

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

Independent Auditor's Reports and
Consolidated Financial Statements

December 31, 2018 and 2017

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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, 2018 and 2017, and the related consolidated statements of activities, functional expenses and cash flows for the years 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 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 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, 2018 and 2017, and the changes in their net assets and their cash flows for the years 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 2018, the entity adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information, including the consolidating 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, is 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 June 11, 2019, 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 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,

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

BKD, LLP

Jackson, Mississippi
June 11, 2019

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
AND AFFILIATES**
Consolidated Statements of Financial Position
December 31, 2018 and 2017

	2018	2017 (As Adjusted)
<u>ASSETS</u>		
Cash and Cash Equivalents	\$ 567,821	\$ 1,197,118
Restricted Cash	1,336,357	1,029,613
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$194,244 in 2018 and \$222,057 in 2017	3,153,518	3,470,284
Prepaid Expenses and Other Assets	95,279	138,673
Investments	1,305,622	1,414,978
Property, Plant and Equipment, Net	19,845,488	19,773,292
Total Assets	\$ 26,304,085	\$ 27,023,958
<u>LIABILITIES AND NET ASSETS</u>		
Accounts Payable and Accrued Expenses	\$ 2,208,098	\$ 1,982,071
Line of Credit	150,000	-
Notes Payable	10,439,666	11,102,507
Total Liabilities	12,797,764	13,084,578
Net Assets:		
Without Donor Restrictions	10,122,536	10,444,746
With Donor Restrictions	3,383,785	3,494,634
Total Net Assets	13,506,321	13,939,380
Total Liabilities and Net Assets	\$ 26,304,085	\$ 27,023,958

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
AND AFFILIATES**
Consolidated Statements of Activities
Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u> <u>(As Adjusted)</u>		<u>2018</u>	<u>2017</u> <u>(As Adjusted)</u>
Net Assets Without Donor Restrictions:					
Support and Revenue:			Support Services:		
Government Agencies	\$ 28,189,159	\$ 30,388,865	MCHS Administrative	\$ 643,661	\$ 547,574
Program Fees	1,188,174	609,295	Development/Fundraising	935,066	527,515
Contributions - Other and Special Events	1,207,948	1,171,569	1900 and 2000 North West Street		
Interest and Dividends	34,429	27,097	Property Expense	<u>1,560,169</u>	<u>1,217,075</u>
Rental Income	272,957	2,158			
Net Assets Released from Restrictions	74,935	189,206	Total Support Services	<u>3,138,896</u>	<u>2,292,164</u>
Other	<u>80,618</u>	<u>5,430</u>			
Total Support and Revenue Without Donor Restrictions	<u>31,048,220</u>	<u>32,393,620</u>	Total Expenses	<u>31,370,430</u>	<u>32,701,740</u>
			Change in Net Assets Without Donor Restrictions	<u>(322,210)</u>	<u>(308,120)</u>
Expenses:					
Program Services:			Net Assets With Donor Restrictions:		
CARES PRTF	7,791,325	7,522,565	Contributions and Special Events	50,000	187,831
CARES PRTF Gulf Coast	-	3,095,971	Net Assets Released from Restrictions	(74,935)	(189,206)
CARES Schools	3,608,361	3,990,380	Interest and Dividends	7,366	7,265
Autism Solutions	979,987	695,537	Net Realized and Unrealized Gains (Losses) on Investments	(90,607)	65,965
Treatment Foster Care & In-Home Service and Adoption	560,038	956,612	General and Administrative and Other (Expenses)	<u>(2,673)</u>	<u>(6,197)</u>
Mississippi Youth Programs Around the Clock	5,760,048	5,958,616			
Comprehensive Family Support Center	5,083,131	3,478,414	Change in Net Assets With Donor Restrictions	<u>(110,849)</u>	<u>65,658</u>
South MS Children's Center	597,109	735,588			
Children's Advocacy Center	423,610	351,838	Change in Net Assets	<u>(433,059)</u>	<u>(242,462)</u>
Warren County Children's Shelter	647,597	702,791			
MCHS Outpatient Clinical Services	<u>2,780,328</u>	<u>2,921,264</u>	Net Assets at Beginning of Year	<u>13,939,380</u>	<u>14,181,842</u>
Total Program Services	<u>\$ 28,231,534</u>	<u>\$ 30,409,576</u>	Net Assets at End of Year	<u>\$ 13,506,321</u>	<u>\$ 13,939,380</u>

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
AND AFFILIATES
Consolidated Statement of Functional Expenses
Year Ended December 31, 2018**

	<u>CARES PRTF</u>	<u>CARES Schools</u>	<u>Clinical Best Practice</u>	<u>Autism Solutions</u>	<u>Treatment Foster Care & In-Home Service and Adoption</u>	<u>Mississippi Youth Programs Around the Clock</u>	<u>Comprehensive Family Support Center</u>	<u>South MS Children's Center</u>
Operating Fund:								
Salaries	\$ 3,993,594	\$ 1,942,886	\$ 777,249	\$ 558,923	\$ 203,566	\$ 3,180,329	\$ 2,872,915	\$ 292,130
Employee Benefits	585,218	344,560	142,690	87,199	34,827	382,521	542,819	72,646
Professional Fees	860,473	118,895	60,980	34,952	175,270	236,032	128,932	28,387
Supplies and Program	281,063	187,696	23,642	14,284	11,142	71,126	52,820	19,299
Telephone	11,832	10,685	10,916	4,540	5,276	78,539	83,037	12,557
Postage	2,455	1,101	204	117	45	10,107	817	393
Occupancy	348,561	163,731	99,177	60,089	29,728	110,754	242,241	31,290
Equipment Rental/ Maintenance	20,462	14,996	9,566	3,792	1,542	21,048	19,407	6,400
Depreciation and Amortization	53,659	22,396	6,732	2,972	1,906	23,411	52,130	13,830
Printing, Advertising, and Publications	609	238	192	129	90	1,696	1,749	65
Travel	17,990	9,191	10,577	22,061	5,502	439,516	310,540	7,621
Conferences and Meetings	5,008	1,488	4,276	579	343	3,506	3,424	1,021
Specific Assistance								
Individuals	820	-	-	-	10,387	5,288	2,449	353
Membership Dues	26	1,296	326	(1,283)	-	-	-	-
Miscellaneous	-	-	-	-	-	-	15,590	-
Bad Debts	15,401	-	-	-	-	(25,671)	-	-
Interest Expense	9,001	3,342	546	713	193	2,895	2,833	642
Loss on Disposal	-	-	-	-	-	2,812	-	-
Insurance	90,075	28,640	8,965	3,080	3,048	27,399	22,060	18,034
Total Operating Fund Expenses Before Allocation	6,296,247	2,851,141	1,156,038	792,147	482,865	4,571,308	4,353,763	504,668
General and Administrative Expense Allocation	1,495,078	757,220	(1,156,038)	187,840	77,173	1,188,740	729,368	92,441
Total	<u>\$ 7,791,325</u>	<u>\$ 3,608,361</u>	<u>\$ -</u>	<u>\$ 979,987</u>	<u>\$ 560,038</u>	<u>\$ 5,760,048</u>	<u>\$ 5,083,131</u>	<u>\$ 597,109</u>

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
AND AFFILIATES
Consolidated Statement of Functional Expenses
Year Ended December 31, 2018**

	<u>Children's Advocacy Center</u>	<u>Warren County Children's Shelter</u>	<u>MCHS Outpatient Clinical Services</u>	<u>MCHS Administrative</u>	<u>Development/ Fundraising</u>	<u>1900 & 2000 North West Property</u>	<u>MSO Management & Administrative</u>	<u>Total</u>
Operating Fund:								
Salaries	\$ 250,270	\$ 340,473	\$ 1,662,986	\$ 97,567	\$ 320,511	\$ -	\$ 3,136,540	\$ 19,629,939
Employee Benefits	45,584	49,912	133,681	11,055	25,648	-	390,861	2,849,221
Professional Fees	14,220	35,348	181,785	117,433	349,997	-	219,240	2,561,944
Supplies and Program	8,200	34,624	44,626	93,140	66,132	-	64,576	972,370
Telephone	4,502	11,966	19,052	40,760	3,823	-	44,793	342,278
Postage	68	411	4,237	2,547	16,498	-	5,850	44,850
Occupancy	1,590	34,250	172,006	227,205	13,377	-	63,293	1,597,292
Equipment Rental/ Maintenance	2,572	2,409	14,551	23,032	1,157	-	10,212	151,146
Depreciation and Amortization	1,430	4,632	12,743	-	3,485	1,056,430	-	1,255,756
Printing, Advertising, and Publications	128	206	1,380	-	4,597	64	799	11,942
Travel	21,957	4,539	18,656	6,735	34,264	-	136,661	1,045,810
Conferences and Meetings	11,693	672	5,106	6,769	6,276	-	36,365	86,526
Specific Assistance								
Individuals	-	1,520	-	-	-	-	-	20,817
Membership Dues	-	-	-	-	10,500	-	173	11,038
Miscellaneous	-	-	-	-	-	(15,590)	-	-
Bad Debts	-	-	-	-	-	-	-	(10,270)
Interest Expense	203	730	1,379	-	162	468,752	-	491,391
Loss on Disposal	-	-	-	-	-	234	-	3,046
Insurance	2,785	10,953	15,316	-	1,214	50,279	23,486	305,334
Total Operating Fund Expenses Before Allocation	365,202	532,645	2,287,504	626,243	857,641	1,560,169	4,132,849	31,370,430
General and Administrative Expense Allocation	58,408	114,952	492,824	17,418	77,425	-	(4,132,849)	-
Total	<u>\$ 423,610</u>	<u>\$ 647,597</u>	<u>\$ 2,780,328</u>	<u>\$ 643,661</u>	<u>\$ 935,066</u>	<u>\$ 1,560,169</u>	<u>\$ -</u>	<u>\$ 31,370,430</u>

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
AND AFFILIATES**
Consolidated Statement of Functional Expenses
Year Ended December 31, 2017

	CARES PRTF	CARES PRTF Gulf Coast	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	South MS Children's Center
Operating Fund:									
Salaries	\$ 3,975,528	\$ 1,522,839	\$ 2,159,752	\$ 757,612	\$ 389,503	\$ 391,668	\$ 3,213,695	\$ 1,916,125	\$ 380,208
Employee Benefits	621,341	253,914	397,792	150,548	63,350	63,085	505,229	411,545	61,848
Professional Fees	799,515	189,415	89,685	96,301	35,352	273,444	233,427	64,518	29,206
Supplies and Program	271,340	71,114	201,524	23,292	13,815	17,710	79,919	52,493	42,327
Telephone	8,092	22,099	10,779	11,928	3,050	6,157	79,270	54,384	10,383
Postage	2,370	306	975	49	234	72	13,707	724	502
Occupancy	310,291	65,555	298,741	107,721	49,523	33,655	190,360	175,001	37,371
Equipment Rental/ Maintenance	15,242	4,956	28,056	13,184	4,488	2,260	34,452	15,364	9,841
Depreciation and Amortization	47,595	552,456	15,741	921	1,573	1,505	23,956	21,606	17,625
Printing, Advertising, and Publications	175	126	94	726	74	91	1,327	386	450
Travel	13,131	10,488	9,904	14,555	12,778	9,688	433,451	233,857	9,542
Conferences and Meetings	4,171	800	1,313	11,521	178	453	4,740	2,998	366
Specific Assistance									
Individuals	259	-	5	-	-	16,643	5,262	17,281	1,608
Membership Dues	24	-	-	59	2,421	-	-	-	-
Miscellaneous	(7,130)	226	4,422	-	-	-	-	334	-
Bad Debts	-	-	-	-	-	-	-	-	-
Interest Expense	14,540	1,174	2,186	350	385	176	2,247	939	564
Insurance	73,661	56,389	32,807	6,790	2,408	2,543	32,674	14,544	13,595
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	<u>\$ 7,522,565</u>	<u>\$ 3,095,971</u>	<u>\$ 3,990,380</u>	<u>\$ -</u>	<u>\$ 695,537</u>	<u>\$ 956,612</u>	<u>\$ 5,958,616</u>	<u>\$ 3,478,414</u>	<u>\$ 735,588</u>

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
AND AFFILIATES**
Consolidated Statement of Functional Expenses
Year Ended December 31, 2017

	Children's Advocacy Center	Warren County Children's Shelter	MCHS Outpatient Clinical Services	MCHS Administrative	Development/ Fundraising	1900 & 2000 North West Property	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	-	1,270	876,803	-	1,571,754
Printing, Advertising, and Publications	86	564	1,211	-	9,130	734	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	-	62	300,145	-	324,344
Insurance	2,001	11,240	12,802	-	705	39,230	18,887	320,276
Total Operating Fund Expenses Before Allocation	294,030	581,752	2,463,047	495,908	470,920	1,217,075	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	\$ 527,515	\$ 1,217,075	\$ -	\$ 32,701,740

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
AND AFFILIATES**
Consolidated Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities:		
Change in Net Assets	\$ (433,059)	\$ (242,462)
Adjustment to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	1,255,756	1,571,754
Bad Debts	(10,270)	5
Net Realized and Unrealized Losses (Gains) on Investments	90,607	(65,965)
Loss on Sale or Disposal of Property, Plant and Equipment	-	1,985
Changes in Assets and Liabilities:		
Receivables	327,036	(409,131)
Prepaid and Other Assets	43,394	(1,982)
Accounts Payable and Accrued Expenses	226,027	390,340
Net Cash Provided by Operating Activities	1,499,491	1,244,544
Cash Flows from Investing Activities:		
Acquisition of Property, Plant and Equipment	(1,324,022)	(4,563,657)
Purchase of Investments	(928,631)	(183,374)
Proceeds from Sale of Investments	947,380	175,239
Net Cash Used in Investing Activities	(1,305,273)	(4,571,792)
Cash Flows from Financing Activities:		
Payments on Notes Payable	(666,771)	(533,665)
Payments on Lines of Credit	-	(500,000)
Line of Credit Borrowings	150,000	-
Long-term Borrowings	-	5,350,000
Net Cash Provided by (Used in) Financing Activities	(516,771)	4,316,335
Change in Cash, Cash Equivalents and Restricted Cash	(322,553)	989,087
Cash, Cash Equivalents and Restricted Cash, Beginning of Year	2,226,731	1,237,644
Cash, Cash Equivalents and Restricted Cash, End of Year	\$ 1,904,178	\$ 2,226,731
Supplemental Cash Flow Information:		
Cash Paid for Interest	\$ 476,984	\$ 307,817

**MISSISSIPPI CHILDREN’S HOME SERVICES, INC.
AND AFFILIATES**
Notes to Consolidated Financial Statements
Years Ended December 31, 2018 and 2017

NOTE 1 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.

Adoption of Accounting Pronouncement

During the year ended December 31, 2018, the Organization adopted the provisions of Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which changed certain financial statement requirements for not-for-profit (NFP) entities within the scope of Accounting Standards Codification Topic 958. Under the new requirements, NFPs are no longer required to distinguish between resources with temporary and permanent restrictions on the face of their financial statements, rather they present two classes of net assets – those without donor restrictions and those with donor restrictions. Additionally, all NFPs are now required to present expenses by their natural and functional classification and required to present investment returns net of external and direct internal investment expenses. NFPs are now also required to provide more information about their available resources and liquidity. Finally, under the provisions

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
AND AFFILIATES**
Notes to Consolidated Financial Statements
Years Ended December 31, 2018 and 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

of the ASU, the option to release restrictions on donated long-lived assets or cash donated to purchase or construct long-lived assets over the estimated useful life of long-lived assets has been eliminated, thus requiring all NFPs to use the placed-in-service method of recognizing the expiration of such restrictions. The impact of the adoption of this new standard on the Organization's financial statements is disclosed through the footnotes to the financial statements as the affected areas are discussed.

Net Assets

In accordance with ASU 2016-14, net assets are reported in two categories as follows:

Without Donor Restrictions – Net assets available for use in general operations and not subject to donor restrictions. Grants and contributions gifted for recurring programs are generally not considered “restricted” under accounting principles generally accepted in the United States of America (GAAP), though for internal reporting the Organization tracks such grants and contributions to verify the disbursement matches the intent. Assets restricted solely through the actions of the Board, if any, are reported as net assets without donor restrictions, board designated.

With Donor Restrictions – Net assets subject to donor-imposed stipulations that are more restrictive than the Organization's mission and purpose. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor imposed restrictions are released when the restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

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.

Reclassifications

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

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
AND AFFILIATES**
Notes to Consolidated Financial Statements
Years Ended December 31, 2018 and 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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 56 percent and 59 percent of its total support and revenue from Medicaid for 2018 and 2017, respectively. Total support received for 2018 and 2017 from Medicaid was \$17,192,258 and \$19,637,732 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

The Organization has historically followed 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 net assets with donor restrictions, with the restriction expiring over the useful life of the donated long-lived asset. As a result of adopting ASU No. 2016-14, the Organization was required to change its policy and now follows the placed-in-service method of releasing the donor-imposed restrictions on these net assets. As required by this ASU, net assets associated with long-lived assets that had been placed in service prior to January 1, 2018 were reclassified to net assets without donor restrictions. The total amount reclassified upon adoption of this ASU was \$4,431,696.

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
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Notes to Consolidated Financial Statements
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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2018 or 2017.

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.

The Organization maintains its cash in bank deposit accounts, which at times may exceed federally insured limits of \$250,000. At December 31, 2018 and 2017, amounts in excess of FDIC insured limits were \$1,037,271 and \$1,641,550, respectively. The banks have a right of offset of all cash deposits against the outstanding lines of credit and notes payable totaling \$10,589,666 at December 31, 2018.

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 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. Investment related expenses are offset against investment earnings. For purposes of determining realized gains and losses, the cost of securities sold is based on specific identification.

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Notes to Consolidated Financial Statements
Years Ended December 31, 2018 and 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2018 and 2017.

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 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.

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. There were no asset impairments recorded for the years ended December 31, 2018 and 2017.

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
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Notes to Consolidated Financial Statements
Years Ended December 31, 2018 and 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 scheduled to be 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 totaling \$544,505 was recorded for the year ended December 31, 2017.

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 proportional to salary expenses for each program.

Income Taxes

The Organization is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. The Organization is required to file Form 990, Return of Organization Exempt from Income Tax, annually with the Internal Revenue Service. As of December 31, 2018, filings of such form for fiscal years 2015 and later are open to examination by taxing authorities.

Fair Value Measurements

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.

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
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Notes to Consolidated Financial Statements
Years Ended December 31, 2018 and 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

All of the Organizations' invested assets are measured at fair value and are based on inputs which are valued 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.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (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 2014-09 as of January 1, 2019. The Organization is currently evaluating the impact of ASU 2014-09 on the Organization's financial condition and results of operations.

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
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Notes to Consolidated Financial Statements
Years Ended December 31, 2018 and 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

NOTE 2 INVESTMENTS

Investments consisted of the following at December 31, 2018:

	<u>Cost</u>	<u>Market</u>	<u>Unrealized</u>	
			<u>Appreciation</u>	<u>(Depreciation)</u>
Fixed income mutual funds	\$ 925,805	\$ 910,638	\$ 5,480	\$ (20,647)
Stock - common and preferred	161,413	178,517	23,464	(6,360)
Equity mutual funds	230,798	216,467	9,476	(23,807)
Total	<u>\$ 1,318,016</u>	<u>\$ 1,305,622</u>	<u>\$ 38,420</u>	<u>\$ (50,814)</u>

Investment return for 2018 is summarized as follows:

	<u>Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Interest and dividend income from marketable securities, cash and cash equivalents	\$ 34,429	\$ 7,366	\$ 41,795
Net realized and unrealized gains (losses) from marketable securities, cash and cash equivalents	-	(90,607)	(90,607)
Total investment income	<u>\$ 34,429</u>	<u>\$ (83,241)</u>	<u>\$ (48,812)</u>

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
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**Notes to Consolidated Financial Statements
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NOTE 2 INVESTMENTS (CONTINUED)

Investments consisted of the following at December 31, 2017:

	<u>Cost</u>	<u>Market</u>	<u>Unrealized</u>	
			<u>Appreciation</u>	<u>(Depreciation)</u>
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	<u>\$ 1,317,957</u>	<u>\$ 1,414,978</u>	<u>\$ 110,000</u>	<u>\$ (12,979)</u>

Investment return for 2017 is summarized as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
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, cash and cash equivalents	-	65,965	65,965
Total investment income	<u>\$ 27,097</u>	<u>\$ 73,230</u>	<u>\$ 100,327</u>

NOTE 3 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are summarized below:

	<u>2018</u>	<u>2017</u>
Land	\$ 3,466,422	\$ 3,466,423
Building and improvements	25,646,753	23,139,190
Automobiles	323,323	456,334
Furniture, fixtures and equipment	4,216,419	5,339,124
	<u>33,652,917</u>	<u>32,401,071</u>
Less accumulated depreciation	<u>(13,807,429)</u>	<u>(12,627,779)</u>
Total	<u>\$ 19,845,488</u>	<u>\$ 19,773,292</u>

Depreciation expense was \$1,251,826 and \$1,019,391 for the years ended December 31, 2018 and 2017, respectively.

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
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**Notes to Consolidated Financial Statements
Years Ended December 31, 2018 and 2017**

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 did not make a discretionary contribution for 2018. The discretionary contribution for 2017 was \$152,447.

NOTE 5 NOTES PAYABLE AND LINES OF CREDIT

Following is a summary of notes payable at December 31, 2018 and 2017:

	2018	2017
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	\$ 278,629	\$ 315,846
Note payable to bank at \$19,369 per month, including interest at 4.10 percent, due March 2029, collateralized by building	2,019,721	2,164,902
Note payable to bank at \$19,506 per month, including interest at 4.25 percent, due June 2028, collateralized by building	3,100,575	3,150,000
Note payable to bank at \$40,623 per month, including interest at 4.25 percent, due October 2028, collateralized by real estate	3,917,487	4,230,835
Note payable to bank at \$13,014 per month, including interest at 4.25 percent, due June 2027, collateralized by building	1,145,570	1,249,921
Note payable to bank at \$1,475 per month, including interest at 2.87 percent, due April 2019, collateralized by automobile	5,762	23,011
Total notes payable	10,467,744	11,134,515
Less deferred financing costs, net	28,078	32,008
	\$ 10,439,666	\$ 11,102,507

Maturities of notes payable are as follows:

Year	Amount
2019	\$ 738,820
2020	764,877
2021	798,077
2022	832,722
2023	868,873
Thereafter	6,464,375
Total	\$ 10,467,744

Interest expense related to notes payable was \$491,391 and \$324,345 for the years ended December 31, 2018 and 2017, respectively.

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NOTE 5 NOTES PAYABLE AND LINES OF CREDIT (CONTINUED)

The Organization had an available line of credit with a bank totaling \$500,000, at a variable interest rate equal to the Prime rate plus 0.7%, which was 6.2% at December 31, 2018. The line of credit was renewed on September 12, 2018 and will mature on September 12, 2019. Borrowings against the line of credit were \$150,000 at December 31, 2018. There was no outstanding balance at December 31, 2017.

The Organization had an available line of credit with a bank totaling \$350,000 at a variable interest rate equal to the Prime plus 0.25%, which was 5.75% at December 31, 2018. This line of credit matured and was renewed on January 16, 2019 with a maturity date of January 16, 2020. At December 31, 2018 and 2017, there were no borrowings outstanding.

The Organization had an available line of credit renewed with a bank totaling \$250,000 at a variable interest rate equal to the Prime rate which was 5.5% at December 31, 2018. This line of credit matures in May 2019. At December 31, 2018 and 2017, there were no borrowings outstanding.

NOTE 6 LIQUIDITY AND AVAILABILITY OF RESOURCES

The table that follows presents the Organization's financial assets at December 31, 2018, which are available to meet obligations for general expenditure that may arise within one year of the balance sheet date.

Cash and Cash Equivalents	\$ 567,821
Accounts Receivable, Net	<u>3,153,518</u>
Total	<u><u>\$ 3,721,339</u></u>

As discussed more fully in Note 7, the Organization's endowment funds are donor-restricted; however, the income derived from these endowment funds is not donor-restricted and may be used to cover general expenditures.

In addition to the assets shown above, at December 31, 2018, the Organization had approximately \$652,000 of cash that is restricted as to its use. These funds may not be used to cover general expenditures of the Organization; however, the Organization may use these funds to cover expenditures that arise in the 12 months following the balance sheet date, provided that the nature of these expenditures is consistent with the restrictions placed upon these funds.

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
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**Notes to Consolidated Financial Statements
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NOTE 6 LIQUIDITY AND AVAILABILITY OF RESOURCES (CONTINUED)

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization's working capital and cash flows vary throughout the year due to the timing of receipt of grant funds, collection of program fees, and contributions from donors. To assist in managing liquidity, the Organization maintains lines of credit (see Note 5) with a commercial bank with borrowing limits of \$1.1 million in the aggregate that can be drawn upon as needed to manage cash flow.

NOTE 7 NET ASSETS WITH DONOR RESTRICTIONS

Net Assets with donor restrictions are restricted for the following purposes or periods as of December 31, 2018 and 2017:

	2018	2017 (As Adjusted)
Subject to Expenditure for Specific Purpose:		
Harvest of Pennies	\$ -	\$ 25,410
Run 4 Kids	-	6,620
Mental Health Summit	-	6,600
MCHS Auxiliary	-	1,685
Wine Tasting	-	11,880
WCCS Tutoring	-	2,740
Suicide Prevention	-	20,000
Hattiesburg Playground	34,000	4,000
Psychiatric Residential Treatment Facility	5,000	-
Warren County Pavilion	15,000	-
Other	664	664
	54,664	79,599
Not Subject to Appropriation or Expenditure:		
Endowment Assets for which Only		
Income May be Expended	3,329,121	3,415,035
Total Net Assets with Donor Restrictions	\$ 3,383,785	\$ 3,494,634

Some of the Organization's net assets carry certain restrictions which are donor-imposed. As discussed in Note 1, effective January 1, 2017 the Organization adopted ASU 2016-14, which required the organization to change the method by which it released restrictions on donated long-lived assets, or cash donated to acquire or construct long-lived assets. As required by this ASU, \$5,075,252 was retrospectively applied to decrease net assets with donor restrictions and increase net assets without donor restrictions as of January 1, 2017. Amounts previously reported for 2017 as net assets released from restriction were also adjusted by \$643,556, resulting in a corresponding increase in change in net assets with donor restrictions and a decrease in change in net assets without donor restrictions.

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
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NOTE 7 NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

The paragraphs that follow provide a description of the programs shown in the table above.

Donations were received to provide support to the Warren County Children's Shelter. These donations were reported as donations with donor restrictions at December 31, 2017. These donations were released in 2018 to offset expenses at the Warren County Children's Shelter in Vicksburg, Mississippi.

Donations were received to provide support for the Run 4 Kids in September 2018. These donations were reported as donations with donor restrictions at December 31, 2017. These funds were released in 2018 after the completion of the 5K.

Donations were received to provide support for the Children's Mental Health Summit in May of 2018. These donations were reported as donations with donor restrictions at December 31, 2017. These funds were released after the completion of the Children's Mental Health Summit.

Donations were received to provide support for Canopy's Women's Auxiliary. These donations were reported as donations with donor restrictions at December 31, 2017. These funds were released in 2018 to provide support to the children and families that Canopy serves.

Donations were received to provide support for the Wine Tasting in May 2018. These donations were reported as donations with donor restrictions at December 31, 2017. These funds were released in 2018 after the completion of the event.

Donations were received to provide support for Warrant County Children's Shelter in Vicksburg, Mississippi. These donations were reported as donations with donor restrictions at December 31, 2017. These funds were released in 2018 providing support to the shelter.

Donations were received to provide support and training of staff for suicide prevention. These donations were reported as donations with donor restrictions at December 31, 2017. These funds were released in 2018 to provide staff training.

Donations were received to construct a playground for the CARES School in Hattiesburg, MS. These donations are reported as net assets with donor restrictions at December 31, 2018 and the restrictions will be released when the playground is complete and placed in service.

Donations were received to purchase a karaoke machine along with additional recreational equipment for the CARES Psychiatric Residential Treatment Facility in Jackson, MS. These donations are reported as net assets with donor restrictions at December 31, 2018 and the restrictions will be released when the equipment is purchased and placed in service.

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NOTE 7 NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

Donations were received to construct a pavilion for the Warren County Children's Shelter in Vicksburg, MS. These donations are reported as net assets with donor restrictions at December 31, 2018 and the restrictions will be released when the pavilion is completed and placed in service.

The other assets with donor restrictions shown above include assets received from United Way and various other agencies or individuals.

Certain other donor 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 interest and dividends generated by the investments are considered unrestricted as to use and are paid directly into the net assets without donor restrictions. 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 of endowment assets 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 restricted net asset.

The following table presents the activity in the endowment funds, which are a component of net assets with donor restrictions.

Endowment Net Assets as of December 31, 2016	\$ 3,348,002
Investment Return:	
Interest and Dividends	7,265
Net Realized and Unrealized Gains (Losses) on Investments	65,965
Total Investment Return	<u>73,230</u>
General and Administrative and Other Expenses	<u>(6,197)</u>
Endowment net assets as of December 31, 2017	3,415,035
Investment Return:	
Interest and Dividends	7,366
Net Realized and Unrealized Gains (Losses) on Investments	(90,607)
Total Investment Return	<u>(83,241)</u>
General and administrative and other expenses	<u>(2,673)</u>
Endowment net assets as of December 31, 2018	<u><u>\$ 3,329,121</u></u>

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
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**Notes to Consolidated Financial Statements
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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, 2018 and 2017, was \$692,120 and \$752,592, respectively.

The total minimum rental commitment at December 31, 2018 is as follows:

<u>Year Ended</u>	<u>Amount</u>
2019	\$ 397,433
2020	255,970
2021	105,209
2022	2,450
Total	<u>\$ 761,062</u>

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 \$135,000 and \$270,246 at December 31, 2018 and 2017, respectively. Total expense under the program was approximately \$1,158,850 and \$1,220,210 in 2018 and 2017, respectively.

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

Five payors accounted for approximately 76 percent of the accounts receivable balance as of December 31, 2018 and two payors accounted for approximately 79 percent of the accounts receivable balance as of December 31, 2017.

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.

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
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**Notes to Consolidated Financial Statements
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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.

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 567,821	\$ 1,197,118
Restricted cash	<u>1,336,357</u>	<u>1,029,613</u>
Total cash, cash equivalents and restricted cash shown in the consolidated statement of cash flows	<u>\$ 1,904,178</u>	<u>\$ 2,226,731</u>

NOTE 12 SUBSEQUENT EVENTS

The Organization has evaluated, for consideration of recognition or disclosure, subsequent events through June 11, 2019, 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, 2018 but prior to June 11, 2019, 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, 2018

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		\$ 72,672
Basic Center Grant - Warren County Children's Shelter	93.623		26,063
Basic Center Grant - South MS Children's Center	93.623		112,500
Total U.S. Department of Health and Human Services			211,235
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-16-045	39,671
Crime Victim Assistance - South MS Children's Center	16.575	VA-17-045	32,531
Crime Victim Assistance - Warren County Children's Shelter	16.575	VA-16-046	56,625
Crime Victim Assistance - Warren County Children's Shelter	16.575	VA-17-046	87,628
Crime Victim Assistance - Child Abuse Prevention Center	16.575	VA-16-025	72,601
Crime Victim Assistance - Child Abuse Prevention Center	16.575	VA-16-025	99,534
The Childrens Advocacy Center of Mississippi:			
Crime Victim Assistance - MDT Enhancement Grant	16.575	VA-GX-024	40,470
Total U.S. Department of Justice			429,060
U.S. Department of Agriculture:			
Mississippi Department of Education:			
Child Nutrition Cluster:			
School Breakfast Program	10.553	12-35-2831	36,029
National School Lunch Program	10.555	12-35-2831	69,261
Total U.S. Department of Agriculture			105,290
U.S. Department of Health and Human Services:			
The Childrens Advocacy Center of Mississippi:			
Childrens Justice Act - Small Grant	93.643	2017G99CJ17	3,200
Mississippi Department of Child Protection Services:			
Promoting Safe and Stable Families - Child Welfare Services	93.556	G1801MSCWSS	5,083,130
Total U.S. Department of Health and Human Services			5,086,330
			\$ 5,831,915

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, 2018. 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, 2018.

**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, 2018, 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 June 11, 2019, which contained 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
June 11, 2019

**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 D/B/A Canopy Children's Solutions (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, 2018. 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, 2018.

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
June 11, 2019

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

**Schedule of Findings and Questioned Costs
Year Ended December 31, 2018**

Summary of Auditor's Results

Financial Statements

1. The type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) was:

Unmodified *Qualified* *Adverse* *Disclaimed*

2. The independent auditor's report on internal control over financial reporting disclosed:

Significant deficiency(ies)? *Yes* *None reported*

Material weakness(es)? *Yes* *No*

3. Noncompliance considered material to the financial statements was disclosed by the audit?

Yes *No*

Federal Awards

4. The independent auditor's report on internal control over compliance for major federal awards programs disclosed:

Significant deficiency(ies)? *Yes* *None reported*

Material weakness(es)? *Yes* *No*

5. The opinion expressed in the independent auditor's report on compliance for major federal awards programs was:

Unmodified *Qualified* *Adverse* *Disclaimed*

6. The audit disclosed findings required to be reported by 2 CFR 200.516(a)?

Yes *No*

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

**Schedule of Findings and Questioned Costs
Year Ended December 31, 2018**

7. The Organization’s major program was:

Cluster/Program	CFDA Number
Promoting Safe and Stable Families	93.556

8. The threshold used to distinguish between Type A and Type B programs was \$750,000.

9. The Organization qualified as a low-risk auditee? Yes No

Findings Required to be Reported by *Government Auditing Standards*

No matters are reportable.

Findings Required to be Reported by the Uniform Guidance

No matters are reportable.

Mississippi Children's Home Services, Inc.
And Affiliates
Summary Schedule of Prior Year Audit Findings
Year Ended December 31, 2018

No matters are reportable.

SUPPLEMENTARY INFORMATION

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
AND AFFILIATES**
Consolidating Statement of Financial Position
December 31, 2018

	Mississippi Children's Home Society		CARES Center, Inc.	Mississippi Children's Home Services, Inc.	Subtotal	Eliminating Entries	Total Consolidated
	Operating Fund	Endowment Fund					
<u>ASSETS</u>							
Cash and Cash Equivalents	\$ 226,317	\$ -	\$ 62,704	\$ 278,800	\$ 567,821	\$ -	\$ 567,821
Restricted Cash	652,034	684,323	-	-	1,336,357	-	1,336,357
Accounts Receivable, Net of Allowance of \$194,244 in 2018	4,598,284	41,735	1,922,180	741,222	7,303,421	(4,149,903)	3,153,518
Prepaid Expenses and Other Assets	83,444	-	11,835	-	95,279	-	95,279
Investments	978	1,304,644	-	-	1,305,622	-	1,305,622
Property, Plant and Equipment, Net	18,122,482	1,298,419	424,587	-	19,845,488	-	19,845,488
Total assets	<u>\$ 23,683,539</u>	<u>\$ 3,329,121</u>	<u>\$ 2,421,306</u>	<u>\$ 1,020,022</u>	<u>\$ 30,453,988</u>	<u>\$ (4,149,903)</u>	<u>\$ 26,304,085</u>
<u>LIABILITIES AND NET ASSETS</u>							
Accounts Payable and Accrued Expenses	\$ 1,856,104	\$ -	\$ 3,495,155	\$ 1,006,742	\$ 6,358,001	\$ (4,149,903)	\$ 2,208,098
Line of Credit	150,000	-	-	-	150,000	-	150,000
Notes Payable	10,439,666	-	-	-	10,439,666	-	10,439,666
Total Liabilities	<u>12,445,770</u>	<u>-</u>	<u>3,495,155</u>	<u>1,006,742</u>	<u>16,947,667</u>	<u>(4,149,903)</u>	<u>12,797,764</u>
Net Assets (Deficit):							
Without Donor Restrictions	11,183,769	-	(1,074,513)	13,280	10,122,536	-	10,122,536
With Donor Restrictions	54,000	3,329,121	664	-	3,383,785	-	3,383,785
Total Net Assets (Deficit)	<u>11,237,769</u>	<u>3,329,121</u>	<u>(1,073,849)</u>	<u>13,280</u>	<u>13,506,321</u>	<u>-</u>	<u>13,506,321</u>
Total Liabilities and Net Assets (Deficit)	<u>\$ 23,683,539</u>	<u>\$ 3,329,121</u>	<u>\$ 2,421,306</u>	<u>\$ 1,020,022</u>	<u>\$ 30,453,988</u>	<u>\$ (4,149,903)</u>	<u>\$ 26,304,085</u>

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
AND AFFILIATES**
Consolidating Statement of Activities
Year Ended December 31, 2018

	Mississippi Children's Home Society			CARES Center, Inc.		Mississippi Children's Home Services, Inc.	Subtotal	Eliminating Entries	Total Consolidated
	Operating Without Donor Restrictions	Operating With Donor Restrictions	Endowment With Donor Restrictions	Operating Without Donor Restrictions	Operating With Donor Restrictions				
Net Assets Without Donor Restrictions:									
Support and Revenue:									
Government Agencies	\$ 15,849,619	\$ -	\$ -	\$ 12,339,540	\$ -	\$ -	\$ 28,189,159	\$ -	\$ 28,189,159
Program Fees	479,628	-	-	708,546	-	-	1,188,174	-	1,188,174
Contributions - Other and Special Events	837,345	-	-	370,603	-	-	1,207,948	-	1,207,948
Interest and Dividends	34,192	-	-	237	-	-	34,429	-	34,429
Rental Income	1,382,121	-	-	-	-	-	1,382,121	(1,109,164)	272,957
Net Assets Released from Restrictions	74,935	-	-	-	-	-	74,935	-	74,935
Other	61,563	-	-	19,055	-	-	80,618	-	80,618
Total Support and Revenue Without Donor Restrictions	<u>18,719,403</u>	<u>-</u>	<u>-</u>	<u>13,437,981</u>	<u>-</u>	<u>-</u>	<u>32,157,384</u>	<u>(1,109,164)</u>	<u>31,048,220</u>
Expenses:									
Program Services:									
CARES PRTF	-	-	-	8,288,221	-	-	8,288,221	(496,896)	7,791,325
CARES Schools	-	-	-	3,885,221	-	-	3,885,221	(276,860)	3,608,361
Autism Solutions	-	-	-	979,987	-	-	979,987	-	979,987
Treatment Foster Care & In-Home Service and Adoption	560,038	-	-	-	-	-	560,038	-	560,038
Mississippi Youth Programs Around the Clock	5,988,647	-	-	-	-	-	5,988,647	(228,599)	5,760,048
Comprehensive Family Support Center	5,083,131	-	-	-	-	-	5,083,131	-	5,083,131
South MS Children's Center	597,109	-	-	-	-	-	597,109	-	597,109
Children's Advocacy Center	423,610	-	-	-	-	-	423,610	-	423,610
Warren County Children's Shelter	647,597	-	-	-	-	-	647,597	-	647,597
MCHS Outpatient Clinical Services	2,887,137	-	-	-	-	-	2,887,137	(106,809)	2,780,328
Total program services	<u>16,187,269</u>	<u>-</u>	<u>-</u>	<u>13,153,429</u>	<u>-</u>	<u>-</u>	<u>29,340,698</u>	<u>(1,109,164)</u>	<u>28,231,534</u>
Support Services:									
MCHS Administrative	643,661	-	-	-	-	-	643,661	-	643,661
Development/Fundraising 1900 and 2000 North West Street	935,066	-	-	-	-	-	935,066	-	935,066
Property Expense	1,560,169	-	-	-	-	-	1,560,169	-	1,560,169
Total Support Services	<u>3,138,896</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,138,896</u>	<u>-</u>	<u>3,138,896</u>
Total Expenses	<u>19,326,165</u>	<u>-</u>	<u>-</u>	<u>13,153,429</u>	<u>-</u>	<u>-</u>	<u>32,479,594</u>	<u>(1,109,164)</u>	<u>31,370,430</u>
Change in Net Assets Without Donor Restrictions	<u>(606,762)</u>	<u>-</u>	<u>-</u>	<u>284,552</u>	<u>-</u>	<u>-</u>	<u>(322,210)</u>	<u>-</u>	<u>(322,210)</u>

**MISSISSIPPI CHILDREN'S HOME SERVICES, INC.
AND AFFILIATES**
Consolidating Statement of Activities
Year Ended December 31, 2018

	Mississippi Children's Home Society			CARES Center, Inc.		Mississippi Children's Home Services, Inc.	Subtotal	Eliminating Entries	Total Consolidated
	Operating Without Donor Restrictions	Operating With Donor Restrictions	Endowment With Donor Restrictions	Operating Without Donor Restrictions	Operating With Donor Restrictions				
Net Assets With Donor Restrictions:									
Contributions and Special Events	\$ -	\$ 50,000	\$ -	\$ -	\$ -	\$ -	\$ 50,000	\$ -	\$ 50,000
Net Assets Released from Restrictions	-	(74,935)	-	-	-	-	(74,935)	-	(74,935)
Interest and Dividends	-	-	7,366	-	-	-	7,366	-	7,366
Net Realized and Unrealized Gains (Losses) on Investments	-	-	(90,607)	-	-	-	(90,607)	-	(90,607)
General and Administrative and Other (Expenses)	-	-	(2,673)	-	-	-	(2,673)	-	(2,673)
Change in Net Assets With Donor Restrictions	-	(24,935)	(85,914)	-	-	-	(110,849)	-	(110,849)
Change in Net Assets	(606,762)	(24,935)	(85,914)	284,552	-	-	(433,059)	-	(433,059)
Net Assets (Deficit) at Beginning of Year	11,790,531	78,935	3,415,035	(1,359,065)	664	13,280	13,939,380	-	13,939,380
Net Assets (deficit) at End of Year	<u>\$ 11,183,769</u>	<u>\$ 54,000</u>	<u>\$ 3,329,121</u>	<u>\$ (1,074,513)</u>	<u>\$ 664</u>	<u>\$ 13,280</u>	<u>\$ 13,506,321</u>	<u>\$ -</u>	<u>\$ 13,506,321</u>