

ITALIAN HOME FOR CHILDREN, INC.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016
TOGETHER WITH INDEPENDENT AUDITORS' REPORT

ITALIAN HOME FOR CHILDREN, INC.

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Business Advisors
Certified Public Accountants

To the Board of Directors of
Italian Home for Children, Inc.

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Italian Home for Children, Inc. (a Massachusetts nonprofit Organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's 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 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 Italian Home for Children, Inc. as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Italian Home for Children, Inc.'s 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 22, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2017, on our consideration of Italian Home for Children, Inc.'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 Italian Home for Children, Inc.'s internal control over financial reporting and compliance.

Pavento, Ratchliffe, Renzi & Co, LLC

Franklin, MA
December 12, 2017

ITALIAN HOME FOR CHILDREN, INC.

STATEMENTS OF FINANCIAL POSITION - JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,138,955	\$ 1,545,698
Accounts receivable (less allowance for doubtful accounts of \$95,201 in 2017 and 2016)	1,191,135	1,301,161
Promises to give	10,000	110,097
Prepaid expenses and other assets	238,325	84,260
	<u>2,578,415</u>	<u>3,041,216</u>
Total current assets	2,578,415	3,041,216
Cash and cash equivalents - Endowment	1,053,521	38,196
Endowment Investments	-	1,625,204
	<u>1,053,521</u>	<u>1,663,400</u>
Total endowment investments	1,053,521	1,663,400
OTHER ASSETS:		
Cash and cash equivalents - board-designated	1,814,837	114,239
Board-designated investments	-	4,860,719
Land, property and equipment, at cost less accumulated depreciation	2,480,458	2,573,268
Other assets	505	505
	<u>4,295,800</u>	<u>7,548,731</u>
Total other assets	4,295,800	7,548,731
Total assets	\$ 7,927,736	\$ 12,253,347
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Demand note payable to bank	\$ -	\$ 1,405,000
Current portion of long-term debt	-	206,635
Accounts payable	374,186	368,057
Accrued expenses	765,361	758,480
Deferred revenue	66,092	16,023
	<u>1,205,639</u>	<u>2,754,195</u>
Total current liabilities	1,205,639	2,754,195
LONG-TERM DEBT	-	1,679,969
NET ASSETS:		
Unrestricted	5,271,829	5,466,240
Temporarily restricted	157,424	227,609
Permanently restricted	1,292,844	2,125,334
	<u>6,722,097</u>	<u>7,819,183</u>
Total net assets	6,722,097	7,819,183
Total liabilities and net assets	\$ 7,927,736	\$ 12,253,347

The accompanying notes are an integral part of these financial statements.

ITALIAN HOME FOR CHILDREN, INC.

STATEMENTS OF ACTIVITIES

YEAR ENDED JUNE 30, 2017 WITH COMPARATIVE TOTALS FOR 2016

	2017			TOTAL	
	Unrestricted	Temporarily Restricted	Permanently Restricted	2017	2016
Public support and revenue:					
Public support:					
Contributions	\$ 478,229	\$ 15,576	\$ 750	\$ 494,555	\$ 1,079,362
Bequests	107,500	-	-	107,500	1,234,851
Special events	480,058	-	-	480,058	445,564
Total public support	1,065,787	15,576	750	1,082,113	2,759,777
Revenue:					
Program service fees	11,728,590	-	-	11,728,590	11,995,969
School lunch program	107,342	-	-	107,342	92,450
Specific assistance revenue	-	-	-	-	-
Grants	7,169	-	-	7,169	3,246
Gifts in-kind	2,100	-	-	2,100	45,034
Investment income	52,011	-	-	52,011	157,817
Total revenue	11,897,212	-	-	11,897,212	12,294,516
Net assets released from restrictions:					
Satisfaction of usage restrictions	396,340	(85,761)	(310,579)	-	-
Total support and revenue	13,359,339	(70,185)	(309,829)	12,979,325	15,054,293
Expenses:					
Program services	12,090,365	-	-	12,090,365	13,491,238
Supporting services:					
Management and general	1,380,556	-	-	1,380,556	1,510,527
Fundraising	676,485	-	-	676,485	643,835
Total supporting services	2,057,041	-	-	2,057,041	2,154,362
Total expenses	14,147,406	-	-	14,147,406	15,645,600
Decrease in net assets from operations	(788,067)	(70,185)	(309,829)	(1,168,081)	(591,307)
Other income (expense):					
Other Income	171,305	-	-	171,305	148,658
Realized loss on investment transactions	(36,557)	-	(63,753)	(100,310)	(158,442)
Unrealized loss on investments	-	-	-	-	(79,508)
Transfer of realized endowment fund appreciation	458,908	-	(458,908)	-	-
Total other income (expense)	593,656	-	(522,661)	70,995	(89,292)
Decrease in net assets	(194,411)	(70,185)	(832,490)	<u>\$ (1,097,086)</u>	<u>\$ (680,599)</u>
Net assets, beginning of year	5,466,240	227,609	2,125,334		
Net assets, end of year	<u>\$ 5,271,829</u>	<u>\$ 157,424</u>	<u>\$ 1,292,844</u>		

The accompanying notes are an integral part of these financial statements.

ITALIAN HOME FOR CHILDREN, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017 WITH COMPARATIVE TOTALS FOR 2016

	2017				Total Expenses	
	Program Services	Supporting Services				
		Management and General	Fund Raising	Total		
Salaries	\$ 8,248,007	\$ 687,193	\$ 344,221	\$ 1,031,414	\$ 9,279,421	\$ 10,129,958
Payroll taxes and fringe benefits	1,598,877	143,565	53,232	196,797	1,795,674	1,997,275
Total salaries and related expenses	9,846,884	830,758	397,453	1,228,211	11,075,095	12,127,233
Building occupancy costs	520,348	175,523	3,381	178,904	699,252	758,634
Dues and subscriptions	17,090	39,114	1,883	40,997	58,087	49,605
Food and food service	350,408	387	-	387	350,795	359,406
General supplies	165,171	15,374	446	15,820	180,991	118,423
Instructional and recreational supplies	67,493	-	-	-	67,493	97,805
Insurance expense	72,690	22,432	1,698	24,130	96,820	73,795
Interest	56,276	62,164	-	62,164	118,440	156,824
Investment advisory fees	-	19,812	-	19,812	19,812	58,866
Meals and entertainment	41,094	1,954	1,163	3,117	44,211	49,791
Motor vehicle expenses	164,960	11,749	1,502	13,251	178,211	233,003
Other charges	4,495	6,287	9,285	15,572	20,067	16,901
Payroll service	30,501	-	-	-	30,501	23,625
Postage	1,256	2,352	9,214	11,566	12,822	7,605
Professional fees	270,085	51,205	30,038	81,243	351,328	653,191
Public relations	-	-	43,151	43,151	43,151	89,064
Recruiting	12,931	32,127	606	32,733	45,664	85,682
Special events expense	6,016	353	176,048	176,401	182,417	163,774
Specific assistance	14,106	-	-	-	14,106	8,460
Staff development	16,390	6,677	493	7,170	23,560	57,911
Telephone	29,172	25,586	124	25,710	54,882	64,150
Temporary personnel	265,481	4,542	-	4,542	270,023	187,752
Total expenses before depreciation	11,952,847	1,308,396	676,485	1,984,881	13,937,728	15,441,500
Depreciation of property and equipment	137,518	72,160	-	72,160	209,678	204,100
Total expenses	\$ 12,090,365	\$ 1,380,556	\$ 676,485	\$ 2,057,041	\$ 14,147,406	\$ 15,645,600

The accompanying notes are an integral part of these financial statements.

ITALIAN HOME FOR CHILDREN, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Decrease in net assets	<u>\$ (1,097,086)</u>	<u>\$ (680,599)</u>
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	209,678	204,100
Increase in allowance for doubtful accounts	-	991
Donated property and equipment	-	(37,154)
Unrealized (gain) loss on investments	-	79,508
Realized (gain) loss on investments	100,310	158,442
Changes in operating assets and liabilities:		
Accounts receivable	110,026	(272,427)
Promises to give	100,097	(15,077)
Prepaid expenses and other assets	(154,065)	111,023
Other assets	-	13,436
Accounts payable	6,129	164,760
Accrued expenses	6,881	49,245
Deferred revenue	50,069	16,023
Postretirement benefit obligation	-	40
Total adjustments	<u>429,125</u>	<u>472,910</u>
Net cash used for operating activities	<u>(667,961)</u>	<u>(207,689)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of securities	6,400,018	7,197,672
Purchase of securities	-	(6,508,738)
Cash and cash equivalents - Endowment	(1,079,078)	-
Board designated investments	(1,651,250)	-
Purchase of property and equipment	<u>(116,868)</u>	<u>(138,368)</u>
Net cash provided by investing activities	<u>3,552,822</u>	<u>550,566</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings	-	660,000
Repayment of amounts borrowed	<u>(3,291,604)</u>	<u>(98,739)</u>
Net cash (used for) provided by financing activities	<u>(3,291,604)</u>	<u>561,261</u>
NET INCREASE (DECREASE) IN CASH	(406,743)	904,138
CASH AT BEGINNING OF YEAR	<u>1,545,698</u>	<u>641,560</u>
CASH AT END OF YEAR	<u><u>\$ 1,138,955</u></u>	<u><u>\$ 1,545,698</u></u>

The accompanying notes are an integral part of these financial statements.

ITALIAN HOME FOR CHILDREN, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the year for -		
Interest	\$ 118,440	\$ 156,824
Taxes	1,426	-

The accompanying notes are an integral part of these financial statements.

ITALIAN HOME FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

(1) NATURE OF ACTIVITIES

The Italian Home for Children, Inc. was organized to provide housing, education and counseling for children in eastern Massachusetts. The Organization purchased Family and Community Solutions, Inc. (dba Brighton Allston Mental Health Association (BAMHA)) on August 1, 2012. Italian Home for Children, Inc. continues to do business as FCS and BAMHA. The Organization is funded substantially by state and local agencies, and such reimbursements are supplemented by public contributions. The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Organization is also exempt from Massachusetts income taxes.

Italian Home for Children has three primary service areas: Residential, Clinical and Educational programming providing treatment through residential care, in-home and community based programs, in public schools and at our special education facility on our Boston campus.

Italian Home for Children's Residential Program Services are focused on providing treatment to children, 4-13 years old, who are experiencing behavioral crisis stemming from a multitude of personal, family and systemic issues. Our children are working to overcome trauma, abuse, mental illness, learning disorders and poverty. The services IHC provides are:

- Intensive Group Home/Long-term Residential program, both located on our Boston campus provides residential treatment services of varying duration. Services include milieu therapy, individual therapy, focused group treatment, spiritual enrichment, intensive family services and family preservation services.
- Cranwood Children's Services, is an intensive group home program which provides community-based residential treatment services (see above) to children in East Freetown, MA.
- Community-Based Acute Treatment (CBAT) program provides stabilization and comprehensive assessment services to children in crisis. A Transitional Care Unit (TCU) for children who no longer meet hospital level of care but whose plan to leave care is not yet finalized is also part of the CBAT program.

Italian Home for Children's Clinical Program Services consists of our:

- Brighton-Allston Mental Health Association (BAMHA) provides outpatient mental health services, including individual, group and family therapy, to children, adults and families. BAMHA had a clinical satellite program located in Dorchester until January 2018 and is currently providing on site clinical services in 4 Boston public schools.
- Children Behavioral Health Initiative (CBHI) - Therapeutic Mentoring and In-Home Therapy Program provide services in homes and communities to families and their children with significant behavioral, emotional and mental health needs. Therapeutic Mentors work one-on-one with children who require significant support and coaching to learn social skills. In-Home Therapy takes place in the home of the child and is provided by a licensed clinician and a para-professional working as a team to provide intensive family therapy to help the family support the child in the home.

Italian Home for Children's Educational Program Services consists of:

- The Pallotta School a Chapter 766 special education program; it has a maximum capacity of five classrooms with a total of 45 students. Classrooms are led by a certified Special Education Teacher, Assistant Teacher and Child Care Worker. Specialized clinical, academic and behavioral supports are available to all students. These students are 4-14 years old, grades K-8, and are diagnosed with a variety of disabilities including Attention Deficit- Hyperactivity Disorder, Post-Traumatic Stress Disorder, Autism Spectrum Disorder, Learning Disabilities, Communication Disorders and Cognitive Impairments.

ITALIAN HOME FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

(1) NATURE OF ACTIVITIES (continued)

- CBAT Educational Services provide educational tutoring to all clients regardless of length of stay in our CBAT Program. Services are provided by Special Education certified teachers focusing on developmentally appropriate curriculum for a diverse classroom environment.
- Therapeutic After-School Program provides structured educational and extra-curricular opportunities during the school year, vacation weeks and over the summer for students' k-8th grade that need additional academic and behavioral supports.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, 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:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations although their use may be limited by Board designation.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions (Note 12). When the contribution and the restriction are met in the same reporting period the contribution is reported as unrestricted support. Temporarily restricted net assets also include, under Massachusetts law, cumulative appreciation on permanently restricted endowment funds and unappropriated interest and dividends on permanently and temporarily restricted endowment funds, which are subject to prudent appropriation by the Board of Directors in accordance with the provisions of Massachusetts law (Note 11).

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

(b) Fair Values of Financial Instruments

The following methods and assumptions were used by the Organization in estimating its fair value disclosures for financial instruments:

Cash, cash equivalents, short-term unconditional promises to give, and note payable: The carrying amounts reported in the statements of financial position approximate fair values because of the short maturities of those instruments.

Short-term and endowment investments: The fair values of investments are based on quoted market prices.

ITALIAN HOME FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Contributions and Pledges Receivable

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Organization uses the allowance method to determine non-collectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

(d) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(e) Property and Equipment

Property and equipment are recorded at cost or at estimated fair value at the date of gift. Donations are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose. Depreciation is provided using the straight-line and declining balance methods over estimated useful lives as follows:

	Estimated Useful Life
Buildings and improvements	10 – 40 years
Furniture and equipment	3 – 10 years
Residential furnishings	3 – 7 years
Program acquisition costs	5 years
Motor vehicles	5 years

Major additions and improvements are capitalized while expenditures for maintenance and repairs are charged to expense as incurred.

ITALIAN HOME FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. Cash and cash equivalents for purposes of the statements of cash flows exclude permanently restricted cash and cash equivalents.

(g) Accounts Receivable

Accounts receivable are reported net of an allowance for doubtful accounts. The allowance is based on management's estimate of the amount of receivables that will actually be collected.

(h) Credit Risk

Financial instruments that potentially subject the Organization to concentration of credit risk consist primarily of temporary cash investments and trade receivables. The Organization has placed its temporary cash investments with several high quality financial institutions. On occasion account balances will exceed the FDIC insured limit. Concentration of credit risk with respect to trade receivables is due to the fact that the Organization conducts most of its business with the Commonwealth of Massachusetts. The Organization's deposits at local banks exceeded the FDIC insured limit of \$250,000 in 2017 by \$941,018 and in 2016 by \$1,406,748 and it had a receivable balance of approximately \$487,899 in 2017 and \$478,464 in 2016 due from the Commonwealth of Massachusetts.

(i) In-Kind Contributions

Members of the community contribute produce and other commodities to the Organization on a regular basis. These donations are not included in the financial statements as there is no reasonable basis for measuring their value. Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. In 2017 and 2016 property and equipment with a fair value of \$2,100 and \$45,034, respectively, was donated by members of the community to the organization. The donation is included in the Statements of Activities and the equipment is included in the Statements of Financial Position. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

(j) Investment Pools

The Organization maintains master investment accounts for its donor-restricted and board-designated endowments. Realized and unrealized gains and losses from securities in the master investment accounts are allocated monthly to the individual endowments based on the relationship of the market value of each endowment to the total market value of the master investment accounts, as adjusted for additions to or deductions from those accounts.

Under accounting principles generally accepted in the United States of America, investments in equity securities with readily determinable fair values and all investments in debt securities are reported at market value on the Statement of Financial Position. Both realized and unrealized gains and losses are included in the change in net assets reported on the Statement of Activities. Realized gains and losses on the sale or other disposition of investments are determined on the basis of average cost.

Investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such change could materially affect the amounts reported on the Statement of Financial Position.

ITALIAN HOME FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Functional Expenses

Functional expenses have been allocated between program services and supporting services based on analysis of personnel time and space utilized for the related activities.

(l) Unemployment Compensation

The Organization has elected to finance the benefit costs of unemployment compensation by reimbursing the Commonwealth of Massachusetts for unemployment compensation paid. The election was made under the "Unemployment Compensation Amendments of 1976" (Public Law 94-566). As of June 30, 2017, the Organization's exposure to claims cannot be reasonably estimated, but is not considered to be material for financial statement purposes.

(m) Comparative Financial Information

The financial statements include certain prior year summarized comparative information in total, though 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 the Organization's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

(n) Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

(o) Uncertain Tax Positions

Accounting principles generally accepted in the United States of America require the Organization to evaluate tax positions taken and recognize a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would be sustained upon examination by taxing authorities. The Organization has analyzed the tax positions taken, and has concluded that as of June 30, 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

(3) RESTRICTED CASH

Cash includes \$4,416 in 2017 and \$4,415 in 2016 which has been restricted by donors to certain fundraising events and capital improvements. In accordance with the Organization's policies, separate bank accounts are maintained for restricted cash.

ITALIAN HOME FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

(4) PROMISES TO GIVE

Unconditional promises to give consist of the following at June 30:

	2017	2016
Temporarily restricted for special event	\$ -	\$ 2,270
Temporarily restricted for golf tournament	10,000	12,806
Temporarily restricted grants	<u>-</u>	<u>95,021</u>
Gross unconditional promises to give		
due in less than one year	10,000	110,097
Less - allowance for uncollectible promises	<u>-</u>	<u>-</u>
Net unconditional promises to give	<u>\$10,000</u>	<u>\$110,097</u>

Allowance for uncollectible promises is based upon management's estimates of the amount of the pledge that will actually be collected.

(5) INVESTMENTS

In fiscal year ended June 30, 2017 the Organization elected to convert its holdings in marketable securities into cash. Investments as of June 30, 2017 and unrealized gain (loss) as of June 30, 2017 and 2016 are summarized as follows:

	2017		2016	
	Cost	Market Value	Unrealized Gain	Unrealized Gain
Unrestricted net assets, Board-designated long-term investments	<u>\$1,814,837</u>	<u>\$1,814,837</u>	<u>\$ -</u>	<u>\$408,105</u>
Permanently restricted net assets, endowment investments	<u>\$1,053,521</u>	<u>\$1,053,521</u>	<u>\$ -</u>	<u>\$136,452</u>

(6) LAND, PROPERTY AND EQUIPMENT

Investments in property and equipment consist of the following at June 30:

	2017	2016
Land	\$ 199,668	\$ 199,668
Buildings and improvements	6,930,955	6,908,560
Furniture and equipment	645,948	590,437
Residential furnishings	216,563	177,601
Program acquisition costs	750,727	750,727
Motor vehicles	<u>90,147</u>	<u>90,147</u>
	8,834,008	8,717,140
Less – Accumulated depreciation	<u>6,353,550</u>	<u>6,143,872</u>
	<u>\$2,480,458</u>	<u>\$2,573,268</u>

ITALIAN HOME FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

(7) LONG-TERM DEBT

Outstanding debt as of June 30, 2017 and 2016 is as follows:

	2017	2016
Mortgage loan payable to Century Bank, fixed Interest rate – 5.75%, secured by all business assets, payable in monthly installments of interest only to December 2015 and principal and interest payments in the amount of \$25,930.96 until December 2023	\$ -	<u>\$1,886,604</u>
Less – Current portion	-	<u>(206,635)</u>
	<u>\$ -</u>	<u>\$1,679,969</u>

(8) DEMAND NOTE PAYABLE TO BANK

In fiscal year ended June 30, 2017 the Organization repaid the entire amount due on its line-of-credit from board designated endowment funds and the line-of-credit arrangement with the bank was terminated. The outstanding balance as of June 30, 2017 and 2016 was \$-0- and \$1,405,000, respectively.

(9) RETIREMENT PLAN

The Organization has a defined contribution pension plan for the benefit of its employees. The employer contribution to the plan is a discretionary amount set yearly by the Board of Directors based on a matching of employee contributions of up to 10% of compensation. The employer contribution amounted to \$0 in both 2017 and 2016.

On March 7, 2005 the executive committee of the board of directors voted to create a nonqualified deferred compensation plan (457(b) Plan) and a "rabbi trust" for the former executive director. The contributions are made through TIAA-CREF. The Organization holds assets totaling \$505 as of June 30, 2017 and 2016, respectively, which are included in other assets and postretirement benefit obligations in the accompanying statement of financial position. The assets are subject to the claims of general creditors. The investments of the trust are held in separate accounts for investment purposes, but are designated by the Board for use to satisfy this postretirement benefit obligation. The balance was paid to the former executive director in monthly installments during fiscal year 2015 and 2016 with the remainder to be paid during fiscal year 2018.

(10) RELATED PARTIES

Two members of the Italian Home for Children, Inc.'s board of directors also serve as trustees of the Massimino Cataldo Fund.

ITALIAN HOME FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

(11) ENDOWMENT FUNDS

The Organization follows the provisions of accounting principles generally accepted in the United States of America regarding the net asset classification of donor-restricted endowment funds for not-for-profit organizations that are subject to enacted versions of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA") and disclosures about an organization's donor-restricted and board designated endowment funds.

The Organization's endowment consists of funds that have been restricted by donors to be maintained in perpetuity. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law Regarding Net Asset Classification and Appropriation

Management has interpreted applicable Massachusetts law as requiring the preservation of the fair value of the original gift as of the gift date ("historic dollar value") of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, the Organization classifies as permanently restricted net assets the historic dollar value of gifts donated to the permanent endowment. Any unspent investment income and cumulative appreciation (net unrealized and realized gains and (losses)) are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by Massachusetts law at which time the gains are reclassified to unrestricted net assets.

Subject to the intent of the donor expressed in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the organization. In making a determination to appropriate or accumulate, the Organization considers the following factors:

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

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are to be reported as reductions in unrestricted net assets. There were no such deficiencies as of June 30, 2017.

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and activities supported by its endowment. Under this approach, the endowment assets are invested in a manner that is intended to produce results that equal or exceed relevant benchmarks while assuming a low level of investment risk

Strategies Employed for Achieving Objectives

To satisfy its objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividend). The Organization targets a diversified asset allocation strategy that places a greater emphasis on equity-based investments to achieve its long-term return objectives within the guidelines of its investment policy and prudent risk constraints.

ITALIAN HOME FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

(11) ENDOWMENT FUNDS (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization's investment and spending policies have been designed to limit the exposure of the endowment assets while providing for growth through new gifts and investment return. Evaluation of progress toward the investment objective shall be made with a long term perspective.

The Organization's principal portion of investment assets is pooled for investment purposes with each participating class of net assets subscribing to, or disposing of, a percentage of the total principal balance of all pooled investments. Investment return is allocated among the net asset classes based upon this calculated percentage.

In fiscal year ended June 30, 2017 the Organization distributed endowment gains and board-designated investments from pooled investment assets for the purpose of reducing the Organizations demand note payable to bank and long-term debt.

(12) TEMPORARILY RESTRICTED NET ASSETS

As of June 30, 2017, temporarily restricted net assets consisted of the following:

Investment income from permanently restricted net assets	\$117,783
Temporary contributions with restrictions that have not been satisfied	<u>39,641</u>
Total	<u>\$157,424</u>

(13) LEASE COMMITMENTS

The Organization has entered into operating leases that provide for the payment of monthly rents with expiration dates through January 2022. The leases are for clinic space, office space and parking. The Organization has also entered into long-term vehicle operating leases (expiring through June 2021) which provide for the payment of annual rental and sales taxes.

The following is a schedule, by years, of future minimum rental payments required under the above non-cancelable operating leases:

Year Ending June 30,	
2018	\$127,809
2019	107,073
2020	107,073
2021	107,073
2022	52,422

ITALIAN HOME FOR CHILDREN, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

(14) FAIR VALUE MEASUREMENTS

During the fiscal year ended June 30, 2017 the Organization elected to convert its holdings in marketable securities into cash. The Organization's investments are reported at fair value in the accompanying statement of financial position.

<u>June 30, 2017</u>	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>
Money market funds	<u>\$2,868,358</u>	<u>\$2,868,358</u>

ASC 820, *Fair Value Measurements*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are used only when Level 1 or Level 2 inputs are not available.

Level 1 Fair Value Measurements

The fair value of mutual funds is based on quoted net asset values of the shares held by the Organization at year-end.

(15) CONCENTRATIONS AND CONTINGENCIES

The Organization is economically dependent on program service contracts negotiated with the Commonwealth of Massachusetts for a majority of its revenues. Contract revenues from the Commonwealth of Massachusetts totaled 38% of total revenues for fiscal year 2017 and 34% of total revenues for fiscal year 2016. Formal contracts with the Commonwealth are in existence through June 30, 2017 and June 30, 2022, depending on the program.

In accordance with the terms of its contracts with the Commonwealth of Massachusetts, the records of the Organization are subject to audit. Therefore, the Organization is contingently liable for any disallowed costs. Management believes that any adjustments that might result from such an audit would be immaterial.

(17) SUBSEQUENT EVENTS

Subsequent events were evaluated through December 12, 2017, which is the date the financial statements were available to be issued.

ITALIAN HOME FOR CHILDREN, INC.

INDEPENDENT AUDITORS' REPORTS PURSUANT TO GOVERNMENT AUDITING STANDARDS
FOR THE YEAR ENDED JUNE 30, 2017



Business Advisors
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

*To the Board of Directors of
Italian Home for Children, Inc.*

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Italian Home for Children, Inc. (a Massachusetts nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 12, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Italian Home for Children, Inc.'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 Italian Home for Children, Inc.'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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Pavento, Ratcliffe, Renzi & Co., LLC

Franklin, MA
December 12, 2017

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