CHILDREN'S INSTITUTE, INC.

ROCHESTER, NEW YORK

AUDITED FINANCIAL STATEMENTS

OTHER FINANCIAL INFORMATION

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2017
(with Comparative Totals for 2016)

MMB

MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

CONTENTS

MMB
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Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Children's Institute, Inc.

We have audited the accompanying financial statements of Children's Institute, Inc. (the "Institute"), which comprise the balance sheet as of June 30, 2017, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year 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 audit. We conducted our audit 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 Institute'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 Institute'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.

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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 balance sheet of Children's Institute, Inc. as of June 30, 2017, and the changes in its net assets, functional expenses and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Children's Institute, Inc.'s June 30, 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 30, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Mengel, Metzger, Barr & Co. LLP

Rochester, New York
September 28, 2017

CHILDREN'S INSTITUTE, INC.

BALANCE SHEET

JUNE 30, 2017
(with Comparative Totals for 2016)

ASSETS	Operations	Unrestricted
CURRENT ASSETS		
Cash and cash equivalents	$ 113,908	$ -
Funding and grants receivable	465,198	-
Measures and manuals inventory	35,831	-
Prepaid expenses and deposits	8,954	-
Due (to) from other funds	(264,290)	264,290
TOTAL CURRENT ASSETS	359,601	264,290
PROPERTY AND EQUIPMENT		
Furniture and equipment	602,571	-
Leasehold improvements	238,091	-
	840,662	-
Less accumulated depreciation	(576,896)	-
Less accumulated amortization	(238,091)	-
	25,675	-
OTHER ASSETS		
Receivables from COMET Informatics, LLC, net of allowance for doubtful accounts of $400,000 in 2017 and 2016	336,129	-
	336,129	-
INVESTMENTS, at market value		
Undesignated	-	1,677,114
Donor designated	-	-
	-	1,677,114
TOTAL ASSETS	$ 721,405	$ 1,941,404
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 489,726	$ -
Security deposits	4,073	-
Refundable advances:		
Receipts and billings in excess of costs incurred	227,606	-
TOTAL CURRENT LIABILITIES	721,405	-
OTHER LIABILITY - accounts payable	-	-
NET ASSETS	-	1,941,404
TOTAL LIABILITIES AND NET ASSETS	$ 721,405	$ 1,941,404

The accompanying notes are an integral part of the financial statements.

June 30, 2017 Temporarily Restricted	2017 Permanently Restricted	2017 Total	2016 Total
$ -	$ -	$ 113,908	$ 222,885
-	-	465,198	371,137
-	-	35,831	43,830
-	-	8,954	33,232
-	-	-	-
-	-	623,891	671,084
-	-	602,571	608,665
-	-	238,091	238,091
-	-	840,662	846,756
-	-	(576,896)	(605,957)
-	-	(238,091)	(238,091)
-	-	25,675	2,708
-	-	336,129	204,372
-	-	336,129	204,372
-	-	1,677,114	1,473,216
164,436	756,263	920,699	974,752
164,436	756,263	2,597,813	2,447,968
$ 164,436	$ 756,263	$ 3,583,508	$ 3,326,132
$ -	$ -	$ 489,726	$ 517,992
-	-	4,073	4,073
-	-	227,606	139,049
-	-	721,405	661,114
-	-	-	106,881
164,436	756,263	2,862,103	2,558,137
$ 164,436	$ 756,263	$ 3,583,508	$ 3,326,132

CHILDREN'S INSTITUTE, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2017
(with Comparative Totals for 2016)

	Operations		
	Program	As Lead Agency	Total
Revenue and gains:			
Federal	$ 39,217	$ -	$ 39,217
New York State	777,330	297,417	1,074,747
National/Other States	12,072	-	12,072
United Way of Greater Rochester	107,482	(232)	107,250
Local foundations	1,107,980	-	1,107,980
Fee for service/sales/other	1,202,350	-	1,202,350
Interest income, net of fees	232	-	232
Charitable giving	1,587	-	1,587
Transfers among net asset groups:			
5% transfer	96,183	-	96,183
Net assets released from restrictions	76,592	-	76,592
Operating transfer	46,740	-	46,740
Net investment gain (loss)	-	-	-
Contributed services	5,585	-	5,585
Total revenue and gains	3,473,349	297,186	3,770,535
Expenses and losses:			
Research and development	590,292	-	590,292
COMET	169,573	-	169,573
National services	520,656	297,186	817,842
Community partnerships	984,970	-	984,970
Business services and communications	225,869	-	225,869
Fundraising	117,620	-	117,620
Finance and administration	713,115	-	713,115
Depreciation and amortization	3,828	-	3,828
Total expenses and losses	3,325,923	297,186	3,623,109
CHANGE IN NET ASSETS	147,426	-	147,426
Transfer	(147,426)	-	(147,426)
Net assets at beginning of year	-	-	-
NET ASSETS AT END OF YEAR	$ -	$ -	$ -

The accompanying notes are an integral part of the financial statements.

Unrestricted	Temporarily Restricted	Permanently Restricted	Year ended June 30, 2017 Total	Year ended June 30, 2016 Total
$ -	$ -	$ -	$ 39,217	$ 81,996
-	-	-	1,074,747	1,030,960
-	-	-	12,072	14,414
-	-	-	107,250	318,945
-	-	-	1,107,980	752,470
-	-	-	1,202,350	984,545
55,300	-	-	55,532	61,510
94,490	4,213	-	100,290	94,762
(96,183)	-	-	-	-
-	(76,592)	-	-	-
(46,740)	-	-	-	-
222,052	-	-	222,052	(53,145)
-	-	-	5,585	20,803
228,919	(72,379)	-	3,927,075	3,307,260
-	-	-	590,292	487,202
-	-	-	169,573	337,543
-	-	-	817,842	847,146
-	-	-	984,970	739,106
-	-	-	225,869	225,504
-	-	-	117,620	115,983
-	-	-	713,115	584,291
-	-	-	3,828	4,872
-	-	-	3,623,109	3,341,647
228,919	(72,379)	-	303,966	(34,387)
147,426	-	-	-	-
1,565,059	236,815	756,263	2,558,137	2,592,524
$ 1,941,404	$ 164,436	$ 756,263	$ 2,862,103	$ 2,558,137

CHILDREN'S INSTITUTE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017
(with Comparative Totals for 2016)

	Program Services				
	Research and development	COMET	National services	Community partnerships	Total Program
Salaries and benefits	$ 477,276	$ 144,830	$ 418,049	$ 604,349	$ 1,644,504
Consulting	54,764	14,206	18,315	145,315	232,600
School district awards	-	-	297,185	-	297,185
Occupancy	-	-	-	-	-
Insurance	-	-	-	-	-
Travel and meals	5,008	805	25,077	46,574	77,464
Supplies and materials	13,769	1,316	32,480	136,535	184,100
Printing and duplicating	1,423	-	1,199	6,697	9,319
Telephone	2,131	1,280	1,801	3,554	8,766
Postage and shipping	-	83	1,064	34	1,181
Cost of goods sold	-	-	-	-	-
Legal and accounting	-	-	-	-	-
Bad debt expense	-	-	-	-	-
Other expenses	13,015	-	2,914	11,858	27,787
Technology expense	22,906	7,053	19,758	30,054	79,771
Contributed services	-	-	-	-	-
	590,292	169,573	817,842	984,970	2,562,677
Allocation of overhead	103,479	33,494	168,234	194,965	500,172
	693,771	203,067	986,076	1,179,935	3,062,849
Depreciation and amortization	969	294	848	1,227	3,338
TOTAL EXPENSES	$ 694,740	$ 203,361	$ 986,924	$ 1,181,162	$ 3,066,187

The accompanying notes are an integral part of the financial statements.

Supporting Services			Year ended June 30,	
Business services and communications	Fundraising	Finance and administration	2017 Total	2016 Total
$ 174,264	$ 67,368	$ 446,816	$ 2,332,952	$ 2,030,508
474	29,303	109,929	372,306	257,386
-	-	-	297,185	359,643
-	-	173,477	173,477	169,870
-	387	10,987	11,374	16,351
1,192	3,121	12,868	94,645	67,284
6,467	770	9,563	200,900	199,776
2,100	1,017	679	13,115	19,514
557	292	5,951	15,566	14,955
8,690	33	347	10,251	8,702
18,186	-	-	18,186	18,190
-	-	14,120	14,120	18,315
-	-	-	-	100,000
5,702	10,449	15,681	59,619	35,478
8,237	3,190	(91,198)	-	-
-	1,690	3,895	5,585	20,803
225,869	117,620	713,115	3,619,281	3,336,775
48,266	24,327	(572,765)	-	-
274,135	141,947	140,350	3,619,281	3,336,775
354	137	-	3,828	4,872
$ 274,489	$ 142,084	$ 140,350	$ 3,623,109	$ 3,341,647

CHILDREN'S INSTITUTE, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2017
(with Comparative Totals for 2016)

	Year ended June 30, 2017	Year ended June 30, 2016
CASH FLOWS - OPERATING ACTIVITIES		
Change in net assets	$ 303,966	$ (34,387)
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Depreciation and amortization	3,828	4,872
Investment (gain) loss	(222,052)	53,145
Bad debt expense	-	100,000
Changes in certain assets and liabilities affecting operations:		
Funding and grants receivable	(94,061)	(152,052)
Measures and manuals inventory	7,999	(7,982)
Prepaid expenses and deposits	24,278	(5,682)
Receivables from COMET Informatics, LLC	(131,757)	(59,126)
Accounts payable	(135,147)	(9,962)
Security deposits	-	2,000
Refundable advances	88,557	15,446
NET CASH USED FOR OPERATING ACTIVITIES	(154,389)	(93,728)
CASH FLOWS - INVESTING ACTIVITIES		
Purchases of property and equipment	(26,795)	-
Purchases of long-term investments	(541,800)	(246,338)
Sales of long-term investments	614,007	302,427
NET CASH PROVIDED FROM INVESTING ACTIVITIES	45,412	56,089
NET DECREASE IN CASH AND CASH EQUIVALENTS	(108,977)	(37,639)
Cash and cash equivalents at beginning of year	222,885	260,524
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 113,908	$ 222,885

The accompanying notes are an integral part of the financial statements.

NOTE A: THE INSTITUTE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Institute

Children's Institute, Inc. (the "Institute") is a private, non-profit Institute serving communities world-wide with headquarters in Rochester, New York. The Institute works for children by developing and promoting prevention and early intervention programs, evaluating children's conditions and programs, training professionals, and forming community partnerships to inspire and implement positive public policy.

The mission of the Institute is to equip and support those who work with children to ensure the success of every child.

Basis of accounting

The Institute maintains its books and records on the accrual basis of accounting.

Financial statement presentation

The financial statements reflect separate net asset groups:

Unrestricted Net Assets: The Operations Fund includes revenue, expenses, assets and liabilities for grants and service contracts received to fund the Institute's programs, and those funds received by the Institute as lead agency and disbursed to other agencies or entities. The Operations Fund also includes the Institute's inventory and property and equipment.

The unrestricted funds consist primarily of the Institute's investments and investment activity which are not donor restricted.

Temporarily Restricted Funds: Includes assets restricted by the donor as to the use of the funds or the timeframe in which the funds are to be used. These restrictions will be removed by satisfaction of the donor's intended purpose or the passage of time. These funds include the following:

	June 30, 2017	June 30, 2016
United Way Programs	$ 21,177	$ 69,797
Fielding Memorial Fund	4,556	4,556
Mary Ann Trost Memorial	1,485	1,485
Richard Leary Memorial	2,903	2,903
Nicole Ranalletta Memorial	2,236	1,864
Gary Lazenby Memorial	250	250
Campaign for Excellence - Capital Need	127,340	155,015
Primary Project 60th Birthday Fund	815	815
Kids and Trucks	400	130
Grow Market	100	-
National Services	3,174	-
	$ 164,436	$ 236,815

NOTE A: THE INSTITUTE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Permanently Restricted Funds: Represents the principal amount of gifts and bequests accepted with the donor-stipulation that the principal be maintained intact in perpetuity and that only the investment income earned may be expended for general purposes. Permanently restricted funds totaled $756,263 for each of the years ended June 30, 2017 and 2016, and relate to the Campaign for Excellence campaign and the Fielding Memorial Endowment (see Note G for further details).

Contributions

Contributions are recognized when the donor makes an unconditional promise to give to the Institute. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

Cash and cash equivalents

The Institute's cash balances are maintained at financial institutions located in Upstate New York and are insured by the FDIC up to $250,000 at each institution. In the normal course of business, the cash account balances at any given time may exceed insured limits. However, the Institute has not experienced any losses in such accounts and does not believe it is exposed to significant risk in cash.

Service fees and funding and grants receivable

Revenue under cost reimbursement and rate based contracts with various contracting authorities (principally governmental agencies in New York State) are recognized as the services are performed.

Funding and grants receivable are stated at the amount management expects to collect from outstanding balances. Based on its assessment of the current status of individual receivables from grants, contracts and others, balances that are still outstanding after management has used reasonable collection efforts are directly written off through a charge to the applicable revenue account and a credit to the applicable receivable. Management determined that an allowance for doubtful accounts was not necessary at June 30, 2017 and 2016.

Inventory

The Institute has measures and manuals inventory which are valued based upon the original invoice amount plus the cost of shipping.

Furniture and equipment and leasehold improvements

Furniture and equipment are stated at cost and are depreciated using the straight-line method over five-year lives. Leasehold improvements are fully amortized at June 30, 2017. The Institute has the use of certain furniture and equipment purchased with grant funds, which is neither included in the accompanying statements of financial position nor depreciated because title to the equipment is retained by the granting agency.

NOTE A: THE INSTITUTE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Due (to) from other funds
Due (to) from other funds represents the grant fund surpluses or deficit recognized during the year. A cash transfer of these monies between the operations fund and the unrestricted fund is generally made annually. No interfund interest is recognized on the interfund balances.

Long-lived assets
The Institute reviews long-lived assets to be held and used for possible impairment when events or changes in circumstances indicate their carrying amounts may not be recoverable. If such events or changes are present, a loss is recognized to the extent the carrying value of the asset is in excess of the sum of the undiscounted cash flows expected to result from the use of the asset and its eventual disposition. An impairment loss is measured as the amount by which the carrying amount of the assets exceeds the fair value of the asset. At June 30, 2017 and 2016, there were no such impairments.

Functional expense allocations
The costs of providing program services of the Institute have been summarized on a functional basis in the accompanying statement of functional expenses. Certain costs have been allocated among the program and supporting services based upon certain statistics and estimates made by the Institute's management.

Fundraising expenses
Fundraising expenses are the costs of all activities which constitute an appeal for financial support. Fundraising expenses include expenses such as costs of personnel, printing, postage, office supplies and travel expenses.

Comparatives for year ended June 30, 2016
The financial statements include certain prior year summarized comparative information in total but not by net asset class or functional classification. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Institute's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Tax exempt status
The Institute is tax-exempt under section 501(c)(3) of the Internal Revenue Code. The Institute has filed for and received income tax exemptions in the jurisdictions where it is required to do so. The Institute files Form 990 tax returns in the U.S. federal jurisdiction and also files in New York State. With few exceptions, as of June 30, 2017 the Institute is no longer subject to U.S. federal or state income tax examinations by tax authorities for years ended prior to June 30, 2014. The tax returns for the years ended June 30, 2014 through June 30, 2017 are still subject to potential audit by the IRS and the taxing authorities in New York State. Management of the Institute believes it has no material uncertain tax positions and, accordingly, it will not recognize any liability for unrecognized tax benefits.

Estimates
The preparation of 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 and disclosure of contingent assets and liabilities at June 30, 2017 and the reported amounts of public support, revenue and expenses for the year then ended. Actual results could differ from those estimates.

NOTE A: THE INSTITUTE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Cont'd

Subsequent events

The Institute has conducted an evaluation of potential subsequent events occurring after the balance sheet date through September 28, 2017, which is the date the financial statements are available to be issued. Except as noted in Note E, no subsequent events requiring disclosure were noted.

NOTE B: INVESTMENTS

The Institute invests a portion of its funds in accounts managed by independent money managers. Investments at market value consisted of the following:

	June 30, 2017	June 30, 2016
Cash and cash equivalents	$ 26,944	$ 28,134
Exchange traded funds	1,169,945	1,108,800
Mutual funds:		
Domestic stock funds	149,548	174,972
International stock funds	179,168	125,373
Fixed income funds	1,000,267	512,120
Commodities	71,941	498,569
Total mutual funds	1,400,924	1,311,034
Total assets at fair value	$ 2,597,813	$ 2,447,968

Investments are exposed to various risks, such as interest rate, market and credit risk. Due to the risks associated with investments, it is at least reasonably possible that changes in risks could materially affect the Institute.

NOTE C: LINE OF CREDIT

The Institute has a line of credit with a financial institution which provides for maximum borrowings of $1,000,000 that bears interest at prime less 0.25% (effective rate of 4.00% at June 30, 2017). The line is secured by substantially all of the Institute's assets. There were no outstanding borrowings at June 30, 2017 or 2016.

NOTE D: AFFILIATED ENTITY

The Institute is affiliated with the University of Rochester (the "University"). Institute activities are carried out by University employees and individuals under contract. The Institute reimburses the University for all expenses incurred by the University on behalf of the Institute including all amounts related to leased employees.

NOTE E: COMMITMENTS AND CONTINGENCIES

Expenditures under certain grant contracts with the State of New York are subject to retrospective audit and adjustment. All changes resulting from these audits are recorded in the year the audit is finalized.

During the year ended June 30, 2006, the Institute elected to exercise its option to renew their building lease and entered into a lease amendment agreement to lease additional contiguous space under a five year lease through November 2010. The amendment also provides for three, five year renewal options through 2025 with a 5% increase in rent each five year period. The lease was renewed through November 2020. The current monthly rent is $10,845. The current monthly rent is reduced by the sublease rent (see below).

Rental expense amounted to $130,136 and $128,073 for the years ended June 30, 2017 and 2016, respectively.

Future minimum operating lease payments required under this lease arrangement is approximately as follows:

Fiscal year ending June 30,	Amount
2018	$ 130,000
2019	130,000
2020	130,000
2021	54,000
	$ 444,000

During the year ended June 30, 2013, the Institute entered into an agreement to sublease property to a third party. The lease was renewed through August 2018. Current monthly rental income from this lease is $1,129. During the year ended June 30, 2016, the Institute entered into an agreement to sublease property to another third party. The current monthly rental income is $1,542 through November 2018. During 2017, this third party ended their sublease agreement. As of July 1, 2017 the Institute entered into a new agreement to sublease property to another third party. The current monthly rental income is $1,542 through June 2019. The amount of the sublease rent is included in the fee for service/sales/other line of the accompanying statement of activities and changes in net assets for the years ended June 30, 2017 and 2016 in the amount of $30,506 and $26,598, respectively.

NOTE F: SIGNIFICANT FUNDING

The Institute receives a substantial amount of its funding from the federal government, the State of New York, and the United Way of Greater Rochester. A significant reduction in the level of support, if this were to occur, could have a material effect on the Institute's programs and activities.

The United Way of Greater Rochester provides program funding as follows:

	June 30, 2017	June 30, 2016
Behavioral and Social Intervention for Children	$ -	$ 139,500
Primary Mental Health Project	-	80,445
GROW Rochester	44,000	35,000
After-school Analysis and Evaluations	18,500	18,000
Summer Learning Program Analysis and Evaluations	18,500	18,000
Mentoring Program Analysis and Evaluations	9,250	18,000
RMAPI	-	10,000
Pre-K Summer Evaluation	17,000	-
	$ 107,250	$ 318,945

NOTE G: ENDOWMENTS

Total permanently restricted net assets in the endowment as of June 30, 2017 were $756,263. This represents two endowment funds that are donor-restricted perpetual endowment funds that are deemed to be permanently restricted by explicit donor stipulation. Total temporary restricted investment net assets of $164,436 at June 30, 2017 represents multiple funds that are donor-restricted investment funds that are deemed to be temporarily restricted by explicit donor stipulation. Certain unrestricted net assets of $1,677,114 at June 30, 2017 represent undesignated funds, which have no donor or time restrictions associated with them.

As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

NOTE G: ENDOWMENTS, Cont'd

Interpretation of relevant law

Effective September 17, 2010, the New York Prudent Management of Institutional Funds Act (NYPMIFA) was enacted to replace and update the Uniform Management of Institutional Funds Act (UMIFA), which was adopted in New York in 1978. The Board of Directors of Children's Institute, Inc. has interpreted the NYPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Institute classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Institute in a manner consistent with the standard of prudence prescribed by NYPMIFA. In accordance with NYPMIFA, the Institute considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the Institute and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of the Institute
(7) Where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on the Institute; and
(8) The investment policies of the Institute

In accordance with NYPMIFA the Institute may determine, after consideration of the eight objectives described above, it would be prudent to appropriate funds below the historical dollar value of the permanent endowment. However, the Institute must inform all available donors of endowment gifts made pursuant to gift instruments executed before September 17, 2010 to opt out of the new rule permitting institutions to appropriate below the historic dollar value of endowment funds. The donor may or may not permit this additional appropriation. If the donor is unavailable or does not stipulate within 90 days the Institute may appropriate below the historical dollar value of the permanent endowment if it is deemed prudent. Management has determined that all available donors requiring such notice have received notice. This notation process resulted in one donor who had donated $50,000 not allowing additional appropriations below historical dollar value. As of June 30, 2017 and 2016, the Institute had restricted investments of $756,263 which are impacted by NYPMIFA.

NOTE G: ENDOWMENTS, Cont'd

Endowment net asset composition by type of fund as of June 30, 2017 and 2016:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
June 30, 2017				
Donor-restricted endowment funds	$ -	$ 164,436	$ 756,263	$ 920,699
Undesignated funds	1,677,114	-	-	1,677,114
	$ 1,677,114	$ 164,436	$ 756,263	$ 2,597,813
June 30, 2016				
Donor-restricted endowment funds	$ -	$ 218,489	$ 756,263	$ 974,752
Undesignated funds	1,473,216	-	-	1,473,216
	$ 1,473,216	$ 218,489	$ 756,263	$ 2,447,968

NOTE G: ENDOWMENTS, Cont'd

For the years ended June 30, 2017 and 2016, the Institute had the following undesignated and endowment-related investment activities:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Undesignated and endowment net assets, July 1, 2015	$ 1,617,776	$ 183,163	$ 756,263	$ 2,557,202
Investment return:				
Interest and dividend income	73,571	-	-	73,571
Net loss (realized and unrealized)	(53,145)	-	-	(53,145)
Total investment return	20,426	-	-	20,426
Amounts appropriated for expenditure	(212,361)	-	-	(212,361)
Contributions	93,618	1,144	-	94,762
Management fees paid	(12,061)	-	-	(12,061)
Transfer from unrestricted fund	(34,182)	34,182	-	-
Total change in undesignated and endowment funds	(144,560)	35,326	-	(109,234)
Undesignated and endowment net assets, June 30, 2016	1,473,216	218,489	756,263	2,447,968
Investment return:				
Interest and dividend income	67,668	-	-	67,668
Net gain (realized and unrealized)	222,052	-	-	222,052
Total investment return	289,720	-	-	289,720
Amounts appropriated for expenditure	(228,029)	-	-	(228,029)
Contributions	96,077	4,213	-	100,290
Management fees paid	(12,136)	-	-	(12,136)
Transfer to unrestricted fund	58,267	(58,267)	-	-
Total change in undesignated and endowment funds	203,899	(54,054)	-	149,845
Undesignated and endowment net assets, June 30, 2017	$ 1,677,115	$ 164,435	$ 756,263	$ 2,597,813

NOTE G: ENDOWMENTS, Cont'd

Campaign for Excellence
This fund was established by the Institute to act as a general fund for contributors to donate funds to be held in perpetuity. The purpose of this fund is to preserve the principal investment amounts while interest, dividends and investment gains/losses are to be unrestricted and used at the discretion of the Board of Directors.

Funds with deficiencies
From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Institute to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in unrestricted net assets. As of June 30, 2017 and 2016, there were no such deficiencies.

Return objectives and risk parameters
The Institute has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Institute must hold in perpetuity or for a donor-specified period(s) as well as undesignated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in investments within the following range: equities – 50% - 60%; fixed income – 27% - 37%, and real return assets markets – 8% - 18%. Actual investments in any given year may vary from these amounts.

Strategies employed for achieving objectives
To satisfy its long-term rate-of-return objectives, the Institute relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Institute targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending policy and how the investment objectives relate to spending policy
The Institute has a policy of appropriating for distribution each year five percent of unrestricted and permanently restricted funds based on the fund's average ending fair value over the prior twelve quarters preceding the fiscal year in which the distribution is planned. In establishing this policy, the Institute considered the long-term expected return on its endowment. Accordingly, over the long term, the Institute expects the current spending policy to allow its endowment to grow at an average of 3 percent annually. This is consistent with the Institute's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

NOTE H: FAIR VALUE MEASUREMENTS

Accounting principles generally accepted in the United States of America ("GAAP") establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GAAP are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2017 and 2016:

Exchange Traded Funds, Mutual funds and common stocks: Valued at the closing price reported on the active market on which the individual funds and stocks are traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair value. Furthermore, while the Institute 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.

NOTE H: FAIR VALUE MEASUREMENTS, Cont'd

The following presents the financial instruments measured at fair value on a recurring basis at June 30, 2017 and 2016:

	Level 1	Level 2	Level 3	Total
June 30, 2017				
Cash and cash equivalents	$ 26,944	$ -	$ -	$ 26,944
Exchange traded funds:				
Small Cap Blend	116,032	-	-	116,032
Midcap Blend	143,509	-	-	143,509
Large Cap Blend	44,565	-	-	44,565
International	592,703	-	-	592,703
Real Estate	273,136	-	-	273,136
Total exchange traded funds	1,169,945	-	-	1,169,945
Mutual Funds:				
Domestic stock funds:				
Small Cap Blend Index	45,677	-	-	45,677
Large Cap Value Index	72,345	-	-	72,345
Real Estate	31,526	-	-	31,526
Total domestic stock funds	149,548	-	-	149,548
International stock funds	179,168	-	-	179,168
Fixed income funds:				
Inter-Term Investment	593,033	-	-	593,033
Long-Term Investment	137,624	-	-	137,624
Short-Term Investment	269,610	-	-	269,610
Total fixed income funds	1,000,267	-	-	1,000,267
Commodities funds	71,941	-	-	71,941
Total mutual funds	1,400,924	-	-	1,400,924
Total assets at fair value	$ 2,597,813	$ -	$ -	$ 2,597,813

NOTE H: FAIR VALUE MEASUREMENTS, Cont'd

	Level 1	Level 2	Level 3	Total
June 30, 2016				
Cash and cash equivalents	$ 28,134	$ -	$ -	$ 28,134
Exchange traded funds:				
Small Cap Blend	102,264	-	-	102,264
Midcap Blend	136,691	-	-	136,691
Large Cap Blend	645,183	-	-	645,183
International	192,844	-	-	192,844
Real Estate	31,818	-	-	31,818
Total exchange traded funds	1,108,800	-	-	1,108,800
Mutual Funds:				
Domestic stock funds:				
Small Cap Blend Index	102,261	-	-	102,261
Large Cap Value Index	72,711	-	-	72,711
Total domestic stock funds	174,972	-	-	174,972
International stock funds	125,373	-	-	125,373
Fixed income funds:				
Inter-Term Investment	148,494	-	-	148,494
Long-Term Investment	73,535	-	-	73,535
Short-Term Investment	290,091	-	-	290,091
Total fixed income funds	512,120	-	-	512,120
Commodities funds	498,569	-	-	498,569
Total mutual funds	1,311,034	-	-	1,311,034
Total assets at fair value	$ 2,447,968	$ -	$ -	$ 2,447,968

NOTE I: JOINT VENTURE

During 2011 the Institute entered into a joint venture with SophiTEC, Inc. to form COMET Informatics, LLC. SophiTEC was chosen as a partner to develop COMET Informatics LLC with Children's Institute because SophiTEC has the skills, interests and financial and corporate commitments to help make the COMET system and the LLC a success. COMET is a web-based informatics system which was developed for two primary reasons: 1) to better meet the assessment, evaluation and accountability needs for Children's Institute's partners and customers in the 21^{st} century, and 2) to provide a significant and different revenue stream that can be used to fund efforts germane to the organization's mission and vision. At the date of formation, it was agreed by the members that the Institute owed SophiTEC, Inc. $296,879 to equalize the initial contribution of trademarks, goodwill, intellectual property and efforts to date which was in effect through June 30, 2014.

Effective July 1, 2014, the members of COMET agreed to a new operating agreement and a membership purchase agreement. In accordance with the membership purchase agreement, SophiTEC agreed to purchase 28,942 of Class A membership interests from the Institute for $99,998 which reduced the amount owed to SophiTEC by the Institute to $196,881. At June 30, 2016 and in accordance with new operating agreement, the Institute was expected to begin to repay amount at a rate of $10,000 per month effective September 30, 2016. Therefore, $90,000 was repaid in the fiscal year ended June 30, 2017. The remaining amount is expected to be repaid in the fiscal year ending June 30, 2018 and is included in accounts payable on the accompanying balance sheet. Subsequent to the formation of COMET Informatics, LLC, the Institute contracted with COMET Informatics, LLC, to provide services for COMET. At June 30, 2017, COMET Informatics owed Children's Institute $736,129. There is an allowance for doubtful accounts against this amount of $400,000 at June 30, 2017. The net amount of $336,129 ($204,372 at June 30, 2016) is not expected to be repaid within the next twelve months and is included as a non-current other asset in the accompanying balance sheet. The investment in COMET Informatics, LLC, which was a 38% interest at June 30, 2017, consists of the amount to equalize member contributions along with an initial cash contribution by the Institute of $5,000. This investment was reduced by $301,879 for the Institute's share of the LLC's loss from inception (August 10, 2011) through June 30, 2014 based upon unaudited COMET financial information. The investment in COMET Informatics, LLC, which is being accounted for under the equity method of accounting, has been reduced to zero as of June 30, 2014 and remains valued at zero on the accompanying balance sheets at June 30, 2017 and 2016, respectively.

NOTE I: JOINT VENTURE, Cont'd

A summary of the COMET Informatics, LLC balance sheets as of June 30, 2017 and 2016 and statements of operations for the years ended June 30, 2017 and 2016 are as follows:

	June 30, 2017 (Unaudited)	June 30, 2016 (Unaudited)
Current assets	$ 201,464	$ 85,395
Fixed assets, net	5,696	34,488
	$ 207,160	$ 119,883
Current liabilities	$ 106,179	$ 82,289
Due to members	1,697,842	1,409,483
Members' deficit	(1,596,861)	(1,371,889)
	$ 207,160	$ 119,883
Sales, net	$ 852,856	$ 706,414
Total expenses	1,077,828	920,677
Net loss for the years ended June 30, 2017 and 2016	$ (224,972)	$ (214,263)

CHILDREN'S INSTITUTE, INC.

OTHER FINANCIAL INFORMATION

MMB
MENGEL METZGER BARR & CO. LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON OTHER FINANCIAL INFORMATION

Board of Directors
Children's Institute, Inc.

We have audited the financial statements of Children's Institute, Inc. as of and for the year ended June 30, 2017, and our report thereon dated September 28, 2017, which expressed an unmodified opinion on those financial statements which appears on page 3. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental financial information is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements, as a whole.

Mengel, Metzger, Barr & Co. LLP

Rochester, New York
September 28, 2017

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CHILDREN'S INSTITUTE, INC.

SCHEDULE OF ACTIVITIES – UNITED WAY FUNDED PROGRAMS

YEAR ENDED JUNE 30, 2017

	Primary Mental Health Project	Behavioral and Social Intervention for Children	Evaluations	Pre-K Summer Evaluation	GROW Rochester	Total
Revenue:						
New York State	$ 143,267	$ -	$ -	$ -	$ -	$ 143,267
United Way of Greater Rochester	-	-	46,250	17,000	44,000	107,250
Local Foundations	50,000	76,439	108,367	-	189,594	424,400
Fee for service/sales/other	12,806	-	-	-	4,781	17,587
	206,073	76,439	154,617	17,000	238,375	692,504
Expenses:						
Salaries and benefits	53,784	69,812	114,645	13,183	97,661	349,085
Consulting	400	5,030	3,166	-	114,880	123,476
School district awards	109,128	-	-	-	-	109,128
Travel and meals	93	851	-	-	355	1,299
Measures and manuals	12,806	-	-	-	-	12,806
Office supplies	737	512	2,555	160	2,206	6,170
Printing and duplicating	378	178	863	-	6,697	8,116
Telephone	106	283	623	-	430	1,442
Postage and shipping	-	250	-	-	-	250
Other expenses	2,468	3,312	5,538	626	4,964	16,908
	179,900	80,228	127,390	13,969	227,193	628,680
Allocation of Overhead	32,157	17,410	27,227	3,031	31,352	111,177
TOTAL EXPENSES	212,057	97,638	154,617	17,000	258,545	739,857
Net assets released from restrictions	7,279	21,037	-	-	20,305	48,621
Net assets temporarily restricted	-	-	-	-	-	-
NET	$ 1,295	$ (162)	$ -	$ -	$ 135	$ 1,268

CHILDREN'S INSTITUTE, INC.

SCHEDULE OF ECEQC REVENUE AND EXPENSES

YEAR ENDED JUNE 30, 2017

	Membership Dues and Contributions	Field trips	Accreditation	Center Support	Total
Contract balance at July 1, 2016	$ 16,858	$ 5,114	$ 28,962	$ 885	51,819
New Program Support	6,575	-	15,000	-	21,575
TOTAL FUNDING	23,433	5,114	43,962	885	73,394
Expenses:					
Consulting	5,450	-	19,398	727	25,575
Travel and meals	-	970	-	-	970
Office supplies	120	-	-	-	120
Other expenses	-	-	7,025	-	7,025
	5,570	970	26,423	727	33,690
Allocation of Overhead	1,209	210	5,735	158	7,312
TOTAL EXPENSES	6,779	1,180	32,158	885	41,002
CONTRACT BALANCE AT JUNE 30, 2017	$ 16,654	$ 3,934	$ 11,804	$ -	$ 32,392
ACTUAL REFUNDABLE ADVANCE BALANCE	$ 16,654	$ 3,934	$ 11,804	$ -	$ 32,392