

**CHILDREN'S COMMUNITY SCHOOL, INC.**

**FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
JUNE 30, 2017 AND 2016**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Children's Community School, Inc.  
Waterbury, Connecticut

### Report on Financial Statements

We have audited the accompanying financial statements of Children's Community School, Inc. (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 the 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about 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.

### Basis for Qualified Opinion

The Organization has not recorded revenue and expenses for in-kind goods and services. Accounting principles generally accepted in the United States of America require that such revenue and expenses be included in the statements of activities. The effects on the financial statements of the omission cannot be reasonably determined.

### Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Children's Community School, Inc. as of June 30, 2017 and 2016, and its changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Wojtowitz, LLC*

November 8, 2017

**STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 652,061	\$ 704,706
Contracts receivable	52,671	53,249
Tuition receivable, net of allowance of \$6,500 in 2017 and 2016	8,556	12,042
Equity securities	16,076	9,350
Prepaid expenses	<u>--</u>	<u>6,606</u>
<b>TOTAL CURRENT ASSETS</b>	<b>729,364</b>	<b>785,953</b>
<b>PROPERTY AND EQUIPMENT</b>		
Leasehold improvements	254,393	254,393
Furniture and equipment	128,221	105,247
Vehicle	<u>9,000</u>	<u>9,000</u>
	391,614	368,640
Less: Accumulated depreciation	<u>(289,879)</u>	<u>(275,153)</u>
<b>TOTAL PROPERTY AND EQUIPMENT</b>	<b>101,735</b>	<b>93,487</b>
<b>TOTAL ASSETS</b>	<b><u>\$ 831,099</u></b>	<b><u>\$ 879,440</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 7,358	\$ 16,948
Accrued expenses	<u>48,335</u>	<u>55,872</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b>55,693</b>	<b>72,820</b>
<b>NET ASSETS</b>		
Unrestricted net assets		
Undesignated	564,319	581,721
Designated by Board of Directors for:		
Capital improvements	20,000	20,000
Building fund	20,000	20,000
Capital campaign feasibility study	<u>1,667</u>	<u>1,667</u>
Total Unrestricted net assets	605,986	623,388
Temporarily restricted net assets	<u>169,420</u>	<u>183,232</u>
<b>TOTAL NET ASSETS</b>	<b>775,406</b>	<b>806,620</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 831,099</u></b>	<b><u>\$ 879,440</u></b>

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

**CHILDREN'S COMMUNITY SCHOOL, INC.**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>PUBLIC SUPPORT AND REVENUE</b>						
Government Grants and Contracts	\$ 526,598	\$ --	\$ 526,598	\$ 492,917	\$ --	\$ 492,917
Contributions	225,445	160,316	385,761	283,883	228,527	512,410
Special Events	186,521	--	186,521	175,502	--	175,502
Tuition and Other Fees	226,421	--	226,421	224,700	--	224,700
Investment income	<u>3,154</u>	<u>--</u>	<u>3,154</u>	<u>625</u>	<u>--</u>	<u>625</u>
Total Public Support and Revenue	1,168,139	160,316	1,328,455	1,177,627	228,527	1,406,154
Net Assets Released from Restrictions:						
Restrictions Satisfied by Payments	<u>174,128</u>	<u>(174,128)</u>	<u>--</u>	<u>154,737</u>	<u>(154,737)</u>	<u>--</u>
<b>TOTAL PUBLIC SUPPORT, REVENUE AND OTHER SUPPORT</b>	1,342,267	( 13,812)	1,328,455	1,332,364	73,790	1,406,154
<b>EXPENSES</b>						
Program Services						
Community School	1,104,806	--	1,104,806	1,084,483	--	1,084,483
Supporting Services						
General and Administrative	134,386	--	134,386	136,324	--	136,324
Fund-raising	<u>120,477</u>	<u>--</u>	<u>120,477</u>	<u>141,924</u>	<u>--</u>	<u>141,924</u>
<b>TOTAL EXPENSES</b>	<u>1,359,669</u>	<u>--</u>	<u>1,359,669</u>	<u>1,362,731</u>	<u>--</u>	<u>1,362,731</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	( 17,402)	( 13,812)	( 31,214)	( 30,367)	73,790	43,423
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>623,388</u>	<u>183,232</u>	<u>806,620</u>	<u>653,755</u>	<u>109,442</u>	<u>763,197</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 605,986</u>	<u>\$ 169,420</u>	<u>\$ 775,406</u>	<u>\$ 623,388</u>	<u>\$ 183,232</u>	<u>\$ 806,620</u>

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

**CHILDREN'S COMMUNITY SCHOOL, INC.  
STATEMENTS OF FUNCTIONAL EXPENSES  
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>				<u>2016</u>			
	<u>Program</u> <u>Services</u>	<u>Supporting Services</u>			<u>Program</u> <u>Services</u>	<u>Supporting Services</u>		
	<u>Community</u> <u>School</u>	<u>Administrative</u>	<u>Fund-</u> <u>Raising</u>	<u>Total</u>	<u>Community</u> <u>School</u>	<u>Administrative</u>	<u>Fund-</u> <u>Raising</u>	<u>Total</u>
<b>EXPENSES</b>								
Salaries and wages	\$ 651,395	\$ 79,691	\$ 51,167	\$ 782,253	\$ 632,779	\$ 83,614	\$ 46,142	\$ 762,535
Payroll taxes	58,621	6,893	4,425	69,939	58,540	7,735	4,269	70,544
Employee benefits	36,191	6,960	3,248	46,399	46,261	8,896	4,152	59,309
Occupancy	95,435	10,948	442	106,825	91,580	10,414	307	102,301
Professional fees	12,089	10,420	17,771	40,280	6,929	6,750	31,531	45,210
Supplies, printing and postage	24,307	8,888	43,424	76,619	48,857	8,806	55,523	113,186
Insurance	27,337	9,113	--	36,450	27,047	9,016	--	36,063
Bad debt expense	25,006	--	--	25,006	19,183	--	--	19,183
Depreciation expense	13,253	1,473	--	14,726	9,834	1,093	--	10,927
Program expenses	<u>161,172</u>	<u>--</u>	<u>--</u>	<u>161,172</u>	<u>143,473</u>	<u>--</u>	<u>--</u>	<u>143,473</u>
<b>TOTAL EXPENSES</b>	<b><u>\$ 1,104,806</u></b>	<b><u>\$134,386</u></b>	<b><u>\$ 120,477</u></b>	<b><u>\$1,359,669</u></b>	<b><u>\$ 1,084,483</u></b>	<b><u>\$136,324</u></b>	<b><u>\$ 141,924</u></b>	<b><u>\$1,362,731</u></b>

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

**CHILDREN'S COMMUNITY SCHOOL, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>Cash Flows From Operating Activities</b>		
Increase (decrease) in net assets	\$( 31,214)	\$ 43,423
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operations:		
Depreciation	14,726	10,926
Bad debt expense	25,006	21,683
Contribution of marketable equity securities	( 4,949)	( 14,324)
Increase in value of equity securities	( 1,777)	--
Adjustment to allowance for bad debts	--	( 2,500)
(Increase) Decrease in:		
Contracts receivable	578	( 3,912)
Tuition receivable	( 21,520)	( 14,606)
Prepaid expenses	6,606	172
Increase (Decrease) in:		
Accounts payable	( 9,590)	14,708
Accrued expenses	( <u>7,537</u> )	( <u>750</u> )
<b>Net Cash Provided (Used) By Operating Activities</b>	( 29,671)	54,820
 <b>Cash Flows From Investing Activities</b>		
Sales of marketable securities	--	4,974
Purchase of Property and Equipment	( <u>22,974</u> )	( <u>22,416</u> )
<b>Net Cash Used by Investing Activities</b>	( <u>22,974</u> )	( <u>17,442</u> )
 <b>Increase (Decrease) in Cash</b>	( 52,645)	37,378
 <b>Cash, Beginning of Year</b>	<u>704,706</u>	<u>667,328</u>
 <b>Cash, End of Year</b>	<b><u>\$ 652,061</u></b>	<b><u>\$ 704,706</u></b>
 <b>Supplemental Disclosure of Cash Flow information:</b>		
Cash paid during the year for interest	\$ <u>      --</u>	\$ <u>      --</u>
 <b>Non-Cash Investing Activities:</b>		
Contributions of marketable equity securities	\$ <u> 4,949</u>	\$ <u>14,324</u>

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

**CHILDREN'S COMMUNITY SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization:** Children's Community School, Inc. (the Organization) is a nonprofit organization located in Waterbury, Connecticut whose purpose is to offer educational services to children in the community from economically, socially or environmentally disadvantaged homes that are in need of extra support to be able to attend to the tasks involved in learning. Children's Community School, Inc. provides an environment of support and supportive services for those children and their families. The Organization receives contributions, government contracts and grants and tuition and fees from students in providing services to students and their families.

**Basis of Accounting:** The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States. They have been prepared to present balances and transactions according to the existence or absence of donor imposed restrictions.

To accomplish this, net assets and transactions have been classified in three classes: unrestricted, temporarily restricted and permanently restricted.

*Unrestricted Net Assets:* Net assets consisting of resources that are not subject to donor-imposed restrictions and are used for general operating purposes.

*Temporarily Restricted Net Assets:* Net assets consisting of resources restricted by donors either for a particular purpose or stipulated time. When a donor restriction expires, that is, when the stipulated purpose restriction is accomplished or time expires, the temporarily restricted net assets are reclassified or released to unrestricted net assets. Contributions received with donor imposed restrictions that are met in the same year in which the contribution is received are reported as unrestricted net assets in the year of receipt.

*Permanently Restricted Net Assets:* Net assets consisting of resources restricted by donors in perpetuity. Income from the assets held is available for either general or specific purposes, in accordance with donor stipulations. The Organization has no permanently restricted net assets.

**Cash and Cash Equivalents:** For financial statements purposes, the Organization considers all highly liquid investments, if any, purchased with an original maturity of three months or less to be cash equivalents. The Organization also considers its investments in money market funds to be cash equivalents.

**Contracts and Accounts Receivable:** Contracts and 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 grants and accounts receivable.

**Equity Securities:** Investments in equity securities with readily determinable fair values are measured at quoted market prices in the statement of financial position. Other securities are valued at their estimated fair value based upon the valuation of the underlying business. Securities donated to the Organization are recorded as contributions at their applicable value at the date of donation.

**CHILDREN'S COMMUNITY SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(continued)**

Gains and losses on dispositions of investments are accounted for on a specific identification basis. Net realized and unrealized gains and losses are included in the statement of activities.

**Property and Equipment:** Property and equipment are recorded at cost except in the cases of donated property which is recorded at fair market value at the time of donation. The Organization capitalizes purchases of items with a cost of \$1,000 or more that have a useful life of more than one year.

The Organization depreciates furniture and equipment using the straight-line method with lives of 3 to 10 years and leasehold improvements using the straight-line method over the lesser of the remaining lease term or the useful life of the improvement.

**Government Grants and Contracts:** The Organization receives various grants and contracts to fund its programs. These amounts are classified as exchange transactions. Accordingly, revenue is recognized when earned and expenses are recognized as incurred.

**Income Taxes:** The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and had been classified as an organization other than a private foundation under Section 509(a)(2).

The Organization evaluates all significant tax positions as required by accounting principles generally accepted in the United States of America. As of June 30, 2017, the Organization does not believe that it has taken any positions that would require the recording of any taxes.

The Organization's income tax returns are subject to examination by the respective taxing authorities generally for three years after the date the tax returns were filed. The tax returns for fiscal years ended June 30, 2017, 2016 and 2015 remain open for examination.

**Program Services:** The Organization provides the following services as part of its Community School Program to qualifying people in the Waterbury area:

1. Children's Community School: Education of students in grades Pre-Kindergarten to Grade 5.
2. Before & After School Programs: Provide additional support and educational services to the Organization's students, including a mentoring program for graduates.
3. Summer Program: educational and enrichment curriculum designed to prevent the academic "summer slide".
4. Nutrition Program: Provides meals to eligible low-income students.

**Donated Services:** The School receives donated services from unpaid volunteers who assist in fund-raising, special projects and program services. No amounts have been recognized in the statement of activities because the criteria for recognition under generally accepted accounting principles have not been satisfied.

**CHILDREN'S COMMUNITY SCHOOL, INC.  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continued)**

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

**Expense Allocations:** The Organization allocates its expenses on a functional basis among its various programs and supporting services. Expenses that can be identified with a specific program or supporting service are allocated directly according to their natural expense classification. Other expenses that are common to several functions are allocated by various statistical bases.

**Subsequent Events:** Management has evaluated subsequent events through November 8, 2017 the date on which the financial statements were available to be issued, and concluded that there were no items requiring adjustment to or disclosure in these financial statements.

**NOTE 2: TEMPORARILY RESTRICTED NET ASSETS**

The amount recorded as Temporarily Restricted Net Assets is restricted for the following purposes at June 30:

	<u>2017</u>	<u>2016</u>
Educational Programs	\$111,845	\$109,150
Classroom Technology	28,218	44,288
Curriculum Development	29,357	26,529
Other	<u>--</u>	<u>3,265</u>
Total	<u>\$169,420</u>	<u>\$183,232</u>

**NOTE 3: INVESTMENTS**

Investments, whose fair market value is equal to their carrying value, consist of the following at June 30:

	<u>2017</u>		<u>2016</u>	
	Fair Market <u>Value</u>	<u>Cost</u>	Fair Market <u>Value</u>	<u>Cost</u>
Common stock	\$ 5,076	\$ 4,948	\$ --	\$ --
Equity security of private company	<u>11,000</u>	<u>9,350</u>	<u>9,350</u>	<u>9,350</u>
Total investments	<u>\$ 16,076</u>	<u>\$ 14,298</u>	<u>\$ 9,350</u>	<u>\$ 9,350</u>

The following is a summary of the activity in these investments for each year:

	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 9,350	\$ --
Contribution of security	4,948	9,350
Dividends received	56	
Change in market value of securities	<u>1,722</u>	<u>--</u>
Ending balance	<u>\$16,076</u>	<u>\$ 9,350</u>

**CHILDREN'S COMMUNITY SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 4: FAIR VALUE MEASUREMENTS**

Generally accepted accounting principles require disclosures about fair value measurements which define fair value and establish valuation techniques. The disclosures require assets and liabilities reported at fair value be segregated into a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels:

*Level 1* - Inputs consisting of unadjusted quoted prices in active markets for identical assets and have the highest priority.

*Level 2* - Inputs to the valuation methodology consisting of 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 and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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

The level within the hierarchy at which the fair value measurement is calculated is based upon the lowest level of any input that is significant to the fair value measurement. When available, Level 1, observable inputs are used because they provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available. The Organization's investment in common stock is a level 1 input.

The Organization's equity security investment in the shares of a private business is measured by Level 3 inputs and is valued at the share value developed by an independent valuation of the business at December 31, 2016; the valuation nearest the Organization's fiscal year end for which data is available. The value of the investment increased \$1,650 from 2016 to 2017.

**NOTE 5: COMMITMENTS AND CONTINGENCIES**

Grant Programs: The Organization participates in several State grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Company has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at year end may be impaired.

In the opinion of the Organization, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Operating Lease Commitments: The Organization leases its facility under an operating lease covering the period through July 2018. The lease also includes two, five year renewal options. Under the terms of this lease, the Organization, in lieu of monthly rental payments, is responsible for all of the utilities, heat, maintenance and minor improvements to the facility. The lease may be terminated by the Organization upon the occurrence of certain conditions; one being the requirement to perform major improvements in order to continue to operate the facility. The total occupancy costs incurred by the Organization under the lease agreement were \$60,827 for 2017 and \$66,935 for 2016.

**CHILDREN'S COMMUNITY SCHOOL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

The Organization leases office equipment under an operating lease expiring November 2021. Rental expense was \$4,377 for 2017 and \$4,020 for 2016.

The following is a schedule of future minimum rental payments required under the above non-cancelable operating leases at June 30:

2018	\$ 3,840
2019	3,840
2020	3,840
2021	3,840
2021	<u>1,600</u>
Total	<u>\$ 16,960</u>

Title I Funding: The City of Waterbury has supplied the Organization with computers, software and smart boards purchased with the City's Title I Grant monies. The items are for the use of the Organization but the ownership of these items remain with the City.

**NOTE 6: CONCENTRATION OF CREDIT RISK**

The Organization maintains its cash accounts with two banks. The Federal Deposit Insurance Corporation (FDIC) insures the aggregate cash balances of all accounts up to \$250,000 per bank. The Organization's cash balances exceeded the balance insured by the FDIC at year end by \$159,804.