



Wediko Children's Services, Inc.

Financial Statements and
Supplemental Information

2016



Kevin P. Martin & Associates, P.C.

WEDIKO CHILDREN'S SERVICES, INC.

Index

June 30, 2016

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for the Year Ended June 30, 2016



Independent Auditors' Report

To the Board of Directors of
Wediko Children's Services, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Wediko Children's Services, Inc. (a nonprofit organization), (the Agency), which comprise the statement of financial position as of June 30, 2016, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller 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 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 Agency as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Agency's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 8, 2015. The prior year summarized comparative information is not intended to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Supplemental and Other Information

The Supplemental Schedule of Support, Revenue, Expenses, Capital Additions and Changes in Net Assets, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we do not express an opinion or provide assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2016, on our consideration of the Agency'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 the Agency's internal control over financial reporting and compliance.



October 6, 2016

WEDIKO CHILDREN'S SERVICES, INC.

Statement of Financial Position

As of June 30, 2016

With comparative totals as of June 30, 2015

	2016	2015
Assets		
Current Assets:		
Cash and cash equivalents	\$ 1,848,155	\$ 1,709,066
Accounts receivable	1,742,933	1,501,818
Less: allowance for doubtful accounts	(17,000)	(21,862)
Total accounts receivable, net of allowance	1,725,933	1,479,956
Pledge receivable, current portion	-	31,500
Prepaid expenses	197,122	186,049
Total Current Assets	3,771,210	3,406,571
Fixed Assets:		
Land	53,379	53,379
Land improvements	1,386,899	1,386,899
Buildings and improvements	13,315,627	13,126,775
Furnishings and equipment	1,360,925	1,290,314
Motor vehicles	184,710	184,710
Construction in progress	28,338	56,613
Total fixed assets	16,329,878	16,098,690
Less: accumulated depreciation	(7,132,490)	(6,525,869)
Total Net Fixed Assets	9,197,388	9,572,821
Other Assets:		
Pledge receivable, net of current portion	-	11,847
Other assets	45,761	53,329
Total Other Assets	45,761	65,176
Total Assets	\$ 13,014,359	\$ 13,044,568
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 136,068	\$ 43,648
Accrued expenses	451,917	543,750
Long term debt, current portion	647,252	101,346
Deferred revenue	765,236	703,197
Capital lease payable, current portion	3,817	5,555
Total Current Liabilities	2,004,290	1,397,496
Long Term Liabilities:		
Long term debt, net of current portion	3,510,500	4,157,949
Capital lease payable, net of current portion	6,838	10,669
Total Long Term Liabilities	3,517,338	4,168,618
Total Liabilities	5,521,628	5,566,114
Net Assets:		
Unrestricted	7,266,929	7,211,409
Temporarily restricted	225,802	267,045
Total Net Assets	7,492,731	7,478,454
Total Liabilities and Net Assets	\$ 13,014,359	\$ 13,044,568

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

WEDIKO CHILDREN'S SERVICES, INC.

Statement of Activities

For the year ended June 30, 2016

With comparative totals for the year ended June 30, 2015

	Unrestricted Operating	Temporarily Restricted	2016 Total	2015 Total
Revenue and Support:				
Program service fees	\$ 12,416,503	\$ -	\$ 12,416,503	\$ 12,066,280
Contributions	276,157	198,250	474,407	464,812
Other income	15,446	-	15,446	9,827
Investment income	596	-	596	768
Total	12,708,702	198,250	12,906,952	12,541,687
Net assets released from restrictions				
Satisfaction of program restrictions	147,500	(147,500)	-	-
Satisfaction of equipment acquisition restrictions	91,993	(91,993)	-	-
Total Revenue and Support	12,948,195	(41,243)	12,906,952	12,541,687
Expenses:				
Program services	11,798,262	-	11,798,262	11,524,193
Administration	981,672	-	981,672	969,449
Fundraising	112,741	-	112,741	68,375
Total Expenses	12,892,675	-	12,892,675	12,562,017
Change in Net Assets	55,520	(41,243)	14,277	(20,330)
Net Assets at Beginning of Year	7,211,409	267,045	7,478,454	7,498,784
Net Assets at End of Year	\$ 7,266,929	\$ 225,802	\$ 7,492,731	\$ 7,478,454

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

WEDIKO CHILDREN'S SERVICES, INC.

Statement of Cash Flows

For the year ended June 30, 2016

With comparative totals for the year ended June 30, 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ 14,277	\$ (20,330)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	606,621	617,979
Loss on disposal of fixed assets	-	10,939
Changes in operating assets and liabilities (Increase) decrease in:		
Accounts receivable	(245,977)	204,938
Pledge receivable	43,347	16,738
Prepaid expenses	(11,073)	(23,398)
Other assets	7,568	52,955
Increase (decrease) in:		
Accounts payable	92,420	(55,028)
Accrued expenses	(91,833)	(171,848)
Deferred revenue	62,039	360,704
Net cash provided by operating activities	477,389	993,649
Cash flows from investing activities:		
Purchase of fixed assets	(231,188)	(332,923)
Net cash used in investing activities	(231,188)	(332,923)
Cash flows from financing activities:		
Repayments on line of credit	(1,060,000)	(2,715,000)
Advances on line of credit	1,060,000	2,715,000
Repayment on long term debt	(101,543)	(117,006)
Payments on capital lease payable	(5,569)	(25,822)
Net cash used in financing activities	(107,112)	(142,828)
Increase in cash and cash equivalents	139,089	517,898
Cash and cash equivalents, beginning of year	1,709,066	1,191,168
Cash and cash equivalents, end of year	\$ 1,848,155	\$ 1,709,066
 Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	\$ 230,553	\$ 238,848

Noncash Investing and Financing Transactions

See Note 8.

WEDIKO CHILDREN'S SERVICES, INC.

Statement of Functional Expenses

For the year ended June 30, 2016
With comparative totals for the year ended June 30, 2015

	<u>Summer Program</u>	<u>School - Based Program</u>	<u>Wediko School</u>	<u>New York - Based Program</u>	<u>Home - Based Program</u>	<u>Total Program Services</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Total 2016</u>	<u>Total 2015</u>
Functional Expenses:										
Salaries and benefits	\$ 677,633	\$ 2,798,305	\$ 3,125,046	\$ 1,581,491	\$ 425,356	\$ 8,607,831	\$ 448,221	\$ 93,582	\$ 9,149,634	\$ 8,722,709
Occupancy	162,075	60,249	615,050	37,564	6,535	881,473	33,215	2,943	917,631	1,148,246
Depreciation	141,072	32,937	405,087	-	8,036	587,132	15,210	4,279	606,621	617,979
Meals	118,018	17,749	231,844	9,200	423	377,234	4,716	165	382,115	463,205
Program supplies and materials	62,929	136,207	251,793	78,693	24,547	554,169	-	-	554,169	456,766
Office expenses	36,344	57,727	137,966	2,794	12,698	247,529	326,108	10,266	583,903	615,609
Vehicle expenses	25,285	31,144	65,867	14,984	61,835	199,115	9,913	693	209,721	218,414
Consultants and professional fees	5,894	54,089	42,163	81,315	-	183,461	44,673	92	228,226	143,505
Bad debt	5,479	23,784	35,148	402	12,989	77,802	23,000	-	100,802	33,801
Other operating expenses	17,939	13,967	18,722	11,368	447	62,443	74,367	285	137,095	138,447
Leased equipment	<u>1,268</u>	<u>5,296</u>	<u>12,537</u>	<u>2</u>	<u>970</u>	<u>20,073</u>	<u>2,249</u>	<u>436</u>	<u>22,758</u>	<u>3,336</u>
Total Functional Expenses	<u>\$ 1,253,936</u>	<u>\$ 3,231,454</u>	<u>\$ 4,941,223</u>	<u>\$ 1,817,813</u>	<u>\$ 553,836</u>	<u>\$ 11,798,262</u>	<u>\$ 981,672</u>	<u>\$ 112,741</u>	<u>\$ 12,892,675</u>	<u>\$ 12,562,017</u>

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

WEDIKO CHILDREN'S SERVICES, INC.

Notes to Financial Statements

June 30, 2016

(1) Summary of Significant Accounting Policies

The financial statements have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The significant accounting policies followed by Wediko Children's Services, Inc. (the Agency) are described below to enhance the usefulness of the financial statements to the reader.

(a) Nature of Activities

The Agency provides comprehensive mental health treatment and special educational services for children struggling with emotional, behavioral and learning issues.

The cost of providing various program and supporting services has been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The following programs are listed in order of relative importance based on total program expenditures:

Wediko School - The Wediko School offers a residential treatment and school program in Windsor, New Hampshire for boys struggling with emotional and behavioral issues. This program activity accounts for approximately 42% of total program expenditures for the year ended June 30, 2016. The program receives funding from New Hampshire cities and towns and the New Hampshire Department of Children, Youth and Families. The program also receives funding from other state's cities and towns, other government agencies as well as private families.

School-Based Services - The School-Based Services program provides mental health treatment services to troubled children and their families and programmatic consultation to schools as well as an extended school year program. This includes MassSTART services as well as an extended school year program. This program activity accounts for approximately 27% of total program expenditures for the year ended June 30, 2016. Program revenue is derived primarily from a contract with the Boston Public Schools and other school districts.

New York School-Based Services - The New York School-Based Services program provides mental health treatment services to troubled children and their families and programmatic consultation to schools. This program activity accounts for approximately 15% of total program expenditures for the year ended June 30, 2016. Program revenue is derived primarily from New York cities and towns, other governmental agencies as well as private families.

Summer Program - The Summer Program provides comprehensive mental health treatment and special educational services in Windsor, New Hampshire for boys and girls from the ages six through eighteen who are struggling with emotional and behavioral issues. This program activity accounts for approximately 11% of total program expenditures for the year ended June 30, 2016.

WEDIKO CHILDREN'S SERVICES, INC.

Notes to Financial Statements

June 30, 2016

(1) Summary of Significant Accounting Policies - continued

(a) Nature of Activities - continued

Summer Program - continued- Summer Program revenue is derived from a contract with Boston Public Schools, the Massachusetts Department of Mental Health as well as Massachusetts cities and towns and local school districts. In addition, revenue is derived from New Hampshire School Administrative Units, the New Hampshire Department of Children, Youth and Families, other public and private agencies primarily in New England as well as other public and private agencies and private families.

Home-Based Services - The Home-Based Services program provides mental health treatment services to troubled children and their families and programmatic consultation to individuals away from school. This program activity accounts for approximately 5% of total program expenditures for the year ended June 30, 2016. Program revenue is derived primarily from private families.

(b) Basis of Presentation

The statement of activities reports all changes in net assets, including changes in unrestricted net assets from operating activities. Operating revenues consist of those monies received and other contributions attributable to the Agency's ongoing efforts.

(c) Revenue Recognition

The Agency earns revenue as follows:

Contributions - Contributions are recorded upon receipt or pledge as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Program Service Fees - Program service fee revenue is earned and recognized by the Agency when units or services are provided and billed under various agreements funded primarily by governmental agencies and school districts. Under unit-rate agreements, rates are established by the New Hampshire Rate Setting Commissions or as agreed to by parties under contractual agreements. Under the cost-reimbursement contract, revenue recognition takes place as costs related to the services provided are incurred. Billings on the contracts are subject to final approval by the governmental agency.

Private and Third Party Fees - Tuition, clinical and consultation fees are recognized as services are rendered at rates established by parties under contractual arrangements and are included with program service fees on the statement of activities.

WEDIKO CHILDREN'S SERVICES, INC.

Notes to Financial Statements

June 30, 2016

(1) Summary of Significant Accounting Policies - continued

(c) Revenue Recognition - continued

Special Events - Special event revenue is primarily derived from contributions collected and fees charged for admission at various sponsored events. Special events revenue is recognized when earned and is shown net of related direct expenses in the accompanying statement of activities.

Deferred revenue represents program service fee income received prior to year-end. These amounts are deferred and recognized over the periods to which the fees relate.

Substantially all of the Agency's revenue is derived from its activities in Massachusetts, New Hampshire and New York. During the year ended June 30, 2016, the Agency derived approximately 79% of its total revenue from governmental agencies and 21% from foundations and individual payers or donors. All revenue is recorded at the estimated net realizable amounts.

(d) Promises to Give

Conditional promises to give are not recognized in the financial statements until the conditions are substantially met. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. In the absence of donor stipulations to the contrary, promises with payments due in future periods are restricted to use after the due date.

Unconditional promises to give are periodically reviewed to estimate an allowance for doubtful accounts. Management estimates the allowance by review of historical experience and a specific review of collections trends that differ from scheduled collections on individual promises. As of June 30, 2016, management has determined any allowance would be immaterial.

(e) Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. As of June 30, 2016, the allowance for doubtful accounts was \$17,000.

The Agency does not have a policy to accrue interest on accounts receivable. Accounts are considered delinquent when payments have not been received within 90 days of invoicing for private students or within 120 days of invoicing for public students. Contract and grant accounts are written off upon notification by the governmental entity that amounts are uncollectible. Private and third party fees are written off after collection efforts have failed.

WEDIKO CHILDREN'S SERVICES, INC.

Notes to Financial Statements

June 30, 2016

(1) Summary of Significant Accounting Policies - continued

(e) Accounts Receivable - continued

The Agency has no policies requiring collateral or other security to secure the accounts receivable. Substantially all of the Agency's accounts receivable are due from governmental agencies in Massachusetts and New Hampshire. During the year ended June 30, 2016, the Agency's accounts receivable were due as follows: approximately 90% due from governmental agencies and 10% due from private clients.

(f) Standards of Accounting and Reporting

The Agency's net assets (excess of its assets over liabilities) and its revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

The statement of financial position presents three classes of net assets (unrestricted, temporarily restricted and permanently restricted) and the statement of activities displays the change in each class of net assets.

The two classes of net assets applicable to the Agency are presented as follows:

Unrestricted Net Assets - Net assets that are not subject to donor imposed restrictions. Unrestricted net assets consist of assets and contributions available for the support of operations. Unrestricted net assets may be designated for specific purposes by management or the Board of Directors.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Agency and/or passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Restricted contributions and investment income whose restrictions are met in the same reporting period are recorded as temporarily restricted income and as net assets released from restrictions.

(g) Use of Estimates

In preparing the Agency's financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

WEDIKO CHILDREN'S SERVICES, INC.

Notes to Financial Statements

June 30, 2016

(1) Summary of Significant Accounting Policies - continued

(h) Income Taxes

The Agency qualifies as an organization formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC), and is generally not subject to income tax. However, income from certain activities not directly related to the Agency's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Agency is not a private foundation under Section 509(a)(1).

U.S. GAAP prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Agency has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the financial statements as of June 30, 2016.

(i) Fundraising

Fundraising relates to the activities of raising general and specific contributions to the Agency and promoting special events. Fundraising expenses as a percentage of total contribution and special event revenue was 24% for the year ended June 30, 2016. The ratio of expenses to amounts raised is computed using actual expenses and related revenue on an accrual basis.

(j) Special Events

The Agency has determined that special events are incidental to its operations and therefore has reported the gross special event revenue net of direct costs of benefit to the donors. Revenues and expenses related to special events totaled \$92,891 and \$4,584, respectively, for the year ended June 30, 2016.

(k) Functional Allocation of Expenses

The cost 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. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are allocated to programs and supporting services. Administration expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Agency.

Payroll and associated costs are allocated to functions based upon periodic time and expense studies. Occupancy costs are allocated based upon square footage.

WEDIKO CHILDREN'S SERVICES, INC.

Notes to Financial Statements

June 30, 2016

(1) Summary of Significant Accounting Policies - continued

(l) Cash and Cash Equivalents

The Agency considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

(m) Concentrations of Credit Risk Arising from Cash Deposits

The Agency maintains its cash balances at several financial institutions located in Massachusetts and New Hampshire. Accounts at each institution are insured by the Federal Deposit Insurance Corporation. At times these balances may exceed the federal insurance limits; however, the Agency has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these cash balances as of June 30, 2016.

(n) Fair Value Measurements

U.S. GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Additionally, the inputs used to measure fair value are prioritized based on a three-level hierarchy. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels used to measure fair value are as follows:

Level 1: Quoted prices for identical instruments traded in active markets.

Level 2: Observable inputs other than quoted prices included in Level 1. Assets and liabilities included in this level are valued using quoted prices for similar assets and liabilities in active markets or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant inputs to the valuation model are unobservable.

(o) Land, Building and Equipment

Land, building and equipment are recorded at cost or, if donated, fair value on the date of receipt. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. Improvements, including planned major maintenance activities are capitalized, while expenditures for routine maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statement of activities.

WEDIKO CHILDREN'S SERVICES, INC.

Notes to Financial Statements

June 30, 2016

(1) Summary of Significant Accounting Policies - continued

(o) Land, Building and Equipment - continued

The Agency computes depreciation using the straight-line method over the following estimated useful lives:

Land improvements	20 years
Buildings and improvements	20-40 years
Furnishings and equipment	3-10 years
Motor vehicles	3-5 years

Land, building and equipment are reviewed for impairment if the use of the asset significantly changes or another indicator or possible impairment is noted. If the carrying amount for the asset is not recoverable, the value is written down to the asset's fair value.

(p) Summarized Financial Information for 2015

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Also, the financial statements do not include a full presentation of the statement of functional expenses, as certain prior year summarized comparative information is presented in total but not by functional classification. In addition, the financial statements do not include full financial statement disclosures for the prior year. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Agency's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

(q) Construction in Progress

Construction in progress is recorded on the cost method. Costs associated with the construction of property including interest are capitalized as a cost of the facility. Construction in progress is not depreciated until it is placed into service.

(r) Contributed Services and Gifts in Kind

Gifts in kind are reported as contributions in the financial statements at their estimated fair values at the time of receipt. Contributed services are similarly reported when services are performed which would otherwise have been purchased or performed by Agency personnel.

WEDIKO CHILDREN'S SERVICES, INC.

Notes to Financial Statements

June 30, 2016

(2) Loan Costs

Loan costs totaling \$79,976 are amortized over the life of the loans using the effective interest method. Amortization expense is included in interest expense on the accompanying statement of activities and amounted to \$5,431 for the year ended June 30, 2016. Accumulated amortization as of June 30, 2016 amounted to \$35,078. Estimated future amortization expense for loan costs as of June 30, 2016 approximates:

2017	\$ 2,113
2018	2,113
2019	2,113
2020	2,113
2021	2,113
Thereafter	34,333

No impairment losses on loan costs were recognized in 2016.

(3) Debt

(a) *Line of Credit*

The Agency has a revolving line of credit with Eastern Bank (a Massachusetts bank) of \$1,500,000 to be drawn upon as needed, with interest equal to the bank's lending rate plus .50%, or 4.00% as of June 30, 2016. The line is secured by the Agency's accounts receivable and expires December 31, 2016. The balance on the line of credit was zero as of June 30, 2016.

(b) *Mortgage Notes Payable*

The Agency has a first mortgage note payable with the New Hampshire Health and Educational Facilities Authority that is serviced by Eastern Bank in the original amount of \$3,800,000. The note is collateralized by the Agency's property located in Windsor, New Hampshire. The note is payable in monthly installments of \$21,092 and bears interest at a rate of 5.22%. The final payment of the note is due in September 2037. As of June 30, 2016, the unpaid principal balance was \$3,223,950.

The Agency has a note payable held by Eastern Bank in the original amount of \$600,000. The note is collateralized by the Agency's equipment in New Hampshire and a first mortgage on property located in Boston, Massachusetts. The note is payable in monthly installments of \$2,251 and bears interest at a rate of 4.14%. The unpaid principal and interest are due in September 2017. As of June 30, 2016, the unpaid principal balance was \$382,464.

WEDIKO CHILDREN'S SERVICES, INC.

Notes to Financial Statements

June 30, 2016

(3) Debt - continued

(b) Mortgage Notes Payable - continued

The Agency has a second mortgage note payable held by Eastern Bank in the original amount of \$600,000. The note is collateralized by the Agency's property located in Windsor, New Hampshire and Boston, Massachusetts. The note is payable in monthly installments of \$3,244 and bears interest at a rate of 4.99%. The unpaid principal and interest were due in June 2016. During the year ended, June 30, 2016, the due date was extended to November 2016. As of the date of the auditors' report, the mortgage note payable has not been formally extended. Both management of the Agency and Eastern Bank have expressed intentions to refinance. As of June 30, 2016, the unpaid principal balance was \$551,338.

The loan agreements contain various financial covenants, which include a minimum debt service coverage ratio, maximum leverage ratio, restrictions on additional indebtedness, restrictions on disposal of property and equipment and certain reporting requirements.

(c) Debt Maturities and Interest

Based on minimum required principal payments the mortgage notes payable and vehicle and equipment loans are due as follows:

2017	\$ 647,252
2018	460,520
2019	93,883
2020	98,550
2021	104,319
Thereafter	2,753,228

Interest expense on the line of credit and mortgage notes payable during the year ended June 30, 2016 totaled \$235,872.

(4) Capital Lease Obligations

The Agency leases certain assets under capital lease arrangements. Capital leases are recorded at the lower of fair market value or the present value of future lease payments using interest rates appropriate at the inception of each lease.

The following is an analysis of the assets under capital leases included in land, building and equipment on the accompanying statement of financial position as of June 30, 2016:

Land, building and equipment	\$ 114,448
Accumulated depreciation	<u>(103,259)</u>
	<u>\$ 11,189</u>

WEDIKO CHILDREN'S SERVICES, INC.

Notes to Financial Statements

June 30, 2016

(4) Capital Lease Obligations - continued

Depreciation expense on capital lease assets amounted to \$13,259 for the year ended June 30, 2016.

The minimum lease payments for assets under capital leases are as follows:

2017	\$	4,200
2018		4,200
2019		<u>2,892</u>
Total minimum obligations		11,292
Less: interest amount		<u>(637)</u>
Present value of obligations		10,655
Less: current portion		<u>(3,817)</u>
Long-term obligation	\$	<u>6,838</u>

The Agency's quarterly aggregate capital lease payments are \$1,050. Interest rates on these obligations are approximately 5%. Maturities of capital lease obligations are as follows:

2016	\$	3,817
2017		3,972
2018		2,866

Interest expense on all capital lease obligations amounted to \$476 for the year ended June 30, 2016.

(5) Related Party Transactions

During the year ended June 30, 2016, the Agency received donations of \$91,000 from two trusts of which a board member is a trustee.

(6) Employee Benefits

The Agency has a defined contribution pension plan that qualifies as a tax-sheltered account under Section 403(b)(7) of the IRC for the benefit of eligible employees; this includes a Roth savings plan. All employees with the exception of students, non-resident aliens and employees that normally work less than 20 hours per week, are eligible to participate in this plan. There are no special age or service requirements that need to be satisfied. Under the plan, benefit eligible employees can invest pre-tax dollars. The employees are not taxed on contributions or earnings until they receive distributions from the account. Under the plan, the Agency is prohibited from making any matching or non-elective employer contributions.

WEDIKO CHILDREN'S SERVICES, INC.

Notes to Financial Statements

June 30, 2016

(7) Commitments and Contingencies

(a) Funding Sources

The Agency receives a portion of its funding from governmental agencies under unit-rate and cost-reimbursement contracts. These contracts are subject to audit by the appropriate governmental agencies and could result in the recapture by the agencies of revenue previously reported by the Agency. In the opinion of management, the results of such audits, if any, will not have a material effect on the financial position of the Agency as of June 30, 2016 or on the results of its operations for the year then ended.

(b) Health Insurance

The Agency has developed a self-insurance plan for its health insurance coverage of employees. The Wediko Health Plan is liable for all insurance claims up to a maximum of \$25,000 per employee per year.

(c) Regulatory Agencies

The Agency's operations are concentrated in the special education services provider field. As such, the Agency operates in a heavily regulated environment. The operations of the Agency are subject to administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to the following:

- New Hampshire Department of Special Education
- New Hampshire Department of Children, Youth and Family Services
- Boston Public Schools
- Massachusetts Department of Children and Families
- Massachusetts Department of Education
- Massachusetts Operational Services Division
- United States Department of Agriculture

Such administrative directives, rules and regulations are subject to change by an act of Congress, act of the state and local legislature or an administrative change mandated by departments noted above. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change. Additionally, contractual funding may decrease or be withdrawn with little notice.

(8) Non Cash Investing and Financing Transactions

During the year ended June 30, 2016, the Agency placed \$48,150 of construction in progress into service.

WEDIKO CHILDREN'S SERVICES, INC.

Notes to Financial Statements

June 30, 2016

(9) Temporarily Restricted Net Assets

Temporarily restricted net assets consist of resources available to meet future obligations, but only in compliance with the restrictions specified by donors. As of June 30, 2016, all temporarily restricted net assets are restricted for facility improvements.

(10) Subsequent Events

The Agency has performed an evaluation of subsequent events through October 6, 2016, which is the date the Agency's financial statements were available to be issued. No material subsequent events have occurred since June 30, 2016 that required recognition or disclosure in these financial statements.

WEDIKO CHILDREN'S SERVICES, INC.

Schedule of Findings and Responses

June 30, 2016

(1) Financial Statement Findings

No significant deficiencies or material weaknesses reported.

(2) Status of Prior Year Findings

No significant deficiencies or material weaknesses reported.

Supplemental Information

WEDIKO CHILDREN'S SERVICES, INC.

**Supplemental Schedule of Support, Revenue, Expenses,
Capital Additions and Changes in Net Assets**

For the year ended June 30, 2016

	<u>Summer Program</u>	<u>School-Based Program</u>	<u>Wediko School</u>	<u>New York - Based Program</u>	<u>Home-Based Program</u>	<u>Total</u>
SUPPORT AND REVENUE:						
Tuitions	\$ 1,309,857	\$ 451,712	\$ 5,093,637	\$ 2,137,132	\$ 386,888	\$ 9,379,226
Clinical and consultation fees	-	3,037,277	-	-	-	3,037,277
Agriculture grants	20,644	-	-	-	-	20,644
Gifts and grants	96,693	64,400	18,083	79,980	-	259,156
Other income	687	197	11,510	-	-	12,394
Total support and revenue	<u>1,427,881</u>	<u>3,553,586</u>	<u>5,123,230</u>	<u>2,217,112</u>	<u>386,888</u>	<u>12,708,697</u>
EXPENSES:						
Program services	1,253,936	3,231,454	4,941,223	1,817,813	553,836	11,798,262
General and administration allocated	103,605	266,562	406,827	151,072	44,234	972,300
Total expenses	<u>1,357,541</u>	<u>3,498,016</u>	<u>5,348,050</u>	<u>1,968,885</u>	<u>598,070</u>	<u>12,770,562</u>
Excess (deficit) of support and revenue over expenses before other revenue (expenses)	<u>\$ 70,340</u>	<u>\$ 55,570</u>	<u>\$ (224,820)</u>	<u>\$ 248,227</u>	<u>(211,182)</u>	<u>(61,865)</u>
OTHER REVENUE (EXPENSES):						
Investment revenue						596
Other income						3,052
Unrestricted gifts and grants						103,857
Restricted gifts and grants						198,250
Restricted program assets released						(107,500)
Fundraising expenses						(112,741)
Allocated general and administration						(9,372)
						<u>76,142</u>
Increase in net assets						14,277
Net assets at beginning of year						<u>7,478,454</u>
Total net assets at end of year						<u>\$ 7,492,731</u>
Temporarily restricted net assets at end of year						\$ 225,802
Unrestricted net assets at end of year						<u>7,266,929</u>
						<u>\$ 7,492,731</u>

See independent auditors' report.