CHILDREN'S AID AND FAMILY SERVICES, INC.

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

DECEMBER 31, 2017 AND 2016

SOBEL & CO. LLC
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

CHILDREN'S AID AND FAMILY SERVICES, INC.

DECEMBER 31, 2017 AND 2016

CONTENTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Children's Aid and Family Services, Inc.
Paramus, New Jersey

Report on the Financial Statements

We have audited the accompanying financial statements of Children's Aid and Family Services, Inc. ("Organization"), a New Jersey nonprofit organization, which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and changes in net assets, cash flows, and functional expenses, 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 the 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 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 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 auditors consider internal control relevant to the Organization'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 Organization'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 Children's Aid and Family Services, Inc. as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of expenditures of federal and state awards on pages 31 through 33, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and NJ Office of Management and Budget Circular Letter 15-08, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 6, 2018, on our consideration of the Organization'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 Organization's internal control over financial reporting and compliance.

Report on Summarized, Comparative Information

We have previously audited the Organization's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report, dated May 3, 2017. In our opinion, the summarized, comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Sobel & Co., LLC

Certified Public Accountants

Livingston, New Jersey
August 6, 2018

CHILDREN'S AID AND FAMILY SERVICES, INC.
STATEMENTS OF FINANCIAL POSITION

	December 31, 2017	December 31, 2016
ASSETS		
Cash and cash equivalents	$ 691,877	$ 1,108,731
Grants and contracts receivable	566,832	1,100,936
Contributions receivable	2,144,522	179,400
Fees receivable, net	69,434	41,900
Investments	3,339,055	2,912,145
Prepaid expenses and other assets	190,045	292,668
Fixed assets, net	9,017,714	9,351,666
	$ 16,019,479	$ 14,987,446
LIABILITIES AND NET ASSETS		
Accounts payable	$ 293,146	$ 410,874
Accrued expenses	1,024,241	387,393
Due to government agencies	151,278	134,167
Deferred income	54,753	167,538
Deferred rent	90,590	60,651
Lease obligation	40,625	55,935
Mortgage payable, net	3,744,350	3,964,115
Notes payable, Ways to Work Family Loan Program	35,154	35,154
Notes payable, Zoe's Place	62,500	125,000
Line of credit	1,673,889	1,827,245
Total Liabilities	7,170,526	7,168,072
OBLIGATIONS UNDER INTEREST-RATE SWAP	53,843	90,032
COMMITMENTS AND CONTINGENCIES		
NET ASSETS:		
Unrestricted	4,772,886	3,611,457
Temporarily restricted	2,188,874	2,314,662
Permanently restricted	1,833,350	1,803,223
Total Net Assets	8,795,110	7,729,342
	$ 16,019,479	$ 14,987,446

CHILDREN'S AID AND FAMILY SERVICES, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2017
(With Summarized, Comparative Totals for the Year Ended December 31, 2016)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2017 Total	2016 Total
Support:					
Private Support:					
Contributions	$ 3,325,982	$ 218,641	$ 30,127	$ 3,574,750	$ 1,835,938
Fundraising, net	99,992	351,324	-	451,316	548,155
Total Private Support	3,425,974	569,965	30,127	4,026,066	2,384,093
Government Support:					
Federal and state	9,172,269	-	-	9,172,269	8,642,785
Revenue and Gains:					
Program fees and dues	126,909	-	-	126,909	135,261
Counseling fees	9,265	-	-	9,265	-
Interest and dividend income	20,069	117,213	-	137,282	70,308
Net unrealized gain on investments	27,028	353,368	-	380,396	236,862
Net realized loss on investments	(883)	(5,157)	-	(6,040)	(35,232)
Loss on charitable remainder trust	(37,016)	-	-	(37,016)	-
Gain on disposal of asset	1,012,956	-	-	1,012,956	1,500
Miscellaneous revenue	24,533	-	-	24,533	-
Total Revenue and Gains	1,182,861	465,424	-	1,648,285	408,699
Net assets released from restriction	1,161,177	(1,161,177)	-	-	-
Total Support, Revenue and Gains	14,942,281	(125,788)	30,127	14,846,620	11,435,577
Expenses:					
Program Services:					
Adoption services	333,771	-	-	333,771	471,012
Counseling services	1,630,986	-	-	1,630,986	1,735,705
Residential treatment	1,884,856	-	-	1,884,856	1,817,852
Services for developmentally disabled	3,825,501	-	-	3,825,501	3,193,225
Community services	124,865	-	-	124,865	119,091
Addiction prevention	1,593,699	-	-	1,593,699	1,337,235
Total Program Services	9,393,678	-	-	9,393,678	8,674,120
Supporting Services:					
Management and general	2,446,422	-	-	2,446,422	2,481,685
Fundraising	554,744	-	-	554,744	734,771
Total Supporting Services	3,001,166	-	-	3,001,166	3,216,456
Total Expenses	12,394,844	-	-	12,394,844	11,890,576
Changes in Net Assets Before Discontinued Operations	2,547,437	(125,788)	30,127	2,451,776	(454,999)
Unrealized gain on interest-rate swap	36,189	-	-	36,189	35,271
Total Changes in Net Assets Before Discontinued Operations	2,583,626	(125,788)	30,127	2,487,965	(419,728)
Discontinued Operations (Note 21)					
(Loss) income from operations of discontinued specialty homes and child care center	(1,422,197)	-	-	(1,422,197)	272,765
Total Changes in Net Assets	1,161,429	(125,788)	30,127	1,065,768	(146,963)
Net Assets, Beginning of year	3,611,457	2,314,662	1,803,223	7,729,342	7,876,305
Net Assets, End of year	$ 4,772,886	$ 2,188,874	$ 1,833,350	$ 8,795,110	$ 7,729,342

CHILDREN'S AID AND FAMILY SERVICES, INC.

STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2017	2016
CASH FLOWS PROVIDED BY (USED FOR):		
OPERATING ACTIVITIES:		
Changes in net assets	$ 1,065,768	$ (146,963)
Adjustments to reconcile changes in net assets to net cash (used for) provided by operating activities:		
Depreciation	608,321	551,203
Bad debt expense	-	1,788
Net unrealized gain on investments	(380,396)	(236,862)
Net realized loss on investments	6,040	35,232
Loss on charitable remainder trust	37,016	-
Net unrealized gain on interest-rate swap	(36,189)	(35,271)
Net realized gain on sale of fixed assets	(1,012,956)	(1,500)
Noncash securities donation	(90,698)	(8,048)
Noncash interest expense (amortization)	12,899	12,899
Forgiveness of debt	(23,947)	-
Changes in operating assets and liabilities:		
Grants and contracts receivable	534,104	134,631
Contributions receivable	(1,965,122)	148,927
Fees receivable	(27,534)	(12,787)
Prepaid expenses and other assets	65,607	65,578
Accounts payable	(117,728)	48,506
Accrued expenses	636,848	52,997
Due to government agencies	17,111	130,525
Deferred rent	29,937	32,685
Deferred income	(112,785)	(84,628)
Net Cash (Used for) Provided by Operating Activities	(753,704)	688,912
INVESTING ACTIVITIES:		
Purchases of fixed assets	(429,418)	(730,184)
Proceeds from sale of fixed assets	1,168,005	1,500
Proceeds from sale of investments	38,165	274,913
Purchases of investments	(21)	(263,386)
Net Cash Provided by (Used for) Investing Activities	776,731	(717,157)
FINANCING ACTIVITIES:		
Repayment of mortgages payable	(271,217)	(200,662)
Proceeds from mortgages	-	5,335
Repayment of lease obligation	(15,310)	(14,183)
Borrowings from line of credit	3,315,000	6,060,000
Repayment of line of credit	(3,468,354)	(5,587,517)
Net Cash (Used for) Provided by Financing Activities	(439,881)	262,973
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(416,854)	234,728
CASH AND CASH EQUIVALENTS:		
Beginning of year	1,108,731	874,003
End of year	$ 691,877	$ 1,108,731

CHILDREN'S AID AND FAMILY SERVICES, INC.
STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2017	2016
SUPPLEMENTAL DATA:		
Interest paid	$ 177,785	$ 182,023
NONCASH INVESTING ACTIVITIES:		
Securities donation	$ 90,698	$ 8,048

CHILDREN'S AID AND FAMILY SERVICES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017

	Program Services							Supporting Services			Total Program and Supporting Services
	Adoption Services	Counseling Services	Residential Treatment	Services for Developmentally Disabled	Community Services	Addiction Prevention	Total	Management and General	Fundraising	Total	
Salaries	$ 182,634	$ 1,068,137	$ 915,755	$ 2,267,717	$ 62,000	$ 835,032	$ 5,331,275	$ 1,533,757	$ 301,565	$ 1,835,322	$ 7,166,597
Payroll taxes and employee benefits	39,627	231,741	201,457	498,134	13,427	182,811	1,167,197	328,775	65,248	394,023	1,561,220
Total Salaries and Related Expenses	222,261	1,299,878	1,117,212	2,765,851	75,427	1,017,843	6,498,472	1,862,532	366,813	2,229,345	8,727,817
Professional fees	1,075	38,131	46,762	230,236	3,975	59,249	379,428	119,944	13,655	133,599	513,027
Supplies	2,999	15,192	14,819	14,731	72	9,481	57,294	19,773	5,095	24,868	82,162
Telephone	7,589	31,004	33,493	55,076	676	18,973	146,811	25,175	9,276	34,451	181,262
Postage and shipping	632	3,014	884	342	-	742	5,614	3,467	3,476	6,943	12,557
Occupancy	27,062	139,165	95,995	153,934	-	129,366	545,522	42,605	17,266	59,871	605,393
Outside printing and promotion	20,760	1,787	3,004	19,162	-	2,347	47,060	40,423	18,941	59,364	106,424
Local travel and related expenses	19,339	17,346	43,124	55,247	1,937	11,319	148,312	4,033	804	4,837	153,149
Conferences and conventions	1,785	948	910	9,016	129	45,142	57,930	4,498	1,803	6,301	64,231
Specific assistance to/for individuals	19,887	28,860	397,796	50,885	105	268,027	765,560	39,072	22,024	61,096	826,656
Repairs	1,309	7,323	20,610	81,722	-	1,198	112,162	25,617	22,832	48,449	160,611
Insurance	6,052	25,455	35,358	84,263	4,223	17,035	172,386	9,913	21,487	31,400	203,786
Membership dues	306	2,094	4,674	4,921	102	3,387	15,484	22,314	16,529	38,843	54,327
Food	602	4,057	31,880	116,010	38,219	4,473	195,241	3,820	1,567	5,387	200,628
Depreciation	942	7,380	37,849	147,851	-	4,592	198,614	92,507	5,921	98,428	297,042
Interest, credit card fees and other	-	582	-	16,525	-	-	17,107	130,729	21,769	152,498	169,605
Miscellaneous	1,171	8,770	486	19,729	-	525	30,681	-	5,486	5,486	36,167
	$ 333,771	$ 1,630,986	$ 1,884,856	$ 3,825,501	$ 124,865	$ 1,593,699	$ 9,393,678	$ 2,446,422	$ 554,744	$ 3,001,166	$ 12,394,844

CHILDREN'S AID AND FAMILY SERVICES, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2016

	Program Services							**Supporting Services**			**Total Program and Supporting Services**
	Adoption Services	**Counseling Services**	**Residential Treatment**	**Services for Developmentally Disabled**	**Community Services**	**Addiction Prevention**	**Total**	**Management and General**	**Fundraising**	**Total**	
Salaries	$ 237,241	$ 1,114,391	$ 869,642	$ 1,930,461	$ 60,247	$ 649,054	$ 4,861,036	$ 1,478,292	$ 393,970	$ 1,872,262	$ 6,733,298
Payroll taxes and employee benefits	55,902	249,226	192,898	430,531	13,378	145,267	1,087,202	353,834	88,766	442,600	1,529,802
Total Salaries and Related Expenses	293,143	1,363,617	1,062,540	2,360,992	73,625	794,321	5,948,238	1,832,126	482,736	2,314,862	8,263,100
Professional fees	4,374	28,307	21,973	107,913	3,675	29,552	195,794	132,166	1,172	133,338	329,132
Supplies	2,915	19,450	17,964	21,784	436	13,749	76,298	22,633	18,439	41,072	117,370
Telephone	9,496	30,169	28,056	56,996	412	14,770	139,899	32,098	10,773	42,871	182,770
Postage and shipping	562	5,312	1,499	644	-	1,376	9,393	3,080	4,768	7,848	17,241
Occupancy	34,895	154,652	94,048	122,417	-	112,401	518,413	42,234	17,232	59,466	577,879
Outside printing and promotion	76,709	8,880	325	6,430	-	890	93,234	89,897	13,759	103,656	196,890
Local travel and related expenses	23,082	18,312	31,672	50,756	1,240	9,698	134,760	4,209	1,754	5,963	140,723
Conferences and conventions	2,618	1,721	10,464	3,717	-	39,330	57,850	4,965	3,525	8,490	66,340
Specific assistance to/for individuals	11,858	29,877	428,687	52,467	210	293,482	816,581	48,863	63,567	112,430	929,011
Repairs	1,090	18,083	17,246	77,696	-	1,069	115,184	26,557	35,586	62,143	177,327
Insurance	7,207	33,557	32,652	71,723	1,628	19,063	165,830	4,735	23,725	28,460	194,290
Membership dues	-	-	1,445	-	-	679	2,124	12,278	16,900	29,178	31,302
Food	1,011	4,943	35,692	100,957	37,865	3,763	184,231	4,973	6,981	11,954	196,185
Depreciation	1,108	9,933	33,589	102,828	-	3,092	150,550	83,624	5,921	89,545	240,095
Interest, credit card fees and other	-	277	-	10,611	-	-	10,888	136,285	22,222	158,507	169,395
Miscellaneous	944	8,615	-	45,294	-	-	54,853	962	5,711	6,673	61,526
	$ 471,012	$ 1,735,705	$ 1,817,852	$ 3,193,225	$ 119,091	$ 1,337,235	$ 8,674,120	$ 2,481,685	$ 734,771	$ 3,216,456	$ 11,890,576

NOTE 1 - NATURE OF ORGANIZATION:

Children's Aid and Family Services, Inc. ("Organization"), a New Jersey nonprofit corporation, was founded in 1899 as a child protection and adoption agency. The Organization is one of northern New Jersey's leading nonprofit providers of human and child service programs.

The Organization's mission is to preserve, protect, and, when needed, provide families. Motivated by compassion for vulnerable children, young adults, frail elderly and their families, the Organization provides high-quality and innovative services that meet their social, educational and emotional needs. It provides a continuum of services to more than three million people living in northern New Jersey, working towards establishing permanent stable relationships for children and assisting individuals of all ages and their families with preventive, therapeutic and counseling programs.

The Organization provides:

Community services - helping children, families and senior citizens develop stronger ties to one another, thereby promoting the well-being of the community;

Early intervention services - providing professional services for children, families and individuals of all ages with assistance, with respect to emotional and/or social adjustment problems;

Permanency services for children - providing care for at-risk children until they are permanently placed with their forever families;

Addiction prevention services - promoting the awareness of alcoholism, drug abuse and other addictive behavior; and

Developmental disabilities services - providing in-home support services and community residences for children and young adults with intellectual and developmental disabilities.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting:
The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Financial Statement Presentation:
Net assets and revenue, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Financial Statement Presentation: (Continued)

Unrestricted net assets - Net assets not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

Cash and Cash Equivalents:

Cash consists of funds maintained in bank accounts. Cash equivalents consist of highly liquid money market investments with an original maturity of three months or less.

Fees Receivable:

Fees receivable are stated at the amount management expects to collect from outstanding balances. The Organization charges uncollectible fees receivable to operations when determined to be uncollectible based on historical trends. At December 31, 2017 and 2016, the allowance for uncollectible fees receivable was $847 and $2,719, respectively.

Fair Value:

Fair value measurements are defined as the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There are three defined hierarchical levels based on the quality of inputs used that directly relate to the amount of subjectivity associated with the determination of fair value.

The fair value hierarchy defines the three levels as follows:

Level 1: Valuations based on quoted prices (unadjusted) in an active market that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Valuations based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Fair Value: (Continued)

Level 3: Valuations based on unobservable inputs when little or no market is available. The fair value hierarchy gives lowest priority to Level 3 inputs.

Gains and losses, both realized and unrealized, resulting from increases or decreases in the fair value of investments are reflected in the statements of activities and changes in net assets as increases or decreases in unrestricted net assets unless the use was restricted by explicit donor stipulations or by law.

The fair values of investments are as follows:

Certificates of deposit - Fair value of fixed-maturity certificates of deposit are estimated using rates currently offered for deposits of similar remaining maturities.

Mutual funds - Valued at the net asset value of shares held by the Organization at year-end.

Equity securities - Shares in companies traded on national securities exchanges are valued at the closing price reported in the active market in which the individual securities are traded.

Fixed income - Valued at quoted market prices of valuations provided by commercial pricing services or the mean of bid and ask prices provided by investment brokers.

Fixed Assets:

Fixed assets are recorded at cost on the date of acquisition, or at the fair market value of the asset, at the date of the gift, for donated assets. Depreciation of buildings, equipment and leasehold improvements is recorded using the straight-line method based on the estimated useful lives of the assets which range from 5 to 25 years.

When assets are retired, or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period. Significant additions, renewals, and betterments greater than $1,000 that extend the useful lives of the assets are capitalized while replacements, maintenance, and repairs which do not improve or extend the life of an asset, are expensed.

Donated Goods and Services:

Amounts are reported in the financial statements for voluntary donations of services when those services create or enhance nonfinancial assets or require specialized skills provided by individuals possessing those skills and which would be typically purchased if not provided by donation. Donated goods and services are recorded as contributions at their estimated fair value at the date of donation.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Donated Goods and Services: (Continued)
The amount of donated goods and services for the years ended December 31, 2017 and 2016, was $450,490 and $405,917, respectively, and is included in contributions on the statements of activities and changes in net assets.

The Organization also regularly receives services from volunteers who are not acting in a professional capacity; such volunteer services do not meet the criteria for financial statement recognition and are not included in the financial statements.

Deferred Income:
The Organization records amounts received from funding sources in advance of performing the required services as deferred income.

Derivative Financial Instruments:
The Organization makes limited use of derivative instruments for the purpose of managing interest-rate risks. An interest-rate swap agreement was used to convert the Organization's floating-rate, long-term debt to a fixed rate. Gains and losses realized upon settlement of the agreement are deferred until the underlying hedged instrument is settled and are recognized as unrealized gains/losses in the current year.

Contributions and Contributions Receivable:
Contributions are recognized as revenue when contributions are received or unconditionally pledged to the Organization. All contributions are available for unrestricted use unless specifically restricted by the donor. Pledges are recognized when the conditions on which they depend are substantially met. Bequests are recognized when the Organization receives notification that the probate court has declared the will valid. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, dependent on the nature of the restrictions.

Contributions receivable are stated at the amount management expects to collect from outstanding balances. The Organization charges uncollectible contributions receivable to operations when determined to be uncollectible based on historical trends. At December 31, 2017 and 2016, an allowance was not deemed necessary.

Revenue Recognition:
Funds received from various state and local agencies represent grants awarded to the Organization to provide program services. Revenue with respect to these awards is recognized to the extent of expenses incurred under the award terms.

The Organization is reimbursed by Medicaid for services provided to consumers, subject to the rules and regulations of the program. Medicaid revenue is recognized when the services have been provided and billed to the Medicaid program.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Functional Allocation of Expenses:
Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. 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 the Organization. The Organization's management allocated management and general expenses based upon management's best estimates.

Income Taxes:
The Organization is exempt from federal and state income tax under Section 501(c)(3) of the Internal Revenue Code.

The Organization follows standards that provide clarification on accounting for uncertainty in income taxes recognized in the Organization's financial statements. The guidance prescribes a recognition threshold and measurement attribute for the recognition and measurement of a tax position taken or expected to be taken in a tax return, and also provides guidance on de-recognition, classification, interest and penalties, disclosure and transition. The Organization's policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense. No interest and penalties were recorded during the years 2017 and 2016. At December 31, 2017 and 2016, there are no significant income tax uncertainties.

Debt Issuance Costs:
Debt issuance costs related to a recognized debt liability are presented in the statements of financial position as a direct deduction from the carrying amount of that debt liability. Amortization of the debt issuance costs is included in interest expense on the statements of activities and changes in net assets in the amount of $12,899 for the years ended December 31, 2017 and 2016, respectively.

Financial Statement Reporting for Not for Profit Entities
The Financial Accounting Standards Board issued an accounting pronouncement *Presentation of Financial Statements of Not-for-Profit Entities* that will require net assets to be presented in two classes instead of three. The two classes will be net assets with donor restrictions and net assets without donor restrictions. Additional enhanced disclosures will be required to present the amounts and purposes of Board designations, composition of net assets with donor restrictions and how the restrictions affect the use of resources.

It also requires the Organization to communicate qualitative and quantitative information on how it manages its liquid resources available to meet the cash flow needs for general expenditures within one year of the statement of financial position date. Additional enhanced disclosures will also be required to provide information on how the Organization allocates costs. The pronouncement is effective for annual reporting periods beginning after December 15, 2017. It will be effective for the year ending December 31, 2018. The Organization is currently evaluating the effect that the new standard will have on its financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Use of Estimates:
In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, 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.

Comparative Financial Information:
The financial statements include certain prior-year, summarized, comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Children's Aid and Family Services, Inc.'s financial statements for the year ended December 31, 2016, from which the summarized information was derived.

Reclassifications:
Certain reclassifications have been made to the 2016 financial statements in order for them to conform to the 2017 financial statement presentation.

Subsequent Events:
The Organization has evaluated events subsequent to the statement of financial position date as of December 31, 2017 through August 6, 2018, the date that the financial statements were available to be issued.

NOTE 3 - CONCENTRATIONS OF CREDIT RISK:

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents, investments, grants and contracts receivables and counseling fees receivables. The Organization maintains its cash in bank deposit accounts, the balances of which, at times, may exceed federally insured limits. Cash equivalents and investments are maintained with investment firms. Exposure to credit risk is reduced by placing such deposits and investments in high-quality financial institutions. Concentration of credit risk with respect to grants and contracts receivable is limited due to the fact that the receivables are mainly from government agencies. Concentration of credit risk with respect to counseling fees receivables is limited due to the large number of patients.

NOTE 4 - GRANTS AND CONTRACTS RECEIVABLE:

Grants and contracts receivable are as follows:

	December 31, 2017	December 31, 2016
State of New Jersey Department of Children and Families	$ 155,499	$ 248,682
State of New Jersey Department of Agriculture, Child Care Food Program	6,199	4,043
State of New Jersey Division of Developmental Disabilities	17,491	353,993
State of New Jersey Division of Family Development	29,661	39,894
County Contributions and Grants	38,468	137,923
Medicaid	194,390	279,833
U.S. Department of Health and Human Services	24,742	10,942
State of New Jersey Division of Mental Health & Addiction Services	61,217	15,174
Other	39,165	10,452
Total Grants and Contracts Receivable	$ 566,832	$ 1,100,936

NOTE 5 - FAIR VALUE OF FINANCIAL INSTUMENTS:

Assets and liabilities at fair value:

FAIR VALUE MEASUREMENTS AS OF DECEMBER 31, 2017

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets at fair value:				
Equity securities	$ 70,905	$ -	$ -	$ 70,905
Mutual funds	2,619,345	-	-	2,619,345
Fixed income – bonds	-	529,111	-	529,111
Certificates of deposit	-	119,694	-	119,694
Total assets at fair value	2,690,250	648,805	-	3,339,055
Liabilities at fair value:				
Interest-rate swap	-	(53,843)	-	(53,843)
Total assets and liabilities at fair value	$ 2,690,250	$ 594,962	$ -	$ 3,285,212

NOTE 5 - FAIR VALUE OF FINANCIAL INSTRUMENTS: (Continued)

FAIR VALUE MEASUREMENTS AS OF DECEMBER 31, 2016

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets at fair value:				
Equity securities	$ 4,232	$ -	$ -	$ 4,232
Mutual funds	2,249,945	-	-	2,249,945
Fixed income – bonds	-	524,440	-	524,440
Certificates of deposit	-	133,528	-	133,528
Total assets at fair value	2,254,177	657,968	-	2,912,145
Liabilities at fair value:				
Interest-rate swap	-	(90,032)	-	(90,032)
Total assets and liabilities at fair value	$ 2,254,177	$ 567,936	$ -	$ 2,822,113

The following summarizes the investment portfolio by strategy, category, or industry as of December 31, 2017:

	Equities	Mutual Funds	Fixed Income
Financial	21%	-	-
Information technology	27%	-	-
Industrial goods	28%	-	-
Health care	9%	-	-
Consumer staples	15%	-	-
Small growth	-	16%	-
Large growth	-	12%	-
Europe stock	-	4%	-
Mid-cap blend	-	14%	-
Large blend	-	41%	-
Foreign large blend	-	7%	-
Diversified emerging markets	-	6%	-
Intermediate-term bond	-	-	32%
Short-term bond	-	-	34%
High-yield bond	-	-	34%
Total	100%	100%	100%

NOTE 5 - FAIR VALUE OF FINANCIAL INSTRUMENTS: (Continued)

The following summarizes the investment portfolio by strategy, category, or industry as of December 31, 2016:

	Equities	**Mutual Funds**	**Fixed Income**
Financial	100%	-	-
Small growth	-	18%	-
Large growth	-	12%	-
Europe stock	-	5%	-
Mid-cap blend	-	15%	-
Large blend	-	40%	-
Foreign large blend	-	7%	-
Diversified emerging markets	-	3%	-
Intermediate-term bond	-	-	32%
Short-term bond	-	-	34%
High-yield bond	-	-	34%
Total	100%	100%	100%

The following schedules summarize the investment return and its classification in the statements of activities and changes in net assets for the year ended December 31:

	2017		
	Unrestricted	**Temporarily Restricted**	**Total**
Interest and dividend income	$ 20,069	$ 117,213	$ 137,282
Net unrealized gain on investments	27,028	353,368	380,396
Net realized loss on investments	(883)	(5,157)	(6,040)
	$ 46,214	$ 465,424	$ 511,638

	2016		
	Unrestricted	**Temporarily Restricted**	**Total**
Interest and dividend income	$ 19,334	$ 50,974	$ 70,308
Net unrealized gain on investments	21,652	215,210	236,862
Net realized loss on investments	(9,689)	(25,543)	(35,232)
	$ 31,297	$ 240,641	$ 271,938

NOTE 6 - FIXED ASSETS:

Fixed assets consist of the following:

	December 31, 2017	December 31, 2016
Land	$ 2,457,656	$ 2,533,256
Buildings and improvements	12,759,879	13,179,469
Furniture and equipment	1,005,845	895,711
Leasehold improvements	30,829	30,829
Autos	389,068	346,718
Software	229,164	170,164
Construction in progress	121,856	-
Total Fixed Assets	16,994,297	17,156,147
Less: Accumulated depreciation	7,976,583	7,804,481
Fixed Assets, Net	$ 9,017,714	$ 9,351,666

NOTE 7 - DUE TO GOVERNMENT AGENCIES:

Due to government agencies represents excess contract revenue received over allowable expenses earned as follows:

	December 31, 2017	December 31, 2016
New Jersey Division of Developmental Disabilities	$ 116,392	$ 116,392
New Jersey Division of Addiction Services	33,655	17,775
New Jersey Division of Child Protection and Permanency	1,231	-
	$ 151,278	$ 134,167

NOTE 8 - DEFERRED INCOME:

Deferred income is as follows:

	December 31, 2017	December 31, 2016
Education	$ 54,753	$ 20,600
Child care	-	18,263
The Center for Alcohol and Drug Resources	-	4,199
IT Development	-	50,000
Miscellaneous	-	74,476
Total Deferred Income	$ 54,753	$ 167,538

NOTE 9 - LINE OF CREDIT:

The Organization had a $2,500,000 line of credit with a bank with interest at 4%, which expired on August 31, 2017. The Organization was granted a temporary extension of the line of credit until a renewal was negotiated. The interest rate increased to 4.5% during the temporary extension period. The line was then renewed on January 29, 2018. The renewal increased the line to $3,500,000 and extended the line of credit until August 31, 2018, with an interest rate of 4%. The line is secured by the assets of the Organization. Borrowings outstanding against the line at December 31, 2017 and 2016, amounted to $1,673,889 and $1,827,245, respectively.

NOTE 10 - MORTGAGES PAYABLE:

The following is a schedule of mortgages payable:

	December 31,	
	2017	**2016**
Mortgage payable to NJEDA reported net of unamortized debt issuance costs of $76,538 and $82,208, respectively, at December 31, 2017 and 2016. The mortgage is for 20 years, maturing on August 1, 2031. Monthly payments fluctuate based on the underlying bonds issued by NJEDA. The interest rate at December 31, 2017, is 2.5%. The mortgage is secured by the land and building located at 200 Robin Road, Paramus, New Jersey, with a net book value approximating $1,737,000.	$ 1,372,113	$ 1,445,564
Mortgage payable to NJEDA reported net of unamortized debt issuance costs of $46,993 and $54,222, respectively, at December 31, 2017 and 2016. The mortgage is for 13 years, maturing on August 1, 2024. Monthly payments fluctuate based on the underlying bonds issued by NJEDA. The interest rate at December 31, 2017, is 2.5%. The mortgage is secured by the land and building located at 200 Robin Road, Paramus, New Jersey, with a net book value approximating $1,737,000.	854,932	964,937
Mortgage payable to Boiling Springs Savings Bank. The original amount of the mortgage is $240,000. The mortgage is for 15 years, maturing on December 15, 2029. Commencing on January 1, 2015, consecutive monthly payments of principal and interest in the amount of $1,867 will be made at a fixed rate of 4.75%. The mortgage is secured by the land and building located at 159 Forest Avenue, Hawthorne, New Jersey, with a net book value approximating $341,000.	204,603	216,965

NOTE 10 - MORTGAGES PAYABLE: (Continued)

	December 31, 2017	2016
Mortgage payable to NJHMFA. The original amount of the mortgage is $468,881. The mortgage is for 30 years, maturing on April 7, 2045. Payments will be determined based upon 25% of the project's available cash flow after payment of operating expenses and funding of all escrows. If the project does not show positive cash flow, the payment of principle and interest will be deferred until maturity. The interest rate is 0%. The mortgage is secured by the land and building located at 42 Middletown Road, Montvale, New Jersey, with a net book value approximating $809,000, as well as all other assets of the Middletown Road Supportive Housing Project.	468,881	468,881
Mortgage payable to NJHMFA. The original amount of the mortgage is $388,833; however, only $383,497 has been disbursed and received as of December 31, 2017. The mortgage is for 30 years, maturing on April 6, 2045. Payments will be determined based upon 25% of the project's available cash flow after payment of operating expenses and funding of all escrows. If the project does not show positive cash flow, the payment of principle and interest will be deferred until maturity. The interest rate is 0%. The mortgage is secured by the land and building located at 4 Park Avenue, Haskell, New Jersey, with a net book value approximating $593,000, as well as all other assets of the Park Avenue Supportive Housing Project.	388,833	388,833
Mortgage payable to the state of New Jersey, Department of Human Services, Division of Developmental Disabilities. The original amount of the mortgage is $250,000. The mortgage is for 20 years, maturing on May 19, 2034. The Organization must maintain this facility as an approved facility for Department clients for a period of 20 years. The mortgage shall be reduced by 5% for each full year credited towards satisfaction of this obligation to the Department. The mortgage is secured by the land and building located at 42 Middletown Road, Montvale, New Jersey, with a net book value approximating $809,000.	237,500	250,000

NOTE 10 - MORTGAGES PAYABLE: (Continued)

	December 31,	
	2017	**2016**
Mortgage payable to the state of New Jersey, Department of Human Services, Division of Developmental Disabilities. The original amount of the mortgage is $228,935. The mortgage is for 20 years, maturing on April 7, 2035. The Organization must maintain this facility as an approved facility for Department clients for a period of 20 years. The mortgage shall be reduced by 5% for each full year credited towards satisfaction of this obligation to the Department. The mortgage is secured by the land and building located at 4 Park Avenue, Haskell, New Jersey, with a net book value approximating $593,000.	217,488	228,935
Mortgages payable, net of unamortized debt issuance costs	$ 3,744,350	$ 3,964,115

Amortization of debt issuance costs of $12,899 for each of the two years ended December 31, 2017 and 2016, is reported in interest, credit card fees and other expenses on the statements of functional expenses.

In addition, the mortgage notes contain certain financial requirements. As of December 31, 2017 and 2016, the Organization was in compliance with these financial requirements.

Future principal payments are as follows:

Year Ending December 31,	
2018	$ 216,354
2019	225,443
2020	233,918
2021	1,730,588
2022	15,669
Thereafter	990,921
Forgivable mortgages	454,988
Total mortgages payable	3,867,881
Less: Unamortized debt issuance costs	123,531
Mortgages payable, net unamortized debt issuance costs	$ 3,744,350

NOTE 11 - DERIVATIVE TRANSACTIONS:

The Organization entered into an interest-rate swap agreement to hedge the impact of changes in interest rates on its floating-rate, long-term debt. At December 31, 2017 and 2016, the Organization had an outstanding interest-rate swap agreement with a commercial bank. During December 31, 2017 and 2016, this agreement effectively changed the Organization's interest-rate exposure on its $2,350,576 and $2,546,931 floating-rate notes, respectively, due in August 2024 and 2031, to a fixed percentage. The interest-rate swap agreement matures on July 26, 2021. The Organization is exposed to credit losses in the event of nonperformance by the other parties to the interest-rate swap agreement. However, the Organization does not anticipate nonperformance by the counterparties.

NOTE 12 - NOTES PAYABLE, WAYS TO WORK LOAN PROGRAM:

During 2001, the Organization entered into an agreement with Ways to Work, Inc., to become a member of the Ways to Work Family Loan Program. The Organization entered into agreements with five local banks and received $135,000 in interest-free loans to make loans to single parents who need to purchase used automobiles for transportation to their place of employment and/or a childcare facility. The funds are required to be placed into separate bank accounts. As of December 31, 2017, the Organization had repaid $110,000 of these loans.

The Organization also received an additional $60,000 from Bergen County Community Development to be set aside in separate bank accounts (Loan Loss Reserves) to protect the bank's interest against the risk of potential losses on loan defaults. Under the terms of the agreement, the Organization was required to transfer an amount equal to one-half of the loan amount into the loan reserve account. If any loans fall into default, the bank reserves the right to offset the loan against the funds in the separate account. Upon offset, the bank shall assign the defaulted loan to the Organization including all collateral securing the loan.

The contract with Ways to Work, Inc. expired June 30, 2001. Per the agreement with Bergen County Community Development, any funds not used against the defaulted loans would be refunded by the Organization. As of December 31, 2017, funds of $10,154 are due on demand and have been included in Notes Payable, Ways to Work, Inc. Family Loan Program.

Notes payable as of December 31, 2017 and 2016, are as follows:

Notes payable to banks	$ 25,000
Loan reserve	10,154
	$ 35,154

NOTE 13 - NOTES PAYABLE, ZOE'S PLACE:

The Organization has a revolving credit loan payable to the United Way of Bergen County, in the amount of $125,000. The credit loan renews annually at the discretion of the United Way on or before December 31 of each calendar year. The credit loan bears interest at 3% and accrued and unpaid interest is payable on December 31 of each calendar year. The entire outstanding principal balance of the loan, together with all accrued and unpaid interest, shall be due in full 24 months from the effective date on which the United Way elects not to renew the loan. As of December 31, 2016, the note was not renewed. The Organization has paid back $62,500 towards this loan as of December 31, 2017, and the remaining balance of $62,500 will be paid in 2018.

NOTE 14 - TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets are comprised of the following:

	December 31, 2017	December 31, 2016
Adoption Services:		
For use in future periods to offset expenses		
General Program Expenses	$ 91,909	$ 86,462
Day Care:		
For use in future periods to offset expenses		
General Program Expenses	66,092	57,489
Residential Treatment:		
For use in future periods to offset expenses		
General Program Expenses	227,141	201,423
Split-interest agreements for use in future periods due to time restrictions	50,000	82,343
Contributions for use in future periods due to time restrictions	169,908	209,621
Income on permanently restricted net assets	1,583,824	1,677,324
	$ 2,188,874	$ 2,314,662

NOTE 15 - PERMANENTLY RESTRICTED NET ASSETS:

Permanently restricted net assets are comprised of the following:

	December 31, 2017	December 31, 2016
Investment in perpetuity, the income from which is expendable to support designated activities of the Organization	$ 152,543	$ 142,416
Investment in perpetuity, the income from which is expendable to support community education programs of family counseling services	14,421	14,421
Investment in perpetuity, the income from which is expendable to support any activities of the Organization	1,284,386	1,264,386
House in perpetuity, the use of which is restricted for use as a Path or residence home	382,000	382,000
	$ 1,833,350	$ 1,803,223

The Board of Trustees' interpretation requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted funds absent explicit donor stipulations to the contrary. As a result of this, the Organization classifies as permanently restricted net assets the original value of gifts donated to the permanent funds and the original value of subsequent gifts to the permanent funds. The remaining portion of the donor-restricted fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets, until those amounts are appropriated for expenditure by the Organization. The Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

(1) The duration and preservation of the programs
(2) The purposes of the Organization and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the Organization
(7) The investment policies of the Organization

NOTE 15 - PERMANENTLY RESTRICTED NET ASSETS: (Continued)

The Board of Trustees' primary objective in this regard, is to add value and minimize risk in managing the assets of the funds while providing a hedge against inflation into the future. It is the intent of the Board of Trustees to grow the funds and utilize the total return (income plus capital change) to further the mission of the Organization. In recognition of the prudence required of fiduciaries, reasonable diversification of quality investment securities will be sought where possible, knowing that fluctuating rates of return are a characteristic of the investment market and performance cycles cannot be accurately predicted. The funds may be held in individual securities or mutual funds; may be comprised of domestic and international securities; and will be further diversified into asset classes by their market capitalization.

It is the policy of the Organization to accumulate earnings and, at the discretion of the Board of Trustees, to spend, on an annual basis, a maximum of the income earned.

Endowment net asset composition by type of fund is as follows at December 31, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 1,583,824	$ 1,833,350	$ 3,417,174

Changes in endowment net assets for the year ended December 31, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of year	$ -	$ 1,677,324	$ 1,803,223	$ 3,480,547
Investment return:				
Investment income	-	117,213	-	117,213
Net realized and unrealized gain on investments	-	348,211	-	348,211
Total Investment Return	-	465,424	-	465,424
Contributions	-	-	30,127	30,127
Appropriation for expenditure	-	(558,924)	-	(558,924)
Endowment Net Assets, End of year	$ -	$ 1,583,824	$ 1,833,350	$ 3,417,174

NOTE 15 - PERMANENTLY RESTRICTED NET ASSETS: (Continued)

Endowment net asset composition by type of fund is as follows at December 31, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 1,677,324	$ 1,803,223	$ 3,480,547

Changes in endowment net assets for the year ended December 31, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets, Beginning of year	$ -	$ 1,436,683	$ 1,772,477	$ 3,209,160
Investment return:				
Investment income	-	50,974	-	50,974
Net realized and unrealized gain on investments	-	189,667	-	189,667
Total Investment Return	-	240,641	-	240,641
Contributions	-	-	30,746	30,746
Appropriation for expenditure	-	-	-	-
Endowment Net Assets, End of year	$ -	$ 1,677,324	$ 1,803,223	$ 3,480,547

NOTE 16 - PENSION PLANS:

The Organization maintains a noncontributory, defined-contribution plan covering substantially all employees. Contributions made by the Organization to the Plan amounted to $49,521 and $170,504 for the years ended December 31, 2017 and 2016, respectively, and are included in payroll taxes and employee benefits on the statements of functional expenses. The Organization formally amended its Plan to change the employer's contribution percentage from 2% to 0% effective May 1, 2017.

NOTE 16 - PENSION PLANS: (Continued)

The Organization also maintains a tax-deferred annuity plan covering substantially all employees. Employees can contribute any percentage of their salary provided they do not contribute more than the maximum permitted by law. There are no employer contributions to this Plan.

NOTE 17 - COMMITMENTS AND CONTINGENCIES:

Commitments:

The Organization is obligated under several operating leases covering its offices for its programs and administration that expire at various dates through March 2025. Rent expense for the years ended December 31, 2017 and 2016, amounted to $408,843 and $395,513, respectively, and is included in occupancy on the statements of functional expenses.

Minimum annual rentals are as follows:

Year Ending December 31,	
2018	$ 318,433
2019	325,283
2020	272,336
2021	277,469
2022	253,140
Thereafter	588,825
	$ 2,035,486

The Organization is obligated under a capital lease agreement for furniture at one of the program offices expiring in April 2020. There is a bargain purchase option of $1 at the end of the lease term. Original lease obligation was $78,988 and bears an effective interest rate of 7.67% per year.

Future minimum lease payments under capital lease are as follows:

Year Ending December 31,	
2018	$ 19,071
2019	19,071
2020	6,357
Total minimum lease payments	44,499
Less: Amount representing interest	3,874
Present value of minimum lease payments	$ 40,625

NOTE 17 - COMMITMENTS AND CONTINGENCIES: (Continued)

Contingencies:

Capital Funding Agreements:
The Organization has entered into several capital funding agreements with the state of New Jersey Department of Children and Families and Department of Human Services for renovations on several of its group homes and day care center for a total of $1,469,930.

The Organization has agreed to maintain the homes and the day care center as an approved facility for state clients for 20 years from the date of the funding. In the event that the Organization disposes of the property, no longer operates the program, or the state decides to terminate the agreement, the state may require that the Organization pay the state an amount up to the balance remaining on the agreement. The Organization must repay the state 1/20 of the agreement for every year less than 20 years that it operates the group home or day care center.

In addition, the Organization entered into a purchase money mortgage with the state of New Jersey Department of Human Services for the purchase and renovations of the Children's Haven group home in the amount of $140,000. The Organization has agreed to maintain the home as an approved facility for state clients. In the event that the Organization disposes of the property, no longer operates the program, or the state decides to terminate the agreement, the state may require that the Organization pay the state the entire agreement amount.

The Organization is, therefore, contingently liable to the state in the amount of $418,251 as of December 31, 2017.

The details of the contingencies are as follows:

Group Home	Capital Funding	Funding Liability
Safe Journey Group Home	$ 4,680	$ 3,393
Children's Haven	444,709	164,372
Path II	351,702	70,124
Woodlea	252,462	70,647
Path I	271,358	44,380
Eastlea	285,019	65,335
	$ 1,609,930	$ 418,251

Although the Organization closed several of these programs, the intent is to transition the properties into homes for the developmentally disabled. As long as these homes remain state approved facilities, the Organization should not have to pay these funds back. At this time the state is not requiring payment as the homes are transitioned. Management believes that the Organization will not have to pay these funds back to the state.

NOTE 17 - COMMITMENTS AND CONTINGENCIES: (Continued)

The Organization is also involved in various claims, including equal opportunity employment issues, and other routine litigation matters in the normal course of operations. In the opinion of management, after consultation with legal counsel, the outcome of such matters is not expected to have a material adverse effect on the Organization's financial position or results of operations.

NOTE 18 - SIGNIFICANT SOURCE OF SUPPORT:

The Organization received approximately 66% and 77% of its total support for the years ended December 31, 2017 and 2016, respectively, from government agencies. Furthermore, one contract with the state of New Jersey, Department of Children and Families provided approximately 10% and 12% of the Organization's total support for the years ended December 31, 2017 and 2016, respectively. In addition, another contract with the state of New Jersey, Department of Human Services provided approximately 13% of the Organization's total support for the years ended December 31, 2017 and 2016.

Approximately 82% and 84% of the Organization's total grants and contracts receivable for the years ended December 31, 2017 and 2016, respectively, is due from the state of New Jersey. Furthermore, receivables due from the state of New Jersey, Medicaid Program is approximately 34% and 25% of the Organization's total grants and contracts receivable for the years ended December 31, 2017 and 2016, respectively. In addition, receivables due from the state of New Jersey, Division of Child Protection and Permanency is approximately 27% and 23% of the Organization's total grants and contracts receivable for the years ended December 31, 2017 and 2016, respectively. Receivables due from the New Jersey Department of Mental Health and Addiction Services are approximately 11% of the Organization's total grants and contracts receivable for the year ended December 31, 2017. For the year ended December 31, 2016, receivables due from the New Jersey Department of Human Services, Division of Developmental Disabilities is approximately 32% of the Organization's total grants and contracts receivable.

Approximately 100% of the Organization's total contributions receivable for the year ended December 31, 2017, is due from one donor. Approximately 100% of the Organization's total contributions receivable for the year ended December 31, 2016, is due from one foundation.

NOTE 19 - FUNDRAISING EVENTS:

The Organization uses fundraising events to support its activities. The events include charitable fundraisers and funds raised from auxiliary organizations. Fundraising events are summarized as follows:

	December 31, 2017	December 31, 2016
Fundraising events, revenue	$ 630,620	$ 737,606
Fundraising events, expense	(179,304)	(189,451)
Fundraising events, net	$ 451,316	$ 548,155

NOTE 20 - SPLIT-INTEREST AGREEMENT:

A grantor established a charitable remainder trust on December 1, 2000, naming the Organization as the sole beneficiary. Under the split-interest agreement, when the trust is terminated at the grantor's death, the remaining trust asset will be distributed to the Organization. The present value of future benefits expected to be received by the Organization was calculated over the grantor's life expectancy. At December 31, 2016, the present value of future benefits was $82,343 and is included in prepaid expenses and other assets on the statements of financial position. During 2017, the Organization was notified that the grantor passed away in 2016 and the approximate value of this trust was $50,000, therefore the Organization adjusted the value of the trust to reflect the current fair market value. As part of the grantor's will, the Organization was named as the sole beneficiary of a second charitable remainder trust in the amount of $2 million dollars which is included in contributions on the statements of activities and net assets. The last will and testament was admitted to probate on September 15, 2016, and the Organization expects payment over the next year.

NOTE 21 - DISCONTINUED OPERATIONS:

As a result of decreased state referrals and decreased enrollment, in 2017 the Organization decided to close several group home and specialty bed programs and the Turrell Child Care Center. In December 2017 the Organization announced that they were closing these programs. The actual loss from operations of discontinued programs for the year ended December 31, 2017 is shown in the table below:

Revenues from discontinued programs	$ 5,722,623
Expenses of discontinued programs	(7,144,820)
Loss from operations of discontinued programs	$ (1,422,197)

CHILDREN'S AID AND FAMILY SERVICES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2017

Grant or Program Title	Original Contract Period	Federal CFDA Number	Grant Number	Program Award Amount	Current Year Disbursements/ Expenditures
US Department of Health and Human Services					
Health Resources and Services Administration					
Healthy Tomorrows Partnership for Children Program	March 1, 2012 - February 28, 2017	93.110	H17MC23544	$ 218,725	$ 7,291
US Department of Health and Human Services					
Passed through the New Jersey Department of Human Services/Division of Metal Health and Addiction Services					
Regional Coalitions to Utilize Environmental Strategies to Achieve Population-level Change	January 1, 2017 - December 31, 2017	93.959	17-754-ADA-0	202,000	202,000
Illegal Substances	January 1, 2017 - December 31, 2017	93.959	17-754-ADA-0	104,600	104,600
Bergen County Underage Drinking	January 1, 2017 - December 31, 2017	93.959	17-754-ADA-0	137,000	137,000
Passaic County Underage Drinking	January 1, 2017 - December 31, 2017	93.959	17-754-ADA-0	100,000	100,000
Prescription Drug Abuse	January 1, 2017 - December 31, 2017	93.959	17-754-ADA-0	112,000	112,000
Opioid Overdose Recovery Program	January 1, 2017 - December 31, 2017	93.959	17-754-ADA-0	255,750	255,750
Opioid Overdose Recovery Expansion Program	December 1, 2017 - November 30, 2018	93.959	17-754-ADA-0	200,000	812
Support Team for Addiction Recovery (STAR) Program	November 1, 2017 - October 31, 2019	93.959	17-754-ADA-0	700,000	57,940
Strategic Prevention Framework Partnerships for Success	October 1, 2016 - September 30, 2017	93.959	17-804-ADA-0	96,288	86,176
Strategic Prevention Framework Partnerships for Success	October 1, 2017 - September 30, 2018	93.959	18-804-ADA-0	96,288	10,912
				2,003,926	1,067,190
Drug-free Communities Support	October 1, 2013 - September 29, 2018	93.276	1H79SPO19834-03	625,000	129,053
Garfield Coalition STOP Act	September 30, 2016 - September 29, 2020	93.243	1H79SP022010-02	188,580	59,539
US Department of Agriculture					
Passed through the New Jersey Department of Agriculture					
Child and Adult Care Food Program	January 1, 2017 - December 31, 2017	10.558	06-03-314	66,958	66,958

CHILDREN'S AID AND FAMILY SERVICES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2017

Grant or Program Title	Original Contract Period	Federal CFDA Number	Grant Number	Program Award Amount	Current Year Disbursements/ Expenditures
US Department of Housing and Urban Development					
Passed through the New Jersey Department of Human Services					
Eldercare (Northwest)	July 1, 2016 - June 30, 2017	14.228	PS-CAFSELDNW16	31,000	17,563
	July 1, 2017 - June 30, 2018	14.228	PS-CAFSELDNW17	31,000	14,318
Eldercare (Unidas and Garfield)	July 1, 2016 - June 30, 2017	14.228	CW-CAFSHAC&GAR16	21,121	8,773
	July 1, 2017 - June 30, 2018	14.228	CW-CAFSHAC&GAR17	19,000	12,247
				102,121	52,901
Total Federal Awards				$ 3,205,310	$ 1,382,932

CHILDREN'S AID AND FAMILY SERVICES, INC.
SCHEDULE OF EXPENDITURES OF STATE AWARDS
YEAR ENDED DECEMBER 31, 2017

Grant or Program Title	Original Contract Period	Grant Number	Program Award Amount	Current Year Disbursements/ Expenditures
New Jersey Department of Children and Families				
Division of Child Protection and Permanency				
Child Welfare Services	January 1, 2017 - December 31, 2017	17CDBN	$ 2,154,204	$ 2,154,204
New Jersey Department of Human Services				
Division of Developmental Disabilities	January 1, 2017 - December 31, 2017	39BK17N	3,172,234	3,172,234
Bergen County Department of Human Services				
Passed through the New Jersey Department of Law and Public Safety				
Juvenile Justice Commission				
Second Step Delinquency Prevention	January 1, 2017 - December 31, 2017	CAFS-S17	47,795	47,795
Total State Awards			$ 5,374,233	$ 5,374,233

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUTING POLICIES:

The accompanying schedules of federal and state awards include the federal and state grant activity of the Organization and are presented on the accrual basis of accounting. The information in these schedules is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulation* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and New Jersey Office of Management and Budget Circular Letter 15-08. Therefore, some amounts presented in these schedules may differ from amounts presented in, or used in the preparation of, the financial statements.

NOTE 2 - SUBRECIPIENTS:

During the year ended December 31, 2017, the Organization did not provide any funds relating to their federal and state programs to subrecipients.

NOTE 3 - INDIRECT COSTS:

The Organization did not elect to use the de minimis cost rate when allocating indirect costs to federal and state programs.

NOTE 4 - LOAN AND LOAN GUARANTEE PROGRAMS:

As of December 31, 2017, the Organization did not have any federal or state loan or loan guarantee programs.

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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 Trustees
Children's Aid and Family Services, Inc.
Paramus, New Jersey

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 of America, the financial statements of Children's Aid and Family Services, Inc. ("Organization"), a nonprofit organization, which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon, dated August 6, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization'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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of 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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sobel & Co., LLC

Certified Public Accountants

Livingston, New Jersey
August 6, 2018

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE AND NJOMB CIRCULAR LETTER 15-08

To the Board of Trustees
Children's Aid and Family Services, Inc.
Paramus, New Jersey

Report on Compliance for Each Major Federal and State Program

We have audited Children's Aid and Family Services, Inc.'s ("Organization") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget *Compliance Supplement* and the New Jersey Office of Management and Budget ("NJOMB") *Compliance Supplement* that could have a direct and material effect on each of the Organization's major programs for the year ended December 31, 2017. The Organization's major programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal and state statutes, regulations, and the terms and conditions of its federal and state awards applicable to its federal and state programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"); and NJOMB Circular Letter 15-08. Those standards and the Uniform Guidance and NJOMB Circular Letter 15-08 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal and state program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal and State Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended December 31, 2017.

Report on Internal Control Over Compliance

Management of Children's Aid and Family Services, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with the Uniform Guidance and NJOMB Circular Letter 15-08, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and NJOMB Circular Letter 15-08. Accordingly, this report is not suitable for any other purpose.

Sobel & Co., LLC

Certified Public Accountants

Livingston, New Jersey
August 6, 2018

I. Summary of Auditors' Results

Financial Statements

The auditors' report issued on the basic financial statements of Children's Aid and Family Services, Inc. was an unmodified opinion.

Internal control over financial reporting:

• Material weaknesses identified?	______ Yes	__X__ No
• Significant deficiencies identified that are not considered to be material weaknesses?	______ Yes	__X__ No

Noncompliance material to financial statements noted?	______ Yes	__X__ No

Federal and State Awards

Internal control over major programs:

• Material weaknesses identified?	______ Yes	__X__ No
• Significant deficiencies identified that are not considered to be material weaknesses?	______ Yes	__X__ No

The auditors' report issued on compliance for major programs was an unmodified opinion.

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance or NJOMB Circular Letter 15-08?	______ Yes	__X__ No

The following federal and state programs were designated as major programs:

CFDA Number	Name of Federal or State Program or Cluster
93.959	Department of Health and Human Services: New Jersey Division of Mental Health and Addiction Services The Center for Drug and Alcohol Abuse Grants
39BK17N	New Jersey Department of Human Services Division of Developmental Disabilities

Dollar threshold used to distinguish between Type A and Type B programs: $ 750,000

Auditee qualified as a low-risk auditee? X Yes ____ No

II. Financial Statement Finding

NONE

III. Compliance Finding

NONE

IV. Follow-up of Prior-year Audit Findings

NONE