

**THE CHILDREN'S SERVICE CENTER
OF WYOMING VALLEY, INC.**

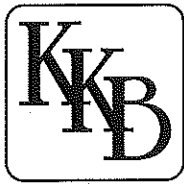
**YEARS ENDED
JUNE 30, 2016 AND 2015**

**THE CHILDREN'S SERVICE CENTER
OF WYOMING VALLEY, INC.**

YEARS ENDED JUNE 30, 2016 AND 2015

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**Kronick
Kalada
Berdy & Co.**
A Professional Corporation

Certified Public Accountants

Officers/Shareholders

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Independent Auditor's Report

Board of Directors
The Children's Service Center of Wyoming Valley, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of The Children's Service Center of Wyoming Valley, Inc. (the "Center"), which comprise the balance sheets as of June 30, 2016 and 2015, and the related statements of operations, changes in net assets 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. 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 The Children's Service Center of Wyoming Valley, Inc. as of June 30, 2016 and 2015, and the changes in net assets and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Kronick Kalada Berdy & Co
December 27, 2016

THE CHILDREN'S SERVICE CENTER OF WYOMING VALLEY, INC.

BALANCE SHEETS

JUNE 30, 2016 AND 2015

	ASSETS	
	<u>2016</u>	<u>2015</u>
Current assets:		
Cash	\$ 4,958,885	\$ 2,938,750
Accounts receivable, net of allowance for doubtful collections of \$420,000 in 2016 and \$496,000 in 2015	1,477,526	1,751,181
Pledges receivable, current portion	521,350	235,350
Investments	2,988,459	3,322,919
Prepaid expenses	<u>326,134</u>	<u>357,489</u>
 Total current assets	 10,272,354	 8,605,689
Noncurrent assets:		
Pledges receivable, net of current portion	455,153	608,153
Property and equipment, net	3,382,470	3,254,535
Investment in joint venture	44,491	44,491
Refundable advance	2,040,000	2,040,000
Beneficial interest in perpetual trusts	<u>420,951</u>	<u>445,551</u>
 Total	 <u>\$ 16,615,419</u>	 <u>\$ 14,998,419</u>
 LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 257,807	\$ 202,270
Amounts withheld from employees for payroll taxes, etc.	226,852	188,511
Accrued expenses	696,465	635,178
Deferred revenue	<u>60,835</u>	<u>48,591</u>
 Total liabilities (all current)	 <u>1,241,959</u>	 <u>1,074,550</u>
Net assets:		
Unrestricted	13,261,681	12,053,840
Temporarily restricted, capital campaign	1,690,828	1,424,478
Permanently restricted	<u>420,951</u>	<u>445,551</u>
 Total net assets	 <u>15,373,460</u>	 <u>13,923,869</u>
 Total	 <u>\$ 16,615,419</u>	 <u>\$ 14,998,419</u>

See notes to financial statements

THE CHILDREN'S SERVICE CENTER OF WYOMING VALLEY, INC.

STATEMENTS OF OPERATIONS

YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Unrestricted revenues and other support:		
Fees, including grants from governmental agencies	\$ 19,363,851	\$ 17,707,583
Other income	99,859	88,834
Other program fees	175,627	132,652
Consultation/professional fees	85,350	192,405
Contributions in-kind	166,500	158,000
United Way contributions	22,518	44,145
Other contributions	22,318	30,283
	<u>19,936,023</u>	<u>18,353,902</u>
Total unrestricted revenues and other support		
Expenses:		
Salaries and wages	12,938,887	12,213,129
Payroll taxes and employee benefits	3,429,266	2,927,351
Program and office supplies	540,530	494,119
Depreciation	377,218	372,383
Auto expense	210,600	189,104
Purchased practitioner services	185,739	148,431
Rent	182,689	173,909
Staff development and training	174,810	167,761
Utilities	160,890	166,504
Insurance	147,320	158,023
Telephone and other communications	139,983	127,348
Occupancy	129,217	115,857
Advertising	91,798	94,416
Administrative expense	73,594	62,558
Consultation and education	69,665	47,395
Legal and accounting	62,345	51,392
Payroll processing fees	59,691	57,920
Dues	38,865	33,957
Postage	26,620	22,121
Recruiting fees	24,540	39,256
Bank fees	6,026	5,611
	<u>19,070,293</u>	<u>17,668,545</u>
Total expenses		
Operating income	865,730	685,357
Contribution for long-lived assets		605,000
Investment income	6,735	121,787
Net assets released from restrictions	335,376	
	<u>\$ 1,207,841</u>	<u>\$ 1,412,144</u>
Increase in unrestricted net assets		

See notes to financial statements

THE CHILDREN'S SERVICE CENTER OF WYOMING VALLEY, INC.

STATEMENTS OF CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Increase in unrestricted net assets	\$ 1,207,841	\$ 1,412,144
Net increase in temporarily restricted net assets, capital campaign	266,350	1,424,478
Decrease in permanently restricted net assets, change in beneficial interest in perpetual trusts	<u>(24,600)</u>	<u>(7,230)</u>
Increase in net assets	1,449,591	2,829,392
Net assets, beginning	<u>13,923,869</u>	<u>11,094,477</u>
Net assets, ending	<u><u>\$ 15,373,460</u></u>	<u><u>\$ 13,923,869</u></u>

See notes to financial statements

THE CHILDREN'S SERVICE CENTER OF WYOMING VALLEY, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Increase in net assets	\$ 1,449,591	\$ 2,829,392
Adjustments:		
Depreciation	377,218	372,383
Bad debts	27,000	110,000
Change in beneficial interest in perpetual trusts	24,600	7,230
Contribution for long-lived assets		(605,000)
Net realized gain on sale of investments	(3,663)	(48,728)
Net unrealized (gain) loss on investments	56,298	(64,926)
Contributions from capital campaign	(468,727)	(580,975)
Changes in assets and liabilities:		
Accounts receivable	246,655	96,532
Pledges receivable	(133,000)	(843,503)
Prepaid expenses	31,355	(38,088)
Accounts payable	55,537	30,520
Amounts withheld from employees	38,341	27,057
Accrued expenses	61,287	34,034
Deferred revenue	12,244	44,495
Net cash provided by operating activities	<u>1,774,736</u>	<u>1,370,423</u>
Cash flows from investing activities:		
Purchase of property and equipment	(505,153)	(1,129,630)
Purchase of investments	(1,093,056)	(2,475,925)
Refundable advance		(900,000)
Proceeds from the sale of investments	<u>1,374,881</u>	<u>1,817,925</u>
Net cash used in investing activities	<u>(223,328)</u>	<u>(2,687,630)</u>
Cash flows from financing activities:		
Contribution for long-lived assets		605,000
Proceeds from capital campaign	<u>468,727</u>	<u>580,975</u>
Net cash provided by financing activities	<u>468,727</u>	<u>1,185,975</u>
Net increase (decrease) in cash	2,020,135	(131,232)
Cash, beginning	<u>2,938,750</u>	<u>3,069,982</u>
Cash, ending	<u>\$ 4,958,885</u>	<u>\$ 2,938,750</u>

See notes to financial statements

THE CHILDREN'S SERVICE CENTER OF WYOMING VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 1 Nature of operations and summary of significant accounting policies:

Nature of operations:

The Children's Service Center of Wyoming Valley, Inc. (the "Center") is a not-for-profit corporation located in Northeast Pennsylvania. The Center provides diagnostic and treatment services to children. These services cover emotional, behavioral or intellectual disorders and foster the welfare of the child and their family in any appropriate manner. They also include consultation services to agencies in the community which provide related services to children and further the welfare of the children by maintaining an interest in the community-wide program for domestic care and education, provide educational services in the field of mental health to secular and professional groups, and pursue research in the area of clinical study of children of residents of Luzerne, Wyoming and Montour Counties.

The Center has significant contracts with the Luzerne-Wyoming County Mental Health/Mental Retardation Program ("Program") to provide various mental health and mental retardation services. These revenues are recorded at contracted amounts when the service is provided. The recorded amounts are subject to audit and adjustment by the Program. Fee revenue primarily consists of service fees. Revenue from service fees is recorded when the service is provided.

Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. A significant estimate used in the preparation of these financial statements is that the leased facility will be available over a long enough period to substantially amortize leasehold improvements.

Accounts receivable:

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

Pledges receivable

The Center conducted a capital campaign in the current and prior years. The campaign is designed to solicit pledges to be paid over time (up to five years). The pledges are recorded as temporarily restricted revenue at the time the pledge is made. As the payments are collected and the monies are expended, the amounts will be recorded on the statement of operations as net assets released from restrictions.

THE CHILDREN'S SERVICE CENTER OF WYOMING VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

Temporarily and permanently restricted net assets:

Temporarily restricted net assets are those whose use by the Center had been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained for the Center in perpetuity.

Property and equipment:

Property and equipment acquisitions over \$1,000 are recorded at cost. Depreciation is computed using the straight-line method based on the estimated useful life of each classification of depreciable asset.

Income taxes:

The Center has been recognized as exempt from federal income taxes under Section 501 (c)(3) of the Internal Revenue Code and similar state regulations and, therefore, has no provision for income taxes. The Center's open tax years are 2013-2016.

Donor restricted gifts:

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Center reports the support as unrestricted.

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Investment income:

Investment income (including realized gains or losses on investments, write-downs of the cost of basis of investments due to an other-than-temporary decline in fair value, if any, interest and dividends) is included in unrestricted revenues unless the income is restricted by donor or law. Unrealized gains or losses on investments are excluded from unrestricted revenues unless the investments are trading securities.

THE CHILDREN'S SERVICE CENTER OF WYOMING VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 2 Pledges receivable – capital campaign

Pledges receivable of \$976,503 are due through 2021 and are recorded at approximate fair value. Pledges are received principally from residents and businesses located in Northeastern Pennsylvania and are not collateralized. The following schedule reflects the principal maturities of the pledges receivable.

2017	\$	521,350
2018-2021		<u>455,153</u>
	\$	<u>976,503</u>

Management uses specific identification for the uncollectable pledge allowance. No allowance was identified at June 30, 2016.

NOTE 3 Beneficial interest in perpetual trusts:

The Center is the beneficiary of two perpetual trusts held by banks serving as trustees. The terms of the trusts are such that the Center receives the income earned on the trust assets as earned in perpetuity. The assets are recorded at fair value based upon the market value of the investments held by trusts.

NOTE 4 Property and equipment, net:

Property and equipment and accumulated depreciation consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Building and land	\$ 2,795,047	\$ 2,497,935
Leasehold improvements	1,997,319	1,940,389
Equipment	2,716,307	2,565,196
Vehicles	<u>343,780</u>	<u>343,780</u>
	7,852,453	7,347,300
Accumulated depreciation	<u>4,469,983</u>	<u>4,092,765</u>
Total net book value	<u>\$ 3,382,470</u>	<u>\$ 3,254,535</u>

NOTE 5 Refundable advance:

As of June 30, 2016 and 2015, the Center advanced \$2,040,000 to the Children's Home of Wilkes-Barre. These unsecured advances are non-interest bearing and refundable on demand.

THE CHILDREN'S SERVICE CENTER OF WYOMING VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 6 Contribution in-kind revenue and expense:

The Center leases, at a nominal amount and on an annual basis, land and building owned by the Martha Bennett Estate and the Children's Home from which it provides client services. The Center has recorded as in-kind revenue and expense the difference between the property fair rental value and the nominal rental amount charged by such organizations. In-kind revenue and expense was \$166,500 in 2016 and \$158,000 in 2015.

NOTE 7 Retirement plans:

The Center has a defined contribution plan. Contributions amounted to \$203,757 and \$181,105 for the years ended June 30, 2016 and 2015, respectively.

NOTE 8 Significant group concentration of credit risk:

The Center grants credit to its patients, most of whom are local residents, governmental agencies and other third-party payors, primarily Medical Assistance, Blue Cross and various commercial insurance companies on an unsecured basis.

Cash accounts are maintained in a commercial bank located in Pennsylvania. These accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2016, cash balances in the bank exceeded the FDIC insurance coverage by \$4,125,000.

NOTE 9 Functional expenses:

The Center provides diagnostic and treatment services within its geographic location. Expenses related to providing these services for the years ended June 30 approximate the following:

	<u>2016</u>	<u>2015</u>
Diagnostic and treatment	\$ 16,345,000	\$ 15,081,000
General and administrative	2,725,000	2,588,000
Total expenses	<u>\$ 19,070,000</u>	<u>\$ 17,669,000</u>

NOTE 10 Medical malpractice claims coverage:

The Center's medical malpractice insurance coverages are provided under the provisions of an insurance arrangement which covers losses, if any, which are reported during the period the contract is in force, "claims made coverage". The Center believes it has adequate insurance coverages for all asserted claims and it has no knowledge of unasserted claims which would exceed its insurance coverages.

THE CHILDREN'S SERVICE CENTER OF WYOMING VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

NOTE 11 Fair value measurements

These investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the carrying value of the Center's investments.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

FASB ASC 820 "Fair Value Measurements" establishes a fair value hierarchy that prioritizes the reliability of inputs to valuation techniques used to measure fair value. The hierarchy gives the highest reliability to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest reliability to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 - Financial instruments, other than those with quoted market prices included in level 1, for which all significant inputs are observable. Fair value methodology for assets held by the perpetual trust is disclosed in Note 3. The Center's other level 2 investment values are based upon quoted prices in markets that are not active, broker dealer quotations or other methods by which all significant inputs are observable, either directly or indirectly.

Level 3 - Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

THE CHILDREN'S SERVICE CENTER OF WYOMING VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

The following tables set forth by level within the fair value hierarchy the fair values of assets held by perpetual trusts and the Center's investment assets as of June 30, 2016 and 2015:

	Assets at Fair Value as of June 30, 2016			Total
	Level 1	Level 2	Level 3	
Money market funds	\$ 13,259			\$ 13,259
Mutual funds:				
Fixed		\$ 110,518		110,518
Equity		215,091		215,091
Large cap		82,083		82,083
Perpetual trusts	13,259	407,692		420,951
Mutual fund: Equity	350,888			350,888
Equities:				
Consumer discretionary	150,344			150,344
Consumer staples	94,900			94,900
Energy	87,782			87,782
Financial	197,009			197,009
Health care	146,398			146,398
Industrials	101,742			101,742
Information technology	185,006			185,006
Materials	31,948			31,948
Telecommunications services	34,459			34,459
Utilities	59,158			59,158
Unclassified stocks	2,863			2,863
ETF equity	247,972			247,972
Other equity	2,812			2,812
U.S. Government Agency securities		100,097		100,097
Corporate bonds				
Aa rating		277,614		277,614
A rating		882,467		882,467
Other			\$ 35,000	35,000
Center Investments	1,693,281	1,260,178	35,000	2,988,459
Total investment assets at fair value	\$ 1,706,540	\$ 1,667,870	\$ 35,000	\$ 3,409,410

THE CHILDREN'S SERVICE CENTER OF WYOMING VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

	Assets at Fair Value as of June 30, 2015			Total
	Level 1	Level 2	Level 3	
Money market funds	\$ 12,456			\$ 12,456
Mutual funds:				
Fixed		\$ 115,775		115,775
Equity		235,443		235,443
Large cap		81,877		81,877
Perpetual trusts	12,456	433,095		445,551
Mutual fund: Equity	445,783			445,783
Equities:				
Consumer discretionary	151,849			151,849
Consumer staples	78,457			78,457
Energy	80,637			80,637
Financial	234,794			234,794
Health Care	178,785			178,785
Industrials	107,665			107,665
Information technology	177,844			177,844
Materials	26,845			26,845
Telecommunications services	27,055			27,055
Utilities	18,653			18,653
Unclassified stocks	24,680			24,680
ETF equity	199,767			199,767
Other equity	5,736			5,736
U.S. Government Agency securities		300,202		300,202
U.S. Treasury Obligations		75,293		75,293
Corporate bonds				
Aa rating		302,072		302,072
A rating		851,802		851,802
Other			\$ 35,000	35,000
Center Investments	1,758,550	1,529,369	35,000	3,322,919
Total investment assets at fair value	\$ 1,771,006	\$ 1,962,464	\$ 35,000	\$ 3,768,470

NOTE 12 Subsequent events:

Management has evaluated subsequent events through December 27, 2016, which is the date the financial statements were available for issue.