

**CHILDREN OF PROMISE, NYC**  
**FINANCIAL STATEMENTS**  
**AND**  
**AUDITORS' REPORT**  
**DECEMBER 31, 2014 AND 2013**

# CHILDREN OF PROMISE, NYC

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## INDEPENDENT AUDITORS' REPORT

To: The Board of Directors of  
Children of Promise, NYC

We have audited the accompanying financial statements of Children of Promise NYC (a nonprofit organization), which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Children of Promise NYC as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

New York, NY  
January 14, 2016

*Skody Scot & Company, CPAs, P.C.*

**CHILDREN OF PROMISE, NYC  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2014 AND 2013**

	<b>2014</b>	<b>2013</b>
<b>ASSETS</b>		
Cash	\$ 112,112	\$ 28,374
Grant and contract receivable	250,899	186,710
Contribution receivable	-	25,000
Property and equipment, net	180,505	199,903
Security deposits and other assets	12,275	10,000
Total assets	\$ 555,791	\$ 449,987
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 95,449	\$ 111,015
Loans and notes payable	120,139	241,448
Due to related party	-	50,000
Refundable advances	12,620	12,154
Deferred rent	92,275	-
Due to grantor	16,147	-
Total liabilities	336,630	414,617
Commitments and contingencies (see notes)		
Net Assets/(Deficit):		
Unrestricted	219,161	26,070
Temporarily restricted	-	9,300
Permanently restricted	-	-
Total net assets/(deficit)	219,161	35,370
Total liabilities and net assets/(deficit)	\$ 555,791	\$ 449,987

**See accompanying notes to financial statements.**

**CHILDREN OF PROMISE, NYC  
STATEMENTS OF ACTIVITIES  
YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<b>2014</b>	<b>2013</b>
Support and Revenues:		
Unrestricted:		
Special events:		
Income	\$ 7,835	\$ 79,704
Less: related direct costs	(6,306)	(16,598)
Net special event income	1,529	63,106
Government grants and contracts	1,332,898	1,310,067
Program service revenue	577,953	123,770
Contributions and foundation grants	534,067	314,828
Release of restricted assets	9,300	5,313
Temporarily restricted:		
Release of restricted assets	(9,300)	(5,313)
Total support and revenues	2,446,447	1,811,771
Expenses:		
Program Expenses:		
After school	1,098,082	856,569
Therapeutic services	314,815	292,720
Project DREAM	13,512	7,768
Summer camp	56,520	171,756
Total program expenses	1,482,929	1,328,813
Management and general	643,371	147,820
Fundraising	136,356	87,024
Total expenses	2,262,656	1,563,657
Increase/(Decrease) In Net Assets:		
Unrestricted	193,091	253,427
Temporarily restricted	(9,300)	(5,313)
Permanently restricted	-	-
Increase/(decrease) in net assets	183,791	248,114
Net assets/(deficit), beginning of year	35,370	(212,744)
Net assets/(deficit), end of year	\$ 219,161	\$ 35,370

**See accompanying notes to financial statements.**

**CHILDREN OF PROMISE, NYC  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Increase/(decrease) in net assets	\$ 183,791	\$ 248,114
Adjustments for non-cash items included in operating activities:		
Depreciation and amortization	31,771	30,856
Loss on disposition of fixed assets	89,948	-
Changes in assets and liabilities:		
Security deposits and other assets	(2,275)	(10,000)
Prepaid expenses	-	3,674
Grant and contract receivable	(64,189)	(6,226)
Contribution receivable	25,000	(2,754)
Accounts payable and accrued expenses	(15,566)	82,128
Refundable advances	466	(46,565)
Deferred rent	92,275	-
Due to grantor	16,147	-
Net cash provided/(used) by operating activities	<u>357,368</u>	<u>299,227</u>
Cash flows from investing activities		
Purchase of property and equipment	(102,321)	(29,000)
Net cash provided/(used) by investing activities	<u>(102,321)</u>	<u>(29,000)</u>
Cash flows from financing activities:		
Loan proceeds	-	218,082
Repayment of credit line	(50,000)	(363,009)
Repayment of notes payable	(116,595)	(102,494)
Repayment of installment loan	(4,714)	(3,927)
Net cash provided/(used) by financing activities	<u>(171,309)</u>	<u>(251,348)</u>
Net increase/(decrease) in cash	83,738	18,879
Cash at beginning of year	<u>28,374</u>	<u>9,495</u>
Cash at end of year	<u>\$ 112,112</u>	<u>\$ 28,374</u>
Supplemental information:		
Interest paid	\$ 12,282	\$ 28,556

**See accompanying notes to financial statements.**

**CHILDREN OF PROMISE, NYC  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2014  
WITH COMPARATIVE TOTALS FOR 2013**

	2014								2013
	Program Expenses					Supporting Services			Total Expenses
	After School	Therapeutic Services	Project DREAM	Summer Camp	Total Program Expenses	Management and General	Fundraising	Total Expenses	Total Expenses
Staff salaries	\$ 458,268	\$ 198,961	\$ 10,497	\$ 155	\$ 667,881	\$ 186,573	\$ 118,666	\$ 973,120	\$ 869,799
Payroll taxes	41,765	17,993	969	14	60,741	16,870	10,628	88,239	69,349
Employee benefits	25,637	11,108	608	-	37,353	10,400	6,697	54,450	41,674
Advertising and promotion	14,465	1,230	23	212	15,930	2,668	-	18,598	4,475
Consultants & contractors	76,344	2,364	49	2,582	81,339	17,306	-	98,645	82,636
Depreciation & amortization	-	-	-	-	-	31,771	-	31,771	30,856
Equipment leases & rentals	22,412	2,271	29	1,534	26,246	1,034	-	27,280	11,476
Fines and penalties	88	8	-	2	98	10,167	-	10,265	-
Insurance	10,699	10,107	44	183	21,033	9,440	-	30,473	58,277
Interest	10	-	-	-	10	12,272	-	12,282	28,556
Loss on asset disposal	-	-	-	-	-	89,948	-	89,948	-
Office supplies & expenses	68,144	10,330	246	5,407	84,127	19,722	215	104,064	51,061
Postage	1,665	76	2	48	1,791	483	-	2,274	3,394
Professional fees	20,724	25,094	54	3,853	49,725	118,038	-	167,763	66,766
Program expenses - meals	26,344	95	-	753	27,192	-	-	27,192	41,688
Program expenses - trips	15,279	-	-	12,682	27,961	-	-	27,961	14,196
Program expenses - other	86,419	1,490	-	7,311	95,220	-	-	95,220	9,454
Recruitment & development	1,685	22	26	60	1,793	712	-	2,505	1,761
Refunded grants	-	-	-	-	-	8,167	-	8,167	-
Rent and utilities	184,691	30,424	627	5,531	221,273	40,617	-	261,890	133,625
Repairs & maintenance	5,805	410	16	406	6,637	38,239	-	44,876	1,111
Stipends	12,045	-	-	4,440	16,485	1,360	-	17,845	15,402
Telephone	6,328	907	16	68	7,319	756	-	8,075	6,745
Travel & meetings	19,265	1,925	306	11,279	32,775	26,828	150	59,753	21,356
<b>Total expenses</b>	<b>\$ 1,098,082</b>	<b>\$ 314,815</b>	<b>\$ 13,512</b>	<b>\$ 56,520</b>	<b>\$ 1,482,929</b>	<b>\$ 643,371</b>	<b>\$ 136,356</b>	<b>\$ 2,262,656</b>	<b>\$ 1,563,657</b>

See accompanying notes to financial statements.

## **CHILDREN OF PROMISE, NYC NOTES TO FINANCIAL STATEMENTS**

### Note 1 - Summary of Significant Accounting Policies

#### The Organization

Children of Promise, NYC (Organization), a not-for-profit organization, was incorporated in the State of New York on May 30, 2006. The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal, state or local income taxes has been recorded. The Organization does not believe its financial statements contain any uncertain tax positions. The Organization primarily receives its support from government contracts and from contributions from foundations, corporations and individuals.

The Organization offers the children of prisoners the opportunity to explore new educational opportunities, express themselves creatively and emotionally, build meaningful relationships and gain new experiences. To accomplish this goal the Organization provides four programs. These programs include the following: After-School - developing the intellectual, social and emotional competencies of children of imprisoned parents and promoting healthy decision making and critical thinking skills by providing them with a safe place to learn and interact with other children in similar situations; Therapeutic Services - offering behavioral assessments and counseling to children of imprisoned parents and their family where they can safely explore their past traumas, recognize their present accomplishments and move forward toward future goals; Project Dream (Directing Realities Through Exposure, Access & Monitoring) - providing children of imprisoned parents with one-to-one matches with screened and trained mentors, who participate in trips and activities which help to break the cycle of intergenerational incarceration; and Summer Camp - providing educational, cultural and arts-based programming and recreational activities in a day camp provided during the summer months to decrease the summer learning loss experienced by many children.

#### Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

#### Basis of Presentation

In accordance with GAAP the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows.

#### Use of Estimates

Management uses estimates and assumptions in preparing the financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.



**CHILDREN OF PROMISE, NYC**  
**NOTES TO FINANCIAL STATEMENTS**

Note 1 - Summary of Significant Accounting Policies (Continued)

Cash Equivalents

For the purposes of the statements of financial position and the statements of cash flows, the Organization considers as cash equivalents money market funds and all highly liquid resources, such as investments in certificates of deposit, with an original maturity of three months or less. At December 31, 2014 and 2013, the Organization did not have any resources that were considered cash equivalents.

Property and Equipment

The Organization capitalizes certain property and equipment with estimated lives of three years or more. Purchased property and equipment are stated at cost, less accumulated depreciation. Donated property and equipment are stated at fair value on the date of donation, less accumulated depreciation. Depreciation of furniture and equipment is computed by the straight-line method over estimated useful lives ranging from three to ten years. Leasehold improvements are amortized by the straight-line method over the life of the improvement or the term of the lease, whichever is shorter. Expenditures for repairs and maintenance are expensed as incurred and major renewals and betterments are capitalized.

Receivables

Receivables that are expected to be collected within one year are recorded at their net realizable value. Receivables that are expected to be collected in future years are recorded at their present value of estimated future cash flows. All receivables are expected to be received within one year and as such have been stated at their net realizable value with no allowance for uncollectable contributions.

Revenue Recognition

Contributions are considered available for the Organization's general programs unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor are reported as temporarily or permanently restricted support and increases in the respective class of net assets. Contributions received with temporary restrictions that are met in the same reporting period are reported as unrestricted support and increase unrestricted net assets. Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Government contract and program service revenue relate to fees received in exchange for services. Revenue is recognized when the service is provided. Any advances received which have not been earned are recorded as refundable advances or deferred income.

**CHILDREN OF PROMISE, NYC  
NOTES TO FINANCIAL STATEMENTS**

Note 1 - Summary of Significant Accounting Policies (Continued)

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The Organization allocates salaries based on estimated time and other expenses are allocated based on usage. The Organization classifies expenses, which are not directly related to a specific program, as Management and General expenses.

Advertising Costs

The Organization uses advertising to promote its programs among the audience it serves. The production costs of advertising are expensed as incurred. During the years ended December 31, 2014 and 2013, advertising costs totaled \$18,598 and \$4,475, respectively.

Note 2 - Property and Equipment

Property and equipment consisted of the following at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Leasehold improvements	\$ 120,400	\$ 155,847
Vehicles	34,442	34,442
Furniture & fixtures	<u>89,896</u>	<u>78,975</u>
	244,738	269,264
Less: Accumulated depreciation	<u>( 64,233)</u>	<u>( 69,361)</u>
	<u>\$ 180,505</u>	<u>\$ 199,903</u>

Note 3 - Loans and Notes Payable

The Organization has a \$451,441 promissory note due to a New York not-for-profit corporation. A minimum of \$4,000 of principal and interest is due monthly. The note carries an annual interest rate of 2.5% but may be waived by the lender. The loan is unsecured; however the lender has the right to request assignment of payments from a contract with the City of New York. As of December 31, 2014 and 2013, the outstanding balance on the promissory note is \$105,200 and \$221,795, respectively.

In August 2012, the Organization took out an installment loan with a car company which was used to finance the purchase of a van. The amount financed was \$25,000. The loan carries an annual interest rate of 7.32% and is secured by the purchased van. Payments of \$492 are due monthly for 61 months and end on September 2, 2017. As of December 31, 2014 and 2013, the outstanding balance on the installment loan is \$14,939 and \$19,653, respectively.

**CHILDREN OF PROMISE, NYC**  
**NOTES TO FINANCIAL STATEMENTS**

Note 3 - Loans and Notes Payable (Continued)

During the year ended December 31, 2013, the Organization entered into a factoring arrangement. Due to the terms of the factoring arrangement, the transaction was treated as a short-term loan. The Organization received proceeds of \$77,000 from the loan. The loan was secured by a portion of the Organization's receivables. As of December 31, 2013, the entire amount due to the factoring company had been paid.

The Organization had a \$200,000 revolving credit line with a financial institution. The credit line was secured by all assets of the Organization. Interest was to be paid monthly on the outstanding balance based on 4.99% above prime rate in effect. The lender had certain covenants and requirements such as minimum deposit account balances. During the year ended December 31, 2013, the loan was paid-in-full and closed.

Note 4 - Due to Related Parties

During the year ended December 31, 2013, a relative of the Organization's President loaned the Organization \$30,498. The loan was interest-free and was paid-off as of December 31, 2013.

During the year ended December 31, 2013, the President of the Organization loaned the Organization \$50,000. The unsecured loan is interest-free and has no maturity date. As of December 31, 2013, the entire \$50,000 was payable to the related party. The loan was fully repaid as of December 31, 2014.

Note 5 - Commitments and Contingencies

The Organization leased office and program space under a five year operating lease ending on August 31, 2017. In March 2014, the Organization cancelled this lease. The Organization was able to cancel the lease with no penalty and the last payment made under this lease was in March 2014.

In September 2013, the Organization entered into a new lease for office and program space. Rent payments commenced in April 2014. The lease is an operating lease and is to end on December 31, 2023. As of December 31, 2014, the minimum aggregate annual rentals are as follows:

Year ended December 31, 2015	\$ 180,000
2016	180,000
2017	186,000
2018	206,040
2019 and thereafter	951,311

Total rent and related expenses charged to operations for the years ended December 31, 2014 and 2013 was \$261,890 and \$133,625, respectively.

**CHILDREN OF PROMISE, NYC  
NOTES TO FINANCIAL STATEMENTS**

Note 6 - Government Grants and Contracts

The Organization derives a majority of its revenue from agreements with multiple federal, state and city agencies. Details of major government grants and contracts, by major government agency, as of December 31, 2014 and 2013 are as follows:

<u>Agency</u>	<u>Award</u>	<u>2014</u>	<u>2013</u>
NY State Education Dept.	\$1,104,849	\$308,733	\$344,844
US Dept. of Health & Human Services	211,935	56,084	85,491
NYC DYCD	3,309,037	843,602	769,440
Various other agreements	Various	124,479	110,292

Note 7 - Concentrations

Approximately 34% and 42% of the Organization's revenue was provided by two major NYC DYCD contracts for the years ended December 31, 2014 and 2013, respectively. It is always considered possible that grantors and contractors might be lost in the near term or that contracts will not be renewed. In the event funding is terminated, the Organization's ability to continue as a going concern would be greatly diminished.

The Organization maintains its checking account with a major financial institution. No balances exceed the Federal Deposit Insurance Corporation insurance coverage at December 31, 2014 and 2013.

Note 8 - Restrictions on Net Assets

Temporarily restricted net assets are available for the following purposes:

	<u>2014</u>	<u>2013</u>
Super Storm Sandy Relief	\$ -	\$ 9,300

Note 9 - Loss on Disposition of Assets

During the year ended December 31, 2014, the Organization moved to a new, larger leased space. The previous leased space had improvements costing \$126,847. The \$89,948 net book value of the improvements was written off as a result of the surrender of the previous leased space.

Note 10 - Subsequent Events

Subsequent events were evaluated for potential additional disclosures through January 14, 2016, which is the date the financial statements were available to be issued.