# WEDIKO CHILDREN'S SERVICES, INC.

## Financial Statements
## and Supplemental Information

## June 30, 2014

**WEDIKO CHILDREN'S SERVICES, INC.**

Index

June 30, 2014

**Independent Auditors' Report**

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

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, 2014, 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.


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**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, 2014, 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 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 22, 2013. 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, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2014, 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.

Mauri P. Martin & Anuta P.C.

October 21, 2014

Kevin P. Martin & Associates, P.C.
ASSURANCE | TAX | RISK MANAGEMENT | IT ADVISORY

**Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

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

We have audited, in accordance with the 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, the financial statements of Wediko Children's Services, Inc. (a nonprofit organization), (the Agency), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 21, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.


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**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

October 21, 2014

**WEDIKO CHILDREN'S SERVICES, INC.**

Statement of Financial Position

As of June 30, 2014
With comparative totals as of June 30, 2013

| | 2014 | 2013 |
|---|---|---|
| **Assets** | | |
| **Current Assets:** | | |
| Cash and cash equivalents | $ 1,191,168 | $ 842,948 |
| Accounts receivable, net of allowance | 1,684,894 | 1,231,000 |
| Pledge receivable, current portion | 24,000 | 24,000 |
| Prepaid expenses | 162,651 | 181,094 |
| Total Current Assets | 3,062,713 | 2,279,042 |
| **Fixed Assets:** | | |
| Land | 53,379 | 53,379 |
| Land improvements | 1,410,000 | 1,410,000 |
| Buildings and improvements | 12,899,849 | 12,696,771 |
| Furnishings and equipment | 1,300,948 | 1,327,444 |
| Motor vehicles | 186,076 | 353,608 |
| Construction in progress | 15,066 | 22,263 |
| Total fixed assets | 15,865,318 | 15,863,465 |
| Less: accumulated depreciation | (6,014,646) | (5,635,596) |
| Total Net Fixed Assets | 9,850,672 | 10,227,869 |
| **Other Assets:** | | |
| Pledge receivable, net of current portion | 36,085 | 60,323 |
| Other assets | 106,284 | 106,935 |
| Total Other Assets | 142,369 | 167,258 |
| **Total Assets** | $ 13,055,754 | $ 12,674,169 |
| **Liabilities and Net Assets** | | |
| **Current Liabilities:** | | |
| Accounts payable | $ 98,676 | $ 97,185 |
| Accrued expenses | 715,598 | 452,942 |
| Line of credit | - | 300,000 |
| Long term debt, current portion | 117,979 | 126,100 |
| Deferred revenue | 342,493 | 188,531 |
| Capital lease payable, current portion | 21,407 | 20,040 |
| Total Current Liabilities | 1,296,153 | 1,184,798 |
| **Long Term Liabilities:** | | |
| Long term debt, net of current portion | 4,258,322 | 4,375,838 |
| Capital lease payable, net of current portion | 2,495 | 24,871 |
| Total Long Term Liabilities | 4,260,817 | 4,400,709 |
| **Total Liabilities** | 5,556,970 | 5,585,507 |
| **Net Assets:** | | |
| Unrestricted | 7,188,730 | 6,770,823 |
| Temporarily restricted | 310,054 | 317,839 |
| **Total Net Assets** | 7,498,784 | 7,088,662 |
| **Total Liabilities and Net Assets** | $ 13,055,754 | $ 12,674,169 |

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, 2014
With comparative totals for the year ended June 30, 2013

| | Unrestricted Operating | Temporarily Restricted | 2014 Total | 2013 Total |
|---|---|---|---|---|
| **Revenue and Support:** | | | | |
| Program service fees | $ 12,508,547 | $ - | $ 12,508,547 | $ 11,764,246 |
| Contributions | 444,167 | 262,937 | 707,104 | 466,625 |
| Other income | 51,292 | - | 51,292 | 70,663 |
| In-kind contributions | 21,737 | - | 21,737 | 42,869 |
| Investment income | 2,106 | - | 2,106 | 1,950 |
| Total | 13,027,849 | 262,937 | 13,290,786 | 12,346,353 |
| Net assets released from restrictions | | | | |
| Satisfaction of program restrictions | 212,937 | (212,937) | - | - |
| Satisfaction of equipment acquisition restrictions | 57,785 | (57,785) | - | - |
| **Total Revenue and Support** | 13,298,571 | (7,785) | 13,290,786 | 12,346,353 |
| **Expenses:** | | | | |
| Program services | 11,452,449 | - | 11,452,449 | 11,278,125 |
| Administration | 1,246,051 | - | 1,246,051 | 917,430 |
| Fundraising | 182,164 | - | 182,164 | 99,690 |
| **Total Expenses** | 12,880,664 | - | 12,880,664 | 12,295,245 |
| **Change in Net Assets** | 417,907 | (7,785) | 410,122 | 51,108 |
| **Net Assets at Beginning of Year** | 6,770,823 | 317,839 | 7,088,662 | 7,037,554 |
| **Net Assets at End of Year** | $ 7,188,730 | $ 310,054 | $ 7,498,784 | $ 7,088,662 |

**WEDIKO CHILDREN'S SERVICES, INC.**

Statement of Cash Flows

For the year ended June 30, 2014
With comparative totals for the year ended June 30, 2013

| | 2014 | 2013 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Change in net assets | $ 410,122 | $ 51,108 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation | 620,231 | 629,692 |
| Loss on disposal of fixed assets | 24,064 | - |
| Changes in operating assets and liabilities | | |
| (Increase) decrease in: | | |
| Accounts receivable | (453,894) | 876,566 |
| Pledge receivable | 24,238 | 17,852 |
| Prepaid expenses | 18,443 | 11,250 |
| Other assets | 651 | 18,034 |
| Increase (decrease) in: | | |
| Accounts payable | 1,491 | (94,520) |
| Accrued expenses | 262,656 | 115,598 |
| Deferred revenue | 153,962 | (314,124) |
| Net cash provided by operating activities | 1,061,964 | 1,311,456 |
| **Cash flows from investing activities:** | | |
| Purchase of fixed assets | (267,098) | (481,781) |
| Net cash used in investing activities | (267,098) | (481,781) |
| **Cash flows from financing activities:** | | |
| Repayments on line of credit | (3,025,000) | (4,423,000) |
| Advances on line of credit | 2,725,000 | 4,123,000 |
| Repayment on long term debt | (125,637) | (125,172) |
| Payments on capital lease payable | (21,009) | (20,172) |
| Net cash used in financing activities | (446,646) | (445,344) |
| **Increase in cash and cash equivalents** | 348,220 | 384,331 |
| **Cash and cash equivalents, beginning of year** | 842,948 | 458,617 |
| **Cash and cash equivalents, end of year** | $ 1,191,168 | $ 842,948 |

**Supplemental Disclosure of Cash Flow Information**

| | 2014 | 2013 |
|---|---|---|
| Cash paid during the year for interest | $ 238,018 | $ 258,668 |

**Noncash Investing and Financing Transactions**

See Note 9.

**WEDIKO CHILDREN'S SERVICES, INC.**

Statement of Functional Expenses

For the year ended June 30, 2014
With comparative totals for the year ended June 30, 2013

| | Summer Program | School-Based Program | Wediko School | New York - Based Program | Home - Based Program | Total Program Services | Management & General | Fundraising | Total 2014 | Total 2013 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Functional Expenses:** | | | | | | | | | | |
| Salaries and benefits | $ 850,901 | $ 3,111,569 | $ 3,106,382 | $ 576,491 | $ 265,376 | $ 7,910,719 | $ 949,449 | $ 119,776 | $ 8,979,944 | $ 8,833,179 |
| Occupancy | 265,287 | 75,490 | 826,364 | 9,264 | 2,078 | 1,178,483 | 20,816 | 3,706 | 1,203,005 | 1,019,568 |
| Depreciation | 128,195 | 31,158 | 437,144 | - | 2,070 | 598,567 | 18,737 | 2,927 | 620,231 | 629,692 |
| Meals | 208,378 | 18,729 | 225,422 | 6,336 | 1,094 | 459,959 | 7,799 | 349 | 468,107 | 448,861 |
| Program supplies and materials | 84,706 | 85,354 | 224,038 | 26,670 | 11,330 | 432,098 | - | - | 432,098 | 347,926 |
| Office expenses | 58,433 | 73,069 | 89,823 | 19,389 | 4,456 | 245,170 | 120,971 | 14,516 | 380,657 | 359,802 |
| Vehicle expenses | 30,318 | 48,207 | 108,225 | 16,754 | 32,694 | 236,198 | 25,572 | 1,551 | 263,321 | 235,242 |
| Consultants and professional fees | 16,129 | 59,097 | 57,201 | 5,000 | - | 137,427 | 16,334 | 516 | 154,277 | 160,197 |
| Bad debt | 10,830 | 5,578 | 130,222 | - | 6,116 | 152,746 | - | - | 152,746 | 45,902 |
| Other operating expenses | 8,054 | 40,460 | 35,412 | 12,301 | 792 | 97,019 | 85,852 | 38,705 | 221,576 | 207,428 |
| Leased equipment | 293 | 493 | 3,197 | - | 80 | 4,063 | 521 | 118 | 4,702 | 7,448 |
| **Total Functional Expenses** | $ 1,661,524 | $ 3,549,204 | $ 5,243,430 | $ 672,205 | $ 326,086 | $ 11,452,449 | $ 1,246,051 | $ 182,164 | $ 12,880,664 | $ 12,295,245 |

**WEDIKO CHILDREN'S SERVICES, INC.**

Notes to Financial Statements

June 30, 2014

## (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 (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 46% of total program expenditures for the year ended June 30, 2014. 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 30% of total program expenditures for the year ended June 30, 2014. Program revenue is derived primarily from a contract with the Boston Public Schools and other school districts.

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 15% of total program expenditures for the year ended June 30, 2014. 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.

## (1) Summary of Significant Accounting Policies - continued

### *(a) Nature of Activities - continued*

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 6% of total program expenditures for the year ended June 30, 2014. Program revenue is derived primarily from New York cities and towns, other governmental agencies as well as 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 3% of total program expenditures for the year ended June 30, 2014. 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.

## (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 event contributions and fees are recognized as income when received.

Deferred revenue represents program service fees received prior to year-end for the following fiscal period. These amounts are recognized as income during the subsequent fiscal period.

Substantially all of the Agency's revenue is derived from its activities in Massachusetts and New Hampshire. During the year ended June 30, 2014, the Agency derived approximately 70% of its total revenue from governmental agencies and 30% from foundations and individual payors or donors. All revenue is recorded at the estimated net realizable amounts.

### *(d) Promises to Give*

Unconditional promises to give are recognized as revenue and as assets, net of allowances, in the period in which the promises are made. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and when the promises become unconditional. Unconditional promises to give are recorded, in the year received, at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-adjusted discount rate in the year the promise is received. Amortization of the discount is included in investment revenue.

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, 2014, 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, 2014, the allowance for doubtful accounts was immaterial.

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.

**(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, 2014, the Agency's accounts receivable were due as follows: approximately 82% due from governmental agencies and 18% due from foundations and individual donors.

***(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 (permanently restricted, temporarily restricted and unrestricted) 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 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.

## (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 therefore is not subject to income tax. The Agency is not a private foundation under Section 509(a)(1). Certain unrelated business income, as defined in the IRC, is subject to federal income tax. For the year ended June 30, 2014, there was no liability for tax on unrelated business income.

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. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. For the year ended June 30, 2014, the Agency has determined that it has not taken any tax positions which would result in an uncertainty requiring recognition in the accompanying financial statements. The Agency recognizes interest and penalties, if any, related to unrecognized tax benefits in interest expense. There were no interest or penalties for the year ended June 30, 2014.

Generally, the Agency's information returns remain open for possible federal income tax examination for three years after the filing date. The Agency is not currently under examination by any taxing jurisdiction.

### *(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 25% for the year ended June 30, 2014. 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 $219,229 and $24,269, respectively, for the year ended June 30, 2014.

### *(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.

## (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, 2014.

### *(n) Advertising Costs*

The Agency expenses advertising costs when they are incurred. Advertising expense was immaterial for the year ended June 30, 2014.

### *(o) Fair Value Measurements*

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:** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

## (1) Summary of Significant Accounting Policies - continued

### *(o) Fair Value Measurements - continued*

***Recurring Measurements***

GAAP requires that certain assets and liabilities be recorded at fair value on a recurring basis. The Agency had no assets and liabilities that were recognized or disclosed at fair value on a recurring basis under the above fair value hierarchy as of June 30, 2014. The Agency's policy is to recognize transfers in and out of levels as of the actual date of the event or change in circumstances that caused the transfer. There were no transfers between levels during the year ended June 30, 2014.

***Nonrecurring Measurements***

In addition to assets and liabilities that are recorded at fair value on a recurring basis, the Agency records assets and liabilities at fair value on a nonrecurring basis as required by GAAP. The Agency had no assets and liabilities measured at fair value on a nonrecurring basis as of June 30, 2014.

### *(p) 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.

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 |

The Agency reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the property and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There were no impairment losses recognized in 2014.

## (1) Summary of Significant Accounting Policies - continued

### *(q) Summarized Financial Information for 2013*

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Also, there is no presentation of statement of cash flows or statement of functional expenses for the year ended June 30, 2013. 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 GAAP. Accordingly, such information should be read in conjunction with the Agency's financial statements for the year ended June 30, 2013, from which the summarized information was derived.

### *(r) 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. Construction in progress consists mainly of architectural costs incurred related to planned improvements to the Agency's facilities.

### *(s) Contributed Services and Gifts in Kind*

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

## (2) Promises to Give

The Agency has received an unconditional promise to give from a donor. 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 received more than a year after June 30, 2014 are recorded at the present value of their future cash flows using a discount rate of 1%. Uncollectible amounts of the promise to give are expected to be immaterial. Accordingly, no provision has been made for uncollectible amounts.

The following is an analysis of the promises to give as of June 30, 2014:

| | Gross Promise | Allowance | Net Promise | Unamortized Discount | Total |
|---|---|---|---|---|---|
| Receivable less than 1 year | $ 24,000 | $ - | $ 24,000 | $ 504 | $ 23,496 |
| Receivable in 1 to 5 years | 38,000 | - | 38,000 | 1,411 | 36,589 |
| | $ 62,000 | $ - | $ 62,000 | $ 1,915 | $ 60,085 |

## (3) 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 $5,430 for the year ended June 30, 2014. Accumulated amortization as of June 30, 2014 amounted to $24,216. Estimated future amortization expense for loan costs as of June 30, 2014 approximates:

| | |
|---|---|
| 2015 | $ 5,431 |
| 2016 | 5,431 |
| 2017 | 2,113 |
| 2018 | 2,113 |
| 2019 | 2,113 |
| Thereafter | 38,559 |

No impairment losses on loan costs were recognized in 2014.

## (4) 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 3.75% as of June 30, 2014. The line is secured by the Agency's accounts receivable and expires December 31, 2014. The balance on the line of credit was zero as of June 30, 2014.

### *(b) Vehicle and Equipment Loans*

The Agency has an equipment loan with Kansas State Bank in the amount of $59,000. The loan requires monthly payments of $1,909 with a fixed rate of 10.80% per annum and matures in March 2015. The balance of the loan, collateralized by the associated equipment, was $16,429 as of June 30, 2014.

The Agency has two vehicle loans with Eastern Bank. The first loan, in the amount of $11,830, required monthly payments of $354 with a fixed rate of 4.79% per annum and matured in November 2013. The second loan, in the amount of $11,875, required monthly payments of $355 with a fixed rate of 4.79% per annum and matured in November 2013. The balances of both loans, collateralized by the associated vehicles, were fully satisfied as of June 30, 2014.

The Agency has a vehicle loan the with the New Hampshire Health and Education Facilities Authority in the amount of $50,000. The loan requires monthly payments of $864 with a fixed rate of 1.00% per annum and matures in December 2014. The balance of the loan, collateralized by the associated vehicles, was $4,308 as of June 30, 2014.

## (4) Debt - continued

### *(c) 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, 2014, the unpaid principal balance was $3,380,124.

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, 2014, the unpaid principal balance was $403,400.

The Agency has a mortgage note payable held by Eastern Bank in the original amount of $600,000. The note is collateralized by a second mortgage on 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 are due in June 2016. As of June 30, 2014, the unpaid principal balance was $572,040.

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.

### *(d) Debt Maturities and Interest*

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

| | |
|---|---|
| 2015 | $ 117,979 |
| 2016 | 651,568 |
| 2017 | 95,914 |
| 2018 | 459,951 |
| 2019 | 93,883 |
| Thereafter | 2,957,006 |

Interest expense on the line of credit, vehicle and equipment loans and mortgages during the year ended June 30, 2014 totaled $242,467.

## (5) 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, 2014:

| | |
|---|---|
| Land, building and equipment | $ 96,304 |
| Accumulated depreciation | (67,413) |
| | $ 28,891 |

Depreciation expense on capital lease assets amounted to $19,261 for the year ended June 30, 2014.

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

| | |
|---|---|
| 2015 | $ 22,800 |
| 2016 | 6,500 |
| Total minimum obligations | 29,300 |
| Less: interest amount | (5,398) |
| Present value of obligations | 23,902 |
| Less: current portion | (21,407) |
| Long-term obligation | $ 2,495 |

The Agency's quarterly aggregate capital lease payments are $5,700. Interest rates on these obligations are approximately 5%. Maturities of capital lease obligations are as follows:

| | |
|---|---|
| 2015 | $ 21,407 |
| 2016 | 2,495 |

Interest expense on all capital lease obligations amounted to $1,631 for the year ended June 30, 2014.

## (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.

## (7) Related Party Transactions

During the year ended June 30, 2014, construction services totaling $124,593 were provided by a company owned by an employee of the Agency. As of June 30, 2014, no amounts were outstanding and payable to this company.

During the year ended June 30, 2014, the Agency received donations of $116,000 from two separate trusts of which a board member is a trustee.

## (8) 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, 2014 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.

## (8) Commitments and Contingencies - continued

### *(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.

## (9) Non Cash Investing and Financing Transactions

During the year ended June 30, 2014, the Agency placed $3,901 of construction in progress into service and disposed of $18,362 of construction in progress. During the year ended June 30, 2014, the Agency disposed of $246,883 of significantly depreciated fixed assets resulting in a loss of $5,702.

## (10) 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, 2014, all temporarily restricted net assets are restricted for facility improvements.

## (11) Subsequent Events

The Agency has performed an evaluation of subsequent events through October 21, 2014, which is the date the Agency's financial statements were available to be issued. No material subsequent events have occurred since June 30, 2014 that required recognition or disclosure in these financial statements.

**WEDIKO CHILDREN'S SERVICES, INC.**

Schedule of Findings and Responses

June 30, 2014

## (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**

Kevin P. Martin & Associates, P.C.
ASSURANCE | TAX | RISK MANAGEMENT | IT ADVISORY

**Independent Auditors' Report on Supplemental Information**

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

We have audited the financial statements of Wediko Children's Services, Inc. (a nonprofit organization), (the Agency), as of and for the year ended June 30, 2014, and have issued our report thereon dated October 21, 2014, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The *Supplemental Schedule of Support, Revenue, Expenses, Capital Additions and Changes in Net Assets*, which is the responsibility of management, is presented for the purposes of additional analysis and is 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 any assurance on it.

Kevin P. Martin & Associates, P.C.

October 21, 2014

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**WEDIKO CHILDREN'S SERVICES, INC.**

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

For the year ended June 30, 2014

| | Summer Program | School-Based Program | Wediko School | New York - Based Program | Home-Based Program | Total |
|---|---|---|---|---|---|---|
| **SUPPORT AND REVENUE:** | | | | | | |
| Tuitions | $ 1,873,641 | $ 425,964 | $ 5,480,925 | $ 822,379 | $ 375,804 | $ 8,978,713 |
| Clinical and consultation fees | - | 3,529,834 | - | - | - | 3,529,834 |
| Agriculture grants | 28,377 | - | - | - | - | 28,377 |
| Gifts and grants | 117,195 | 38,330 | 9,216 | 75,000 | - | 239,741 |
| Miscellaneous income | 4,172 | 180 | 42,496 | - | - | 46,848 |
| **Total support and revenue** | 2,023,385 | 3,994,308 | 5,532,637 | 897,379 | 375,804 | 12,823,513 |
| **EXPENSES:** | | | | | | |
| Program services | 1,661,524 | 3,549,204 | 5,243,430 | 672,205 | 326,086 | 11,452,449 |
| General and administration allocated | 179,198 | 385,212 | 553,799 | 73,175 | 34,835 | 1,226,219 |
| **Total expenses** | 1,840,722 | 3,934,416 | 5,797,229 | 745,380 | 360,921 | 12,678,668 |
| **Excess (deficit) of support and revenue over expenses before other revenue (expenses)** | $ 182,663 | $ 59,892 | $ (264,592) | $ 151,999 | 14,883 | 144,845 |
| **OTHER REVENUE (EXPENSES):** | | | | | | |
| Investment revenue | | | | | | 2,106 |
| Miscellaneous income | | | | | | 4,444 |
| Unrestricted gifts and grants | | | | | | 410,723 |
| Restricted gifts and grants | | | | | | 262,937 |
| Restricted program assets released | | | | | | (212,937) |
| Fundraising expenses | | | | | | (182,164) |
| Allocated general and adminstration | | | | | | (19,832) |
| | | | | | | 265,277 |
| **Increase in net assets** | | | | | | 410,122 |
| **Net assets at beginning of year** | | | | | | 7,088,662 |
| **Total net assets at end of year** | | | | | | $ 7,498,784 |
| Temporarily restricted net assets at end of year | | | | | | $ 310,054 |
| Unrestricted net assets at end of year | | | | | | 7,188,730 |
| | | | | | | $ 7,498,784 |

*Total gifts and grants received by the Agency for the year ended June 30, 2014 totaled $768,419. Of those gifts and grants, $285,477 were considered to be received for program service fees and are classified as such on the accompanying statement of activites.