

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

**FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
JUNE 30, 2018 AND 2017**

## TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	3
<b>FINANCIAL STATEMENTS:</b>	
Statements of Financial Position	4
Statements of Activities	5
Statements of Functional Expenses	6
Statements of Cash Flows	7
Notes to Financial Statements	8-12

## 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, 2018 and 2017, 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, 2018 and 2017, 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 14, 2018

**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 640,573	\$ 652,061
Contracts receivable	55,573	52,671
Tuition receivable, net of allowance of \$6,500 in 2018 and 2017	10,301	8,556
Equity securities	<u>--</u>	<u>16,076</u>
<b>TOTAL CURRENT ASSETS</b>	<b>706,447</b>	<b>729,364</b>
 <b>PROPERTY AND EQUIPMENT</b>		
Leasehold improvements	287,897	254,393
Furniture and equipment	134,857	128,221
Vehicle	<u>--</u>	<u>9,000</u>
	422,754	391,614
Less: Accumulated depreciation	<u>(299,080)</u>	<u>(289,879)</u>
<b>TOTAL PROPERTY AND EQUIPMENT</b>	<b><u>123,674</u></b>	<b><u>101,735</u></b>
 <b>TOTAL ASSETS</b>	 <b><u>\$ 830,121</u></b>	 <b><u>\$ 831,099</u></b>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 4,443	\$ 7,358
Accrued expenses	<u>52,887</u>	<u>48,335</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b><u>57,330</u></b>	<b><u>55,693</u></b>
 <b>TOTAL LIABILITIES</b>	 <b>57,330</b>	 <b>55,693</b>
 <b>NET ASSETS</b>		
Unrestricted net assets		
Undesignated	548,876	564,319
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	590,543	605,986
Temporarily restricted net assets	<u>182,248</u>	<u>169,420</u>
<b>TOTAL NET ASSETS</b>	<b><u>772,791</u></b>	<b><u>775,406</u></b>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	 <b><u>\$ 830,121</u></b>	 <b><u>\$ 831,099</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, 2018 AND 2017**

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>PUBLIC SUPPORT AND REVENUE</b>						
Government Contracts	\$ 552,211	\$ --	\$ 552,211	\$ 526,598	\$ --	\$ 526,598
Contributions	233,398	154,054	387,452	225,445	160,316	385,761
Special Events	256,501	--	256,501	186,521	--	186,521
Tuition and Other Fees	206,551	--	206,551	226,421	--	226,421
Investment income	<u>1,075</u>	<u>--</u>	<u>1,075</u>	<u>3,154</u>	<u>--</u>	<u>3,154</u>
Total Public Support and Revenue	1,249,736	154,054	1,403,790	1,168,139	160,316	1,328,455
Net Assets Released from Restrictions:						
Restrictions Satisfied by Payments	<u>141,226</u>	<u>(141,226)</u>	<u>--</u>	<u>174,128</u>	<u>(174,128)</u>	<u>--</u>
<b>TOTAL PUBLIC SUPPORT, REVENUE AND OTHER SUPPORT</b>	1,390,962	12,828	1,403,790	1,342,267	( 13,812)	1,328,455
<b>EXPENSES</b>						
Program Services						
Community School	1,138,381	--	1,138,381	1,104,806	--	1,104,806
Supporting Services						
General and Administrative	142,051	--	142,051	134,386	--	134,386
Fund-raising	<u>125,973</u>	<u>--</u>	<u>125,973</u>	<u>120,477</u>	<u>--</u>	<u>120,477</u>
<b>TOTAL EXPENSES</b>	<u>1,406,405</u>	<u>--</u>	<u>1,406,405</u>	<u>1,359,669</u>	<u>--</u>	<u>1,359,669</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	( 15,443)	12,828	( 2,615)	( 17,402)	( 13,812)	( 31,214)
<b>NET ASSETS, BEGINNING 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>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 590,543</u>	<u>\$ 182,248</u>	<u>\$ 772,791</u>	<u>\$ 605,986</u>	<u>\$ 169,420</u>	<u>\$ 775,406</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, 2018 AND 2017**

	<u>2018</u>				<u>2017</u>			
	<u>Program Services</u>	<u>Supporting Services</u>			<u>Program Services</u>	<u>Supporting Services</u>		
	<u>Community School</u>	<u>Administrative</u>	<u>Fund- Raising</u>	<u>Total</u>	<u>Community School</u>	<u>Administrative</u>	<u>Fund- Raising</u>	<u>Total</u>
<b>EXPENSES</b>								
Salaries and wages	\$ 689,660	\$ 78,045	\$ 49,172	\$ 816,877	\$ 651,395	\$ 79,691	\$ 51,167	\$ 782,253
Payroll taxes	62,924	7,121	4,486	74,531	58,621	6,893	4,425	69,939
Employee benefits	29,067	5,590	2,609	37,266	36,191	6,960	3,248	46,399
Occupancy	123,270	13,963	342	137,575	95,435	10,948	442	106,825
Professional fees	6,473	7,719	12,464	26,656	12,089	10,420	17,771	40,280
Supplies, printing and postage	27,065	22,069	56,900	106,034	24,307	8,888	43,424	76,619
Insurance	17,171	5,724	--	22,895	27,337	9,113	--	36,450
Bad debt expense	15,272	--	--	15,272	25,006	--	--	25,006
Depreciation expense	16,381	1,820	--	18,201	13,253	1,473	--	14,726
Program expenses	<u>151,098</u>	<u>--</u>	<u>--</u>	<u>151,098</u>	<u>161,172</u>	<u>--</u>	<u>--</u>	<u>161,172</u>
<b>TOTAL EXPENSES</b>	<b><u>\$ 1,138,381</u></b>	<b><u>\$142,051</u></b>	<b><u>\$ 125,973</u></b>	<b><u>\$1,406,405</u></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>

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, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
<b>Cash Flows From Operating Activities</b>		
Decrease in net assets	\$( 2,615)	\$( 31,214)
Adjustments to reconcile decrease in net assets to net cash provided by operations:		
Depreciation	18,201	14,726
Bad debt expense	15,272	25,006
Contribution of equity securities	--	( 4,949)
(Increase) decrease in value of equity securities	72	( 1,777)
(Increase) Decrease in:		
Contracts receivable	( 2,902)	578
Tuition receivable	( 17,017)	( 21,520)
Prepaid expenses	--	6,606
Increase (Decrease) in:		
Accounts payable	( 2,915)	( 9,590)
Accrued expenses	<u>4,552</u>	<u>( 7,537)</u>
<b>Net Cash Provided (Used) By Operating Activities</b>	<u>12,648</u>	<u>( 29,671)</u>
 <b>Cash Flows From Investing Activities</b>		
Sales of equity securities	16,004	--
Purchase of Property and Equipment	<u>( 40,140)</u>	<u>( 22,974)</u>
<b>Net Cash Used by Investing Activities</b>	<u>( 24,136)</u>	<u>( 22,974)</u>
 <b>Decrease in Cash</b>	 ( 11,488)	 ( 52,645)
 <b>Cash, Beginning of Year</b>	 <u>652,061</u>	 <u>704,706</u>
 <b>Cash, End of Year</b>	 <u><b>\$ 640,573</b></u>	 <u><b>\$ 652,061</b></u>
 <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>		
Disposal of Vehicle		
Cost of Vehicle	\$ 9,000	\$ --
Accumulated Depreciation	<u>( 9,000)</u>	<u>    --</u>
Net Book Value	<u>\$    --</u>	<u>\$    --</u>
 Contributions of marketable equity securities	 \$ <u>    --</u>	 \$ <u> 4,949</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, 2018, 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, 2018, 2017 and 2016 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 14, 2018 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>2018</u>	<u>2017</u>
Educational Programs	\$123,180	\$111,845
Classroom Technology	29,233	28,218
Curriculum Development	<u>29,835</u>	<u>29,357</u>
Total	<u>\$182,248</u>	<u>\$169,420</u>

**NOTE 3: INVESTMENTS**

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

	<u>2018</u>		<u>2017</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>--</u>	<u>--</u>	<u>11,000</u>	<u>9,350</u>
Total investments	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 16,076</u>	<u>\$ 14,298</u>

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

	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 16,076	\$ 9,350
Contribution of security	--	4,948
Dividends received	--	56
Sale of securities	(16,004)	--
Change in market value of securities	<u>( 72)</u>	<u>1,722</u>
Ending balance	<u>\$ --</u>	<u>\$16,076</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 formerly held an investment in common stock which was a Level 1 input.

The Organization's equity security investment in the shares of a private business were measured by Level 3 inputs and was valued at the share value developed by an independent valuation of the business at December 31, 2017; the valuation nearest the Organization's fiscal year end for which data is available. The Organization held no Level 3 investments at June 30, 2018.

The following summarized the Organization's investments at fair value by level and by market segment within the fair value hierarchy at June 30, 2017:

<u>June 30, 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
United States Equities				
Financial Services	\$ 5,076	\$ --	\$ --	\$ 5,076
Industrials	<u>    --</u>	<u>    --</u>	<u>11,000</u>	<u>11,000</u>
Total	<u>\$ 5,076</u>	<u>\$ --</u>	<u>\$11,000</u>	<u>\$ 16,076</u>

The following table provides a reconciliation of beginning and ending balance of Level 3 investments for the year ended June 30, 2018:

Balance, July 1, 2016	\$ 9,350
Increase in market value of investment	<u>1,650</u>
Balance, June 30, 2017	11,000
Sale of shares	(11,000)
Balance, June 30, 2018	<u>\$ --</u>

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

**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 includes two, five-year renewal options and the Organization has exercised its first renewal option. 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 \$85,206 for 2018 and \$62,765 for 2017.

The Organization leases office equipment under an operating lease expiring November 2021. Rental expense was \$3,974 for 2018 and \$4,377 for 2017.

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

2019	\$ 3,840
2020	3,840
2021	3,840
2022	<u>1,600</u>
Total	<u>\$ 13,120</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 three 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 at one bank exceeded the balance insured by the FDIC at year end by \$105,577.