

CHILDREN'S SERVICE SOCIETY OF UTAH

FINANCIAL STATEMENTS

with

INDEPENDENT AUDITORS' REPORTS

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Children's Service Society of Utah

Report on the Financial Statements

We have audited the accompanying financial statements of Children's Service Society of Utah (the "Society") (a nonprofit organization), 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 audit. We conducted our audit 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 on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Children's Service Society of Utah 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 Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2017, on our consideration of Children's Service Society of Utah'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 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 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 Children's Service Society of Utah's internal control over financial reporting and compliance.

Pinnock, Robbins, Posey & Richins

Salt Lake City, Utah
October 18, 2017

CHILDREN'S SERVICE SOCIETY OF UTAH

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2017 AND 2016

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|---------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 921,496 | \$ 951,300 |
| Investments in marketable securities, unrestricted | 411,010 | 262,780 |
| Accounts receivable - net of allowance for uncollectible accounts of \$4,000 and \$4,000, respectively | 192,634 | 184,973 |
| Grants and other receivables | 2,955 | 3,180 |
| Prepaid expenses and deposits | <u>3,919</u> | <u>1,213</u> |
| TOTAL CURRENT ASSETS | 1,532,014 | 1,403,446 |
| Property and equipment - net | 7,380 | 10,597 |
| Investments in marketable securities, permanently restricted | <u>170,556</u> | <u>70,556</u> |
| TOTAL ASSETS | <u>\$ 1,709,950</u> | <u>\$ 1,484,599</u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 45,545 | \$ 37,026 |
| Accrued expenses | <u>161,861</u> | <u>145,947</u> |
| TOTAL CURRENT LIABILITIES | 207,406 | 182,973 |
| Deferred rent benefit | <u>36,520</u> | <u>31,425</u> |
| TOTAL LIABILITIES | <u>243,926</u> | <u>214,398</u> |
| NET ASSETS: | | |
| Restricted: | | |
| Temporarily | 606,535 | 444,027 |
| Permanently | 170,556 | 70,556 |
| Unrestricted | <u>688,933</u> | <u>755,618</u> |
| TOTAL NET ASSETS | <u>1,466,024</u> | <u>1,270,201</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 1,709,950</u> | <u>\$ 1,484,599</u> |

See accompanying notes to the financial statements

CHILDREN'S SERVICE SOCIETY OF UTAH

STATEMENTS OF ACTIVITIES

| | For the Year Ended June 30, 2017 | | | | For the Year Ended June 30, 2016 | | | |
|---------------------------------------|----------------------------------|-----------------------------------|-----------------------------------|---------------------|----------------------------------|-----------------------------------|-----------------------------------|---------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
| REVENUES AND SUPPORT: | | | | | | | | |
| Government contracts | \$ 1,880,750 | \$ - | \$ - | \$ 1,880,750 | \$ 1,794,264 | \$ - | \$ - | \$ 1,794,264 |
| Grants and other contracts | 27,498 | 261,168 | 100,000 | 388,666 | - | 298,140 | - | 298,140 |
| Contributions, cash | 39,108 | - | - | 39,108 | 311,788 | - | - | 311,788 |
| Contributions, in kind | 116,088 | - | - | 116,088 | 157,265 | - | - | 157,265 |
| Fundraising | 78,381 | - | - | 78,381 | 60,732 | - | - | 60,732 |
| Investment return | 48,230 | - | - | 48,230 | (241) | - | - | (241) |
| Other income | 758 | - | - | 758 | 319 | - | - | 319 |
| Program service fees | 83,147 | - | - | 83,147 | 53,582 | - | - | 53,582 |
| Net assets released from restrictions | 98,660 | (98,660) | - | - | 172,748 | (172,748) | - | - |
| TOTAL REVENUES AND SUPPORT | <u>2,372,620</u> | <u>162,508</u> | <u>100,000</u> | <u>2,635,128</u> | <u>2,550,457</u> | <u>125,392</u> | <u>-</u> | <u>2,675,849</u> |
| EXPENSES: | | | | | | | | |
| Program services | | | | | | | | |
| Care About Childcare | 1,051,286 | - | - | 1,051,286 | 929,919 | - | - | 929,919 |
| Family support services | 1,131,489 | - | - | 1,131,489 | 1,250,927 | - | - | 1,250,927 |
| Supporting services | | | | | | | | |
| Fundraising | 93,578 | - | - | 93,578 | 47,731 | - | - | 47,731 |
| Management and general | 162,952 | - | - | 162,952 | 118,580 | - | - | 118,580 |
| TOTAL EXPENSES | <u>2,439,305</u> | <u>-</u> | <u>-</u> | <u>2,439,305</u> | <u>2,347,157</u> | <u>-</u> | <u>-</u> | <u>2,347,157</u> |
| CHANGE IN NET ASSETS | <u>(66,685)</u> | <u>162,508</u> | <u>100,000</u> | <u>195,823</u> | <u>203,300</u> | <u>125,392</u> | <u>-</u> | <u>328,692</u> |
| NET ASSETS, BEGINNING OF YEAR | <u>755,618</u> | <u>444,027</u> | <u>70,556</u> | <u>1,270,201</u> | <u>552,318</u> | <u>318,635</u> | <u>70,556</u> | <u>941,509</u> |
| NET ASSETS, END OF YEAR | <u>\$ 688,933</u> | <u>\$ 606,535</u> | <u>\$ 170,556</u> | <u>\$ 1,466,024</u> | <u>\$ 755,618</u> | <u>\$ 444,027</u> | <u>\$ 70,556</u> | <u>\$ 1,270,201</u> |

See accompanying notes to the financial statements

CHILDREN'S SERVICE SOCIETY OF UTAH

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2017

| | <u>Program Services</u> | | <u>Supporting Services</u> | | |
|-------------------------------|---------------------------------|--|----------------------------|-----------------------------------|---------------------------|
| | <u>Care About Childcare</u> | <u>Family Support Services</u> | <u>Fund Raising</u> | <u>Management and General</u> | <u>Total Expenses</u> |
| EXPENSES: | | | | | |
| Salaries and wages | \$ 546,383 | \$ 657,851 | \$ 46,738 | \$ 45,076 | \$ 1,296,048 |
| Employee benefits | 135,840 | 147,678 | 7,673 | 14,452 | 305,643 |
| Advertising | 8,870 | 2,062 | - | 4,154 | 15,086 |
| Depreciation and amortization | 1,629 | 1,334 | - | 254 | 3,217 |
| Dues and subscriptions | 2,520 | 8,250 | 125 | 4,903 | 15,798 |
| Insurance | 9,151 | 6,643 | - | 772 | 16,566 |
| Miscellaneous | 7 | - | - | 1,359 | 1,366 |
| Occupancy | 138,743 | 71,889 | - | 6,500 | 217,132 |
| Office supplies and postage | 29,424 | 11,771 | 23,572 | 12,758 | 77,525 |
| Printing and publications | 12,365 | 872 | - | 964 | 14,201 |
| Professional fees | - | 1,564 | - | 12,675 | 14,239 |
| Program costs | 101,180 | 130,585 | 15,037 | 41,319 | 288,121 |
| Repairs and maintenance | 16,989 | 15,862 | 81 | 2,725 | 35,657 |
| Staff support | 833 | 37 | - | 1,126 | 1,996 |
| Telephone | 13,643 | 15,655 | - | 3,587 | 32,885 |
| Training and education | 28,830 | 30,648 | - | 7,653 | 67,131 |
| Travel | 4,879 | 28,788 | 352 | 2,675 | 36,694 |
| | <u>\$ 1,051,286</u> | <u>\$ 1,131,489</u> | <u>\$ 93,578</u> | <u>\$ 162,952</u> | <u>\$ 2,439,305</u> |

See accompanying notes to the financial statements

CHILDREN'S SERVICE SOCIETY OF UTAH

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2016

| | <u>Program Services</u> | | <u>Supporting Services</u> | | |
|-------------------------------|---------------------------------|--|----------------------------|-----------------------------------|---------------------------|
| | <u>Care About Childcare</u> | <u>Family Support Services</u> | <u>Fund Raising</u> | <u>Management and General</u> | <u>Total Expenses</u> |
| EXPENSES: | | | | | |
| Salaries and wages | \$ 474,910 | \$ 671,771 | \$ 27,556 | \$ 18,416 | \$ 1,192,653 |
| Employee benefits | 116,508 | 153,466 | 4,208 | 21,245 | 295,427 |
| Advertising | 8,998 | - | - | 28,565 | 37,563 |
| Depreciation and amortization | 1,590 | 3,285 | - | (493) | 4,382 |
| Dues and subscriptions | 1,056 | 7,175 | - | 2,810 | 11,041 |
| Insurance | 8,128 | 5,951 | - | 679 | 14,758 |
| Interest expense | - | - | - | 1 | 1 |
| Miscellaneous | - | - | - | 2,479 | 2,479 |
| Occupancy | 134,759 | 63,773 | - | 12,958 | 211,490 |
| Office supplies and postage | 24,740 | 10,779 | 11,402 | 10,264 | 57,185 |
| Printing and publications | 10,838 | 145 | - | 48 | 11,031 |
| Professional fees | - | - | - | 13,082 | 13,082 |
| Program costs | 89,901 | 220,234 | 4,565 | 2,372 | 317,072 |
| Repairs and maintenance | 17,329 | 16,158 | - | 3,173 | 36,660 |
| Staff support | 221 | 410 | - | 148 | 779 |
| Telephone | 13,399 | 14,376 | - | 2,070 | 29,845 |
| Training and education | 22,694 | 55,739 | - | 458 | 78,891 |
| Travel | 4,848 | 27,665 | - | 305 | 32,818 |
| | <u>\$ 929,919</u> | <u>\$ 1,250,927</u> | <u>\$ 47,731</u> | <u>\$ 118,580</u> | <u>\$ 2,347,157</u> |

See accompanying notes to the financial statements

CHILDREN'S SERVICE SOCIETY OF UTAH

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

| | <u>2017</u> | <u>2016</u> |
|---|-----------------------|-----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$ 195,823 | \$ 328,692 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 3,217 | 4,382 |
| Net unrealized investment (gain) loss | (48,230) | 241 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (7,661) | (42,716) |
| Grants and other receivable | 225 | (2,100) |
| Prepaid expenses and deposits | (2,706) | 7,743 |
| Accounts payable | 8,519 | 20,357 |
| Accrued expenses | 15,914 | (7,163) |
| Deferred rent benefit | <u>5,095</u> | <u>8,801</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>170,196</u> | <u>318,237</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of investments | (200,000) | - |
| Cash paid for purchase of equipment | <u>-</u> | <u>(1,261)</u> |
| NET CASH (USED IN) INVESTING ACTIVITIES | <u>(200,000)</u> | <u>(1,261)</u> |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | <u>(29,804)</u> | <u>316,976</u> |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>951,300</u> | <u>634,324</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 921,496</u> | <u>\$ 951,300</u> |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | |
| Cash paid during the year for interest | <u>\$ -</u> | <u>\$ 1</u> |

CHILDREN'S SERVICE SOCIETY OF UTAH

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. History of Organization and Activity

Children's Service Society of Utah (the Society), founded in 1884, is organized as a nonprofit corporation under the laws of the State of Utah. The mission of the Society is to provide services which meet the developmental needs of children, foster quality childcare, and promote positive relationships in biological, adoptive and kinship families. The Society has two major programs. The first, Care About Childcare, provides referrals for families needing childcare and training for childcare providers to improve their quality of care. The remaining services are part of the family support services program and include various activities. Adoption provides traditional infant adoption and special needs adoption services. Grandfamilies Kinship Care provides crisis intervention, support, information, and advocacy for kinship caregivers and the children of relatives they parent. Home Visitation services uses the Parents as Teachers curriculum for families with children prenatal to kindergarten entry and the Welcome Baby curriculum for families with newborn infants to three years old, offering personalized home visits and parent-child playgroups that teach parenting skills and early childhood development. All services are provided primarily to residents along the Wasatch Front of Northern Utah, with the exception of adoption services which are statewide. The Society is supported primarily through government contracts, grants, contributions, program fees, and by the United Way. Government contracts comprised approximately 71 percent of total support in 2017 and approximately 67 percent in 2016.

b. Recognition of Revenue and Support

Contributions are recognized when the donor makes a promise to give to the Society that is, in substance, unconditional. Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions. All donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

c. Financial Statement Presentation

The Society is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Temporarily restricted net assets as of June 30, 2017 and 2016 were \$606,535 and \$444,027, respectively. See Note 5 for discussion of permanently restricted net assets.

d. Cash and Cash Equivalents

Cash equivalents are generally comprised of certain highly liquid investments with original maturities of less than three months.

e. Concentrations of Credit Risk

Financial instruments which potentially subject the Society to concentrations of credit risk consist principally of cash and investments. Risks associated with cash and cash equivalents are mitigated by banking with federally insured, creditworthy institutions; however, deposits may at times exceed federally insured limits.

CHILDREN'S SERVICE SOCIETY OF UTAH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f. Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

g. Investments

Investments in marketable securities are reported at fair value in the statements of financial position. Net realized and unrealized gains and losses are included in the statement of activities as a change in net assets. Investments consist entirely of mutual funds and other equity securities having a total fair value of \$581,566 and \$333,336 as of June 30, 2017 and 2016, respectively.

h. Property and Equipment

It is the Society's policy to capitalize property and equipment over \$1,000. Lesser amounts are typically expensed.

Purchased property and equipment are capitalized at cost. Donations of property and equipment are recorded at their estimated fair value; such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Normal maintenance and repairs are charged to expense as incurred. The cost and accumulated depreciation of property sold or otherwise disposed of are removed from the accounts and the resulting gain or loss is recognized.

i. Advertising and Promotion

Advertising costs, except for costs associated with direct-response advertising, are expensed in the year incurred. Advertising charged to expense totaled \$15,086 and \$37,563 for the years ended June 30, 2017 and 2016, respectively. The costs of direct-response advertising, when they occur, are capitalized and amortized over the period during which future benefits are expected to be received. At June 30, 2017 and 2016, there were no costs capitalized for direct-response advertising.

j. Donated Supplies and Services

Donated supplies and services are recorded at their estimated fair value as of the date of donation. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Society.

See Note 8 for details regarding donated supplies and services for the years ended June 30, 2017 and 2016.

CHILDREN'S SERVICE SOCIETY OF UTAH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k. Functional Allocation of Expense

The costs of operating programs and providing supporting services have been summarized on a functional basis in the statements of activities and functional expenses. Direct expenses are charged to their respective programs or services. Indirect expenses have been allocated among the programs and supporting services benefited, based on management policy which is consistently applied.

l. Income Taxes

The Society is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code with regard to its exempt activities. Accordingly, no provision for federal or state income taxes has been made. Continued tax-exempt status is contingent on future operations being in compliance with the Internal Revenue Code exempt regulations.

The Society applies the measurement and disclosure provisions for uncertain tax positions as required by *FASB Accounting Standards Codification 740-10*. This subtopic requires that computations and deferred income tax provisions only consider tax positions that are more likely than not to be sustained if the tax authority examines the positions. Management believes that all tax positions considered for this purpose meet this “more likely than not” threshold.

Penalties on late filing or no-filing of tax returns are classified in the financial statements as operating expenses. No tax-related penalties were incurred during the year ended June 30, 2017.

The Society is no longer subject to federal or state income tax examinations for years before 2014.

m. 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. Accordingly, actual results could differ from those estimates.

2. FAIR VALUE MEASUREMENTS

Generally accepted accounting principles establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy are:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Society has the ability to access.

CHILDREN'S SERVICE SOCIETY OF UTAH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. FAIR VALUE MEASUREMENTS (CONTINUED)

- Level 2: Inputs to the valuation methodology include:
- Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following is a description of the valuation methodologies used for assets measured at fair value.

Investments in marketable securities: The fair value of mutual funds and other equity securities held is based on quoted market prices at year-end.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Society 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 following table sets forth by level, within the fair value hierarchy, the Society's assets at fair value as of June 30, 2017.

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---|-------------------|----------------|----------------|-------------------|
| Marketable securities, unrestricted | \$ 411,010 | \$ - | \$ - | \$ 411,010 |
| Marketable securities, permanently restricted | 170,556 | - | - | 170,556 |
| TOTAL | <u>\$ 581,566</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 581,566</u> |

The following table sets forth by level, within the fair value hierarchy, the Society's assets at fair value as of June 30, 2016.

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---|-------------------|----------------|----------------|-------------------|
| Marketable securities, unrestricted | \$ 262,780 | \$ - | \$ - | \$ 262,780 |
| Marketable securities, permanently restricted | 70,556 | - | - | 70,556 |
| TOTAL | <u>\$ 333,336</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 333,336</u> |

CHILDREN'S SERVICE SOCIETY OF UTAH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2017 and 2016 are detailed as follows:

| | <u>2017</u> | <u>2016</u> |
|-------------------------------|------------------|------------------|
| Furniture and fixtures | \$ 13,208 | \$ 13,208 |
| Equipment | 120,630 | 120,630 |
| Lending library | <u>25,220</u> | <u>25,220</u> |
| Total | 159,058 | 159,058 |
| Less accumulated depreciation | <u>(151,678)</u> | <u>(148,461)</u> |
| Net property and equipment | <u>\$ 7,380</u> | <u>\$ 10,597</u> |

Property and equipment are being depreciated over their estimated useful lives using the straight-line method. Useful lives of property and equipment range between 3 and 15 years. For the years ended June 30, 2017 and 2016, depreciation expense totaled \$3,217 and \$4,382, respectively.

4. OPERATING LEASE

The Society leases office space under two operating leases. The first lease was effective on December 1, 2013 and will terminate on July 31, 2021. The second lease was effective on December 1, 2014 and will terminate on November 30, 2017.

Total lease expense associated with the Society's operating leases was \$217,132, which included \$55,260 of contributed rent, for the year ended June 30, 2017. Total lease expense associated with the Society's operating leases was \$211,490, which included \$61,560 of contributed rent, for the year ended June 30, 2016.

Future minimum non-cancellable lease payments under operating leases are as follows:

| <u>Years ended June 30,</u> | |
|-----------------------------|-------------------|
| 2018 | \$ 142,209 |
| 2019 | 141,894 |
| 2020 | 146,142 |
| 2021 | 162,990 |
| 2022 | <u>15,127</u> |
| | <u>\$ 608,362</u> |

5. ENDOWMENT FUNDS AND OTHER PERMANENTLY RESTRICTED NET ASSETS

The Society has received funds from donors that have required the principal to be maintained in perpetuity. Permanently restricted net assets include resources with permanent donor-imposed restrictions, which require the assets to be maintained in perpetuity. Income from funds without these restrictions permit the Society to expend all or part of the income derived from the donated assets.

CHILDREN'S SERVICE SOCIETY OF UTAH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. ENDOWMENT FUNDS AND OTHER PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

The principal balances of permanently restricted net assets as of June 30, 2017 and 2016 are as follows:

| | <u>2017</u> | <u>2016</u> |
|-------------------|-------------------|------------------|
| Geneva - Kimball | \$ 36,236 | \$ 36,236 |
| Memorial Fund | 6,133 | 6,133 |
| Bamberger Fund | 10,925 | 10,925 |
| Rosenbaum Fund | 15,139 | 15,139 |
| Kappa Kappa Gamma | 2,123 | 2,123 |
| Dobler | <u>100,000</u> | <u>-</u> |
| | <u>\$ 170,556</u> | <u>\$ 70,556</u> |

Permanently restricted assets represent the principal amounts of gifts and bequests accepted with the donor stipulation that the principal be maintained intact in perpetuity with only the income to be utilized. The Society has control over the investing of the principal as designated by the donor; however, the investment income can be spent at the discretion of the Board of Directors. Permanently restricted net assets consist of donations made for purposes described above.

The Society's endowment consists of funds established for a specific purpose. As required by generally accepted accounting principles ("GAAP"), net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions.

Interpretation of Relevant Law – The Society has interpreted the State of Utah Uniform Management of Institutional Funds Act ("UMIFA") 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 Society 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 characterized as temporarily restricted net assets until those amounts are appropriated for expenditure by the Society in a manner consistent with the standard for expenditure prescribed by UMIFA. In accordance with UMIFA, the Society considers the following factors in making a determination to appropriate or calculate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The general purposes of the organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and appreciation of investments
6. Other resources of the Society
7. The investment policies of the Society

CHILDREN'S SERVICE SOCIETY OF UTAH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. ENDOWMENT FUNDS AND OTHER PERMANENTLY RESTRICTED NET ASSETS (CONTINUED)

Return Objectives and Risk Parameters – The Society has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Society must hold in perpetuity or for donor specified periods. Under this policy, as provided by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk.

Spending Policy and How the Investment Objectives Relate to Spending Policy – The endowment is considered a permanent fund. As such, the investment objectives require disciplined and consistent management philosophies that accommodate all those events which are relevant, reasonable, and probable. Therefore, periodic review of total rate of return and spending rate objectives is required. Extreme positions or variations in management style are not consistent with these objectives.

There was \$100,000 and \$0 in additions to permanently restricted net assets for the years ended June 30, 2017 and 2016, respectively.

6. INVESTMENT INCOME (LOSS)

The Society's investment income (loss) for the years ended June 30, 2017 and 2016 consisted of the following:

| | <u>2017</u> | <u>2016</u> |
|----------------------------|------------------|-------------------|
| Dividends | \$ 11,041 | \$ 2,271 |
| Net unrealized gain (loss) | <u>37,189</u> | <u>(6,896)</u> |
| Total | <u>\$ 48,230</u> | <u>\$ (4,625)</u> |

7. RETIREMENT PLAN

Effective July 1, 2004, the Society established a 403(b) Thrift Plan (the Plan). Employees who complete 1,000 hours of service during any 12 months of employment are eligible to participate in the Plan. The Plan has no minimum age or service requirements. Participants could contribute any percentage of their salary up to \$18,000 in 2017 and 2016 calendar years.

All participants are eligible to receive employer base contributions, except for certain exclusions as outlined under the Plan. Employer base contributions are 2 percent to 6 percent of employee compensation, based upon years of service. Total employer contribution expense for the years ended June 30, 2017 and 2016, was \$48,786 and \$53,300, respectively.

CHILDREN'S SERVICE SOCIETY OF UTAH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. RETIREMENT PLAN (CONTINUED)

Participants are 100 percent vested in their personal contributions with vesting periods for employer contributions to participant accounts as follows:

| | |
|-------------------------------|------|
| Less than one year of service | 0% |
| One year | 40% |
| Two years | 60% |
| Three years | 80% |
| Four or more years | 100% |

8. DONATED SUPPLIES AND SERVICES

The Society recorded donated supplies and services in the amount of \$116,088 and \$157,265 for the years ended June 30, 2017 and 2016, respectively. Included in these amounts are the usage of various facilities valued at \$55,260 and \$61,560 for the 2017 and 2016 fiscal years, respectively, which have been expensed on the statements of functional expenses as Occupancy. The Society has been granted the use of these facilities free of charge for child care provider training in connection with its Care About Childcare and Kinship and Parenting programs. The Society has also received donated supplies, services and other goods in the amount of \$60,828 and \$95,705 for the fiscal years ended June 30, 2017 and 2016. These in-kind supplies, services and other goods have been expensed on the statements of function expenses as program costs.

9. CONCENTRATIONS

During the years ended June 30, 2017 and 2016, the Society derived approximately 56% and 51% of its revenues and support from two federally funded contracts, respectively. Accounts receivable under these contracts accounted for 84% and 87% of accounts receivable at June 30, 2017 and 2016, respectively. These contracts are renewed annually. Loss of these sources of revenue would have a severe impact on the Society's operations.

10. SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 18, 2017, which is the date the financial statements were available to be issued. No subsequent events were identified.



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Children's Service Society of Utah

We have audited, in accordance with the 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, the financial statements of Children's Service Society of Utah (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 18, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Children's Service Society of Utah's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Children's Service Society of Utah's internal control. Accordingly, we do not express an opinion on the effectiveness of Children's Service Society of Utah's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we identified one deficiency in internal control that we consider to be a material weakness, described in the accompanying schedule of findings and questions costs (2017-001).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Children's Service Society of Utah's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Children's Service Society of Utah's Response to Findings

Children's Service Society of Utah's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Children's Service Society of Utah's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Pinnock, Robbins, Posey & Richins

Salt Lake City, Utah
October 18, 2017



PINNOCK, ROBBINS, POSEY & RICHINS

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Children's Service Society of Utah

Report on Compliance for Each Major Federal Program

We have audited Children's Service Society of Utah's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Children's Service Society of Utah's major federal programs for the year ended June 30, 2017. Children's Service Society of Utah's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Children's Service Society of Utah's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Children's Service Society of Utah's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Children's Service Society of Utah's compliance.

Opinion on Each Major Federal Program

In our opinion, Children's Service Society of Utah complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of Children's Service Society of Utah is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Children's Service Society of Utah's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Children's Service Society of Utah's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Pinnock, Robbins, Posey & Richins

Salt Lake City, Utah
October 18, 2017

CHILDREN'S SERVICE SOCIETY OF UTAH

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2017

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unmodified opinion on whether the financial statements of Children's Service Society of Utah were prepared in accordance with GAAP.
2. No significant deficiencies disclosed during the audit of the financial statements were reported in the INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*. One material weakness was reported.
3. No instances of noncompliance material to the financial statements of Children's Service Society of Utah, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies or material weaknesses in internal control over major federal award programs are reported in INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE.
5. The auditors' report on compliance for the major federal award programs for Children's Service Society of Utah expresses an unmodified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with 2 CFR section 200.516(a) are reported in Part C of this Schedule.
7. The programs tested as a major program were:
 - Child Care and Development Block Grant, CFDA number 93.575
8. The threshold for distinguishing between Type A and B programs was \$750,000.
9. Children's Service Society of Utah was determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

MATERIAL WEAKNESS

2017-001: Financial Reporting and Reconciliation

During our audit, we noted that investments, prepaid expenses, accounts payable, certain credit card liabilities, accrued wages, accrued payroll taxes, depreciation and donated facilities were misstated and required adjustment. We also noted that the accrued vacation balance was not properly reconciled and updated at year-end. We noted that various payroll tax liability accounts do not appear to be clearing out properly, resulting in an overstatement of the liability. Additionally, we noted that certain revenues had been misclassified, and that net asset classifications required reconciliation and adjustment at year-end.

CHILDREN'S SERVICE SOCIETY OF UTAH

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

JUNE 30, 2017

B. FINDINGS – FINANCIAL STATEMENTS AUDIT (CONTINUED)

2017-001: Financial Reporting and Reconciliation (Continued)

Recommendation:

We recommend that management establish procedures to consistently review and reconcile investment balances at year-end, as well as prepaid expenses, accounts payable, credit card liabilities, accrued wages, accrued payroll taxes, depreciation and all in-kind transactions, including donated facilities, and record necessary adjustments in a timely manner.

Management's Response

Management concurs with the recommendations. Management plans to have the Director of Accounting perform at least annual reviews of all balance sheet accounts, as well as depreciation and in-kind donation accounts, reconciling each account and making the necessary adjustments and reclassifications at that time.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

No findings or questioned costs were noted related to our audit of the major federal award programs.

CHILDREN'S SERVICE SOCIETY OF UTAH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2017

| <u>Federal Grantor Agency Pass-Through Entity Federal Program Title</u> | <u>Federal CFDA Number</u> | <u>Agency or Pass-Through Number</u> | <u>Federal Expenditures</u> |
|--|------------------------------------|--|---------------------------------|
| <u>U.S. Department of Health and Human Services</u> | | | |
| Passed Through the Utah Department of Health: | | | |
| Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program | 93.505 | 1427320 | \$ 465,847 |
| Passed Through the Utah Department of Workforce Services: | | | |
| Child Care and Development Block Grant | 93.575 | 156057 | 1,020,903 |
| Passed Through Salt Lake County: | | | |
| Block Grant for Prevention and Treatment of Substance Abuse | 93.959 | Various | <u>25,432</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 1,512,182</u> |

CHILDREN'S SERVICE SOCIETY OF UTAH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

YEAR ENDED JUNE 30, 2017

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Children's Service Society of Utah (the Society) under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Society, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Society.

Note B – Summary of Significant Accounting Policies

- (1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- (2) Pass-through entity identifying numbers are presented where available.

Note C – Indirect Cost Rate

Children's Service Society of Utah has elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.