

WEST MICHIGAN PARTNERSHIP FOR CHILDREN

FINANCIAL STATEMENTS

For the years ended
September 30, 2021 and 2020

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Federal Financial Assistance Programs Supplemental Information Issued Under Separate Cover

INDEPENDENT AUDITOR'S REPORT

March 10, 2022

To the Board of Directors
West Michigan Partnership for Children
Grand Rapids, Michigan

We have audited the accompanying financial statements of West Michigan Partnership for Children (a nonprofit organization), which comprise the statements of financial position as of September 30, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of West Michigan Partnership for Children as of September 30, 2021 and 2020, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2022 on our consideration of West Michigan Partnership for Children's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 West Michigan Partnership for Children's 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 West Michigan Partnership for Children's internal control over financial reporting and compliance.



Certified Public Accountants
Grand Rapids, Michigan

FINANCIAL STATEMENTS

STATEMENTS OF FINANCIAL POSITION

WEST MICHIGAN PARTNERSHIP FOR CHILDREN
September 30, 2021 and 2020

ASSETS

| | 2021 | 2020 |
|---------------------------|----------------------|---------------------|
| Assets | | |
| Cash and cash equivalents | \$ 12,568,108 | \$ 2,086,023 |
| Grants receivable | 114,248 | 5,197,831 |
| Prepaid expenses | 41,422 | 62,462 |
| Total Assets | \$ 12,723,778 | \$ 7,346,316 |

LIABILITIES AND NET ASSETS

Liabilities

| | | |
|--------------------------|------------------|------------------|
| Accounts payable | \$ 1,059,706 | \$ 5,545,119 |
| Accrued liabilities: | | |
| Accrued compensation | - | 87,363 |
| Foster care services | 104,828 | 339,670 |
| Other | 3,182 | - |
| Deferred Revenue | - | 313,673 |
| Total Liabilities | 1,167,716 | 6,285,825 |

Net Assets

| | | |
|---|----------------------|---------------------|
| Without donor restrictions | 11,556,062 | 1,060,491 |
| Total Net Assets | 11,556,062 | 1,060,491 |
| Total Liabilities and Net Assets | \$ 12,723,778 | \$ 7,346,316 |

STATEMENTS OF ACTIVITIES

WEST MICHIGAN PARTNERSHIP FOR CHILDREN
For the years ended September 30, 2021 and 2020

| | Without Donor Restrictions 2021 | Without Donor Restrictions 2020 |
|--|--|--|
| Grant Revenue and Other | | |
| Grant revenue - case rate payments | \$ 37,039,865 | \$ 33,285,878 |
| Grant revenue - administration fees | 2,041,898 | 2,040,471 |
| Grant revenue - other | 789,667 | 342,904 |
| Interest income | 25,631 | 3,532 |
| Contributions | 7,603 | 113 |
| Other | - | 84,067 |
| Total Grant Revenue and Other | 39,904,664 | 35,756,965 |
| Expenses | | |
| Program services: | | |
| Child welfare programs | 28,799,284 | 36,055,076 |
| Supporting services: | | |
| General and administrative | 609,809 | 651,252 |
| Total Expenses | 29,409,093 | 36,706,328 |
| Change in Net Assets | 10,495,571 | (949,363) |
| Net Assets, beginning of period | 1,060,491 | 2,009,854 |
| Net Assets, end of period | <u>\$ 11,556,062</u> | <u>\$ 1,060,491</u> |

STATEMENTS OF FUNCTIONAL EXPENSES

WEST MICHIGAN PARTNERSHIP FOR CHILDREN

For the year ended September 30, 2021

| | <u>Program Services</u> | | <u>Supporting Services</u> | |
|--|-------------------------------|-----------|-------------------------------|----------------------|
| | <u>Child Welfare Programs</u> | | <u>Management and General</u> | <u>Total</u> |
| Salary and wages | \$ 1,006,207 | \$ | 315,378 | \$ 1,321,585 |
| Payroll taxes | 75,077 | | 23,532 | 98,609 |
| Employee benefits | 125,481 | | 39,330 | 164,811 |
| Total Salaries and Related Expenses | 1,206,765 | | 378,240 | 1,585,005 |
| Placement agency foster care payments | 10,585,308 | | - | 10,585,308 |
| Foster parent maintenance rate | 2,931,932 | | - | 2,931,932 |
| Residential services | 6,651,583 | | - | 6,651,583 |
| Treatment and enhanced foster care | 3,132,287 | | - | 3,132,287 |
| Adoption | 1,673,116 | | - | 1,673,116 |
| Family reunification | 483,806 | | - | 483,806 |
| Supportive visitation | 227,165 | | - | 227,165 |
| Independent living payments | 618,235 | | - | 618,235 |
| Counseling services | 172,385 | | - | 172,385 |
| Drug screens | 190,269 | | - | 190,269 |
| Parent education | 87,862 | | - | 87,862 |
| Case worker training | 13,541 | | - | 13,541 |
| Specific case services | 430,531 | | - | 430,531 |
| Foster parent recruitment | 28,995 | | - | 28,995 |
| Other contracted foster care services | 11,903 | | - | 11,903 |
| Occupancy | 47,117 | | 14,768 | 61,885 |
| Professional services | 44,491 | | 136,495 | 180,986 |
| Telephone and technology | 184,355 | | 57,783 | 242,138 |
| Marketing | 28,549 | | 7,137 | 35,686 |
| Professional development and travel | 10,772 | | 3,376 | 14,148 |
| Other operating expenses | 38,317 | | 12,010 | 50,327 |
| Total Expenses | \$ 28,799,284 | \$ | 609,809 | \$ 29,409,093 |

STATEMENTS OF FUNCTIONAL EXPENSES (CONTINUED)

WEST MICHIGAN PARTNERSHIP FOR CHILDREN

For the year ended September 30, 2020

| | <u>Program Services</u> | | <u>Supporting Services</u> |
|--|-------------------------------|-------------------------------|----------------------------|
| | <u>Child Welfare Programs</u> | <u>Management and General</u> | <u>Total</u> |
| Salary and wages | \$ 891,833 | \$ 290,775 | \$ 1,182,608 |
| Payroll taxes | 67,753 | 22,091 | 89,844 |
| Employee benefits | 129,748 | 42,303 | 172,051 |
| Total Salaries and Related Expenses | 1,089,334 | 355,169 | 1,444,503 |
| Placement agency foster care payments | 13,297,362 | - | 13,297,362 |
| Foster parent maintenance rate | 3,749,249 | - | 3,749,249 |
| Residential services | 10,293,383 | - | 10,293,383 |
| Treatment and enhanced foster care | 3,511,040 | - | 3,511,040 |
| Adoption | 1,679,150 | - | 1,679,150 |
| Family reunification | 548,551 | - | 548,551 |
| Supportive visitation | 119,569 | - | 119,569 |
| Independent living payments | 421,863 | - | 421,863 |
| Counseling services | 294,938 | - | 294,938 |
| Drug screens | 131,126 | - | 131,126 |
| Parent education | 103,492 | - | 103,492 |
| Case worker training | 86,495 | - | 86,495 |
| Specific case services | 443,408 | (4,131) | 439,277 |
| Other contracted foster care services | 6,211 | - | 6,211 |
| Occupancy | 48,060 | 15,669 | 63,729 |
| Professional services | 26,486 | 133,482 | 159,968 |
| Telephone and technology | 163,454 | 53,293 | 216,747 |
| Marketing | 17,451 | 4,363 | 21,814 |
| Professional development and travel | 24,454 | 7,973 | 32,427 |
| Other operating expenses | - | 85,434 | 85,434 |
| Total Expenses | \$ 36,055,076 | \$ 651,252 | \$ 36,706,328 |

STATEMENTS OF CASH FLOWS

WEST MICHIGAN PARTNERSHIP FOR CHILDREN
For the years ended September 30, 2021 and 2020

| | <u>2021</u> | <u>2020</u> |
|---|----------------------|---------------------|
| Change in Net Assets | \$ 10,495,571 | \$ (949,363) |
| Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used for) Operating Activities: | | |
| Changes in operating assets and liabilities: | | |
| Grants receivable | 5,083,583 | 2,296,566 |
| Prepaid expenses | 21,040 | (18,805) |
| Accounts payable | (4,485,413) | 3,958,702 |
| Accrued liabilities | (319,023) | 360,389 |
| Deferred revenue | (313,673) | 263,673 |
| Net Cash Provided by Operating Activities | 10,482,085 | 5,911,162 |
| Net Cash Used for Financing Activities: | | |
| MDHHS cash advance | - | (4,150,000) |
| Net Increase in Cash and Cash Equivalents | 10,482,085 | 1,761,162 |
| Beginning Cash and Cash Equivalents | 2,086,023 | 324,861 |
| Ending Cash and Cash Equivalents | <u>\$ 12,568,108</u> | <u>\$ 2,086,023</u> |

NOTES TO FINANCIAL STATEMENTS

WEST MICHIGAN PARTNERSHIP FOR CHILDREN

September 30, 2021 and 2020

Note A – Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities

The accompanying financial statements present the financial position, results of operations, and cash flows of West Michigan Partnership for Children (“WMPC”). WMPC was incorporated in Michigan as a not-for-profit corporation in 2016 to pilot the first performance-based foster care service delivery model in Michigan with the goal of improving outcomes for children. WMPC believes there is a better way to support children and families in West Michigan.

On October 1, 2017 WMPC began facilitating foster care for children and families in Kent County, Michigan, in partnership with Bethany Christian Services, Catholic Charities West Michigan, D.A. Blodgett - St. John’s, Samaritas, and Wellspring Lutheran Services, through a contract with the Michigan Department of Health and Human Services (MDHHS).

WMPC and its partners value keeping families together. WMPC aims to safely reunify more children with their families and more quickly by working alongside families to help them address the situations that led to their child’s removal. WMPC prioritizes keeping children with their families and relatives and seeks adoptive homes only when returning children to their families is not possible. Foster parents are important partners in this process.

The financial statements of WMPC have been prepared on the accrual basis of accounting. The significant accounting policies of WMPC are described below.

Basis of Accounting

The accompanying financial statements are presented using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Net Assets

WMPC reports information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions – net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of WMPC’s management and the board of directors.

Note A – Nature of Activities and Summary of Significant Accounting Policies (Continued)

Net Assets (Continued)

Net assets with donor restrictions – net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by the actions of WMPC or by the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits in banks, institutional money market funds, and cash on hand. For purposes of the statement of cash flows, WMPC considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents, except that such assets held in endowment are generally classified as noncurrent. WMPC maintains cash balances in checking and savings accounts. The checking and savings accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000 per financial institution. From time to time during the year, WMPC may have cash in a bank checking or savings account in excess of the federally insured limit.

Grants Receivable

Grants receivable consist primarily of amounts billed by WMPC to the State of Michigan but not collected as of the date of the financial statements. Grants receivable are stated at the amount management expects to collect from the outstanding balance. Management has determined, based on payments received after the date of the financial statements, that all amounts are fully collectible and no allowance for doubtful accounts is necessary.

Property and Equipment

Property and equipment are stated at cost, or in the case of donated property, at estimated fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, which range from 3 to 39 years. WMPC follows a capitalization policy of \$5,000 in determining assets to be depreciated. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

Note A – Nature of Activities and Summary of Significant Accounting Policies (Continued)

Deferred Revenue

On May 1, 2020, the Organization received loan proceeds in the amount of \$245,055 under the Paycheck Protection Program (PPP). The PPP was established as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and provides loans to qualifying businesses for amounts up to 2.5 times the average amount of qualified payroll expenses. The loans were forgivable after 24 weeks as long as the borrower used the loan proceeds for eligible purposes, including payroll, benefits, rent, and utilities, and the borrower maintains their employment levels. The Organization used the proceeds consistent with the PPP requirements and received forgiveness of the entire amount on July 15, 2021. Associated revenue has been recognized as of September 30, 2021.

Revenue Recognition

WMPC is primarily funded under a global capitated allocation model through its contract with the Michigan Department of Health and Human Services (MDHHS). For foster care programming, the capitated payment amount is based on historical averages of the number of children served in Kent County and the associated average cost of foster care services per youth. WMPC is also allocated a pre-determined amount annually for administrative operations, and oversight of partner agencies. Both the capitated and administrative allocations are determined annually by MDHHS, with one-fourth of the total being paid to WMPC at the first of each quarter. For the year-ended September 30, 2021, the total capitated and administrative allocations were \$37,039,865 and \$2,000,000, respectively.

MDHHS Capitated and administrative revenue is initially deferred upon receipt at the start of each quarter, with an equal amount then recognized each succeeding month of the fiscal year so that all funds are recognized as of September 30, 2021. Any unspent funds are to be retained by WMPC over the course of its contract for the creation of a risk pool addressing the high needs of specific children over time and developing new programs servicing the needs of foster children in WMPC's care.

Income Taxes

WMPC is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, WMPC qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

WMPC evaluates tax positions taken on its federal Exempt Organization Business Income Tax Returns in accordance with accounting principles generally accepted in the United States of America, which require that tax positions taken be more-likely-than-not to be sustained. Management believes that WMPC has no significant unrecognized tax benefits under that criteria. Penalties and interest, if any, assessed by income taxing authorities are included in operating expenses. WMPC'S federal Exempt Organization Business Income Tax Returns are generally subject to examination by taxing authorities for three years after they were filed.

Note A – Nature of Activities and Summary of Significant Accounting Policies (Continued)

Subsequent Events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through March 10, 2022 which is the date the financial statements were available to be issued.

Functional Expense Allocation

Directly identifiable expenses are charged to programs and supporting services. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of WMPC. Expenses qualifying for federal funding reimbursement related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies conducted by the State of Michigan.

Remaining management and general expenses were allocated using the following methods: 1) salaries and related personnel expenses were allocated based on management's analysis of time utilization for each WMPC position, 2) occupancy, telephone/utilities, technology, professional development, and travel expenses were allocated equally to each team member and then distributed based on management's time utilization analysis for time spent between program activities and administration, 3) professional services were either allocated wholly to administrative activities or based on time utilization, 4) marketing expenses were allocated based on time spent between programs and administration, and 5) other operating expenses wholly allocated as administrative activities.

The costs of providing various programs and other activities have been summarized on a functional basis in the Statements of Activities and in the Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. WMPC did not conduct any fundraising activities in 2021 and therefore had no expenses for that function.

Concentrations

Substantially all of the grants receivable at September 30, 2021 and 2020 are due from the State of Michigan. In addition, substantially all of the grant revenue received during the years then ended was provided by the State of Michigan. A loss of this revenue could adversely affect WMPC's operations.

NOTES TO FINANCIAL STATEMENTS

WEST MICHIGAN PARTNERSHIP FOR CHILDREN

September 30, 2021 and 2020

Note B – Liquidity and Availability

WMPC regularly monitors liquidity required to meet its operating needs, while also striving to maximize the investment of its available funds. The Organization's sources of liquidity at its disposal include cash, cash equivalents, and grants receivable. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing programmatic activities, as well as the conduct of services undertaken to support those activities, to be general expenditures. As of September 30, 2021 and 2020, the following financial assets could readily be made available within one year to meet general expenditures:

| Financial assets: | <u>2021</u> | <u>2020</u> |
|--|----------------------|---------------------|
| Cash and cash equivalents | \$ 12,568,108 | \$ 2,086,023 |
| Grants receivable | 114,248 | 5,197,831 |
| Financial assets available to meet general expenditures over the next twelve months | <u>\$ 12,682,356</u> | <u>\$ 7,283,854</u> |

Note C – Retirement Plan

WMPC has historically maintained a Simple IRA Plan, qualified under fund Section 408(p) of the Internal Revenue Code, for its retirement plan offered to employees. WMPC made automatic 2% employer contributions on gross compensation for each eligible team member through December 31, 2020. Effective January 1, 2021, WMPC adjusted their retirement plan and now offers a Section 403(b) Plan. Automatic employer contributions of 4% on gross compensation are made for each eligible team member. Eligible team members are permitted to contribute up to \$19,500 of their gross compensation, annually; team members over 50 years of age may contribute an additional \$6,500 for a maximum of \$26,000. Employer contributions, made with each bi-weekly payroll, were \$39,488 and 21,584 for the years ended September 30, 2021 and 2020, respectively.

Note D – Line of Credit

WMPC has an unsecured \$1,500,000 line of credit with Mercantile Bank which expired on December 15, 2021 and was subsequently renewed. Interest calculated on the unpaid balance will be no less than 4.25% per annum or more than the maximum rate allowed by applicable law. There were no outstanding borrowings on the line of credit as of September 30, 2021 and September 30, 2020, respectively.

NOTES TO FINANCIAL STATEMENTS

WEST MICHIGAN PARTNERSHIP FOR CHILDREN

September 30, 2021 and 2020

Note E – Operating Leases

WMPC has historically leased office space to run its operations. The original lease commenced on April 1, 2017, and WMPC was required to make monthly rent payments in the amount of \$4,656 through September 2021. Total rental expense was \$55,876 and \$54,120 for the years ended September 30, 2021 and 2020. As of October 1, 2021, the Organization has elected not to enter into a new lease arrangement for office space and operates in a virtual capacity.

WMPC also rents office equipment on a monthly basis. The 60-month lease commenced on August 10, 2017 and extended through August 2022. The required monthly payment during the audit period was \$722, plus overage charges as applicable. Office equipment rent expense was \$9,046 and \$7,294 for the years ended September 30, 2021 and 2020, respectively. Future minimum payments are as follows:

| | | |
|--------------------|----|-------|
| September 30, 2022 | \$ | 7,218 |
|--------------------|----|-------|