

**Child Health and Development
Institute of Connecticut, Inc.**

**Financial Statements
and Independent Auditor's Report**

September 30, 2014 and 2013

Child Health and Development Institute of Connecticut, Inc.

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Independent Auditor's Report

To the Board of Directors
Child Health and Development Institute of Connecticut, Inc.

Report on Financial Statements

We have audited the accompanying financial statements of Child Health and Development Institute of Connecticut, Inc. (the "Institute", a nonprofit entity controlled by The Children's Fund of Connecticut, Inc.), which comprise the statements of financial position as of September 30, 2014 and 2013, 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 audits. We conducted our audits 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 Institute'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 Institute'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 Child Health and Development Institute of Connecticut, Inc. as of September 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2014, on our consideration of Child Health and Development Institute of Connecticut, 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 Child Health and Development Institute of Connecticut, Inc.'s internal control over financial reporting and compliance.

CohnReznick LLP

Hartford, Connecticut
December 19, 2014

Child Health and Development Institute of Connecticut, Inc.

**Statements of Financial Position
September 30, 2014 and 2013**

<u>Assets</u>		
	<u>2014</u>	<u>2013</u>
Current assets:		
Cash and cash equivalents	\$ 544,086	\$ 311,110
Grants and contributions receivable	612,798	718,065
Other receivables	-	16,990
Prepaid expenses	7,699	32,558
Total current assets	<u>1,164,583</u>	<u>1,078,723</u>
Non-current assets:		
Furniture, equipment and leasehold improvements	233,768	137,040
Accumulated depreciation	<u>(116,722)</u>	<u>(96,620)</u>
Total furniture, equipment and leasehold improvements	117,046	40,420
Security deposit	5,493	5,493
Total non-current assets	<u>122,539</u>	<u>45,913</u>
Totals	<u>\$ 1,287,122</u>	<u>\$ 1,124,636</u>
 <u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable	\$ 523,274	\$ 184,892
Deferred income	140,721	193,338
Grants payable	55,000	37,500
Accrued expenses	180,697	151,444
Total liabilities	<u>899,692</u>	<u>567,174</u>
Commitments		
Net assets:		
Unrestricted	380,987	259,043
Temporarily restricted	6,443	298,419
Total net assets	<u>387,430</u>	<u>557,462</u>
Totals	<u>\$ 1,287,122</u>	<u>\$ 1,124,636</u>

See Notes to Financial Statements.

Child Health and Development Institute of Connecticut, Inc.

**Statements of Activities
Years Ended September 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Changes in unrestricted net assets:		
Operating support and revenue:		
Operating grants	\$ 1,650,667	\$ 1,748,352
Government grants	4,034,215	1,514,024
Contributions	9,845	8,051
Interest income	18	380
Net assets released from restrictions	584,996	1,463,642
Total operating support and revenue	<u>6,279,741</u>	<u>4,734,449</u>
Expenses:		
Program expenses	5,913,877	4,501,150
Management and general	243,920	285,622
Total expenses	<u>6,157,797</u>	<u>4,786,772</u>
Increase (decrease) in unrestricted net assets	<u>121,944</u>	<u>(52,323)</u>
Changes in temporarily restricted net assets:		
Contributions	293,020	155,000
Net assets released from restrictions	<u>(584,996)</u>	<u>(1,463,642)</u>
Decrease in temporarily restricted net assets	<u>(291,976)</u>	<u>(1,308,642)</u>
Change in net assets	(170,032)	(1,360,965)
Net assets, beginning of year	<u>557,462</u>	<u>1,918,427</u>
Net assets, end of year	<u>\$ 387,430</u>	<u>\$ 557,462</u>

See Notes to Financial Statements.

Child Health and Development Institute of Connecticut, Inc.

Statement of Functional Expenses
Year Ended September 30, 2014

	Mental Health Care	Pediatric Primary Care	Partnerships	Early Childhood	Innovations	Total Program	Management and General	Total
Salaries	\$ 925,958	\$ 275,781	\$ 39,207	\$ 121,874	\$ 25,774	\$ 1,388,594	\$ 258,635	\$ 1,647,229
Payroll taxes and fringe benefits	305,230	88,854	12,356	34,506	8,048	448,994	90,958	539,952
Total salaries and related expenses	<u>1,231,188</u>	<u>364,635</u>	<u>51,563</u>	<u>156,380</u>	<u>33,822</u>	<u>1,837,588</u>	<u>349,593</u>	<u>2,187,181</u>
Occupancy	81,350	22,698	2,571	8,785	1,842	117,246	30,475	147,721
Professional fees	730	-	-	-	-	730	21,615	22,345
Consulting	601,184	57,140	546	55,188	-	714,058	26,813	740,871
Depreciation	-	-	-	-	-	-	20,101	20,101
Travel, meetings and conferences	171,333	24,299	202	2,420	-	198,254	20,303	218,557
Insurance	-	-	-	-	-	-	7,847	7,847
Printing, publication and postage	742	17,529	133,184	3,924	-	155,379	9,846	165,225
Subcontractors	1,936,466	204,905	-	24,000	-	2,165,371	-	2,165,371
Other expenses	562	685	-	-	-	1,247	1,349	2,596
Supplies	93,003	2,861	-	15,159	-	111,023	31,359	142,382
Grants	22,500	60,000	-	249,980	-	332,480	-	332,480
Bad debt	5,120	-	-	-	-	5,120	-	5,120
Indirect cost allocation	<u>262,485</u>	<u>7,596</u>	<u>-</u>	<u>5,300</u>	<u>-</u>	<u>275,381</u>	<u>(275,381)</u>	<u>-</u>
Total expenses	<u>\$ 4,406,663</u>	<u>\$ 762,348</u>	<u>\$ 188,066</u>	<u>\$ 521,136</u>	<u>\$ 35,664</u>	<u>\$ 5,913,877</u>	<u>\$ 243,920</u>	<u>\$ 6,157,797</u>

See Notes to Financial Statements.

Child Health and Development Institute of Connecticut, Inc.

Statement of Functional Expenses
Year Ended September 30, 2013

	Mental Health Care	Pediatric Primary Care	Partnerships	Integration of Health and Mental Health	Linkage Across Systems	Innovations	Total Program	Management and General	Total
Salaries	\$ 827,819	\$ 176,710	\$ 37,838	\$ 117,388	\$ 61,398	\$ 22,067	\$ 1,243,220	\$ 237,327	\$ 1,480,547
Payroll taxes and fringe benefits	260,553	56,186	11,175	36,683	16,798	6,551	387,946	74,466	462,412
Total salaries and related expenses	<u>1,088,372</u>	<u>232,896</u>	<u>49,013</u>	<u>154,071</u>	<u>78,196</u>	<u>28,618</u>	<u>1,631,166</u>	<u>311,793</u>	<u>1,942,959</u>
Occupancy	57,450	13,694	2,352	8,248	3,150	1,378	86,272	21,497	107,769
Professional fees	-	-	-	-	-	-	-	24,255	24,255
Consulting	291,604	7,990	-	99,146	101,418	-	500,158	52,135	552,293
Depreciation	-	-	-	-	-	-	-	13,169	13,169
Travel, meetings and conferences	188,272	13,032	14,355	14,221	877	-	230,757	16,624	247,381
Insurance	-	-	-	-	-	-	-	6,719	6,719
Printing, publication and postage	23,507	11,076	3,611	8,633	-	-	46,827	1,606	48,433
Subcontractors	1,190,086	111,065	-	-	-	-	1,301,151	-	1,301,151
Other expenses	189,355	919	-	2,387	-	-	192,661	29,932	222,593
Grants	43,550	1,500	-	-	275,000	-	320,050	-	320,050
Indirect cost allocation	192,108	-	-	-	-	-	192,108	(192,108)	-
Total expenses	<u>\$ 3,264,304</u>	<u>\$ 392,172</u>	<u>\$ 69,331</u>	<u>\$ 286,706</u>	<u>\$ 458,641</u>	<u>\$ 29,996</u>	<u>\$ 4,501,150</u>	<u>\$ 285,622</u>	<u>\$ 4,786,772</u>

See Notes to Financial Statements.

Child Health and Development Institute of Connecticut, Inc.

**Statements of Cash Flows
Years Ended September 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Operating activities:		
Change in net assets	\$ (170,032)	\$ (1,360,965)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	20,101	13,169
Changes in operating assets and liabilities:		
Prepaid expenses	24,859	(27,531)
Grants and contributions receivable	105,267	916,175
Other receivables	16,990	13,920
Accounts payable	338,382	(464,124)
Accrued expenses	29,253	5,319
Grants payable	17,500	(37,500)
Deferred income	<u>(52,617)</u>	<u>44,618</u>
Net cash provided by (used in) operating activities	<u>329,703</u>	<u>(896,919)</u>
Investing activities:		
Purchase of furniture, equipment and leasehold improvements	<u>(96,727)</u>	<u>(1,399)</u>
Net cash used in investing activities	<u>(96,727)</u>	<u>(1,399)</u>
Increase (decrease) in cash and cash equivalents	232,976	(898,318)
Cash and cash equivalents, beginning of year	<u>311,110</u>	<u>1,209,428</u>
Cash and cash equivalents, end of year	<u>\$ 544,086</u>	<u>\$ 311,110</u>

See Notes to Financial Statements.

Child Health and Development Institute of Connecticut, Inc.

Notes to Financial Statements September 30, 2014 and 2013

Note 1 - Organization and summary of significant accounting policies

Nature of activities

The Child Health and Development Institute of Connecticut, Inc. (the "Institute") was formed to promote and maximize the healthy physical, emotional, behavioral, cognitive and social development of children throughout Connecticut by creating, supporting or facilitating innovative primary and preventative strategies for such children, and working to maximize the effectiveness of the institutions and systems that contribute to their well-being.

The Institute is a wholly owned subsidiary of The Children's Fund of Connecticut, Inc. ("Children's Fund") which is a 501(c)(3) organization. Children's Fund is also a subsidiary of The Connecticut Children's Medical Center. The financial statements represent only the activities of the Institute.

Basis of presentation

The accompanying financial statements have been prepared on the accrual basis of accounting. The financial statements report information regarding the Institute's financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. They are described as follows:

Unrestricted - Net assets that are not subject to explicit donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

Temporarily Restricted - Net assets whose use by the Institute is subject to either explicit donor-imposed stipulations or by operation of law that can be fulfilled by actions of the Institute or that expire by the passage of time.

Permanently Restricted - Net assets subject to explicit donor-imposed stipulations that they be maintained permanently by the Institute and stipulate the use of income and/or appreciation as either unrestricted or temporarily restricted based on donor stipulations or by operation of law. There are no permanently restricted net assets as of September 30, 2014 and 2013.

Income taxes

The Institute is exempt from Federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3). However, certain operations of the Institute may qualify as unrelated business taxable income and to the extent that these operations generate income, they will be subject to Federal and state taxes.

The Institute has no unrecognized tax benefits as of September 30, 2014 and 2013. The Institute's Federal information returns prior to fiscal year 2011 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

Child Health and Development Institute of Connecticut, Inc.

Notes to Financial Statements September 30, 2014 and 2013

Cash and cash equivalents

The Institute considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. At September 30, 2014 and 2013, the Institute had cash equivalents of \$18,103 and \$18,085, respectively.

Recognition of grant revenue

The Institute receives grant funds from various agencies of the State of Connecticut and from private, nonprofit organizations that are accounted for as exchange transactions. The Institute must apply for the grants each year. Grant revenue is recorded when the grant has been approved and eligible expenses have been incurred. Receivables are recognized to the extent costs have been incurred, but not reimbursed. Deferred income represents grant advances and other revenue which exceed eligible costs incurred.

Contributions

Unconditional promises to give are recorded as contributions receivable when the promise is received. Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restrictions expire in the reporting period in which the support is recognized. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Receivables

The Institute regularly monitors receivables arising from regular operations to determine if an allowance for doubtful accounts is deemed necessary. Management considers past history, current economic conditions and overall viability of the third party when determining the need for an allowance. Receivables are written off only when management believes amounts will not be collected. Receivables are considered past due based on the invoice or pledge date. No allowance is required as of September 30, 2014 and 2013, as management believes all amounts are collectible.

Furniture, equipment and leasehold improvements

The Institute capitalizes all expenditures for furniture, equipment and leasehold improvements in excess of \$1,000 and having a useful life of greater than one year. Purchased furniture, equipment and leasehold improvements are carried at cost. Donated furniture, equipment and leasehold improvements are carried at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the assets' estimated useful lives. Estimated lives for office furniture and equipment are 5 - 7 years. Estimated lives for leasehold improvements are the shorter of asset lives or remaining term of the lease.

Child Health and Development Institute of Connecticut, Inc.

Notes to Financial Statements September 30, 2014 and 2013

Expenditures for repairs and maintenance are charged to expense as incurred. For assets sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period.

Deferred rent

Rent expense is recognized on a straight-line basis over the term of the leases. At September 30, 2014 and 2013, \$2,618 and \$1,717, respectively, is reflected as rent escalation payable which represents the excess of rent expense computed on a straight-line basis over the minimum lease payments.

Gifts of long-lived assets

The Institute reports gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long these long-lived assets must be maintained, the Institute reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Expense allocation

The cost of providing various programs and activities has been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain administrative costs have been allocated among programs.

Use of estimates

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

Subsequent events

The Institute has evaluated events and transactions for potential recognition or disclosure through December 19, 2014, which is the date the financial statements were available to be issued.

Note 2 - Concentrations

Concentrations of credit risk

Financial instruments which potentially subject the Institute to concentrations of credit risk consist principally of cash and cash equivalents and receivables. The Institute maintains its cash in bank deposit accounts which, at times, may exceed Federally insured limits. The Institute has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents. At September 30, 2014, the Institute had cash balances in excess of Federally insured limits in the amount of approximately \$417,000.

Child Health and Development Institute of Connecticut, Inc.

**Notes to Financial Statements
September 30, 2014 and 2013**

Funding sources

The following agencies provided over 10% of the Institute's total grants and contributions receivable and support and revenue as of and for the years ended September 30, 2014 and 2013:

	2014		2013	
	Grants and Contributions Receivable	Support and Revenue	Grants and Contributions Receivable	Support and Revenue
Department of Children and Families	\$ 461,698 75%	\$3,646,233 61%	\$ 177,450 25%	\$1,204,988 35%
The Children's Fund of Connecticut, Inc.	-	1,389,682 23%	-	1,306,731 38%

Note 3 - Deferred income

Grant funds received but not expended as of September 30, 2014 and 2013 were for the following purposes:

	2014	2013
Mental Health Care/Connecticut Center for Effective Practice	\$ 107,350	\$ 74,065
Integration of Health and Mental Health/Access to Behavioral Health Services	-	47,992
Other programs	33,371	71,281
	\$ 140,721	\$ 193,338

Note 4 - Temporarily restricted net assets

Temporarily restricted net assets are available for the following purposes at September 30, 2014 and 2013:

	2014	2013
Mental Health Care for Children	\$ 6,443	\$ 298,419

Note 5 - Operating lease

The Institute leases office space with monthly payments ranging from \$4,293 to \$7,634 through June 2017. As of September 30, 2014, future minimum lease payments under the leases are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2015	\$ 144,139
2016	145,751
2017	109,756
	\$ 399,646

Total lease expense for the years ended September 30, 2014 and 2013 was \$122,766 and \$92,917, respectively.

Child Health and Development Institute of Connecticut, Inc.

Notes to Financial Statements September 30, 2014 and 2013

Note 6 - Tax deferred annuity plan

The Institute has a tax deferred annuity plan under the provisions of Section 403(b) of the Internal Revenue Code and the Employee Retirement Income Security Act of 1974. Under the plan, all employees except students are eligible to participate. Eligible employees can make contributions beginning on his or her date of hire, with the employer contributions commencing on that same date. Prior to October 1, 2014, employer contributions were made at 10% of compensation determined monthly and were 100% vested after the employee's completion of one year of service. Effective October 1, 2014, employer contributions are made at 5% of compensation and matching contributions of 100% of employee deferrals up to a maximum of 5% is made by the Institute. Matching contributions are 100% vested when made. The Institute's contributions under this plan totaled \$161,512 and \$146,204 for the years ended September 30, 2014 and 2013, respectively.

Note 7 - Related party transactions

Members of the Board of Directors of the Institute and of the Children's Fund are on the faculties of University of Connecticut, University of Connecticut Health Center, Yale University and the Connecticut Children's Medical Center ("CCMC"). The Institute contracted with these organizations to provide program related services. The Institute incurred \$269,029 and \$244,042 for services provided by these organizations for the years ended September 30, 2014 and 2013, respectively. The amount payable at September 30, 2014 and 2013 was \$120,040 and \$41,323, respectively.

The Institute received grant funds from CCMC for the years ended September 30, 2014 and 2013 in the amount of \$49,633 and \$42,689, respectively. The amount receivable from CCMC at September 30, 2014 and 2013 was \$12,164 and \$10,250, respectively.

Children's Fund provided grants of \$1,276,000 and \$1,317,400 to support specific programs of the Institute for the years ended September 30, 2014 and 2013, respectively. Any unused funds are recorded as deferred income in the statements of financial position. The Institute used \$1,339,682 and \$1,256,731, respectively, of the grants to support programs during the years ended September 30, 2014 and 2013. Additionally, the Institute provided management support for the Children's Fund in the amount of \$50,000 for both years ended September 30, 2014 and 2013, which was recorded as operating grants in the statements of activities.