

WEST MICHIGAN PARTNERSHIP FOR CHILDREN

FINANCIAL STATEMENTS

For the year ended
December 31, 2017

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INDEPENDENT AUDITOR'S REPORT

September 28, 2018

To the Board of Directors
West Michigan Partnership for Children
Grand Rapids, Michigan

We have audited the accompanying financial statements of West Michigan Partnership for Children (a nonprofit organization), which comprise the statement of financial position as of December 31, 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.

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 West Michigan Partnership for Children as of December 31, 2017, 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 September 28, 2018, on our consideration of West Michigan Partnership for Children'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 solely 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 the effectiveness of West Michigan Partnership for Children's 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 West Michigan Partnership for Children's internal control over financial reporting and compliance.



Certified Public Accountants
Grand Rapids, Michigan

FINANCIAL STATEMENTS

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STATEMENT OF FINANCIAL POSITION

WEST MICHIGAN PARTNERSHIP FOR CHILDREN

December 31, 2017

	<u>2017</u>
Assets	
Cash and cash equivalents	\$ 7,916,971
Grants receivable	307,060
Prepaid expenses	<u>102,867</u>
Total Assets	<u>\$ 8,326,898</u>
 LIABILITIES AND NET ASSETS	
Liabilities	
Accounts payable	\$ 146,565
Accrued liabilities:	
Salaries and wages	17,791
Foster care services	1,448,224
Other	<u>4,048</u>
Total Liabilities	1,616,628
Net Assets	
Without donor restrictions	<u>6,710,270</u>
Total Net Assets	<u>6,710,270</u>
Total Liabilities and Net Assets	<u>\$ 8,326,898</u>

STATEMENT OF ACTIVITIES

WEST MICHIGAN PARTNERSHIP FOR CHILDREN

For the year ended December 31, 2017

	<u>Without Donor Restrictions</u>
Grant Revenue and Other	
Grant Revenue - case rate payments	\$ 14,374,400
Grant Revenue - administration fees	724,900
Interest income	<u>32,651</u>
Total Grant Revenue and Other	15,131,951
Expenses	
Program services:	
Child welfare programs	8,864,930
Supporting services:	
General and administrative	<u>250,956</u>
Total Expenses	<u>9,115,886</u>
Change in Net Assets	6,016,065
Net Assets, beginning of year	<u>694,205</u>
Net Assets, end of year	<u><u>\$ 6,710,270</u></u>

STATEMENT OF FUNCTIONAL EXPENSES

WEST MICHIGAN PARTNERSHIP FOR CHILDREN

For the year ended December 31, 2017

	Program Services Child Welfare Programs	Supporting Services Management and General	Total 2017
Salary and wages	\$ 256,661	\$ 92,566	\$ 349,227
Payroll taxes	24,895	6,651	31,546
Employee benefits	52,055	13,998	66,053
Total Salaries and Related Expenses	333,611	113,215	446,826
Placement agency foster care payments	3,691,920	-	3,691,920
Foster parent maintenance rate	655,263	-	655,263
Residential services	3,359,223	-	3,359,223
Treatment and enhanced foster care	3,310	-	3,310
Adoption	169,080	-	169,080
Family reunification	183,948	-	183,948
Supportive visitation	6,279	-	6,279
Independent living payments	22,996	-	22,996
Parent education	36,076	-	36,076
Case worker training	3,542	-	3,542
Specific case services	27,081	-	27,081
Other contracted foster care services	38,038	-	38,038
Occupancy	27,951	8,822	36,773
Professional services	86,276	22,135	108,411
Telephone and technology	193,651	74,152	267,803
Marketing	10,163	17,548	27,711
Professional development and travel	942	4,909	5,851
Other operating expenses	15,580	9,004	24,584
Interest expense	-	1,171	1,171
Total Expenses	\$ 8,864,930	\$ 250,956	\$ 9,115,886

STATEMENT OF CASH FLOWS

WEST MICHIGAN PARTNERSHIP FOR CHILDREN

For the year ended December 31, 2017

	<u>2017</u>
Change in Net Assets	\$ 6,016,065
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Changes in operating assets and liabilities:	
Grants receivable	(307,060)
Prepaid expenses	(102,867)
Accounts payable	146,565
Accrued liabilities	<u>1,470,063</u>
Net Cash Provided by Operating Activities	7,222,766
Beginning Cash and Cash Equivalents	<u>694,205</u>
Ending Cash and Cash Equivalents	<u><u>\$ 7,916,971</u></u>
Supplemental Cash Flow Information	
Interest paid	\$ 1,171

NOTES TO FINANCIAL STATEMENTS

WEST MICHIGAN PARTNERSHIP FOR CHILDREN

For the year ended December 31, 2017

Note A – Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities

The accompanying financial statements present the financial position, results of operations and cash flows of West Michigan Partnership for Children (“WMPC”). WMPC was incorporated in Michigan as a not-for-profit corporation in 2016 to pilot the first performance-based foster care service delivery model in Michigan with the goal of improving outcomes for children. WMPC believes there is a better way to support children and families in West Michigan.

On October 1, 2017 WMPC began facilitating foster care for children and families in Kent County, Michigan, in partnership with Bethany Christian Services, Catholic Charities West Michigan, D.A. Blodgett – St. John’s, Samaritas, and Wellspring Lutheran Services, through a contract with the Michigan Department of Health and Human Services.

WMPC and its partners value keeping families together. WMPC aims to safely reunify more children with their families and more quickly by working alongside families to help them address the situations that led to their child’s removal. WMPC prioritizes keeping children with their families and relatives and seeks adoptive homes only when returning children to their families is not possible. Foster parents are important partners in this process.

The financial statements of WMPC have been prepared on the accrual basis of accounting. The significant accounting policies of WMPC are described below.

Financial Statement Presentation

The accompanying financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, which requires WMPC to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions – net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of WMPC’s management and the board of directors.

Net assets with donor restrictions – net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by the actions of WMPC or by the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

NOTES TO FINANCIAL STATEMENTS

WEST MICHIGAN PARTNERSHIP FOR CHILDREN

For the year ended December 31, 2017

Note A – Nature of Activities and Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash and cash equivalents consists of demand deposits in banks, institutional money market funds and cash on hand. For purposes of the statement of cash flows, WMPC considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents, except that such assets held in endowment are generally classified as noncurrent. WMPC maintains cash balances in checking and savings accounts. The checking and savings accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000 per financial institution. From time to time during the year, WMPC may have cash in a bank checking or savings account in excess of the federally insured limit.

Grants Receivable

Grants receivable represent amounts billed by WMPC to the State of Michigan but not collected as of the date of the financial statements. Grants receivable are stated at the amount management expects to collect from the outstanding balance. Management has determined, based on payments received after the date of the financial statements, all amounts are fully collectible and no allowance for doubtful accounts is necessary.

Property and Equipment

Property and equipment are stated at cost, or in the case of donated property, at estimated fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, which range from 3 to 39 years. WMPC follows a capitalization policy of \$5,000 in determining assets to be depreciated. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

Revenue Recognition

WMPC has a unique funding model through its contract with the Michigan Department of Health and Human Services. WMPC receives case rate funds from the state when a child is placed into its care and additional payments every six months from that placement date. The amount of the payment declines over time; the longer the child is in the system, the smaller the payments from the state to WMPC.

Revenue is recognized at the time WMPC bills the state. While revenue is received based on a child being in WMPC's care, the dollars are not directly linked to that child for covering their specific costs. The funds are available for WMPC's use for any child. It is anticipated some children will have greater needs than others and will incur more costs. Any unspent funds are to be retained by WMPC over the course of its contract for the creation of a risk pool addressing the high needs of specific children over time, and developing new programs servicing the needs of foster children in WMPC's care.

NOTES TO FINANCIAL STATEMENTS

WEST MICHIGAN PARTNERSHIP FOR CHILDREN

For the year ended December 31, 2017

Note A – Nature of Activities and Summary of Significant Accounting Policies (Continued)

Income Taxes

WMPC is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, WMPC qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

WMPC evaluates tax positions taken on its federal Exempt Organization Business Income Tax Returns in accordance with accounting principles generally accepted in the United States of America, which require that tax positions taken be more-likely-than-not to be sustained. Management believes that WMPC has no significant unrecognized tax benefits under that criteria. Penalties and interest, if any, assessed by income taxing authorities are included in operating expenses. WMPC'S federal Exempt Organization Business Income Tax Returns are generally subject to examination by taxing authorities for three years after they were filed.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Subsequent Events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through September 28, 2018, which is the date the financial statements were available to be issued.

Functional Expense Allocation

Directly identifiable expenses are charged to programs and supporting services. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of WMPC. Because WMPC began operations in 2017, State of Michigan time studies and management estimates were used for allocating expenses related to more than one function.

NOTES TO FINANCIAL STATEMENTS

WEST MICHIGAN PARTNERSHIP FOR CHILDREN

For the year ended December 31, 2017

Note A – Nature of Activities and Summary of Significant Accounting Policies (Continued)

Expenses qualifying for federal funding reimbursement related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies conducted by the State of Michigan. Remaining management and general expenses were allocated using the following methods: 1) salaries and related expenses were allocated using management's best estimates for time utilization by each WMPC position, 2) occupancy and telephone and technology expenses were allocated equally to each team member and then distributed based on their estimated percentage of time spent on programs and administration, and 3) marketing, professional development, other operating, and interest expenses were allocated 100% to General and Administrative Expenses.

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. WMPC did not conduct any fundraising activities in 2017 and therefore had no expenses for that function.

New Accounting Pronouncement

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements for Not-for-Profit Entities*. The update 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. WMPC has adjusted the presentation of these statements accordingly.

Note B – Liquidity and Availability

The following represents WMPC'S financial assets at December 31, 2017:

Financial assets:	<u>2017</u>
Cash and cash equivalents	\$ 7,916,971
Grants receivable	<u>307,060</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 8,224,031</u>

NOTES TO FINANCIAL STATEMENTS

WEST MICHIGAN PARTNERSHIP FOR CHILDREN

For the year ended December 31, 2017

Note C – Retirement Plan

WMPC maintains a Simple IRA Plan qualified fund Section 408(p) of the Internal Revenue Code for its retirement plan. Under this plan, eligible team members are permitted to contribute up to \$12,500 of their gross compensation into their plan; team members over 50 years of age may contribute an additional \$3,000 for a maximum of \$15,500. WMPC makes an automatic 2% of gross compensation contribution for each eligible team member into his or her Simple IRA. Contributions are made with each bi-weekly payroll.

Note D – Line of Credit

WMPC has an unsecured \$1,500,000 line of credit with Mercantile Bank which expires on October 2, 2018. Interest calculated on the unpaid balance will be no less than 4.25% per annum or more than the maximum rate allowed by applicable law. There were no outstanding borrowings on the line of credit as of December 31, 2017.

Note E – Operating Leases

WMPC leases office space to run its operations. The lease commenced on April 1, 2017 and is effective through April 1, 2020. WMPC is required to make monthly rent payments in the amount of \$2,874. Total rental expense for the year was \$25,864.

WMPC also rents office equipment on a monthly basis. The 60 month lease commenced on August 10, 2017 and requires monthly payments of \$281.37. Rent expense for the year was \$1,266.16. Future minimum payments for the next five years are as follows:

December 31, 2018	\$ 37,864
2019	37,864
2020	11,998
2021	3,376
2022	2,110