



Child & Family Services
OF SOUTHWESTERN MICHIGAN, INC.

ANNUAL REPORT
September 30, 2018



St. Joseph, MI

Child & Family Services of Southwestern Michigan, Inc.
Annual Report
September 30, 2018

<u>CONTENTS</u>	<u>PAGE</u>
Independent Auditor's Report	1-2
Statements of Financial Position	3
Statements of Activities	4
Statement of Functional Expenditures - 2018	5
Statement of Functional Expenditures - 2017	6
Statements of Cash Flows	7
Notes to the Financial Statements	8-15



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Child and Family Services of Southwestern Michigan, Inc.
Benton Harbor, Michigan

We have audited the accompanying financial statements of Child and Family Services of Southwestern Michigan, Inc. (a nonprofit organization), which comprise the statements of financial position as of September 30, 2018 and 2017, and the related statements of activities, functional expenditures, and cash flows 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 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.

INDEPENDENT AUDITOR'S REPORT, CONCLUDED

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Child and Family Services of Southwestern Michigan, Inc as of September 30, 2018 and 2017, 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.

Respectfully submitted,

A handwritten signature in blue ink that reads "Kruegel, Lawton & Company, LLC". The signature is written in a cursive, flowing style.

Certified Public Accountants

St. Joseph, Michigan
January 11, 2019

CHILD AND FAMILY SERVICES OF SOUTHWESTERN MICHIGAN, INC.
 STATEMENTS OF FINANCIAL POSITION
 As of September 30, 2018 and 2017

Assets	2018	2017
Current Assets		
Cash and cash equivalents	\$ 93,411	\$ 48,374
Certificate of deposit ≥ 90 days	28,487	28,449
Accounts receivable (net of allowance of \$7,415 and \$10,154 in 2018 and 2017, respectively)	259,172	308,259
Grants receivable	63,000	63,000
Prepaid expenses	40,973	50,977
Total current assets	\$ 485,043	\$ 499,059
Fixed Assets, Net of Accumulated Depreciation	\$ 274,361	\$ 304,251
Other Assets:		
Restricted cash (clients)	\$ 251,000	\$ 408,555
Restricted assets (clients)	928,604	1,367,010
Deposit on building	175,000	175,000
Security deposits	6,400	2,900
Beneficial interest in assets held by Community Foundation	47,095	46,439
Total other assets	\$ 1,408,099	\$ 1,999,904
Total assets	\$ 2,167,503	\$ 2,803,214
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 39,047	\$ 16,690
Payroll taxes and other withholdings	3,774	6,416
Accrued vacation	25,758	25,955
Accrued payroll	67,351	66,464
Unearned revenue	25,000	25,000
Notes payable - current	2,782	10,586
Total current liabilities	\$ 163,712	\$ 151,111
Other Liabilities		
Due to clients	\$ 1,179,604	\$ 1,775,565
Notes payable - less current portion	43,515	46,294
Total other liabilities	\$ 1,223,119	\$ 1,821,859
Total liabilities	\$ 1,386,831	\$ 1,972,970
Net Assets:		
Unrestricted		
Undesignated	\$ 670,577	\$ 720,805
Board designated	47,095	46,439
Temporarily restricted	63,000	63,000
Total net assets	\$ 780,672	\$ 830,244
Total liabilities and net assets	\$ 2,167,503	\$ 2,803,214

The Notes to the Financial Statements are an integral part of this statement.

CHILD AND FAMILY SERVICES OF SOUTHWESTERN MICHIGAN, INC.
 STATEMENTS OF ACTIVITIES
 For the years ended September 30, 2018 and 2017

	2018	2017
Support and Revenues:		
Public support:		
Grants (United Way)	\$ 33,655	\$ 27,157
Auxiliary Contributions	12,775	16,036
Contributions	119,813	69,033
In-kind contributions	69,376	132,609
Change in beneficial interest	656	2,771
Net assets released from restrictions	69,000	69,000
Total public support	\$ 305,275	\$ 316,606
Revenues:		
Special events (net of expenses of \$21,432 and \$24,397 in 2018 and 2017, respectively)	\$ 45,175	\$ 49,949
Program service fees	2,142,398	2,224,835
Interest and dividends	148	181
Miscellaneous income	(50)	863
Loss on disposal of assets	(290)	-
Total revenues	\$ 2,187,381	\$ 2,275,828
Total public support and revenues	\$ 2,492,656	\$ 2,592,434
Expenditures:		
Program services		
Harbor House Adult Day Services	\$ 488,440	\$ 485,713
Autumn House Adult Day Services	366,439	362,554
Helping Hands Adult Homecare Services	470,150	518,889
West Michigan Guardianship	240,982	244,628
Safe Shelter for Domestic Violence	458,192	469,449
Total program services	\$ 2,024,203	\$ 2,081,233
Management and general	438,777	387,224
Fundraising	73,248	100,885
Total expenditures	\$ 2,536,228	\$ 2,569,342
Change in Unrestricted Net Assets	\$ (43,572)	\$ 23,092
Changes in Temporarily Restricted Net Assets		
Grants (United Way)	\$ 63,000	\$ 63,000
Net assets released from restrictions	(69,000)	(69,000)
Change in Temporarily Restricted Net Assets	\$ (6,000)	\$ (6,000)
Change in net assets	\$ (49,572)	\$ 17,092
Net Assets - Beginning Year	830,244	813,152
Net Assets - End of Year	\$ 780,672	\$ 830,244

The Notes to the Financial Statements are an integral part of this statement.

CHILD AND FAMILY SERVICES OF SOUTHWESTERN MICHIGAN, INC.
STATEMENT OF FUNCTIONAL EXPENDITURES
For year ended September 30, 2018

	Harbor House Adult Day Services	Autumn House Adult Day Services	Helping Hands Adult Services	West Michigan Guardianship	Safe Shelter for Domestic Violence	Total Program Services	Management and General	Fundraising	Total
Expenditures									
Salaries	\$ 253,880	\$ 193,949	\$ 347,522	\$ 163,293	\$ 285,187	\$ 1,243,831	\$ 242,300	\$ 31,644	\$ 1,517,775
Payroll taxes	24,733	18,709	35,605	12,080	27,118	118,245	17,485	2,066	137,796
Supplies	12,997	12,167	697	72	3,901	29,834	6,465	581	36,880
Occupancy	81,052	66,262	18,805	12,054	41,092	219,265	41,766	2,326	263,357
Employee benefits	31,166	22,999	13,587	6,299	5,875	79,926	37,218	4,554	121,698
Travel	35,141	24,646	2,880	6,444	12,091	81,202	1,414	480	83,096
Miscellaneous	1,774	843	821	1,013	4,620	9,071	3,374	-	12,445
Interest	93	1,436	-	-	-	1,529	-	-	1,529
Professional fees	13,706	12,374	35,578	21,529	17,633	100,820	46,004	2,918	149,742
Membership dues	105	205	-	898	1,075	2,283	3,692	40	6,015
Telephone	2,897	2,470	1,213	5,951	8,975	21,506	5,953	21	27,480
Advertising	23	347	732	108	461	1,671	4,948	1,385	8,004
Non-capital equipment	1,150	927	1,126	3,468	2,414	9,085	8,662	-	17,747
Specific assistance	140	68	10,684	1,994	5,395	18,281	3,381	-	21,662
Postage and shipping	26	12	39	3,330	78	3,485	-	6	3,491
Bad debt expense	-	-	-	-	-	-	7,415	-	7,415
In-kind expense	5,360	1,151	225	1,753	33,661	42,150	-	27,227	69,377
Depreciation	24,197	7,874	636	696	8,616	42,019	8,700	-	50,719
Total Expenditures	\$ 488,440	\$ 366,439	\$ 470,150	\$ 240,982	\$ 458,192	\$ 2,024,203	\$ 438,777	\$ 73,248	\$ 2,536,228

The Notes to the Financial Statements are an integral part of this statement.

CHILD AND FAMILY SERVICES OF SOUTHWESTERN MICHIGAN, INC.
STATEMENT OF FUNCTIONAL EXPENDITURES
For year ended September 30, 2017

	Harbor House Adult Day Services	Autumn House Adult Day Services	Helping Hands Adult Services	West Michigan Guardianship	Safe Shelter for Domestic Violence	Total Program Services	Management and General	Fundraising	Total
Expenditures									
Salaries	\$ 254,753	\$ 184,507	\$ 389,880	\$ 149,432	\$ 271,819	\$ 1,250,391	\$ 221,635	\$ 30,451	\$ 1,502,477
Payroll taxes	26,298	18,985	45,698	14,827	27,700	133,508	15,601	2,123	151,232
Supplies	11,789	13,042	1,119	1,481	9,381	36,812	3,760	304	40,876
Occupancy	83,763	55,408	18,022	10,712	37,024	204,929	30,160	2,488	237,577
Employee benefits	23,703	36,507	13,266	9,192	13,137	95,805	38,241	4,991	139,037
Travel	30,299	25,779	4,216	3,650	12,212	76,156	1,424	317	77,897
Miscellaneous	32	11	10	21	10	84	461	-	545
Interest	890	552	-	4	20	1,466	3,375	-	4,841
Professional fees	17,359	16,772	26,648	16,509	23,482	100,770	26,529	3,768	131,067
Membership dues	572	358	503	698	1,022	3,153	2,175	10	5,338
Telephone	2,853	3,169	2,077	4,671	8,483	21,253	4,421	83	25,757
Advertising	315	535	315	53	424	1,642	3,093	357	5,092
Non-capital equipment	2,390	1,358	1,115	3,885	4,033	12,781	11,872	509	25,162
Specific assistance	-	94	15,325	676	5,719	21,814	(624)	-	21,190
Postage and shipping	19	49	61	4,410	145	4,684	5,996	121	10,801
Bad debt expense	-	-	-	-	-	-	10,154	-	10,154
In-kind expense	4,225	990	-	23,707	48,325	77,247	-	55,363	132,610
Depreciation	26,453	4,438	634	700	6,513	38,738	8,951	-	47,689
Total Expenditures	\$ 485,713	\$ 362,554	\$ 518,889	\$ 244,628	\$ 469,449	\$ 2,081,233	\$ 387,224	\$ 100,885	\$ 2,569,342

The Notes to the Financial Statements are an integral part of this statement.

CHILD AND FAMILY SERVICES OF SOUTHWESTERN MICHIGAN, INC.
STATEMENTS OF CASH FLOWS
For years ended September 30, 2018 and 2017

	2018	2017
Cash Flows From Operating Activities		
Change in net assets	\$ (49,572)	\$ 17,092
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Changes in beneficial interest in assets held by Community Foundation	(656)	(12,771)
Depreciation	50,719	47,689
Change in bad debt provision	2,739	10,154
Loss on disposal of assets	290	-
Change in current assets and liabilities		
Accounts receivable	46,348	127,253
Prepaid expenses	10,004	(9,726)
Security deposits	(3,500)	(800)
Accounts payable	22,357	(23,137)
Payroll taxes and other withholdings	(2,642)	(2,174)
Accrued vacation	(197)	(10,491)
Accrued payroll	887	(3,758)
Unearned revenue	-	25,000
Net cash provided by operating activities	\$ 76,777	\$ 164,331
Cash Flows From Investing Activities		
Purchase of fixed assets	\$ (22,819)	\$ (48,272)
Proceeds from sale of fixed assets	1,700	-
Net change in certificate of deposit	(38)	(3,428)
Net cash used in investing activities	\$ (21,157)	\$ (51,700)
Cash Flows From Financing Activities		
Repayment of notes payable	\$ (10,583)	\$ (11,135)
Net change in line of credit	-	(75,000)
Net cash used in financing activities	\$ (10,583)	\$ (86,135)
Net Change In Cash and Cash Equivalents	\$ 45,037	\$ 26,496
Cash and Cash Equivalents - Beginning of Year	48,374	21,878
Cash and Cash Equivalents - End of Year	\$ 93,411	\$ 48,374
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest	\$ 1,529	\$ 4,841
Supplemental Disclosure of Noncash Investing and Financing Activities:		
Property and equipment acquired with notes payable	\$ -	\$ 50,000

The Notes to the Financial Statements are an integral part of this statement.

CHILD AND FAMILY SERVICES OF SOUTHWESTERN MICHIGAN, INC.
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

- A. Nature of business** – Child & Family Services of Southwestern Michigan, Inc. (“Child & Family Services”) provides a variety of programs to foster the development of community, family, and individual potential and capabilities which support healthy, self-sufficient, fully functioning lives for children, families, and adults. In addition, they provide personal representative, attorney-in-fact, representative payee, trustee agent and guardian services to those individuals living in Southwestern Michigan who cannot afford or conveniently obtain such services. Additional services include temporary shelter, counseling, and other support for victims of domestic violence and related abuse, and to provide the community with education about the dynamics of abuse in Berrien County, Michigan.
- B. Accounting method** – The financial statements of Child & Family Services are prepared on the accrual basis.
- C. Financial statement presentation** – The financial statement presentation is in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) *Not-for-Profit Entities*. The organization is required to report information regarding its financial position and activities according to the following three classes of net assets:

Unrestricted net assets represent the portion of net assets that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Unrestricted net assets include expendable funds available for the support of operations.

Temporarily restricted net assets represent the portion of net assets resulting from contributions and other inflows of assets whose use is limited by donor-imposed stipulations that either expire by the passage of time or by actions of Child & Family Services.

Permanently restricted net assets represent the portion of net assets resulting from contributions and other inflows of assets whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of Child & Family Services.

CHILD AND FAMILY SERVICES OF SOUTHWESTERN MICHIGAN, INC.
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

- D. Reporting entity** – Child & Family Services is a nonprofit corporation under section 501 (c) (3) of the Internal Revenue Code and is not considered a private foundation. It is organized to provide a variety of services to residents in Berrien, Cass, and Van Buren counties and revenues are generated through a variety of state and local grant programs. Child & Family Services files tax returns in the U.S. federal jurisdiction. As of September 30, 2018, and the year then ended, there are no material unrecognized/derecognized tax benefits or tax penalties or interest. Child & Family Services is no longer subject to U.S. federal income tax examinations by tax authorities for the years before the year ended September 30, 2015.
- E. Estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
- F. Reclassification** – It is Child & Family Services' policy to reclassify, where appropriate, prior year financial statements to conform to the current year presentation.
- G. Cash and cash equivalents** – For the purpose of the Statement of Financial Position, Child & Family Services considers all unrestricted highly liquid investments with an original maturity of three months or less to be cash and cash equivalents. Cash is held at a local bank and is insured up to the limits of the Federal Deposit Insurance Corporation (FDIC).
- H. Accounts receivable** – Accounts receivable for program services provided are stated at the amount management expects to collect from outstanding balances and are presented net of allowance for doubtful accounts, which is estimated to be \$7,415 and \$10,154 at September 30, 2018 and 2017, respectively. Factors considered in determining collectability include past collection history, an aged analysis of receivables, economic conditions, as well as historical trends.
- I. Contributions** – Child & Family Services records contributions, including promises to give, when the contribution is deemed unconditional. Contributions are reflected in the financial statements at the earlier of the transfer of the assets or at the time an unconditional promise to give is made.

CHILD AND FAMILY SERVICES OF SOUTHWESTERN MICHIGAN, INC.
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES, CONCLUDED

J. Donated Services and In-kind Donations – Donated goods and services are recognized as contributions in accordance with FASB 958-605, *Accounting for Contributions Received and Contributions Made*. 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 Child & Family Services. A substantial number of volunteers have made significant contributions of their time to Child & Family Services' program services. The value of this contributed time is not reflected in these financial statements since the volunteer time does not require specialized skills.

Child & Family Services also receives donated goods and supplies for special events and programs which assist in the accomplishment of its mission. These donations are recorded in the financial statements as in-kind revenue and expenses at their estimated fair market value which totaled approximately \$69,376 and \$132,609 for the years ended September 30, 2018 and 2017, respectively.

K. Investments – In accordance with FASB ASC, *Accounting for Certain Investments Held by Not-for-Profit Organization*, investments in equity securities with readily determinable fair values and all investments in debt securities at fair value in the Statement of Financial Position.

L. Property and equipment – Child & Family Services depreciates its equipment using the straight line method over the estimated useful lives of the assets and capitalizes all equipment purchases greater than \$500 with a useful life greater than one year.

M. Due to clients – Child & Family Services, as one of its services, manages individual bank accounts and assets for clients. The balance of these accounts and assets are shown as restricted and an offsetting liability on the financial statements. The client's assets are recorded at estimated fair market value.

N. Expense allocations to program and supporting activities – Child & Family Services has allocated a variety of expenses to program and supporting services. Allocations were based upon a program's use of a service as determined by a variety of means such as the number of employees in a department, random moment time studies, mileage logs, square footage area used by a program, equipment usage, etc.

O. Advertising costs – Various costs relating to advertising are considered period costs and are therefore expenses as incurred. Advertising costs for the years ended September 30, 2018 and 2017 were \$8,004 and \$5,092, respectively.

CHILD AND FAMILY SERVICES OF SOUTHWESTERN MICHIGAN, INC.
 NOTES TO THE FINANCIAL STATEMENTS
 September 30, 2018 and 2017

NOTE 2. FINANCIAL INSTRUMENTS

Child & Family Services follows FASB ASC, "*Fair Value Measurements*", for financial assets and liabilities measured at fair value on a recurring basis. This Statement applies to all financial assets and financial liabilities that are being measured and reported on a fair value basis and establishes a framework for measuring fair value of assets and liabilities and expands disclosures about fair value measurements. This Statement requires fair value measurements be classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices for similar assets or liabilities in active markets or identical assets or liabilities that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;

Level 3: Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. As required by ASC 820, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Child & Family Services utilized quoted market prices to measure fair value when available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques.

The following table presents Child & Family Services' fair value hierarchy for the investment assets at fair value:

As of September 30, 2018:

	Level 1	Level 2	Level 3	Total
Beneficial interest in assets held at community foundation	\$ -	\$ -	\$ 47,095	\$ 47,095

As of September 30, 2017:

	Level 1	Level 2	Level 3	Total
Beneficial interest in assets held at community foundation	\$ -	\$ -	\$ 46,439	\$ 46,439

CHILD AND FAMILY SERVICES OF SOUTHWESTERN MICHIGAN, INC.
 NOTES TO THE FINANCIAL STATEMENTS
 September 30, 2018 and 2017

NOTE 3. FIXED ASSETS

Fixed assets consist of the following:

	Estimated Asset		
	Life	2018	2017
Building	20-40 years	\$ 185,814	\$ 174,725
Office equipment and furniture	3-10 years	244,742	233,012
Transportation equipment	10 years	178,236	204,592
		<u>\$ 608,792</u>	<u>\$ 612,329</u>
Less accumulated depreciation		334,431	308,078
Total		<u><u>\$ 274,361</u></u>	<u><u>\$ 304,251</u></u>

For the years ended September 30, 2018 and 2017, depreciation expense was \$50,719 and \$47,689, respectively.

NOTE 4. ENDOWMENT FUND HELD AT COMMUNITY FOUNDATION

Child & Family Services follows FASB ASC “*Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others*”. This statement establishes standards for transactions in which a community foundation accepts a contribution from a donor and agrees to transfer these assets, the return on investment of these assets or both to another entity that is specified by the donor. The statement specifically requires that if a Not-for-Profit Organization (NPO) establishes a fund at a community foundation with its own funds and specifies itself as the beneficiary of that fund, the Child & Family Services must account for the transfer of such assets as a beneficial interest in funds held by the community foundation. The community foundation refers to such funds as agency fund endowments.

The Foundation maintains variance power and legal ownership of agency endowment funds and as such continues to report the funds as assets of the Foundation. However, in accordance with the statement, an asset has been established for the fair value of the funds, which is generally equivalent to the present value of future payments expected to be received by Child & Family Services.

CHILD AND FAMILY SERVICES OF SOUTHWESTERN MICHIGAN, INC.
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 4. ENDOWMENT FUND HELD AT COMMUNITY FOUNDATION, CONCLUDED

The following table summarizes the activity in the fund during the year ended September 30:

	<u>2018</u>	<u>2017</u>
Agency endowment net assets at beginning of year	\$ 46,439	\$ 33,668
Gifts	-	10,000
Dividends and interest	1,932	1,021
Realized and unrealized gains	826	3,889
Fees	(464)	(411)
Grants	<u>(1,638)</u>	<u>(1,728)</u>
Agency endowment net assets at end of year	<u>\$ 47,095</u>	<u>\$ 46,439</u>

NOTE 5. LEASE AGREEMENTS

Equipment Leases:

Child & Family Services leased office equipment under two operating leases. Rent expense for office equipment was \$16,207 and \$22,881, for the year ended September 30, 2018 and 2017 respectively.

Building Leases:

Child & Family Services leases office space in Benton Harbor under 20 and 15 year leases dated September 1, 2013 and April 20, 2004, respectively. The monthly rent starts at \$3,300 going up to \$4,491 in the final year of the first lease. Lease for the first ten years beginning April 20, 2004 will be \$5,100 followed by monthly rent of \$6,092 in the final five years of the second lease. Child & Family Services is responsible for maintenance and utilities on both leases.

Included in the lease on the Benton Harbor building is an option to purchase the building at the end of the lease for \$275,000. Child & Family Services was required to remit a deposit of \$175,000 with the remainder of option price due at end of lease. Child & Family Services will forfeit this deposit if the option is not exercised.

In 2013, Child & Family Services entered into a lease agreement to lease additional office space. The lease is renewable on a year by year basis. Monthly rent is \$1,800 plus Child & Family Services is also responsible for the utilities, taxes and insurance.

CHILD AND FAMILY SERVICES OF SOUTHWESTERN MICHIGAN, INC.
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 5. LEASE AGREEMENTS, CONCLUDED

Child & Family Services entered into a 15-year lease agreement for new office space in Paw Paw, Michigan beginning on July 1, 2017. The monthly rent starts at \$4,306 in the first year, \$4,391 in the second year, \$5,179 in the third year, and annual two percent increases throughout the remaining term of the lease. In addition to monthly rent, the lease includes a note payable in the amount of \$50,000 to the Landlord as a contribution for building construction costs (see Note 8).

Rent expense for the buildings were \$182,845 and \$158,993, respectively, for the years ended September 30, 2018 and 2017. Future minimum rentals for the next five years are as follows:

	<u>Buildings</u>
2019	\$ 124,488
2020	111,788
2021	115,516
2022	117,833
2023	120,190
Total	<u>\$ 469,625</u>

NOTE 6. LINE OF CREDIT

Child & Family Services has a line of credit with Chemical Bank. As of September 30, 2018 and 2017, the line of credit was \$150,000, which can be drawn upon as needed, with interest charged at 1.00% over the prime rate. The line of credit matures on August 30, 2022. As of September 30, 2018 and 2017, \$150,000 was available for use.

NOTE 7. 403(b) PLAN

Child & Family Services provide a 403 (b) tax deferred annuity plan. Employees are allowed to contribute to the plan using pre-tax and post-tax dollars in accordance with Internal Revenue Service regulations. Employer matching contributions cover all employees over age 21 who have completed one year of service (1,000 hours). Contributions to the plan are matched at the annual discretion of the board. Employees are 100% vested after 3 years of service. For the years ended September 30, 2018 and 2017, contributions were \$-0-, respectively.

CHILD AND FAMILY SERVICES OF SOUTHWESTERN MICHIGAN, INC.
NOTES TO THE FINANCIAL STATEMENTS
September 30, 2018 and 2017

NOTE 8. NOTES PAYABLE

The following schedule identifies the outstanding notes payable:

	2018	2017
Chemical Bank payable at \$894 per month; interest at 3.49%; secured by vehicle; due June 5, 2018	\$ -	\$ 7,886
General Capital Development payable at \$344 per month; interest at 3.00%; due May 26, 2032	46,297	48,994
	\$ 46,297	\$ 56,880
Less current portion	2,782	10,586
Long term debt	\$ 43,515	\$ 46,294

Following are maturities of long-term debt for the years ending:

2020	\$	2,867
2021		2,954
2022		3,044
2023		3,136
Thereafter		31,514
Total	\$	43,515

NOTE 9. ECONOMIC DEPENDENCY

For the years ended September 30, 2018 and 2017, Child & Family Services received 34% and 31%, respectively, of its current program service fees from two funding sources, the Region IV Area Agency on Aging, Inc. and Region 3B Area Agency on Aging.

As of September 30, 2018 and 2017, 35% and 34%, respectively, of Child & Family Services' receivables balance is due from two funding sources, the Region IV Area Agency on Aging, Inc. and Region 3B Area Agency on Aging.

NOTE 10. SUBSEQUENT EVENTS

Child & Family Services has evaluated subsequent events through January 11, 2019, the date the financial statements were available to be issued. In December 2018, Child & Family Services changed its name to "The Avenue Family Network, Inc.". No other events or transactions occurred during this period which require recognition or disclosure in the financial statements.