

# ELLIN & TUCKER

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**FAMILY AND CHILDREN'S SERVICES OF CENTRAL  
MARYLAND, INC.  
FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**



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**Family and Children's Services of Central Maryland, Inc.**  
**June 30, 2019 and 2018**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Family and Children's Services of Central Maryland, Inc.

### REPORT ON THE FINANCIAL STATEMENTS

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We have audited the accompanying financial statements of Family and Children's Services of Central Maryland, Inc. (FCS) which comprise the Statements of Financial Position as of June 30, 2019 and 2018, and the related Statements of Activities, Functional Expenses and Cash Flows for the years then ended and related notes to the financial statements.

### MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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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.

### AUDITORS' RESPONSIBILITY

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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 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the 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 the significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### OPINION

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In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FCS as of June 30, 2019 and 2018, and the change 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.

**INDEPENDENT AUDITORS' REPORT, CONTINUED****OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

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In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2019 on our consideration of FCS' 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. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering FCS' internal control over financial reporting and compliance.

**CORRECTION OF AN ERROR**

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As described in Note 7 to the financial statements, FCS determined investment amounts were understated in prior years. Accordingly, amounts reported for investments have been restated in the prior year financial statements to correct this error. Our opinion is not modified with respect to this matter.



ELLIN & TUCKER  
Certified Public Accountants

Baltimore, Maryland  
November 21, 2019

**STATEMENTS OF FINANCIAL POSITION**  
**Family and Children's Services of Central Maryland, Inc.**  
**June 30, 2019 and 2018**

**ASSETS**

<b><u>ASSETS</u></b>	<b><u>2019</u></b>	<b><u>2018</u></b>
Cash and Cash Equivalents	\$ 32,833	\$ 3,041
Investments (Note 4)	6,488,842	6,492,309
Grants and Other Receivables, Net of Allowance for Doubtful Accounts of \$55,000 and \$105,000, Respectively	970,374	387,136
Prepaid Expenses	80,168	71,105
Property and Equipment, Net (Note 2)	834,248	633,219
Total Assets	<b><u>\$ 8,406,465</u></b>	<b><u>\$ 7,586,810</u></b>

**LIABILITIES AND NET ASSETS**

**LIABILITIES**

Line of Credit (Note 3)	\$ 647,000	\$ 830,000
Accounts Payable and Accrued Expenses	311,362	130,537
Accrued Payroll and Payroll Taxes	196,654	224,117
Unexpended Portion of Grants Received	64,394	79,439
Deferred Revenue	-	12,500
Total Liabilities	<b><u>1,219,410</u></b>	<b><u>1,276,593</u></b>

**COMMITMENTS AND CONTINGENCIES (Note 5)**

**NET ASSETS**

Without Donor Restrictions	3,324,921	2,874,051
With Donor Restrictions (Note 8)	3,862,134	3,436,166
Total Net Assets	<b><u>7,187,055</u></b>	<b><u>6,310,217</u></b>
Total Liabilities and Net Assets	<b><u>\$ 8,406,465</u></b>	<b><u>\$ 7,586,810</u></b>

*(See Independent Auditors' Report and Accompanying Notes)*

**STATEMENT OF ACTIVITIES**  
**Family and Children's Services of Central Maryland, Inc.**  
**For the Year Ended June 30, 2019**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>SUPPORT AND REVENUE</b>			
Governmental Grants	\$ 5,053,661	\$ -	\$ 5,053,661
Grants from Non-Governmental Sources	249,205	-	249,205
Program Service Fees	1,332,644	-	1,332,644
Contributions	748,042	200,010	948,052
Investment Return, Net (Note 4)	455,901	380,868	836,769
Gain on Sale and Disposal of Property and Equipment	300	-	300
Other Income	30,067	-	30,067
Net Assets Released from Restrictions	154,910	(154,910)	-
Total Support and Revenue	<u>8,024,730</u>	<u>425,968</u>	<u>8,450,698</u>
<b>EXPENSES</b>			
Program Services	5,967,162	-	5,967,162
Management and General	1,367,605	-	1,367,605
Fund Development	239,093	-	239,093
Total Expenses	<u>7,573,860</u>	<u>-</u>	<u>7,573,860</u>
Change in Net Assets	450,870	425,968	876,838
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>2,874,051</u>	<u>3,436,166</u>	<u>6,310,217</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 3,324,921</u>	<u>\$ 3,862,134</u>	<u>\$ 7,187,055</u>

*(See Independent Auditors' Report and Accompanying Notes)*

**STATEMENT OF ACTIVITIES**  
**Family and Children's Services of Central Maryland, Inc.**  
**For the Year Ended June 30, 2018**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>SUPPORT AND REVENUE</b>			
Governmental Grants	\$ 3,709,152	\$ -	\$ 3,709,152
Grants from Non-Governmental Sources	750,395	-	750,395
Program Service Fees	1,123,433	-	1,123,433
Contributions	800,273	-	800,273
Investment Return, Net (Note 4)	320,410	274,524	594,934
Gain on Sale and Disposal of Property and Equipment	2,134	-	2,134
Other Income	8,939	-	8,939
Net Assets Released from Restrictions	105,000	(105,000)	-
<b>Total Support and Revenue</b>	<b>6,819,736</b>	<b>169,524</b>	<b>6,989,260</b>
<b>EXPENSES</b>			
Program Services	5,850,340	-	5,850,340
Management and General	1,067,147	-	1,067,147
Fund Development	218,004	-	218,004
<b>Total Expenses</b>	<b>7,135,491</b>	<b>-</b>	<b>7,135,491</b>
Change in Net Assets	(315,755)	169,524	(146,231)
<b>NET ASSETS - BEGINNING OF YEAR, AS PREVIOUSLY REPORTED</b>	<b>3,189,806</b>	<b>2,097,807</b>	<b>5,287,613</b>
Prior Period Adjustment (Note 7)	-	1,168,835	1,168,835
<b>NET ASSETS - END OF YEAR</b>	<b>\$ 2,874,051</b>	<b>\$ 3,436,166</b>	<b>\$ 6,310,217</b>

*(See Independent Auditors' Report and Accompanying Notes)*

**STATEMENT OF FUNCTIONAL EXPENSES**  
**Family and Children's Services of Central Maryland, Inc.**  
**For the Year Ended June 30, 2019**

	Program Services			Total Program Services	Supporting Services			Total
	Behavioral Health	Case Management	Housing		Fund Development	Management and General	Total Supporting Services	
Salaries, Wages and Stipends	\$ 1,705,845	\$ 1,687,697	\$ 288,071	\$ 3,681,613	\$ 112,917	\$ 922,276	\$ 1,035,193	\$ 4,716,806
Employee Benefits	82,670	86,710	17,105	186,485	6,391	35,527	41,918	228,403
Payroll Taxes and Insurance	159,078	152,173	38,438	349,689	8,215	43,739	51,954	401,643
Professional and Contracted Services	156,348	39,983	10,614	206,945	12,468	82,713	95,181	302,126
Supplies	131,879	188,496	30,665	351,040	3,475	122,809	126,284	477,324
Program Supplies	4,579	31,129	197	35,905	-	4,037	4,037	39,942
Catering and Food	2,115	128,289	3,908	134,312	-	825	825	135,137
Client Assistance	6,262	60,183	636	67,081	-	-	-	67,081
Transportation	-	49,717	5,703	55,420	-	-	-	55,420
Communication	39,641	55,796	4,611	100,048	2,675	34,788	37,463	137,511
Postage and Mailing	2,086	2,084	-	4,170	290	1,058	1,348	5,518
Occupancy	100,193	300,829	153,052	554,074	3,551	20,149	23,700	577,774
Equipment	1,568	2,881	770	5,219	54	573	627	5,846
Publicity and Promotion	17,110	10,119	10	27,239	78,508	10,048	88,556	115,795
Meetings and Conferences	14,925	57,999	3,614	76,538	8,753	34,187	42,940	119,478
Miscellaneous	49,941	23,189	2,182	75,312	1,796	45,861	47,657	122,969
<b>Total Expenses before Depreciation and Supporting Services Allocation</b>	<b>2,474,240</b>	<b>2,877,274</b>	<b>559,576</b>	<b>5,911,090</b>	<b>239,093</b>	<b>1,358,590</b>	<b>1,597,683</b>	<b>7,508,773</b>
Depreciation of Property and Equipment	13,407	42,665	-	56,072	-	9,015	9,015	65,087
<b>Total Expenses before Supporting Services Allocation</b>	<b>2,487,647</b>	<b>2,919,939</b>	<b>559,576</b>	<b>5,967,162</b>	<b>239,093</b>	<b>1,367,605</b>	<b>1,606,698</b>	<b>7,573,860</b>
Supporting Services Allocation	672,525	782,074	152,099	1,606,698	(239,093)	(1,367,605)	(1,606,698)	-
<b>Total Expenses</b>	<b>\$ 3,160,172</b>	<b>\$ 3,702,013</b>	<b>\$ 711,675</b>	<b>\$ 7,573,860</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 7,573,860</b>

*(See Independent Auditors' Report and Accompanying Notes)*



**STATEMENT OF FUNCTIONAL EXPENSES**  
**Family and Children's Services of Central Maryland, Inc.**  
**For the Year Ended June 30, 2018**

	Program Services			Total Program Services	Supporting Services			Total
	Behavioral Health	Case Management	Housing		Fund Development	Management and General	Total Supporting Services	
Salaries, Wages and Stipends	\$ 1,758,507	\$ 1,838,229	\$ 204,767	\$ 3,801,503	\$ 99,182	\$ 756,676	\$ 855,858	\$ 4,657,361
Employee Benefits	96,478	103,654	18,744	218,876	7,658	34,792	42,450	261,326
Payroll Taxes and Insurance	183,462	184,325	30,199	397,986	9,988	47,137	57,125	455,111
Professional and Contracted Services	41,901	53,769	7,401	103,071	11,537	72,520	84,057	187,128
Supplies	34,754	59,475	7,000	101,229	4,262	33,577	37,839	139,068
Program Supplies	4,128	93,468	3,852	101,448	-	612	612	102,060
Catering and Food	-	98,995	-	98,995	-	-	-	98,995
Client Assistance	2,301	65,372	1,543	69,216	-	519	519	69,735
Transportation	-	67,816	4,543	72,359	-	-	-	72,359
Communication	36,509	44,345	3,107	83,961	3,226	19,168	22,394	106,355
Postage and Mailing	4,481	2,186	-	6,667	892	1,590	2,482	9,149
Occupancy	121,431	299,345	167,151	587,927	5,986	27,115	33,101	621,028
Equipment	1,823	3,615	325	5,763	66	555	621	6,384
Publicity and Promotion	9,085	3,461	-	12,546	64,200	4,202	68,402	80,948
Meetings and Conferences	17,134	47,676	2,321	67,131	8,757	16,734	25,491	92,622
Miscellaneous	24,887	37,644	2,467	64,998	1,578	38,954	40,532	105,530
<b>Total Expenses before Depreciation and Supporting Services Allocation</b>	<b>2,336,881</b>	<b>3,003,375</b>	<b>453,420</b>	<b>5,793,676</b>	<b>217,332</b>	<b>1,054,151</b>	<b>1,271,483</b>	<b>7,065,159</b>
Depreciation of Property and Equipment	11,391	45,273	-	56,664	672	12,996	13,668	70,332
<b>Total Expenses before Supporting Services Allocation</b>	<b>2,348,272</b>	<b>3,048,648</b>	<b>453,420</b>	<b>5,850,340</b>	<b>218,004</b>	<b>1,067,147</b>	<b>1,285,151</b>	<b>7,135,491</b>
Supporting Services Allocation	518,366	666,208	100,577	1,285,151	(218,004)	(1,067,147)	(1,285,151)	-
<b>Total Expenses</b>	<b>\$ 2,866,638</b>	<b>\$ 3,714,856</b>	<b>\$ 553,997</b>	<b>\$ 7,135,491</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 7,135,491</b>

*(See Independent Auditors' Report and Accompanying Notes)*

**STATEMENTS OF CASH FLOWS**  
**Family and Children's Services of Central Maryland, Inc.**  
**For the Years Ended June 30, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 876,838	\$ (146,231)
<b>Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:</b>		
Depreciation	65,087	70,332
Gain on Sale and Disposal of Property and Equipment	(300)	(2,134)
Net Realized and Unrealized Gain on Investments	(282,717)	(406,129)
<b>Net Changes in:</b>		
Grants and Other Receivables	(583,238)	131,986
Prepaid Expenses	(9,063)	(6,090)
Accounts Payable and Accrued Expenses	180,825	(11,170)
Accrued Payroll and Payroll Taxes	(27,463)	(24,591)
Unexpended Portion of Grants Received	(15,045)	(68,790)
Deferred Revenue	(12,500)	12,500
Net Cash Provided by (Used in) Operating Activities	192,424	(450,317)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of Property and Equipment	(266,116)	(91,527)
Proceeds from Sale of Property and Equipment	300	4,400
Proceeds from Sales of Investments	1,195,455	1,291,547
Purchases of Investments	(909,271)	(719,030)
Net Cash Provided by Investing Activities	20,368	485,390
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net Repayments under Line of Credit	(183,000)	(50,000)
Change in Cash and Cash Equivalents	29,792	(14,927)
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	3,041	17,968
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 32,833	\$ 3,041
<b>SUPPLEMENTAL DISCLOSURE</b>		
Interest Paid	\$ 43,165	\$ 31,303

*(See Independent Auditors' Report and Accompanying Notes)*

**NOTE 1**    **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**NATURE OF ACTIVITIES**

Family and Children's Services of Central Maryland, Inc. (FCS) provides a broad range of social services to families in Central Maryland. FCS is supported primarily through local, state and federal government grants and contracts for service, private foundations, individual and corporate contributions and client fees. FCS MD, LLC was formed during 2012 to manage fundraising events to support the operations of FCS. FCS MD, LLC was dissolved during November 2017. FCS was the sole member of FCS MD, LLC. FCS and FCS MD, LLC are collectively referred to as the Agency.

FCS has a long, distinguished history of providing services to the Baltimore community dating back to 1849 when it was established as The Association to Improve the Condition of the Poor (AICP), a voluntary organization convened by Mayor Stansbury of Baltimore to help families make the transition from an agrarian to industrial society. Over the years, FCS has grown and broadened its programs through numerous mergers in response to constantly changing and emerging needs.

As the community grew and awareness of other social issues emerged, other organizations were established to respond to those needs. The Henry Watson Children's Aid Society began in 1861 as the organization concerned with children's needs and rights. The other major predecessor organization was the Charity Organization Society (COS), which was founded in 1881 by Daniel Coit Gilman, President of Johns Hopkins University.

In 1910, AICP and COS merged, creating The Federated Charities of Baltimore and then, in 1919, changed its name to the Family Welfare Association. Family Welfare Association and Henry Watson Children's Aid merged in 1942 to form Family and Children's Society. In 1940, the Community Fund recommended a merger of four agencies. The Henry Watson Children's Aid Society and Family Welfare Association merged in 1942. Briefly known as the Family Welfare and Henry Watson Children's Aid Society of Baltimore, the name more popularly was known as the Family and Children's Society. Two additional merged agencies were the Protection of Children from Cruelty and Immorality and the Shelter for Aged and Infirm Colored Persons in 1943.

The Family and Children's Society emerged in 1943 as a multi-service agency. The Society's services to families expanded to include medical, foster care, housekeeping, marriage counseling, adoptions, home finding, group counseling, and community mental health.

The last major merger occurred in 1985, when Family and Children's Society came together with Maryland Family and Children's Services to form the current agency--Family and Children's Services of Central Maryland, Inc.

*(See Independent Auditors' Report)*

Today, FCS delivers community based human services via 16 programs in Anne Arundel, Baltimore, Carroll, Harford, and Howard Counties and Baltimore City. The FCS' mission is transforming the lives of children and adults by providing opportunities to build self-confidence, resilience and hope.

In 2018, FCS laid the foundation for decades of success with substantial investments in infrastructure to meet regulatory obligations to be licensed by the State of Maryland to practice as an Outpatient Mental Health Clinic (OMHC). Now licensed, FCS provides the fully integrated continuum of care consisting of case management, medication management, psychiatry and outpatient counseling services in multiple jurisdictions to support the mental health needs of those it serves. Simultaneously, FCS launched a sustainable behavioral health business model, Fee for Service, whereby clinicians receive a portion of revenue earned versus a guaranteed salary. As this change strategy was implemented, FCS reimagined its website with a customer centric design intended to ensure clients and patients could more readily access services. To support this change, FCS received unprecedented levels of support from its community and numerous foundations. The contributions aided in supporting staggering start-up costs required to launch multiple clinics simultaneously. Data indicators in fiscal year 2019 demonstrate a positive return on investment and profitability. In late summer 2018, the FCS development team sought additional sources of revenue to drive transformative change on behalf of those it serves. Those efforts proved successful as FCS was notified in September 2018 that it received an unprecedented increase in funding exceeding \$2.5 million affording FCS to grow its services by partnering with various providers including local child advocacy centers, schools, law enforcement offices and local and state government agencies within the community.

As FCS continues in fiscal year 2020, its strategy continues to evolve as it meets challenges and seizes new opportunities. A new agency-wide electronic health record has been selected and will be deployed in late 2019 that will improve efficiencies and increase access to services. FCS will focus on continuing to operationalize new grants and contracts with integrity, honing the outpatient mental health clinic operations to drive profitability, ramping up for construction of a multimillion dollar facility in the City of Westminster and developing a far-reaching marketing plan to ensure FCS is at the forefront of meeting the contemporary needs of its communities.

#### **ACCOUNTING STANDARDS CODIFICATION**

All references in the financial statements to the Codification refer to the Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (GAAP) issued by the Financial Accounting Standards Board (FASB). The Codification is the single source of authoritative GAAP in the United States.

*(See Independent Auditors' Report)*

**NEW ACCOUNTING STANDARD ADOPTED**

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The ASU amends the current reporting model for not-for-profit organizations and enhances their required disclosures. FCS has adopted this ASU as of and for the year ended June 30, 2019 with retrospective application for the financial statements for the year ended June 30, 2018. As a result, FCS changed its presentation of its net asset classes and expanded the disclosures as required by the ASU. In addition, investment expenses are netted against investment return in the accompanying Statements of Activities.

**BASIS OF ACCOUNTING AND PRESENTATION**

The financial statements have been prepared on the accrual basis of accounting in accordance with GAAP. Under the accrual basis of accounting, support and revenue are recorded when earned and expenses are recorded when incurred. Net assets, revenues and expenses are classified based on the existence or absence of donor-imposed restrictions. Net assets with donor restrictions consist of assets whose use is limited by donor-imposed, time and/or purpose restrictions.

**USE OF ESTIMATES**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**SUBSEQUENT EVENTS**

FCS has evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through November 21, 2019, the date the financial statements were available to be issued.

**CASH AND CASH EQUIVALENTS**

FCS maintains its cash in bank deposit and brokerage accounts which, at times, may exceed federally insured limits. FCS believes it is not exposed to any significant credit risk on cash and cash equivalents. FCS considers all highly liquid investments with original maturities of less than three months to be cash equivalents.

**REVENUE RECOGNITION**

FCS' primary source of revenue is governmental grants. FCS is dependent on this funding to continue its programs and services. Restricted and unrestricted grants and contributions are recorded when the donor makes a promise to give to FCS that is, in substance, unconditional.

*(See Independent Auditors' Report)*

Amounts received under exchange transactions are deferred and recognized as revenue when the services are performed.

Grants and contributions received and unconditional promises to give are measured at their fair values and reported as support within net assets with or without donor restrictions depending on the existence and nature of any donor restrictions. All donor-restricted support is reported as an increase in support in net assets with donor restrictions, depending on the nature of the restrictions.

**GRANTS AND OTHER RECEIVABLES**

FCS records grants and other receivables at cost less an allowance for doubtful accounts, which is based on management's assessment of uncollectible amounts of grants and other receivables.

**PROPERTY AND EQUIPMENT**

Property and equipment are stated at cost or, if donated, at the estimated fair value at the date of the donation. Expenditures for property and equipment in excess of \$2,000 are capitalized. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets.

**INVESTMENTS**

Investments are reported at fair value in the Statements of Financial Position. Realized and unrealized gains and losses are included in investment income. See Note 4 for a discussion of fair value measurements.

**RISKS AND UNCERTAINTIES**

FCS invests in various investment securities, which are exposed to various risks, such as interest rate, credit and overall volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term, and such changes could materially affect the amounts reported in the Statements of Financial Position.

**CONTRIBUTED GOODS AND SERVICES**

A number of volunteers and organizations have made contributions of their time to promote the activities of FCS. The value of these contributions is not reflected in the accompanying financial statements, because the services provided do not require specialized skills nor would they typically need to be purchased if not provided by the donation. Contributions of rent, professional or other services are recorded at their fair values which are estimated using values of comparable goods and services when the services are provided. Contributed goods and services amounted to approximately \$370,000 for the years ended June 30, 2019 and 2018, respectively, and are reported as contributions in the Statements of Activities.

*(See Independent Auditors' Report)*

**ADVERTISING COSTS**

FCS expenses advertising costs as they are incurred. Advertising expenses for the years ended June 30, 2019 and 2018 were approximately \$32,000 and \$20,000, respectively.

**INCOME TAXES**

FCS is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Internal Revenue Service has determined FCS is not a private foundation within the meaning of Section 509(a) of the Code.

FCS follows the provisions of Accounting for Uncertainty in Income Taxes under the Income Taxes Topic of the Codification. The Codification requires the evaluation of tax positions, which include maintaining its tax-exempt status and the taxability of any unrelated business income, and does not allow recognition of tax positions which do not meet a “more-likely-than-not” threshold of being sustained by the applicable tax authority. Management does not believe it has taken any tax positions that would not meet this threshold.

**RECLASSIFICATIONS**

Certain prior year amounts have been reclassified to conform to the current year presentation.

**NOTE 2 PROPERTY AND EQUIPMENT**

Property and equipment at June 30, 2019 and 2018 were as follows:

	<b>2019</b>	<b>2018</b>
Land	\$ 154,101	\$ 154,101
Buildings and Improvements	1,342,477	1,299,821
Equipment and Furniture	552,684	533,552
Vehicles	127,909	177,672
Construction in Progress	272,155	67,828
	2,449,326	2,232,974
Less: Accumulated Depreciation	1,615,078	1,599,755
Total	\$ 834,248	\$ 633,219

**NOTE 3 LINE OF CREDIT**

FCS has a working capital line of credit, which provides for borrowings of up to \$1,000,000, with interest at the prime rate plus 2.75%. The line of credit agreement requires FCS to maintain a minimum balance of \$2,000,000 in a brokerage account, which was pledged as collateral. At June 30, 2019 and 2018, the account balance was \$2,367,255 and \$2,661,175, respectively.

*(See Independent Auditors' Report)*

**NOTE 4**    **INVESTMENTS**

Investments at June 30, 2019 and 2018 consisted of the following:

	2019		2018	
	Fair Value	Cost	Fair Value	Cost
Money Market Funds	\$ 226,065	\$ 226,065	\$ 212,292	\$ 212,292
Exchange Traded Funds	6,262,777	4,996,967	6,280,017	5,135,543
	\$ 6,488,842	\$ 5,223,032	\$ 6,492,309	\$ 5,347,835

Investment income (loss) for the years ended June 30, 2019 and 2018 consisted of the following:

	2019	2018
Interest and Dividends	\$ 554,052	\$ 213,754
Realized (Loss) Gain	(42,903)	252,693
Unrealized Gain	325,620	128,487
	\$ 836,769	\$ 594,934

The Board of Directors (Board) oversees management of FCS' investment accounts under the guidelines outlined in FCS' Investment Policy Statement. The Board is responsible to review and approve FCS' spending rate, which allows withdrawals from the investment accounts for use in operations of FCS. During the years ended June 30, 2019 and 2018, the Board approved withdrawals of \$430,000 and \$786,000, respectively, from FCS' investment accounts.

The Fair Value Measurements and Disclosures Topic of the Codification establishes a hierarchal disclosure framework, which prioritizes and ranks the level of market price observability used in measuring investments and other financial instruments at fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1    Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that FCS has the ability to access.
  
- Level 2    Inputs to the valuation methodology include:
  - Quoted prices for similar assets or liabilities in active markets;
  
  - Quoted prices for identical or similar assets or liabilities in inactive markets;

*(See Independent Auditors' Report)*



Inputs other than quoted prices that are observable for the asset or liability;

Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Below is a description of the valuation methodology used for assets measured at fair value. There have been no changes in the methodology used at June 30, 2019 and 2018.

Exchange Traded and Money Market Funds: Valued at the net asset value (NAV) of shares held at year end. NAV is a quoted price in an active market.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while FCS believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, FCS' investments at fair value as of June 30, 2019 and 2018:

	<b>Level 1 and Total</b>	
	<b>2019</b>	<b>2018</b>
Money Market Funds	\$ 226,065	\$ 212,292
<b>Exchange Traded Funds:</b>		
Mid Cap	637,980	659,755
Bond	1,318,386	1,312,917
Mortgage Backed	479,115	591,164
Large Cap	3,475,402	3,378,180
Small Cap	351,894	338,001
Investments, at Fair Value	<b>\$ 6,488,842</b>	<b>\$ 6,492,309</b>

*(See Independent Auditors' Report)*

**NOTE 5**    **COMMITMENTS AND CONTINGENCIES**

**OPERATING LEASES**

FCS leases office facilities under operating leases which expire through May 2021. Future minimum lease payments under these arrangements are as follows:

Year Ending June 30,	2020	\$	68,154
	2021		<u>37,379</u>
Total			<u>\$ 105,533</u>

Total rent expense was \$419,115 and \$452,558, including approximately \$242,000 and \$282,000 of donated rent for the years ended June 30, 2019 and 2018, respectively.

**CONTINGENCIES**

FCS receives a significant portion of revenue in the form of grants. Final determination of allowable costs is subject to audit or review by representatives or agents of the respective grantor.

**NOTE 6**    **RETIREMENT PLAN**

FCS maintains a 403(b) retirement plan for eligible employees. FCS' employer matching contribution is determined annually at the discretion of the Board. FCS did not make a contribution to the plan for the years ended June 30, 2019 and 2018.

**NOTE 7**    **PRIOR PERIOD ADJUSTMENT**

During 2019, FCS determined certain investment funds that are the property of FCS were not properly recorded in prior year financial statements. The adjustment resulted in an increase in investments and net assets of \$1,168,835 at July 1, 2019 from the amounts previously reported. In addition, investment income was increased from the amount previously reported by \$92,239 for the year ended June 30, 2018.

*(See Independent Auditors' Report)*

**NOTE 8 NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions at June 30, 2019 and 2018 are restricted for the following purposes:

	<b>2019</b>	<b>2018</b>
<b>Subject to Expenditure for Specified Purposes:</b>		
Carroll County Domestic Violence Safe House	\$ 109,758	\$ 109,758
Capital Improvements	44,224	44,224
West End Place Capital Project	200,010	-
Shelter Fund	1,350,682	1,261,074
<b>Subject to Organization's Spending Policy and Appropriation:</b>		
<b>Investment in Perpetuity (Including Amounts Greater than Original Gift Amounts of \$1,902,045), Which, Once Appropriated, is Expendable to Support:</b>		
Any Activities of the Organization	2,157,460	2,021,110
	<b>\$ 3,862,134</b>	<b>\$ 3,436,166</b>

**NOTE 9 ENDOWMENT FUNDS**

FCS' endowment consists of various donor-restricted funds established to provide a source of income to support certain programs of FCS. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

**INTERPRETATION OF RELEVANT LAW**

FCS is subject to the Maryland Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the Board appropriates such amounts for expenditure. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The Board of FCS has interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, FCS considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. FCS has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with UPMIFA, FCS considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

*(See Independent Auditors' Report)*

- (1) Duration and preservation of the endowment fund
- (2) Purposes of FCS and the donor-restricted endowment fund
- (3) General economic conditions
- (4) Possible effect of inflation and deflation
- (5) Expected total return from income and the appreciation of investments
- (6) Other resources of FCS
- (7) Investment policies of FCS

**ENDOWMENT FUND COMPOSITION BY TYPE OF FUND AS OF JUNE 30, 2019 AND 2018**

	<b>With Donor Restrictions and Total</b>	
	<b>2019</b>	<b>2018</b>
<b>Donor-Restricted Endowment Funds:</b>		
Original Donor-Restricted Gift Amount and Amounts Required to be Maintained in Perpetuity by Donor	\$ 1,902,045	\$ 1,902,045
Accumulated Investment Gains	255,415	119,065
	<b>\$ 2,157,460</b>	<b>\$ 2,021,110</b>

**CHANGES IN ENDOWMENT FUNDS FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	<b>With Donor Restrictions and Total</b>
Endowment Funds, July 1, 2017	\$ 1,943,825
Investment Return, Net	182,285
Appropriation of Endowment Assets for Expenditure	(105,000)
Endowment Funds, June 30, 2018	2,021,110
Investment Return, Net	291,260
Appropriation of Endowment Assets for Expenditure	(154,910)
Endowment Funds, June 30, 2019	<b>\$ 2,157,460</b>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the donor or UPMIFA requires FCS to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2019 and 2018.

*(See Independent Auditors' Report)*

**RETURN OBJECTIVES AND RISK PARAMETERS**

FCS has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for operating expenses while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds FCS must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Board, the endowment assets are invested in a manner intended to produce results that exceed the price and yield results of a composite index which is a weighted blend of the indices reflecting FCS' target asset allocation while assuming a moderate level of investment risk. FCS expects its endowment funds, over time, to provide an average rate of return of approximately 4.5% in excess of the Consumer Price Index annually. Actual returns in any given year may vary from this amount.

**STRATEGIES EMPLOYED FOR ACHIEVING OBJECTIVES**

To satisfy its long-term rate-of-return objective, FCS relies on a total return strategy in which investment returns are achieved through capital appreciation (realized and unrealized) and current yield (interest and dividends). FCS targets a diversified asset allocation that approximates 65% equity-based investments and 35% fixed income investments to achieve its long-term return objectives within prudent risk parameters.

**SPENDING POLICY AND HOW THE INVESTMENT OBJECTIVES RELATE TO SPENDING POLICY**

FCS has a policy of appropriating for annual distribution a target of 4.5% of the endowment average fair value as of June 30 for the preceding three years. In establishing this policy, FCS considered the long-term expected return on its endowment. Annually, the Investment Subcommittee of the Board debates the prudence of the spending percentage, keeping in mind the seven prudence guidelines for appropriation as outlined by UPMIFA. Accordingly, over the long term, FCS expects the current spending policy to allow its endowment to grow at an average rate of return approximating the spending rate plus the Consumer Price Index. This is consistent with the objective to maintain the purchasing power of the endowment assets in perpetuity or for a donor-specified term as well as to provide additional real growth through new gifts and investment return.

**NOTE 10 LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS**

FCS' financial assets available to meet cash needs for general expenditures within one year of the Statements of Financial Position date are as follows:

	<b>2019</b>	<b>2018</b>
Cash and Cash Equivalents	\$ 32,833	\$ 3,041
Investments	6,488,842	6,492,309
Grants and Other Receivables, Net	970,374	387,136
Total Financial Assets	7,492,049	6,882,486

*(See Independent Auditors' Report)*

**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**Family and Children's Services of Central Maryland, Inc.**

	<b>2019</b>	<b>2018</b>
<b>Contractual or Donor - Imposed Restrictions:</b>		
Endowment Funds to be Maintained in Perpetuity	(1,902,045)	(1,902,045)
Endowment Assets Restricted for Appropriation for Expenditure	(255,415)	(119,065)
Donor Contributions Restricted to Specific Purposes	(1,704,674)	(1,415,056)
Investments Pledged as Collateral for Line of Credit	(2,000,000)	(2,000,000)
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	\$ 1,629,915	\$ 1,446,320

As part of FCS' liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage anticipated liquidity needs, FCS may draw upon a committed line of credit of \$1,000,000.

**NOTE 11 WEST END PROJECT**

During the year ended June 30, 2018, FCS entered into a contract to build a \$4.6 million addition to the West End Place and renovate the existing senior center, funded through a combination of grants and donor contributions. Completion of Phase 1 of construction is anticipated to occur during fiscal year 2020. Subsequent to June 30, 2019, FCS has secured approximately \$2 million of pledges towards financing the project.

As of June 30, 2019 and 2018, \$272,155 and \$67,828 of construction had been completed, respectively.

*(See Independent Auditors' Report)*