

COVENANT TO CARE FOR CHILDREN, INC.

**REPORT ON AUDIT
JUNE 30, 2016 AND 2015**

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Kircaldie, Randall & McNab LLC

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To The Board of Directors
Covenant to Care for Children, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Covenant to Care for Children, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016 and 2015, 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 Covenant to Care for Children, Inc. as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Kricakian, Randall, & McNab L.L.C.

Wethersfield, Connecticut
November 15, 2016

COVENANT TO CARE FOR CHILDREN, INC.

STATEMENTS OF FINANCIAL POSITION
JUNE 30,

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 120,411	\$ 105,297
Grants receivable	5,000	3,000
Prepaid expenses	4,913	15,774
Total Current Assets	<u>130,324</u>	<u>124,071</u>
Other Assets:		
Fixed assets, net	75,544	93,472
Security deposits	3,005	3,005
Total Other Assets	<u>78,549</u>	<u>96,477</u>
 Total Assets	 <u><u>208,873</u></u>	 <u><u>220,548</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	8,883	16,695
Accrued vacation	6,137	7,265
Accrued payroll	5,857	5,184
Accrued interest	177	186
Loan obligation	53,914	56,514
Total Current Liabilities	<u>74,968</u>	<u>85,844</u>
Net Assets:		
Unrestricted:		
Undesignated	(12,473)	7,147
Board designated	60,171	60,171
	<u>47,698</u>	<u>67,318</u>
Temporarily restricted	86,207	67,386
Total Net Assets	<u>133,905</u>	<u>134,704</u>
 Total Liabilities and Net Assets	 <u><u>\$ 208,873</u></u>	 <u><u>\$ 220,548</u></u>

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

COVENANT TO CARE FOR CHILDREN, INC.

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30,

	2016			2015				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue:								
Donated goods and services	\$ 321,322	\$ 0	\$ 0	\$ 321,322	\$ 507,127	\$ 0	\$ 0	\$ 507,127
Government grants	245,501	0	0	245,501	299,715	0	0	299,715
Foundations	18,500	26,505	0	45,005	36,950	21,500	0	58,450
Religious community	39,812	0	0	39,812	19,804	0	0	19,804
Individuals	28,476	0	0	28,476	37,763	0	0	37,763
Corporations	22,524	0	0	22,524	14,424	0	0	14,424
Support for food pantry	4,428	0	0	4,428	8,100	0	0	8,100
Events	1,239	0	0	1,239	1,789	0	0	1,789
United Way	1,166	0	0	1,166	331	0	0	331
Gain on sale of fixed assets	1,000	0	0	1,000	0	0	0	0
Interest and dividend income	257	0	0	257	103	0	0	103
Special projects	100	0	0	100	0	0	0	0
Miscellaneous	0	0	0	0	20	0	0	20
Net assets released from restriction:								
Satisfaction of program restrictions	7,684	(7,684)	0	0	85,211	(85,211)	0	0
Total Support and Revenue	692,009	18,821	0	710,830	1,011,337	(63,711)	0	947,626
Expenses:								
Program services	668,961	0	0	668,961	844,854	0	0	844,854
Management and general	30,425	0	0	30,425	27,947	0	0	27,947
Fundraising	12,243	0	0	12,243	35,121	0	0	35,121
Total Expenses	711,629	0	0	711,629	907,922	0	0	907,922
Change in Net Assets	(19,620)	18,821	0	(799)	103,415	(63,711)	0	39,704
Net Assets, Beginning of Year	67,318	67,386	0	134,704	(36,097)	131,097	0	95,000
Net Assets, End of Year	\$ 47,698	\$ 86,207	\$ 0	\$ 133,905	\$ 67,318	\$ 67,386	\$ 0	\$ 134,704

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

COVENANT TO CARE FOR CHILDREN, INC.

**STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30,**

	2016				2015			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries and Related Expenses:								
Payroll	\$ 167,336	\$ 13,986	\$ 6,228	\$ 187,550	\$ 161,404	\$ 11,083	\$ 24,753	\$ 197,240
Payroll taxes	17,671	1,477	658	19,806	16,336	998	2,914	20,248
Employee benefits	11,763	526	788	13,077	12,164	623	416	13,203
Total Salaries and Related Expenses	<u>196,770</u>	<u>15,989</u>	<u>7,674</u>	<u>220,433</u>	<u>189,904</u>	<u>12,704</u>	<u>28,083</u>	<u>230,691</u>
Direct Assistance:								
Clothing and donated goods	321,320	0	0	321,320	507,127	0	0	507,127
Food pantry	6,156	0	0	6,156	7,753	0	0	7,753
Total Direct Assistance	<u>327,476</u>	<u>0</u>	<u>0</u>	<u>327,476</u>	<u>514,880</u>	<u>0</u>	<u>0</u>	<u>514,880</u>
Operating Expenses:								
Rents	31,553	4,507	0	36,060	31,552	4,508	0	36,060
Foundation expenditures	30,724	0	0	30,724	22,619	0	0	22,619
Insurance	23,131	3,305	0	26,436	24,318	3,474	0	27,792
Professional fees	16,055	2,294	0	18,349	22,121	3,160	0	25,281
Depreciation	16,435	1,494	0	17,929	9,648	877	0	10,525
Telephone	5,822	529	0	6,351	5,294	481	0	5,775
Remote access	5,126	466	0	5,592	5,683	517	0	6,200
Printing / copying	656	94	3,859	4,609	964	138	5,605	6,707
Travel	3,968	361	0	4,329	4,210	383	0	4,593
Utilities	2,726	389	0	3,115	2,726	390	0	3,116
Interest	2,035	185	0	2,220	2,175	198	0	2,373
Office supply and expense	1,446	207	0	1,653	1,240	177	0	1,417
Postage	697	100	710	1,507	912	130	1,433	2,475
Payroll service	1,235	176	0	1,411	1,354	193	0	1,547
Dues and subscriptions	1,284	117	0	1,401	1,314	119	0	1,433
Equipment rental	879	80	0	959	982	88	0	1,070
Miscellaneous	825	119	0	944	1,517	217	0	1,734
Maintenance and repairs	71	6	0	77	235	21	0	256
Training and meetings	47	7	0	54	1,206	172	0	1,378
Loss on abandonment of fixed assets	0	0	0	0	0	0	0	0
Volunteer recognition	0	0	0	0	0	0	0	0
Total Operating Expenses	<u>144,715</u>	<u>14,436</u>	<u>4,569</u>	<u>163,720</u>	<u>140,070</u>	<u>15,243</u>	<u>7,038</u>	<u>162,351</u>
Total Expenses	<u>\$ 668,961</u>	<u>\$ 30,425</u>	<u>\$ 12,243</u>	<u>\$ 711,629</u>	<u>\$ 844,854</u>	<u>\$ 27,947</u>	<u>\$ 35,121</u>	<u>\$ 907,922</u>

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

COVENANT TO CARE FOR CHILDREN, INC.

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30,**

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities:		
Increase (Decrease) in net assets	\$ (799)	\$ 39,704
Adjustments to reconcile increase (decrease) in net assets to net cash flows from operating activities:		
Depreciation	17,929	10,525
(Increase) Decrease in operating assets:		
Grants receivable	(2,000)	300
Prepaid expenses	10,861	(1,995)
Increase (Decrease) in operating liabilities:		
Accounts payable	(7,812)	7,303
Accrued expenses	(465)	1,176
Net Cash Provided (Used) By Operating Activities	<u>17,714</u>	<u>57,013</u>
Cash Flows From Investing Activities:		
Purchases of fixed assets	<u>0</u>	<u>(52,625)</u>
Net Cash Provided (Used) By Investing Activities	<u>0</u>	<u>(52,625)</u>
Cash Flows From Financing Activities:		
Payments on line of credit	<u>(2,600)</u>	<u>(7,000)</u>
Net Cash Provided (Used) By Financing Activities	<u>(2,600)</u>	<u>(7,000)</u>
Increase (Decrease) In Cash And Equivalents	15,114	(2,612)
Cash And Cash Equivalents, Beginning	<u>105,297</u>	<u>107,909</u>
Cash And Cash Equivalents, Ending	<u><u>\$ 120,411</u></u>	<u><u>\$ 105,297</u></u>
Supplemental Disclosures:		
Donated goods and services received	\$ 321,320	\$ 507,127
Interest paid	\$ 2,228	\$ 2,347

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

COVENANT TO CARE FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 1 - Organization and Summary of Significant Accounting Policies:

Organization:

Covenant to Care for Children, Inc., (hereinafter the "Organization") is a nonprofit Connecticut corporation established to connect social workers and other professionals with faith communities throughout Connecticut, in order to provide programs, goods and services to abused, neglected and impoverished children and to the families working to provide them with safe, nurturing environments. Its goal is that children have the opportunity to become healthy and productive adults through recreational, educational and social activities, foster parent recruitment and support, and child welfare awareness.

Financial Statement Presentation:

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Net assets and revenues are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets are classified and reported as follows:

Unrestricted

Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Temporarily Restricted

Net assets whose use by the Organization is subject to either explicit donor-imposed stipulations or by operation of law that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire by the passage of time. The change in temporarily restricted net assets is impacted primarily by gifts with time and donor constraints; such as restricted annual fund gifts, unconditional pledges and deferred giving instruments.

Permanently Restricted

Net assets subject to explicit donor-imposed stipulations that they be maintained permanently by the Organization. The Organization had no permanently restricted net assets at the statement of financial position dates.

Cash and Cash Equivalents:

All cash instruments with a maturity date of three months or less are considered as cash equivalents. During the year the amount of cash in excess of F.D.I.C. insured limits varies as cash requirements fluctuate. At June 30, 2016 and 2015, there were no uninsured balances.

COVENANT TO CARE FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note 1 - Organization and Summary of Significant Accounting Policies (cont.):

Concentrations of Risk:

The Organization receives significant amounts of funding from the State of Connecticut. \$245,501 and \$299,715 was received for the years ended June 30, 2016 and 2015. Lack of such support would have a material effect on the financial statements and would impact the Organization's ability to continue as a going concern.

Income Taxes:

The Organization is a not-for-profit organization that is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state law. The Organization is a publicly supported organization. There was no unrelated business income for the years ended June 30, 2016 and 2015.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of support, revenue, and expenses during the reporting period. Actual results may differ from those estimates.

Contributed Services:

Many individuals volunteer their time and perform a variety of tasks that assist the Organization, but these services do not meet the criteria for recognition as contributed services. The Organization benefits from more than 50,000 volunteer hours per year.

Donated Goods:

Donated goods consisting of food, clothing, and other donated items are valued according to Goodwill thrift shop valuation guides. Donated goods are used for activities as described in the Organization's nature of activities. The value of donated goods received for the years ended June 30, 2016 and 2015 were \$321,322 and \$507,127, respectively.

Note 2 - Grants Receivable:

Grants receivable consists of grants unconditionally pledged to the Organization.

COVENANT TO CARE FOR CHILDREN, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Note 3 - Fixed Assets:

It is the Organization's policy to capitalize material amounts of office equipment. Lesser amounts are expensed. Purchased office equipment is capitalized at cost. Donations of office 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. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Depreciation is calculated using the straight-line method over the estimated life of the asset. Leasehold improvements are capitalized and depreciated over the life of the lease using the straight-line method.

The following is a summary of fixed assets, accumulated depreciation, and depreciation expenses charged to operations for the fiscal years ended June 30:

	2016			2015		
	Basis	Accum. Deprec.	Deprec. Exp.	Basis	Accum. Deprec.	Deprec. Exp.
Office equipment	\$ 19,849	\$19,192	\$ 657	\$ 19,849	\$ 17,011	\$ 3,110
Leasehold	39,046	8,460	30,586	39,046	4,556	3,905
Delivery trucks	61,851	17,550	44,301	75,051	18,907	3,510
	<u>\$ 120,746</u>	<u>\$45,202</u>	<u>\$ 75,544</u>	<u>\$133,946</u>	<u>\$ 40,474</u>	<u>\$ 10,525</u>

Note 4 - Unrestricted - Board Designated Net Assets:

Unrestricted – board designated net assets consist of funds from donors and interest income generated from an investment account.

Note 5 - Temporarily Restricted Net Assets:

Temporarily restricted net assets consist of funds designated by donors for specific expenses. The following is a summary of temporarily restricted net assets at June 30:

COVENANT TO CARE FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 5 - Temporarily Restricted Net Assets (cont):

	2016	2015
Walmart Foundation	\$ 20,608	\$ 22,599
Auerbach Grant (GHFPG)	11,000	5,500
Food Pantry - AHCC	8,739	8,432
Ensworth Charitable Foundation	8,000	0
Wells Fargo	5,000	5,000
Farmington Bank Community Foundation	3,500	5,000
Bishop's Fund for Children	3,000	3,000
R.S. Gernon Trust	3,000	3,000
Community Foundation of Middlesex County	3,000	0
Estate of Benjamin Lewis	2,855	2,855
B.J.'s Charitable Foundation	2,500	2,500
Union Savings Bank Foundation	2,500	2,500
Elizabeth Carse Foundation	2,500	0
Main Street Foundation	2,500	0
Swindells Charitable Foundation	2,000	0
Knox Foundation	2,000	0
Lavela Grant (GHFPG)	1,505	0
Ahearn Family Foundation	1,000	1,000
Community Health Network Foundation	500	0
Wrobel Grant (GHFPG)	500	0
Community Foundation of NW Connecticut	0	3,000
Liberty Bank Foundation	0	2,000
Duncaster Community Outreach	0	1,000
	<u>\$ 86,207</u>	<u>\$ 67,386</u>

Note 6 - Pension:

The Organization established a 401(k) plan in 2010 which it elected to terminate effective June 30, 2016. Prior to its termination all employees who worked more than 20 hours per week, had three months of service, and were at least the age of 18 were eligible to participate. Although the plan contained a provision for an employer match, there was none and at the discretion of the Organization. As such the Organization has no pension liability at June 30, 2016 and 2015.

COVENANT TO CARE FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 7 - Fair Values of Financial Instruments:

The Organization's financial instruments consist of cash, grants receivable, and a line of credit obligation. The Organization estimates that the fair value of all financial instruments, at June 30, 2016 and 2015 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of financial position.

Note 8 - Rents:

Rent consists of payments for office space in Hartford which was occupied effective March 1, 2014 subsequent to a move from its previous office space in Bloomfield for which an informal month to month rental agreement existed. Rental payments for the years ended June 30, 2016 and 2015 were \$36,060 each. Initial lease terms are \$3,005 per month effective March 1, 2014 through February 28, 2017 with additional optional extensions through February 28, 2024. The lease obligations are summarized as follows:

At June 30, 2016 the minimum future rental payments under this lease are as follows:

2017	36,409
2018	37,108
2019	37,108
2020	37,416
Thereafter	141,360
	<u>\$ 289,401</u>

Upon expiration of the lease term through February 28, 2024, the Organization shall have the right to extend the lease for one additional 5 (five) year period with a mutually agreed upon increase in rate.

Note 9 – Working Capital Loan:

The Organization had an available line of credit in the amount of \$75,000 from the Greater Hartford Business Development Center (HEDCO). The line was available through May 31, 2015 and was not renewed by HEDCO. As of June 30, 2015, the obligation was recharacterized from a line of credit to an open ended loan obligation by HEDCO with no specific repayment terms. Because of the uncertain repayment terms, the obligation is classified as current. The Organization owed \$53,914 and \$56,514 for the years ended June 30, 2016 and 2015, respectively. Interest is charged at the rate of 4%.

Note 10 – Evaluation of Subsequent Events:

The Organization has evaluated subsequent events through November 15, 2016 the date which the financial statements were available to be issued.



Kircaldie, Randall & McNab LLC

Certified Public Accountants

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INDEPENDENT AUDITOR'S 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
Covenant to Care for Children, Inc.

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 Covenant to Care for Children, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, 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 November 15, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Covenant to Care for Children, Inc.'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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Covenant to Care for Children, Inc.'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*.

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.

Kircaldie, Randall, & McNab L.L.C.

Wethersfield, Connecticut
November 15, 2016