense	-	18,609	18,609	4,219,963	-	4,219,963	4,238,572
Bank charges and processing fees	79,239	43,677	122,916	741,665	17,144	758,809	881,725
Bad debt expense	-	193	193	1,204,034	-	1,204,034	1,204,227
Subcontractor expense	10,632,908	7,420,600	18,053,508	2,222,177	13,421	2,235,598	20,289,106
Stipends	26,605	3,805,756	3,832,361	59,704	11,362	71,066	3,903,427
Security guard expense	1,200	221,556	222,756	27,602	224	27,826	250,582
Other	67,224	1,586,078	1,653,302	248,172	717,277	965,449	2,618,751
Total expenses before depreciation and amortization	96,741,611	135,104,429	231,846,040	32,756,613	3,589,295	36,345,908	268,191,948
Depreciation and amortization	307,324	941,751	1,249,075	3,627,115	8,965	3,636,080	4,885,155
Total expenses	<u>\$ 97,048,935</u>	<u>\$ 136,046,180</u>	<u>\$ 233,095,115</u>	<u>\$ 36,383,728</u>	<u>\$ 3,598,260</u>	<u>\$ 39,981,988</u>	<u>\$ 273,077,103</u>

The accompanying notes are an integral part of this consolidated financial statement.

The FEDCAP Group

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the year ended September 30, 2019

	Program Services			Supporting Services			Total Expenses
	Contract Services and Products	Rehabilitation and Vocational Programs	Total	Management and General	Development	Total	
Salaries and related expenses	\$ 75,112,041	\$ 92,028,205	\$ 167,140,246	\$ 13,482,595	\$ 1,321,359	\$ 14,803,954	\$ 181,944,200
Professional fees	190,014	16,794,601	16,984,615	4,155,799	773,764	4,929,563	21,914,178
Professional development and evaluation	52,176	760,002	812,178	486,894	8,354	495,248	1,307,426
Materials and supplies	4,608,212	2,294,309	6,902,521	272,753	21,424	294,177	7,196,698
Commissions	2,983,026	4,969	2,987,995	-	-	-	2,987,995
Telephone	190,887	850,894	1,041,781	714,266	16,490	730,756	1,772,537
Postage and shipping	127,982	200,267	328,249	31,436	6,129	37,565	365,814
Insurance	1,170,764	957,823	2,128,587	1,049,952	14,847	1,064,799	3,193,386
Occupancy costs	2,789,676	13,459,134	16,248,810	2,010,115	136,043	2,146,158	18,394,968
Equipment rental and maintenance	1,190,342	759,425	1,949,767	311,275	42,037	353,312	2,303,079
Equipment purchases	312,686	113,267	425,953	56,833	5,761	62,594	488,547
Client transportation and travel	355,593	3,537,161	3,892,754	843,055	130,157	973,212	4,865,966
Subscription and printing	85,901	297,125	383,026	596,854	23,194	620,048	1,003,074
Technology	422,832	1,584,234	2,007,066	3,057,023	82,864	3,139,887	5,146,953
Interest expense	-	31,347	31,347	4,547,252	-	4,547,252	4,578,599
Bank charges and processing fees	137,624	37,119	174,743	799,792	34,665	834,457	1,009,200
Bad debt provision	-	55,371	55,371	9,771	-	9,771	65,142
Subcontractor expense	15,701,994	9,751,574	25,453,568	1,492,608	130,670	1,623,278	27,076,846
Stipends	24,586	4,730,195	4,754,781	80,113	1,338	81,451	4,836,232
Security guard expense	1,672	604,506	606,178	55,127	272	55,399	661,577
Other	173,575	2,160,645	2,334,220	605,829	1,255,001	1,860,830	4,195,050
Total expenses before depreciation and amortization	105,631,583	151,012,173	256,643,756	34,659,342	4,004,369	38,663,711	295,307,467
Depreciation and amortization	342,949	980,067	1,323,016	3,647,798	6,872	3,654,670	4,977,686
Total expenses	\$ 105,974,532	\$ 151,992,240	\$ 257,966,772	\$ 38,307,140	\$ 4,011,241	\$ 42,318,381	\$ 300,285,153

The accompanying notes are an integral part of this consolidated financial statement.

The FEDCAP Group

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended September 30,

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 433,542	\$ 596,824
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,885,155	4,977,686
Amortization of goodwill	118,911	-
Bad debt provision	1,204,227	65,142
Inherent contribution	-	(4,771,572)
Realized and unrealized gains on investments	(593,111)	(8,160)
Changes in assets and liabilities:		
Accounts receivable	(3,517,454)	(9,347,783)
Contribution receivable	2,320,367	(3,004,961)
Inventories	(295,309)	133,256
Prepaid expenses and other assets	334,198	1,612,193
Beneficial interest in remainder trust	(201,170)	134,394
Accounts payable and accrued liabilities	(9,401,336)	903,268
Deferred revenue	4,293,777	(2,392,733)
Other liabilities	2,311,645	(393,777)
Net cash provided by (used in) operating activities	<u>1,893,442</u>	<u>(11,496,223)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	505,011	19,000,000
Purchase of investments	(525,747)	(9,468,482)
Cash paid in acquisition	(200,000)	-
Cash received in acquisition	-	355,904
Capital expenditures	(2,179,498)	(5,543,024)
Net cash (used in) provided by investing activities	<u>(2,400,234)</u>	<u>4,344,398</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in advances from government agencies	3,187,024	(1,051,964)
Change in revolving loans	-	8,800,000
Proceeds from Payroll Protection Plan notes payable	12,481,054	-
Proceeds from notes payable	531,218	-
Repayment of notes payable	-	(1,220,124)
Repayment of capital lease obligations	(587,196)	(369,572)
Net cash provided by financing activities	<u>15,612,100</u>	<u>6,158,340</u>
Increase (decrease) in cash and cash equivalents	15,105,308	(993,485)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>9,821,462</u>	<u>10,814,947</u>
End of year	<u>\$ 24,926,770</u>	<u>\$ 9,821,462</u>
Supplemental disclosure of cash flow information:		
Cash interest paid during the year	<u>\$ 2,722,157</u>	<u>\$ 3,053,771</u>

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

The FEDCAP Group

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2020 and 2019

NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES

The FEDCAP Group, Inc. (the "Parent"), established on October 1, 2018, is a private, nonprofit organization incorporated under the laws of the State of Delaware. The Parent is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC"). On July 24, 2019, the Parent became the sole member of the following affiliates: Fedcap, Inc ("Fed Inc."), Fedcap Rehabilitation Services, Inc ("FRS"), Wildcat Services Corporation ("Wildcat"), ReServe Elder Services, Inc. ("ReServe"), Community Workshops, Inc. ("CWS"), Easter Seals New York, Inc. ("ESNY"), 1184 Deer Park Ave., Inc. ("1184" or "Red Mango"), Granite Pathways, Inc ("GP"), Easter Seals Rhode Island, Inc ("ESRI"), Seacoast Pathways, Inc. ("Seacoast"), Single Stop USA Inc. ("SGST"), Benevolent, MVLE, Easter Seals Central Texas ("ESCT"), Easter Seals North Texas ("ESNT") and Fedcap UK. The Parent and its subsidiaries are collectively referred to as "FEDCAP."

FRS is a private, nonprofit organization incorporated under the laws of New York State. FRS is exempt from federal income taxes under Section 501(c)(3) of the IRC. FRS was the sole member of the above-named subsidiaries through July 23, 2019, at which point the Parent became the sole corporate member.

FRS was founded to provide a comprehensive range of vocational and related services to individuals with disabilities, and other work-related disadvantages, who face significant barriers to employment. FRS's goal is to help each person achieve independence, integration into the community and full participation in the economic mainstream.

FRS provides contract services and products within custodial, homecare, office services, and industrial divisions. The primary customers in these divisions are federal, and New York State and City agencies and certified home health agencies.

As part of FRS's rehabilitation and vocation programs, FRS provides vocational evaluations, training, and employment services and other government-funded employment and job search programs. Evaluations combine aptitude tests, computerized assessments, and vocational counseling. After evaluation, FRS offers training in mail clerk/messenger services, building/custodial services, culinary arts/food services, data entry, office skills, document imaging, hospitality operations, and security operations. FRS then seeks to employ individuals who have successfully completed FRS's rehabilitation and vocational programs. FRS also offers the Chelton Loft, a voluntary clubhouse program for people with a history of serious mental illness. FRS also has a vocational education program and a licensed mental health program.

Wildcat is a nonprofit entity that is located in New York City and provides employment training, jobs placement and "supportive employment" opportunities for individuals with barriers to employment.

ReServe is a nonprofit entity located in New York City that matches continuing professionals age 55+ with organizations that need their expertise. Reserve provides direct services, administrative support, and capacity-building expertise in schools, social service agencies, cultural institutions, and public agencies.

CWS is a nonprofit corporation located in Boston, Massachusetts, whose mission is to help people who have barriers to work obtain employment and achieve greater self-sufficiency through job training, placement, and support services.

ESNY is a nonprofit entity whose purpose is to provide programs and services for people with disabilities, assistance to people with disabilities and their families, assistance to communities in developing necessary and appropriate resources for residents, and a climate of acceptance for people with disabilities which will enable them to contribute to the well-being of the community.

The FEDCAP Group

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

On May 1, 2016, ESNY received a contribution in the form of a Red Mango franchise, incorporated as 1184. 1184 was incorporated as a for profit corporation, operating as a social enterprise which includes a training center and employment opportunities for veterans. 1184 ceased operations as of September 6, 2019. The loss related to these operations did not significantly impact operating results for fiscal 2019.

GP is a nonprofit entity whose mission is to provide services to empower and support adults with mental illness to pursue their personal goals through education, employment, stable housing, and meaningful relationships.

ESRI is a nonprofit entity whose purpose is to provide services to ensure that all people with disabilities or special needs and their families have equal opportunities to live, learn, work and play in their communities.

Seacoast is a nonprofit entity whose mission is to support adults living with mental illness on their paths to recovery through the work-ordered day.

SGST is a nonprofit entity that provides coordinated services to holistically connect people to the resources they need to attain higher education, obtain good jobs, and achieve financial self-sufficiency.

Benevolent is a nonprofit entity that provides economic wellbeing to individuals and families in need, through non-government sources.

MVLE is a nonprofit entity that provides employment, support and rehabilitation services to individuals with disabilities in the Northern Virginia and Washington, D.C. area.

Fed Inc. was established as a private, nonprofit organizations under the laws of the State of Delaware. Fed, Inc. was formed to provide workforce development opportunities for people who face barriers to economic well-being.

ESCT provides services to individuals with disabilities throughout the life cycle through outpatient medical rehabilitation, workforce development and community housing and integration programs in the Central Texas region.

ESNT provides services to individuals with disabilities throughout the life cycle through outpatient medical rehabilitation, workforce development and community housing and integration programs in the North Texas region.

On November 7, 2018, Fedcap UK was established and was registered as a UK Charity. Fedcap UK was founded to allow for the advancement of social inclusion, by enabling economic independence, employment and opportunity to participate in society for socially and economically disadvantaged and disabled individuals through various workforce and economic development, educational and occupational health initiatives.

On December 3, 2018, Fedcap UK acquired Kennedy Scott, Limited ("KS"), a United Kingdom company through a stock purchase. KS provides high quality job support, placement, retention and related services to people in the United Kingdom.

On February 22, 2019, Fedcap Employment Limited ("FED") was established under the laws of the United Kingdom. FED delivers employability solutions across the United Kingdom to build communities through a blend of local frontline professional teams and like-minded supply chain partners. Fedcap UK is the sole corporate member of FED.

On March 1, 2019, Fedcap Employment Scotland Limited ("FES") was established under the laws of Scotland in the United Kingdom. FES delivers employability solutions across Scotland to build communities through a blend of local frontline professional teams and like-minded supply chain partners. Fedcap UK is the sole corporate member of FES.

The FEDCAP Group

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

On March 14, 2019, FES became a majority shareholder of Start Scotland Limited (“SS”). SS is a value-driven organization that strives to put its customers first, understanding their needs and closely engaging with them on a personal level to help them on their journey to employment and training.

On September 30, 2019, ESNY acquired and became the sole member of These Our Treasures, Inc. (“TOTS”), a nonprofit entity whose purpose is to educate young children with developmental disabilities in an atmosphere that embraces and accommodates individual differences and helps children to achieve in the context of the larger classroom and school setting.

On December 17, 2019, FRS formed Fedcap Apex Acquisition LLC, which executed an asset purchase agreement effective September 18, 2020 for the assets and liabilities of Breton International, Inc. (a/k/a Apex Technical School). Apex Technical School (“APEX”) is an adult vocational technical school and offers seven certificate courses designed to focus on basic trade skills and labor skills for its students.

On January 10, 2020, Fedcap Canada was established as a not-for-profit organization according to the Canada Not-for profit Corporations Act. Fedcap Canada was founded to advance the economic and social well-being of the impoverished and disadvantaged by providing educational services, vocational rehabilitation, job training and job placement services. The Parent is the sole corporate member of Fedcap Canada.

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements of FEDCAP have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) using the accrual basis of accounting. All intercompany accounts and transactions have been eliminated in the accompanying consolidated financial statements.

FEDCAP classifies its net assets in the following categories:

Net Assets without Donor Restrictions

Net assets that are not subject to donor-imposed stipulations and are, therefore, available for the general operations of FEDCAP. Net assets without donor restrictions may also be designated for specific purposes by FEDCAP’s Board of Directors or may be limited by legal requirements or contractual agreements with outside parties.

Net assets without donor restrictions also includes the portion of net assets in a consolidated subsidiary owned by non-controlling investors and are reflected on the consolidated statements of financial position as net assets without donor restrictions - non-controlling interests.

Net Assets with Donor Restrictions

Represent net assets which are subject to donor-imposed restrictions whose use is restricted by time and/or purpose. Net assets with donor restrictions are subject to donor-imposed restrictions that require FEDCAP to use or expend the gifts as specified, based on purpose or passage of time. When donor restrictions expire, that is, when a purpose restriction is fulfilled or a time restriction ends, such net assets are reclassified to net assets without donor restrictions and reported on the consolidated statements of activities as net assets released from restrictions.

The FEDCAP Group

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

Contributions with donor-imposed restrictions whose restrictions are met during the same fiscal year in which the contribution was recognized are presented as contribution revenues without donor restrictions on the consolidated statements of activities.

Net assets with donor restrictions also includes the corpus of gifts, which must be maintained in perpetuity, but allow for the expenditure of net investment income and gains earned on the corpus for either specified or unspecified purposes in accordance with donor stipulations.

Changes in net assets without donor restrictions and the non-controlling interest in Start Scotland Limited during the year ended September 30, 2020 is summarized below:

	Total without Donor Restrictions	Without Donor Restrictions	Non-controlling Interest
Balance, September 30, 2019	\$ 29,139,405	\$ 29,006,372	\$ 133,033
Change in net assets from operations	<u>346,286</u>	<u>919,437</u>	<u>(573,151)</u>
Balance, September 30, 2020	<u>\$ 29,485,691</u>	<u>\$ 29,925,809</u>	<u>\$ (440,118)</u>

Cash Equivalents

FEDCAP considers all highly liquid debt instruments with a maturity of three months or less at the date of purchase, including investments in short-term certificates of deposit and certain money market funds, to be cash equivalents.

Revenue Recognition

In accordance with FASB Accounting Standards Codification (“ASC”) Topic 606, *Revenue from Contracts with Customers* (“ASC 606”), FEDCAP recognizes revenue when control of the promised goods or services are transferred to FEDCAP’s clients or outside parties in an amount that reflects the consideration FEDCAP expects to be entitled to in exchange for those goods or services. The standard outlines a five-step model whereby revenue is recognized as performance obligations within a contract are satisfied.

FEDCAP has identified contract services and products revenues and rehabilitation and vocational program revenues as revenue categories subject to ASC 606. FEDCAP recognizes revenues from contracts with customers, as goods or services are transferred or provided in accordance with ASC 606.

Payments received in advance of FEDCAP satisfying its performance obligations are recorded within deferred revenue in the accompanying consolidated statements of financial position (\$4,951,251 and \$116,014, as of September 30, 2020 and 2019, respectively). The changes in deferred revenue were caused by normal timing differences between the satisfaction of performance obligations and customer payments.

FEDCAP’s contracts with customers generally contain terms that are less than one year. Accordingly, FEDCAP elected the practical expedients under ASC 606 to not assess whether a contract has a significant financing component or disclose the information regarding the remaining performance obligations for contracts with customers.

FEDCAP’s revenue primarily relates to contract services and products, and rehabilitation and vocational programs. Revenue recognition for these various revenue streams is at the point in time coinciding with the completion of the corresponding performance obligations to customers.

The FEDCAP Group

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

Contract Services and Products

FEDCAP's contract services and products revenue includes HomeCare services, facility services, and other cost recovery contracts. FEDCAP recognizes such revenue ratably over a contract's term for those with fixed rates as the performance obligations are fulfilled accordingly over the corresponding contract term. For performance-based contracts, revenues are recognized in the period when related expenditures have been incurred, milestones have been achieved, or services have been performed in compliance with the respective contracts, which are the performance obligations under the contracts. FEDCAP also generates revenue from the sale of related products, which is recognized at the time of shipment.

Rehabilitation and Vocational Programs

FEDCAP's rehabilitation and vocational program revenue includes medical services, tuition and job training. FEDCAP recognizes such revenue ratably over a contract's term for those with fixed rates as the performance obligations are fulfilled accordingly over the corresponding contract term. For performance-based contracts, revenues are recognized in the period when related expenditures have been incurred, milestones have been achieved, or services have been performed in compliance with the respective contracts, which are the performance obligations under the contracts. FEDCAP also generates revenue from the sale of related products, which is recognized at the time of shipment.

Contribution and Grant Revenue

FEDCAP records contributions of cash and other assets when an unconditional promise to give such assets is received from a donor. Contributions are recorded at the fair value of the assets received and contributions with donor stipulations that limit the use of donated assets are classified as net assets with donor restrictions. Contributions with donor restrictions that are received and met in the same fiscal year are recorded as contribution revenues without donor restrictions. Otherwise, once stipulated time restrictions end or purpose restrictions are accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions as "net assets released from restrictions" in the consolidated statements of activities. Conditional contributions are recognized as revenue when the conditions on which they depend are substantially met. Conditional contributions received in advance of meeting the associated contributions are recorded as deferred revenue on the accompanying consolidated statements of financial position (\$1,114,956 and \$1,656,416, as of September 30, 2020 and 2019, respectively). There were no outstanding conditional contributions yet to be received as of September 30, 2020 or 2019.

FEDCAP recognizes revenue from contributions, grants and contracts in accordance with ASU 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Accordingly, FEDCAP evaluates whether a transfer of assets is (1) an exchange transaction in which a resource provider is receiving commensurate value in return for the resources transferred or (2) a contribution. If the transfer of assets is determined to be an exchange transaction, FEDCAP applies guidance under ASC 606. If the transfer of assets is determined to be a contribution, FEDCAP evaluates whether the contribution is conditional based upon whether the agreement includes both (1) one or more barriers that must be overcome before FEDCAP is entitled to the assets transferred and promised and (2) a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

Receivables and Allowance for Doubtful Accounts

Accounts receivable are derived from contract services and products, and rehabilitation and vocational programs. The carrying value of contributions and grants and accounts receivable are reduced by an appropriate allowance for uncollectible accounts, and therefore approximates net realizable value. FEDCAP determines its allowance by considering a number of factors, including the length of time receivables are past due, FEDCAP's previous loss history, the donor's current ability to pay its obligation, and the condition of the general economy and the industry as a whole. Receivables outstanding longer than the payment terms are considered past due. FEDCAP writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are recorded as income in the period received.

Inventories

Inventories, mainly consisting of distress marker light products and related components, are valued at the lower of cost or net realizable value. Cost is determined principally by the first-in, first-out method.

Fixed Assets

Fixed assets purchased for a value greater than \$5,000 and with depreciable lives greater than one year are carried at cost, net of accumulated depreciation. Depreciation is provided over the estimated useful life of the respective asset and ranges from 3 to 40 years. Significant additions or improvements extending asset lives are capitalized; normal maintenance and repair costs are expensed as incurred. Leasehold improvements are amortized based on the lesser of the estimated useful life or remaining lease term.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying consolidated statements of activities. The classification is based on the function and nature of expenses directly used in the program. Common expenses are allocated to the programs and supporting services based on the benefit derived. The methods used for the allocation include square footage and actual percentage of time dedicated to the program or supporting service.

Commissions

FEDCAP pays commissions to an unrelated not-for-profit entity and a New York State entity to provide information on government contracts that need competitive bids for services. The contracts provide for commissions to be paid to these organizations in the range of 0.87% to 3.9% of the contract amount. Commissions paid relating to these contracts amounted to \$2,526,875 and \$2,987,996 for the years ended September 30, 2020 and 2019, respectively, and are included within contract services and products expense in the accompanying consolidated statements of activities.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. These estimates and assumptions relate to estimates of collectability of accounts receivable, accruals, useful life of property, plant, and equipment, and impairment of long-lived assets. Actual results could differ from those estimates.

The FEDCAP Group

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

Fair Value Measurements

FEDCAP follows guidance for fair value measurements that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and enhances disclosure requirements for fair value measurements. It maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances.

The hierarchy is broken down into three levels based on the transparency of inputs as follows:

- Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the measurement date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.
- Level 2 - Pricing inputs other than quoted prices in active markets, which are either directly or indirectly observable as of the measurement date. The nature of these securities includes investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed.
- Level 3 - Securities that have little to no pricing observability as of the measurement date. These securities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the entity. FEDCAP considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to FEDCAP's perceived risk of that instrument.

Beneficial Interest in Trusts

Donors have established and funded trusts held by third parties under which specified distributions are to be made to a designated beneficiary or beneficiaries over the trusts' term. FEDCAP's beneficial interest in trusts consists of interests in both charitable remainder trusts and perpetual trusts. Under charitable remainder trusts, FEDCAP will receive the assets remaining in the trust upon the termination of the trust. Under perpetual trusts, FEDCAP has the irrevocable right to receive all or a portion of the income earned on the trust assets either in perpetuity or for the life of the trust. FEDCAP recognizes its interest in trusts as increases to net assets at the fair value of trust assets, less the present value of the estimated future payments to be made under the specific terms of the trusts. Fluctuations in the fair value of these assets are recorded as changes in net assets with donor restrictions in the consolidated statements of activities.

The FEDCAP Group

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

At September 30, 2020 and 2019, FEDCAP's beneficial interest in trusts are reflected at fair value in the accompanying consolidated statements of financial position and is classified as Level 3 within the fair value hierarchy.

	2020	2019
Balance, beginning of year	\$ 4,512,345	\$ 4,646,739
Contributions/additions	-	-
Distributions	(53,160)	(58,034)
Appreciation/(Depreciation)	254,330	(76,360)
Balance, end of year	\$ 4,713,515	\$ 4,512,345

Impairment of Long-lived Assets

FEDCAP reviews the carrying values of its long-lived assets, including property and equipment and other assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. Recoverability of long-lived assets is assessed by a comparison of the carrying amount of the asset to the estimated future net cash flows expected to be generated by the asset.

If estimated future net cash flows are less than the carrying amount of the asset, the asset is considered impaired and an expense is recorded in an amount to reduce the carrying amount of the asset to its fair value.

Tax-Exempt Status

FEDCAP follows guidance that clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return, including issues relating to financial statement recognition and measurement. This guidance provides that the tax effects from an uncertain tax position can only be recognized in the financial statements if the position is "more-likely-than-not" to be sustained if the position were to be challenged by a taxing authority. The assessment of the tax position is based solely on the technical merits of the position, without regard to the likelihood that the tax position may be challenged.

FEDCAP is exempt from federal income tax under IRC section 501(c)(3), though it is subject to tax on income unrelated to their respective exempt purpose, unless that income is otherwise excluded by the IRC. These organizations have processes presently in place to ensure the maintenance of their tax-exempt status, to identify and report unrelated income, to determine their filing and tax obligations in jurisdictions for which they have nexus, and to identify and evaluate other matters that may be considered tax positions. FEDCAP has determined that there are no material uncertain tax positions that require recognition or disclosure in the consolidated financial statements.

Goodwill

Goodwill was established through the acquisition of APEX in 2020 and KS in 2019. The value reported on the consolidated statements of financial position represents the residual difference between the consideration paid and the fair value of the net assets acquired. FEDCAP has elected under relevant guidance to amortize goodwill on a straight-line basis over 10 years and to perform a goodwill impairment analysis at the entity or reporting unit level when a triggering event occurs that indicates the fair value of the entity or reporting unit may be below its carrying amount. No impairment charges were recorded during fiscal 2020 or 2019.

The FEDCAP Group

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

NOTE 3 - CONTRIBUTIONS AND GRANTS RECEIVABLE

At September 30, 2020 and 2019, contributions and grants receivable consisted of receivables amounting to \$2,381,974 and \$4,602,341, respectively, net of an allowance for doubtful accounts of \$250,000 for each year. Contributions and grants receivable as of September 30, 2020 and 2019 are expected to be collected within one year.

Approximately 35% and 36% of the contributions and grants receivable (gross) is due from one donor at September 30, 2020 and 2019, respectively.

NOTE 4 - INVESTMENTS

Investments, at fair value, consisted of the following at September 30:

	<u>2020</u>	<u>2019</u>
Money market funds	\$ 320,331	\$ 288,173
Mutual funds	<u>8,997,428</u>	<u>8,415,739</u>
	<u>\$ 9,317,759</u>	<u>\$ 8,703,912</u>

FEDCAP's mutual fund investments are classified as Level 1 within the fair value hierarchy. FEDCAP's money market fund investments do not meet the definition of a security under U.S. GAAP, and as such, the disclosure requirements for fair value measurements are not applicable.

NOTE 5 - INVENTORIES, NET

Inventories consisted of the following at September 30:

	<u>2020</u>	<u>2019</u>
Inventories:		
Raw materials	\$ 308,727	\$ 86,883
Work-in-process and finished goods	188,275	114,810
Reserve	<u>(90,000)</u>	<u>(90,000)</u>
	<u>\$ 407,002</u>	<u>\$ 111,693</u>

The FEDCAP Group

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

NOTE 6 - PROPERTY, PLANT AND EQUIPMENT, NET

Fixed assets, net, consisted of the following at September 30:

	2020	2019
Land	\$ 1,617,809	\$ 1,617,809
Building improvements	4,325,368	4,206,798
Buildings	40,342,758	40,342,758
Capital lease - building	35,918,547	35,918,547
Furniture, fixtures and computer systems	20,366,303	18,493,480
Leasehold improvements	10,284,087	9,802,911
	<u>112,854,872</u>	<u>110,382,303</u>
Less: accumulated depreciation	<u>(28,821,379)</u>	<u>(23,643,153)</u>
	<u>\$ 84,033,493</u>	<u>\$ 86,739,150</u>

Depreciation and amortization expense for the years ended September 30, 2020 and 2019 was \$4,885,155 and \$4,977,686, respectively.

NOTE 7 - CAPITAL LEASES

In May of 2014, FRS entered into a condominium leasehold agreement in a building located at 205 East 42nd Street in New York City for 64,303 square feet of space consisting of the entire second and third floor and a portion of the ground floor. FRS began occupying the space in December 2014 and the agreement expires in fiscal 2043. The interest rate is fixed at 4.20%. FRS accounted for this agreement as a capital lease, and as such, the related cost of \$35,918,547 representing the present value of the total future minimum lease payments due at the inception of the agreement, is included within "property, plant and equipment, net" in the accompanying consolidated statements of financial position at September 30, 2020 and 2019. Depreciation expense of \$1,238,571 was recorded in fiscal years 2020 and 2019. The outstanding principal balance on the lease, inclusive of accrued interest expense, as of September 30, 2020 and 2019, is \$35,892,124 and \$36,246,919, respectively.

During fiscal 2015, FRS obtained financing pursuant to a capital lease to finance vehicles in the amount of \$22,074, principal and interest are paid monthly. As of September 30, 2020, and 2019, accumulated depreciation associated with this lease agreement is \$22,074 and \$19,867, respectively. As of September 30, 2020, the lease liability was paid off in full. The outstanding principal balance on the lease as of September 30, 2019 was and \$2,207. The interest rate was fixed at 6.73%.

During fiscal 2016, CWS obtained financing pursuant to a capital lease to finance vehicles in the amount of \$44,464, principal and interest are paid monthly. As of September 30, 2020, and 2019, accumulated depreciation associated with this lease agreement is \$44,464 and \$40,018, respectively. As of September 30, 2020, the lease liability was paid off in full. The outstanding principal balance on the lease as of September 30, 2019, was \$4,446. The interest rate was fixed at 6.73%.

During fiscal 2015, ESNY obtained financing pursuant to a capital lease to finance vehicles in the amount of \$80,785, principal and interest are paid monthly. As of September 30, 2020, and 2019, the accumulated depreciation balance was \$80,785 and \$ 68,277, respectively. The lease liability was paid off in full as of September 30, 2020. The outstanding principal balance on the lease as of September 30, 2019, was \$12,508. The interest rate was fixed at 6.97%.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

In 2015 and 2016, ESCT obtained financing pursuant to a capital lease to finance equipment in the amount of \$109,418, principal and interest are paid monthly. As of September 30, 2020, and 2019, the accumulated depreciation balance was \$47,432 and \$27,671, respectively. The outstanding principal balance on the leases as of September 30, 2020 and 2019 was \$5,250 and \$24,200, respectively. The maturity dates run through May 14, 2021 with varying interest rates from 0% - 0.99%.

During fiscal 2018, ESNY obtained financing pursuant to a capital lease to finance vehicles in the amount of \$128,298, principal and interest are paid monthly. As of September 30, 2020, and 2019, the accumulated depreciation balance was \$86,892 and \$61,233, respectively. The outstanding principal balance on the lease as of September 30, 2020 and 2019 was \$42,042 and \$67,702, respectively. The maturity dates are through June 30, 2022 and the interest rate is fixed at 6.7% and 8.00%.

During fiscal 2018, FRS obtained financing pursuant to a capital lease to finance vehicles in the amount of \$370,074, principal and interest are paid monthly. As of September 30, 2020, and 2019, the accumulated depreciation balance was \$272,309 and \$160,373, respectively. The outstanding principal balance on the lease as of September 30, 2020 and 2019 was \$97,233 and \$171,435, respectively.

During fiscal 2018, FRS obtained financing pursuant to a capital lease to finance vehicles in the amount of \$82,264 principal and interest are paid monthly. As of September 30, 2020, and 2019, accumulated depreciation associated with these lease agreements was \$48,821 and \$31,367, respectively. The outstanding principal balance on the lease as of September 30, 2020 and 2019 was \$34,001 and \$51,454, respectively. The maturity dates are through November 30, 2022 and the interest rate varies from 7.10% to 7.45%.

On September 14, 2018, FRS obtained financing pursuant to a capital lease to finance office furniture in the amount of \$463,495; principal and interest are paid monthly. As of September 30, 2020, and 2019, the accumulated depreciation balance was \$132,427 and \$66,213, respectively. The outstanding principal balance on the lease as of September 30, 2020 and 2019 was \$270,646 and \$347,621, respectively. The maturity dates are through June 2023 and the interest rate is 6.58%.

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of September 30, 2020:

Year Ending September 30, 2020	Amount
2021	\$ 2,159,924
2022	2,089,325
2023	1,992,851
2024	1,911,084
2025	2,192,944
Thereafter	48,574,418
Total minimum lease payments	58,920,546
Less: Amount representing interest	(22,579,250)
Present value of net minimum lease payments	\$ 36,341,296

The FEDCAP Group

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

NOTE 8 - REVOLVING LOANS

Israel Discount Bank of New York

FRS entered into a revolving loan agreement with Israel Discount Bank of New York ("IDB") to finance working capital needs with an aggregate principal amount not to exceed \$25,000,000. The line is collateralized by FEDCAP's accounts receivable and was extended during fiscal 2019 to mature on October 17, 2020. The interest rate for the revolving loan agreement is the Prime Rate. As of September 30, 2020, and 2019, FRS had borrowings on this line of credit of \$23,653,273, at an interest rate of 3.94% and 5.50%, respectively. Subsequent to September 30, 2020, the balance of the revolving loan was repaid through a refinancing with Investors Bank, which is more fully described in Note 22.

RBS Citizens Bank, N.A.

ESNY has an agreement with RBS Citizens Bank, N.A for a \$3,000,000 revolving line of credit with FRS as the co-borrower, which matured on December 15, 2018 and was subsequently extended until May 2019. As of September 30, 2020, and 2019, ESNY had borrowings on this line of credit of \$3,000,000, at an interest rate of 3.06% and 4.1%, respectively. Subsequent to September 30, 2020, the balance of the line of credit was repaid through a refinancing with Investors Bank, which is more fully described in Note 22.

NOTE 9 - LONG-TERM DEBT

Notes Payable

On October 21, 2004, TOTS entered into a \$700,000 mortgage note payable to finance the acquisition of the building located in Bronx, New York. The note was secured by the property and all of the assets of TOTS. The interest rate is 5.0% and principal and interest of \$4,960 is payable monthly through the maturity date of November 1, 2024. At September 30, 2020 and 2019, the outstanding principal balance was \$223,137 and \$270,015, respectively.

On December 5, 2014, ESNY entered into a \$1,980,000 mortgage note payable to finance the acquisition of certain property located in Valhalla, New York. The note was secured by the property and is guaranteed by FEDCAP. The interest rate is 3.66% for the first 60 months then, as of the first day of the 61st month, the interest rate will reset to 1.75% in excess of the then bank's five-year cost of funds. In no event shall the reset rate be less than 3.66%. Principal and interest of \$32,440 is payable monthly through the maturity date of January 1, 2025. At September 30, 2020 and 2019, the outstanding principal balance was \$1,553,472 and \$1,789,338, respectively. Subsequent to September 30, 2020, the note was repaid through a refinancing with Investors Bank, which is more fully described in Note 22.

On November 4, 2016, MVLE entered into a \$350,000 note payable with Union Bank & Trust. The note is secured by accounts receivable and equipment. The interest rate is 4.5% and principal and interest are paid monthly. The note matured in November 2019 and was paid off in full. The outstanding principal balance was \$20,725 as of September 30, 2019.

On December 13, 2016, ESCT entered into a \$18,558 note payable with J.P. Morgan Chase Bank, N.A. The note is secured by the assets of ESCT. The interest rate is 6.1% and principal and interest are paid monthly. The note matures in December 2021. As of September 30, 2020 and 2019, the outstanding principal balance was \$5,188 and \$9,060, respectively.

The FEDCAP Group

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

On September 18, 2020, FRS and Fedcap Apex Acquisition, LLC purchased all of the existing assets and liabilities of Apex Technical School for an amount of \$1,851,658. As part of the initial agreement, \$100,000 was paid to the seller on the acquisition date, with another \$100,000 to be paid in four increments of \$25,000 over the following four months beginning October 2020. The note is uncollateralized and is non-interest bearing. The remaining \$1,651,658 to be paid within 18 months after the purchase date. The outstanding balance of this liability as of September 30, 2020 is \$1,749,142.

Bonds Payable

In December 2013, FRS entered into a Loan Agreement with Build NYC Resource Corporation ("Build NYC"), a local development corporation, for Build NYC to issue bonds to finance the purchase of the sixth floor of a building located at 633 Third Avenue in New York City and related expenses. Build NYC issued \$18,450,000 of tax-exempt revenue bonds ("Series 2013A"). Monthly payments of interest commenced in June 2014. The Series 2013A bonds have a coupon rate of 4.2% with a maturity date of December 1, 2033. The Series A bonds were placed with IDB and, as part of the bond purchase and continuing covenant agreement between FRS and IDB, FRS must maintain a minimum balance with IDB of \$4,000,000, which is included within investments in the accompanying consolidated statements of financial position at September 30, 2020 and 2019. At September 30, 2020 and 2019, the outstanding principal balance of the Series 2013A bonds was \$15,975,000 and \$16,510,000, respectively.

In December 2010, ESNY in connection with the Monroe County Industrial Development Corporation and RBS Citizens Bank, N.A. issued \$5,250,000 in Series 2010 tax-exempt Revenue Bonds ("Series 2010"). The Series 2010 bonds were used to finance the acquisition of certain property located in Irondequoit, New York and to refinance certain ESNY debt. The Series 2010 bonds are secured by a mortgage on all properties and improvements financed by the bond and are guaranteed by FRS. ESNY may elect to prepay some portion or all of the outstanding bonds subject to a prepayment fee as defined in the agreement. The agreement also requires bank approval prior to ESNY incurring additional indebtedness. The Series 2010 bonds are subject to tender for mandatory purchase at the election of the bondholder beginning June 1, 2016 and thereafter every five years through June 1, 2036. At September 30, 2020 and 2019, the outstanding principal balance of the Series 2010 bonds was \$4,110,260 and \$4,257,410, respectively. Subsequent to September 30, 2020, the bonds were repaid through a refinancing with Investors Bank, which is more fully described in Note 22.

On February 23, 2011, ESNY entered into an interest rate swap agreement with a bank in connection with the Series 2010 Bonds. The swap agreement had an outstanding notional amount of \$4,099,290 and \$4,245,960 at September 30, 2020 and 2019, respectively. The outstanding notional amount decreases, in conjunction with bond principal reductions, until the agreement terminates in January 2031. ESNY remits interest at a fixed rate of 2.99% and receives interest at a variable rate (68% of the sum of the monthly LIBOR rate plus 2.65% (0.11% and 1.39% at September 30, 2020 and 2019, respectively)). The fair value of the interest rate swap agreement as of September 30, 2020 and 2019 reflected a liability of \$876,764 and \$711,129, respectively. The swap is included within other liabilities in the accompanying consolidated statement of financial position and is classified as Level 2 within the fair value hierarchy.

In December 2017, FEDCAP entered into a loan agreement with Build NYC for Build NYC to issue bonds to finance the renovation, equipping and furnishing of the improvements of the sixth floor located at 633 Third Avenue in New York City and related expenses. Build NYC issued \$9,280,000 of tax-exempt revenue bonds ("Series 2017A") and \$715,000 of taxable revenue bonds ("Series 2017B"). Monthly payments of interest commenced in February 2018. The Series 2017A bonds have a coupon rate of 3.9% with a maturity date of December 1, 2042. The Series 2017B bonds have a coupon rate of 4.5% with a maturity date of December 1, 2027. The 2017A and 2017B bonds were placed with TD Bank. At September 30, 2020 and 2019, the outstanding principal balance of the Series 2017A and 2017B bonds was \$9,223,326 and \$9,498,448, respectively. Subsequent to September 30, 2020, the bonds were repaid through a refinancing with Investors Bank, which is more fully described in Note 22.

The FEDCAP Group

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

The following is a summary of minimum principal payments due on the notes and bonds at September 30, 2020:

Year Ending September 30,	Notes Payable	Bonds Payable	Total
2021	\$ 481,699	\$ 1,019,828	\$ 1,501,527
2022	2,069,690	1,062,372	3,132,062
2023	422,171	1,105,555	1,527,726
2024	425,007	1,148,618	1,573,625
2025	132,372	1,194,107	1,326,479
Thereafter	-	23,778,106	23,778,106
Total	\$ 3,530,939	29,308,586	32,839,525
Less: current portion			(1,501,527)
Less: bond issuance cost			(822,043)
Long-term debt, net of current portion			\$ 30,515,955

NOTE 10 - ADVANCES FROM GOVERNMENT AGENCY

During 2020 and 2019, FEDCAP received contract advances from various New York City government agencies. The refundable balance related to these advances as of September 30, 2020 and 2019 is \$3,620,421 and \$433,397, respectively. These advances are non-interest bearing and will be offset by future receivables within these programs.

NOTE 11 - FORGIVABLE CAPITAL ADVANCES

ESCT has received financial assistance for property acquisition costs from Housing and Urban Development (“HUD”) and the Austin Housing Finance Corporation (“AHFC”). Under the terms of the agreements, funds were provided to ESCT in the form of forgivable capital advances to purchase 34 housing entities. The principle and any interest are not due and will be forgiven upon maturity, as long as ESCT continues to meet the requirements to maintain the housing units available for low income persons with disabilities. ESCT believes that the possibility that repayment will occur is remote and as such that the treatment of the advance as a contribution upon receipt is appropriate. Accordingly, the advances were recorded as contributions with donor restrictions that are released from restriction over the life of the agreement.

The FEDCAP Group

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

The following table summarizes the forgivable capital advances as of September 30, 2020:

	<u>Amount of Original Advance</u>
Housing I U.S. Department of HUD, interest rate of 5.375%, due unless forgiven on October 11, 2045, secured by six rental housing units. At September 30, 2020 and 2019, \$258,985 and \$269,310, respectively, was included in net assets with donor restrictions related to the Note.	\$ 413,000
Housing II U.S. Department of HUD, interest rate of 5.250%, due unless forgiven on April 1, 2048, secured by 10 rental housing units. At September 30, 2020 and 2019, \$492,087 and \$509,927, respectively, was included in net assets with donor restrictions related to the Note.	713,600
City of Austin passed through AHFC, interest rate of 0%, due unless forgiven on May 1, 2049, secured by 10 rental housing units. At September 30, 2020 and 2019, \$357,292 and \$369,792, respectively, was included in net assets with donor restrictions related to the Note.	500,000
Housing III U.S. Department of HUD, interest rate of 4.125%, due unless forgiven on December 1, 2050, secured by eight rental housing units. At September 30, 2020 and 2019, \$558,008 and \$576,505, respectively, was included in net assets with donor restrictions related to the Note.	739,900
City of Austin passed through AHFC, interest rate of 0%, due unless forgiven on November 30, 2050, secured by eight rental housing units. At September 30, 2020 and 2019, \$373,116 and \$385,485, respectively, was included in net assets with donor restrictions related to the Note.	494,740
Housing IV U.S. Department of HUD, interest rate of 4.125%, due unless forgiven on February 15, 2053, secured by 10 rental housing units. At September 30, 2020 and 2019, \$867,470 and \$894,230, respectively, was included in net assets with donor restrictions related to the Note.	1,070,400
City of Austin passed through AHFC, interest rate of 0%, due unless forgiven on February 28, 2053, secured by 10 rental housing units. At September 30, 2020 and 2019, \$506,429 and \$522,051, respectively, was included in net assets with donor restrictions related to the Note.	<u>624,898</u>
Total	<u>\$ 4,556,538</u>

The FEDCAP Group

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

NOTE 12 - COMMITMENTS AND CONTINGENCIES

FEDCAP has leases for offices, program related facilities, and equipment expiring at various dates through 2032. The approximate future minimum lease commitments under existing operating leases are as follows:

Year Ending September 30, 2020	Amount
2021	\$ 12,120,810
2022	11,462,689
2023	7,833,871
2024	6,258,148
2025	5,136,701
Thereafter	11,202,741
Total commitments and contingencies	\$ 54,014,960

Certain office leases contain renewal and escalation clauses. For leases with escalation clauses, FEDCAP recognized rent expense on a straight-line basis and recognized a deferred rent liability of \$146,665 and \$467,126 at September 30, 2020 and 2019, respectively, which is included in other liabilities in the accompanying consolidated statements of financial position. In addition to the base rents, FEDCAP is obligated to pay additional amounts for increased operating costs.

Rent expense was \$11,046,926 and \$11,665,549 for the years ended September 30, 2020 and 2019, respectively.

FEDCAP sublets a portion of its facilities to tenants under operating leases that expire at various dates through December 2025. For the years ended September 30, 2020 and 2019, rental income from these subleases was \$1,224,615 and \$1,395,310, respectively. The future minimum sublease rental payments to be received are as follows:

Year Ending September 30, 2020	Amount
2021	\$ 1,628,231
2022	1,579,431
2023	1,440,344
2024	1,231,623
2025	496,640
Thereafter	64,093
Total	\$ 6,440,362

FEDCAP is engaged in various lawsuits incidental to its operations. In the opinion of management, the ultimate outcome of pending litigation will not have a material adverse effect on the consolidated financial position and results of operations of FEDCAP.

FEDCAP participates in a number of federal and state programs. These programs require that FEDCAP comply with certain requirements of laws, regulations, contracts, and agreements applicable to the programs in which it participates. All funds expended in connection with government grants and contracts are subject to audit by government agencies. While the ultimate liability, if any, from such audits of government contracts by government agencies is presently not determinable, it should not, in the opinion of management, have a material effect on FEDCAP's financial position or change in net assets.

The FEDCAP Group

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

Accordingly, no provision for any such liability that may result has been made in the accompanying consolidated financial statements.

NOTE 13 - TUITION REVENUE

FEDCAP receives funding for the Career Design School from the New York State Education Department, administered by the Bureau of Proprietary School Supervision. Gross tuition income, which equaled net tuition income, was \$186,703 and \$619,891 for the years ended September 30, 2020 and 2019, respectively, and has been included within rehabilitation and vocational programs in the accompanying consolidated statements of activities.

NOTE 14 - NET ASSETS

Net assets with donor restrictions were restricted for the following purposes as of September 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
For use in future periods for:		
Employment and job search programs	\$ 116,380	\$ 116,380
ESCT HUD capital advances	3,413,387	3,527,300
Time restricted - beneficial interest in remainder trust	2,686,453	2,540,391
Time restricted - general	<u>297,767</u>	<u>297,700</u>
	6,513,987	6,481,771
Beneficial interest in perpetual trusts and endowment funds subject to appropriation and satisfaction of donor restrictions	<u>2,072,809</u>	<u>2,017,769</u>
Total	<u>\$ 8,586,796</u>	<u>\$ 8,499,540</u>

Beneficial interest in perpetual trusts and endowment funds are comprised of the following as of September 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Easter Seals - beneficial interest in perpetual trusts	\$ 1,990,041	\$ 1,935,001
ReServe endowment	75,000	75,000
CWS endowment	<u>7,768</u>	<u>7,768</u>
	<u>\$ 2,072,809</u>	<u>\$ 2,017,769</u>

Net assets released from restrictions during the years ended September 30, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Employment and job search programs	\$ -	\$ 30,841
ESCT HUD capital advances	<u>113,913</u>	<u>113,913</u>
Total	<u>\$ 113,913</u>	<u>\$ 144,754</u>

The FEDCAP Group

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

NOTE 15 - RELATED PARTY TRANSACTIONS

Members of the Board of Directors of FEDCAP are associated with a law firm that has provided legal services to FEDCAP with fees of \$162,175 and \$247,849 during the years ended September 30, 2020 and 2019, respectively.

A CWS Board member is a trustee of the Eaton Fund. CWS leases its facilities from the Eaton Fund. Rent paid to Eaton Fund for each of the years ended September 30, 2020 and 2019 was \$108,330 and \$129,996 respectively.

NOTE 16 - EMPLOYEE BENEFIT PLANS

Effective January 1, 1991, FEDCAP established a Tax Deferred Annuity Retirement Plan under Section 403(b) of the IRC for employee voluntary salary reduction contributions. Employees are eligible to participate in the plan as of their employment date.

Effective October 1, 1991, FEDCAP established a Tax Deferred Annuity Retirement Plan under Section 403(b) of the IRC for employees working on government contracts with a defined contribution pension plan based on a contractual formula. Employees are eligible to participate in the plan upon satisfactory completion of a three-month probationary period.

Effective October 1, 1994, FEDCAP established a Defined Contribution Plan under Section 403(b) of the IRC for qualified participants, primarily employees who do not work on contracts. In November 1, 2010, the Defined Contribution Plan was amended to allow all employees to participate in the plan immediately upon hire. FEDCAP matches employee contributions up to 3% of their salaries. Employer matching contributions fully vest after three years of employment.

Plan contributions are invested in one or more of the funding vehicles available to participants under the plans. Each participant is fully and immediately vested in employee contributions. Employer contributions to the plans amounted to \$9,708,598 and \$6,792,107 for the years ended September 30, 2020 and 2019, respectively.

NOTE 17 - ACQUISITIONS

On December 3, 2018, FEDCAP acquired KS, a United Kingdom company through a stock purchase. KS provides high quality job support, placement, retention and related services to people in the United Kingdom. This combination was predicated on geographic expansion of core services into the United Kingdom. The acquisition was affected by the transfer of consideration in the amount of \$610,689. Goodwill in the amount of \$761,776 was recognized, which represented the consideration paid less the excess of the acquisition date fair values of the identifiable assets acquired over the acquisition date fair values of the liabilities assumed.

On March 14, 2019, FES became a 51% majority shareholder of SS. SS is a value-driven organization that strives to put its customers first, understanding their needs and closely engaging with them on a personal level to help them on their journey to employment and training. This joint venture was predicated on further geographic expansion into specific regions within the United Kingdom. This transaction was affected without any consideration, and as such, an inherent contribution of \$381,450 was recognized which represented the excess of the acquisition date fair values of the identifiable assets acquired over the acquisition date fair values of the liabilities assumed. The minority interest in the joint venture is reflected as non-controlling interest on the accompanying consolidated statements of financial position.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

On September 30, 2019, ESNY acquired and became the sole member of TOTS, a nonprofit entity whose purpose is to educate young children with developmental disabilities in an atmosphere that embraces and accommodates individual differences and helps children to achieve in the context of the larger classroom and school setting. The combination was predicated on similarities of missions with the Easter Seals brand and expands the select group of population being served. This acquisition was affected without the transfer of consideration, and as such, an inherent contribution of \$4,390,122 was recognized, which represented the excess of the acquisition date fair values of the identifiable assets acquired over the acquisition date fair values of the liabilities assumed.

On September 18, 2020, Fedcap Apex Acquisition, LLC, executed an asset purchase agreement to acquire substantially all of the assets of Breton International, Inc (a/k/a Apex Technical School). Apex Technical School ("APEX") is an adult vocational technical school and offers seven certificate courses designed to focus on basic trade skills and labor skills for its students. The acquisition purchase price was \$1,851,658, \$100,000 of which was paid upon acquisition, \$100,000 was to be paid over the following four months and a \$1,651,658 note payable to be paid within 18 months of the acquisition. The total consideration given exceeded the net assets acquired by \$200,000 and as such, goodwill in the amount of \$200,000 was recognized. Under the terms of the asset purchase agreement, \$100,000 repayments on the note payable are due by the 15th of the month following any month in which APEX generates positive cash flows from operations.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisitions for the year ended September 30, 2019:

	Inherent Contribution			KS	Total
	TOTS	SS	Total		
Cash and cash equivalents	\$ 628,040	\$ 307,425	\$ 935,465	\$ 31,128	\$ 966,593
Accounts receivables, net	146,372	512,159	658,531	583,083	1,241,614
Contributions receivables	50,852	-	50,852	-	50,852
Inventories	259	-	259	-	259
Prepaid expenses	2,886	39,879	42,765	78,441	121,206
Other assets	-	-	-	31,478	31,478
Property and equipment, net	3,980,000	61,405	4,041,405	61,690	4,103,095
Accounts payable and accrued liabilities	(113,016)	(539,418)	(652,434)	(936,907)	(1,589,341)
Deferred liabilities	(35,256)	-	(35,256)	-	(35,256)
Notes payable	(270,015)	-	(270,015)	-	(270,015)
Net assets (deficit)	\$ 4,390,122	\$ 381,450	\$ 4,771,572	\$ (151,087)	\$ 4,620,485

The FEDCAP Group

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition for APEX during the year ended September 30, 2020:

Accounts receivable, net	\$ 2,767,727
Inventories	58,911
Prepaid expenses	209,585
Property and equipment, net	402,358
Accounts payable and accrued liabilities	(503,954)
Deferred revenues	<u>(1,282,969)</u>
Net assets	<u>\$ 1,651,658</u>

NOTE 18 - CONCENTRATIONS

FEDCAP provides building services for federal buildings, which comprised 23% of total revenues during the years ended September 30, 2020 and 2019. FEDCAP provides offsite data entry personnel, custodial and other services to various branches of the state and city government through one New York State organization, which comprised 6% and 7% of total revenues during the years ended September 30, 2020 and 2019, respectively.

Financial instruments that potentially subject FEDCAP to concentrations of credit and market risk consist principally of cash and cash equivalents on deposit with financial institutions, which from time to time may exceed the Federal Deposit Insurance Corporation limit. Management does not believe that a significant risk of loss exists due to the failure of a financial institution.

NOTE 19 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

FEDCAP regularly monitors liquidity required to meet its operating needs and other contractual commitments. FEDCAP has various sources of liquidity at its disposal, including cash and cash equivalents, marketable debt and equity securities, and lines of credit. See Notes 8 and 22 for information about FEDCAP's lines of credit.

For purposes of assessing resources available to meet general expenditures over a 12-month period, FEDCAP considers all expenditures related to its ongoing activities.

In addition to financial assets available to meet general expenditures over the next 12 months, FEDCAP operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures.

As of September 30, 2020 and 2019, the following tables show the total financial assets held by FEDCAP and the amounts of those financial assets that could readily be made available within one year of the balance sheet date to meet general expenditures:

The FEDCAP Group

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

Financial assets available to meet general expenditures over the next 12 months:

	<u>2020</u>
Cash and cash equivalents	\$ 24,926,770
Accounts receivable, net	56,965,665
Contributions and grants receivable, net	2,131,974
Investments convertible to cash over the next 12 months	<u>9,317,759</u>
Total financial assets available within the next 12 months	93,342,168
Less amounts unavailable for general expenditure due to:	
Donor-imposed restrictions	(3,827,534)
Minimum liquidity requirement under borrowing arrangements	<u>(10,000,000)</u>
Total financial assets available to meet general expenditures over the next 12 months	<u>\$ 79,514,634</u>
	<u>2019</u>
Cash and cash equivalents	\$ 9,821,462
Accounts receivable, net	54,652,438
Contributions receivable, net	4,352,341
Investments convertible to cash over the next 12 months	<u>8,703,912</u>
Total financial assets available within the next 12 months	77,530,153
Less amounts unavailable for general expenditure due to:	
Donor-imposed restrictions	(3,726,448)
Minimum liquidity requirement under borrowing arrangements	<u>(4,000,000)</u>
Total financial assets available to meet general expenditures over the next 12 months	<u>\$ 69,803,705</u>

The FEDCAP Group

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

NOTE 20 - CARES ACT

As of September 30, 2020, FEDCAP's affiliates were granted the following loans, pursuant to the Small Business Administration Paycheck Protection Program (the "PPP") under Division A, Title I of the CARES Act (the "PPP Loans"):

Affiliate	Amount	Date of Note	Maturity Date
Easter Seals New York	\$ 3,929,615	7/3/2020	7/3/2022
Wildcat Services Corporation	2,438,225	4/10/2020	4/10/2022
MVLE	2,359,900	4/23/2020	4/23/2022
Easter Seals North Texas	1,423,400	4/17/2020	4/17/2022
Easter Seals Central Texas	1,356,335	4/27/2020	4/27/2022
Single Stop	329,967	4/10/2020	4/10/2022
Easter Seals Rhode Island	307,757	5/7/2020	5/7/2022
TOTS	231,600	5/2/2020	5/2/2022
Community Workshop Services	104,255	4/30/2020	4/30/2022
Total	<u>\$ 12,481,054</u>		

The PPP Loans, which are in the form of notes payable, mature 24 months from the date of issuance and bear interest at a rate of 1% per annum. The PPP Loans may be prepaid by FEDCAP at any time prior to maturity with no prepayment penalties. Funds from the PPP Loans may only be used for certain costs, such as payroll costs and occupancy expenses. FEDCAP intends to use the entire loan amounts for qualifying expenses. Under the terms of the PPP, certain amounts of the PPP Loans may be forgiven if they are used for qualifying expenses as described in the CARES Act. When FEDCAP is legally released from the debt, or forgiveness is granted, the extinguishment will be recognized into income at that time.

The CARES Act also allowed for employers to defer the deposit and payment of the employer share of payroll taxes that would otherwise be due on or after March 27, 2020, and before January 1, 2021. FEDCAP elected to defer payment of payroll taxes under this arrangement. These deferred payroll taxes are payable in two equal installments on December 31, 2021 and December 31, 2022. As of September 30, 2020, FEDCAP has recorded \$2,098,963 of deferred payroll taxes, which is reflected within accounts payable and accrued liabilities and other liabilities on the accompanying consolidated statement of financial position.

NOTE 21 - COVID-19

In March 2020, the World Health Organization officially declared COVID-19, a disease caused by the novel coronavirus, a pandemic. This caused many local and national governments, including New York State, to impose restrictions on business operations, travel and public gatherings. The outbreak has adversely impacted the level of economic activity around the world and disrupted normal business activity in every sector of the economy.

As a result of the pandemic, in mid-March 2020, FEDCAP moved certain programs to virtual program services for the remainder of the fiscal year. In order to mitigate the impact of the pandemic, for fiscal year 2021, FEDCAP continues to offer some programs virtually while shifting to in-person programs for others. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. External factors, including the duration and intensity of the pandemic, the shape of the economic recovery and its impact on potential government funding, as well as timing and widespread adoption of vaccines, could have a material impact on FEDCAP's future operating and programmatic results.

The FEDCAP Group

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

September 30, 2020 and 2019

NOTE 22 - SUBSEQUENT EVENTS

FEDCAP evaluated its September 30, 2020 consolidated financial statements for subsequent events through March 18, 2021, the date the consolidated financial statements were available for issuance. FEDCAP is unaware of any events which would require recognition or disclosure in the accompanying consolidated financial statements, except as noted below.

On October 27, 2020, FEDCAP entered into an agreement with Investors Bank to refinance certain of its existing debt arrangements as well as to provide for additional liquidity for operations. In connection with the refinancing, FEDCAP entered into (1) a revolving line of credit agreement with a borrowing limit of \$42,500,000, with a maturity date of October 27, 2022 and interest payable quarterly at a rate of prime plus 0.75% but no less than 4.00%; and (2) two term loans in the amounts of \$6,600,000 and \$6,000,000, respectively, both with a maturity date of November 1, 2030 and monthly payments of principal and interest at a rate of 4.00%. The revolving line of credit agreement requires that FEDCAP maintain minimum unrestricted liquid assets of \$10,000,000. The proceeds from the revolving line of credit and term loans were used to repay the existing revolving credit lines held by FRS and ESNY (as detailed within Note 8), the FRS Series 2017A and 2017B Bonds, ESNY Series 2010 Bonds, and ESNY Mortgage (as detailed within Note 9).

SUPPLEMENTARY INFORMATION

The FEDCAP Group
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
As of September 30, 2020

	The FEDCAP Group	Fedcap Rehabilitation Services, Inc.	Fedcap Inc.	Wildcat Services Corporation	ReServe	Community Work Services	Easter Seals New York	Granite Pathways	Red Mango	Easter Seals Rhode Island	Single Stop	Seacoast Pathways	Benevolent	MVLE	Easter Seals Central Texas	Easter Seals North Texas	Fedcap UK	These Our Treasures	Fedcap Canada	Fedcap APEX Acquisition LLC	Eliminations	Consolidated Total	
ASSETS																							
CURRENT ASSETS																							
Cash and cash equivalents	\$ -	\$ 9,612,049	\$ 47,804	\$ 353,028	\$ 148,726	\$ 1,621,308	\$ 1,009,305	\$ 737,631	\$ 3,452	\$ 191,149	\$ 1,615,304	\$ 334	\$ 35,562	\$ 994,278	\$ 1,148,871	\$ 755,541	\$ 1,736,869	\$ 872,804	\$ 3,920,644	\$ 122,111	\$ -	\$ 24,926,770	
Accounts receivable (net of allowance for doubtful accounts or approximately \$4,394,000 in 2020 and \$2,180,000 in 2019)	-	33,229,262	43,949	6,160,419	366,780	1,170,635	5,118,736	922,180	-	154,500	1,477,279	3,772	-	1,846,259	653,970	132,111	2,178,959	106,314	-	3,300,540	-	56,865,665	
Intercompany accounts receivable	708,028	231,533,047	3,505,908	59,264,366	15,896,490	19,026,233	44,510,955	7,956,371	761,573	5,099,191	42,605,051	331,311	19,021	9,519,504	3,197,628	3,802,888	-	47,727	660,404	100,000	(448,545,696)	-	
Contributions and grants receivable (net of allowance for uncollectible contributions of approximately \$250,000 in 2020 and 2019)	-	269,632	-	142,558	111	26,404	54,517	274	-	41,925	1,348,843	2,395	-	28,997	171,705	-	-	42,613	-	-	-	2,131,974	
Inventories, net	-	333,278	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	259	-	-	73,465	407,002	
Prepaid expenses and other assets	124	4,674,513	-	14,475	-	3,136	890,098	21,429	12,252	10,172	245,212	-	-	170,946	104,305	14,616	989,341	-	11,715	1,155,629	-	8,321,637	
Total current assets	708,152	279,651,781	3,597,661	65,934,846	16,412,107	21,849,716	51,583,611	9,637,885	777,277	5,496,937	47,291,689	337,812	54,583	12,559,984	5,276,479	4,705,156	4,905,169	1,073,391	4,592,763	4,751,745	(448,545,696)	92,653,048	
Investments	-	8,503,511	-	-	119,100	-	194,655	-	-	11,786	-	3,170	-	-	146,843	638,694	-	-	-	-	(300,000)	9,317,759	
Goodwill	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	642,860	-	-	200,000	-	842,860	
Property, plant and equipment, net	-	65,565,293	-	-	21,529	148,444	6,783,883	82,746	58,882	14,694	1,832,434	-	-	1,176,300	3,579,277	161,825	297,016	3,908,812	-	402,358	-	84,033,493	
Beneficial interest in trusts	-	-	-	-	-	-	585,537	-	-	36,953	-	-	-	-	-	4,091,025	-	-	-	-	-	4,713,515	
Other assets	-	129,280	-	-	-	-	-	-	-	-	-	-	-	287,357	-	103,351	-	-	-	-	-	(41,921)	478,067
Total assets	\$ 708,152	\$ 353,849,865	\$ 3,597,661	\$ 65,934,846	\$ 16,552,736	\$ 21,998,160	\$ 59,147,686	\$ 9,720,631	\$ 836,159	\$ 5,560,370	\$ 49,124,123	\$ 340,982	\$ 54,583	\$ 14,023,641	\$ 9,002,599	\$ 9,700,051	\$ 5,845,045	\$ 4,982,203	\$ 4,592,763	\$ 5,354,103	\$ (448,887,617)	\$ 192,038,742	
LIABILITIES AND NET ASSETS																							
CURRENT LIABILITIES																							
Accounts payable and accrued liabilities	\$ 160	\$ 20,477,644	\$ 49,956	\$ 881,832	\$ 227,026	\$ 293,666	\$ 1,307,564	\$ 37,170	\$ 2,036	\$ 76,527	\$ 1,747,250	\$ 271	\$ 6,522	\$ 1,131,414	\$ 405,712	\$ 226,176	\$ 2,402,281	\$ 11,983	\$ 113,528	\$ 801,303	\$ -	\$ 30,200,021	
Intercompany payable	768,247	212,158,627	3,661,531	61,022,163	18,768,145	21,727,849	45,347,305	10,833,314	1,370,217	5,714,483	44,315,743	626,878	366,912	6,830,170	6,763,885	3,065,534	2,616,150	194,393	1,315,687	1,078,463	(448,545,696)	-	
Deferred revenues	-	50,610	-	14,594	99,574	-	92,001	-	1	-	461,496	-	-	36,127	-	-	857,794	46,074	-	-	-	6,066,207	
Advances from government agency	-	3,571,793	-	48,628	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,620,421	
Current portion of obligations under capital leases	-	2,123,972	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,159,924	
Notes payable, current	-	868,780	-	-	-	-	480,269	-	-	-	-	-	-	-	4,118	-	-	48,360	-	-	100,000	-	1,501,527
Total current liabilities	768,407	239,251,426	3,711,487	61,967,217	19,094,745	22,021,515	47,257,841	10,870,484	1,372,254	5,791,010	46,524,489	627,149	373,434	7,997,711	7,178,965	3,291,710	5,876,225	300,810	4,415,804	3,401,113	(448,545,696)	43,548,100	
Capital lease obligations	-	34,170,030	-	-	-	-	11,342	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	34,181,372
Notes payable	-	23,640,854	-	-	-	-	5,050,108	-	-	-	-	-	-	-	1,070	-	-	-	174,781	-	1,649,142	-	30,515,955
Revolving loans	-	23,653,273	-	-	-	-	3,000,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	26,653,273
Payroll Protection Program notes payable	-	-	-	2,438,225	-	104,255	3,929,615	-	-	307,757	329,967	-	-	2,359,900	1,356,335	1,423,400	-	231,600	-	-	-	12,481,054	
Other liabilities	-	2,314,896	-	17,732	15,042	94,089	1,418,754	11,229	2,354	802	525,338	-	-	-	63,629	78,914	2,085,643	-	-	-	-	(41,921)	6,586,501
Total liabilities	768,407	323,030,479	3,711,487	64,423,174	19,109,787	22,219,859	60,667,660	10,881,713	1,374,608	6,099,569	47,379,794	627,149	373,434	10,357,611	8,599,999	4,794,024	7,961,868	707,191	4,415,804	5,050,255	(448,587,617)	153,966,255	
NET ASSETS																							
Without donor restrictions	(60,255)	30,515,924	(113,826)	1,511,672	(2,647,780)	(229,467)	(2,105,511)	(1,161,082)	(538,449)	(539,199)	1,744,329	(286,167)	(318,851)	3,666,030	(3,010,767)	720,114	(1,676,705)	4,275,012	176,959	303,848	(300,000)	29,925,809	
Without donor restrictions - non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(440,118)
With donor restrictions	-	303,462	-	-	90,729	7,768	585,537	-	-	-	-	-	-	-	3,413,387	4,185,913	-	-	-	-	-	-	8,586,796
Total net assets	(60,255)	30,819,386	(113,826)	1,511,672	(2,557,051)	(221,699)	(1,519,974)	(1,161,082)	(538,449)	(539,199)	1,744,329	(286,167)	(318,851)	3,666,030	402,600	4,906,027	(2,116,823)	4,275,012	176,959	303,848	(300,000)	38,072,487	
Total liabilities and net assets	\$ 708,152	\$ 353,849,865	\$ 3,597,661	\$ 65,934,846	\$ 16,552,736	\$ 21,998,160	\$ 59,147,686	\$ 9,720,631	\$ 836,159	\$ 5,560,370	\$ 49,124,123	\$ 340,982	\$ 54,583	\$ 14,023,641	\$ 9,002,599	\$ 9,700,051	\$ 5,845,045	\$ 4,982,203	\$ 4,592,763	\$ 5,354,103	\$ (448,887,617)	\$ 192,038,742	

This schedule should be read in conjunction with the accompanying consolidated financial statements and notes thereto.

The FEDCAP Group
CONSOLIDATING STATEMENT OF ACTIVITIES
For the year ended September 30, 2020

Without Donor Restrictions

	The FEDCAP Group	Fedcap Rehabilitation Services Inc.	Fedcap Inc.	Wildcat Services Corporation	ReServe	Community Work Services	Easter Seals New York	Granite Pathways	Red Mango	Easter Seals Rhode Island	Single Stop	Seacoast Pathways	Benevolent	MVLE	Easter Seals Central Texas	Easter Seals North Texas	FEDCAP UK	These Our Treasures	Fedcap Canada	Fedcap APEX Acquisition LLC	Consolidated Total	
Revenues																						
Contract services and products	\$ -	\$ 86,263,621	\$ -	\$ 20,965,857	\$ -	\$ 1,190,320	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,142,283	\$ 415,825	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 112,977,906
Rehabilitation and vocational programs	-	49,267,708	671,029	3,435,394	3,325,822	1,939,608	28,907,013	3,710,926	-	2,522,777	5,226,924	18,496	(5,588)	8,747,500	7,863,414	4,589,514	15,170,967	2,133,599	15,904,276	554,822	153,984,201	
Contribution revenues	-	1,616,766	5,938	6,822	9,650	400,251	282,194	115,149	-	60,607	2,573,614	88,718	-	50,607	186,532	179,721	-	-	-	-	5,619,460	
Inherent contribution	-	263	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	263
Realized and unrealized gains (losses) on investments	-	418,863	-	-	-	-	(15,979)	-	-	-	-	-	-	-	-	-	(10,942)	-	-	-	-	391,942
Interest income	-	193,856	-	-	850	5,134	3,802	89	-	-	415	27	-	243	8	-	360	599	-	-	-	205,383
Miscellaneous revenue	-	50,216	-	35	248	451	18,695	2,455	-	-	-	1	-	1,067	55,251	1,602	-	300	-	-	-	130,321
Net assets released from restrictions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	113,913	-	-	-	-	-	-	113,913
Total revenues	-	137,811,293	676,967	24,408,108	3,336,570	3,535,764	29,195,725	3,828,619	-	2,583,384	7,800,953	107,242	37,303	12,941,700	8,634,943	4,759,895	15,171,327	2,134,498	15,904,276	554,822	273,423,389	
Expenses																						
Program services:																						
Contract services and products	-	76,549,226	-	16,204,468	-	1,220,848	1,543	-	26,554	-	-	-	-	2,560,156	486,140	-	-	-	-	-	-	97,048,935
Rehabilitation and vocational programs	-	44,587,427	727,005	3,360,534	3,382,221	549,734	25,377,137	3,898,041	-	2,073,574	5,139,488	192,667	-	5,100,553	7,944,966	3,390,560	13,331,391	1,744,132	15,069,984	176,736	136,046,180	
	-	121,136,653	727,005	19,565,002	3,382,221	1,770,582	25,378,680	3,898,041	26,554	2,073,574	5,139,488	192,667	-	7,660,709	8,431,136	3,390,560	13,331,391	1,744,132	15,069,984	176,736	233,095,115	
Supporting services:																						
Management and general	27,760	11,863,192	79,730	3,800,421	424,474	1,276,170	3,421,674	381,477	16,353	358,719	2,850,308	9,005	6,261	4,560,115	1,467,423	1,325,845	2,977,754	505,476	657,333	374,238	36,383,728	
Development	32,495	2,513,575	461	2,224	98	9,338	13,918	25,100	-	53,716	302,998	149	80,714	124,331	332,117	107,026	-	-	-	-	3,598,260	
	60,255	14,376,767	80,191	3,802,645	424,572	1,285,508	3,435,592	406,577	16,353	412,435	3,153,306	9,154	86,975	4,684,446	1,799,540	1,432,871	2,977,754	505,476	657,333	374,238	39,981,988	
Total expenses	60,255	135,513,420	807,196	23,367,647	3,806,793	3,056,090	28,814,272	4,304,618	42,907	2,486,009	8,292,794	201,821	86,975	12,345,155	10,230,676	4,823,431	16,309,145	2,249,608	15,727,317	550,974	273,077,103	
Change in net assets - without donor restrictions	(60,255)	2,297,873	(130,229)	1,040,461	(470,223)	479,674	381,453	(475,999)	(42,907)	97,375	(491,841)	(94,579)	(49,672)	596,545	(1,595,733)	(63,536)	(1,137,818)	(115,110)	176,959	3,848	346,286	
Net assets at beginning of year - without donor restrictions	-	28,218,051	16,403	471,211	(2,177,557)	(709,141)	(2,486,964)	(685,083)	(495,542)	(636,574)	2,236,170	(191,588)	(269,179)	3,069,485	(1,415,054)	783,650	(979,005)	4,390,122	-	-	29,139,405	
Net assets at end of year - without donor restrictions	<u>\$ (60,255)</u>	<u>\$ 30,515,924</u>	<u>\$ (113,826)</u>	<u>\$ 1,511,672</u>	<u>\$ (2,647,780)</u>	<u>\$ (229,467)</u>	<u>\$ (2,105,511)</u>	<u>\$ (1,161,082)</u>	<u>\$ (538,449)</u>	<u>\$ (539,199)</u>	<u>\$ 1,744,329</u>	<u>\$ (286,167)</u>	<u>\$ (318,851)</u>	<u>\$ 3,666,030</u>	<u>\$ (3,010,787)</u>	<u>\$ 720,114</u>	<u>\$ (2,116,823)</u>	<u>\$ 4,275,012</u>	<u>\$ 176,959</u>	<u>\$ 3,848</u>	<u>\$ 29,485,691</u>	

With Donor Restrictions

	The FEDCAP Group	Fedcap Rehabilitation Services Inc.	Fedcap Inc.	Wildcat Services Corporation	ReServe	Community Work Services	Easter Seals New York	Granite Pathways	Red Mango	Easter Seals Rhode Island	Single Stop	Seacoast Pathways	Benevolent	MVLE	Easter Seals Central Texas	Easter Seals North Texas	FEDCAP UK	These Our Treasures	Fedcap Canada	Fedcap APEX Acquisition LLC	Consolidated Total	
REVENUES																						
Contributions and grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Realized and unrealized losses on investments	-	-	-	-	-	-	33,084	-	-	-	-	-	-	-	-	168,085	-	-	-	-	201,169	
Net assets released from restrictions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(113,913)	-	-	-	-	-	-	(113,913)
Total revenues	-	-	-	-	-	-	33,084	-	-	-	-	-	-	-	(113,913)	168,085	-	-	-	-	-	87,256
Change in net assets - with donor restrictions	-	-	-	-	-	-	33,084	-	-	-	-	-	-	-	(113,913)	168,085	-	-	-	-	-	87,256
Net assets at beginning of year - with donor restrictions	-	303,462	-	-	90,729	7,768	552,453	-	-	-	-	-	-	-	3,527,300	4,017,828	-	-	-	-	-	8,499,540
Net assets at end of year - with donor restrictions	<u>\$ -</u>	<u>\$ 303,462</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 90,729</u>	<u>\$ 7,768</u>	<u>\$ 585,537</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,413,387</u>	<u>\$ 4,185,913</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,586,796</u>

This schedule should be read in conjunction with the accompanying consolidated financial statements and notes thereto.