Institute for Child Success, Inc.

Financial Statements

Years Ended December 31, 2017 and 2016

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DHG
DIXON HUGHES GOODMAN LLP

Independent Auditors' Report

Board of Directors
Institute for Child Success, Inc.
Greenville, South Carolina

We have audited the accompanying financial statements of the Institute for Child Success, Inc. (the "Organization"), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities 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.

Auditors' 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 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 auditor considers internal control relevant to the Organization'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 Organization'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 the Institute for Child Success, Inc. as of December 31, 2017 and 2016, and the results of its activities, and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Dixon Hughes Goodman LLP

Greenville, South Carolina
August 16, 2018

Institute for Child Success, Inc.
Statements of Financial Position

December 31, 2017 and 2016

	2017	2016
ASSETS		
Cash and cash equivalents	**$ 607,413**	$ 258,129
Accounts receivable	**15,911**	45,250
Pledges receivable	**26,624**	41,027
Grants receivable	**140,000**	140,337
Prepaid expenses	**1,054**	1,876
Security deposits	**2,290**	-
TOTAL ASSETS	**$ 793,292**	$ 486,619
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	**$ 42,203**	$ 36,257
Accrued expenses	**4,356**	-
Due to affiliate	**201,165**	282,830
Total liabilities	**247,724**	319,087
Net assets		
Unrestricted	**545,568**	47,457
Temporarily restricted	**-**	120,075
Total net assets	**545,568**	167,532
TOTAL LIABILITIES AND NET ASSETS	**$ 793,292**	$ 486,619

Institute for Child Success, Inc.
Statements of Activities
For the Years Ended December 31, 2017 and 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues and other support:						
Federal grants	**$ 893,702**	**$ -**	**$ 893,702**	$ 445,708	$ -	$ 445,708
Private grants	**561,153**	**-**	**561,153**	674,537	417,585	1,092,122
Service contract revenue	**232,094**	**-**	**232,094**	153,798	-	153,798
In-kind contributions	**114,317**	**-**	**114,317**	149,008	-	149,008
Other contributions	**452,299**	**-**	**452,299**	161,857	-	161,857
Other income	**2,404**	**-**	**2,404**	564	-	564
Total revenues and other support	**2,255,969**	**-**	**2,255,969**	1,585,472	417,585	2,003,057
Net assets released from restriction	**120,075**	**(120,075)**	**-**	518,615	(518,615)	-
Total revenues and other support and net assets released from restriction	**2,376,044**	**(120,075)**	**2,255,969**	2,104,087	(101,030)	2,003,057
Expenses:						
Salaries and services	**786,269**	**-**	**786,269**	904,520	-	904,520
Employee benefits	**149,791**	**-**	**149,791**	175,448	-	175,448
Payroll taxes	**60,690**	**-**	**60,690**	69,933	-	69,933
Study, consultant, audit and professional fees	**494,055**	**-**	**494,055**	328,191	-	328,191
IT costs and software user fees	**28,528**	**-**	**28,528**	43,583	-	43,583
Supplies	**9,582**	**-**	**9,582**	2,330	-	2,330
Telephone	**3,699**	**-**	**3,699**	9,677	-	9,677
Rent	**49,587**	**-**	**49,587**	72,644	-	72,644
Postage	**1,749**	**-**	**1,749**	1,187	-	1,187
Printing and promotional materials	**167**	**-**	**167**	8,130	-	8,130
Travel	**63,972**	**-**	**63,972**	133,078	-	133,078
Events and meetings	**81,825**	**-**	**81,825**	297,332	-	297,332
Insurance	**3,827**	**-**	**3,827**	3,677	-	3,677
Dues	**3,407**	**-**	**3,407**	1,940	-	1,940
In-kind services	**114,317**	**-**	**114,317**	149,008	-	149,008
Miscellaneous	**26,468**	**-**	**26,468**	6,126	-	6,126
Total expenses	**1,877,933**	**-**	**1,877,933**	2,206,804	-	2,206,804
Change in net assets	**498,111**	**(120,075)**	**378,036**	(102,717)	(101,030)	(203,747)
Net assets, beginning of year	**47,457**	**120,075**	**167,532**	150,174	221,105	371,279
Net assets, end of year	**$ 545,568**	**$ -**	**$ 545,568**	$ 47,457	$ 120,075	$ 167,532

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

Institute for Child Success, Inc.
Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	**$ 378,036**	$ (203,747)
Adjustments to reconcile change in net assets to		
net cash flows provided (used) by operating activities:		
Change in operating assets and liabilities:		
Accounts receivable	**29,339**	(8,003)
Pledges receivable	**14,403**	(19,983)
Grants receivable	**337**	(17,226)
Prepaid expenses	**822**	404
Security deposits	**(2,290)**	-
Accounts payable	**5,946**	18,191
Accrued expenses	**4,356**	-
Due to affiliate	**(81,665)**	189,264
Net cash flows provided (used) by operating activities	**349,284**	(41,100)
Net increase (decrease) in cash and cash equivalents	**349,284**	(41,100)
Cash and cash equivalents, beginning of year	**258,129**	299,229
Cash and cash equivalents, end of year	**$ 607,413**	$ 258,129

Notes to Financial Statements

1. Mission

Headquartered in Greenville, South Carolina, the Institute for Child Success, Inc. (the “Organization”) is an independent, nonpartisan, nonprofit research and policy organization dedicated to the success of all young children.

2. Summary of Significant Accounting Policies

Accounting Basis

The accompanying financial statements have been prepared on the accrual basis.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“US GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Cash and Cash Equivalents

The Organization maintains bank accounts at financial institutions covered by the Federal Deposit Insurance Corporation (“FDIC”). At times throughout the year, the Organization may maintain bank account balances in excess of the FDIC insured limit. It is management’s opinion that these financial institutions are financially sound and that the Organization is not exposed to any significant credit risk related to cash.

Restricted and Unrestricted Revenue and Support

The Organization reports information regarding its financial position and activities according to two classes of net assets: unrestricted net assets and temporarily restricted net assets. Contributions received are recorded as unrestricted or temporarily restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily restricted net assets. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported on the Statement of Activities as net assets released from restriction.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code; accordingly, the accompanying financial statements do not reflect a provision or liability for federal and state income taxes. The Organization has determined that it does not have any material unrecognized tax benefits or obligations as of December 31, 2017.

Reclassification

To allow for improved transparency in the natures of revenues and expenses, certain prior year amounts have been reclassified to conform to the current year’s presentation. The impact of these reclassifications does not represent a significant change in presentation. Approximately $149,000 of 2016 in-kind expenses have been reclassified from miscellaneous expenses to conform to the 2017 presentation. Additionally, revenues were disaggregated into more specific categories to include federal grants and in-kind contributions. The amount of reclassified revenues as of December 31, 2016 totaled approximately $595,000. These reclassifications did not have any effect on the Organization's total expenses or revenues.

Recent Accounting Pronouncements

The Financial Accounting Standards Board (the "FASB") has recently issued several Accounting Standards Updates ("ASUs"). A summary of the ASUs most relevant to the Organization are as follows:

In August 2015, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 605). The objective of the new guidance is to establish principles to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue from contracts with customers. This ASU determines that entities recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance:

1. Removes inconsistencies and weaknesses in existing revenue requirements
2. Provides a more robust framework for addressing revenue issues
3. Improves comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets
4. Provides more useful information to users of financial statements through improved disclosure requirements, and
5. Simplifies the preparation of financial statements by reducing the number of requirements to which an organization must refer.

Several clarifying standards related to this ASU have been issued since August 2015. The ASU is effective for nonpublic organizations beginning for annual reporting periods after December 15, 2018. The Organization has not yet implemented this ASU. The Organization is currently evaluating the effects of this ASU.

In February 2016, the FASB issued *ASU 2016-02, Leases (Topic 842).* This ASU establishes the principles to report transparent and economically neutral information about the assets and liabilities that arise from leases. Under this standard, the lessee is required to recognize most leases on its statement of financial position, whereas previous guidance has allowed the lessee to classify operating leases on the statement of activities. The ASU is effective for nonpublic organizations beginning for annual reporting periods after December 15, 2019. The Organization has not yet implemented this ASU. The Organization is currently evaluating the effects of this ASU.

In August 2016, the FASB issued *ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities (Topic 958),* which is the first of two phases that revises the way that all not-for-profits ("NFPs") present financial statements. Key measures of this ASU are:

1. The reduction of the three existing net asset classes (unrestricted, temporarily restricted, and permanently restricted) to two net asset classes: *net assets without donor restrictions* and *net assets with donor restrictions*.
2. An analysis of expenses both by function and natural classification either in a separate statement or within the footnotes to the financial statements.
3. Presentation of investment expenses netted against investment return.
4. Removing the requirement to show a reconciliation of the direct method of cash flows with the indirect method of cash flows within the statement of cash flows.

This ASU is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The Organization has not yet implemented this ASU. The Organization is currently evaluating the effects of this ASU.

3. Temporarily Restricted Net Assets

The Organization participates in Pay for Success financing focused on outcomes benefitting children throughout the United States of America. At December 31, 2016 funds received and not yet spent for these programs totaled approximately $44,000 and were included in temporarily restricted net assets totaling $120,075. The remaining temporarily restricted net assets totaling approximately $76,000 were related to the Organization’s work in capacity building and policy and research. The restrictions on these funds were released during 2017.

4. Related Party Transactions

The United Way of Greenville County, Inc. (the “United Way”) collected receipts and made payments on behalf of the Organization through December 2017. At December 31, 2017 and 2016, the Organization owed approximately $201,000 and $283,000, respectively, to the United Way related to unreimbursed expenses paid by the United Way on behalf of the Organization. The balance owed of $201,000 to the United Way at December 31, 2017 was paid in 2018.

The Organization leased its office space through an agreement with the United Way through October 31, 2017, at $2,700 per month.

5. Line of Credit

The Organization maintains a revolving line of credit which is secured by grants receivable. The line of credit had availability of $200,000 as of December 31, 2017, bears interest at 4.75% and will expire in July 2019. There were no outstanding borrowings against the line of credit at December 31, 2017 or 2016, respectively.

6. Commitments

Study and consultant fees paid by the Organization represent contractual relationships with third parties to flexibly augment both programmatic and operational capacity. Ongoing periodic financial commitments from those relationships can be adjusted or terminated with 14 and 60 day notice, varying by contract.

7. Leases

The Organization moved its headquarter office in 2017 and agreed to lease terms for the new location on October 1, 2017. The lease agreement calls for monthly rent of $1,600 per month that expires September 30, 2019. Rent expense under this agreement for the year ended December 31, 2017 was $4,800.

8. Subsequent Events

Subsequent events have been evaluated through August 16, 2018, which is the date the financial statements were available to be issued.