

**Child and Family Agency of
Southeastern Connecticut, Inc.**

**Financial Statements and
Independent Auditor's Report**

June 30, 2017 and 2016

COHN  REZNICK
ACCOUNTING • TAX • ADVISORY

**Child and Family Agency of
Southeastern Connecticut, Inc.**

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Independent Auditor's Report

Board of Directors
Child and Family Agency of Southeastern Connecticut, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Child and Family Agency of Southeastern Connecticut, Inc., which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Child and Family Agency of Southeastern Connecticut, Inc. as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2017, on our consideration of Child and Family Agency of Southeastern Connecticut, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Child and Family Agency of Southeastern Connecticut's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Child and Family Agency of Southeastern Connecticut, Inc.'s internal control over financial reporting and compliance.

CohnReznick LLP

Hartford, Connecticut
December 19, 2017

Child and Family Agency of Southeastern Connecticut, Inc.

**Statements of Financial Position
June 30, 2017 and 2016**

Assets

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 2,108,274	\$ 1,932,919
United Way receivable	379,213	427,982
Accounts receivable, net of allowance of \$100,000	161,690	184,739
Grants and contracts receivable	206,774	107,320
Pledges receivable, net	396,526	520,493
Prepaid expenses	152,054	136,240
Investments	3,319,504	2,641,583
Property and equipment, net	<u>4,681,947</u>	<u>4,862,030</u>
 Total assets	 <u>\$ 11,405,982</u>	 <u>\$ 10,813,306</u>

Liabilities and Net Assets

Liabilities		
Accounts payable	\$ 232,351	\$ 122,452
Accrued personnel costs	874,719	914,667
Grants payable	140,181	160,039
Deferred income	<u>15,000</u>	<u>35,923</u>
 Total liabilities	 <u>1,262,251</u>	 <u>1,233,081</u>
 Commitments and contingencies		
Net assets		
Unrestricted	8,186,476	7,568,656
Temporarily restricted	1,509,932	1,607,926
Permanently restricted	<u>447,323</u>	<u>403,643</u>
 Total net assets	 <u>10,143,731</u>	 <u>9,580,225</u>
 Total liabilities and net assets	 <u>\$ 11,405,982</u>	 <u>\$ 10,813,306</u>

See Notes to Financial Statements.

Child and Family Agency of Southeastern Connecticut, Inc.

**Statement of Activities
Year Ended June 30, 2017**

	Operating fund	Board- designated endowment fund	Property and equipment fund	Total unrestricted	Temporarily restricted	Permanently restricted	Total
Public support and revenue							
Patient service revenue (net of contractual allowances)	\$ 3,006,456	\$ -	\$ -	\$ 3,006,456	\$ -	\$ -	\$ 3,006,456
Provision for uncollectible accounts	(67,107)	-	-	(67,107)	-	-	(67,107)
Net patient service revenue	2,939,349	-	-	2,939,349	-	-	2,939,349
Government grants	8,128,824	-	-	8,128,824	-	-	8,128,824
United Way	-	-	-	-	379,488	-	379,488
Foundations and contributions	232,010	245,788	-	477,798	391,412	-	869,210
Special events	267,739	-	-	267,739	-	-	267,739
Interest and dividends	41,730	12,998	-	54,728	13,337	34	68,099
Workshops and contracts	282,627	-	-	282,627	-	-	282,627
Medicaid EMR incentive	182,750	-	-	182,750	-	-	182,750
Net realized gain on investments	37,855	33,608	-	71,463	20,578	13,962	106,003
Net unrealized gain on investments	46,326	62,518	-	108,844	48,673	29,684	187,201
Miscellaneous	161,315	-	-	161,315	-	-	161,315
Total	12,320,525	354,912	-	12,675,437	853,488	43,680	13,572,605
Net assets released from restrictions	797,455	154,027	-	951,482	(951,482)	-	-
Total public support and revenue	13,117,980	508,939	-	13,626,919	(97,994)	43,680	13,572,605
Functional expenses							
Counseling	5,629,788	-	133,071	5,762,859	-	-	5,762,859
School based health centers	2,637,500	-	62,342	2,699,842	-	-	2,699,842
Childhood services	1,905,576	-	45,042	1,950,618	-	-	1,950,618
Community education	581,035	-	13,734	594,769	-	-	594,769
Total program services	10,753,899	-	254,189	11,008,088	-	-	11,008,088
Management and general	1,575,312	-	37,236	1,612,548	-	-	1,612,548
Fundraising	379,493	-	8,970	388,463	-	-	388,463
Total support services	1,954,805	-	46,206	2,001,011	-	-	2,001,011
Total functional expenses	12,708,704	-	300,395	13,009,099	-	-	13,009,099
Change in net assets	409,276	508,939	(300,395)	617,820	(97,994)	43,680	563,506
Net assets, beginning	1,273,791	2,117,741	4,177,124	7,568,656	1,607,926	403,643	9,580,225
Net assets, ending	\$ 1,683,067	\$ 2,626,680	\$ 3,876,729	\$ 8,186,476	\$ 1,509,932	\$ 447,323	\$ 10,143,731

See Notes to Financial Statements.

Child and Family Agency of Southeastern Connecticut, Inc.

**Statement of Activities
Year Ended June 30, 2016**

	Operating fund	Board- designated endowment fund	Property and equipment fund	Total unrestricted	Temporarily restricted	Permanently restricted	Total
Public support and revenue							
Patient service revenue (net of contractual allowances)	\$ 3,356,368	\$ -	\$ -	\$ 3,356,368	\$ -	\$ -	\$ 3,356,368
Provision for uncollectible accounts	(73,181)	-	-	(73,181)	-	-	(73,181)
Net patient service revenue	3,283,187	-	-	3,283,187	-	-	3,283,187
Government grants	7,899,968	-	-	7,899,968	-	-	7,899,968
United Way	6,514	-	-	6,514	425,007	-	431,521
Foundations and contributions	168,977	329,472	-	498,449	542,820	-	1,041,269
Special events	274,729	-	-	274,729	-	-	274,729
Interest and dividends	34,604	29,443	-	64,047	32,926	77	97,050
Workshops and contracts	218,750	-	-	218,750	-	-	218,750
Medicaid EMR incentive	102,000	-	-	102,000	-	-	102,000
Net realized gain on investments	10,468	11,246	-	21,714	6,979	5,692	34,385
Net unrealized loss on investments	(6,584)	(42,704)	-	(49,288)	(20,646)	(19,885)	(89,819)
Miscellaneous	194,185	-	-	194,185	-	-	194,185
Total	12,186,798	327,457	-	12,514,255	987,086	(14,116)	13,487,225
Net assets released from restrictions	807,381	194,421	-	1,001,802	(1,001,802)	-	-
Total public support and revenue	12,994,179	521,878	-	13,516,057	(14,716)	(14,116)	13,487,225
Functional expenses							
Counseling	5,199,262	-	127,788	5,327,050	-	-	5,327,050
School based health centers	3,003,071	-	73,853	3,076,924	-	-	3,076,924
Childhood services	1,924,499	-	47,328	1,971,827	-	-	1,971,827
Community education	480,827	-	11,773	492,600	-	-	492,600
Total program services	10,607,659	-	260,742	10,868,401	-	-	10,868,401
Management and general	1,587,409	9,271	39,394	1,636,074	-	-	1,636,074
Fundraising	408,722	-	10,052	418,774	-	-	418,774
Total support services	1,996,131	9,271	49,446	2,054,848	-	-	2,054,848
Total functional expenses	12,603,790	9,271	310,188	12,923,249	-	-	12,923,249
Change in net assets	390,389	512,607	(310,188)	592,808	(14,716)	(14,116)	563,976
Net assets, beginning	883,402	1,605,134	4,487,312	6,975,848	1,622,642	417,759	9,016,249
Net assets, ending	\$ 1,273,791	\$ 2,117,741	\$ 4,177,124	\$ 7,568,656	\$ 1,607,926	\$ 403,643	\$ 9,580,225

See Notes to Financial Statements.

Child and Family Agency of Southeastern Connecticut, Inc.

**Statement of Functional Expenses
Year Ended June 30, 2017 (With Comparative Totals for 2016)**

	Program services				Support services		2017	2016
	Counseling	School based health centers	Childhood services	Community education	Management and general	Fundraising	Total	Total
Salaries	\$ 3,654,986	\$ 1,895,783	\$ 1,205,607	\$ 196,712	\$ 833,741	\$ 123,946	\$ 7,910,775	\$ 8,054,479
Payroll taxes	283,053	145,484	91,208	14,190	59,691	8,941	602,567	640,108
Employee benefits	560,084	255,429	223,734	29,992	211,945	24,237	1,305,421	1,259,746
Total salaries and related expenses	4,498,123	2,296,696	1,520,549	240,894	1,105,377	157,124	9,818,763	9,954,333
Subcontracts	536,658	73,211	12,850	119,621	107,718	18,741	868,799	718,306
Conferences, meetings and training	92,706	28,282	11,530	12,879	16,515	981	162,893	128,167
Occupancy	200,798	34,998	197,092	8,729	79,583	10,860	532,060	496,838
Professional fees	4,855	2,697	-	-	38,823	-	46,375	49,915
Supplies	76,883	144,115	52,890	10,441	31,551	6,925	322,805	377,104
Travel - staff and client	106,998	6,897	4,055	9,825	7,100	931	135,806	145,669
Telephone	79,390	32,119	20,968	3,696	13,954	1,323	151,450	148,101
Insurance	5,833	-	10,516	-	93,498	1,555	111,402	104,999
Public relations and printing	1,906	3,638	3,175	10,205	12,610	10,414	41,948	40,548
Postage	1,016	1,332	401	2	4,582	5,129	12,462	13,060
Organization dues	3,580	2,706	8,155	250	9,034	287	24,012	21,976
Direct service costs	3,041	1,013	41,240	161,011	2,270	2,139	210,714	140,324
Other expenses	8,305	2,492	12,226	1,840	44,173	2,605	71,641	55,258
Personnel advertising	9,417	6,569	9,634	21	8,416	-	34,057	37,868
Resource materials	279	735	295	1,621	108	-	3,038	880
Special events expenses	-	-	-	-	-	114,145	114,145	108,704
Book auction consignment expense	-	-	-	-	-	46,334	46,334	57,591
Loss on disposal of property and equipment	-	-	-	-	-	-	-	13,420
Total expenses before depreciation and amortization	5,629,788	2,637,500	1,905,576	581,035	1,575,312	379,493	12,708,704	12,613,061
Depreciation and amortization	133,071	62,342	45,042	13,734	37,236	8,970	300,395	310,188
Total functional expenses	\$ 5,762,859	\$ 2,699,842	\$ 1,950,618	\$ 594,769	\$ 1,612,548	\$ 388,463	\$ 13,009,099	\$ 12,923,249

See Notes to Financial Statements.

Child and Family Agency of Southeastern Connecticut, Inc.

**Statement of Functional Expenses
Year Ended June 30, 2016**

	Program services			Support services		2016	
	Counseling	School based health centers	Childhood services	Community education	Management and general	Fundraising	Total
Salaries	\$ 3,591,588	\$ 2,130,701	\$ 1,228,861	\$ 189,651	\$ 790,374	\$ 123,304	\$ 8,054,479
Payroll taxes	279,872	164,486	105,317	13,910	67,747	8,776	640,108
Employee benefits	487,492	268,633	227,927	22,003	230,857	22,834	1,259,746
Total salaries and related expenses	4,358,952	2,563,820	1,562,105	225,564	1,088,978	154,914	9,954,333
Subcontracts	306,776	131,452	9,962	99,623	127,713	42,780	718,306
Conferences, meetings and training	53,186	26,786	10,879	31,183	5,794	339	128,167
Occupancy	183,720	33,516	157,201	10,092	95,065	17,244	496,838
Professional fees	6,278	4,375	1,462	135	37,665	-	49,915
Supplies	63,602	179,264	80,448	16,804	30,178	6,808	377,104
Travel - staff and client	113,831	7,277	8,724	5,341	9,131	1,365	145,669
Telephone	78,708	32,078	19,059	2,513	14,149	1,594	148,101
Insurance	3,894	-	9,353	-	90,291	1,461	104,999
Public relations and printing	7,680	5,654	2,660	4,217	13,742	6,595	40,548
Postage	639	476	390	1,312	6,444	3,799	13,060
Organization dues	3,967	2,203	6,959	-	8,760	87	21,976
Direct service costs	5,235	1,693	40,059	83,226	7,095	3,016	140,324
Other expenses	7,188	4,151	8,604	815	32,075	2,425	55,258
Personnel advertising	5,586	9,747	6,458	-	16,077	-	37,868
Resource materials	20	579	176	2	103	-	880
Special events expenses	-	-	-	-	-	108,704	108,704
Book auction consignment expense	-	-	-	-	-	57,591	57,591
Loss on disposal of property and equipment	-	-	-	-	13,420	-	13,420
Total expenses before depreciation and amortization	5,199,262	3,003,071	1,924,499	480,827	1,596,680	408,722	12,613,061
Depreciation and amortization	127,788	73,853	47,328	11,773	39,394	10,052	310,188
Total functional expenses	\$ 5,327,050	\$ 3,076,924	\$ 1,971,827	\$ 492,600	\$ 1,636,074	\$ 418,774	\$ 12,923,249

See Notes to Financial Statements.

Child and Family Agency of Southeastern Connecticut, Inc.

**Statements of Cash Flows
Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets	\$ 563,506	\$ 563,976
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Provision for uncollectible accounts	67,107	73,181
Depreciation and amortization	300,395	310,188
Loss on disposal of property and equipment	-	13,420
Net realized and unrealized (gains) losses on investments	(293,204)	55,434
Realized loss on donated stock	-	76
Pledge discounts	(17,524)	(1,069)
Changes in operating assets and liabilities		
United Way receivable	48,769	11,433
Accounts receivable	(44,058)	122,545
Grants and contracts receivable	(99,454)	133,822
Pledges receivable	141,491	(133,197)
Prepaid expenses	(15,814)	(27,701)
Accounts payable	109,899	(68,699)
Accrued personnel costs	(39,948)	167,089
Grants payable	(19,858)	(178,040)
Deferred income	(20,923)	(2,439)
	<u>680,384</u>	<u>1,040,019</u>
Net cash provided by operating activities		
Cash flows from investing activities		
Purchases of property and equipment	(120,312)	(168,586)
Proceeds from sales of investments	3,468,984	371,075
Purchases of investments	<u>(3,853,701)</u>	<u>(1,187,517)</u>
	<u>(505,029)</u>	<u>(985,028)</u>
Net cash used in investing activities		
Net increase in cash and cash equivalents	175,355	54,991
Cash and cash equivalents, beginning	<u>1,932,919</u>	<u>1,877,928</u>
Cash and cash equivalents, ending	<u>\$ 2,108,274</u>	<u>\$ 1,932,919</u>
Supplemental disclosures of cash flow information		
Cash paid for income taxes	<u>\$ -</u>	<u>\$ 522</u>

See Notes to Financial Statements.

Child and Family Agency of Southeastern Connecticut, Inc.

Notes to Financial Statements June 30, 2017 and 2016

Note 1 - Organization and summary of significant accounting policies

Purpose

The purpose of the Child and Family Agency of Southeastern Connecticut, Inc. (the "Agency") is to promote the well-being of all children and their families and, in particular, to give priority to the unmet needs of children lacking physical, emotional, and intellectual care and nurturing. The goals and objectives of the Agency are to protect the welfare and safety of children and their families, to promote policies that benefit all children and their families, and to broaden and deepen public awareness of and commitment to society's responsibility for responding to the needs of children and their families.

Basis of presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Agency reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. They are described as follows:

Unrestricted - Net assets that are not subject to explicit donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

Temporarily restricted - Net assets whose use by the Agency is subject to either explicit donor-imposed stipulations or by the operation of law that can be fulfilled by actions of the Agency or that expire by the passage of time.

Permanently restricted - Net assets subject to explicit donor-imposed stipulations that they be maintained permanently by the Agency and stipulate the use of income and/or appreciation as either unrestricted or temporarily restricted based on donor imposed stipulations or by operation of law.

Income taxes

The Agency is exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3) and, therefore, has no provision for federal or state income taxes.

The Agency has no unrecognized tax benefits at June 30, 2017 and 2016. The Agency's federal information returns prior to fiscal year 2014 are closed and management continually evaluates expiring statutes of limitations, audit, proposed settlements, changes in tax law and new authoritative rulings. If the Agency had unrelated business income taxes, it would recognize interest and penalties associated with any tax matters as part of the income tax provision and include accrued interest and penalties with the related tax liability in the statements of financial position.

Cash equivalents

The Agency considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments

The Agency carries investments at their fair values in the statements of financial position. Realized and unrealized gains and losses and investment income are included in the change in net assets in the accompanying statements of activities as unrestricted net assets unless restricted by donor stipulation or by operation of law.

Child and Family Agency of Southeastern Connecticut, Inc.

**Notes to Financial Statements
June 30, 2017 and 2016**

The investment policy establishes an achievable return objective through professional management and sufficient portfolio diversification to reduce volatility and to help assure a reasonable consistency of return over time. The current long-term return objective is to maintain the purchasing power of the current assets. As such, these funds can assume a time horizon that extends well beyond a normal market cycle. To satisfy its long-term rate-of-return objectives, the Agency relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Agency targets a diversified asset allocation by setting a target of 30% in fixed income and a target of 70% in equity-based securities to achieve its long-term return objectives within prudent risk parameters.

Property and equipment

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. The Agency capitalizes all expenditures for property and equipment in excess of \$5,000. Depreciation is computed over the estimated useful lives of the assets using the straight-line method. Leasehold improvements are amortized over the shorter of the lease term or estimated useful life. The estimated useful lives are as follows:

Buildings and building improvements	5 - 39 years
Leasehold improvements	3 - 33 years
Furniture and equipment	3 - 10 years
Vehicles	5 years

Repairs and maintenance of property and equipment are charged to expenses as incurred. The Agency reviews its long-lived assets for impairment using an undiscounted cash flow method whenever events or circumstances indicate the carrying value of an asset may not be recoverable. The Agency does not believe that any material impairment currently exists related to its long-lived assets.

Pledges receivable

Pledges receivable represent unconditional promises to give that are recognized in the period in which the promise is received. Contributions receivable that are expected to be collected in less than one year are reported at net realizable value. Contributions receivable that are expected to be collected in more than one year are discounted to their net present value.

On a periodic basis, the Agency evaluates its contributions receivable and establishes an allowance for doubtful accounts, if necessary, based on its history of past write offs, collections and current credit conditions.

Accounts receivable

The collection of receivables from third-party payors and patients is critical to the Agency's operating performance. The primary collection risks relate to uninsured patient accounts and patient accounts for which the primary insurance payor has paid, but patient responsibility amounts (deductibles and copayments) remain outstanding. Receivables from third-party payors are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments or discounts provided by third-party payors.

Receivables due directly from patients are carried at the original charge for the service provided less amounts covered by third-party payors and less an estimated allowance for doubtful accounts by identifying troubled accounts and by historical experience applied to an aging of accounts. The Agency does not charge interest on past due accounts. Patient receivables are written off against

Child and Family Agency of Southeastern Connecticut, Inc.

Notes to Financial Statements June 30, 2017 and 2016

the allowance for doubtful accounts when deemed uncollectable. Recoveries of receivables previously written off are recorded as a reduction of provision for uncollectible accounts when received.

Contributions

Contributions are recognized when the donor makes a promise to give to the Agency that is, in substance, unconditional. Contributions received are recorded as increases in unrestricted, temporarily restricted or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

Government grants

The Agency recognizes grants to the extent that eligible grant costs are incurred. Receivables are recognized to the extent costs have been incurred, but not reimbursed. Deferred income represents grant advances which exceed eligible costs incurred.

Patient service revenue

The Agency has agreements with third-party payors that provide for payments to the Agency at amounts different from its established rates. Payment arrangements include predetermined fee schedules and discounted charges. Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payors, which are subject to audit by administering agencies. These adjustments are accrued on an estimated basis and are adjusted in future periods as final settlements are determined. The Agency provides care to certain patients under Medicaid payment arrangements. Laws and regulations governing the Medicaid program are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action.

Donated materials and services

Donated materials and services are reflected as contributions in the accompanying financial statements at their estimated fair market value at the date of receipt. Contributed services are recognized if the services create or enhance non-financial assets or required specialized skills. No amounts have been reflected in the financial statements for donated services. The Agency pays for most services requiring specific expertise. However, a substantial number of volunteers have donated significant amounts of their time in the Agency's program services and in its fundraising campaigns.

Functional expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on a combination of specific identification and allocation by management.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Child and Family Agency of Southeastern Connecticut, Inc.

**Notes to Financial Statements
June 30, 2017 and 2016**

Subsequent events

The Agency has evaluated events and transactions for potential recognition or disclosure through December 19, 2017, which is the date the financial statements were available to be issued.

Note 2 - Concentrations

Concentration of credit risk

Financial instruments which potentially subject the Agency to concentrations of credit risk consist primarily of cash and cash equivalents and receivables. The Agency maintains its cash and cash equivalents in bank accounts which, at times, may exceed federally insured limits. The Agency has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk for cash. As of June 30, 2017, the Agency had cash and cash equivalents in excess of federally insured limits of approximately \$2,002,000.

Concentration of market risk

The Agency invests in various debt and equity securities. These investment securities are exposed to interest rate, market, credit and other risks depending on the nature of the specific investment. Accordingly, it is at least reasonably possible that these factors will result in changes in the value of the Agency's investments, which could materially affect amounts reported in the financial statements.

Funding source concentrations

The Agency receives a significant amount of grants either directly or passed through from other agencies from the State of Connecticut Department of Children and Families ("DCF") and the State of Connecticut Department of Public Health ("DPH"). As with all government funding, these grants are subject to reduction or termination in future years. For the year ended June 30, 2017, grants from DCF and DPH consisted of 34% and 28% of total grant revenue, respectively. For the year ended June 30, 2016, grants from DCF and DPH consisted of 44% and 31% of total grant revenue, respectively.

Note 3 - Patient service receivable, net

The Agency grants credit without collateral to its patients. Patient service receivable, net, by major payor source is as follows as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Medicaid	53 %	59 %
Third-party payors and other	42	38
Self-pay patients	5	3
	<u>100 %</u>	<u>100 %</u>

Child and Family Agency of Southeastern Connecticut, Inc.

**Notes to Financial Statements
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Patient service revenue, net of contractual allowances (but before the provision for uncollectible accounts), by major payor source is as follows for the years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Medicaid	83 %	85 %
Third-party payors and other	16	14
Self-pay patients	<u>1</u>	<u>1</u>
	<u>100 %</u>	<u>100 %</u>

Note 4 - Pledges receivable

Pledges receivable at June 30, 2017 and 2016 are comprised of the following:

	<u>2017</u>	<u>2016</u>
Receivables due in less than 1 year	\$ 167,751	\$ 167,244
Receivables due in 1-5 years	<u>245,701</u>	<u>387,880</u>
	413,452	555,124
Less discount to net present value	<u>(17,107)</u>	<u>(34,631)</u>
	<u>\$ 396,345</u>	<u>\$ 520,493</u>

Contributions expected to be received in more than one year have been discounted using a discount rate of 5%. No allowance for uncollectible contributions receivable has been recorded as of June 30, 2017 and 2016.

Note 5 - Investments

Investments are stated at fair value and are comprised of the following as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Mutual funds	\$ 30,298	\$ 2,318,981
Exchange traded funds	-	261,138
Corporate bonds	520,081	-
Government securities	319,616	-
Common stocks	2,272,510	-
Preferred stocks	83,460	-
Money funds	<u>93,539</u>	<u>61,464</u>
	<u>\$ 3,319,504</u>	<u>\$ 2,641,583</u>

Child and Family Agency of Southeastern Connecticut, Inc.

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The following is a schedule of investment return for the years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 68,099	\$ 97,050
Less investment fees	<u>(23,179)</u>	<u>(9,271)</u>
Interest and dividend income, net	44,920	87,779
Net realized and unrealized gains (losses)	<u>293,204</u>	<u>(55,434)</u>
Total investment return, net	<u><u>\$ 338,124</u></u>	<u><u>\$ 32,345</u></u>

Note 6 - Fair value measurements

The Agency values its financial assets and liabilities based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs which are used to measure fair value into three broad levels, as described below:

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.
- Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

In determining fair value, the Agency utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value. The fair value hierarchy does not attempt to measure the quality of the investments.

Child and Family Agency of Southeastern Connecticut, Inc.

**Notes to Financial Statements
June 30, 2017 and 2016**

Financial assets measured at fair value at June 30, 2017 have been categorized in the table below based upon the fair value hierarchy described above:

	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 30,298	\$ -	\$ -	\$ 30,298
Corporate bonds	-	520,081	-	520,081
Government securities	-	319,616	-	319,616
Common stocks				
Consumer discretionary	278,704	-	-	278,704
Consumer staples	187,187	-	-	187,187
Energy	129,643	-	-	129,643
Financial	408,748	-	-	408,748
Healthcare	285,995	-	-	285,995
Industrial	286,333	-	-	286,333
Information technology	321,075	-	-	321,075
Materials	79,575	-	-	79,575
Real estate	71,967	-	-	71,967
Telecommunication	96,084	-	-	96,084
Utilities	127,199	-	-	127,199
Preferred stocks	83,460	-	-	83,460
Money funds	93,539	-	-	93,539
Total	<u>\$ 2,479,807</u>	<u>\$ 839,697</u>	<u>\$ -</u>	<u>\$ 3,319,504</u>

Financial assets measured at fair value at June 30, 2016 have been categorized in the table below based upon the fair value hierarchy described above:

	Level 1	Level 2	Level 3	Total
Mutual funds				
Foreign large growth	\$ 137,913	\$ -	\$ -	\$ 137,913
High yield bond	142,876	-	-	142,876
Large blend	306,342	-	-	306,342
Large value	481,567	-	-	481,567
Multi-sector bond	347,126	-	-	347,126
Short-term bond	398,665	-	-	398,665
Small growth	189,151	-	-	189,151
World allocation	315,341	-	-	315,341
Exchange-traded funds				
Large blend	261,138	-	-	261,138
Money funds	61,464	-	-	61,464
Total	<u>\$ 2,641,583</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,641,583</u>

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used during the years ended June 30, 2017 and 2016.

Child and Family Agency of Southeastern Connecticut, Inc.

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Investments in common stocks, preferred stocks, mutual funds, exchange-traded funds and money funds are valued using market prices on active markets (Level 1). Level 1 instrument valuations are obtained from real time quotes for transactions in active exchange markets involving identical assets. The values of mutual funds, exchange-traded funds and money funds represent the net asset value of shares held by the Agency at year end.

The fair value of government securities and corporate bonds are estimated using market prices quotations (where observable), based on recently executed transactions or bond spreads of the issuer (Level 2). If the spread data does not reference the issuer, then data that references a comparable issuer is used. When observable price quotations are not available, fair value is determined based on cash flow models with yield curves or bond spreads.

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

The Agency's policy is to recognize transfers in and out of various levels as of the actual date of the event or change in circumstance that caused the transfer. There were no transfers during the years ended June 30, 2017 and 2016.

Note 7 - Property and equipment

Property and equipment consist of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Land	\$ 490,641	\$ 490,641
Buildings and building improvements	8,168,422	8,085,190
Leasehold improvements	76,551	76,551
Furniture and equipment	748,528	711,448
Vehicles	<u>34,933</u>	<u>34,933</u>
	9,519,075	9,398,763
Less accumulated depreciation and amortization	<u>(4,837,128)</u>	<u>(4,536,733)</u>
	<u>\$ 4,681,947</u>	<u>\$ 4,862,030</u>

Depreciation and amortization expense was \$300,395 and \$310,188 for the years ended June 30, 2017 and 2016, respectively.

Note 8 - Line of credit

The Agency has available for its use a \$1,000,000 line of credit from Dime Savings Bank. Bank advances on the credit line are payable on demand and carry an interest rate at Dime Savings Bank's prime rate (4.25% at June 30, 2017). Interest is payable monthly. The credit line is secured by substantially all business assets of the Agency. There were no bank advances as of June 30, 2017 and 2016. The line of credit expires on January 1, 2020.

Child and Family Agency of Southeastern Connecticut, Inc.

**Notes to Financial Statements
June 30, 2017 and 2016**

Note 9 - Pension plan

The Agency contributes 6% of each eligible employee's salary to a Simplified Employee Pension Individual Retirement Account Plan. An employee is eligible for participation after three years of employment. The contributions in one year for any employee may not be more than the lesser of \$54,000 or 25% of that employee's total compensation. Total pension expense for the years ended June 30, 2017 and 2016 was \$258,522 and \$303,532, respectively.

Note 10 - Commitments and contingencies

The following is a summary of liens placed by the State of Connecticut to secure bond grant funding that was used to purchase and/or renovate the Agency's property. The liens will expire at a rate of 10% per year, as long as the Agency abides by licensing and operating requirements according to the bond grant.

	<u>Unamortized balance</u>	<u>Expiration date</u>
Department of Social Services Neighborhood Facilities Project	\$ 280,956	8/21/2025
Department of Education Child Care Capital Project	117,294	9/14/2025
Family Resource Centers	62,475	1/1/2026

Note 11 - Temporarily restricted net assets

Temporarily restricted net assets are made up of contributions restricted by donors for funding a variety of programs, as well as pledge contributions to be collected in future fiscal years and earnings on perpetual endowments funds.

Note 12 - Professional liability

The Agency is covered by a professional liability insurance policy written on an occurrence basis. Insurance coverage under the policy has limits of \$1,000,000 per occurrence and \$3,000,000 in aggregate.

Child and Family Agency of Southeastern Connecticut, Inc.

**Notes to Financial Statements
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Temporarily restricted net assets as of June 30, 2017 and 2016 are available for the following purposes or periods:

	<u>2017</u>	<u>2016</u>
United Way of Southeastern CT	\$ 354,918	\$ 396,260
United Way of Middlesex	24,570	28,747
B.P. Learned programs	560,781	500,599
Smith Bent programs	-	8,000
Serve Here CT	30,000	30,000
General programs	100,533	64,196
For emergency use	25,000	25,000
Restricted for time	<u>414,130</u>	<u>555,124</u>
	<u>\$ 1,509,932</u>	<u>\$ 1,607,926</u>

Note 13 - Permanently restricted net assets

Permanently restricted net assets consist of the Casey Angell Fund, Phoebe Bennet Fund, Ella Brown Fund and the Thomas Gullotta Fund.

The Casey Angell Fund assets are to be held indefinitely. The Agency may make expenditures from the fund income for the professional development of its employees and volunteers. To allow for fund growth, expenditures are to be limited to an amount equal to 90% of the prior year's annual income.

The Phoebe Bennet Fund assets are to be held indefinitely. The income from the assets can be used to support the Agency's general activities.

The Ella Brown Fund assets are to be held indefinitely. The income from the assets can be used to support the Agency's programs at the B.P. Learned Mission.

The Thomas Gullotta Fund assets are to be held indefinitely. The income and realized and unrealized gains and losses from the fund are temporarily restricted until appropriated for operations.

Permanently restricted net assets as of June 30, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Casey Angell Fund	\$ 21,047	\$ 21,013
Phoebe Bennet Fund	635	635
Ella Brown Fund	347,289	303,643
Thomas Gullotta Fund	<u>78,352</u>	<u>78,352</u>
Permanently restricted net assets	<u>\$ 447,323</u>	<u>\$ 403,643</u>

Child and Family Agency of Southeastern Connecticut, Inc.

**Notes to Financial Statements
June 30, 2017 and 2016**

Note 14 - Endowment

The Agency's endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Agency has interpreted the State of Connecticut Uniform Prudent Management of Institutional Funds Act ("CTUPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Agency classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Agency in a manner consistent with the standards of prudence prescribed by CTUPMIFA.

In accordance with CTUPMIFA, the Agency considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund;
2. The purposes of the Agency and the fund;
3. General economic conditions;
4. The possible effect of inflation or deflation;
5. The expected total return from income and the appreciation of investments;
6. Other resources of the Agency; and
7. The investment policies of the Agency.

The Agency has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and capital needs supported by its endowment while seeking to maintain the purchasing power of the endowment assets in perpetuity and achieve investment returns sufficient to sustain the level of spending necessary to support ongoing operations. Endowment assets include those assets of donor-restricted funds that the Agency must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board of Directors, the Agency relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Endowment assets are invested in a diversified mix of asset classes, which produces the reasonable expected investment return within a prudent risk framework. The Agency expects its endowment funds, over time, to provide an average long-term rate of return with a range from 5% to 7% annually. Actual returns in any given year may vary from this range.

The Agency has a spending policy which governs the rate at which funds are transferred from the Endowment Fund to the operating and capital budgets. The annual allocation to the operating and capital funds is calculated as a percentage of the endowment market value.

Year-to-year fluctuations caused by changes in the endowment market value are moderated by using a moving average, computed on the last three years of endowment market values. The Agency did not make an allocation to the operating and capital funds during the years ended June 30, 2017 and 2016.

Child and Family Agency of Southeastern Connecticut, Inc.

**Notes to Financial Statements
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Endowment net asset composition by type of fund is as follows as of June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 148,404	\$ 447,323	\$ 595,727
Board-designated endowment funds	2,626,680	-	-	2,626,680
Total funds	\$ 2,626,680	\$ 148,404	\$ 447,323	\$ 3,222,407

Changes in endowment net assets for the year ended June 30, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ 2,117,741	\$ 110,113	\$ 403,643	\$ 2,631,497
Investment return				
Investment income, net	12,998	8,060	34	21,092
Net appreciation	96,126	30,231	43,646	170,003
Contributions	399,815	-	-	399,815
Net assets, end of year	\$ 2,626,680	\$ 148,404	\$ 447,323	\$ 3,222,407

Endowment net asset composition by type of fund is as follows as of June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 110,113	\$ 403,643	\$ 513,756
Board-designated endowment funds	2,117,741	-	-	2,117,741
Total funds	\$ 2,117,741	\$ 110,113	\$ 403,643	\$ 2,631,497

Changes in endowment net assets for the year ended June 30, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ 1,605,134	\$ 98,672	\$ 417,759	\$ 2,121,565
Investment return				
Investment income, net	20,172	18,671	77	38,920
Net depreciation	(31,458)	(7,230)	(14,193)	(52,881)
Contributions	523,893	-	-	523,893
Net assets, end of year	\$ 2,117,741	\$ 110,113	\$ 403,643	\$ 2,631,497

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