

**Mississippi Children's Home Services, Inc.
and Affiliates**

Audited Consolidated Financial Statements

Years Ended December 31, 2017 and 2016

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Independent Auditor's Report

Board of Directors
Mississippi Children's Home Services, Inc. and Affiliates
D/B/A Canopy Children's Solutions
Jackson, Mississippi

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Mississippi Children's Home Services, Inc. and Affiliates D/B/A Canopy Children's Solutions, which comprise the consolidated statements of financial position as of December 31, 2017, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mississippi Children's Home Services, Inc. and Affiliates D/B/A Canopy Children's Solutions as of December 31, 2017, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in *Note 1* to the consolidated financial statements, in 2017, the entity adopted new accounting guidance related to the presentation of restricted cash in the consolidated statements of cash flows. Our opinion is not modified with respect to this matter.

Prior Year Audited by Other Auditors

The 2016 financial statements were audited by other auditors, and their report thereon, dated April 7, 2017, expressed an unmodified opinion.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information, including the combining schedules and the consolidated schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, as listed in the table of contents, are presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated May 8, 2018, on our consideration of Mississippi Children's Home Services, Inc. and Affiliates' D/B/A Canopy Children's Solutions 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

Board of Directors
Mississippi Children's Home Services, Inc. and Affiliates
D/B/A Canopy Children's Solutions
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that report is solely 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 the effectiveness of Mississippi Children's Home Services, Inc. and Affiliates D/B/A Canopy Children's Solutions' 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 Mississippi Children's Home Services, Inc. and Affiliates D/B/A Canopy Children's Solutions' internal control over financial reporting and compliance.

BKD, LLP

Jackson, Mississippi
May 8, 2018

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
AND AFFILIATES**
Consolidated Statements of Financial Position
December 31, 2017 and 2016

	2017	2016
ASSETS		
Cash and cash equivalents	\$ 1,197,118	\$ 410,668
Restricted cash	1,029,613	826,976
Accounts receivable, net of allowance for doubtful accounts of \$222,057 in 2017 and \$238,626 in 2016	3,470,284	3,061,158
Prepaid expenses and other assets	138,673	136,691
Investments	1,414,978	1,340,878
Property, plant and equipment, net of accumulated depreciation of \$12,627,779 in 2017 and \$11,728,585 in 2016	19,773,292	16,231,011
Regulatory asset	-	544,503
Total assets	<u>\$ 27,023,958</u>	<u>\$ 22,551,885</u>
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	\$ 1,982,071	\$ 1,591,731
Lines of credit	-	500,000
Notes payable	11,102,507	6,278,312
Total liabilities	<u>13,084,578</u>	<u>8,370,043</u>
Net assets		
Unrestricted	6,013,050	5,677,614
Temporarily restricted	4,511,295	5,156,226
Permanently restricted	3,415,035	3,348,002
Total net assets	<u>13,939,380</u>	<u>14,181,842</u>
Total liabilities and net assets	<u>\$ 27,023,958</u>	<u>\$ 22,551,885</u>

See accompanying notes.

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
AND AFFILIATES**

Consolidated Statements of Activities
Years Ended December 31, 2017 and 2016

	2017	2016	2017	2016
Unrestricted net assets				
Support and revenue				
Government agencies	\$ 30,525,588	\$ 28,930,652	\$ 547,574	\$ 476,822
Program fees	472,572	782,522	527,515	508,788
Contributions - other and special events	1,171,569	1,254,037		
Interest and dividends	27,097	29,354	1,217,075	1,154,135
Rental income	2,158	-		
Net assets released from restrictions	832,762	775,680		
Other	5,430	110,935		
Total unrestricted support and revenue	33,037,176	31,883,180	32,701,740	31,583,345
Expenses				
Program services				
CARES PRTF	7,522,565	7,438,434	187,831	100,763
CARES PRTF Gulfcoast	3,095,971	2,425,067	(832,762)	(775,680)
CARES School	3,990,380	4,142,241	(644,931)	(674,917)
Autism Solutions	695,537	941,903		
Treatment Foster Care & In-Home Service and Adoption	956,612	988,542	7,265	7,895
Mississippi Youth Programs Around the Clock	5,958,616	6,586,540		
Comprehensive Family Support Center	3,478,414	2,343,107	65,965	14,000
South MS Children's Center	735,588	738,207	(6,197)	(4,407)
Children's Advocacy Center	351,838	213,172	67,033	17,488
Warren County Children's Shelter	702,791	714,231		
MCHS Outpatient Clinical Services	2,921,264	2,912,156	(242,462)	(357,594)
Total program services	\$ 30,409,576	\$ 29,443,600	14,181,842	14,539,436
Change in net assets				
Change in net assets at beginning of year			\$ 13,939,380	\$ 14,181,842
Change in net assets at end of year			<u>14,181,842</u>	<u>14,181,842</u>

See accompanying notes.

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
AND AFFILIATES**

Consolidated Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Change in net assets	\$ (242,462)	\$ (357,594)
Adjustment to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	1,571,754	1,151,735
Bad debts	5	8,514
Net realized and unrealized gains on investments	(65,965)	(14,000)
Loss on sale or disposal of property, plant and equipment	1,985	3,620
Changes in assets and liabilities		
Receivables	(409,131)	(522,051)
Prepaid and other assets	(1,982)	3,143
Accounts payable and accrued expenses	390,340	119,070
Net cash provided by operating activities	1,244,544	392,437
Cash flows from investing activities		
Acquisition of property and equipment	(4,563,657)	(202,119)
Purchase of investments	(183,374)	(133,881)
Proceeds from sale of investments	175,239	120,881
Net cash used in investing activities	(4,571,792)	(215,119)
Cash flows from financing activities		
Payments on notes payable	(533,665)	(568,193)
Payments on lines of credit	(500,000)	-
Line of credit borrowings	-	500,000
Long-term borrowings	5,350,000	50,695
Net cash provided by (used in) financing activities	4,316,335	(17,498)
Net increase in cash, cash equivalents and restricted cash	989,087	159,820
Cash, cash equivalents and restricted cash, beginning of year	1,237,644	1,077,824
Cash, cash equivalents and restricted cash, end of year	\$ 2,226,731	\$ 1,237,644
Supplemental data for noncash investing and financing activities		
Cash paid for interest	\$ 307,817	\$ 320,794

See accompanying notes.

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
AND AFFILIATES**

Consolidated Statement of Functional Expenses
Year Ended December 31, 2017

	CARES PRTF	CARES PRTF Gulfoeast	CARES Schools	Clinical Best Practice	Autism Solutions	Treatment Foster Care & In-Home Service and Adoption	Mississippi Youth Programs Around The Clock	Comprehensive Family Support Center/InCircle	South MS Children's Center
Operating fund	\$ 3,975,528	\$ 1,522,839	\$ 2,159,752	\$ 757,612	\$ 389,503	\$ 391,668	\$ 3,213,695	\$ 1,916,125	\$ 380,208
Salaries	621,341	253,914	397,792	150,548	63,350	63,085	505,229	411,545	61,848
Employee benefits	799,515	189,415	89,685	96,301	35,352	273,444	233,427	64,518	29,206
Professional fees	271,340	71,114	201,524	23,292	13,815	17,710	79,919	52,493	42,327
Supplies and program	8,092	22,099	10,779	11,928	3,050	6,157	79,270	54,384	10,383
Telephone	2,370	306	975	49	234	72	13,707	724	502
Postage	310,291	65,555	298,741	107,721	49,523	33,655	190,360	175,001	37,371
Occupancy	15,242	4,956	28,056	13,184	4,488	2,260	34,452	15,364	9,841
Equipment rental/ maintenance	47,595	552,456	15,741	921	1,573	1,505	23,956	21,606	17,625
Depreciation and amortization	175	126	94	726	74	91	1,327	386	450
Printing, advertising and publications	13,131	10,488	9,904	14,555	12,778	9,688	433,451	233,857	9,542
Travel	4,171	800	1,313	11,521	178	453	4,740	2,998	366
Conferences and meetings	259	-	5	-	-	16,643	5,262	17,281	1,608
Specific assistance Individuals	24	-	-	59	2,421	-	-	-	-
Membership dues	(7,130)	226	4,422	-	-	-	-	334	-
Miscellaneous	-	-	-	-	-	-	-	-	-
Bad debts	14,540	1,174	2,186	350	385	176	2,247	939	564
Interest expense	73,661	56,389	32,807	6,790	2,408	2,543	32,674	14,544	13,595
Insurance									
Total operating Fund expenses before allocation	6,150,145	2,751,857	3,253,776	1,195,557	579,132	819,150	4,853,716	2,982,099	615,436
General and administrative expense allocation	1,372,420	344,114	736,604	(1,195,557)	116,405	137,462	1,104,900	496,315	120,152
Total	\$ 7,522,565	\$ 3,095,971	\$ 3,990,380	\$ -	\$ 695,537	\$ 956,612	\$ 5,958,616	\$ 3,478,414	\$ 735,588

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
AND AFFILIATES**

Consolidated Statement of Functional Expenses
Year Ended December 31, 2017

	Children's Advocacy Center	Warren Co. Children's Shelter	MCHS Outpatient Clinical Services	MCHS Administrative	1900 & 2000 N. West Property	Development/ Fund Raising	MSO Management & Administrative	Total
Operating fund								
Salaries	\$ 211,558	\$ 362,309	\$ 1,758,196	\$ 85,194	\$ -	\$ 125,319	\$ 2,879,560	\$ 20,129,066
Employee benefits	40,613	61,789	317,594	12,340	-	22,174	435,719	3,418,881
Professional fees	6,889	23,251	102,362	179,201	-	180,518	324,965	2,628,049
Supplies and program	12,570	52,092	37,929	156,952	-	72,487	68,551	1,174,115
Telephone	4,174	9,132	18,525	360	-	2,565	31,540	272,438
Postage	52	578	1,960	2,711	-	9,293	4,860	38,393
Occupancy	2,283	46,734	162,850	24,776	-	10,879	37,135	1,552,875
Equipment rental/ maintenance	2,244	2,262	13,857	25,773	-	568	51,722	224,269
Depreciation and amortization	711	4,589	5,403	-	876,803	1,270	-	1,571,754
Printing, advertising and publications	86	564	1,211	-	734	9,130	1,716	16,890
Travel	8,428	4,110	27,250	2,262	-	1,173	99,908	890,525
Conferences and meetings	298	1,172	2,107	6,339	-	23,035	22,863	82,354
Specific assistance individuals	-	1,464	-	-	-	-	-	42,522
Membership dues	2,000	-	9	-	-	11,742	714	16,969
Miscellaneous	-	-	-	-	163	-	-	(1,985)
Bad debts	-	-	5	-	-	-	-	5
Interest expense	123	466	987	-	300,145	62	-	324,344
Insurance	2,001	11,240	12,802	-	39,230	705	18,887	320,276
Total operating Fund expenses before allocation	294,030	581,752	2,463,047	495,908	1,217,075	470,920	3,978,140	32,701,740
General and administrative expense allocation	57,808	121,039	458,217	51,666	-	56,595	(3,978,140)	-
Total	\$ 351,838	\$ 702,791	\$ 2,921,264	\$ 547,574	\$ 1,217,075	\$ 527,515	\$ -	\$ 32,701,740

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
AND AFFILIATES**

Consolidated Statement of Functional Expenses
Year Ended December 31, 2016

	CARES PRTF	CARES PRTF Gulfcoast	CARES Schools	Clinical Best Practice	Mississippi Autism Project	Treatment Foster Care & In-Home Service and Adoption	Mississippi Youth Programs Around The Clock	Comprehensive Family Support Center	South MS Children's Center
Operating fund	\$	\$	\$	\$	\$	\$	\$	\$	\$
Salaries	3,925,817	1,485,772	2,201,602	840,923	584,748	385,373	3,527,091	1,310,694	345,155
Employee benefits	714,577	203,473	429,839	144,374	93,387	60,826	675,156	271,664	80,641
Professional fees	795,050	152,424	90,101	21,232	17,798	287,675	281,847	39,529	22,784
Supplies and program	223,283	69,500	212,036	14,563	36,299	25,667	88,584	25,105	60,014
Telephone	13,936	20,207	8,312	15,766	3,908	7,435	86,852	39,362	8,821
Postage	2,452	550	1,503	865	118	205	16,095	388	480
Occupancy	225,705	72,774	310,884	98,328	48,608	41,006	222,306	131,844	45,153
Equipment rental/ maintenance	11,340	4,796	32,539	17,133	4,177	3,841	37,694	10,461	3,621
Depreciation and amortization	55,696	155,109	45,810	230	2,959	2,000	31,813	5,388	18,687
Printing, advertising and publications	2,295	329	907	1,461	92	152	2,124	666	277
Travel	15,785	16,286	8,444	15,153	5,747	19,432	394,581	140,328	9,801
Conferences and meetings	5,741	861	5,063	4,370	171	1,914	9,866	4,373	1,417
Specific assistance individuals	-	22	6	-	-	16,428	9,229	16,761	714
Membership dues	1,047	1,027	-	746	2,714	-	3,566	766	65
Miscellaneous	-	-	-	1,371	-	-	-	-	-
Bad debts	8,459	-	-	-	-	-	-	-	-
Interest expense	12,948	1,688	5,361	-	917	311	5,087	1,940	1,089
Loss on disposal	2,467	-	-	-	-	400	-	-	-
Insurance	79,829	48,281	39,046	1,888	3,079	3,022	34,508	12,159	21,637
Total operating fund expenses	6,096,127	2,233,099	3,391,453	1,178,403	804,722	855,687	5,426,399	2,011,428	620,356
General and administrative expense allocation	1,342,307	191,968	750,788	(1,178,403)	137,481	132,855	1,160,141	331,679	117,851
Total	\$ 7,438,434	\$ 2,425,067	\$ 4,142,241	\$ -	\$ 941,903	\$ 988,542	\$ 6,586,540	\$ 2,343,107	\$ 738,207

See accompanying notes.

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
AND AFFILIATES**

Consolidated Statement of Functional Expenses
Year Ended December 31, 2016

	Children's Advocacy Center	Warren Co. Children's Shelter	MCHS Outpatient Clinical Services	MCHS Administrative	1900 & 2000 N. West Property	Development/ Fund Raising	MSO Management & Administrative	Total
Operating fund								
Salaries	\$ 135,986	\$ 345,301	\$ 1,896,486	\$ 72,424	\$ -	\$ 134,862	\$ 2,564,891	\$ 19,757,125
Employee benefits	27,237	87,834	328,409	18,878	-	24,595	339,353	3,500,243
Professional fees	4,559	26,343	80,771	120,167	-	86,695	296,658	2,323,633
Supplies and program	1,775	57,611	35,641	195,016	-	112,553	58,030	1,215,677
Telephone	1,787	8,604	17,016	194	-	2,398	29,625	264,223
Postage	-	833	875	1,385	-	6,284	4,811	36,544
Occupancy	451	30,934	155,044	36,266	-	11,089	22,538	1,452,930
Equipment rental/ maintenance	1,122	2,116	12,350	21,063	-	-	50,267	212,520
Depreciation and amortization	259	5,504	5,672	-	815,456	7,152	-	1,151,735
Printing, advertising and publications	154	430	181	-	9,851	16,696	537	36,152
Travel	6,956	4,872	41,994	16,090	-	4,556	100,115	800,140
Conferences and meetings	3,625	384	4,327	6,846	-	13,812	22,991	85,761
Specific assistance individuals	-	4,865	-	-	-	-	94	48,119
Membership dues	2,000	-	2,666	-	-	13,839	2,807	31,243
Miscellaneous	-	-	2,053	-	1,451	1,202	-	6,077
Bad debts	-	-	55	-	-	-	-	8,514
Interest expense	-	1,441	-	-	289,776	207	29	320,794
Loss on disposal	-	390	363	-	-	-	-	3,620
Insurance	538	13,645	13,191	-	37,601	849	19,022	328,295
Total operating Fund expenses before allocation	186,449	591,107	2,597,094	488,329	1,154,135	436,789	3,511,768	31,583,345
General and administrative expense allocation	26,723	123,124	315,062	(11,507)	-	71,999	(3,511,768)	-
Total	\$ 213,172	\$ 714,231	\$ 2,912,156	\$ 476,822	\$ 1,154,135	\$ 508,788	\$ -	\$ 31,583,345

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
AND AFFILIATES**

Years Ended December 31, 2017 and 2016

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities

Mississippi Children's Home Services, Inc. d/b/a Canopy Children's Solutions, organized under the laws of Mississippi in January 2003, is a nonprofit management service corporation, created to serve as the parent company of the Mississippi Children's Home Society and CARES Center, Inc. (the "Corporations"). The articles of incorporation of the Corporations were amended to declare Mississippi Children's Home Services, Inc. as the sole member of the Corporations. The purpose of the restructuring was to segregate management services from program services.

Mississippi Children's Home Society d/b/a Canopy Children's Solutions, organized under the laws of Mississippi in 1912, is a nonprofit comprehensive multi-service child and family service agency committed to developing, implementing and evaluating programs that respond to actual needs in the community throughout Mississippi.

CARES Center, Inc. d/b/a Canopy Children's Solutions, organized under the laws of Mississippi in February 1993, is a nonprofit corporation which operates a facility in Mississippi to provide healthcare and educational services. Its purpose is to develop mental health and rehabilitation services for children, youth and families. These services include providing psychiatric residential treatment services, therapeutic family foster care service, day treatment services and clinical counseling/diagnostic services.

Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the financial statements of Mississippi Children's Home Services, Inc., Mississippi Children's Home Society and CARES Center, Inc., (collectively, the "Organization"), and have been prepared on the accrual basis of accounting. All material intercompany balances and transactions have been eliminated upon consolidation. The significant accounting policies followed are described below to enhance the usefulness of the consolidated financial statements to the reader.

Reclassifications

Certain reclassifications were made to the 2016 financial statements to conform to the current year presentation. These reclassifications had no impact on the previously reported change in net assets or total net assets.

Use of Estimates

The preparation of consolidated 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, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Medicaid

The majority of CARES Center, Inc.'s revenue is derived from services to Medicaid program beneficiaries. The psychiatric residential treatment facility services are reimbursed based upon a cost reimbursement methodology (per diem). CARES Center, Inc. is reimbursed at a prospective rate, which is adjusted annually based on annual cost reports submitted to and audited by the Medicaid intermediary. Revenue is reported net of the estimated discounts applicable to this cost reporting process.

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
AND AFFILIATES**

Years Ended December 31, 2017 and 2016

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

Mississippi Children's Home Society also provides services to Medicaid program beneficiaries through its MYPAC program, Mississippi Youth Programs Around the Clock. MYPAC is an innovative home and community-based alternative to psychiatric residential services for youth with serious emotional disturbances. It is funded through a program under a defined per diem arrangement for the array of clinical, case management and wrap around services to children and families.

The Organization received 59 percent and 60 percent of its total support and revenue from Medicaid for 2017 and 2016, respectively. Total support received for 2017 and 2016 from Medicaid was \$19,637,732 and \$19,446,215 respectively, which is included in "government agencies" support and revenue in the consolidated statements of activities.

Contributions

Gifts of cash and other assets are presented as restricted support if they are received with donor stipulations that limit the use of the donated asset. When a donor 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 in the statement of activities as net assets released from restrictions.

Prior to January 1, 1998, gifts of land, buildings and equipment were presented as unrestricted support unless explicit donor stipulations specified how the donated assets were to be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets were reported as restricted support. Absent explicit donor stipulations, gifts of long-lived assets were reported as unrestricted support.

Beginning January 1, 1998, the Organization adopted a policy to imply a time restriction on gifts of long-lived assets. Contributions of long-lived assets and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted support with the restriction expiring over the useful life of the donated long-lived asset.

Contributed Services

Contributed services are recognized as in-kind revenue on the statement of activities when they are received or unconditionally pledged. Contributions of assets and services are measured at their fair values when received and are reported as an increase in net assets. There were no contributed services or materials for 2017 or 2016.

Cash and Cash Equivalents

The Organization includes all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with a maturity of three months or less, as cash and cash equivalents on the accompanying consolidated statements of financial position.

Cash and cash equivalents received with donor-imposed restrictions that limit their use to long-term purposes and cash and cash equivalents restricted for the Organization's group health plan are classified as restricted, and are not included with cash and cash equivalents that are available for current use.

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
AND AFFILIATES**

Years Ended December 31, 2017 and 2016

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

The Organization maintains its cash in bank deposit accounts, which at times may exceed federally insured limits of \$250,000. As of December 31, 2017 and 2016, amounts in excess of FDIC insured limits were \$1,641,550 and \$613,118, respectively. The banks have a right of offset of all cash deposits against the outstanding lines of credit and notes payable totaling \$11,134,515 at December 31, 2017.

Accounts Receivable

The Organization reports receivables at estimated net realizable value. Management determines the allowance for doubtful accounts based on historical losses and current economic conditions. On a continuing basis, management analyzes delinquent receivables, and once these receivables are determined to be uncollectible, they are written off through a charge against an existing allowance account or against revenues.

Investments

Investments in all debt securities and equity securities with readily determined fair values are recorded at fair value. Fair values are determined based on quoted market prices. Realized and unrealized gains and losses are included in the change in net assets. Investment income is recorded in the statement of activities based on the classification of the investment from which it is derived. For purposes of determining realized gains and losses, the cost of securities sold is based on specific identification.

Property, Plant and Equipment

Property, plant and equipment purchases are stated at cost, while assets donated are stated at fair value at the time of acquisition. Maintenance and repairs are expensed as incurred. Upon the retirement of property sold or otherwise disposed of, its cost and related accumulated depreciation are removed from the respective accounts and any gain or loss is reflected in income of the current period. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 5 to 40 years for buildings and improvements, 4 to 8 years for vehicles, and 2 to 25 for furniture, fixtures and equipment.

Interest cost on borrowed funds during periods of construction of capital assets is capitalized as a component cost of acquiring these assets. There was no capitalized interest for the years ended December 31, 2017 and 2016.

Properties purchased with resources from grants are capitalized and depreciated even though the grant may specify that title remains with or reverts to the grantor. In practice, these properties are not normally reclaimed, the provision for reversion being primarily a device for insuring compliance.

Asset Impairments

In accordance with Accounting Standards Codification ("ASC") Topic 360, *Property, Plant and Equipment*, the Organization evaluates whether current facts or circumstances indicate that the carrying value of its depreciable assets to be held and used may not be recoverable. If such circumstances are determined to exist, an estimate of undiscounted future cash flows produced by the long-lived asset or the appropriate grouping of assets, is compared to the carrying value to determine whether impairment exists. If an asset is determined to be impaired, the loss is measured based on the difference between the asset's fair value and its carrying value. An estimate of the asset's fair value is based on quoted market prices in active markets, if available.

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
AND AFFILIATES**

Years Ended December 31, 2017 and 2016

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

If quoted market prices are not available, the estimate of fair value is based on various valuation techniques, including a discounted value of estimated future cash flows. The Organization reports an asset to be disposed of at the lower of its carrying value or its estimated net realizable value.

Regulatory Assets

In 2015, the Organization started a new psychiatric residential treatment facility. A regulatory asset originated as a result of the costs required by regulators for opening the facility. The regulatory asset was amortized over approximately 5 years, which is the period the costs are allowed to be included in the facility's rate calculation established by Medicaid. During 2017, the Organization closed the treatment facility and wrote off the regulatory asset through amortization expense. Amortization expense of \$544,505 and \$136,127 was recorded for the years ended December 31, 2017 and 2016, respectively.

Functional Allocation of Expenses

The costs of providing the various programs and other activities are summarized on a functional basis in the consolidated statement of activities. Certain costs are allocated among the programs.

Income Taxes

The Organization is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code.

Fair Value Disclosures

As defined in ASC Topic 820, *Fair Value Measurements*, fair value is 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. ASC Topic 820 requires that the quality and reliability of the information used to determine fair value be ranked via a three level hierarchy (Level 1 - the highest, Level 2, Level 3 - the lowest). The ordering of the priority reflects the degree to which objective prices in external active markets are available to measure fair value.

Level 1 - Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments or derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

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. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimates.

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
AND AFFILIATES**

Years Ended December 31, 2017 and 2016

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

The asset 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.

Following is a description of the valuation methodologies used for assets measured at fair value.

Debt and equity securities: Valued at fair value using quoted active market prices (Level 1).

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective future fair values. Furthermore, although the Organization believes its valuation methods are 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 Organization classifies assets as follows:

Level 1 – Investments, as defined on the statement of financial position, primarily represent the Organization's funds held and investments in various equity and debt securities. The funds are stated at fair market value as quoted on the active market (See Note 2).

Level 2 – None

Level 3 – None

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which clarifies the principles for recognizing revenue. This guidance requires an entity to 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 Organization will be required to adopt ASU No. 2014-09 as of January 1, 2019. The Organization is currently evaluating the impact of ASU No. 2014-09 on the Organization's financial condition and results of operations.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The standard is effective on January 1, 2020, with early adoption permitted. The Organization is in the process of evaluating the impact of this new guidance.

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
AND AFFILIATES**

Years Ended December 31, 2017 and 2016

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Continued

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which will change certain financial statement requirements for not-for-profit ("NFP") entities within the scope of ASC 958. NFP's will no longer be required to distinguish between resources with temporary and permanent restrictions on the face of their financial statements, meaning they will present two classes of net assets instead of three. They will be required to present expenses by their natural and functional classification and present investment returns net of external and direct internal investment expenses. NFP's will also be required to provide more information about their available resources and liquidity. ASU 2016-14 is effective on January 1, 2018, with early adoption permitted. The Organization is currently evaluating the impact the adoption of this guidance will have on the Organization's financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230)*, which provides guidance on the classification of restricted cash to be included with cash and cash equivalents when reconciling the Organization's beginning of periods and end of period total amounts on the statements of cash flows. The Organization adopted this ASU for the 2017 consolidated financial statements and retrospectively applied it to the 2016 consolidated financial statements, which increased cash and cash equivalents in the 2016 consolidated statement of cash flows by \$826,976.

Note 2. Investments

Investments consisted of the following at December 31, 2017:

	Cost	Market	Unrealized	
			Appreciation	(Depreciation)
Fixed income mutual funds	\$ 1,002,075	\$ 1,029,311	\$ 35,017	\$ (7,781)
Stock – common and preferred	132,570	168,067	37,628	(2,131)
Equity mutual funds	183,312	217,600	37,355	(3,067)
Total	\$ 1,317,957	\$ 1,414,978	\$ 110,000	\$ (12,979)

Investment return for 2017 is summarized as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividend income from marketable securities, cash and cash equivalents	\$ 27,097	\$ -	\$ 7,265	\$ 34,362
Net realized and unrealized gains from marketable securities	-	-	65,965	65,965
Total investment income	\$ 27,097	\$ -	\$ 73,230	\$ 100,327

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
AND AFFILIATES**

Years Ended December 31, 2017 and 2016

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 2. Continued

Investments consisted of the following at December 31, 2016:

	Cost	Market	Unrealized	
			Appreciation	(Depreciation)
U.S. Government securities	\$ 50,262	\$ 50,993	\$ 731	\$ -
Fixed income mutual funds	941,160	960,059	33,072	(14,173)
Stock – common and preferred	131,117	160,097	32,218	(3,238)
Equity mutual funds	167,509	169,729	11,915	(9,695)
Total	\$ 1,290,048	\$ 1,340,878	\$ 77,936	\$ (27,106)

Investment return for 2016 is summarized as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividend income from marketable securities, cash and cash equivalents	\$ 29,354	\$ -	\$ 7,895	\$ 37,249
Net realized and unrealized gains from marketable securities	-	-	14,000	14,000
Total investment income	\$ 29,354	\$ -	\$ 21,895	\$ 51,249

Note 3. Property, Plant and Equipment

Property, plant and equipment are summarized below:

	2017	2016
Land	\$ 3,466,423	\$ 3,466,423
Building and improvements	23,139,190	19,141,057
Automobiles	456,334	355,321
Furniture, fixtures and equipment	5,339,124	4,996,795
	32,401,071	27,959,596
Less accumulated depreciation	(12,627,779)	(11,728,585)
Total	\$ 19,773,292	\$ 16,231,011

Depreciation expense was \$1,019,391 and \$1,015,608 for the years ended December 31, 2017 and 2016, respectively.

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
AND AFFILIATES**

Years Ended December 31, 2017 and 2016

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Retirement Plan

In 2009, the Organization adopted a 403(b) Thrift Plan. Under the plan, all employees are eligible to make salary reduction contributions within guidelines permitted by the Internal Revenue Code. Employees who meet certain eligibility requirements may contribute up to 3 percent of their salary and receive an employer matching contribution of the same amount. The Plan also provides for a discretionary contribution for all eligible employees. The Organization made a discretionary contribution in the amount of \$152,447 and \$98,156 for 2017 and 2016, respectively.

Note 5. Notes Payable

Following is a summary of notes payable at December 31, 2017 and 2016:

	2017	2016
Note payable to bank at \$11,629 per month, paid in 2017	\$ -	\$ 46,215
Note payable to bank at 4.95 percent, payable in monthly installments of \$4,348 until February 2025 when unpaid balance and accrued interest shall be due, collateralized by real estate	315,846	351,245
Note payable to bank at \$19,369 per month, including interest at 4.10 percent, due March 2029, collateralized by building	2,164,902	-
Note payable to the bank at \$19,506 per month, including interest at 4.25 percent, due June 2028, collateralized by building	3,150,000	-
Note payable to bank at \$40,623 per month, including interest at 4.25 percent interest, due October 2028, collateralized by real estate	4,230,835	4,530,990
Note payable to bank at \$13,014 per month, including interest at 4.25 percent, due June 2027, collateralized by building	1,249,921	1,349,880
Note payable to bank at \$1,475 per month, including interest at 2.87 percent, due April 2019, collateralized by automobile	23,011	39,850
Total notes payable	11,134,515	6,318,180
Less deferred financing costs, net	32,008	39,868
	\$ 11,102,507	\$ 6,278,312

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
AND AFFILIATES**

Years Ended December 31, 2017 and 2016

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Continued

Maturities of notes payable are as follows:

Year Ending December 31,	Amount
2018	\$ 662,375
2019	738,987
2020	765,067
2021	798,277
2022	832,932
Thereafter	7,336,877
Total	<u>\$ 11,134,515</u>

Interest expense related to notes payable for each of the years ended December 31, 2017 and 2016 was \$324,345 and \$320,794, respectively.

The Organization had a line of credit with a bank totaling \$500,000 that matured September 1, 2017, at a variable interest rate. At December 31, 2016, there were borrowings outstanding of \$500,000. The line of credit was renewed on September 12, 2017 and will mature on September 12, 2018.

The Organization had a line of credit with a bank totaling \$350,000 that will mature January 16, 2018, at a variable interest rate. At December 31, 2017 and 2016, there were no borrowings outstanding. The line of credit was renewed on January 16, 2018 and will mature on January 16, 2019.

The Organization had a line of credit with a bank totaling \$250,000 that will mature January 20, 2018, at a variable interest rate. At December 31, 2017 and 2016, there were no borrowings outstanding.

Note 6. Temporarily Restricted Net Assets

Temporarily restricted net assets as of December 31, 2017 and 2016 were available for the following purposes:

	2017	2016
Mississippi Development Authority Gulf Coast	\$ 2,162,781	\$ 2,298,473
Gym Project	456,409	510,591
Ford Foundation	17,278	21,594
South Mississippi Children's Shelter	26,256	39,014
Gulf Coast Property	183,765	214,204
Capital Campaign Fund	1,123,596	1,448,012
Capital Campaign Fund I	334,214	399,030
DHS Gulf Coast	108,600	108,600
Other	98,396	116,708
Total	<u>\$ 4,511,295</u>	<u>\$ 5,156,226</u>

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
AND AFFILIATES**

Years Ended December 31, 2017 and 2016

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Continued

A grant from the Mississippi Development Authority was received for construction of an education building and two 10 bed group homes on property owned by the Organization in Saucier, Mississippi. The grant totaled \$3,350,000 and was fully expended as of December 31, 2012. The restriction will expire over the estimated useful future life of the restriction. Accordingly, depreciation in the amount of \$135,692 and \$128,809 was recognized during the years ended December 31, 2017 and 2016, respectively.

The Gym Project fund was created by transfers from the Capital Campaign fund during its construction, which was completed in the year 2002. The Organization has implied a time restriction on the contributions used to construct the gym, whereby the restriction is considered to expire over the useful life of the respective assets in the amount of the asset's annual depreciation. Depreciation of \$54,182 was charged against the temporarily restricted net asset balance for each of the years ended December 31, 2017 and 2016.

The Ford Foundation donation was restricted by the donor for the Organization to use for roofing repairs on the Organization's building. Under the Organization's policy, the restriction is considered to expire over the useful life of the respective asset in the amount of the asset's annual depreciation. Depreciation of \$4,316 was charged against the temporarily restricted net asset balance for each of the years ended December 31, 2017 and 2016.

The South Mississippi Children's Shelter increased by a contribution of \$100,000 during the year ended December 31, 2003. Under the Organization's time restriction policy, the restriction on the capitalized portion of this donated asset is considered to expire over the life of the respective asset in the amount of the asset's annual depreciation. Depreciation of \$12,758 was charged against the temporarily restricted net asset balance for the years ended December 31, 2017 and 2016.

The Gulf Coast Property, which includes the portion of the building cost that was donated during 2003, totaled \$467,056. Under the Organization's policy, the restriction is considered to expire over the useful life of the respective asset in the amount of the asset's annual depreciation. Depreciation of \$30,439 was charged against the temporarily restricted net asset balance for each of the years ended December 31, 2017 and 2016.

Donations were used for the construction of the facilities on the Bagley property. Under the Organization's time restriction policy, the restriction on the capitalized portion of these contributions is considered to expire over the life of the respective assets acquired in the amount of its annual depreciation. The facilities were completed during the year ended December 31, 2009. Accordingly, depreciation in the amount of \$324,416 and \$330,253 was recognized during the year ended December 31, 2017 and 2016, respectively.

Donations were received for start-up of new programs and for the purpose of capital assets that was completed in 2005. The Organization used these funds to purchase the property in Saucier, Mississippi and to renovate the property at 1465 Lakeland Drive, Jackson, Mississippi. The Organization has implied a time restriction on the contributions used to purchase this property, whereby the restriction is considered to expire over the useful life of the respective assets in the amount of the asset's annual depreciation. Depreciation of \$64,816 and \$96,564 was charged against the temporarily restricted net asset balance for the years ended December 31, 2017 and 2016, respectively.

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
AND AFFILIATES**

Years Ended December 31, 2017 and 2016

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6. Continued

The Mississippi Department of Human Services provided furniture to be used in the Gulf Coast psychiatric residential treatment facility. The restriction was released subsequent to December 31, 2017 when the assets were donated to the Organization.

The other temporarily restricted assets include assets received from United Way and various other agencies or individuals.

Note 7. Permanently Restricted Net Assets

Permanently restricted net assets consist of cash and investments, including land, and are held by the endowment fund. These assets are invested in perpetuity and the income generated by the investments is unrestricted as to use and are paid directly into the unrestricted net assets. No income was paid into unrestricted net assets for the years ended December 31, 2017 and 2016. Expenses related to administration of the endowment fund may be paid from endowment fund assets. Investment income in the amount of expenses paid out is retained in the endowment fund to offset the expense. The Organization also obtained a legal opinion to enable them to lend up to a \$1,000,000 to other internal funds as a line of credit. Such funds shall not exceed 90 percent of each internal agency's receivable balance.

The investments are managed to provide a reasonable rate of return that will offset the expenses related to the administration of the endowment and to provide a modest return to contribute to unrestricted expenses. The composition of investments can include notes receivable from internal agencies. These notes receivable are stated at a reasonable rate of return that approximates the current market rate of return. The Organization interprets the current state law regarding the treatment of endowed funds as the preservation of corpus and appropriate expenditure of the appreciation of the permanently restricted net asset.

A reconciliation of the beginning and ending balances of endowment funds for the year ended December 31, 2017 are as follows:

Permanently restricted net assets as of December 31, 2016	<u>\$ 3,348,002</u>
Changes in permanently restricted net assets	
Interest and dividends	7,265
Net realized and unrealized gains on investments	65,965
General and administrative and other expenses	<u>(6,197)</u>
Change in permanently restricted net assets	<u>67,033</u>
Permanently restricted net assets as of December 31, 2017	<u><u>\$ 3,415,035</u></u>

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
AND AFFILIATES**

Years Ended December 31, 2017 and 2016

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. Continued

A reconciliation of the beginning and ending balances of endowment funds for the year ended December 31, 2016 are as follows:

Permanently restricted net assets as of December 31, 2015	\$ 3,330,514
Changes in permanently restricted net assets	
Interest and dividends	7,895
Net realized and unrealized gains on investments	14,000
General and administrative and other expenses	(4,407)
Change in permanently restricted net assets	17,488
Permanently restricted net assets as of December 31, 2016	\$ 3,348,002

Note 8. Operating Leases

The Organization leases equipment and office space under various noncancellable agreements, which require various minimum annual rentals. Rent expense paid for the years ended December 31, 2017 and 2016, was \$752,592 and \$914,003, respectively.

The total minimum rental commitment at December 31, 2017 is as follows:

Year Ending December 31,	Amount
2018	\$ 429,982
2019	159,063
2020	71,317
2021	29,958
2022	2,450
Total	\$ 692,770

Note 9. Self-Insurance Program

The Organization's group health plan is partially self-insured, up to certain limits, for employee claims. The Organization has purchased stop-loss insurance, which will reimburse the Organization for claims in excess of \$40,000 per covered individual and also reimburse the Organization in the event of an aggregate claim not to exceed \$1,000,000 per policy contract year. Operations are charged with the cost of claims reported and an estimate of claims incurred but not reported. A liability for unpaid claims and the associated claim expenses, including incurred but not reported losses, is estimated based on known costs and historical lag times of payment and reflected on the Statement of Financial Position as an accrued liability. This liability totaled \$270,246 and \$196,966 at December 31, 2017 and 2016. Total expense under the program was approximately \$1,220,210 and \$1,683,585 in 2017 and 2016, respectively.

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
AND AFFILIATES**

Years Ended December 31, 2017 and 2016

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 10. Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Accounts Receivable

The Organization's accounts receivable balance is due primarily from governmental agencies. Two agencies accounted for 79 percent of the balance as of December 31, 2017 and three agencies accounted for 76 percent of the balance as of December 31, 2016.

Litigation

The Organization is subject to claims and lawsuits that arose primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, changes in net assets and cash flows of the Organization. Events could occur that would change this estimate materially in the near term.

Note 11. Restricted Cash

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated statements of financial position that sum to that total of the same such amounts shown in the consolidated statements of cash flows.

	2017		2016
Cash and cash equivalents	\$ 1,197,118	\$	410,668
Restricted cash	1,029,613		826,976
Total cash, cash equivalents and restricted cash shown in the consolidated statement of cash flows	\$ 2,226,731	\$	1,237,644

Note 12. Subsequent Events

The Organization has evaluated, for consideration of recognition or disclosure, subsequent events through May 8, 2018, which is the date that the financial statements were available to be issued. Based on this evaluation, the Organization has determined that no significant events occurred after December 31, 2017 but prior to May 8, 2018, that would have a material impact on the consolidated financial statements.

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
AND AFFILIATES**
Consolidated Schedule of Expenditures of Federal Awards
Year Ended December 31, 2017

Federal Grantor/Pass Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
Direct Programs			
U.S. Department of Health and Human Services			
Basic Center Grant - Warren County Children's Shelter	93.623		\$ 67,593
Basic Center Grant - Warren County Children's Shelter	93.623		24,225
Basic Center Grant - South MS Children's Center	93.623		112,500
Basic Center Grant - South MS Children's Center	93.623		37,500
Total U.S. Department of Health and Human Services			241,818
Pass Through State of Mississippi			
U.S. Department of Justice			
Mississippi Department of Health			
Crime Victim Assistance - South MS Children's Center	16.575	VA-15-045	35,188
Crime Victim Assistance - South MS Children's Center	16.575	VA-16-045	38,063
Crime Victim Assistance - Warren County Children's Shelter	16.575	VA-15-046	57,402
Crime Victim Assistance - Warren County Children's Shelter	16.575	VA-16-046	63,268
Crime Victim Assistance - Child Abuse Prevention Center	16.575	VA-15-025	76,859
Crime Victim Assistance - Child Abuse Prevention Center	16.575	VA-16-025	65,799
Total U.S. Department of Justice			336,579
U.S. Department of Agriculture			
Mississippi Department of Education			
Child Nutrition Cluster			
School Breakfast Program	10.553	12-35-2831	35,365
National School Lunch Program	10.555	12-35-2831	66,828
Total U.S. Department of Agriculture			102,193
U.S. Department of Health and Human Services			
Mississippi Department of Human Services			
Promoting Safe and Stable Families	93.556	G1701MSFPSS	2,073,356
			2,073,356
U.S. Department of Health and Human Services			
Mississippi Department of Child Protection Services			
Promoting Safe and Stable Families - Child Welfare Services	93.556	G1801MSCWSS	1,222,816
Total U.S. Department of Health and Human Services			3,296,172
			\$ 3,976,762

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the Organization under programs of the federal government for the year ended December 31, 2017. 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"). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Indirect Cost Rate

The Organization has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 4. Pass Through Entities

There were no funds passed through to subrecipients for the year ended December 31, 2017.

**Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Consolidated Financial Statements
Performed in Accordance with *Government Auditing Standards***

Independent Auditor's Report

Board of Directors
Mississippi Children's Home Services, Inc. and Affiliates
D/B/A Canopy Children's Solutions
Jackson, Mississippi

We have audited, 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, the consolidated financial statements of Mississippi Children's Home Services, Inc. and Affiliates D/B/A Canopy Children's Solutions (the Organization), which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated May 8, 2018, which contained a reference to the report of other auditors and an Emphasis of Matter paragraph regarding a change in accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Jackson, Mississippi
May 8, 2018

**Report on Compliance for Each Major Federal Program
and Report on Internal Control Over Compliance**

Independent Auditor's Report

Board of Directors
Mississippi Children's Home Services, Inc. and Affiliates
D/B/A Canopy Children's Solutions
Jackson, Mississippi

Report on Compliance for the Major Federal Program

We have audited Mississippi Children's Home Services, Inc. and Affiliates' (the Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended December 31, 2017. The Organization's major federal program is 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 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 the Organization's major federal program 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 of 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 the Organization'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 the major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on the Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2017.

Report on Internal Control Over Compliance

Management of the Organization 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 the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 the Organization'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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Jackson, Mississippi
May 8, 2018

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
AND AFFILIATES**
Schedule of Findings and Questioned Costs
Year Ended December 31, 2017

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP	Unmodified
Internal control over financial reporting:	
Significant deficiencies identified	None reported
Material weaknesses identified	None
Noncompliance material to financial statements noted	No

Federal Awards:

Internal control over major programs:	
Significant deficiencies identified	None reported
Material weaknesses identified	None
Type of auditor's report issued on compliance for major program	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)	No
Identification of major program(s):	
CFDA 93.556: Promoting Safe and Stable Families	
Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as low-risk auditee	No

Section II - Financial Statement Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

No matters were reported.

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
AND AFFILIATES**
Summary Schedule of Prior Year Audit Findings
Year Ended December 31, 2017

No matters are reportable.

SUPPLEMENTARY INFORMATION

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
AND AFFILIATES**

Consolidating Statement of Financial Position
December 31, 2017

	Mississippi Children's Home Society		CARES Center, Inc.	Mississippi Children's Home Services, Inc.	Total Consolidating	Eliminations	Total Consolidated 2017
	Operating Fund	Endowment Fund					
ASSETS							
Cash and cash equivalents	\$ 773,142	\$ -	\$ 390,205	\$ 33,771	\$ 1,197,118	\$ -	\$ 1,197,118
Restricted cash	387,770	641,843	-	-	1,029,613	-	1,029,613
Accounts receivable, net of allowance of \$22,057 in 2017	2,421,256	-	1,049,028	-	3,470,284	-	3,470,284
Prepaid expenses and other assets	116,476	-	22,197	-	138,673	-	138,673
Investments	978	1,414,000	-	-	1,414,978	-	1,414,978
Receivable with affiliates (1)	2,520,201	60,772	-	168,633	2,749,606	(2,749,606)	-
Property, plant and equipment, net of accumulated depreciation of \$12,627,779 in 2017	18,029,694	1,298,420	445,178	-	19,773,292	-	19,773,292
Total assets	\$ 24,249,517	\$ 3,415,035	\$ 1,906,608	\$ 202,404	\$ 29,773,564	\$ (2,749,606)	\$ 27,023,958
LIABILITIES AND NET ASSETS							
Accounts payable and accrued expenses	\$ 1,277,544	\$ -	\$ 515,403	\$ 189,124	\$ 1,982,071	\$ -	\$ 1,982,071
Payable with affiliates	-	-	2,749,606	-	2,749,606	(2,749,606)	-
Notes payable	11,102,507	-	-	-	11,102,507	-	11,102,507
Total liabilities	12,380,051	-	3,265,009	189,124	15,834,184	(2,749,606)	13,084,578
Net assets (deficit)							
Unrestricted	7,358,835	-	(1,359,065)	13,280	6,013,050	-	6,013,050
Temporarily restricted	4,510,631	-	664	-	4,511,295	-	4,511,295
Permanently restricted	-	3,415,035	-	-	3,415,035	-	3,415,035
Total net assets (deficit)	11,869,466	3,415,035	(1,358,401)	13,280	13,939,380	-	13,939,380
Total liabilities and net assets (deficit)	\$ 24,249,517	\$ 3,415,035	\$ 1,906,608	\$ 202,404	\$ 29,773,564	\$ (2,749,606)	\$ 27,023,958

(1) Amounts are eliminated on primary financial statements in accordance with generally accepted accounting principles.

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
AND AFFILIATES**
Consolidating Statement of Activities
Year Ended December 31, 2017

	Mississippi Children's Home Society			CARES Center, Inc. Unrestricted Fund	CARES Center, Inc. Temporarily Restricted	Mississippi Children's Home Services, Inc.	Total Consolidating	Eliminating Entries	Total Consolidated 2017
	Operating Unrestricted Fund	Operating Temporarily Restricted	Endowment Permanently Restricted						
Unrestricted net assets									
Support and revenue	\$ 15,737,681	\$ -	\$ -	\$ 14,787,907	\$ -	\$ -	\$ 30,525,588	\$ -	\$ 30,525,588
Government agencies	11,885	-	-	460,687	-	-	472,572	-	472,572
Program fees	850,260	-	-	321,309	-	-	1,171,569	-	1,171,569
Contributions - other and special events	26,355	-	-	542	-	-	27,097	-	27,097
Interest and dividends	1,214,832	-	-	-	-	-	1,214,832	(1,212,674)	2,168
Rental income	832,762	-	-	-	-	-	832,762	-	832,762
Net assets released from restrictions	1,965	-	-	3,465	-	-	5,430	-	5,430
Other	-	-	-	-	-	-	-	-	-
Total unrestricted support and revenue	18,675,940	-	-	15,573,910	-	-	34,249,850	(1,212,674)	33,037,176
Expenses									
Program services									
CARES PRIF	-	-	-	8,096,867	-	-	8,096,867	(574,302)	7,522,565
CARES PRIF Gulfcoast	-	-	-	3,106,301	-	-	3,106,301	(10,330)	3,095,971
CARES School	-	-	-	4,352,097	-	-	4,352,097	(381,717)	3,990,380
CARES Solutions	-	-	-	695,537	-	-	695,537	-	695,537
Treatment Foster Care & In-Home Service and Adoption	956,612	-	-	-	-	-	956,612	-	956,612
Mississippi Youth Programs Around the Clock	6,214,609	-	-	-	-	-	6,214,609	(255,993)	5,958,616
Comprehensive Family Support Center	3,478,414	-	-	-	-	-	3,478,414	-	3,478,414
South MS Children's Center	735,588	-	-	-	-	-	735,588	-	735,588
Children's Advocacy Center	351,838	-	-	-	-	-	351,838	-	351,838
Warren County Children's Shelter	702,791	-	-	-	-	-	702,791	-	702,791
MCHS Outpatient Clinical Services	2,931,596	-	-	-	-	-	2,931,596	(10,332)	2,921,264
Total program services	15,371,448	-	-	16,250,802	-	-	31,622,250	(1,212,674)	30,409,576
Support services									
MCHS administrative	547,574	-	-	-	-	-	547,574	-	547,574
Fundraising	527,545	-	-	-	-	-	527,545	-	527,545
1900 and 2000 North West Street property expenses	1,217,075	-	-	-	-	-	1,217,075	-	1,217,075
Total support services	2,292,164	-	-	-	-	-	2,292,164	-	2,292,164
Total expenses	17,663,612	-	-	16,250,802	-	-	33,914,414	(1,212,674)	32,701,740
Change in unrestricted net assets	1,012,328	-	-	(676,892)	-	-	335,436	-	335,436

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
AND AFFILIATES**
Consolidating Statement of Activities
Year Ended December 31, 2017

	Mississippi Children's Home Society			CARES Center, Inc.		Mississippi Children's Home Services, Inc.	Total Consolidating	Eliminating Entries	Total Consolidated 2017
	Operating Unrestricted Fund	Operating Temporarily Restricted	Endowment Permanently Restricted	Center, Inc. Unrestricted Fund	Center, Inc. Temporarily Restricted				
Temporarily restricted net assets	-	187,831	-	-	-	-	187,831	-	187,831
Contributions and special events	-	(832,762)	-	-	-	-	(832,762)	-	(832,762)
Net assets released from restrictions	-	-	-	-	-	-	-	-	-
Change in temporarily restricted net assets	-	(644,931)	-	-	-	-	(644,931)	-	(644,931)
Permanently restricted net assets	-	-	7,265	-	-	-	7,265	-	7,265
Interest and dividends	-	-	65,965	-	-	-	65,965	-	65,965
Net realized and unrealized gains on investments	-	-	(6,197)	-	-	-	(6,197)	-	(6,197)
General and administrative and other (expenses)	-	-	-	-	-	-	-	-	-
Change in permanently restricted net assets	-	-	67,033	-	-	-	67,033	-	67,033
Change in net assets	1,012,328	(644,931)	67,033	(676,892)	-	-	(242,462)	-	(242,462)
Net assets (deficit) at beginning of year	6,346,507	5,155,562	3,348,002	(882,173)	664	13,280	14,181,842	-	14,181,842
Net assets (deficit) at end of year	7,358,835	4,510,631	3,415,035	(1,359,065)	664	13,280	13,939,380	-	13,939,380