# CHILDREN'S AID AND FAMILY SERVICES, INC.

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

DECEMBER 31, 2018 AND 2017

SOBEL & CO. LLC
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

**CHILDREN'S AID AND FAMILY SERVICES, INC.**

DECEMBER 31, 2018 AND 2017

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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, 2018, 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, 2018, 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.

***Emphasis of Matter***

The Organization adopted Financial Accounting Standards Board *Presentation of Financial Statements of Not-for-Profit Entities*, as described in Note 2. Our opinion is not modified with respect to this matter.

***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 34 through 36, 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 New Jersey 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 September 24, 2019, 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 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report, dated August 6, 2018. In our opinion, the summarized, comparative information presented herein as of and for the year ended December 31, 2017, 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
September 24, 2019

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

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 668,609 | $ 691,877 |
| Grants and contracts receivable | 491,474 | 566,832 |
| Contributions receivable | 153,803 | 2,144,522 |
| Fees receivable, net | 16,999 | 69,434 |
| Investments | 4,331,289 | 3,339,055 |
| Prepaid expenses and other assets | 185,854 | 190,045 |
| Fixed assets, net | 8,505,614 | 9,017,714 |
| | $ 14,353,642 | $ 16,019,479 |
| **LIABILITIES AND NET ASSETS** | | |
| Accounts payable | $ 192,583 | $ 293,146 |
| Accrued expenses | 288,334 | 1,024,241 |
| Due to Zoe's Place | 1,400 | - |
| Due to government agencies | 100,030 | 151,278 |
| Deferred income | 34,930 | 54,753 |
| Deferred rent | 91,083 | 90,590 |
| Lease obligation | 24,098 | 40,625 |
| Mortgage payable, net | 3,554,755 | 3,744,350 |
| Notes payable, Ways to Work Family Loan Program | 35,154 | 35,154 |
| Notes payable, Zoe's Place | 62,500 | 62,500 |
| Line of credit | 3,284,033 | 1,673,889 |
| Total Liabilities | 7,668,900 | 7,170,526 |
| OBLIGATIONS UNDER INTEREST-RATE SWAP | 19,653 | 53,843 |
| COMMITMENTS AND CONTINGENCIES | | |
| NET ASSETS: | | |
| Without donor restrictions | 3,708,755 | 4,772,886 |
| With donor restrictions | 2,956,334 | 4,022,224 |
| Total Net Assets | 6,665,089 | 8,795,110 |
| | $ 14,353,642 | $ 16,019,479 |

**CHILDREN'S AID AND FAMILY SERVICES, INC.**
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2018
(With Summarized, Comparative Totals for the Year Ended December 31, 2017)

| | Without Donor Restrictions | With Donor Restrictions | 2018 Total | 2017 Total |
|---|---|---|---|---|
| Support: | | | | |
| Private Support: | | | | |
| Contributions | $ 1,503,708 | $ 269,352 | $ 1,773,060 | $ 3,574,750 |
| Fundraising, net | 97,304 | 328,147 | 425,451 | 451,316 |
| Total Private Support | 1,601,012 | 597,499 | 2,198,511 | 4,026,066 |
| Government Support: | | | | |
| Federal and state | 9,619,656 | - | 9,619,656 | 9,172,269 |
| Revenue and Gains: | | | | |
| Program fees and dues | 318,865 | - | 318,865 | 126,909 |
| Counseling fees | 6,595 | - | 6,595 | 9,265 |
| Interest and dividend income | 40,242 | 113,583 | 153,825 | 137,282 |
| Net unrealized (loss) gain on investments | (169,515) | (289,497) | (459,012) | 380,396 |
| Net realized gain (loss) on investments | 14,987 | 42,299 | 57,286 | (6,040) |
| Loss on charitable remainder trust | - | - | - | (37,016) |
| Gain on disposal of assets | 5,582 | - | 5,582 | 1,012,956 |
| Miscellaneous revenue | 29,222 | - | 29,222 | 24,533 |
| Total Revenue and Gains | 245,978 | (133,615) | 112,363 | 1,648,285 |
| Net assets released from restriction | 1,529,774 | (1,529,774) | - | - |
| Total Support, Revenue and Gains | 12,996,420 | (1,065,890) | 11,930,530 | 14,846,620 |
| Expenses: | | | | |
| Program Services: | | | | |
| Adoption services | 391,913 | - | 391,913 | 333,771 |
| Counseling services | 1,691,113 | - | 1,691,113 | 1,630,986 |
| Residential treatment | 1,956,812 | - | 1,956,812 | 1,884,856 |
| Services for developmentally disabled | 4,680,811 | - | 4,680,811 | 3,825,501 |
| Community services | 139,720 | - | 139,720 | 124,865 |
| Addiction prevention | 2,138,443 | - | 2,138,443 | 1,593,699 |
| Total Program Services | 10,998,812 | - | 10,998,812 | 9,393,678 |
| Supporting Services: | | | | |
| Management and general | 2,521,501 | - | 2,521,501 | 2,446,422 |
| Fundraising | 574,428 | - | 574,428 | 554,744 |
| Total Supporting Services | 3,095,929 | - | 3,095,929 | 3,001,166 |
| Total Expenses | 14,094,741 | - | 14,094,741 | 12,394,844 |
| Changes in Net Assets Before Discontinued Operations | (1,098,321) | (1,065,890) | (2,164,211) | 2,451,776 |
| Unrealized gain on interest-rate swap | 34,190 | - | 34,190 | 36,189 |
| Total Changes in Net Assets Before Discontinued Operations | (1,064,131) | (1,065,890) | (2,130,021) | 2,487,965 |
| Discontinued Operations (Note 21) | | | | |
| Loss from operations of discontinued specialty homes and child care center | - | - | - | (1,422,197) |
| Total Changes in Net Assets | (1,064,131) | (1,065,890) | (2,130,021) | 1,065,768 |
| Net Assets, Beginning of year | 4,772,886 | 4,022,224 | 8,795,110 | 7,729,342 |
| Net Assets, End of year | $ 3,708,755 | $ 2,956,334 | $ 6,665,089 | $ 8,795,110 |

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

| | Year Ended December 31, 2018 | 2017 |
|---|---|---|
| CASH FLOWS (USED FOR) PROVIDED BY: | | |
| OPERATING ACTIVITIES: | | |
| Changes in net assets | $ (2,130,021) | $ 1,065,768 |
| Adjustments to reconcile changes in net assets to net cash used for operating activities: | | |
| Depreciation | 614,399 | 608,321 |
| Net unrealized loss (gain) on investments | 459,012 | (380,396) |
| Net realized (gain) loss on investments | (57,286) | 6,040 |
| Loss on charitable remainder trust | - | 37,016 |
| Net unrealized gain on interest-rate swap | (34,190) | (36,189) |
| Net realized gain on sale of fixed assets | - | (1,012,956) |
| Noncash securities donation | (2,232,686) | (90,698) |
| Noncash interest expense (amortization) | 12,899 | 12,899 |
| Forgiveness of debt | (23,947) | (23,947) |
| Changes in operating assets and liabilities: | | |
| Grants and contracts receivable | 75,358 | 534,104 |
| Contributions receivable | 1,990,719 | (1,965,122) |
| Fees receivable | 52,435 | (27,534) |
| Prepaid expenses and other assets | 4,191 | 65,607 |
| Accounts payable | (100,563) | (117,728) |
| Accrued expenses | (735,907) | 636,848 |
| Due to government agencies | (51,247) | 17,111 |
| Due to Zoe's Place | 1,400 | - |
| Deferred rent | 493 | 29,937 |
| Deferred income | (19,823) | (112,785) |
| Net Cash Used for Operating Activities | (2,174,764) | (753,704) |
| INVESTING ACTIVITIES: | | |
| Purchases of fixed assets | (102,299) | (429,418) |
| Proceeds from sale of fixed assets | - | 1,168,005 |
| Proceeds from sale of investments | 1,153,511 | 38,165 |
| Purchases of investments | (314,785) | (21) |
| Net Cash Provided by Investing Activities | 736,427 | 776,731 |
| FINANCING ACTIVITIES: | | |
| Repayment of mortgages payable | (216,354) | (271,217) |
| Proceeds from mortgages | 37,806 | - |
| Repayment of lease obligation | (16,527) | (15,310) |
| Borrowings from line of credit | 3,985,000 | 3,315,000 |
| Repayment of line of credit | (2,374,856) | (3,468,354) |
| Net Cash Provided by (Used for) Financing Activities | 1,415,069 | (439,881) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (23,268) | (416,854) |
| CASH AND CASH EQUIVALENTS: | | |
| Beginning of year | 691,877 | 1,108,731 |
| End of year | $ 668,609 | $ 691,877 |

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

| | Year Ended December 31, 2018 | 2017 |
|---|---|---|
| SUPPLEMENTAL DATA: | | |
| Interest paid | $ 253,870 | $ 177,785 |
| NONCASH INVESTING ACTIVITIES: | | |
| Securities donation | $ 2,232,686 | $ 90,698 |

**CHILDREN'S AID AND FAMILY SERVICES, INC.**
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018

| | 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 | $ 217,753 | $ 1,084,978 | $ 867,995 | $ 2,838,942 | $ 55,385 | $ 1,127,880 | $ 6,192,933 | $ 1,283,875 | $ 291,561 | $ 1,575,436 | $ 7,768,369 |
| Payroll taxes and employee benefits | 54,270 | 267,401 | 218,290 | 696,577 | 14,350 | 275,746 | 1,526,634 | 323,288 | 70,629 | 393,917 | 1,920,551 |
| Total Salaries and Related Expenses | 272,023 | 1,352,379 | 1,086,285 | 3,535,519 | 69,735 | 1,403,626 | 7,719,567 | 1,607,163 | 362,190 | 1,969,353 | 9,688,920 |
| Professional fees | 9,200 | 46,838 | 27,358 | 176,703 | 2,325 | 156,919 | 419,343 | 82,012 | - | 82,012 | 501,355 |
| Supplies | 716 | 6,328 | 9,772 | 4,578 | 66 | 5,103 | 26,563 | 13,557 | 21,441 | 34,998 | 61,561 |
| Telephone | 8,627 | 35,747 | 47,409 | 78,916 | 1,490 | 29,443 | 201,632 | 39,922 | 12,891 | 52,813 | 254,445 |
| Postage and shipping | 982 | 4,128 | 1,740 | 1,023 | 107 | 1,405 | 9,385 | 7,248 | 2,489 | 9,737 | 19,122 |
| Occupancy | 25,945 | 138,091 | 153,146 | 141,970 | 2,621 | 178,879 | 640,652 | 75,657 | 28,499 | 104,156 | 744,808 |
| Outside printing and promotion | 15,472 | 3,335 | 842 | 16,686 | - | 2,125 | 38,460 | 39,152 | 8,404 | 47,556 | 86,016 |
| Local travel and related expenses | 18,639 | 18,691 | 41,903 | 122,539 | 1,730 | 13,740 | 217,242 | 16,145 | 403 | 16,548 | 233,790 |
| Conferences, conventions and major trips | 1,850 | 135 | 5,625 | 3,131 | - | 55,625 | 66,366 | 4,204 | 214 | 4,418 | 70,784 |
| Specific assistance to/for individuals | 28,771 | 34,207 | 290,776 | 84,988 | 3,505 | 250,517 | 692,764 | 29,408 | 24,709 | 54,117 | 746,881 |
| Repairs | 1,323 | 1,950 | 61,123 | 98,545 | 1,955 | 1,838 | 166,734 | 50,965 | 33,836 | 84,801 | 251,535 |
| Insurance | 5,841 | 31,212 | 38,985 | 122,397 | 3,686 | 32,911 | 235,032 | 19,151 | 24,490 | 43,641 | 278,673 |
| Membership dues | 28 | 162 | 1,000 | 300 | 500 | 100 | 2,090 | 13,108 | 14,159 | 27,267 | 29,357 |
| Food | 366 | 4,761 | 24,942 | 106,855 | 50,862 | 1,807 | 189,593 | 3,737 | 1,064 | 4,801 | 194,394 |
| Depreciation and Amortization | 519 | 3,754 | 164,774 | 144,449 | - | 3,083 | 316,579 | 282,258 | 15,562 | 297,820 | 614,399 |
| Interest, credit card fees and other | - | 144 | - | 21,939 | 1,138 | - | 23,221 | 237,743 | 17,231 | 254,974 | 278,195 |
| Miscellaneous | 1,611 | 9,251 | 1,132 | 20,273 | - | 1,322 | 33,589 | 71 | 6,846 | 6,917 | 40,506 |
| | $ 391,913 | $ 1,691,113 | $ 1,956,812 | $ 4,680,811 | $ 139,720 | $ 2,138,443 | $ 10,998,812 | $ 2,521,501 | $ 574,428 | $ 3,095,929 | $ 14,094,741 |

**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 |

## 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)***

Net Assets Without Donor Restrictions - Net assets not subject to donor-imposed stipulations.

Net Assets With Donor Restrictions - 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. Also, other 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. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions.

***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, the allowance for uncollectible fees receivable was $847. Management deemed an allowance was not necessary at December 31, 2018.

***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.

***Valuation of Long-lived Assets:***

The Organization reviews long-lived assets, including property and equipment, for impairment whenever events or changes in business circumstances indicate that the carrying amount of the asset may not be fully recoverable. Management has determined that no impairment change was required for the periods presented in these financial statements.

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

***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, typically, would be purchased if not provided by donation. Donated goods and services are recorded as contributions at their estimated fair value at the date of donation.

The amount of donated goods and services for the years ended December 31, 2018 and 2017, was \$392,264 and \$450,490, 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 net assets with donor restrictions, 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, 2018 and 2017, an allowance was not deemed necessary.

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

***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.

***Functional Allocation of Expenses:***
The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets. Costs have been allocated among the programs and supporting services according to the Organization's cost allocation procedures. All expenses are charged to the grants/contracts in accordance with their terms and conditions.

***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 2018 and 2017. At December 31, 2018 and 2017, 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, 2018 and 2017, respectively.

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

***Financial Statement Reporting for Not-for-Profit Entities:***
The Organization adopted Financial Accounting Standards Board ("FASB") *Presentation of Financial Statements of Not-for-Profit Entities* in 2018. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. The main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosures for Board-designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classifications.

The FASB issued an accounting pronouncement, *Revenue from Contracts with Customers,* which is a comprehensive new revenue recognition standard. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The effective date for the pronouncement is for periods beginning after December 15, 2018. The Organization is currently evaluating the effect the new standard will have on the financial statements.

The FASB issued an accounting pronouncement, *Leases,* which requires lessees to recognize a right-of-use asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Under this new pronouncement, a modified retrospective transition approach is required, and the new standard is applied to all leases existing at the date of initial application. The standard is effective for annual periods beginning after December 15, 2019. The Organization is currently evaluating the effect the new standard will have on the financial statements.

***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, 2017, from which the summarized information was derived.

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

***Reclassifications:***
Certain reclassifications have been made to the 2017 financial statements in order for them to conform to the 2018 financial statement presentation.

***Subsequent Events:***
The Organization has evaluated events subsequent to the statement of financial position date as of December 31, 2018 through September 24, 2019, 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 receivable and counseling fees receivable. 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 receivable is limited due to the large number of patients.

## NOTE 4 - GRANTS AND CONTRACTS RECEIVABLE:

Grants and contracts receivable are as follows:

| | **December 31,** | |
|---|---|---|
| | **2018** | **2017** |
| State of New Jersey Department of Children and Families | $ 54,377 | $ 155,499 |
| State of New Jersey Department of Agriculture, Child Care Food Program | - | 6,199 |
| State of New Jersey Division of Developmental Disabilities | 2,768 | 17,491 |
| State of New Jersey Division of Family Development | - | 29,661 |
| County Contributions and Grants | 108,504 | 38,468 |
| Medicaid | 253,626 | 194,390 |
| U.S. Department of Health and Human Services | 41,490 | 24,742 |
| State of New Jersey Division of Mental Health and Addiction Services | 30,709 | 61,217 |
| Other | - | 39,165 |
| Total Grants and Contracts Receivable | $ 491,474 | $ 566,832 |

## NOTE 5 - FAIR VALUE OF FINANCIAL INSTRUMENTS:

Assets and liabilities at fair value:

**FAIR VALUE MEASUREMENTS AS OF DECEMBER 31, 2018**

| | LEVEL 1 | LEVEL 2 | LEVEL 3 | TOTAL |
|---|---|---|---|---|
| Assets at fair value: | | | | |
| Equity securities | $ 1,167,205 | $ - | $ - | $ 1,167,205 |
| Mutual funds | 2,212,827 | - | - | 2,212,827 |
| Fixed income – bonds | - | 830,024 | - | 830,024 |
| Certificates of deposit | - | 121,233 | - | 121,233 |
| Total assets at fair value | 3,380,032 | 951,257 | - | 4,331,289 |
| Liabilities at fair value: | | | | |
| Interest-rate swap | - | (19,653) | - | (19,653) |
| Total Assets and Liabilities at Fair Value | $ 3,380,032 | $ 931,604 | $ - | $ 4,311,636 |

**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)

The following table summarizes the investment portfolio by strategy, category, or industry as of December 31, 2018:

| | **Equities** | **Mutual Funds** | **Fixed Income** |
|---|---|---|---|
| Financial | 34% | - | 2% |
| Information technology | 48% | - | - |
| Industrial goods | 6% | - | - |
| Health care | 9% | - | - |
| Materials | 3% | - | - |
| Small growth | - | 16% | - |
| Large growth | - | 18% | - |
| Small value | - | 2% | - |
| Preferred stock | - | 1% | 7% |
| Mid-cap blend | - | 15% | - |
| Small blend | - | 2% | - |
| Diversified emerging markets | - | 5% | - |
| Large blend | - | 29% | - |
| Foreign | - | 12% | - |
| Government bond | - | - | 7% |
| Ultra-short term bond | - | - | 60% |
| Corporate bond | - | - | 4% |
| High-yield bond | - | - | 20% |
| Total | 100% | 100% | 100% |

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

The following table 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% |

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

| | **2018** | | |
|---|---|---|---|
| | **Without Donor Restrictions** | **With Donor Restrictions** | **Total** |
| Interest and dividend income | $ 40,242 | $ 113,583 | $ 153,825 |
| Net unrealized loss on investments | (169,515) | (289,497) | (459,012) |
| Net realized gain on investments | 14,987 | 42,299 | 57,286 |
| | $ (114,286) | $ (133,615) | $ (247,901) |

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

| | 2017 | | |
|---|---|---|---|
| | **Without Donor Restrictions** | **With Donor Restrictions** | **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 |

## NOTE 6 - FIXED ASSETS:

Fixed assets consist of the following:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Land | $ 2,457,656 | $ 2,457,656 |
| Buildings and improvements | 13,036,034 | 12,759,879 |
| Furniture and equipment | 916,589 | 1,005,845 |
| Leasehold improvements | 30,829 | 30,829 |
| Autos | 357,061 | 389,068 |
| Software | 229,164 | 229,164 |
| Construction in progress | 37,256 | 121,856 |
| Total Fixed Assets | 17,064,589 | 16,994,297 |
| Less: Accumulated depreciation | 8,558,975 | 7,976,583 |
| Fixed Assets, Net | $ 8,505,614 | $ 9,017,714 |

## NOTE 7 - DUE TO GOVERNMENT AGENCIES:

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

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| New Jersey Division of Developmental Disabilities | $ 20,564 | $ 116,392 |
| New Jersey Division of Addiction Services | 78,313 | 33,655 |
| New Jersey Division of Child Protection and Permanency | 1,153 | 1,231 |
| | $ 100,030 | $ 151,278 |

## NOTE 8 - DEFERRED INCOME:

Deferred income is as follows:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Education | $ - | $ 54,753 |
| Advanced payments | 12,112 | - |
| Housing payments | 15,655 | - |
| The Center for Alcohol and Drug Resources | 7,163 | - |
| Total Deferred Income | $ 34,930 | $ 54,753 |

## NOTE 9 - LINE OF CREDIT:

The Organization had a $3,500,000 line of credit with a bank with interest at 4.5%, which expired on August 31, 2018. The line was then renewed on November 19, 2018. The renewal extended the line of credit until August 31, 2019, with an interest rate of 5.5%. Subsequent to year end, the line was temporarily extended until November 29, 2019. The line is secured by the assets of the Organization. Borrowings outstanding against the line at December 31, 2018 and 2017, amounted to $3,284,033 and $1,673,889, respectively.

## NOTE 10 - MORTGAGES PAYABLE:

The following is a schedule of mortgages payable:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Mortgage payable to NJEDA reported net of unamortized debt issuance costs of $70,868 and $76,538, respectively, at December 31, 2018 and 2017. 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, 2018, 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 $1,656,000. | $ 1,295,857 | $ 1,372,113 |
| Mortgage payable to NJEDA reported net of unamortized debt issuance costs of $39,764 and $46,993, respectively, at December 31, 2018 and 2017. 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, 2018, 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 $1,656,000. | 741,805 | 854,932 |
| 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 $368,000. | 190,532 | 204,603 |
| Mortgage payable to NJHMFA. The original amount of the mortgage is $414,997. Only $37,806 of the mortgage has been received as of December 31, 2018. The mortgage is for 30 years, maturing on December 1, 2049. 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 360 Larch Avenue, Bogota, New Jersey, with a net book value approximating $66,443. | 37,806 | - |

NOTE 10 - MORTGAGES PAYABLE: (Continued)

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| 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 $851,000, 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, 2018. 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 $578,000, 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 $851,000. | 225,000 | 237,500 |

NOTE 10 - MORTGAGES PAYABLE: (Continued)

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| 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 $578,000. | 206,041 | 217,488 |
| Mortgages payable, net of unamortized debt issuance costs | $ 3,554,755 | $ 3,744,350 |

Amortization of debt issuance costs of $12,899 for each of the two years ended December 31, 2018 and 2017, 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, 2018, the Organization was not in compliance with these financial requirements. The Organization received a debt waiver from the bank on September 10, 2019.

Future principal payments are as follows:

| Year Ending December 31, | |
|---|---|
| 2019 | $ 225,443 |
| 2020 | 233,918 |
| 2021 | 242,997 |
| 2022 | 252,398 |
| 2023 | 262,176 |
| Thereafter | 2,017,414 |
| Forgivable mortgages | 431,041 |
| Total mortgages payable | 3,665,387 |
| Less: Unamortized debt issuance costs | 110,632 |
| Mortgages payable, net unamortized debt issuance costs | $ 3,554,755 |

## 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, 2018, the Organization had an outstanding interest-rate swap agreement with a commercial bank. This agreement effectively changed the Organization's interest-rate exposure, on its $781,569 and $1,366,725 floating-rate notes, due in August 2024 and 2031, respectively, 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, 2018, 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, 2018, 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, 2018 and 2017, 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 loan payable to the United Way of Bergen County, in the amount of $125,000. The loan renews annually at the discretion of the United Way on or before December 31 of each calendar year. The 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. As of December 31, 2018, $62,500 of the loan has been paid back. $62,500 remains outstanding and is included in notes payable, Zoe's Place on the statements of financial position.

## NOTE 14 - NET ASSETS WITH DONOR RESTRICTIONS:

Net assets with donor restrictions are comprised of the following:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Time and purpose restrictions: | | |
| Adoption Services: | | |
| For use in future periods to offset expenses | | |
| General Program Expenses | $ 88,521 | $ 91,909 |
| Day Care: | | |
| For use in future periods to offset expenses | | |
| General Program Expenses | 63,656 | 66,092 |
| Residential Treatment: | | |
| For use in future periods to offset expenses | | |
| General Program Expenses | 201,929 | 227,141 |
| Split-interest agreements for use in future periods due to time restrictions | - | 50,000 |
| Contributions for use in future periods due to time restrictions | 196,067 | 169,908 |
| Income on permanently restricted net assets | 542,311 | 1,583,824 |
| | 1,092,484 | 2,188,874 |

NOTE 14 - NET ASSETS WITH DONOR RESTRICTIONS: (Continued)

Net assets with donor restrictions are comprised of the following:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Restricted in Perpetuity: | | |
| Investment in perpetuity, the income from which is expendable to support designated activities of the Organization | 162,544 | 152,543 |
| 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 | 1,304,885 | 1,284,386 |
| House in perpetuity, the use of which is restricted for use as a Path or residence home | 382,000 | 382,000 |
| | 1,863,850 | 1,833,350 |
| Total Net Assets With Donor Restrictions | $ 2,956,334 | $ 4,022,224 |

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 net assets with donor restrictions the original value of gifts donated to the permanent funds and the original value of subsequent gifts to the permanent funds. 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 14 - NET ASSETS WITH DONOR RESTRICTIONS: (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, 2018:

| | **Without Donor Restrictions** | **With Donor Restrictions** | **Total** |
|---|---|---|---|
| Donor-restricted endowment funds | $ - | $ 2,406,161 | $ 2,406,161 |

Changes in endowment net assets for the year ended December 31, 2018:

| | **Without Donor Restrictions** | **With Donor Restrictions** | **Total** |
|---|---|---|---|
| Endowment Net Assets, Beginning of year | $ - | $ 3,417,174 | $ 3,417,174 |
| Investment return: | | | |
| Investment income | - | 113,583 | 113,583 |
| Net realized and unrealized loss on investments | - | (247,198) | (247,198) |
| Total Investment Return | - | (133,615) | (133,615) |
| Contributions | - | 30,500 | 30,500 |
| Appropriation for expenditure | - | (907,898) | (907,898) |
| Endowment Net Assets, End of year | $ - | $ 2,406,161 | $ 2,406,161 |

NOTE 14 - NET ASSETS WITH DONOR RESTRICTIONS: (Continued)

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

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Donor-restricted endowment funds | $ - | $ 3,417,174 | $ 3,417,174 |

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

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| Endowment Net Assets, Beginning of year | $ - | $ 3,480,547 | $ 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 | $ - | $ 3,417,174 | $ 3,417,174 |

NOTE 15 - 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 for the year ended December 31, 2017, and is included in payroll taxes and employee benefits on the statements of functional expenses. No contribution was made for the year ended December 31, 2018. The Organization formally amended its plan to eliminate the employer contribution effective May 1, 2017. 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 16 - 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, 2018 and 2017, amounted to $386,999 and $408,843, respectively, and is included in occupancy on the statements of functional expenses.

Minimum annual rentals are as follows:

| Year Ending December 31, | |
|---|---|
| 2019 | $ 325,283 |
| 2020 | 272,336 |
| 2021 | 277,469 |
| 2022 | 253,140 |
| 2023 | 258,276 |
| Thereafter | 330,549 |
| | $ 1,717,053 |

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, | |
|---|---|
| 2019 | $ 19,071 |
| 2020 | 6,357 |
| Total minimum lease payments | 25,428 |
| Less: Amount representing interest | 1,330 |
| Present value of minimum lease payments | $ 24,098 |

NOTE 16 - 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 $355,353 as of December 31, 2018.

The details of the contingencies are as follows:

| Group Home | Capital Funding | Funding Liability |
|---|---|---|
| Safe Journey Group Home | $ 4,680 | $ 3,159 |
| Children's Haven | 444,709 | 146,262 |
| Path II | 351,702 | 55,528 |
| Woodlea | 252,462 | 60,181 |
| Path I | 271,358 | 34,946 |
| Eastlea | 285,019 | 55,277 |
| | $ 1,609,930 | $ 355,353 |

## NOTE 16 - COMMITMENTS AND CONTINGENCIES: (Continued)

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.

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 17 - SIGNIFICANT SOURCE OF SUPPORT:

The Organization received approximately 81% and 66% of its total support for the years ended December 31, 2018 and 2017, respectively, from government agencies, including Medicaid.

Approximately 100% and 95% of the Organization's total grants and contracts receivable for the years ended December 31, 2018 and 2017, respectively, is due from government agencies, including Medicaid.

Approximately 87% and 100% of the Organization's total contributions receivable for the year ended December 31, 2018 and 2017, respectively, is due from one donor.

## NOTE 18 - 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,** | |
|---|---|---|
| | **2018** | **2017** |
| Fundraising events, revenue | $ 600,177 | $ 630,620 |
| Fundraising events, expense | (174,726) | (179,304) |
| Fundraising events, net | $ 425,451 | $ 451,316 |

## NOTE 19 - 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. During 2017, the Organization was notified that the grantor passed away 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 changes in net assets as of December 31, 2017. The last will and testament was admitted to probate on September 15, 2016, and the Organization received payment of $2,227,168 during the year ended December 31, 2018.

## NOTE 20 - FUNCTIONAL EXPENSES:

The costs of providing the various programs and other activities have been summarized on a functional basis on the statements of functional expenses. Accordingly, certain costs have been allocated among program, supporting services and fundraising. General and administrative expenses are those not directly identifiable with any specific function, but which provide for the overall support and direction of the Organization. The financial statements contain certain categories of expenses that are attributable to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Expenses that are allocated include occupancy which is allocated based on headcount in each program or department. Expenses such as insurance are based on revenue in each program or department. Salaries and wages, contract supplies, depreciation and other are allocated based on direct costs within the program or department.

## NOTE 21 - DISCONTINUED OPERATIONS:

As a result of decreased state referrals and decreased enrollment, in 2017 the Organization decided to close several group homes 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) |

## NOTE 22 - LIQUIDITY AND AVAILABILITY OF RESOURCES:

The following represents the Organization's financial assets at December 31, 2018, reduced by amounts not available for general use within one year of the statement of financial position date because of contractual or donor-imposed restrictions or internal designations.

| | 2018 |
|---|---|
| Cash and cash equivalents | $ 668,609 |
| Accounts receivable | 662,276 |
| Level 1 investments | 3,380,032 |
| Prepaid expenses | 106,507 |
| Total financial assets | 4,817,424 |
| | |
| Less amounts not available to be used within one year: | |
| Net assets with donor restrictions | (2,956,334) |
| Net assets with purpose restrictions to be met in one year | 196,067 |
| | (2,760,267) |
| Financial assets available to meet general expenditures over the next 12 months | $ 2,057,157 |

The Organization's goal is generally to maintain financial assets to meet 60 days of operating expenses (approximately $2,349,000). The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization has a line of credit in the amount of $3,500,000, of which, approximately, $215,000 is available at December 31, 2018. In addition, the Organization has $951,257 in level 2 investments which consist of bonds and certificates of deposit that can also be liquidated if needed.

## NOTE 23 - SUBSEQUENT EVENTS:

Subsequent to year end, the New Jersey, Department of Human Services, Division of Developmental Disabilities has requested that the Organization take over the operations of eight group homes servicing developmentally disabled clients and the Organization has signed a transfer agreement with the prior provider. The Organization is currently operating these additional group homes and is in the process of finalizing the related agreements associated with this transfer.

**CHILDREN'S AID AND FAMILY SERVICES, INC.**
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2018

| Grant or Program Title | Original Contract Period | Federal CFDA Number | Grant Number | Program Award Amount | Current Year Disbursements/ Expenditures |
|---|---|---|---|---|---|
| **Federal Programs** | | | | | |
| US Department of Health and Human Services | | | | | |
| Passed through the New Jersey Department of Human Services/Division of Mental Health and Addiction Services | | | | | |
| Regional Coalitions to Utilize Environmental Strategies to Achieve Population-level Change | 1/1/18 - 12/31/18 | 93.959 | 18-754-ADA-0 | $ 202,000 | $ 199,977 |
| Illegal Substances | 1/1/18 - 12/31/18 | 93.959 | 18-754-ADA-0 | 104,600 | 104,600 |
| Bergen County Underage Drinking | 1/1/18 - 12/31/18 | 93.959 | 18-754-ADA-0 | 137,000 | 123,590 |
| Passaic County Underage Drinking | 1/1/18 - 12/31/18 | 93.959 | 18-754-ADA-0 | 100,000 | 93,569 |
| Prescription Drug Abuse Prevention | 1/1/18 - 12/31/18 | 93.959 | 18-754-ADA-0 | 112,000 | 112,000 |
| Opioid Overdose Recovery Program | 1/1/18 - 12/31/18 | 93.959 | 18-754-ADA-0 | 255,750 | 255,750 |
| Opioid Overdose Recovery Expansion Program | 12/1/17 - 11/30/18 | 93.959 | 18-754-ADA-0 | 200,000 | 200,000 |
| Support Team for Addiction Recovery (STAR) Program | 11/1/17 - 10/31/19 | 93.959 | 18-754-ADA-0 | 700,000 | 350,000 |
| Alternate Approaches to Pain Management in Older Adults | 3/1/18 - 9/30/18 | 93.959 | 18-804-ADA-0 | 32,083 | 32,083 |
| Alternate Approaches to Pain Management in Older Adults | 10/1/18 - 9/30/19 | 93.959 | 19-804-ADA-0 | 75,000 | 14,612 |
| Opioid Abuse in Sport Related Injuries | 2/1/18 - 9/30/18 | 93.959 | 18-804-ADA-0 | 12,933 | 7,694 |
| Opioid Abuse in Sport Related Injuries | 10/1/18 - 9/30/19 | 93.959 | 19-804-ADA-0 | 12,540 | 2,627 |
| Strategic Prevention Framework Partnerships for Success | 10/1/17 - 9/30/18 | 93.959 | 18-804-ADA-0 | 101,263 | 84,160 |
| | | | | 2,045,169 | 1,580,662 |
| Drug-free Communities Support | 10/1/13 - 9/29/18 | 93.276 | 1H79SPO19834-03 | 625,000 | 113,510 |
| Drug-free Communities Support | 10/1/18 - 9/29/23 | 93.276 | 2H79SPO80858-06 | 625,000 | 34,596 |
| | | | | 1,250,000 | 148,106 |
| Garfield Coalition STOP Act | 9/30/16 - 9/29/20 | 93.243 | 1H79SP022010-02 | 188,580 | 44,359 |

**CHILDREN'S AID AND FAMILY SERVICES, INC.**
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2018

| Grant or Program Title | Original Contract Period | Federal CFDA Number | Grant Number | Program Award Amount | Current Year Disbursements/ Expenditures |
|---|---|---|---|---|---|
| **Federal Programs** | | | | | |
| US Department of Agriculture | | | | | |
| Passed through the New Jersey Department of Agriculture | | | | | |
| Child and Adult Care Food Program | 1/1/18 - 1/31/18 | 10.558 | 06-03-314 | 2,910 | 2,910 |
| US Department of Housing and Urban Development | | | | | |
| Passed through the New Jersey | | | | | |
| Department of Human Services | | | | | |
| Eldercare (Northwest) | 7/1/17 - 6/30/18 | 14.228 | PS-CAFSELDNW17 | 31,000 | 16,682 |
| Eldercare (Unidas and Garfield) | 7/1/17 - 6/30/18 | 14.228 | CW-CAFSHAC&GAR17 | 19,000 | 6,753 |
| STRIVE & REACH Art Enhancement Program | 7/1/18 - 6/30/19 | 14.228 | PSCAFSSTRIVE18 | 58,600 | 4,163 |
| | | | | 108,600 | 27,598 |
| Total Federal Awards | | | | $ 3,595,259 | $ 1,803,635 |

**CHILDREN'S AID AND FAMILY SERVICES, INC.**
SCHEDULE OF EXPENDITURES OF STATE AWARDS
YEAR ENDED DECEMBER 31, 2018

| Grant or Program Title | Original Contract Period | Grant Number | Program Award Amount | Current Year Disbursements/ Expenditures |
|---|---|---|---|---|
| **State Programs** | | | | |
| New Jersey Department of Children and Families | | | | |
| Division of Child Protection and Permanency | | | | |
| Child Welfare Services | 1/1/18 - 12/31/18 | 18CDBN | $ 2,154,204 | $ 2,154,204 |
| New Jersey Department of Human Services | | | | |
| Division of Developmental Disabilities | 1/1/18 - 12/31/18 | 39BK18N | 1,969,762 | 1,969,762 |
| Bergen County Department of Human Services | | | | |
| Passed through the New Jersey | | | | |
| Department of Law and Public Safety | | | | |
| Juvenile Justice Commission | | | | |
| Second Step Delinquency Prevention | 1/1/18 - 12/31/18 | CAFS-S18 | 78,818 | 78,818 |
| Total State Awards | | | $ 4,202,784 | $ 4,202,784 |

## 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, 2018, 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, 2018, 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, 2018, 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 September 24, 2019.

**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
September 24, 2019

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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, 2018. 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, 2018.

**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
September 24, 2019



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## 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 |

**CHILDREN'S AID AND FAMILY SERVICES, INC.**
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2018

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:<br>New Jersey Division of Mental Health and Addiction Services<br>The Center for Drug and Alcohol Abuse Grants |
| 39BK18N | New Jersey Department of Human Services<br>Division of Developmental Disabilities |
| 18CDBN | New Jersey Department of Children and Families<br>Division of Child Protection and Permanency<br>Child Welfare Services |

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