

CHILDREN OF PROMISE, NYC
FINANCIAL STATEMENTS
AND
AUDITORS' REPORT
DECEMBER 31, 2016 AND 2015

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, 2016 and 2015, 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, 2016 and 2015, 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
April 17, 2017

Skody Scot & Company, CPAs, P.C.

**CHILDREN OF PROMISE, NYC
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015**

	2016	2015
ASSETS		
Cash and cash equivalents	\$ 454,990	\$ 240,439
Grant and contract receivable	147,128	284,994
Prepaid expenses	25,445	15,600
Property and equipment, net	116,963	148,734
Security deposits and other assets	10,362	12,087
Total assets	\$ 754,888	\$ 701,854
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 136,845	\$ 118,251
Loans and notes payable	36,558	87,312
Refundable advances	49,429	-
Deferred rent	126,825	109,550
Total liabilities	349,657	315,113
Commitments and contingencies (see notes)		
Net Assets:		
Unrestricted	405,231	336,741
Temporarily restricted	-	50,000
Permanently restricted	-	-
Total net assets	405,231	386,741
Total liabilities and net assets	\$ 754,888	\$ 701,854

See accompanying notes to financial statements.

**CHILDREN OF PROMISE, NYC
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
Support and Revenues:		
Unrestricted:		
Government grants and contracts	\$ 1,385,856	\$ 1,455,960
Program service revenue	694,326	831,246
Contributions and foundation grants	472,282	418,337
Interest income	837	600
Other income	2,300	-
Release of restricted assets	50,000	-
Temporarily restricted:		
Contributions and grants	-	50,000
Release of restricted assets	(50,000)	-
Total support and revenues	2,555,601	2,756,143
Expenses:		
Program Expenses:		
After school	1,398,626	1,260,539
Therapeutic services	439,361	441,675
Project DREAM	26,817	22,268
Summer camp	102,139	154,679
Total program expenses	1,966,943	1,879,161
Management and general	480,387	541,605
Fundraising	89,781	167,797
Total expenses	2,537,111	2,588,563
Increase/(Decrease) In Net Assets:		
Unrestricted	68,490	117,580
Temporarily restricted	(50,000)	50,000
Permanently restricted	-	-
Increase/(decrease) in net assets	18,490	167,580
Net assets, beginning of year	386,741	219,161
Net assets, end of year	\$ 405,231	\$ 386,741

See accompanying notes to financial statements.

**CHILDREN OF PROMISE, NYC
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
Cash flows from operating activities:		
Increase/(decrease) in net assets	\$ 18,490	\$ 167,580
Adjustments for non-cash items included in operating activities:		
Depreciation and amortization	31,771	31,771
Changes in assets and liabilities:		
Security deposits and other assets	1,725	188
Prepaid expenses	(9,845)	(15,600)
Grant and contract receivable	137,866	(34,094)
Accounts payable and accrued expenses	18,594	22,801
Refundable advances	49,429	(12,621)
Deferred rent	17,275	17,275
Due to grantor	-	(16,147)
Net cash provided/(used) by operating activities	265,305	161,153
 Cash flows from investing activities	 -	 -
 Cash flows from financing activities:		
Repayment of notes payable	(45,365)	(27,280)
Repayment of installment loan	(5,389)	(5,546)
Net cash provided/(used) by financing activities	(50,754)	(32,826)
 Net increase/(decrease) in cash and cash equivalents	 214,551	 128,327
Cash and cash equivalents at beginning of year	240,439	112,112
Cash and cash equivalents at end of year	\$ 454,990	\$ 240,439
 Supplemental information:		
Interest paid	\$ 567	\$ 886

See accompanying notes to financial statements.

**CHILDREN OF PROMISE, NYC
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2016
WITH COMPARATIVE TOTALS FOR 2015**

	2016								2015
	Program Expenses					Supporting Services			Total Expenses
	After School	Therapeutic Services	Project DREAM	Summer Camp	Total Program Expenses	Management and General	Fundraising	Total Expenses	
Staff salaries	\$ 753,867	\$ 228,653	\$ 13,501	\$ -	\$ 996,021	\$ 196,335	\$ 76,803	\$ 1,269,159	\$ 1,198,418
Payroll taxes	67,814	20,585	1,258	-	89,657	17,725	6,976	114,358	111,383
Employee benefits	49,668	15,076	921	-	65,665	12,983	5,109	83,757	57,282
Advertising and promotion	4,402	309	173	-	4,884	2,293	-	7,177	5,318
Consultants & contractors	134,296	68,079	1,500	4,207	208,082	110,592	52	318,726	327,770
Depreciation & amortization	14,739	-	-	-	14,739	17,032	-	31,771	31,771
Disallowed grants repaid	-	-	-	-	-	-	-	-	68,381
Equipment leases & rentals	6,703	5,419	-	2,757	14,879	4,055	-	18,934	5,588
Fines and penalties	-	-	-	-	-	2,408	-	2,408	668
Insurance	16,055	5,933	-	2,726	24,714	4,850	-	29,564	25,144
Interest	357	-	-	-	357	210	-	567	886
Office supplies & expenses	11,457	7,055	1,031	3,875	23,418	23,484	273	47,175	64,807
Postage	2,215	750	21	1,236	4,222	933	-	5,155	4,816
Professional fees	41,384	16,887	-	4,466	62,737	16,649	-	79,386	91,566
Program expenses - meals	62,905	2,069	2,645	13,517	81,136	-	-	81,136	55,250
Program expenses - trips	1,134	-	533	27,359	29,026	-	-	29,026	25,498
Program expenses - other	71,178	8,207	853	12,854	93,092	3,248	568	96,908	215,796
Recruitment & development	18,851	4,142	-	-	22,993	1,953	-	24,946	3,637
Rent and utilities	126,332	50,528	-	15,103	191,963	31,278	-	223,241	215,389
Repairs & maintenance	3,733	1,412	10	1,597	6,752	3,260	-	10,012	26,061
Stipends	3,023	1,000	-	10,700	14,723	15,085	-	29,808	11,670
Telephone	1,299	569	74	107	2,049	930	-	2,979	7,616
Travel & meetings	7,214	2,688	4,297	1,635	15,834	15,084	-	30,918	33,848
Total expenses	\$ 1,398,626	\$ 439,361	\$ 26,817	\$ 102,139	\$ 1,966,943	\$ 480,387	\$ 89,781	\$ 2,537,111	\$ 2,588,563

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.

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 depreciated 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.

Program service revenue relates to fees received in exchange for program services. Revenue is recognized when the program service is provided. Any revenue received which has not been earned is recorded as 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, 2016 and 2015, advertising costs totaled \$7,177 and \$5,318, respectively.

Note 2 - Property and Equipment

Property and equipment consisted of the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Leasehold improvements	\$ 120,400	\$ 120,400
Vehicles	34,442	34,442
Furniture & fixtures	<u>89,896</u>	<u>89,896</u>
	244,738	244,738
Less: Accumulated depreciation	<u>(127,775)</u>	<u>(96,004)</u>
	<u>\$ 116,963</u>	<u>\$ 148,734</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, 2016 and 2015, the outstanding balance on the promissory note is \$32,555 and \$77,919 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, 2016 and 2015, the outstanding balance on the installment loan is \$4,003 and \$9,393, respectively.

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

Note 4 - Commitments and Contingencies

In September 2013, the Organization entered into a 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, 2016, the minimum aggregate annual rentals are as follows:

Year ended December 31, 2017	\$ 186,000
2018	206,040
2019	214,281
2020	222,852
2021	231,771
2022 and thereafter	282,407

Total rent and related expenses charged to operations for the years ended December 31, 2016 and 2015 was \$223,241 and \$215,389, respectively.

Note 5 - Government Grants and Contracts

The Organization derives a majority of its revenue from agreements with multiple federal, state and city agencies. Details of major current agreements and their activities as of December 31, 2016 and 2015 are as follows:

<u>Agency</u>	<u>Award</u>	<u>2016</u>	<u>2015</u>
NY State Education Dept.	\$1,473,132	\$230,869	\$187,679
US Dept. of Health & Human Services	97,200	73,403	76,020
NYC DYCD	3,319,037	1,081,584	1,192,261

Note 6 - Restrictions on Net Assets

As of December 31, 2016 and 2015, temporarily restricted net assets are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Teen Program	\$ -	\$ 25,000
Family Services Coordinator salary	-	25,000

CHILDREN OF PROMISE, NYC
NOTES TO FINANCIAL STATEMENTS

Note 7 - Concentrations

Approximately 42% and 47% of the Organization's revenue was provided by two major NYC DYCD contracts for the years ended December 31, 2016 and 2015, 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 and money market accounts with a major financial institution. Balances that exceed the Federal Deposit Insurance Corporation insurance coverage are summarized for the years ended December 31, 2016 and 2015 as follows:

	<u>2016</u>	<u>2015</u>
Institutional balances	\$ 490,916	\$ 270,806
Less: Amounts covered	<u>(250,000)</u>	<u>(250,000)</u>
Uninsured amounts	<u>\$ 240,916</u>	<u>\$ 20,806</u>

Note 8 - Cash and Cash Equivalents

Cash and cash equivalents consisted of the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Checking and savings	\$ 49,739	\$(9,615)
Money market funds	<u>405,251</u>	<u>250,054</u>
Total held	<u>\$ 454,990</u>	<u>\$ 240,439</u>

Note 9 - Subsequent Events

Subsequent events were evaluated for potential additional disclosures through April 17, 2017, which is the date the financial statements were available to be issued.