

WEST MICHIGAN PARTNERSHIP FOR CHILDREN

FINANCIAL STATEMENTS

For the nine months ended September 30, 2019
and the year ended December 31, 2018

TABLE OF CONTENTS

INDEPENDENT AUDITOR’S REPORT	1
FINANCIAL STATEMENTS	
Statements of Financial Position.....	5
Statements of Activities.....	6
Statements of Functional Expenses	7
Statements of Cash Flows	9
Notes to Financial Statements	10

INDEPENDENT AUDITOR'S REPORT

July 30, 2020

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 statements of financial position as of September 30, 2019 and December 31, 2018; the related statements of activities, functional expenses, and cash flows for the nine months ended September 30, 2019 and the year ended December 31, 2018; 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 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 September 30, 2019 and December 31, 2018, and the changes in its net assets and its cash flows for the nine months ended September 30, 2019 and the year ended December 31, 2018 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 July 30, 2020, 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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STATEMENTS OF FINANCIAL POSITION

WEST MICHIGAN PARTNERSHIP FOR CHILDREN
September 30, 2019 and December 31, 2018

ASSETS

	2019	2018
Assets		
Cash and cash equivalents	\$ 324,861	\$ 713,533
Grants receivable	7,494,397	1,266,220
Prepaid expenses	43,657	119,415
Total Assets	<u>\$ 7,862,915</u>	<u>\$ 2,099,168</u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable	\$ 1,586,417	\$ 94,133
Accrued liabilities:		
Accrued compensation	48,039	41,913
Foster care services	9,889	759,652
Other	8,716	-
Deferred Revenue	50,000	-
Long term debt - MDHHS	4,150,000	-
Total Liabilities	5,853,061	895,698
Net Assets		
Without donor restrictions	2,009,854	1,203,470
Total Net Assets	<u>2,009,854</u>	<u>1,203,470</u>
Total Liabilities and Net Assets	<u>\$ 7,862,915</u>	<u>\$ 2,099,168</u>

STATEMENTS OF ACTIVITIES

WEST MICHIGAN PARTNERSHIP FOR CHILDREN

For the nine months ended September 30, 2019 and the year ended December 31, 2018

	Without Donor Restrictions 2019	Without Donor Restrictions 2018
Grant Revenue and Other		
Grant Revenue - case rate payments	\$ 30,090,731	\$ 30,348,500
Grant Revenue - administration fees	960,051	1,596,192
Grant Revenue - other	67,692	-
Interest income	7,045	60,601
Contributions	-	120
Other	-	3,679
Total Grant Revenue and Other	31,125,519	32,009,092
Expenses		
Program services:		
Child welfare programs	29,819,723	37,038,620
Supporting services:		
General and administrative	499,412	477,272
Total Expenses	30,319,135	37,515,892
Change in Net Assets	806,384	(5,506,800)
Net Assets, beginning of year	1,203,470	6,710,270
Net Assets, end of year	\$ 2,009,854	\$ 1,203,470

STATEMENTS OF FUNCTIONAL EXPENSES

WEST MICHIGAN PARTNERSHIP FOR CHILDREN
For the nine months ended September 30, 2019

	<u>Program Services</u>		<u>Supporting Services</u>
	<u>Child Welfare Programs</u>	<u>Management and General</u>	<u>Total</u>
Salary and wages	\$ 607,544	\$ 202,515	\$ 810,059
Payroll taxes	50,619	16,873	67,492
Employee benefits	73,663	24,554	98,217
Total Salaries and Related Expenses	731,826	243,942	975,768
Placement agency foster care payments	11,465,867	-	11,465,867
Foster parent maintenance rate	2,843,416	-	2,843,416
Residential services	8,307,461	-	8,307,461
Treatment and enhanced foster care	3,187,608	-	3,187,608
Adoption	1,164,872	-	1,164,872
Family reunification	476,162	-	476,162
Supportive visitation	95,515	-	95,515
Independent living payments	351,221	-	351,221
Counseling services	208,021	-	208,021
Drug screens	207,625	-	207,625
Parent education	136,130	-	136,130
Case worker training	22,352	-	22,352
Specific case services	381,463	-	381,463
Other contracted foster care services	2,861	-	2,861
Occupancy	25,814	8,604	34,418
Professional services	20,234	123,128	143,362
Telephone and technology	133,309	44,436	177,745
Marketing	24,098	6,024	30,122
Professional development and travel	33,868	11,289	45,157
Other operating expenses	-	61,989	61,989
Total Expenses	\$ 29,819,723	\$ 499,412	\$ 30,319,135

STATEMENTS OF FUNCTIONAL EXPENSES

WEST MICHIGAN PARTNERSHIP FOR CHILDREN

For the year ended December 31, 2018

	<u>Program Services</u>		<u>Supporting Services</u>
	<u>Child Welfare Programs</u>	<u>Management and General</u>	<u>Total</u>
Salary and wages	\$ 606,187	\$ 275,725	\$ 881,912
Payroll taxes	50,706	18,177	68,883
Employee benefits	102,231	36,162	138,393
Total Salaries and Related Expenses	759,124	330,064	1,089,188
Placement agency foster care payments	15,214,399	-	15,214,399
Foster parent maintenance rate	3,593,603	-	3,593,603
Residential services	11,282,958	-	11,282,958
Treatment and enhanced foster care	1,923,985	-	1,923,985
Adoption	1,595,490	-	1,595,490
Family reunification	534,100	-	534,100
Supportive visitation	95,033	-	95,033
Independent living payments	413,398	-	413,398
Counseling services	265,224	-	265,224
Drug screens	218,398	-	218,398
Parent education	99,136	-	99,136
Case worker training	73,820	-	73,820
Specific case services	564,007	-	564,007
Other contracted foster care services	1,427	-	1,427
Occupancy	30,709	11,811	42,520
Professional services	100,209	26,426	126,635
Telephone and technology	156,025	60,011	216,036
Marketing	27,432	6,859	34,291
Professional development and travel	51,199	11,528	62,727
Other operating expenses	38,944	30,573	69,517
Total Expenses	\$ 37,038,620	\$ 477,272	\$ 37,515,892

STATEMENTS OF CASH FLOWS

WEST MICHIGAN PARTNERSHIP FOR CHILDREN

For the nine months ended September 30, 2019 and the year ended December 31, 2018

	<u>2019</u>	<u>2018</u>
Change in Net Assets	\$ 806,384	\$ (5,506,800)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used for) Operating Activities:		
Changes in operating assets and liabilities:		
Grants receivable	(6,228,177)	(959,160)
Prepaid expenses	75,758	(16,548)
Accounts payable	1,492,284	(52,432)
Accrued liabilities	(684,921)	(668,498)
Net Cash Used for Operating Activities	(4,538,672)	(7,203,438)
Net Cash Provided by Financing Activities:		
MDHHS cash advance	4,150,000	-
Beginning Cash and Cash Equivalents	713,533	7,916,971
Ending Cash and Cash Equivalents	<u>\$ 324,861</u>	<u>\$ 713,533</u>
Supplemental Cash Flow Information		
Interest paid	\$ -	\$ -

NOTES TO FINANCIAL STATEMENTS

WEST MICHIGAN PARTNERSHIP FOR CHILDREN

For the nine months ended September 30, 2019 and the year ended December 31, 2018

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 (MDHHS).

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.

Basis of Accounting

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.

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.

NOTES TO FINANCIAL STATEMENTS

WEST MICHIGAN PARTNERSHIP FOR CHILDREN

For the nine months ended September 30, 2019 and the year ended December 31, 2018

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

Net Assets

WMPC reports 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.

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, that 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.

NOTES TO FINANCIAL STATEMENTS

WEST MICHIGAN PARTNERSHIP FOR CHILDREN

For the nine months ended September 30, 2019 and the year ended December 31, 2018

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

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 that 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.

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.

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 July 30, 2020, which is the date the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS

WEST MICHIGAN PARTNERSHIP FOR CHILDREN

For the nine months ended September 30, 2019 and the year ended December 31, 2018

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

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. 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 personnel expenses were allocated based on management's analysis of time utilization for each WMPC position, 2) occupancy, telephone/utilities, technology, professional development, and travel expenses were allocated equally to each team member and then distributed based on management's time utilization analysis for time spent between program activities and administration, 3) professional services were either allocated wholly to administrative activities or based on time utilization, 4) marketing expenses were allocated based on time spent between programs and administration, and 5) other operating expenses wholly allocated as administrative activities.

The costs of providing various programs and other activities have been summarized on a functional basis in the Statements of Activities and in the Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. WMPC did not conduct any fundraising activities in 2019 and therefore had no expenses for that function.

Concentrations

Substantially all of the grants receivable at September 30, 2019 and December 31, 2018 are due from the State of Michigan. In addition, substantially all of the grant revenue received during the nine months ended September 30, 2019 and the year ended December 31, 2018, respectively, was provided by the State of Michigan. A loss of this revenue could adversely affect WMPC's operations.

Note B – Liquidity and Availability

The following represents WMPC'S financial assets at September 30, 2019 and December 31, 2018:

Financial assets:	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 324,861	\$ 713,533
Grants receivable	7,494,397	1,266,220
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 7,819,258</u>	<u>\$ 1,979,753</u>

NOTES TO FINANCIAL STATEMENTS

WEST MICHIGAN PARTNERSHIP FOR CHILDREN

For the nine months ended September 30, 2019 and the year ended December 31, 2018

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. Contributions were \$10,953 and \$17,352 for the nine months ended September 30, 2019 and the year ended December 31, 2018, respectively.

Note D – Line of Credit

WMPC has an unsecured \$1,500,000 line of credit with Mercantile Bank which expired on December 15, 2019 and was subsequently renewed. 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 September 30, 2019 and December 31, 2018, respectively.

Note E – Operating Leases

WMPC leases office space to run its operations. The lease commenced on April 1, 2017, and WMPC was required to make monthly rent payments in the amount of \$2,874. The Organization entered into an amended lease agreement on June 1, 2019 and was required to make monthly rent payments in the amount of \$2,960 through September 30, 2019. The new lease added additional office space effective October 1, 2019, thereby increasing the monthly rent payment to \$4,638, and extended the term of the lease to September 30, 2022. Total rental expense was \$28,864 and \$34,485 for the nine months ended September 30, 2019 and the year ended December 31, 2018, respectively.

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. The lease was amended on May 21, 2018 and extended to August 2022. The new lease requires monthly payments of \$607.84. Office equipment rent expense was \$5,471 and \$5,662 for the nine months ended September 30, 2019 and the year ended December 31, 2018, respectively. Future minimum payments are as follows:

September 30, 2020	\$	62,948
2021		63,783
2022		64,262

Note F – Long Term Liabilities

During the nine months ended September 30, 2019 the Organization received a cash advance from MDHHS to support operations during an unexpected cash shortfall. The cash advance does not require interest payments and is due in full on October 30, 2020. As of September 30, 2019 the amount of the cash advance was \$4,150,000.

NOTES TO FINANCIAL STATEMENTS

WEST MICHIGAN PARTNERSHIP FOR CHILDREN

For the nine months ended September 30, 2019 and the year ended December 31, 2018

Note G - Change in Fiscal Year

Effective September 30, 2019, the Organization's year end changed from December 31 to September 30.

Note H – Subsequent Events

The Organization's management has evaluated the period from October 1, 2019 through July 30, 2020, the date the financial statements were available for issuance, for subsequent events requiring recognition or disclosure in the financial statements.

On January 30, 2020 the World Health Organization (WHO) announced a global health emergency because of a new strain of coronavirus (the COVID-19 outbreak) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Organization's financial condition, liquidity, and future results of operations. Management is actively monitoring the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Organization is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for the year 2020.

The Organization is dependent on its workforce to deliver its services. Though the Organization has been designated an essential business, its employees have been following sheltering-in-place orders and its operations have continued as normal. The outbreak could have a continued material adverse impact on economic and market conditions and trigger a period of global economic slowdown, which may depress demand for the Organization's services.

Although the Organization cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time, if the pandemic continues, it may have a material adverse effect on the Company's results of future operations, financial position, and liquidity in fiscal year 2020 and beyond.

In addition, the significant decrease in cash and net assets between the previous two fiscal periods led to a renegotiation of the case rate with MDHHS during the audit period. This process has extended into 2020 and is an ongoing effort as of our report date. MDHHS issued additional cash advances in the amount of \$9.05M between October 1, 2019 and the date of this report, resulting in a total short term debt obligation of \$13.2M. Management does not expect that repayment of these advances will be required.