



**SPECTRUM YOUTH AND FAMILY SERVICES, INC.  
AND SUBSIDIARY**

**CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2018 AND 2017**

**JMM & ASSOCIATES  
CERTIFIED PUBLIC ACCOUNTANTS**

**SPECTRUM YOUTH AND FAMILY SERVICES, INC.  
AND SUBSIDIARY**

**CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2018 AND 2017**

**SPECTRUM YOUTH AND FAMILY SERVICES, INC. AND SUBSIDIARY**

**CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2018 AND 2017**

	<u>Page</u>
Independent Auditor's Report	1 - 2
Financial Statements:	
Consolidated Statements of Financial Position	3 - 4
Consolidated Statements of Activities	5 - 6
Consolidated Statement of Functional Expenses	7 - 8
Consolidated Statements of Cash Flows	9 - 10
Notes to Consolidated Financial Statements	11 - 20



VT License #92-0000171

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Spectrum Youth and Family Services, Inc.  
Burlington, Vermont

We have audited the accompanying consolidated financial statements of Spectrum Youth and Family Services, Inc. (a nonprofit organization) and Subsidiary, which comprise the consolidated statements of financial position as of September 30, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, the consolidated statement of functional expenses for the year ended September 30, 2018, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair representation 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 preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of 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 risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

JMM & ASSOCIATES ■ CERTIFIED PUBLIC ACCOUNTANTS

336 Water Tower Circle, Suite 801 ■ Colchester, VT 05446 ■ 802 655 5665 ■ FAX: 802 655 5666 ■ JMM@JMMCPA.NET

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Spectrum Youth and Family Services, Inc. and Subsidiary as of September 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Jmm & Associates*

January 17, 2019

**SPECTRUM YOUTH AND FAMILY SERVICES, INC. AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**SEPTEMBER 30, 2018 AND 2017**

**A S S E T S**

	<u>2018</u>	<u>2017</u>
<b>CURRENT ASSETS</b>		
Cash - unrestricted	\$ (79,053)	\$ 42,797
Cash - restricted	532,295	413,427
Grants and contracts receivable	205,459	228,558
Gifts receivable, current portion	211,000	110,000
Bequest receivable	-	50,000
Prepaid expenses	<u>82,084</u>	<u>83,534</u>
 <b>TOTAL CURRENT ASSETS</b>	 <u>951,785</u>	 <u>928,316</u>
 <b>PROPERTY AND EQUIPMENT</b>		
Land	289,065	289,065
Buildings	746,625	746,625
Building improvements	1,113,548	1,061,243
Furniture and equipment	251,853	228,992
Vehicles	<u>58,530</u>	<u>46,519</u>
	2,459,621	2,372,444
Less accumulated depreciation	<u>(1,490,862)</u>	<u>(1,385,590)</u>
 <b>TOTAL PROPERTY AND EQUIPMENT</b>	 <u>968,759</u>	 <u>986,854</u>
 <b>OTHER ASSETS</b>		
Long-term investments	4,361,732	4,105,617
Restricted cash - capital reserve	26,846	25,338
Beneficial interest held by others	44,733	41,791
Gifts receivable, net of current portion	50,000	80,000
Security deposits	<u>2,175</u>	<u>1,825</u>
 <b>TOTAL OTHER ASSETS</b>	 <u>4,485,486</u>	 <u>4,254,571</u>
 <b>TOTAL ASSETS</b>	 <u>\$ 6,406,030</u>	 <u>\$ 6,169,741</u>

See accompanying notes.

**LIABILITIES AND NET ASSETS**

	<b>2018</b>	<b>2017</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 165,039	\$ 66,510
Accrued payroll liabilities	170,235	176,750
Accrued vacation	81,043	72,740
Rent deposits	4,080	5,800
Deferred revenue	63,583	79,686
<b>TOTAL CURRENT LIABILITIES</b>	<b>483,980</b>	<b>401,486</b>
<b>TOTAL LIABILITIES</b>	<b>483,980</b>	<b>401,486</b>
<b>NET ASSETS</b>		
Unrestricted/Retained earnings	4,716,543	4,724,356
Temporarily restricted	815,035	653,427
Permanently restricted	390,472	390,472
<b>TOTAL NET ASSETS</b>	<b>5,922,050</b>	<b>5,768,255</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 6,406,030</b>	<b>\$ 6,169,741</b>

See accompanying notes.

**SPECTRUM YOUTH AND FAMILY SERVICES, INC. AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF ACTIVITIES**

**FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>		
<b>SUPPORT AND REVENUE</b>		
Grants and contracts	\$ 659,243	\$ 653,666
Program fees	880,497	829,585
Contributions	1,860,059	1,650,826
Operating investment income	160,000	82,000
Rental income	28,444	56,637
Miscellaneous income	3,201	3,393
	<u>3,591,444</u>	<u>3,276,107</u>
Net assets released from restrictions	200,753	146,996
	<u>3,792,197</u>	<u>3,423,103</u>
<b>TOTAL SUPPORT AND REVENUE</b>		
<b>EXPENSES</b>		
Program services:		
Residential Programs	910,660	854,076
Outreach/Drop-in	369,920	370,339
Multicultural Youth	159,403	140,330
Counseling	534,781	498,048
Youth Development	347,562	335,786
JOBS & Youth in Transition	203,575	188,254
Mentoring	79,306	74,341
Social Enterprise Initiative	311,119	163,301
Total Program services	<u>2,916,326</u>	<u>2,624,475</u>
Support services:		
General and administrative	508,436	469,430
Fundraising	435,691	401,289
Total Support services	<u>944,127</u>	<u>870,719</u>
	<u>3,860,453</u>	<u>3,495,194</u>
<b>TOTAL EXPENSES</b>		
<b>OPERATING LOSS</b>	<u>(68,256)</u>	<u>(72,091)</u>
<b>NONOPERATING INCOME</b>		
Investment income	<u>60,443</u>	<u>239,588</u>
	<u>60,443</u>	<u>239,588</u>
<b>TOTAL NONOPERATING INCOME</b>		
<b>CHANGE IN UNRESTRICTED NET ASSETS/RETAINED EARNINGS</b>	(7,813)	167,497
<b>BEGINNING UNRESTRICTED NET ASSETS/RETAINED EARNINGS</b>	<u>4,724,356</u>	<u>4,556,859</u>
<b>ENDING UNRESTRICTED NET ASSETS/RETAINED EARNINGS</b>	<u>\$ 4,716,543</u>	<u>\$ 4,724,356</u>

See accompanying notes.



**SPECTRUM YOUTH AND FAMILY SERVICES, INC. AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF ACTIVITIES (CONTINUED)**

**FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
<b>CHANGE IN TEMPORARILY RESTRICTED NET ASSETS</b>		
<b>SUPPORT AND REVENUE</b>		
Contributions	\$ 340,621	\$ 131,000
Earnings on endowment	21,740	-
	<u>362,361</u>	<u>131,000</u>
Net assets released from restrictions	<u>(200,753)</u>	<u>(146,996)</u>
<b>TOTAL SUPPORT AND REVENUE</b>	<u>161,608</u>	<u>(15,996)</u>
<b>CHANGE IN TEMPORARILY RESTRICTED NET ASSETS</b>	161,608	(15,996)
<b>BEGINNING TEMPORARILY RESTRICTED NET ASSETS</b>	<u>653,427</u>	<u>669,423</u>
<b>ENDING TEMPORARILY RESTRICTED NET ASSETS</b>	<u>\$ 815,035</u>	<u>\$ 653,427</u>
<b>CHANGE IN PERMANENTLY RESTRICTED NET ASSETS</b>		
<b>SUPPORT AND REVENUE</b>		
Contributions	\$ -	\$ 390,472
<b>TOTAL SUPPORT AND REVENUE</b>	<u>-</u>	<u>390,472</u>
<b>CHANGE IN PERMANENTLY RESTRICTED NET ASSETS</b>	-	390,472
<b>BEGINNING PERMANENTLY RESTRICTED NET ASSETS</b>	<u>390,472</u>	<u>-</u>
<b>ENDING PERMANENTLY RESTRICTED NET ASSETS</b>	<u>\$ 390,472</u>	<u>\$ 390,472</u>
<b>TOTAL CHANGE IN NET ASSETS</b>		
Unrestricted/retained earnings	\$ (7,813)	\$ 167,497
Temporarily restricted	161,608	(15,996)
Permanently restricted	<u>-</u>	<u>390,472</u>
	<u>\$ 153,795</u>	<u>\$ 541,973</u>

See accompanying notes.

**SPECTRUM YOUTH AND FAMILY SERVICES, INC. AND SUBSIDIARY**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**

**FOR THE YEAR ENDED SEPTEMBER 30, 2018  
(WITH COMPARATIVE TOTALS FOR 2017)**

	<u>Residential Programs</u>	<u>Outreach/ Drop-In</u>	<u>Multicultural Youth</u>	<u>Counseling</u>	<u>Youth Development</u>	<u>JOBS &amp; Youth in Transition</u>	<u>Mentoring</u>
Salaries and wages	\$ 566,112	\$ 210,927	\$ 76,613	\$ 235,422	\$ 219,692	\$ 130,335	\$ 51,251
Payroll taxes and employee benefits	155,783	54,564	22,007	63,593	59,266	34,420	13,662
Total Personnel	721,895	265,491	98,620	299,015	278,958	164,755	64,913
Professional services	1,653	747	6,727	154,466	229	550	785
Occupancy	72,023	20,031	11,141	28,925	21,905	12,171	2,654
Program and client expense	14,979	20,607	16,272	6,793	2,909	7,322	1,288
Depreciation	47,228	18,718	2,954	6,479	8,138	4,222	2,769
Technology expense	13,260	1,810	11,741	18,526	11,717	2,021	1,050
Insurance	18,045	7,457	2,922	7,118	5,952	3,831	2,762
Office expenses	8,569	5,955	3,543	5,650	6,882	3,954	1,113
Miscellaneous	4,982	1,000	-	5,348	-	-	-
Food	3,733	23,727	218	22	230	100	(30)
Travel	2,621	3,051	1,187	2,389	10,110	4,459	720
Conferences and meetings	661	1,021	4,078	(539)	115	190	1,090
Advertising	1,011	305	-	589	417	-	192
Total Expenses	<u>\$ 910,660</u>	<u>\$ 369,920</u>	<u>\$ 159,403</u>	<u>\$ 534,781</u>	<u>\$ 347,562</u>	<u>\$ 203,575</u>	<u>\$ 79,306</u>

See accompanying notes.

	<b>Social Enterprise Initiative</b>	<b>Total Program Services</b>	<b>General &amp; Administrative</b>	<b>Fundraising</b>	<b>2018 Total</b>	<b>2017 Total</b>
Salaries and wages	\$ 196,991	\$ 1,687,343	\$ 310,641	\$ 228,021	2,226,005	\$ 2,006,781
Payroll taxes and employee benefits	44,577	447,872	81,367	60,954	590,193	561,755
<b>Total Personnel</b>	<b>241,568</b>	<b>2,135,215</b>	<b>392,008</b>	<b>288,975</b>	<b>2,816,198</b>	<b>2,568,536</b>
Professional services	2,326	167,483	24,510	25,044	217,037	139,535
Occupancy	22,963	191,813	14,299	9,213	215,325	193,910
Program and client expense	15,243	85,413	2,640	52,539	140,592	139,683
Depreciation	1,847	92,355	10,380	2,283	105,018	112,830
Technology expense	2,898	63,023	23,956	13,559	100,538	99,117
Insurance	4,102	52,189	7,923	5,312	65,424	59,660
Office expenses	2,753	38,419	8,829	9,851	57,099	56,790
Miscellaneous	2,621	13,951	5,842	22,747	42,540	29,042
Food	3,040	31,040	2,183	568	33,791	31,940
Travel	2,643	27,180	5,154	807	33,141	35,636
Conferences and meetings	2,333	8,949	10,466	4,213	23,628	24,744
Advertising	6,782	9,296	246	580	10,122	3,771
<b>Total Expenses</b>	<b>\$ 311,119</b>	<b>\$ 2,916,326</b>	<b>\$ 508,436</b>	<b>\$ 435,691</b>	<b>\$ 3,860,453</b>	<b>\$ 3,495,194</b>

**See accompanying notes.**

**SPECTRUM YOUTH AND FAMILY SERVICES, INC. AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from grants and contracts	\$ 666,239	\$ 836,205
Cash received from contributions	2,179,680	1,638,326
Cash received from program fees	880,497	829,585
Other miscellaneous receipts	29,925	56,578
Interest received	72,210	68,153
Cash paid to suppliers for goods and services	(839,608)	(766,218)
Cash paid for personnel	<u>(2,814,410)</u>	<u>(2,535,125)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>174,533</u>	<u>127,504</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales of long-term investments	850,558	-
Purchases of long-term investments	(939,388)	(496,219)
Purchases of fixed assets	<u>(87,177)</u>	<u>(50,968)</u>
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<u>(176,007)</u>	<u>(547,187)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Endowment gifts received	-	390,472
(Increase) decrease in restricted cash	<u>(120,376)</u>	<u>32,882</u>
<b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>	<u>(120,376)</u>	<u>423,354</u>
<b>INCREASE (DECREASE) IN CASH</b>	(121,850)	3,671
<b>BEGINNING CASH</b>	<u>42,797</u>	<u>39,126</u>
<b>ENDING CASH</b>	<u><u>\$ (79,053)</u></u>	<u><u>\$ 42,797</u></u>

See accompanying notes.

**SPECTRUM YOUTH AND FAMILY SERVICES, INC. AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**

**FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Change in net assets	\$ 153,795	\$ 541,973
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	105,018	112,830
Endowment gifts	-	(390,472)
Increase in beneficial interest in assets	(2,942)	(5,048)
Realized gain on investments	(55,561)	(37,520)
Unrealized gain on investments	(111,470)	(210,867)
(Increase) decrease in:		
Grants and contracts receivable	23,099	24,188
Gifts receivable	(71,000)	37,500
Bequest receivable	50,000	(50,000)
Prepaid expenses	1,450	(685)
Security deposits	(350)	-
Increase (decrease) in:		
Accounts payable	98,529	48,295
Accrued payroll liabilities	(6,515)	34,061
Accrued vacation	8,303	(650)
Rent deposits	(1,720)	(3,452)
Deferred revenue	(16,103)	27,351
Total adjustments	<u>20,738</u>	<u>(414,469)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 174,533</u>	<u>\$ 127,504</u>

See accompanying notes.

# SPECTRUM YOUTH AND FAMILY SERVICES, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2018 AND 2017

### 1) SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

#### Nature of operations

Spectrum Youth and Family Services, Inc. ("Spectrum" or the "Organization") is a nonprofit organization dedicated to empowering teenagers, young adults, and their families to make and sustain positive changes through prevention, intervention and life skills services. The Organization serves clients in Chittenden County, Vermont and other areas throughout the State and receives revenues from federal and state grants, program fees and private support.

#### Principles of consolidation

In 2016 Spectrum created a subsidiary entity, Spectrum Works, L3C, for the purpose of vocational training. Spectrum Youth and Family Services, Inc. is the sole member of Spectrum Works, L3C. The accompanying consolidated financial statements include the accounts of Spectrum and Spectrum Works, L3C. All significant intercompany accounts have been eliminated in consolidation.

#### Programs and activities

The Organization provides a wide range of counseling and social work services. The following programs and supporting services are included in the accompanying financial statements:

*Residential programs* include three residential facilities and an emergency shelter providing services to help youth transition to independent living. The third residential facility on Pearl Street in Burlington was opened in June 2012 (Note 14).

The *Outreach/Drop-in Center* helps youth with basic needs (such as meals and clothing) and offers job training classes, driver education and other services.

The *Counseling Program* is nationally recognized and specializes in assessment and treatment of mental health and substance abuse concerns for adolescents and young adults.

*Social Enterprise Initiative* consists of Detail Works, which gives youth progressive, on-the-job experience, with an emphasis on attention, communication, and accountability, and gives youth a chance to try out these skills in a safe environment.

*Other programs* focus on individualized services for youth, offering independent living skills, job training and development and substance abuse education, and identifying additional programs to help youth become contributing members of the community.

*General and administrative* functions include managing the financial and budgetary responsibilities of the Organization, overseeing program activities for compliance with funding requirements and for conformance with the Organization's mission, and providing a working environment offering employees fair compensation and opportunities for professional growth.

*Fundraising* provides the structure necessary to encourage and secure private financial support from individuals, foundations and corporations.

**SPECTRUM YOUTH AND FAMILY SERVICES, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2018 AND 2017**

**1) SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

Basis of accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Reclassification

Certain amounts in the financial statements for 2017 have been restated to provide an improved comparison to 2018.

Financial statement presentation

Spectrum Youth and Family Services, Inc. is required to report its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Comparative financial information

The financial statements include certain prior-year, summarized comparative information in total, but not by function. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended September 30, 2017, from which the summarized information was derived.

Cash and cash equivalents

For purposes of the Consolidated Statements of Cash Flows, Spectrum Youth and Family Services, Inc. considers all unrestricted, highly-liquid investments with an initial maturity of three months or less to be cash equivalents. Amounts on deposit in excess of the FDIC limit were \$150,113 and \$551,670 as of September 30, 2018 and 2017, respectively.

Investments

Spectrum Youth and Family Services, Inc. is required to report covered investments in the Consolidated Statements of Financial Position at fair market value. Any realized or unrealized gain and loss and interest or dividends are reported as investment income in the Consolidated Statements of Activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law. Spectrum's policy is to budget a portion of its investment income to support current year operations.

Property and equipment

Property and equipment are carried at cost when acquired by purchase, and at estimated fair market value when contributed. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The Organization's policy is to capitalize all acquisitions over \$2,000 and having a useful life of more than one year. Depreciation expenses were \$105,018 and \$112,830 for the years ended September 2018 and 2017, respectively.

**SPECTRUM YOUTH AND FAMILY SERVICES, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2018 AND 2017**

**1) SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income taxes

Spectrum Youth and Family Services, Inc. is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code, and is exempt from federal income taxes on income related to its exempt purpose as a public charity pursuant to Section 509(a)(1). In addition, contributions to the Organization qualify for the charitable contribution deduction under Section 170(b)(1)(A)(vi). Spectrum Works, L3C is a disregarded entity for tax purposes.

The Organization does not believe it has any unrelated business income, and believes that it has appropriate support for any tax positions taken and, as such, does not have any uncertain tax positions that are material to the financial statements.

Contributions

Spectrum Youth and Family Services, Inc. reports its contributions as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Contributions of noncash assets are recorded at their fair values in the period received. Donated investments are also reported at fair value at the date of receipt, which is then treated as cost.

Donated services

No amounts have been reflected in the financial statements for donated services. The Organization generally pays for services requiring specific expertise. However, a number of volunteers contributed other services that have not been reflected in these financial statements, but are included by the Organization in the measurement of the total effort of its programs. In total, approximately 150 individuals provided donated services to Spectrum for 2018 and 2017.



**SPECTRUM YOUTH AND FAMILY SERVICES, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2018 AND 2017**

**1) SUMMARY OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

Advertising

Advertising costs are charged to expense when incurred. Advertising costs were \$10,122 and \$3,771 for the years ended September 30, 2018 and 2017, respectively.

Functional allocation of expenses

Expenses are charged directly to program or management in general categories based on specific identification. Indirect expenses have been allocated based on methods determined by management.

Grant and contract support

Spectrum Youth and Family Services, Inc. recognizes grant and contract funds on an exchange basis. As such, revenues are booked as the grant is earned. In accordance with the normal policies of the contracting organizations, Spectrum Youth and Family Services, Inc. may retain unexpended funds for use in future periods provided expenses incurred are in compliance with the specified terms of each grant or contract, as defined. The organizations may, at their discretion, request reimbursement for expenses or return of funds, or both, as a result of noncompliance by the Organization with the terms of the grants or contracts. In addition, if the Organization terminates providing services, all unexpended funds are to be returned to the funding sources.

**2) GRANTS AND CONTRACTS RECEIVABLE**

Grants and contracts receivable as of September 30, 2018 and 2017 consisted of amounts due from various state agencies and other nonprofit organizations.

At September 30, 2018 and 2017, 70% and 80%, respectively, of total grants and contracts receivable were due from State of Vermont agencies.

Due to the current nature of the amounts, no allowance for uncollectible accounts has been recorded. There was no bad debt expense related to grants and contracts receivable at September 30, 2018 or 2017.

**SPECTRUM YOUTH AND FAMILY SERVICES, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2018 AND 2017**

**3) GIFTS RECEIVABLE**

Gifts receivable of \$261,000 and \$190,000 at September 30, 2018 and 2017, respectively, were restricted for future years' programs.

Gifts receivable as of September 30 were as follows:

	<b>2018</b>	<b>2017</b>
Less than one year	\$ 211,000	\$ 110,000
One to five years	50,000	80,000
	<b>\$ 261,000</b>	<b>\$ 190,000</b>

Due to experience with the dependability of the donors, management estimates the gifts receivable to be fully collectible. Therefore, no allowance for uncollectible amounts is deemed necessary. There was no bad debt expense related to grants and contracts receivable at September 30, 2018 or 2017.

**4) BENEFICIAL INTEREST HELD BY OTHERS**

In 2007, Spectrum Youth and Family Services, Inc. deposited \$25,000 with the Vermont Community Foundation to establish The Spectrum Youth and Family Services Fund. The gift has been invested in the Foundation's investment pool. The balances of the fund, including accumulated earnings, were \$44,733 and \$41,791 as of September 30, 2018 and 2017, respectively.

**5) LONG-TERM INVESTMENTS**

Investments in debt securities and equity securities with readily determinable fair values are carried at fair value as determined by reference to quoted market prices and other relevant information generated by market transactions (Level 1 inputs).

Long-term investments consisted of the following at:

	<b>Fair Value</b>	<b>Cost</b>	<b>Unrealized Appreciation (Depreciation)</b>
<b>September 30, 2018:</b>			
Cash and money funds	\$ 376,355	\$ 376,240	\$ 115
Fixed income securities	983,525	1,000,385	(16,860)
Equity securities	3,001,852	2,551,750	450,102
	<b>\$ 4,361,732</b>	<b>\$ 3,928,375</b>	<b>\$ 433,357</b>

**SPECTRUM YOUTH AND FAMILY SERVICES, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2018 AND 2017**

**5) LONG-TERM INVESTMENTS (continued)**

	<u>Fair Value</u>	<u>Cost</u>	<u>Unrealized Appreciation (Depreciation)</u>
<b>September 30, 2017:</b>			
Cash and money funds	\$ 803,278	\$ 803,278	\$ -
Fixed income securities	881,703	886,492	(4,789)
Equity securities	2,420,636	2,093,960	326,676
	<u>\$ 4,105,617</u>	<u>\$ 3,783,730</u>	<u>\$ 321,887</u>

Investment return consisted of the following for the years ended September 30:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 72,210	\$ 68,153
Net change in beneficial interest	2,942	5,048
Realized gain	55,561	37,520
Unrealized gain	111,470	210,867
	<u>\$ 242,183</u>	<u>\$ 321,588</u>

**6) RESTRICTED CASH**

Current restricted cash consists of unspent temporarily restricted donations and investment income. Current restricted cash was \$532,295 and \$413,427 at September 30, 2018 and 2017, respectively.

The Vermont Housing and Conservation Board (VHCB), which provided funding for the Pearl Street Residence, requires that a reserve account be maintained for the use of capital needs at the Pearl Street building. The capital reserve balances were \$26,846 and \$25,338 at September 30, 2018 and 2017, respectively.

**7) LINE OF CREDIT**

In March 2016, the Organization entered into a line of credit agreement with Morgan Stanley Private Bank National Association which is collateralized by securities held in its Morgan Stanley investment account. The interest rate under this agreement (5.216% and 4.238% at September 30, 2018 and 2017, respectively) is the one-month LIBOR rate plus a spread of 3%. The available credit on the line was \$2,852,308 and \$2,675,834 at September 30, 2018 and 2017, respectively. No amounts have been borrowed under the agreement as of the date of the auditor's report.

**SPECTRUM YOUTH AND FAMILY SERVICES, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2018 AND 2017**

**8) RESTRICTED NET ASSETS**

Temporarily restricted net assets were available for the following purposes as of September 30:

	<u>2018</u>	<u>2017</u>
Pearl Street residence - capital and programs	\$ 358,650	\$ 368,650
Youth development	23,645	130,000
Warming shelter	220,000	61,000
Multicultural youth	100,000	60,000
Unappropriated endowment earnings	21,740	-
Other programs and future periods	91,000	33,777
	<u>\$ 815,035</u>	<u>\$ 653,427</u>

Permanently restricted net assets consist of donor-restricted gifts to be maintained in perpetuity.

**9) ENDOWMENT FUNDS**

Spectrum Youth and Family Services, Inc.'s endowment funds consisted of funds established by donors to provide annual funding for specific activities and general operations. Spectrum's Board of Directors adopted a policy in 2018 to spend yearly up to 4% of the endowment fund's value based on a rolling monthly average.

FASB Staff Position

In August 2008, the Financial Accounting Standards Board issued FASB Staff Position "Endowments of Not-for-Profit Organizations Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds." The Staff Position provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The Staff Position also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the donor or UPMIFA requires the organization to retain as permanently restricted. There were no such deficiencies at September 30, 2018 or 2017.

**SPECTRUM YOUTH AND FAMILY SERVICES, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2018 AND 2017**

**9) ENDOWMENT FUNDS (continued)**

The fair values of Spectrum's endowment net assets were as follows at:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>September 30, 2018:</b>				
Donor-restricted endowment funds	\$ -	\$ 21,740	\$ 390,472	\$ 412,212
	<u>\$ -</u>	<u>\$ 21,740</u>	<u>\$ 390,472</u>	<u>\$ 412,212</u>
<b>September 30, 2017:</b>				
Donor-restricted endowment funds	\$ -	\$ -	\$ 390,472	\$ 390,472
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 390,472</u>	<u>\$ 390,472</u>

A summary of the changes in Spectrum's endowment funds is as follows for the years ended September 30, 2018 and 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Balance - October 1, 2016</b>	\$ -	\$ -	\$ -	\$ -
Contributions	-	-	390,472	390,472
Investment return	-	-	-	-
Appropriated for expenditure	-	-	-	-
<b>Balance - September 30, 2017</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 390,472</u>	<u>\$ 390,472</u>
<b>Balance - October 1, 2017</b>	\$ -	\$ -	\$ 390,472	\$ 390,472
Contributions	-	-	-	-
Investment return	-	21,740	-	21,740
Appropriated for expenditure	-	-	-	-
<b>Balance - September 30, 2018</b>	<u>\$ -</u>	<u>\$ 21,740</u>	<u>\$ 390,472</u>	<u>\$ 412,212</u>

**SPECTRUM YOUTH AND FAMILY SERVICES, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2018 AND 2017**

**10) RETIREMENT PLAN**

Spectrum Youth and Family Services, Inc. offers its employees a 403(b) plan. The plan allows all employees to make salary reduction contributions to the plan up to the amount allowed by law. The Organization offers an employer matching contribution to all employees 18 years or older who have completed at least one year of service. The Organization makes a matching contribution equal to the lesser of 50% of an employee's salary reduction amount or 3% of an employee's annual compensation. Total contributions to the plan for the years ended September 30, 2018 and 2017 were \$28,151 and \$27,196, respectively.

**11) SPECTRUM WORKS, L3C**

In fiscal year 2017, Spectrum Youth and Family Services, Inc. created a subsidiary entity, Spectrum Works, L3C, for the purpose of vocational training as an auto detailing social enterprise. Spectrum's Board of Directors approved funding Spectrum Works, L3C up to \$360,000 in its first three years of operations. Spectrum Youth and Family Services, Inc. advanced total amounts of \$254,987 and \$53,783 to Spectrum Works, L3C as of September 30, 2018 and 2017, respectively.

**12) LEASES**

The Organization has several noncancelable operating leases, primarily for office space and equipment, that expire at various dates through February 28, 2021. Lease payments were \$28,414 and \$34,983, respectively, for the years ended September 30, 2018 and 2017.

Future minimum lease commitments under operating leases that have remaining terms in excess of one year as of September 30, 2018 are as follows:

2019	\$	30,710
2020		8,700
2021		1,900
		<hr/>
	\$	41,310
		<hr/> <hr/>

The Organization leases a portion of its property on Pearl Street in Burlington to another not-for-profit organization under a three-year lease which will expire in June 2020. In June 2012, the Organization opened the Pearl Street Residence, which has eight units available to lease to qualified youth. The monthly rent per unit is \$590, and rent is subsidized by the Burlington Housing Association for youth unable to pay the full monthly amount.

Total rental income was \$28,444 and \$56,637 for the years ended September 30, 2018 and 2017, respectively. Future minimum lease income is \$15,200 and \$11,500 for the years ending September 30, 2019 and 2020, respectively.

**SPECTRUM YOUTH AND FAMILY SERVICES, INC. AND SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**SEPTEMBER 30, 2018 AND 2017**

**13) CONTINGENCIES**

Financial awards from federal, state and local governmental entities in the form of grants are subject to special audit. Such audits could result in claims against the Organization for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date.

**14) HOUSING COVENANTS AND MORTGAGE DEED**

The Organization is subject to a housing subsidy covenant and a mortgage deed as conditions of funding provided to it by the Vermont Housing and Conservation Board (VHCB). VHCB funding consisted of (1) \$150,000 provided in 1994 for repayment of indebtedness to purchase the property at Pearl Street which houses the Emergency Shelter, (2) funding of a \$10,000 feasibility grant received in 2011 for pre-development expenses related to construction of a third residential facility, and (3) \$144,000 received in 2012 for rehabilitation of a portion of the Pearl Street building as a residential facility, known as the Pearl Street Residence, which was opened to residents in June 2012. The housing covenants for the Emergency Shelter and Pearl Street Residence restrict the number of units, and establish rent restrictions and affordability requirements.

The mortgage deed restricts use of a portion of the Pearl Street property as an emergency shelter, and establishes penalties for noncompliance including repayment of the principal amount granted for purchase of the building plus 25% of any appreciation of the property from the date of mortgage and date of noncompliance. The \$144,000 VHCB grant requires the funding of a reserve account to be used for future capital needs at the Pearl Street building (Note 6).

**15) SUBSEQUENT EVENTS**

Spectrum Youth and Family Services, Inc. has evaluated events and transactions for potential recognition or disclosure through January 17, 2019, the date the financial statements were available to be issued.