

Child Health and Development Institute of Connecticut, Inc.

Financial Statements

September 30, 2019 and 2018

Child Health and Development Institute of Connecticut, Inc.

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Child Health and Development Institute of Connecticut, Inc. (a nonprofit entity controlled by The Children's Fund on Connecticut, Inc.) (the Institute), which comprise the statements of financial position as of September 30, 2019, and the related statements of activities, functional expenses and cash flows for the year 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.

Auditors' 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. 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 auditors' 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 the Institute as of September 30, 2019, 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.

Prior Period Financial Statements

The financial statements of the Institute as of and for the year ended September 30, 2018 were audited by other auditors, whose report dated November 28, 2018, expressed an unmodified opinion on those statements.

Baker Tilly Virchow Krause, LLP

New York, New York
December 16, 2019

Child Health and Development Institute of Connecticut, Inc.

Statements of Financial Position

September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Current Assets		
Cash	\$ 767,571	\$ 906,058
Grants and contributions receivable	725,172	572,559
Other receivables	-	8,492
Prepaid expenses	10,184	42,759
	<u>1,502,927</u>	<u>1,529,868</u>
Noncurrent Assets		
Furniture, equipment and leasehold improvements	242,355	242,154
Accumulated depreciation	(199,456)	(183,854)
	<u>42,899</u>	<u>58,300</u>
Furniture, equipment and leasehold improvements, net	42,899	58,300
Security deposit	5,493	5,493
	<u>48,392</u>	<u>63,793</u>
Total noncurrent assets	48,392	63,793
Total assets	<u>\$ 1,551,319</u>	<u>\$ 1,593,661</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 222,944	\$ 388,405
Accrued expenses	280,976	263,362
Deferred income	118,682	180,547
Grants payable	124,995	94,942
	<u>747,597</u>	<u>927,256</u>
Total current liabilities	747,597	927,256
Net Assets		
Without donor restriction	771,117	620,417
With donor restriction	32,605	45,988
	<u>803,722</u>	<u>666,405</u>
Total net assets	803,722	666,405
Total liabilities and net assets	<u>\$ 1,551,319</u>	<u>\$ 1,593,661</u>

See notes to financial statements

Child Health and Development Institute of Connecticut, Inc.

Statements of Activities

Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Changes in Net Assets Without Donor Restrictions		
Operating support and revenue:		
Operating grants	\$ 1,553,445	\$ 1,435,006
Government grants	4,676,324	4,610,199
Contributions	6,325	6,574
Net assets released from restrictions	<u>85,055</u>	<u>193,436</u>
Total operating support and revenue	<u>6,321,149</u>	<u>6,245,215</u>
Expenses:		
Program expenses	5,921,911	5,870,503
Management and general	<u>248,538</u>	<u>315,948</u>
Total expenses	<u>6,170,449</u>	<u>6,186,451</u>
Increase in net assets without donor restrictions	<u>150,700</u>	<u>58,764</u>
Changes in Net Assets With Donor Restrictions		
Contributions	71,672	80,000
Net assets released from restrictions	<u>(85,055)</u>	<u>(193,436)</u>
Decrease in net assets with donor restrictions	<u>(13,383)</u>	<u>(113,436)</u>
Change in net assets	137,317	(54,672)
Net Assets, Beginning	<u>666,405</u>	<u>721,077</u>
Net Assets, Ending	<u>\$ 803,722</u>	<u>\$ 666,405</u>

See notes to financial statements

Child Health and Development Institute of Connecticut, Inc.

Statement of Functional Expenses

Year Ended September 30, 2019

	<u>Mental Health Care</u>	<u>Pediatric Primary Care</u>	<u>Early Childhood</u>	<u>Total Program</u>	<u>Management and General</u>	<u>Total</u>
Salaries	\$ 1,413,780	\$ 309,381	\$ 151,782	\$ 1,874,943	\$ 390,222	\$ 2,265,165
Payroll taxes and fringe benefits	412,948	90,443	44,165	547,556	113,557	661,113
Total salaries and related expenses	1,826,728	399,824	195,947	2,422,499	503,779	2,926,278
Occupancy	100,635	21,476	10,161	132,272	36,871	169,143
Professional fees	-	-	-	-	46,876	46,876
Consulting	1,072,186	112,627	-	1,184,813	10,014	1,194,827
Depreciation	-	-	-	-	23,308	23,308
Travel, meetings and conferences	234,404	52,907	1,778	289,089	7,045	296,134
Insurance	-	-	-	-	9,652	9,652
Printing, publication and postage	7,902	20,004	35	27,941	1,693	29,634
Subcontractors	1,139,898	-	-	1,139,898	-	1,139,898
Other expenses	478	79	-	557	945	1,502
Supplies	162,782	1,677	7,504	171,963	35,600	207,563
Loss on disposal of assets	-	-	-	-	639	639
Grants	49,995	75,000	-	124,995	-	124,995
Indirect cost allocation	413,091	7,732	7,061	427,884	(427,884)	-
Total expenses	<u>\$ 5,008,099</u>	<u>\$ 691,326</u>	<u>\$ 222,486</u>	<u>\$ 5,921,911</u>	<u>\$ 248,538</u>	<u>\$ 6,170,449</u>

See notes to financial statements

Child Health and Development Institute of Connecticut, Inc.

Statement of Functional Expenses

Year Ended September 30, 2018

	<u>Mental Health Care</u>	<u>Pediatric Primary Care</u>	<u>Early Childhood</u>	<u>Total Program</u>	<u>Management and General</u>	<u>Total</u>
Salaries	\$ 1,288,557	\$ 332,336	\$ 143,422	\$ 1,764,315	\$ 350,761	\$ 2,115,076
Payroll taxes and fringe benefits	371,620	98,303	42,604	512,527	104,180	616,707
Total salaries and related expenses	1,660,177	430,639	186,026	2,276,842	454,941	2,731,783
Occupancy	99,556	23,270	8,681	131,507	36,602	168,109
Professional fees	-	-	-	-	53,066	53,066
Consulting	1,089,556	181,454	5,000	1,276,010	30,544	1,306,554
Depreciation	-	-	-	-	28,460	28,460
Travel, meetings and conferences	222,775	30,115	513	253,403	14,824	268,227
Insurance	-	-	-	-	9,738	9,738
Printing, publication and postage	6,835	2,174	-	9,009	1,531	10,540
Subcontractors	1,405,915	-	-	1,405,915	-	1,405,915
Other expenses	1,890	543	-	2,433	1,058	3,491
Supplies	97,891	1,664	60	99,615	35,424	135,039
Loss on disposal of assets	-	-	-	-	547	547
Grants	-	-	64,982	64,982	-	64,982
Indirect cost allocation	345,098	5,689	-	350,787	(350,787)	-
Total expenses	<u>\$ 4,929,693</u>	<u>\$ 675,548</u>	<u>\$ 265,262</u>	<u>\$ 5,870,503</u>	<u>\$ 315,948</u>	<u>\$ 6,186,451</u>

See notes to financial statements

Child Health and Development Institute of Connecticut, Inc.

Statements of Cash Flows

Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 137,317	\$ (54,672)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	23,308	28,460
Loss on disposal of assets	639	547
Changes in operating assets and liabilities:		
Grants and contributions receivable	(152,613)	248,682
Other receivables	8,492	27,870
Prepaid expenses	32,575	4,108
Accounts payable	(165,461)	39,891
Accrued expenses	17,614	7,730
Deferred income	(61,865)	(55,813)
Grants payable	30,053	(29,960)
	<u>(129,941)</u>	<u>216,843</u>
Net cash (used in) provided by operating activities		
Cash Flows From Investing Activities		
Purchase of furniture, equipment and leasehold improvements	(8,546)	(8,100)
	<u>(138,487)</u>	<u>208,743</u>
(Decrease) increase in cash		
Cash, Beginning	<u>906,058</u>	<u>697,315</u>
Cash, Ending	<u>\$ 767,571</u>	<u>\$ 906,058</u>

See notes to financial statements

Child Health and Development Institute of Connecticut, Inc.

Notes to Financial Statements
September 30, 2019 and 2018

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.

Net Assets

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Institute and changes therein are classified as follows:

Net assets without donor restrictions - net assets available for use in general operations and not subject to donor restrictions. All revenue not restricted by donors and donor restricted contributions whose restrictions are met in the same period in which they are received are accounted for in net assets without donor restrictions.

Net assets with donor restrictions - net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that may be met either by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. All revenues restricted by donors as to either timing or purpose of the related expenditures or required to be maintained in perpetuity as a source of investment income are accounted for in net assets with donor restrictions. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions. The institute does not have any net assets to be maintained in perpetuity at September 30, 2019 and 2018.

Income Taxes

The Institute is exempt from federal income taxes under the provisions of Internal Revenue Code (IRC) 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, 2019 and 2018. The Institute's federal information returns prior to fiscal year 2016 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings. If the Institute had unrelated business income taxes, it would recognize interest and penalties associated with any tax matters as part of the income tax provision and include accrued interest and penalties with the related tax liability in the statements of financial position.

Child Health and Development Institute of Connecticut, Inc.

Notes to Financial Statements
September 30, 2019 and 2018

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 net assets without donor restrictions or net assets with donor restrictions 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 net assets without donor restrictions 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), net assets with donor restrictions are reclassified to net assets without donor restrictions 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, 2019 and 2018, 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 term of the lease.

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.

Gifts of Long-Lived Assets

The Institute reports gifts of land, buildings and equipment as support without donor restrictions 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 support with donor restrictions. 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.

Child Health and Development Institute of Connecticut, Inc.

Notes to Financial Statements
September 30, 2019 and 2018

Expenses by Function

The cost of providing various programs and activities has been summarized on a functional basis in the accompanying statements of functional expenses. Accordingly, certain administrative costs have been allocated among programs and management and general. Occupancy and depreciation and amortization expenses are allocated based on square footage. Costs of other categories are allocated based on estimates of time and effort.

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.

New Accounting Pronouncements

Financial Statements - Not-For-Profit Entities

In 2019, the Institute adopted the Financial Accounting Standard Board's (FASB) Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Institute has adjusted the presentation of these financial statements accordingly. ASU No. 2016-14 has been applied retrospectively to all periods presented, except for the disclosures around liquidity and availability of resources. This disclosure has been presented for 2019 only, as allowed by ASU No. 2016-14.

The new standard changes the following aspects of the financial statements:

- The unrestricted net assets class has been renamed Net Assets Without Donor Restrictions;
- The temporarily restricted net asset class has been renamed Net Assets with Donor Restrictions;
- The financial statements include a disclosure about liquidity and availability of resource at September 30, 2019 (Note 2).

Leases

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The core principles of ASU No. 2016-02 change the way organizations will account for their leases by recognizing lease assets and related liabilities on the statement of financial position and disclosing key information about leasing arrangements. ASU No. 2016-02 is effective for fiscal year-end September 30, 2021. Management is currently evaluating the impact of ASU No. 2016-02 on the Institute's financial statements.

Child Health and Development Institute of Connecticut, Inc.

Notes to Financial Statements
September 30, 2019 and 2018

Contributions Received and Contributions Made

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made*. The core principle of ASU No. 2018-08 requires evaluation of whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions. ASU No. 2018-08 is effective for fiscal year-end September 30, 2020. Management is currently evaluating the impact of ASU No. 2018-08 on the Institute's financial statements.

Subsequent Events

The Institute has evaluated events and transactions for potential recognition or disclosure through December 16, 2019, which is the date the financial statements were available to be issued.

2. Liquidity and Availability of Resources

The following table reflects the Institute's financial assets available for general expenditure within one year of the September 30, 2019 balance sheet date.

Cash	\$	767,571
Grants and contributions receivable		<u>725,172</u>
Total	\$	<u>1,492,743</u>

Additionally, the Institute maintains a \$500,000 line of credit, as discussed in more detail in Note 5. As of September 30, 2019, \$500,000 remained available on the Institute's line of credit.

3. Concentrations

Concentrations of Credit Risk

Financial instruments which potentially subject the Institute to concentrations of credit risk consist principally of cash 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, 2019, the Institute had cash balances in excess of federally insured limits of approximately \$517,571.

Funding Sources

The following agencies provided over 10 percent of the Institute's total grants and contributions receivable and support and revenue as of and for the years ended September 30, 2019 and 2018:

	2019		2018	
	Grants and Contributions Receivable	Support and Revenue	Grants and Contributions Receivable	Support and Revenue
Department of Children and Families	\$ 264,909 37%	\$ 3,446,067 55%	\$ 377,457 66%	\$ 3,636,943 59%
The Children's Fund of Connecticut, Inc.	\$ -	\$ 1,231,409 20%	\$ -	\$ 1,164,470 19%

Child Health and Development Institute of Connecticut, Inc.

Notes to Financial Statements
September 30, 2019 and 2018

4. Deferred Income

Grant funds received but not expended as of September 30, 2019 and 2018 were for the following purposes:

	<u>2019</u>	<u>2018</u>
Mental Health Care/Connecticut Center for Effective Practice State funded and other programs	\$ 47,934 <u>70,748</u>	\$ 41,727 <u>138,820</u>
Total	<u>\$ 118,682</u>	<u>\$ 180,547</u>

5. Line of Credit

The Institute has a revolving line of credit agreement (the Line) with People's United Bank (the Bank) in the amount of \$500,000. The Line expires in February 2020. Interest on advances is due and payable at a rate equal to the Bank's Prime Rate, as defined in the Line (4.50 percent as of September 30, 2019). As of the date of this report, there have been no advances drawn from the Line. The line is collateralized by specific assets of the Institute.

6. Grants Payable

The Institute has approved certain grants payable over future periods. As of September 30, 2019 and 2018, amounts payable to grantees were \$124,995 and \$94,942, respectively.

7. Net Assets

Net assets are available for the following purposes at September 30:

	<u>2019</u>	<u>2018</u>
Net Assets		
Without donor restrictions:		
Undesignated	\$ 771,117	\$ 620,417
	<u>771,117</u>	<u>620,417</u>
With donor restrictions:		
Purpose restricted:		
Children's Pediatric Primary Care	32,605	-
Children's Behavioral Health Plan	-	45,988
	<u>32,605</u>	<u>45,988</u>
Total net assets	<u>\$ 803,722</u>	<u>\$ 666,405</u>

Child Health and Development Institute of Connecticut, Inc.

Notes to Financial Statements
September 30, 2019 and 2018

8. Operating Lease

The Institute leases office space with monthly payments ranging from \$3,886 to \$6,909 through September 2022. As of September 30, 2019, future minimum lease payments under the leases are as follows:

Years ending September 30:		
2020	\$	82,913
2021		82,913
2022		<u>62,184</u>
Total	\$	<u>228,010</u>

Total lease expense for the years ended September 30, 2019 and 2018 was \$131,642.

9. Tax Deferred Annuity Plan

The Institute has a tax deferred annuity plan under the provisions of Section 403(b) of the IRC 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. Employer contributions are made at 5 percent of compensation, and matching contributions of 100 percent of employee deferrals up to a maximum of 5 percent is made by the Institute. Matching contributions are 100 percent vested when made. The Institute's contributions under this plan totaled \$221,669 and \$212,454 for the years ended September 30, 2019 and 2018, respectively.

10. 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 (UCHC), Yale University, Yale University School of Medicine and the Connecticut Children's Medical Center (Connecticut Children's). The Institute contracted with these organizations to provide program related services. The Institute incurred \$228,517 and \$356,666 for services provided by these organizations for the years ended September 30, 2019 and 2018, respectively. The amount payable at September 30, 2019 and 2018 was \$68,749 and \$255,294, respectively.

The Institute received grant funds from Connecticut Children's for the years ended September 30, 2019 and 2018 in the amount of \$64,596 and \$61,933, respectively. The amount receivable from Connecticut Children's at September 30, 2019 and 2018 was \$13,857 and \$15,211, respectively.

The Institute received grant funds from Yale University for the years ended September 30, 2019 and 2018 in the amount of \$3,678 and \$0, respectively. There were no receivables from Yale University at September 30, 2018 and 2019.

Children's Fund provided grants of \$1,310,495 and \$1,184,080 to support specific programs of the Institute for the years ended September 30, 2019 and 2018, respectively. Any unused funds are recorded as deferred income in the statements of financial position. The Institute used \$1,231,409 and \$1,164,470, respectively, of the grants to support programs during the years ended September 30, 2019 and 2018. Additionally, the Institute provided management support for the Children's Fund in the amount of \$100,000 for the years ended September 30, 2019 and 2018, which was recorded as operating grants in the statements of activities.