CHILDREN'S INSTITUTE, INC.

ROCHESTER, NEW YORK

AUDITED FINANCIAL STATEMENTS

OTHER FINANCIAL INFORMATION

AND

INDEPENDENT AUDITOR'S REPORTS

JUNE 30, 2016
(with Comparative Totals for 2015)

MMB

MENGEL METZGER BARR & CO. LLP

Certified Public Accountants

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MENGEL METZGER BARR & CO. LLP
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, 2016, 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, 2016, 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, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 7, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 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 30, 2016

CHILDREN'S INSTITUTE, INC.

BALANCE SHEET

JUNE 30, 2016
(with Comparative Totals for 2015)

ASSETS	Operations	Unrestricted
CURRENT ASSETS		
Cash and cash equivalents	$ 222,885	$ -
Funding and grants receivable	352,811	-
Measures and manuals inventory	43,830	-
Prepaid expenses and deposits	33,232	-
Due (to) from other funds	(198,724)	198,724
TOTAL CURRENT ASSETS	454,034	198,724
PROPERTY AND EQUIPMENT		
Furniture and equipment	608,665	-
Leasehold improvements	238,091	-
	846,756	-
Less accumulated depreciation	(605,957)	-
Less accumulated amortization	(238,091)	-
	2,708	-
OTHER ASSETS		
Receivables from COMET Informatics, LLC, net of allowance for doubtful accounts of $400,000 and $300,000 in 2016 and 2015, respectively	204,372	-
	204,372	-
INVESTMENTS, at market value		
Undesignated	-	1,473,216
Donor designated	-	-
	-	1,473,216
TOTAL ASSETS	$ 661,114	$ 1,671,940
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 517,992	$ -
Security deposits	4,073	-
Refundable advances:		
Receipts and billings in excess of costs incurred	139,049	-
TOTAL CURRENT LIABILITIES	661,114	-
OTHER LIABILITY - accounts payable	-	106,881
NET ASSETS	-	1,565,059
TOTAL LIABILITIES AND NET ASSETS	$ 661,114	$ 1,671,940

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

June 30, 2016			2015
Temporarily Restricted	Permanently Restricted	Total	Total
$ -	$ -	$ 222,885	$ 260,524
18,326	-	371,137	219,085
-	-	43,830	35,848
-	-	33,232	27,550
-	-	-	-
18,326	-	671,084	543,007
-	-	608,665	608,665
-	-	238,091	238,091
-	-	846,756	846,756
-	-	(605,957)	(601,085)
-	-	(238,091)	(238,091)
-	-	2,708	7,580
-	-	204,372	245,246
-	-	204,372	245,246
-	-	1,473,216	1,617,776
218,489	756,263	974,752	939,426
218,489	756,263	2,447,968	2,557,202
$ 236,815	$ 756,263	$ 3,326,132	$ 3,353,035
$ -	$ -	$ 517,992	$ 437,954
-	-	4,073	2,073
-	-	139,049	123,603
-	-	661,114	563,630
-	-	106,881	196,881
236,815	756,263	2,558,137	2,592,524
$ 236,815	$ 756,263	$ 3,326,132	$ 3,353,035

CHILDREN'S INSTITUTE, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2016
(with Comparative Totals for 2015)

	Operations		
	Program	As Lead Agency	Total
Revenue and gains:			
Federal	$ 81,996	$ -	$ 81,996
New York State	723,594	307,366	1,030,960
National/Other States	14,414	-	14,414
United Way of Greater Rochester	204,682	52,277	256,959
Local foundations	752,470	-	752,470
Fee for service/sales/other	984,545	-	984,545
Interest income, net of fees	89	-	89
Charitable giving	4,321	-	4,321
Transfers among net asset groups:			
5% transfer	112,056	-	112,056
Net assets released from restrictions	29,190	-	29,190
Operating transfer	100,000	-	100,000
Net investment loss	-	-	-
Contributed services	20,803	-	20,803
Gain on sale of investment in LLC	-	-	-
Total revenue and gains	3,028,160	359,643	3,387,803
Expenses and losses:			
Research and development	487,202	-	487,202
COMET	337,543	-	337,543
National services	487,503	359,643	847,146
Community partnerships	739,106	-	739,106
Business services and communications	225,504	-	225,504
Fundraising	115,983	-	115,983
Finance and administration	584,291	-	584,291
Depreciation and amortization	4,872	-	4,872
Total expenses and losses	2,982,004	359,643	3,341,647
CHANGE IN NET ASSETS	46,156	-	46,156
Transfer	(46,156)	-	(46,156)
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, 2016 Total	Year ended June 30, 2015 Total
$ -	$ -	$ -	$ 81,996	$ 68,268
-	-	-	1,030,960	1,075,341
-	-	-	14,414	22,238
-	61,986	-	318,945	236,500
-	-	-	752,470	526,293
-	-	-	984,545	752,504
61,421	-	-	61,510	64,175
89,297	1,144	-	94,762	106,789
(112,056)	-	-	-	-
-	(29,190)	-	-	-
(100,000)	-	-	-	-
(53,145)	-	-	(53,145)	(39,194)
-	-	-	20,803	20,000
-	-	-	-	99,998
(114,483)	33,940	-	3,307,260	2,932,912
-	-	-	487,202	522,938
-	-	-	337,543	195,123
-	-	-	847,146	917,553
-	-	-	739,106	474,251
-	-	-	225,504	258,638
-	-	-	115,983	117,314
-	-	-	584,291	540,914
-	-	-	4,872	13,715
-	-	-	3,341,647	3,040,446
(114,483)	33,940	-	(34,387)	(107,534)
46,156	-	-	-	-
1,633,386	202,875	756,263	2,592,524	2,700,058
$ 1,565,059	$ 236,815	$ 756,263	$ 2,558,137	$ 2,592,524

CHILDREN'S INSTITUTE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2016
(with Comparative Totals for 2015)

	Program Services				
	Research and development	COMET	National services	Community partnerships	Total Program
Salaries and benefits	$ 405,409	$ 139,858	$ 402,306	$ 432,645	$ 1,380,218
Consulting	17,767	72,385	13,716	119,623	223,491
School district awards	-	-	359,643	-	359,643
Community partners	-	-	-	-	-
Occupancy	-	-	-	-	-
Insurance	-	-	-	-	-
Travel and meals	693	895	24,302	21,443	47,333
Supplies and materials	14,256	15,932	20,016	134,614	184,818
Printing and duplicating	2,848	-	1,981	705	5,534
Telephone	1,680	1,595	2,786	2,931	8,992
Postage and shipping	329	-	220	-	549
Cost of goods sold	-	-	-	-	-
Legal and accounting	-	108	-	1,495	1,603
Bad debt expense	-	100,000	-	-	100,000
Other expenses	4,771	-	3,397	4,793	12,961
Technology expense	19,049	6,770	18,779	20,857	65,455
Contributed services	20,400	-	-	-	20,400
	487,202	337,543	847,146	739,106	2,410,997
Allocation of overhead	81,126	30,570	168,478	135,680	415,854
	568,328	368,113	1,015,624	874,786	2,826,851
Depreciation and amortization	1,227	423	1,217	1,309	4,176
TOTAL EXPENSES	$ 569,555	$ 368,536	$ 1,016,841	$ 876,095	$ 2,831,027

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

Business services and communications	Fundraising	Finance and administration	2016 Total	2015 Total
Supporting Services			Year ended June 30,	
$ 164,003	$ 65,956	$ 420,331	$ 2,030,508	$ 1,974,115
5,999	25,631	2,265	257,386	152,019
-	-	-	359,643	412,605
-	-	-	-	(1,308)
-	-	169,870	169,870	169,229
-	387	15,964	16,351	14,899
962	6,078	12,911	67,284	39,583
4,945	1,977	8,036	199,776	134,074
11,552	2,428	-	19,514	21,074
990	123	4,850	14,955	11,171
8,105	5	43	8,702	13,462
18,190	-	-	18,190	14,549
-	375	16,337	18,315	19,179
-	-	-	100,000	-
3,110	9,529	9,878	35,478	32,080
7,648	3,091	(76,194)	-	-
-	403	-	20,803	20,000
225,504	115,983	584,291	3,336,775	3,026,731
44,403	22,686	(482,943)	-	-
269,907	138,669	101,348	3,336,775	3,026,731
496	200	-	4,872	13,715
$ 270,403	$ 138,869	$ 101,348	$ 3,341,647	$ 3,040,446

CHILDREN'S INSTITUTE, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2016
(with Comparative Totals for 2015)

	Year ended June 30, 2016	Year ended June 30, 2015
CASH FLOWS - OPERATING ACTIVITIES		
Change in net assets	$ (34,387)	$ (107,534)
Adjustments to reconcile change in net assets to net cash (used for) provided from operating activities:		
Depreciation and amortization	4,872	13,715
Investment loss	53,145	39,194
Bad debt expense	100,000	-
Non cash gain on sale of investment in LLC	-	(99,998)
Changes in certain assets and liabilities affecting operations:		
Funding and grants receivable	(152,052)	755,171
Measures and manuals inventory	(7,982)	(6,914)
Prepaid expenses and deposits	(5,682)	(1,911)
Receivables from COMET Informatics, LLC	(59,126)	(70,589)
Accounts payable	(9,962)	(90,501)
Security deposits	2,000	-
Refundable advances	15,446	4,904
NET CASH (USED FOR) PROVIDED FROM OPERATING ACTIVITIES	(93,728)	435,537
CASH FLOWS - INVESTING ACTIVITIES		
Purchases of long-term investments	(246,338)	(2,913,637)
Sales of long-term investments	302,427	2,902,668
NET CASH PROVIDED FROM (USED FOR) INVESTING ACTIVITIES	56,089	(10,969)
CASH FLOWS - FINANCING ACTIVITIES		
Line of credit repayments, net	-	(250,000)
NET CASH USED FOR FINANCING ACTIVITIES	-	(250,000)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(37,639)	174,568
Cash and cash equivalents at beginning of year	260,524	85,956
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 222,885	$ 260,524

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. As of June 30, 2015, the Board approved a budget which included the designation of 100% of unrestricted dollars raised through development efforts for operations in the following year.

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,	
	2016	2015
United Way Programs	$ 69,797	$ 34,827
Fielding Memorial Fund	4,556	4,875
Mary Ann Trost Memorial	1,485	1,485
Richard Leary Memorial	2,903	2,903
Nicole Ranalletta Memorial	1,864	1,545
Gary Lazenby Memorial	250	250
Campaign for Excellence - Capital Need	155,015	155,014
Primary Project 60th Birthday Fund	815	815
Kids and Trucks	130	1,161
	$ 236,815	$ 202,875

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, 2016 and 2015, 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, 2016 and 2015.

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, 2016. 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, 2016 and 2015, 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, 2015

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, 2015, 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.

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, 2016 and the reported amounts of public support, revenue and expenses for the year then ended. Actual results could differ from those estimates.

Reclassifications

Certain 2015 amounts have been reclassified to conform with the 2016 presentation.

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 30, 2016, which is the date the financial statements are available to be issued. 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, 2016	June 30, 2015
Cash and cash equivalents	$ 28,134	$ 26,623
Exchange traded funds	1,108,800	1,183,843
Mutual funds:		
Domestic stock funds	174,972	179,397
International stock funds	125,373	127,374
Fixed income funds	512,120	959,277
Commodities	498,569	80,688
Total mutual funds	1,311,034	1,346,736
Total assets at fair value	$ 2,447,968	$ 2,557,202

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

As of June 30, 2016, 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 3.25% at June 30, 2016). The line is secured by substantially all of the Institute's assets. There were no outstanding borrowings at June 30, 2016. The line of credit in place as of June 30, 2015 has been terminated.

NOTE D: AFFILIATED ENTITY

The Institute is affiliated with the University of Rochester's (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 $128,073 and $123,559 for the years ended June 30, 2016 and 2015, respectively.

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

Fiscal year ending June 30,	Amount
2017	$ 130,000
2018	130,000
2019	130,000
2020	130,000
2021	54,000
	$ 574,000

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. The amount of the sublease rent is included in the fee for service/sales/other line of the accompanying statements of activities and changes in net assets for the years ended June 30, 2016 and 2015 in the amount of $26,589 and $12,900, 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, 2016	June 30, 2015
Behavioral and Social Intervention for Children	$ 139,500	$ 150,000
Primary Mental Health Project	80,445	86,500
GROW Rochester	35,000	-
After-school Analysis and Evaluations	18,000	-
Summer Learning Program Analysis and Evaluations	18,000	-
Mentoring Program Analysis and Evaluations	18,000	-
RMAPI	10,000	-
	$ 318,945	$ 236,500

NOTE G: ENDOWMENTS

Total permanently restricted net assets in the endowment as of June 30, 2016 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 $218,489 at June 30, 2016 represents nine funds that are donor-restricted investment funds that are deemed to be temporarily restricted by explicit donor stipulation. Certain unrestricted net assets of $1,473,216 at June 30, 2016 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, 2016 and 2015, 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, 2016 and 2015:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
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
June 30, 2015				
Donor-restricted endowment funds	$ -	$ 183,163	$ 756,263	$ 939,426
Undesignated funds	1,617,776	-	-	1,617,776
	$ 1,617,776	$ 183,163	$ 756,263	$ 2,557,202

NOTE G: ENDOWMENTS, Cont'd

For the years ended June 30, 2016 and 2015, the Institute had the following undesignated and endowment-related investment activities:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Undesignated and endowment net assets, July 1, 2014	$ 1,550,318	$ 278,846	$ 756,263	$ 2,585,427
Investment return:				
Interest and dividend income	76,333	-	-	76,333
Net loss (realized and unrealized)	(39,194)	-	-	(39,194)
Total investment return	37,139	-	-	37,139
Amounts appropriated for expenditure	(159,995)	-	-	(159,995)
Contributions	103,681	3,108	-	106,789
Management fees paid	(12,158)	-	-	(12,158)
Transfer to unrestricted fund	98,791	(98,791)	-	-
Total change in undesignated and endowment funds	67,458	(95,683)	-	(28,225)
Undesignated and endowment net assets, June 30, 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

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, 2016 and 2015, 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, 2016 and 2015:

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, 2016 and 2015:

	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 H: FAIR VALUE MEASUREMENTS, Cont'd

	Level 1	Level 2	Level 3	Total
June 30, 2015				
Cash and cash equivalents	$ 26,623	$ -	$ -	$ 26,623
Exchange traded funds:				
Small Cap Blend	108,450	-	-	108,450
Midcap Blend	139,481	-	-	139,481
Large Cap Blend	664,140	-	-	664,140
International	197,967	-	-	197,967
Real Estate	28,689	-	-	28,689
Other	45,116	-	-	45,116
Total exchange traded funds	1,183,843	-	-	1,183,843
Mutual Funds:				
Domestic stock funds:				
Small Cap Blend Index	106,115	-	-	106,115
Large Cap Value Index	73,282	-	-	73,282
Total domestic stock funds	179,397	-	-	179,397
International stock funds	127,374	-	-	127,374
Fixed income funds:				
Inter-Term Investment	525,383	-	-	525,383
Long-Term Investment	75,623	-	-	75,623
Short-Term Investment	358,271	-	-	358,271
Total fixed income funds	959,277	-	-	959,277
Commodities funds	80,688	-	-	80,688
Total mutual funds	1,346,736	-	-	1,346,736
Total assets at fair value	$ 2,557,202	$ -	$ -	$ 2,557,202

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 21st 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, 2015, this amount was included in other liabilities-accounts payable on the accompanying balance sheet as the amount is not expected to be repaid in the fiscal year ending June 30, 2016. At June 30, 2016 and in accordance with new operating agreement, the Institute is expected to begin to repay amount at a rate of $10,000 per month effective September 30, 2016. Therefore, $90,000 is expected to be repaid in the fiscal year ending June 30, 2017 and is included in current accounts payable on the accompanying balance sheet. The remaining amount is not expected to be repaid in the next fiscal year and is included in other liabilities – 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, 2016, COMET Informatics owed Children's Institute $604,372. There is an allowance for doubtful accounts against this amount of $400,000 at June 30, 2016. The net amount of $204,372 ($245,246 at June 30, 2015) 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, 2016, 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 on the accompanying balance sheet at June 30, 2016 and 2015, respectively.

NOTE I: JOINT VENTURE, Cont'd

A summary of the COMET Informatics, LLC balance sheets as of June 30, 2016 and 2015 and statements of operations for the years ended June 30, 2016 and 2015 are as follows:

	June 30, 2016 (Unaudited)	June 30, 2015 (Unaudited)
Current assets	$ 85,395	$ 86,547
Fixed assets, net	34,488	73,350
	$ 119,883	$ 159,897
Current liabilities	$ 82,289	$ 69,830
Due to members	1,409,483	1,247,693
Member's deficit	(1,371,889)	(1,157,626)
	$ 119,883	$ 159,897
Sales, net	$ 706,414	$ 698,640
Total expenses	920,677	1,034,280
Net loss for the years ended June 30, 2016 and 2015	$ (214,263)	$ (335,640)

CHILDREN'S INSTITUTE, INC.

OTHER FINANCIAL INFORMATION

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, 2016, and our report thereon dated September 30, 2016, contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The 2016 financial information hereinafter 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 30, 2016

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CHILDREN'S INSTITUTE, INC.

SCHEDULE OF ACTIVITIES – UNITED WAY FUNDED PROGRAMS

YEAR ENDED JUNE 30, 2016

	Primary Mental Health Project	Behavioral and Social Intervention for Children	SEDL	Evaluations	RMAPI	GROW Rochester	Total
Revenue:							
New York State	$ 146,015	$ 5,091	$ 141,242	$ -	$ -	$ 1,000	$ 293,348
National/Other States	-	-	14,414	-		-	14,414
United Way of Greater Rochester	80,445	139,500	-	54,000	10,000	35,000	318,945
Local Foundations	-	75,000	5,183	3,265	-	180,061	263,509
Fee for service/sales/other	-		8,688	2,100	-	46,084	56,872
Charitable Giving	4,000	-	-	-	-	-	4,000
	230,460	219,591	169,527	59,365	10,000	262,145	951,088
Expenses:							
Salaries and benefits	53,471	140,286	119,692	12,499	-	99,795	425,743
Consulting	-	8,010	4,906	-	3,500	91,612	108,028
School district awards	130,000	-	-	-	-	-	130,000
Travel and meals	418	3,310	13,159	13	-	69	16,969
Measures and manuals	2,763	-	-	-	-	-	2,763
Office supplies	1,438	3,769	3,154	355	-	12,897	21,613
Printing and duplicating	-	-	801	-	-	705	1,506
Telephone	348	1,165	680	315	-	667	3,175
Postage and shipping	-	168	52	-	-	-	220
Other expenses	1,646	-	5,577	-	-	1,534	8,757
	190,084	156,708	148,021	13,182	3,500	207,279	718,774
Allocation of Overhead	40,650	39,105	29,456	3,322	696	34,561	147,790
TOTAL EXPENSES	230,734	195,813	177,477	16,504	4,196	241,840	866,564
Net assets released from restrictions	16,932	1,069	9,014	-	-	-	27,015
Net assets temporarily restricted	(16,504)	(25,177)	-	-	-	(20,305)	(61,986)
NET	$ 154	$ (330)	$ 1,064	$ 42,861	$ 5,804	$ -	$ 49,553

CHILDREN'S INSTITUTE, INC.

SCHEDULE OF ECEQC REVENUE AND EXPENSES

YEAR ENDED JUNE 30, 2016

	Membership Dues and Contributions	Field trips	Accreditation	Center Support	Training	Total
Contract balance at July 1, 2015	$ 19,912	$ 6,703	$ 24,676	$ 1,973	$ 92	$ 53,356
New Program Support	8,281	-	8,976	14,496	(92)	31,661
TOTAL FUNDING	28,193	6,703	33,652	16,469	-	85,017
Expenses:						
Consulting	9,183	-	-	12,997	-	22,180
Travel and meals	-	1,030	650	-	-	1,680
Office supplies	246	-	-	-	-	246
Printing and duplicating	-	-	-	-	-	-
Other expenses	25	295	3,262	-	-	3,582
	9,454	1,325	3,912	12,997	-	27,688
Allocation of Overhead	1,881	264	778	2,587	-	5,510
TOTAL EXPENSES	11,335	1,589	4,690	15,584	-	33,198
CONTRACT BALANCE AT JUNE 30, 2016	$ 16,858	$ 5,114	$ 28,962	$ 885	$ -	$ 51,819
ACTUAL REFUNDABLE ADVANCE BALANCE	$ 16,858	$ 5,114	$ 28,962	$ 885	$ -	$ 51,819