



EPWORTH

Children & Family Services



Financial Statements with
Independent Auditor's Report

DECEMBER 31, 2017

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
 Financial Statements	
Statements of Financial Position.....	3
Statements of Activities	4
Statements of Cash Flows.....	6
Statements of Functional Expenses	7
Notes to Financial Statements.....	9
 Supplemental Information	
Independent Auditor's 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	24
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by Uniform Guidance.....	26
Schedule of Expenditures of Federal Awards.....	28
Note to Schedule of Expenditures of Federal Awards.....	29
Schedule of Findings and Questioned Costs.....	30
Corrective Action Plan.....	32

Independent Auditor's Report

Board of Directors
Epworth Children & Family Services, Inc.
Saint Louis, Missouri

Report on the Financial Statements

We have audited the accompanying financial statements of Epworth Children & Family Services, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2017 and 2016 and the related statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 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 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 Epworth Children & Family Services, Inc. as of December 31, 2017 and 2016 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2018 on our consideration of the Organization'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 the Organization's internal control over financial reporting and compliance.

Restatement of Prior Year Financial Statements

As discussed in Note O to the financial statements, certain changes in trust restrictions were brought to the attention of management of Epworth Children & Family Services during the current year. Accordingly, amounts reported for trust assets and change in value of perpetual trusts have been restated in the December 31, 2016, financial statements now presented, and an adjustment has been made to net assets to account for the change in restriction. Our opinion is not modified with respect to these matters.

Brown Smith Wallace, LLP

Saint Louis, Missouri
April 26, 2018

EPWORTH CHILDREN & FAMILY SERVICES, INC.

Statements of Financial Position

December 31, 2017 and 2016

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 2,144,342	\$ 1,668,950
Investments, at fair value	5,861,282	5,340,981
Accounts receivable, less allowance for doubtful accounts of \$88,616 and \$25,600 in 2017 and 2016, respectively	928,641	1,296,112
Contributions receivable, less allowance for doubtful accounts of \$4,712 and \$31,000 in 2017 and 2016, respectively	113,116	266,634
Grants receivable	834,911	833,344
Prepaid and other assets	261,083	399,122
Property and equipment, net	3,983,562	4,336,771
Beneficial interest in trusts, at fair value	3,061,882	2,838,934
TOTAL ASSETS	\$ 17,188,819	\$ 16,980,848
LIABILITIES AND NET ASSETS		
Liabilities		
Note payable	\$ 319,861	\$ 335,468
Accounts payable	147,770	184,308
Accrued expenses	376,778	389,469
Other liabilities	117,845	166,147
Total Liabilities	962,254	1,075,392
Net Assets		
Unrestricted:		
Undesignated	5,034,679	4,919,308
Investment in property and equipment	3,663,701	4,001,303
Total Unrestricted	8,698,380	8,920,611
Temporarily restricted	1,814,698	1,494,306
Permanently restricted	5,713,487	5,490,539
Total Net Assets	16,226,565	15,905,456
TOTAL LIABILITIES AND NET ASSETS	\$ 17,188,819	\$ 16,980,848

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

EPWORTH CHILDREN & FAMILY SERVICES, INC.

Statement of Activities

Year ended December 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND PUBLIC SUPPORT				
Revenue:				
Fees for service	\$ 8,430,709	\$ -	\$ -	\$ 8,430,709
Federal and state grants	1,341,280	-	-	1,341,280
Investment income	796,132	488,041	-	1,284,173
Other income	158,277	-	-	158,277
Total revenue	10,726,398	488,041	-	11,214,439
Public support:				
Contributions	614,272	409,913	-	1,024,185
Special events	463,581	-	-	463,581
Change in value of beneficial interest in trusts	-	-	222,948	222,948
Legacies, bequests and trusts	69,386	-	-	69,386
In-kind rent	70,500	-	-	70,500
United Way of Greater St. Louis	-	681,182	-	681,182
Total public support	1,217,739	1,091,095	222,948	2,531,782
Net assets released from restrictions	1,258,744	(1,258,744)	-	-
TOTAL REVENUE AND PUBLIC SUPPORT	13,202,881	320,392	222,948	13,746,221
EXPENSES				
Program services:				
Residential treatment	3,211,264	-	-	3,211,264
Community services	1,580,385	-	-	1,580,385
Emergency shelter	888,011	-	-	888,011
Foster care	1,888,887	-	-	1,888,887
Older youth services	1,246,959	-	-	1,246,959
Family support services	1,139,008	-	-	1,139,008
Prevention services	568,652	-	-	568,652
Psychological services	527,947	-	-	527,947
Total program services	11,051,113	-	-	11,051,113
Supporting services:				
Management and general	1,465,669	-	-	1,465,669
Fund raising	908,330	-	-	908,330
Total supporting services	2,373,999	-	-	2,373,999
TOTAL EXPENSES	13,425,112	-	-	13,425,112
CHANGE IN NET ASSETS	(222,231)	320,392	222,948	321,109
Net assets, beginning of year	8,920,611	1,494,306	5,490,539	15,905,456
Net assets, end of year	\$ 8,698,380	\$ 1,814,698	\$ 5,713,487	\$ 16,226,565

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

EPWORTH CHILDREN & FAMILY SERVICES, INC.

Statement of Activities

Year ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND PUBLIC SUPPORT				
Revenue:				
Fees for service	\$ 7,543,366	\$ -	\$ -	\$ 7,543,366
Federal and state grants	1,383,141	-	-	1,383,141
Investment income	399,188	228,876	-	628,064
Other income	128,371	-	-	128,371
Total revenue	9,454,066	228,876	-	9,682,942
Public support:				
Contributions	560,510	320,086	-	880,596
Special events	764,985	-	-	764,985
Change in value of beneficial interest in trusts	-	-	72,898	72,898
Legacies, bequests and trusts	949,667	-	-	949,667
In-kind rent	70,500	-	-	70,500
United Way of Greater St. Louis	-	681,182	-	681,182
Total public support	2,345,662	1,001,268	72,898	3,419,828
Net assets released from restrictions	1,301,495	(1,301,495)	-	-
TOTAL REVENUE AND PUBLIC SUPPORT	13,101,223	(71,351)	72,898	13,102,770
EXPENSES				
Program services:				
Residential treatment	2,836,244	-	-	2,836,244
Community services	1,515,264	-	-	1,515,264
Emergency shelter	800,284	-	-	800,284
Foster care	1,404,395	-	-	1,404,395
Older youth services	1,369,826	-	-	1,369,826
Family support services	1,049,454	-	-	1,049,454
Prevention services	877,662	-	-	877,662
Psychological services	512,597	-	-	512,597
Total program services	10,365,726	-	-	10,365,726
Supporting services:				
Management and general	1,933,812	-	-	1,933,812
Fund raising	1,004,041	-	-	1,004,041
Total supporting services	2,937,853	-	-	2,937,853
TOTAL EXPENSES	13,303,579	-	-	13,303,579
CHANGE IN NET ASSETS	(202,356)	(71,351)	72,898	(200,809)
Net assets, beginning of year	9,122,967	2,427,689	4,555,609	16,106,265
Change in Beneficial Interest in Trust Restriction (See note O)	-	(862,032)	862,032	-
Net assets, end of year	\$ 8,920,611	\$ 1,494,306	\$ 5,490,539	\$ 15,905,456

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

EPWORTH CHILDREN & FAMILY SERVICES, INC.

Statements of Cash Flows

Years ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 321,109	\$ (200,809)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Non-cash property and equipment donation	(5,696)	-
Depreciation	465,491	510,725
Change in allowance for receivables	36,728	16,100
Change in value of beneficial interest in trusts	(222,948)	(72,898)
Net unrealized gains on investments	(594,526)	(207,828)
Net realized gains on investments	(112,555)	(65,383)
(Increase) decrease in assets and liabilities:		
Accounts receivable	304,455	457,970
Grants and contributions receivable	178,239	52,472
Prepays and other assets	138,039	(149,032)
Accounts payable	(36,538)	106,093
Accrued expenses and other liabilities	(60,993)	39,828
Net cash provided by operating activities	410,805	487,238
Cash flows from investing activities:		
Purchases of property and equipment	(106,586)	(118,896)
Proceeds from sales of investments	439,444	1,329,150
Purchases of investments	(252,664)	(1,135,826)
Net cash provided by investing activities	80,194	74,428
Cash flows from financing activities		
Payments on note payable	(15,607)	(16,220)
Net cash used in financing activities	(15,607)	(16,220)
NET INCREASE IN CASH AND CASH EQUIVALENTS	475,392	545,446
Cash and cash equivalents, beginning of year	1,668,950	1,123,504
Cash and cash equivalents, end of year	\$ 2,144,342	\$ 1,668,950
Supplemental disclosure:		
Cash paid during the year for interest	\$ 9,018	\$ 10,501

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

EPWORTH CHILDREN & FAMILY SERVICES, INC.

Statement of Functional Expenses

Year ended December 31, 2017

	Program Services								Supporting Services				Total Expenses
	Residential	Community	Emergency	Foster	Older Youth	Family Support	Prevention	Psychological	Management	Fund	Total	Total	
	Treatment	Services	Shelter	Care	Services	Services	Services	Services	and General	Raising	Total	Total	
Salaries	\$ 1,832,962	\$ 565,266	\$ 517,458	\$ 760,452	\$ 624,619	\$ 720,613	\$ 379,079	\$ 363,057	\$ 5,763,506	\$ 1,070,514	\$ 519,702	\$ 1,590,216	\$ 7,353,722
Employee benefits and payroll taxes	409,021	88,820	171,900	136,093	127,353	216,946	60,601	61,839	1,272,573	127,808	130,141	257,949	1,530,522
Total salaries and related expenses	2,241,983	654,086	689,358	896,545	751,972	937,559	439,680	424,896	7,036,079	1,198,322	649,843	1,848,165	8,884,244
Professional fees	165,100	34,994	13,902	561,009	37,071	37,843	25,535	11,817	887,271	6,951	175,204	182,155	1,069,426
Supplies	54,208	7,935	8,606	8,409	14,033	15,141	4,890	5,244	118,466	30,239	22,536	52,775	171,241
Food service	135,883	-	81,794	210	211	286	36	115	218,535	4,579	510	5,089	223,624
Telephone	35,500	21,410	9,724	14,894	22,864	12,686	11,382	7,320	135,780	35,504	4,158	39,662	175,442
Utilities	59,008	18,545	13,488	15,173	20,231	6,744	6,744	8,430	148,363	16,859	3,372	20,231	168,594
Postage, printing and publications	11,549	6,929	2,772	5,081	8,128	4,271	3,696	2,707	45,133	1,386	24,463	25,849	70,982
Repairs and maintenance	60,171	18,911	13,753	15,472	20,630	6,877	6,877	8,596	151,287	1,687	3,438	5,125	156,412
Training, travel, meetings and memberships	15,409	36,295	5,168	31,080	23,864	52,852	11,417	4,557	180,642	1,438	7,869	9,307	189,949
Automobile expense	7,913	4,748	1,899	3,482	5,064	2,849	2,532	1,583	30,070	950	633	1,583	31,653
Client assistance	50,759	683,191	10,249	275,081	158,084	3,885	11,365	9,184	1,201,798	-	-	-	1,201,798
Insurance	41,767	25,060	10,024	18,378	26,731	15,036	13,366	8,353	158,715	5,012	3,341	8,353	167,068
Interest	-	-	-	2,255	4,509	-	-	2,255	9,019	-	-	-	9,019
Bad debt	78,436	22,170	8,868	16,258	23,648	13,302	11,824	7,390	181,896	4,434	2,956	7,390	189,286
Rent	69,428	15,954	7,282	16,137	15,268	14,228	13,274	4,771	156,342	12,028	4,024	16,052	172,394
Miscellaneous	4,047	984	1,525	233	1,265	3,896	148	184	12,282	60,224	5,983	66,207	78,489
Total expenses before depreciation	3,031,161	1,551,212	878,412	1,879,697	1,133,573	1,127,455	562,766	507,402	10,671,678	1,379,613	908,330	2,287,943	12,959,621
Depreciation	180,103	29,173	9,599	9,190	113,386	11,553	5,886	20,545	379,435	86,056	-	86,056	465,491
Total expenses	\$ 3,211,264	\$ 1,580,385	\$ 888,011	\$ 1,888,887	\$ 1,246,959	\$ 1,139,008	\$ 568,652	\$ 527,947	\$ 11,051,113	\$ 1,465,669	\$ 908,330	\$ 2,373,999	\$ 13,425,112

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

EPWORTH CHILDREN & FAMILY SERVICES, INC.

Statement of Functional Expenses

Year ended December 31, 2016

	Program Services									Supporting Services			Total Expenses
	Residential	Community	Emergency	Foster	Older Youth	Family Support	Prevention	Psychological	Total	Management	Fund	Total	
	Treatment	Services	Shelter	Care	Services	Services	Services	Services		and General	Raising		
Salaries	\$ 1,597,575	\$ 550,098	\$ 486,613	\$ 592,707	\$ 657,005	\$ 686,763	\$ 558,333	\$ 350,113	\$ 5,479,207	\$ 1,232,421	\$ 443,839	\$ 1,676,260	\$ 7,155,467
Employee benefits and payroll taxes	341,144	124,949	118,268	105,034	200,520	161,747	178,383	52,333	1,282,378	404,127	144,665	548,792	1,831,170
Total salaries and related expenses	1,938,719	675,047	604,881	697,741	857,525	848,510	736,716	402,446	6,761,585	1,636,548	588,504	2,225,052	8,986,637
Professional fees	145,033	49,077	19,391	374,468	51,709	54,704	31,855	16,275	742,512	9,695	313,826	323,521	1,066,033
Supplies	65,668	6,419	6,835	11,907	13,683	11,770	6,347	5,385	128,014	30,641	5,125	35,766	163,780
Food service	129,040	-	79,891	502	3	412	87	63	209,998	8,430	628	9,058	219,056
Telephone	35,350	21,215	9,074	14,894	22,864	12,836	11,332	7,370	134,935	9,112	3,708	12,820	147,755
Utilities	64,945	20,411	14,844	16,700	22,267	7,422	7,422	9,278	163,289	18,556	3,711	22,267	185,556
Postage, printing and publications	3,144	1,886	755	1,383	2,738	1,381	1,089	2,630	15,006	377	50,785	51,162	66,168
Repairs and maintenance	63,057	19,818	14,413	16,215	21,619	7,206	7,206	9,008	158,542	18,016	3,603	21,619	180,161
Training, travel, meetings and memberships	15,172	29,862	5,808	32,612	24,528	43,472	12,973	5,016	169,443	1,367	5,895	7,262	176,705
Automobile expense	7,180	4,308	1,723	3,159	4,595	2,585	2,298	1,436	27,284	862	574	1,436	28,720
Client assistance	40,544	582,142	8,513	177,713	166,019	5,903	13,614	14,718	1,009,166	-	-	-	1,009,166
Insurance	40,597	24,358	9,743	17,863	25,982	14,615	12,991	8,119	154,268	4,872	3,248	8,120	162,388
Interest	-	-	-	2,625	5,251	-	-	2,625	10,501	-	-	-	10,501
Bad debt	34,150	20,490	8,196	15,026	21,856	12,294	10,928	6,830	129,770	4,098	2,732	6,830	136,600
Rent	66,813	13,979	6,434	14,792	13,312	13,128	13,127	4,161	145,746	11,660	3,779	15,439	161,185
Miscellaneous	2,808	1,542	628	739	1,332	790	590	442	8,871	65,649	17,923	83,572	92,443
Total expenses before depreciation	2,652,220	1,470,554	791,129	1,398,339	1,255,283	1,037,028	868,575	495,802	9,968,930	1,819,883	1,004,041	2,823,924	12,792,854
Depreciation	184,024	44,710	9,155	6,056	114,543	12,426	9,087	16,795	396,796	113,929	-	113,929	510,725
Total expenses	\$ 2,836,244	\$ 1,515,264	\$ 800,284	\$ 1,404,395	\$ 1,369,826	\$ 1,049,454	\$ 877,662	\$ 512,597	\$ 10,365,726	\$ 1,933,812	\$ 1,004,041	\$ 2,937,853	\$ 13,303,579

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

EPWORTH CHILDREN & FAMILY SERVICES, INC.

Notes to Financial Statements

December 31, 2017

Note A - Operations and Summary of Significant Accounting Policies

Operations

Epworth Children & Family Services, Inc. (“Epworth” or “the Organization”) is a not-for-profit charitable corporation that provides a wide array of services to children, youth and families in need, strengthening the capacity of each to thrive in society. For more than 150 years, Epworth has provided the community with essential youth development services that have helped thousands of children overcome severe emotional and behavioral challenges. Epworth’s innovative, holistic, and comprehensive treatment approach helps youth focus on solutions, build on inherent strengths and communicate more effectively. Youth and families turn to Epworth for foster care, emergency shelter, residential treatment, transitional living services, educational day treatment services, family support services, prevention services and psychological services each year. Epworth’s revenue and support are derived primarily from local, state and federal agencies, along with public contributions.

In addition, Epworth is a member of the Children’s Permanency Partnership, LLC, a for-profit LLC, which provides foster care case management services to youth in the custody of the State of Missouri.

Financial Statements Presentation

The following is a description of the three classes of net assets of the Organization:

Unrestricted Net Assets represent those net assets whose use is not restricted by donors.

Temporarily Restricted Net Assets represent those net assets whose use has been limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations.

Permanently Restricted Net Assets represent those net assets whose use has been limited by donor-imposed stipulations requiring principal to be maintained in perpetuity, while the income earned on the principal is expendable on general operating expenses, unless otherwise restricted by the donor.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and accordingly, reflect all significant receivables, payables and other liabilities. Revenues and expense are recognized in the period which they are earned or incurred.

EPWORTH CHILDREN & FAMILY SERVICES, INC.

Notes to Financial Statements - Continued

December 31, 2017

Note A - Operations and Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid financial instruments, excluding cash held in the investment accounts, with a maturity as of the financial statement date of three months or less to be cash equivalents. The Organization maintains cash balances at various major domestic financial institutions in amounts that at times may exceed federally insured limits. The Organization has not incurred any losses as a result of the excess balances.

Accounts and Grants Receivable

Accounts and grants receivable are fees for services and grants which are stated at the amount management expects to collect from outstanding balances. Invoices are considered past due once they are outstanding over 30 days. Management provides for probable uncollectible amounts through a charge against earnings and a corresponding increase in a valuation allowance based on its assessment of the current status of individual accounts. Balances still outstanding after management has used reasonable collection efforts are written off through a reduction in the valuation allowance and the receivable.

Investments

Investments are stated at fair value. Investment income is recognized when earned.

Property and Equipment

Property and equipment in excess of \$1,000 is recorded at cost or, if received by gift or bequest, at the market value at the date of donation. If the donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In absence of such stipulations, contributions of property and equipment are reported as unrestricted support. In 2017 and 2016, the Organization did not receive contributions of property and equipment considered restricted support.

Depreciation is recorded on the straight-line basis over the estimated useful lives of the assets as follows: buildings and improvements, five to thirty years; furniture and equipment, three to fifteen years; automobiles, five years; and computers and software, three to five years. Expenditures for major renewals and improvements, which increase the useful lives of respective assets, are capitalized. Maintenance and repairs are expensed as incurred.

EPWORTH CHILDREN & FAMILY SERVICES, INC.

Notes to Financial Statements - Continued

December 31, 2017

Note A - Operations and Summary of Significant Accounting Policies (Continued)

Impairment of Long Lived Assets

Long lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value and the carrying value of the asset. For the years ended December 31, 2017 and 2016, management determined that no impairment loss needs to be recognized.

Other Liabilities

Other liabilities primarily consist of a medical claims reserve for the year ended December 31, 2017. As of December 31, 2016, the balance consisted of both a medical claims reserve and a direct subsidy received by the Organization from an Affordable Housing Program Agreement for Rental Project (“Agreement”) with a bank. As the Organization is self-funded for medical insurance purposes, a medical claims reserve has been established to capture the estimated incurred, but not reported claims liability. This reserve amounted to \$80,000 for each of the years ended December 31, 2017 and 2016. The direct subsidy of \$50,000 had an initial 15-year retention period through December 2017 and was recorded as income as of December 2017.

Contributions

The Organization recognizes contributions as revenue when an unconditional promise is made. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily or permanently restricted support that increase those net asset classes. Support is released from restrictions once timing or donor stipulations have been satisfied.

In addition to receiving cash contributions, the Organization receives in-kind contributions of rental space and other items from donors. It is the Organization’s policy to record the estimated fair value of certain in-kind donations as an expense in its financial statements and similarly increase in contribution revenue by a like amount. The Organization records those donations if their value is readily ascertainable and if the services performed require expertise.

EPWORTH CHILDREN & FAMILY SERVICES, INC.

Notes to Financial Statements - Continued

December 31, 2017

Note A - Operations and Summary of Significant Accounting Policies (Continued)

Donated Services and Goods

The Organization records donated services and goods in accordance with *FASB ASC 958-605, Revenue Recognition*. As such, donated services are recognized when the service either creates or enhances a non-financial asset or requires specialized skill that would be purchased if the service was not donated. There were no such services during the years ended December 31, 2017 and 2016.

Additionally, the Organization records donated goods as support at their estimated values, if determinable. For each of the years ended December 31, 2017 and 2016, the Organization received donated rent valued at \$70,500. During the years ended December 31, 2017 and 2016, the Organization received \$5,696 and \$0, respectively, of donated assets.

Use of 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 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.

Tax Status

The Organization constitutes a qualified not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code and is, therefore, exempt from federal income taxes.

In that regard, the Organization has evaluated its tax positions, expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings and believes that no provision for income taxes is necessary, at this time, to cover any uncertain tax positions.

Subsequent Events

The Organization evaluated all subsequent events through April 26, 2018, the date the financial statements were available to be issued.

EPWORTH CHILDREN & FAMILY SERVICES, INC.

Notes to Financial Statements - Continued

December 31, 2017

Note B - Investment Income

Investment income consists of the following:

	<u>2017</u>	<u>2016</u>
Interest and dividend income	\$ 108,619	\$ 103,898
Net realized gains on investments	112,555	65,383
Net unrealized gains (losses) on investments	594,526	207,828
Trust income	130,689	119,332
Other	<u>337,784</u>	<u>131,623</u>
	<u>\$ 1,284,173</u>	<u>\$ 628,064</u>

Note C - Contributions Receivable

At December 31, 2017 and 2016, contributions receivable were as follows:

Short-term contributions receivable	\$ 31,415	\$ 207,226
Annuities receivable	86,413	90,408
Allowance for uncollectible accounts	<u>(4,712)</u>	<u>(31,000)</u>
	<u>\$ 113,116</u>	<u>\$ 266,634</u>

Substantially all short-term contributions receivable are expected to be collected within one year.

Note D - Prepaid and Other Assets

At December 31, 2017 and 2016, prepaid and other assets were as follows:

	<u>2017</u>	<u>2016</u>
Prepaid expenses	\$ 134,464	\$ 184,421
Investment in Children's Permanency Partnership	<u>126,619</u>	<u>214,701</u>
	<u>\$ 261,083</u>	<u>\$ 399,122</u>

The Investment in Children's Permanency Partnership represents Epworth's share of the partnership assets for which it is a member and is calculated using the equity method of accounting.

EPWORTH CHILDREN & FAMILY SERVICES, INC.

Notes to Financial Statements - Continued

December 31, 2017

Note D - Prepaid and Other Assets (Continued)

On April 22, 2005, the Organization became a member of the Children's Permanency Partnership, LLC, which entitles the Organization to a percentage of the overall earnings based on their case load. As of December 31, 2017 and 2016, the Organization was a 35% and 21% member, respectively, of the for-profit entity. Although ownership in the Limited Liability Corporation reflects a noncontrolling interest, the percentage of ownership can fluctuate and, as a result, the Organization accounts for this investment under the equity method.

Following is a summary of the financial position and results of operations of Children's Permanency Partnership, LLC, as of and for the years ended December 31, 2017 and 2016:

	(Unaudited) <u>2017</u>	(Audited) <u>2016</u>
Total assets	\$ <u>1,404,772</u>	\$ <u>1,686,414</u>
Total liabilities	<u>917,620</u>	<u>625,101</u>
Members' equity	\$ <u>487,152</u>	\$ <u>1,061,313</u>
Revenue	\$ <u>15,632,831</u>	\$ <u>12,799,305</u>
Net income	\$ <u>972,655</u>	\$ <u>313,538</u>

Note E - Beneficial Interest in Trusts

The Organization is a named beneficiary of irrevocable deferred gifts. These amounts are held by third-party trustees and are included in permanently restricted net assets by the Organization. At December 31, 2017 and 2016, these assets, including investments and real estate, were valued at \$3,061,882 and \$2,838,934, respectively.

EPWORTH CHILDREN & FAMILY SERVICES, INC.

Notes to Financial Statements - Continued

December 31, 2017

Note F - Property and Equipment

Property and equipment at December 31, 2017 and 2016 are comprised of the following:

	<u>2017</u>	<u>2016</u>
Land, buildings and improvements	\$ 10,070,930	\$ 10,020,746
Furniture and equipment	1,131,669	1,117,740
Computers and software	787,491	767,799
Automobiles	233,855	271,990
Construction in progress	<u>-</u>	<u>1,640</u>
	12,223,945	12,179,915
Less: accumulated depreciation	<u>(8,240,383)</u>	<u>(7,843,144)</u>
	<u>\$ 3,983,562</u>	<u>\$ 4,336,771</u>

The Organization leases a major portion of its land at no cost from the Women's Division of the United Methodist Church, a related party. In the event the Organization resolves to vacate this leased property, the Women's Division, at its option, shall either sell the leased property and invest the proceeds in a new site for the Organization under similar lease terms or reimburse the Organization for the fair value of the buildings and the improvements it made on the leased property. For each the years ended December 31, 2017 and 2016, Epworth has recorded an estimated fair value for this lease of \$70,500 as both in-kind contribution income and rent expense.

Note G - Defined Contribution Plan

The Organization's 401(k) Plan allows full and part time employees to defer a portion of their wages and receive a discretionary match on those deferrals not to exceed federal limits. Employees are eligible to enroll upon completion of their first year of service (12 months) and 1,000 work hours following their date of hire. If an employee does not meet the eligibility requirements in the first 12 months after hire, s/he can meet these requirements if 1,000 hours are worked in the following calendar year. Enrollment entry dates are January 1 or July 1 of the plan year.

The plan is a 2-year vesting plan. Epworth matches a maximum of 50% of the first 3% contributed by the employee. The Organization did not make a discretionary contribution to the 401(k) plan during 2017 or 2016.

EPWORTH CHILDREN & FAMILY SERVICES, INC.

Notes to Financial Statements - Continued

December 31, 2017

Note H - Note Payable and Line-of-Credit

Note payable at December 31, 2017 and 2016 consists of the following:

	<u>2017</u>	<u>2016</u>
Note payable to bank due in monthly installments of \$2,227 including annual interest at 3.46% through March 31, 2018, at which time all outstanding principal and accrued interest is due. Note is collateralized by the building at 7520 Natural Bridge Rd. As of March 31, 2018, the outstanding balance was paid in full.	<u>\$ 319,861</u>	<u>\$ 335,468</u>

During the year ended December 31, 2017, the Organization renewed their \$500,000 uncommitted line-of-credit agreement with U.S. Bank, which matures on June 30, 2018. The interest rate on the line was 3.625% and 2.5% as of December 31, 2017 and 2016, respectively. The balance is collateralized by real estate at 7520 Natural Bridge Road. As of December 31, 2017 and 2016, there was no balance outstanding on the line-of-credit.

Note I - Fair Value Measurements of Assets and Liabilities

The Organization follows FASB ASC 820-10, *Fair Value Measurements and Disclosures*. FASB ASC 820-10 establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

FASB ASC 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC 820-10 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in active markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

EPWORTH CHILDREN & FAMILY SERVICES, INC.

Notes to Financial Statements - Continued

December 31, 2017

Note I - Fair Value Measurements of Assets and Liabilities (Continued)

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Common stocks, corporate bonds and U.S. government securities: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual Funds: Valued at the net assets value (NAV) of shares held at year end.

Beneficial interests in trusts: Measured at fair value on a recurring basis using significant third party trust valuations and management's estimate of the value of the Organization's share of the investment.

Management determines the fair value measurement valuation policies and procedures, which are subject to Board assessment and approval. At least annually, management determines if the current valuation techniques used in fair value measurements are still appropriate.

The Organization recognizes transfers between levels in the fair value hierarchy at the end of the reporting period. There were no transfers between levels for the years ending December 31, 2017 and 2016.

EPWORTH CHILDREN & FAMILY SERVICES, INC.

Notes to Financial Statements - Continued

December 31, 2017

Note I - Fair Value Measurements of Assets and Liabilities (Continued)

The following tables present the fair value measurements of investments recognized in the accompanying statement of financial position measured at fair value on a recurring basis and the level within the FASB ASC 820-10 fair value hierarchy in which the fair value measurements fall at December 31, 2017 and 2016:

Description	Level 1	Level 2	Level 3	Balance 12/31/2017
Investments:				
Money market funds	\$ 101,126	\$ -	\$ -	\$ 101,126
Domestic exchange funds	180,529	-	-	180,529
Domestic mutual funds	1,861,798	-	-	1,861,798
International mutual funds	1,514,406	-	-	1,514,406
Credit funds	205,377	-	-	205,377
Diversified taxable mutual funds	1,828,991	-	-	1,828,991
Taxable high yield funds	77,889	-	-	77,889
Domestic preferred stock	67,727	-	-	67,727
Emerging markets	23,439	-	-	23,439
Total - Investments	\$ 5,861,282	\$ -	\$ -	\$ 5,861,282
Beneficial interest in trusts	\$ -	\$ -	\$ 3,061,882	\$ 3,061,882

Description	Level 1	Level 2	Level 3	Balance 12/31/2016
Investments:				
Money market funds	\$ 169,740	\$ -	\$ -	\$ 169,740
Domestic exchange funds	170,914	-	-	170,914
Domestic mutual funds	1,668,161	-	-	1,668,161
International mutual funds	1,267,351	-	-	1,267,351
Credit funds	206,950	-	-	206,950
Diversified taxable mutual funds	1,754,885	-	-	1,754,885
Taxable high yield funds	79,428	-	-	79,428
Emerging markets	23,552	-	-	23,552
Total - Investments	\$ 5,340,981	\$ -	\$ -	\$ 5,340,981
Beneficial interest in trusts	\$ -	\$ -	\$ 2,838,934	\$ 2,838,934

EPWORTH CHILDREN & FAMILY SERVICES, INC.

Notes to Financial Statements - Continued

December 31, 2017

Note I - Fair Value Measurements of Assets and Liabilities (Continued)

The following is a reconciliation of the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 2,838,934	\$ 2,766,036
Increase in fair value	<u>222,948</u>	<u>72,898</u>
Ending balance	<u>\$ 3,061,882</u>	<u>\$ 2,838,934</u>

Note J - Endowment Funds

The Organization follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Organization's endowment consists only of donor-designated funds; there were no board designated endowment funds during 2017 and 2016. The named endowment funds are for general operating purposes except for the Odom funds, the earnings of which are restricted for building maintenance and improvements.

The Board of Directors has interpreted state law as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Therefore, the Organization classifies as permanently restricted net assets a) the original value of gifts donated to the permanent endowment; b) the original value of subsequent gifts to the permanent endowment fund; and 3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The Board of Directors adopted a spending rate of 5% per year based on the market value at the end of the previous calendar year for the endowment funds.

<u>2017</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, Beginning of Year	\$ -	\$ 587,839	\$5,490,539	\$6,078,378
Investment return (loss)	-	488,041	-	488,041
Change in value of perpetual trusts	-	-	222,948	222,948
Amounts released for expenditure	<u>-</u>	<u>(162,188)</u>	<u>-</u>	<u>(162,188)</u>
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ 913,692</u>	<u>\$5,713,487</u>	<u>\$6,627,179</u>

EPWORTH CHILDREN & FAMILY SERVICES, INC.

Notes to Financial Statements - Continued

December 31, 2017

Note J - Endowment Funds (Continued)

<u>2016</u>	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment Net Assets, Beginning of Year	\$ -	\$1,380,676	\$4,555,609	\$5,936,285
Investment return (loss)	-	228,876	-	228,876
Change in value of perpetual trusts	-	-	72,898	72,898
Change in perpetual trust Restriction		(862,032)	862,032	-
Amounts released for expenditure	<u>-</u>	<u>(159,681)</u>	<u>-</u>	<u>(159,681)</u>
Endowment Net Assets, End of Year	<u>\$ -</u>	<u>\$ 587,839</u>	<u>\$5,490,539</u>	<u>\$6,078,378</u>

Note K - Temporarily Restricted Net Assets

The Organization's temporarily restricted net assets as of December 31, 2017 and 2016 are available for the following purposes or periods:

	<u>2017</u>	<u>2016</u>
United Way support	\$ 681,182	\$ 681,182
Subsequent years' operating expenses	642,104	653,674
Capital improvements	319,329	123,825
Older youth services projects	172,083	27,625
Other	<u>-</u>	<u>8,000</u>
	<u>\$ 1,814,698</u>	<u>\$ 1,494,306</u>
Net assets released:		
Expiration of time restrictions	\$ 789,957	\$ 909,222
Satisfaction of program restrictions	<u>468,787</u>	<u>392,273</u>
	<u>\$ 1,258,744</u>	<u>\$ 1,301,495</u>

EPWORTH CHILDREN & FAMILY SERVICES, INC.

Notes to Financial Statements - Continued

December 31, 2017

Note L - Permanently Restricted Net Assets

The Organization's permanently restricted net assets as of December 31, 2017 and 2016 are comprised as follows:

	<u>2017</u>	<u>2016</u>
Gambrill funds	\$ 250,000	\$ 250,000
Adams funds	102,288	102,288
Hart funds	232,611	232,611
Odom funds	1,620,565	1,620,565
Beneficial interest in trusts	3,061,882	2,838,934
Other	<u>446,141</u>	<u>446,141</u>
	<u>\$ 5,713,487</u>	<u>\$ 5,490,539</u>

Note M - Leases

The Organization leases equipment under operating leases expiring at various dates through 2020. Rental expense from these agreements was \$101,892 and \$90,684 for the years ended December 31, 2017 and 2016, respectively.

Future minimum lease payments as of December 31, 2017 are as follows:

<u>Years ending</u> <u>December 31,</u>	<u>Amount</u>
2018	\$ 78,456
2019	72,954
2020	17,496

Note N - Concentrations

For the years ended December 31, 2017 and 2016, approximately 23% and 25%, respectively, of the Organization's revenue and public support is provided by one local government agency.

EPWORTH CHILDREN & FAMILY SERVICES, INC.

Notes to Financial Statements - Continued

December 31, 2017

Note O - Restatement of Prior Year Balances

Subsequent to year end, it came to the attention of management that a court case involving a trust in which the Organization holds a beneficial interest was settled in August of 2016. As a result of the litigation, it was determined the trustee was not required to terminate the trust following the death of the last annuitant, but rather may hold the trust in perpetuity for the permanent and continuous benefit of charitable organizations. Therefore, this trust and its related change in value were reclassified from temporarily restricted net assets and income to permanently restricted net assets and income for the year ended December 31, 2016.

	Previously Reported	As Restated	Restatement
<u>December 31, 2016</u>			
<u>Statement of Financial Position:</u>			
Permanently Restricted Net Assets	\$ 4,607,316	\$ 5,490,539	\$ 883,223
Temporarily Restricted Net Assets	2,377,529	1,494,306	(883,223)
<u>Statement of Activities:</u>			
Permanently Restricted - Change in Value of Beneficial Interest in Trusts	51,707	72,898	21,191
Permanently Restricted - Change in Net Assets	51,707	72,898	21,191
Temporarily Restricted - Change in Value of Beneficial Interest in Trusts	21,191	-	(21,191)
Temporarily Restricted - Change in Net Assets	(50,160)	(71,351)	(21,191)

EPWORTH CHILDREN & FAMILY SERVICES, INC.

Notes to Financial Statements - Continued

December 31, 2017

Note P - Programmatic Changes

In 2017, Epworth's Family Support Network ("FSN") Program expanded its services into St. Charles County offering home-based family therapy in that community for the first time through funding from the Community & Children's Resource Board of St. Charles County. FSN also obtained funding in 2017 through the Lutheran Foundation to pay for interpreter services for foreign-born client families to participate in family therapy and for a cultural competency training series for FSN staff. This allowed Epworth to increase capacity in the FSN Program and become more proficient in serving immigrant and refugee clients.

In May 2017, Epworth admitted its first clients into a new Residential Behavioral Health ("RBH") Program. This Program is designed to assist families with children facing mental health crises that have resulted in unsafe situation including aggression, self-harm and suicidality. The RBH Program has multiple levels of focus including strength based and trauma informed care. Clients come from many different referral sources including hospitals and schools and are admitted into a residential setting with the availability of aftercare services upon discharge. Funding for these services generally comes from the Client or Guardian directly or through their private health insurance coverage.

In 2017, Epworth's Older Youth Services ("OYS") Programs received new funding from Missouri Housing Development Commission and St. Louis County/HUD to extend our Street Outreach services to literally homeless youth through the age of 24. Previous funding only supported youth aged 19 and under. Additionally, Epworth's Drop-In Center became an emergency diaper distribution site for our clients through our partnership with the Diaper Bank.

In December 2017, Epworth announced plans to discontinue its Teen Outreach Program ("TOP") due to the loss of funding for the program as of December 31, 2017. The TOP Program will continue through the end of the 2017-2018 school year and will officially end in June 2018.

Supplemental Information

Independent Auditor's 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

Board of Directors
Epworth Children & Family Services, Inc.
Saint Louis, Missouri

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 Epworth Children & Family Services, Inc., which comprise the statement of financial position as of December 31, 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, and have issued our report thereon dated April 26, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Epworth Children & Family Services, 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Epworth Children & Family Services, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Epworth Children & Family Services, Inc.'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 Organization'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 the 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 Epworth Children & Family Services, Inc.'s financial statements are free of 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.

Brown Smith Wallace, LLP

Saint Louis, Missouri
April 26, 2018

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by Uniform Guidance

Board of Directors
Epworth Children & Family Services, Inc.
Saint Louis, Missouri

Report on Compliance for Each Major Federal Program

We have audited Epworth Children & Family Services, Inc.'s ("Epworth's") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Epworth Children & Family Services, Inc.'s major federal programs for the year ended December 31, 2017. Epworth Children & Family Services, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Epworth Children & Family Services, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code *Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Epworth Children & Family Services, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Epworth Children & Family Services, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Epworth Children & Family Services, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

Report on Internal Control over Compliance

Management of Epworth Children & Family Services, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Epworth's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Epworth's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2017-001, that we consider to be a significant deficiency.

Epworth Children & Family Services, Inc.'s response to the internal control over compliance findings identified in our audit is described in the accompanying corrective action plan. Epworth's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Brown Smith Wallace, LLP

Saint Louis, Missouri
April 26, 2018

EPWORTH CHILDREN & FAMILY SERVICES, INC.

Schedule of Expenditures of Federal Awards

Year ended December 31, 2017

Federal Grantor/Pass-through Grantor/ Program Titles	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Department of Health & Human Services			
Direct programs:			
Basic Center Program 10/1/16 - 9/30/19	93.623		\$ 200,000
Transitional Living Program 4/01/14 - 3/31/19	93.550		186,000
Teen Outreach Program 10/1/15 - 9/30/17	93.060		140,313
Prep Foster Youth Program 10/1/16 - 9/30/17	93.092		25,036
Prep Foster Youth Program 10/1/17 - 9/30/18	93.092		8,800
			<u>560,149</u>
Total Department of Health and Human Services			
Department of Housing and Urban Development			
Pass Through From:			
Missouri Housing Development Commission		*	
Emergency Solutions Grant 1/1/2017 - 12/31/2017	14.231		41,799
Emergency Solutions Grant 1/1/2017 - 12/31/2017	14.231		21,788
St. Louis County Department of Human Services		*	
Emergency Soutions Grant 5/1/16 - 4/30/17	14.231		20,218
Emergency Soutions Grant 5/1/17 - 4/30/18	14.231		25,958
Emergency Soutions Grant 5/1/17 - 4/30/18	14.231		13,336
Supportive Housing Program 11/1/16 - 10/31/17	14.235		226,116
Supportive Housing Program 11/1/17 - 10/31/18	14.235		38,550
			<u>387,765</u>
Total Department of Housing and Urban Development			
Department of Agriculture			
Pass Through Missouri Department of Elementary and Secondary		*	
National School Lunch and Breakfast Program 7/1/16 - 6/30/17	10.555		19,916
National School Lunch and Breakfast Program 7/1/17 - 6/30/18	10.555		20,450
			<u>40,366</u>
Total Department of Agriculture			
Total Expenditures of Federal Awards			<u><u>\$ 988,280</u></u>

* Information not available.

EPWORTH CHILDREN & FAMILY SERVICES, INC.

Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2017

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Epworth Children & Family Services, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note B - Indirect Cost Rate

For the year ended December 31, 2017, Epworth Children & Family Services, Inc. has elected to use the 10% de minimis indirect cost rate as allowed under Uniform Guidance.

EPWORTH CHILDREN & FAMILY SERVICES, INC.

Schedule of Findings and Questioned Costs

Year ended December 31, 2017

Summary of Auditor's Results

1. Financial Statements:

- a. The auditor's report expresses an unmodified opinion on the financial statements of Epworth Children & Family Services, Inc.
- b. Internal control over financial reporting:
 - i. Material weakness identified? No
 - ii. Significant deficiencies identified? No
- c. Noncompliance material to financial statements noted? No

2. Federal Awards:

- a. Internal Control over major programs:
 - i. Material weakness identified? No
 - ii. Significant deficiencies identified? Yes
- b. Noncompliance material to financial statements noted? No
- c. The auditor's report on compliance for the major federal award program expresses an unmodified opinion on all major federal programs.
- d. There were no audit findings relative to the major federal award program for Epworth Children & Family Services, Inc. noted that are required to be reported in accordance with 2 CFR section 200.516(a).
- e. The program tested as major program include:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
93.623	Basic Center Program

- f. The threshold used for distinguishing between Type A and B programs was \$750,000.
- g. Epworth Children & Family Services, Inc. is considered a low-risk auditee.

EPWORTH CHILDREN & FAMILY SERVICES, INC.

Schedule of Findings and Questioned Costs - Continued

Year ended December 31, 2017

Findings – Financial Statements Audit – Year Ended December 31, 2017

None

Findings and Questioned Costs – Major Federal Awards Program

2017-001 Internal Control Over Eligibility

Criteria- Epworth Children & Family Services is responsible for maintaining a proper internal control system over a client's administrative file record and initial eligibility determination.

Condition- The review of a client's file and eligibility to be coded as a Basic Center Program recipient upon intake was not documented.

Context- We noted a lack of documentation of a review of a client's file at intake in 12 out of 12 instances.

Cause- The Organization did not consistently apply procedures calling for a documented review of these files.

Effect- The lack of a documented review could result in a client's program eligibility not being reviewed which could lead to potential noncompliance. However, no instances of noncompliance were noted as the result of the lack of a documented review.

Recommendation- Implement a formal procedure to review the client's file and eligibility upon intake to ensure they can be coded to the Basic Center Program.

EPWORTH CHILDREN & FAMILY SERVICES, INC.

Corrective Action Plan

Year ended December 31, 2017

Views of responsible officials and planned corrective action for item 2017-001:

While Epworth Children & Family Services, Inc. (“Epworth”) personnel complete Admission Forms for the client files referenced above, we are in agreement that no documentation was included to show that the admission forms were reviewed to ensure eligibility. Based upon this finding, Epworth’s Supportive Housing Program is immediately implementing a procedure to specifically address the verification of admissions. This enhanced process will require an on-site Supervisor to perform timely review of the client’s eligibility and include documentation of that review in the individual file.