

COVENANT TO CARE FOR CHILDREN, INC.

**REPORT ON AUDIT
JUNE 30, 2017 AND 2016**



Kircaldie, Randall & McNab LLC

Certified Public Accountants

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Wethersfield, Connecticut 06109-1242

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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, 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 Covenant to Care for Children, Inc. as of June 30, 2017 and 2016, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2017, on our consideration of Covenant to Care for Children, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Covenant to Care for Children, Inc.'s internal control over financial reporting and compliance.

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

Wethersfield, Connecticut
October 16, 2017

COVENANT TO CARE FOR CHILDREN, INC.

**STATEMENTS OF FINANCIAL POSITION
JUNE 30,**

	2017	2016
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 105,849	\$ 120,411
Grants receivable	11,700	5,000
Prepaid expenses	5,966	4,913
Total Current Assets	123,515	130,324
Other Assets:		
Fixed assets, net	65,979	75,544
Security deposits	3,005	3,005
Total Other Assets	68,984	78,549
Total Assets	192,499	208,873
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	10,294	8,883
Accrued vacation	7,763	6,137
Accrued payroll	8,601	5,857
Accrued interest	161	177
Loan obligation	48,914	53,914
Total Current Liabilities	75,733	74,968
Net Assets:		
Unrestricted	14,111	47,698
Temporarily restricted	102,655	86,207
Total Net Assets	116,766	133,905
Total Liabilities and Net Assets	\$ 192,499	\$ 208,873

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,**

	2017			2016				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue:								
Donated goods and services	\$ 348,924	\$ 0	\$ 0	\$ 348,924	\$ 321,322	\$ 0	\$ 0	\$ 321,322
Government grants	255,089	0	0	255,089	245,501	0	0	245,501
Foundations	26,500	43,700	0	70,200	18,500	26,505	0	45,005
Corporations	22,732	0	0	22,732	22,524	0	0	22,524
Individuals	22,082	0	0	22,082	28,476	0	0	28,476
Religious community	9,928	0	0	9,928	39,812	0	0	39,812
Support for food pantry	5,400	0	0	5,400	4,428	0	0	4,428
Events	2,346	0	0	2,346	1,239	0	0	1,239
Special projects	1,900	0	0	1,900	100	0	0	100
United Way	1,382	0	0	1,382	1,166	0	0	1,166
Miscellaneous	542	0	0	542	0	0	0	0
Interest and dividend income	418	0	0	418	257	0	0	257
Gain on sale of fixed assets	0	0	0	0	1,000	0	0	1,000
Net assets released from restriction:								
Satisfaction of program restrictions	<u>27,252</u>	<u>(27,252)</u>	<u>0</u>	<u>0</u>	<u>7,684</u>	<u>(7,684)</u>	<u>0</u>	<u>0</u>
Total Support and Revenue	<u>724,495</u>	<u>16,448</u>	<u>0</u>	<u>740,943</u>	<u>692,009</u>	<u>18,821</u>	<u>0</u>	<u>710,830</u>
Expenses:								
Program services	716,869	0	0	716,869	668,961	0	0	668,961
Management and general	29,817	0	0	29,817	30,425	0	0	30,425
Fundraising	11,396	0	0	11,396	12,243	0	0	12,243
Total Expenses	<u>758,082</u>	<u>0</u>	<u>0</u>	<u>758,082</u>	<u>711,629</u>	<u>0</u>	<u>0</u>	<u>711,629</u>
Change in Net Assets	<u>(33,587)</u>	<u>16,448</u>	<u>0</u>	<u>(17,139)</u>	<u>(19,620)</u>	<u>18,821</u>	<u>0</u>	<u>(799)</u>
Net Assets, Beginning of Year	<u>47,698</u>	<u>86,207</u>	<u>0</u>	<u>133,905</u>	<u>67,318</u>	<u>67,386</u>	<u>0</u>	<u>134,704</u>
Net Assets, End of Year	<u>\$ 14,111</u>	<u>\$ 102,655</u>	<u>\$ 0</u>	<u>\$ 116,766</u>	<u>\$ 47,698</u>	<u>\$ 86,207</u>	<u>\$ 0</u>	<u>\$ 133,905</u>

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,**

	2017			2016				
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries and Related Expenses:								
Payroll	\$ 181,666	\$ 13,311	\$ 6,253	\$ 201,230	\$ 167,336	\$ 13,986	\$ 6,228	\$ 187,550
Payroll taxes	19,684	1,442	677	21,803	17,671	1,477	658	19,806
Employee benefits	11,077	854	569	12,500	11,763	526	788	13,077
Total Salaries and Related Expenses	<u>212,427</u>	<u>15,607</u>	<u>7,499</u>	<u>235,533</u>	<u>196,770</u>	<u>15,989</u>	<u>7,674</u>	<u>220,433</u>
Direct Assistance:								
Clothing and donated goods	346,839	0	0	346,839	321,320	0	0	321,320
Food pantry	7,361	0	0	7,361	6,156	0	0	6,156
Total Direct Assistance	<u>354,200</u>	<u>0</u>	<u>0</u>	<u>354,200</u>	<u>327,476</u>	<u>0</u>	<u>0</u>	<u>327,476</u>
Operating Expenses:								
Foundation expenditures	36,566	0	0	36,566	30,724	0	0	30,724
Rents	31,892	4,556	0	36,448	31,553	4,507	0	36,060
Insurance	18,609	2,658	0	21,267	23,131	3,305	0	26,436
Depreciation	15,722	1,429	0	17,151	16,435	1,494	0	17,929
Professional fees	13,234	1,891	0	15,125	16,055	2,294	0	18,349
Telephone	7,720	702	0	8,422	5,822	529	0	6,351
Printing / copying	2,271	324	3,244	5,839	656	94	3,859	4,609
Remote access	4,936	449	0	5,385	5,126	466	0	5,592
Travel	4,846	440	0	5,286	3,968	361	0	4,329
Miscellaneous	2,658	379	0	3,037	825	119	0	944
Utilities	2,576	368	0	2,944	2,726	389	0	3,115
Dues and subscriptions	2,345	213	0	2,558	1,284	117	0	1,401
Postage	1,286	184	653	2,123	697	100	710	1,507
Interest	1,887	172	0	2,059	2,035	185	0	2,220
Payroll service	1,148	164	0	1,312	1,235	176	0	1,411
Equipment rental	872	79	0	951	879	80	0	959
Maintenance and repairs	727	66	0	793	71	6	0	77
Office supply and expense	690	99	0	789	1,446	207	0	1,653
Training and meetings	257	37	0	294	47	7	0	54
Total Operating Expenses	<u>150,242</u>	<u>14,210</u>	<u>3,897</u>	<u>168,349</u>	<u>144,715</u>	<u>14,436</u>	<u>4,569</u>	<u>163,720</u>
Total Expenses	<u>\$ 716,869</u>	<u>\$ 29,817</u>	<u>\$ 11,396</u>	<u>\$ 758,082</u>	<u>\$ 668,961</u>	<u>\$ 30,425</u>	<u>\$ 12,243</u>	<u>\$ 711,629</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,**

	2017	2016
Cash Flows From Operating Activities:		
Increase (Decrease) in net assets	\$ (17,139)	\$ (799)
Adjustments to reconcile increase (decrease) in net assets to net cash flows from operating activities:		
Depreciation	17,151	17,929
(Increase) Decrease in operating assets:		
Grants receivable	(6,700)	(2,000)
Prepaid expenses	(1,053)	10,861
Increase (Decrease) in operating liabilities:		
Accounts payable	1,411	(7,812)
Accrued expenses	4,354	(465)
Net Cash Provided (Used) By Operating Activities	(1,976)	17,714
Cash Flows From Investing Activities:		
Purchases of fixed assets	(7,586)	0
Net Cash Provided (Used) By Investing Activities	(7,586)	0
Cash Flows From Financing Activities:		
Payments on line of credit	(5,000)	(2,600)
Net Cash Provided (Used) By Financing Activities	(5,000)	(2,600)
Increase (Decrease) In Cash And Equivalents	(14,562)	15,114
Cash And Cash Equivalents, Beginning	120,411	105,297
Cash And Cash Equivalents, Ending	\$ 105,849	\$ 120,411
Supplemental Disclosures:		
Donated goods and services received	\$ 348,924	\$ 321,322
Interest paid	\$ 2,042	\$ 2,228

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

COVENANT TO CARE FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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, 2017 and 2016, there were no uninsured balances.

COVENANT TO CARE FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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. \$255,089 and \$245,501 was received for the years ended June 30, 2017 and 2016. 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, 2017 and 2016.

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, 2017 and 2016 were \$348,924 and \$321,322, respectively.

COVENANT TO CARE FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Note 2 - Grants Receivable:

Grants receivable consists of grants unconditionally pledged to the Organization.

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:

	2017			2016		
	Basis	Accum. Deprec.	Deprec. Exp.	Basis	Accum. Deprec.	Deprec. Exp.
Office equipment	\$ 21,277	\$ 14,438	\$ 1,403	\$ 19,849	\$ 19,192	\$ 2,181
Leasehold	39,046	12,364	3,905	39,046	8,460	3,905
Delivery trucks	61,851	29,393	11,843	61,851	17,550	11,843
	\$ 122,174	\$ 56,195	\$ 17,151	\$ 120,746	\$ 45,202	\$ 17,929

Note 4 - 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, 2017**

Note 4 - Temporarily Restricted Net Assets (cont):

	<u>2017</u>	<u>2016</u>
Walmart Foundation	\$ 17,734	\$ 20,608
Ensworth Charitable Foundation	10,000	8,000
Wells Fargo	10,000	5,000
J. Walton Bissell	10,000	0
Food Pantry - AHCC	9,653	8,739
Strategic Technologies Grant (GHFPG)	8,339	0
Auerbach Grant (GHFPG)	5,500	11,000
First Congregational Church of Madison	5,000	0
People's United Community Foundation	5,000	0
Wrobel Grant (GHFPG)	4,000	500
R.S. Gernon Trust	3,000	3,000
Bishop's Fund for Children	2,950	3,000
B.J.'s Charitable Foundation	2,500	2,500
Union Savings Bank Foundation	2,500	2,500
Community Foundation of Middlesex County	2,486	3,000
Benjamin Lewis Trust	1,971	2,855
Zavela Grant (GHFPG)	1,505	1,505
Community Health Network Foundation	500	500
Ahearn Family Foundation	17	1,000
Farmington Bank Community Foundation	0	3,500
Elizabeth Carse Foundation	0	2,500
Main Street Foundation	0	2,500
Swindells Charitable Foundation	0	2,000
Knox Foundation	0	2,000
	<u>\$ 102,655</u>	<u>\$ 86,207</u>

Note 5 - 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.

COVENANT TO CARE FOR CHILDREN, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

Note 6 - Fair Value 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, 2017 and 2016 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of financial position.

Note 7 - Rents:

Rent consists of payments for office space in Hartford which was occupied effective March 1, 2014. Rental payments for the years ended June 30, 2017 and 2016 were \$36,448 and \$36,060, respectively. Initial lease terms are \$3,005 per month (consisting of office space and loading dock) effective March 1, 2014 through February 28, 2017 with subsequent increases through February 28, 2024. Effective July 1, 2017, the Organization terminated its lease of the loading dock portion of the overall lease, but retained the office portion of the lease under essentially the same terms.

At June 30, 2017 the minimum future rental payments under this lease are as follows:

2017	\$ 14,784
2018	29,568
2019	29,568
2020	30,184
2021	30,307
Thereafter	<u>67,181</u>
	<u>\$ 201,592</u>

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

The organization, effective October 1, 2017, will also rent additional storage space for \$100 per month. The terms are month to month.

Note 8 - 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 \$48,914 and \$53,914 for the years ended June 30, 2017 and 2016, respectively. Interest is charged at the rate of 4%.

COVENANT TO CARE FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

Note 9 – Evaluation of Subsequent Events:

The Organization has evaluated subsequent events through October 16, 2017 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, 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 16, 2017.

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.

Kirialtic, Randall, & McNab L.L.C.

Wethersfield, Connecticut
October 16, 2017