

**CHILDREN'S HOME SOCIETY OF WASHINGTON**

Consolidated Financial Statements

For the Year Ended June 30, 2016

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## **Independent Auditor's Report**

**To the Board of Directors  
Children's Home Society of Washington  
Children's Home Society Trust Foundation  
Seattle, Washington**

We have audited the accompanying consolidated financial statements of Children's Home Society of Washington and Children's Home Society & Trust Foundation (collectively, the Society) as of June 30, 2016, which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of unrestricted operating activities, changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

## **Management's Responsibility for the Financial Statements**

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

## **Auditor's Responsibility**

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



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## **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Society as of June 30, 2016, and the changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Report on Summarized Comparative Information**

We have previously audited the Society's 2015 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 10, 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.

## **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The CHSW, CHSTF, and eliminating entries columns on pages 3 to 5 and the accompanying supplementary information shown on pages 22 to 24 are presented for purposes of additional analysis, and are not a required part of the consolidated financial statements. Such information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2016, on our consideration of the Society's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Society's internal control over financial reporting and compliance.

*Clark Nuber P S*

Certified Public Accountants  
November 10, 2016

CHILDREN'S HOME SOCIETY OF WASHINGTON

Consolidated Statement of Financial Position  
For the Year Ended June 30, 2016  
(With Comparative Totals for 2015)

	CHSW	CHSTF	Consolidated 2016 Total	Consolidated 2015 Total
<b>Current Assets:</b>				
Cash and equivalents	\$ 1,393,961	\$ 113,891	\$ 1,507,852	\$ 800,091
Accounts receivable, net (Note 2)	2,344,314	441,980	2,786,294	2,094,315
Intercompany (payable) receivable	(206,946)	206,946		
Prepaid expenses and other	189,721		189,721	104,221
Current portion of facility contribution receivable (Note 12)	122,602		122,602	
<b>Total Current Assets</b>	<b>3,843,652</b>	<b>762,817</b>	<b>4,606,469</b>	<b>2,998,627</b>
Property and equipment, net (Note 3)	3,956,735		3,956,735	3,988,668
Property held for sale, net (Note 3)				21,960
Assets designated by board for long-term investments (Note 4)		10,062,958	10,062,958	10,315,982
Investments (Note 4)	772,377	1,714,927	2,487,304	2,750,034
Facility contribution receivable, less current portion (Note 12)	122,602		122,602	
Beneficial interest in perpetual trusts (Note 6)	4,596,651		4,596,651	4,842,500
<b>Total Assets</b>	<b>\$ 13,292,017</b>	<b>\$ 12,540,702</b>	<b>\$ 25,832,719</b>	<b>\$ 24,917,771</b>
<b>Current Liabilities:</b>				
Accounts payable	\$ 412,765	\$ -	\$ 412,765	\$ 627,812
Accrued liabilities	979,454		979,454	990,697
Deferred revenue	321,602		321,602	520,654
Current portion of capital lease obligation (Note 7)	21,858		21,858	21,212
<b>Total Current Liabilities</b>	<b>1,735,679</b>		<b>1,735,679</b>	<b>2,160,375</b>
Long-term forgivable debt (Note 7)	249,651		249,651	249,651
Capital lease obligation, net of current portion (Note 7)	47,786		47,786	69,644
<b>Total Liabilities</b>	<b>2,033,116</b>		<b>2,033,116</b>	<b>2,479,670</b>
<b>Net Assets:</b>				
Unrestricted (Note 13)	6,354,399	10,677,196	17,031,595	15,462,883
Temporarily restricted (Note 14)	292,351	218,511	510,862	477,211
Permanently restricted (Note 15)	4,612,151	1,644,995	6,257,146	6,498,007
<b>Total Net Assets</b>	<b>11,258,901</b>	<b>12,540,702</b>	<b>23,799,603</b>	<b>22,438,101</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 13,292,017</b>	<b>\$ 12,540,702</b>	<b>\$ 25,832,719</b>	<b>\$ 24,917,771</b>

See accompanying notes.

CHILDREN'S HOME SOCIETY OF WASHINGTON

**Consolidated Statement of Unrestricted Operating Activities  
For the Year Ended June 30, 2016  
(With Comparative Totals for 2015)**

	CHSW	CHSTF	Eliminating Entries	Consolidated 2016 Total	Consolidated 2015 Total
<b>Unrestricted Operating Activities</b>					
<b>Private Support and Revenue:</b>					
Direct support - contributions	\$ -	\$ 1,495,625	\$ -	\$ 1,495,625	\$ 1,097,204
In-kind support	272,454			272,454	442,087
In-kind contribution for services from CHSW (Note 11)		732,395	(732,395)		
United Way		1,220,298		1,220,298	1,136,115
Program service fees	538,066			538,066	546,068
Investment return (Note 4)	(12,263)	224,431		212,168	170,164
Rental income and miscellaneous	67,763			67,763	59,905
<b>Total Private Support and Revenue</b>	<b>866,020</b>	<b>3,672,749</b>	<b>(732,395)</b>	<b>3,806,374</b>	<b>3,451,543</b>
<b>Revenue From Governmental Agencies:</b>					
Federal revenue	9,818,103			9,818,103	7,560,550
State revenue	3,739,656			3,739,656	3,697,883
County and local	6,048,199			6,048,199	4,475,900
<b>Total From Governmental Agencies</b>	<b>19,605,958</b>			<b>19,605,958</b>	<b>15,734,333</b>
Net assets released from restrictions	846,280			846,280	642,117
<b>Total Support and Revenue</b>	<b>21,318,258</b>	<b>3,672,749</b>	<b>(732,395)</b>	<b>24,258,612</b>	<b>19,827,993</b>
<b>Transfers Between Entities:</b>					
Contributions transferred	2,585,341	(2,585,341)			
Foundation board-approved investment returns distribution (Note 16)	148,848	(148,848)			
<b>Total Transfers</b>	<b>2,734,189</b>	<b>(2,734,189)</b>			
<b>Total Support, Revenue and Transfers</b>	<b>24,052,447</b>	<b>938,560</b>	<b>(732,395)</b>	<b>24,258,612</b>	<b>19,827,993</b>
<b>Program Services Expenses:</b>					
Early childhood care education	10,855,808			10,855,808	8,521,704
Child and family counseling	4,796,877			4,796,877	3,563,382
Adoption and secure families	1,251,633			1,251,633	1,642,054
Family support and parent education	1,442,314			1,442,314	1,608,341
Policy and innovation	676,947			676,947	482,301
<b>Total Program Services</b>	<b>19,023,579</b>			<b>19,023,579</b>	<b>15,817,782</b>
<b>Support Services Expenses:</b>					
General and administrative	3,711,015			3,711,015	3,307,442
Fund development	1,156,870	732,395	(732,395)	1,156,870	1,037,334
<b>Total Support Services</b>	<b>4,867,885</b>	<b>732,395</b>	<b>(732,395)</b>	<b>4,867,885</b>	<b>4,344,776</b>
<b>Total Expenses</b>	<b>23,891,464</b>	<b>732,395</b>	<b>(732,395)</b>	<b>23,891,464</b>	<b>20,162,558</b>
<b>Change in Unrestricted Net Assets - Operating</b>	<b>\$ 160,983</b>	<b>\$ 206,165</b>	<b>\$ -</b>	<b>\$ 367,148</b>	<b>\$ (334,565)</b>

See accompanying notes.

CHILDREN'S HOME SOCIETY OF WASHINGTON

**Consolidated Statement of Changes in Net Assets  
For the Year Ended June 30, 2016  
(With Comparative Totals for 2015)**

	CHSW	CHSTF	Eliminating Entries	Consolidated 2016 Total	Consolidated 2015 Total
<b>Unrestricted Net Assets:</b>					
Operating activity-					
Change in unrestricted net assets - operating	\$ 160,983	\$ 206,165	\$ -	\$ 367,148	\$ (334,565)
Nonoperating activity-					
Gain on sale of property (Note 3)	1,312,435			1,312,435	
Endowment investment return (Note 4)		(110,871)		(110,871)	20,671
<b>Change in Unrestricted Net Assets</b>	<b>1,473,418</b>	<b>95,294</b>		<b>1,568,712</b>	<b>(313,894)</b>
<b>Temporarily Restricted Net Assets:</b>					
Direct support - contributions		572,000		572,000	334,434
In-kind support	326,831			326,831	
Investment return					796
Endowment investment return (Note 4)		(18,900)		(18,900)	11,711
Net assets released from restrictions	(846,280)			(846,280)	(580,117)
Contributions transferred	613,198	(613,198)			
<b>Change in Temporarily Restricted Net Assets</b>	<b>93,749</b>	<b>(60,098)</b>		<b>33,651</b>	<b>(233,176)</b>
<b>Permanently Restricted Net Assets:</b>					
Direct support - contributions		4,988		4,988	114,516
Net assets released from restrictions (Note 16)					(62,000)
Net change in value of beneficial interest in perpetual trusts (Note 6)	(245,849)			(245,849)	(178,027)
<b>Change in Permanently Restricted Net Assets</b>	<b>(245,849)</b>	<b>4,988</b>		<b>(240,861)</b>	<b>(125,511)</b>
<b>Total Change in Net Assets</b>	<b>1,321,318</b>	<b>40,184</b>		<b>1,361,502</b>	<b>(672,581)</b>
Net assets, beginning of year	9,937,583	12,500,518		22,438,101	23,110,682
<b>Net Assets, End of Year</b>	<b>\$ 11,258,901</b>	<b>\$ 12,540,702</b>	<b>\$ -</b>	<b>\$ 23,799,603</b>	<b>\$ 22,438,101</b>

See accompanying notes.

**CHILDREN'S HOME SOCIETY OF WASHINGTON**

**Consolidated Statement of Functional Expenses  
For the Year Ended June 30, 2016  
(With Comparative Totals for 2015)**

	Program Services					Total Programs	Supporting Services		2016 Total	2015 Total
	Early Childhood Care Education	Child and Family Counseling	Adoption and Secure Families	Family Support and Parent Education	Policy and Innovation		General and Administrative	Fund Development		
<b>CHSW:</b>										
Salaries	\$ 5,753,323	\$ 2,910,500	\$ 418,697	\$ 765,963	\$ 300,217	\$ 10,148,700	\$ 1,567,653	\$ 625,750	\$ 12,342,103	\$ 11,238,296
Employee benefits and taxes	1,142,158	599,257	81,870	140,139	60,596	2,024,020	498,402	131,379	2,653,801	2,479,408
	6,895,481	3,509,757	500,567	906,102	360,813	12,172,720	2,066,055	757,129	14,995,904	13,717,704
Other expenses	909,738	773,190	81,193	166,993	96,497	2,027,611	371,474	163,239	2,562,324	1,877,703
Professional fees	1,957,699	119,391	41,357	41,170	170,585	2,330,202	952,760	104,322	3,387,284	1,808,491
Occupancy	623,292	297,267	38,073	103,728	25,922	1,088,282	168,869	73,159	1,330,310	1,122,236
Specific assistance to individuals	213,617	22,455	578,449	121,611	6,647	942,779	2,058	571	945,408	929,449
In-kind donations	183,197	2,788	4,810	91,113	11,453	293,361	6,965	53,755	354,081	442,083
Depreciation	72,784	72,029	7,184	11,597	5,030	168,624	142,834	4,695	316,153	264,892
<b>Total CHSW Expenses</b>	<b>10,855,808</b>	<b>4,796,877</b>	<b>1,251,633</b>	<b>1,442,314</b>	<b>676,947</b>	<b>19,023,579</b>	<b>3,711,015</b>	<b>1,156,870</b>	<b>23,891,464</b>	<b>20,162,558</b>
<b>CHSTF:</b>										
In-kind support services (Note 11)								732,395	732,395	973,713
<b>Total CHSTF Expenses</b>								<b>732,395</b>	<b>732,395</b>	<b>973,713</b>
Eliminations								(732,395)	(732,395)	(973,713)
<b>Total Expenses</b>	<b>\$ 10,855,808</b>	<b>\$ 4,796,877</b>	<b>\$ 1,251,633</b>	<b>\$ 1,442,314</b>	<b>\$ 676,947</b>	<b>\$ 19,023,579</b>	<b>\$ 3,711,015</b>	<b>\$ 1,156,870</b>	<b>\$ 23,891,464</b>	<b>\$ 20,162,558</b>

See accompanying notes.



**CHILDREN'S HOME SOCIETY OF WASHINGTON**

**Consolidated Statement of Cash Flows  
For the Year Ended June 30, 2016  
(With Comparative Totals for 2015)**

	<u>2016</u>	<u>2015</u>
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ 1,361,502	\$ (672,581)
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities-		
Depreciation	316,153	264,892
Net loss on long-term investments	412,772	169,417
Gain on sale of property	(1,312,435)	
Loss on beneficial interest in perpetual trusts	245,849	178,027
Contributions to endowment classified as financing activities	(4,988)	(114,516)
Decrease (increase) in current assets:		
Accounts receivable, net	(691,979)	299,426
Facility contribution receivable	(245,204)	
Inventory		5,945
Prepaid expenses and other	(85,500)	48,748
Increase (decrease) in current liabilities:		
Accounts payable and accrued liabilities	(226,290)	242,203
Deferred revenue	(199,052)	195,460
<b>Net Cash (Used) Provided by Operating Activities</b>	<b>(429,172)</b>	<b>617,021</b>
<b>Cash Flows From Investing Activities:</b>		
Proceeds from sales of investments	546,035	1,346,219
Purchases of investments	(349,224)	(2,197,709)
Proceeds from sales of investments designated by board	532,927	825,556
Purchase of investments designated by board	(626,756)	(643,925)
Proceeds from sale of property and equipment	1,335,525	
Purchases of property and equipment	(285,350)	(450,111)
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>1,153,157</b>	<b>(1,119,970)</b>
<b>Cash Flows From Financing Activities:</b>		
Payments on capital lease obligations	(21,212)	(18,894)
Proceeds from contributions to endowment	4,988	114,516
<b>Net Cash (Used) Provided by Financing Activities</b>	<b>(16,224)</b>	<b>95,622</b>
<b>Net Change in Cash and Equivalents</b>	<b>707,761</b>	<b>(407,327)</b>
Cash and equivalents balance, beginning of year	800,091	1,207,418
<b>Cash and Equivalents Balance, End of Year</b>	<b>\$ 1,507,852</b>	<b>\$ 800,091</b>
<b>Supplementary Disclosure:</b>		
Cash paid for interest during the year	\$ 2,631	\$ 2,783
Property acquired through capital lease obligation	\$ -	\$ 109,750

See accompanying notes.

## CHILDREN'S HOME SOCIETY OF WASHINGTON

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2016

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#### Note 1 - Organization and Significant Accounting Policies

**Organization** - Children's Home Society of Washington (CHSW) is organized for the purpose of helping children to thrive and become viable members of society through programs designed to provide support by strengthening families. CHSW's programs are provided through regional locations in various communities in the state of Washington.

Children's Home Society of Washington Asset Management (CHSWAM) was incorporated on October 16, 2002, as a nonprofit affiliate organization of CHSW. On June 30, 2014, CHSWAM and Children's Trust Foundation (CTF) completed a merger of their operations. As a result of the merger, the combined organization was renamed Children's Home Society & Trust Foundation (CHSTF). CHSTF is organized to manage investments and raise funds that benefit CHSW.

**Principles of Consolidation** - These financial statements consolidate the statements of CHSW and CHSTF (collectively, the Society). Inter-organization and affiliated organization accounts and transactions have been eliminated in the consolidation.

**Programs** - Major programs and services offered to the community include the following:

Early Childhood Care Education - Supporting healthy growth and development and offering families the information and resources they need to give children a strong foundation during the first five years of life.

Child and Family Counseling - Helping children and parents communicate effectively, manage stress, identify and address problems, and find solutions that strengthen the entire family.

Adoption and Secure Families - Helping children find permanent homes through various adoption services as well as offering search and reunion support for those adopted through the agency.

Family Support and Parent Education - Working with families early in their children's development and assisting them in securing needed services and developing support systems that enable them to prevent unmanageable crises or family dysfunction later on.

Policy and Innovation - Working with policy makers, researchers and philanthropy to improve the well-being of children and families in Washington State and beyond.

**Basis of Presentation** - Net assets and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Society and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets also include Board-designated net assets (Note 13).

Temporarily Restricted Net Assets - Net assets subject to donor-imposed restrictions that will be met by actions of the Society and/or the passage of time.

Permanently Restricted Net Assets - Permanently restricted net assets must be maintained by the Society in perpetuity, the income of which is expendable for operations. Permanently restricted net assets increase when the Society receives contributions for which donor-imposed restrictions limiting the Society's use of an asset for its economic benefits neither expire with the passage of time nor can be removed by the Society meeting certain requirements.

## CHILDREN'S HOME SOCIETY OF WASHINGTON

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2016

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#### Note 1 - Continued

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets under the caption "net assets released from restrictions." Donor-imposed restrictions that are met in the same reporting period are classified as increases in unrestricted net assets.

**Cash and Equivalents** - Cash in excess of daily requirements is generally invested in interest-bearing instruments. Interest-bearing deposits with initial maturities of three months or less are considered cash equivalents. However, cash and equivalents associated with the Society's investment portfolio are considered investments since the intent is to reinvest them in longer-term instruments when appropriate.

**Accounts Receivable** - Accounts and grants 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 still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable. Changes in the valuation allowance have not been material to the consolidated financial statements.

**Inventories** - Inventories are stated at the lower of cost or market. Cost is determined by the moving average method. Inventories primarily represent books held for sale.

**Investments** - Investments in money market funds are stated at cost which approximates fair value. Investments in debt securities and equity securities with readily determinable market values are recorded at fair value. The fair value of investments in securities traded on national securities exchanges is valued at the closing price on the last day of the fiscal year. Unrealized and realized gains and losses on these investments are reported in the consolidated statement of changes in net assets. It is the Society's policy to invest in short and intermediate term debt and equity securities, emphasizing preservation and safety of capital and diversification of risk.

**Property and Equipment** - Property and equipment are recorded at cost, if purchased, or at fair value at the time of donation, if donated. Property and equipment are depreciated using straight-line methods over estimated useful lives ranging from three to forty years. The Society capitalizes all items and leasehold improvements over \$5,000.

**In-Kind Contributions** - Donated materials, property and equipment are recorded at fair value when received. A substantial number of corporations and volunteers donated significant amounts of time and services in the Society's operations. Such contributed services and the related expenses are only recorded in the accounts to the extent that specific professional expertise is provided or a capitalized asset is constructed, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). These volunteers, whose time has not been recognized in the consolidated financial statements, contributed 20,555 and 23,808 hours of their time valued at \$378,777 and \$394,188 (unaudited) during the years ended June 30, 2016 and 2015, respectively.

In-kind contributions recorded consist primarily of donated professional and nonprofessional fees of \$82,408 and \$117,529, in-kind materials/assets of \$190,046 and \$101,678 and in-kind rent of \$381,245 and \$223,880 for the years ended June 30, 2016 and 2015, respectively.

## CHILDREN'S HOME SOCIETY OF WASHINGTON

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2016

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#### Note 1 - Continued

**Use of Estimates** - The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Federal Income Taxes** - Both CHSW and CHSTF are nonprofit corporations as defined in Section 501(c)(3) of the Internal Revenue Code (the Code) and, accordingly, the Internal Revenue Service (IRS) has determined they are exempt from federal income taxes under the provisions of Section 501(a) of the Code.

**Allocation of Functional Expenses** - The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statement of unrestricted operating activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Operating vs. Nonoperating** - The consolidated statement of changes in net assets includes certain nonoperating activities. Investment return from endowment accounts and perpetual trusts is considered nonoperating activity, as well as gains or losses on sale of property and acquisition. All other activity is considered operating activity.

**Vulnerability From Certain Concentrations** - The Society receives fees and grants from federal, state, county and municipal governments. The receipt of governmental funding is generally subject to audit by various governmental agencies, the outcome of which is not known until the audit is completed. Revenue from governmental agencies represents the following percentages of total consolidated unrestricted operating support and revenue for the years ended June 30:

	2016	2015
Federal	40.5%	38.1%
State	15.4%	18.6%
County and local	24.9%	22.6%
<b>Total Government Support</b>	<b>80.8%</b>	<b>79.3%</b>

CHSW's history has been a mix of public and private funding. Due to the agency's national reputation for high-quality early learning, CHSW continues to be awarded federal Early Head Start/Head Start dollars. CHSW's foundation was created in 2014 to increase private dollar revenue in order to mitigate the vulnerability of overweighting the budget with public dollars and to maintain the Society's historical diversified funding base.

At times, cash deposits and investments exceeded FDIC and SIPC insured amounts.

**Contingencies** - At times, the Society is subject to litigation arising in the normal course of business. Management does not believe any ongoing matters would have a material adverse effect to the Society's future financial position or results from operations.

**Reclassifications of Prior Year Balances** - Certain reclassifications have been made to prior year accounts to conform to the presentation in the current year consolidated financial statements. The reclassifications have no effect on the previously reported consolidated change in net assets or consolidated net asset balances.

## CHILDREN'S HOME SOCIETY OF WASHINGTON

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2016

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#### Note 1 - Continued

**Comparative Totals** - The financial statements include certain summarized comparative information for the year ended June 30, 2015 in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Society's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

**Subsequent Events** - The Society has evaluated subsequent events through November 10, 2016, the date on which the financial statements were available to be issued.

#### Note 2 - Accounts Receivable

Accounts receivable consisted of the following at June 30:

	<u>2016</u>	<u>2015</u>
Government agencies	\$ 2,141,927	\$ 1,873,859
Pledges	593,061	201,331
Other	<u>76,306</u>	<u>44,125</u>
	2,811,294	2,119,315
Less provision for uncollectible accounts	<u>(25,000)</u>	<u>(25,000)</u>
	<u><u>\$ 2,786,294</u></u>	<u><u>\$ 2,094,315</u></u>

All pledges receivable are scheduled to be collected in less than one year.

#### Note 3 - Property and Equipment and Property Held for Sale

Property and equipment consisted of the following at June 30:

	<u>2016</u>	<u>2015</u>
Buildings and improvements	\$ 6,189,440	\$ 6,505,452
Furniture, fixtures, vehicles and equipment	3,049,303	2,904,451
Land	<u>1,528,830</u>	<u>1,528,830</u>
	10,767,573	10,938,733
Less accumulated depreciation	(6,810,838)	(6,928,105)
Less property held for sale, net		<u>(21,960)</u>
	<u><u>\$ 3,956,735</u></u>	<u><u>\$ 3,988,668</u></u>

The Society had one property which was held for sale as of June 30, 2015. The property was sold during the year ended June 30, 2016 and resulted in a gain of \$1,312,435.

CHILDREN'S HOME SOCIETY OF WASHINGTON

Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2016

**Note 4 - Investments**

Investments consisted of the following at June 30:

	<u>2016</u>	<u>2015</u>
Marketable securities and equities	\$ 1,518,563	\$ 1,581,819
Government securities	149,397	204,173
Mutual funds	10,844,154	11,229,391
Cash and money market accounts	<u>38,148</u>	<u>50,633</u>
	<u><b>\$ 12,550,262</b></u>	<u><b>\$ 13,066,016</b></u>

Investment return on investments and cash and cash equivalents was comprised of the following at June 30:

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 535,718	\$ 403,328
Net realized and unrealized (losses) gains	(412,772)	(169,417)
Investment management fees	<u>(40,549)</u>	<u>(30,569)</u>
	<u><b>\$ 82,397</b></u>	<u><b>\$ 203,342</b></u>

The Society reports its investment return in the consolidated statements of unrestricted operating activities and changes in net assets as operating and endowment. Operating investment return includes investment income from dividends and interest on cash and investments that are non-endowment. All other investment return is considered nonoperating. The breakout is as follows for the years ended June 30:

	<u>2016</u>	<u>2015</u>
Operating investment return	\$ 212,168	\$ 170,164
Unrestricted endowment investment return (Note 17)	(110,871)	20,671
Temporarily restricted investment return		796
Temporarily restricted endowment investment return (Note 17)	<u>(18,900)</u>	<u>11,711</u>
	<u><b>\$ 82,397</b></u>	<u><b>\$ 203,342</b></u>

**Note 5 - Fair Value Measurements**

U.S. GAAP defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. To increase consistency and comparability in fair value measurements, U. S. GAAP uses a fair value hierarchy that prioritizes the inputs to valuation approaches into three broad levels. The hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3).

**CHILDREN'S HOME SOCIETY OF WASHINGTON**

**Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2016**

**Note 5 - Continued**

**Valuation Techniques** - Financial assets and liabilities valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets and liabilities valued using Level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. Financial assets and liabilities using Level 3 inputs were primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability. Valuation techniques utilized to determine fair value are consistently applied.

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.

Cash and Money Market Accounts - Valued at cost, which approximates fair value.

Marketable Securities and Equities - Valued at the closing price reported on the active market on which the securities are traded.

Government Securities - Valued using bid valuations in actively quoted markets.

Mutual Funds - Valued at quoted market prices in active markets, which represent the net asset value (NAV) of shares held by the Society at year end.

Beneficial Interests in Perpetual Trusts - Valued based on the quoted market prices of the underlying investments of the trusts and the Society's proportional beneficial interests in the trusts.

**Fair Values Measured on a Recurring Basis** - Fair values of assets measured on a recurring basis at June 30, 2016 and 2015, were as follows:

	Fair Value Measurements as of June 30, 2016			
	Level 1	Level 2	Level 3	Total
Cash and money market accounts	\$ 38,148	\$ -	\$ -	\$ 38,148
Marketable securities and equities	1,518,563			1,518,563
Government securities	119,284	30,113		149,397
Mutual funds-				
Fixed income	4,122,360	14,694		4,137,054
Equity	5,559,295			5,559,295
Nontraditional	1,147,805			1,147,805
Total mutual funds	10,829,460			10,844,154
Total investments	12,505,455	44,807		12,550,262
Beneficial interests in perpetual trusts			4,596,651	4,596,651
	<u>\$ 12,505,455</u>	<u>\$ 44,807</u>	<u>\$ 4,596,651</u>	<u>\$ 17,146,913</u>

**CHILDREN'S HOME SOCIETY OF WASHINGTON**

**Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2016**

**Note 5 - Continued**

	Fair Value Measurements as of June 30, 2015			
	Level 1	Level 2	Level 3	Total
Cash and money market accounts	\$ 50,633	\$ -	\$ -	\$ 50,633
Marketable securities and equities	1,581,819			1,581,819
Government securities	162,914	41,259		204,173
Mutual funds-				
Fixed income	4,202,494			4,202,494
Equity	5,292,933			5,292,933
Nontraditional	1,733,964			1,733,964
Total mutual funds	11,229,391			11,229,391
Total investments	13,024,757	41,259		13,066,016
Beneficial interests in perpetual trusts			4,842,500	4,842,500
	<b>\$ 13,024,757</b>	<b>\$ 41,259</b>	<b>\$ 4,842,500</b>	<b>\$ 17,908,516</b>

A reconciliation of the beginning and ending balances of the beneficial interests in perpetual trusts measured at fair value using significant unobservable inputs (Level 3) follows for the years ended June 30:

	2016	2015
Beginning balance	\$ 4,842,500	\$ 5,020,527
Earnings distributions	(217,736)	(199,344)
Other changes in value	(28,113)	21,317
<b>Ending Balance</b>	<b>\$ 4,596,651</b>	<b>\$ 4,842,500</b>

**Note 6 - Beneficial Interest in Perpetual Trusts**

The Society is named as a beneficiary in numerous trusts held for the benefit of the Society and other local nonprofit agencies. The trusts, which are held in perpetuity, are administered by financial institutions, the majority of which provide for earnings distributions on a regular basis to the Society. One perpetual trust in which the Society is the sole beneficiary has earnings distributions on a discretionary basis which are determined by the Trustee in response to specific requests for funds from the Society. These trusts are recognized in the consolidated financial statements of the Society at the fair value of the Society's share as of the end of the reporting period. The Society received \$217,736 and \$199,344 in earnings distributions from the trusts during the years ended June 30, 2016 and 2015, respectively. The earnings are available for general operating purposes. The Society's interest in net gains and (losses), in the trusts of (\$245,849) and (\$178,027) for the years ended June 30, 2016 and 2015, respectively, are recognized in the consolidated statement of changes in net assets as permanently restricted activities.



**CHILDREN'S HOME SOCIETY OF WASHINGTON**

**Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2016**

**Note 7 - Long-Term Obligations**

Long-term obligations consisted of the following at June 30:

	<u>2016</u>	<u>2015</u>
Capital lease payable for phone equipment, monthly payments of \$1,971 including interest, due July 2019.	\$ 69,644	\$ 90,856
Note payable to City of Seattle in the original amount of \$249,651. Secured by deed of trust on real property. Noninterest bearing and subject to use restriction for Head Start program. Note has the option to be forgiven at maturity date, October 31, 2019, provided the Society remains in compliance with the terms of the note.	<u>249,651</u>	<u>249,651</u>
Less current portion	<u>319,295</u> <u>(21,858)</u>	<u>340,507</u> <u>(21,212)</u>
	<b><u>\$ 297,437</u></b>	<b><u>\$ 319,295</u></b>

Principal maturities on long-term obligations are as follows:

For the Year Ending June 30,

2017	\$ 21,858
2018	22,522
2019	272,859
2020	<u>2,056</u>
	<b><u>\$ 319,295</u></b>

Assets under capitalized leases are included in property and equipment with a total cost of \$242,675 at June 30, 2016 and 2015 and related accumulated amortization of \$174,996 and \$153,046 at June 30, 2016 and 2015, respectively. Amortization expense associated with assets under capital leases is included within depreciation expense.

**Note 8 - Line of Credit**

The Society has a revolving line of credit with its investment custodian for up to \$1,000,000, of which \$0 was outstanding at June 30, 2016 and 2015. The line bears interest at LIBOR plus 1.25% (LIBOR was 1.34% and 0.75% at June 30, 2016 and 2015, respectively).

**CHILDREN'S HOME SOCIETY OF WASHINGTON**

**Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2016**

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**Note 9 - Benefit Plans**

The Society sponsors a defined contribution profit-sharing pension plan covering all employees meeting minimum age and service requirements. Participants employed on or before July 31, 2009 are fully vested in the plan immediately upon participation. Participants hired August 1, 2009 and thereafter have the following vesting schedule: 1 year - 25%, 2 years - 50%, 3 years - 100%. Effective April 1, 2013, the plan was amended to allow for employee contributions to the plan through a 401(k) plan. The investment of such contributions is directed by each employee based on the investment options available under the plan. In January 2014, the Society declared a match on the first 3% of eligible contributions. Total employer contributions for the years ended June 30, 2016 and 2015, were \$212,964 and \$158,474, respectively.

**Note 10 - Commitments**

The Society has entered into various operating leases for facilities and equipment expiring through March 2020. Total rent expense under operating leases was \$863,194 and \$770,517 for the years ended June 30, 2016 and 2015, respectively.

Future minimum payments required under leases with initial or remaining noncancelable lease terms in excess of one year consist of the following:

For the Year Ending June 30,

2017	\$ 765,011
2018	769,525
2019	739,899
2020	<u>285,820</u>

**Future Minimum Lease Payments** \$ 2,560,255

**Note 11 - Related Party Agreements**

On June 27, 2014, CHSW and CHSTF entered into a memorandum of understanding regarding the functions each entity would perform on a go forward basis starting July 1, 2014. During the year ended June 30, 2015, the two entities also negotiated a management services agreement which was approved by the respective Boards on October 3, 2014. CHSTF receives donated facilities and services from CHSW, which include space usage, furnishings and equipment, utilities, employee services, and other items.

The estimated fair value of such items has been reflected in the consolidated financial statements for the year ended June 30, 2016 as follows:

Salaries, payroll taxes and benefits	\$ 600,167
Supplies, services and other	77,813
Facilities and utilities	<u>54,415</u>
	<u><u>\$ 732,395</u></u>

CHILDREN'S HOME SOCIETY OF WASHINGTON

Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2016

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**Note 12 - Contingencies and Contributed Facilities**

**Commitments and Contingencies** - The Society acquired block grant funds totaling \$249,651 from the City of Seattle (Note 7) with the stipulation that the facility be used for a Head Start Program. This stipulation may be removed by the City of Seattle as of October 31, 2019.

Expenses incurred under certain grant programs are subject to audit by granting agencies. If, as a result of such audits, certain expenses incurred are determined to be nonreimbursable, the Society may be liable for repayment of disallowed expenses previously claimed or received.

**Contributed Facilities** - The Society leases space from Green River Community College with no rental expense paid. The lease began July 1, 2016, between the Society and Green River Community College for a term of 2 years. The facility contribution receivable, recorded at June 30, 2016, was \$245,204.

**Note 13 - Unrestricted Net Assets Designated by the Board**

The board has designated unrestricted net assets for the following purposes at June 30:

	<u>2016</u>	<u>2015</u>
General operations quasi-endowment (Note 16)	\$ 9,655,447	\$ 10,221,166
Facilities and maintenance fund	<u>407,511</u>	<u>400,816</u>
<b>Total Unrestricted Designated Net Assets</b>	<b><u>\$ 10,062,958</u></b>	<b><u>\$ 10,621,982</u></b>

**Note 14 - Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes at June 30:

	<u>2016</u>	<u>2015</u>
Walla Walla building replacement and maintenance reserve	\$ 75,000	\$ 105,173
Unappropriated endowment earnings (Note 16)	143,512	173,436
In-kind lease contribution receivable (Note 12)	245,204	
Other programs	<u>47,146</u>	<u>198,602</u>
	<b><u>\$ 510,862</u></b>	<b><u>\$ 477,211</u></b>

## CHILDREN'S HOME SOCIETY OF WASHINGTON

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2016

#### Note 14 - Continued

Temporarily restricted net assets were released from restrictions for the following purposes during the years ended June 30:

	<u>2016</u>	<u>2015</u>
Releases from program restrictions-		
Endowment earnings appropriated	\$ 11,024	\$ 21,765
Program releases	753,629	558,352
Releases from time restrictions-		
In-kind lease contribution	<u>81,627</u>	
<b>Total Net Assets Released</b>	<b><u>\$ 846,280</u></b>	<b><u>\$ 580,117</u></b>

#### Note 15 - Permanently Restricted Net Assets

Permanently restricted net assets are held for the following purposes at June 30:

	<u>2016</u>	<u>2015</u>
Endowments (Note 16)-		
Children's Trust endowment	\$ 812,368	\$ 812,368
Hugh Cannon staff scholarship fund	461,348	461,348
General endowment	233,782	228,614
Other endowments for various operating purposes	<u>152,997</u>	<u>153,177</u>
	1,660,495	1,655,507
Beneficial interest in perpetual trusts (Note 6)	<u>4,596,651</u>	<u>4,842,500</u>
	<b><u>\$ 6,257,146</u></b>	<b><u>\$ 6,498,007</u></b>

#### Note 16 - Endowment

The Society's endowment consists of several funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments (quasi-endowments). As required by U.S. GAAP, net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law** - The Board of Directors of the Society has reviewed the Washington State Prudent Management of Institutional Funds Act (PMIFA) and, having considered its rights and obligations thereunder, has determined that it is desirable to preserve, on a long-term basis, 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 determination, the Society 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.

CHILDREN'S HOME SOCIETY OF WASHINGTON

Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2016

**Note 16 - Continued**

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 Society in a manner consistent with the standard of prudence prescribed by PMIFA. In accordance with PMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of the Society and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the Society; and
- The investment policies of the Society.

As of June 30, 2016, endowment net assets consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2016 Total</u>
Donor restricted endowment funds	\$ -	\$ 143,512	\$ 1,660,495	\$ 1,804,007
Board designated quasi-endowment	9,655,447			9,655,447
<b>Endowment Net Assets</b>	<b><u>\$ 9,655,447</u></b>	<b><u>\$ 143,512</u></b>	<b><u>\$ 1,660,495</u></b>	<b><u>\$ 11,459,454</u></b>

As of June 30, 2015, endowment net assets consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2015 Total</u>
Donor restricted endowment funds	\$ -	\$ 173,436	\$ 1,655,507	\$ 1,828,943
Board designated quasi-endowment	9,915,166			9,915,166
<b>Endowment Net Assets</b>	<b><u>\$ 9,915,166</u></b>	<b><u>\$ 173,436</u></b>	<b><u>\$ 1,655,507</u></b>	<b><u>\$ 11,744,109</u></b>

CHILDREN'S HOME SOCIETY OF WASHINGTON

Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2016

**Note 16 - Continued**

Changes to endowment net assets for the year ended June 30, 2016, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2015	\$ 9,915,166	\$ 173,436	\$ 1,655,507	\$ 11,744,109
Endowment investment return-				
Interest and dividends	248,498	43,807		292,305
Realized and unrealized losses	(345,727)	(60,187)		(405,914)
Investment management fees	(13,642)	(2,520)		(16,162)
Total endowment investment return	(110,871)	(18,900)		(129,771)
Appropriations for expenditure	(148,848)	(11,024)		(159,872)
Contributions			4,988	4,988
<b>Endowment Net Assets, June 30, 2016</b>	<b><u>\$ 9,655,447</u></b>	<b><u>\$ 143,512</u></b>	<b><u>\$ 1,660,495</u></b>	<b><u>\$ 11,459,454</u></b>

Changes to endowment net assets for the year ended June 30, 2015, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2014	\$ 10,200,495	\$ 183,490	\$ 1,602,991	\$ 11,986,976
Endowment investment return-				
Interest and dividends	116,747	66,141		182,888
Realized and unrealized gains	(80,490)	(45,600)		(126,090)
Investment management fees	(15,586)	(8,830)		(24,416)
Total endowment investment return	20,671	11,711		32,382
Appropriations for expenditure	(306,000)	(21,765)		(327,765)
Contributions			114,516	114,516
Net assets released from endowment by the donor			(62,000)	(62,000)
<b>Endowment Net Assets, June 30, 2015</b>	<b><u>\$ 9,915,166</u></b>	<b><u>\$ 173,436</u></b>	<b><u>\$ 1,655,507</u></b>	<b><u>\$ 11,744,109</u></b>

## CHILDREN'S HOME SOCIETY OF WASHINGTON

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2016

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#### Note 16 - Continued

During the year ended June 30, 2015, \$62,000 was approved by the donor for release from permanently restricted endowments to be spent on scholarships.

**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 or PMIFA requires the Society to retain as a fund of perpetual duration. These deficiencies result from unfavorable market fluctuations that occur after the investment of new permanently restricted contributions and continued appropriation for certain programs as deemed prudent by the Board of Directors. There were no such deficiencies as of June 30, 2016 and 2015.

**Return Objectives and Risk Parameters** - The Society 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 Society must hold in perpetuity or for a donor-specified period as well as board-designated funds as approved by the Board of Directors. The endowment assets are invested in accordance with a board approved investment policy, which has structured the fund as a diversified balanced fund. Its primary investment objective is long-term growth of capital on a total return basis. Thus it is managed to provide consistent inflation-adjusted support to the Society's operating budget in perpetuity.

**Strategies Employed for Achieving Objectives** - To satisfy its long-term rate-of-return objectives, the Society 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 Society targets a diversified asset allocation that balances return and risk through prudent management and investment allocations.

**Spending Policy and How the Investment Objectives Relate to Spending Policy** - The Society has a policy of appropriating for distribution up to 3% of the 12 quarter trailing average or up to 3% of the average since inception, whichever is less, of the investment fund's value at the end of the previous year to which the distribution is planned. In establishing this policy, the Society considered the long-term expected return on its endowment. Accordingly, over the long term, the Society expects the current spending policy to allow its endowment to grow at an average of 2.5% annually. This is consistent with the Society'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.

**SUPPLEMENTARY INFORMATION**



**CHILDREN'S HOME SOCIETY OF WASHINGTON**

**Children's Home Society of Washington -  
Schedule of Activities and Changes in Net Assets  
For the Year Ended June 30, 2016**

	CHSW			2016 Total	2015 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>Operating Activities</b>					
<b>Private Support and Revenue:</b>					
In-kind support	\$ 272,454	\$ 326,831	\$ -	\$ 599,285	\$ 442,087
Program service fees	538,066			538,066	546,068
Investment return	(12,263)			(12,263)	(29,996)
Rental income and miscellaneous	67,763			67,763	59,905
<b>Total Private Support and Revenue</b>	<b>866,020</b>	<b>326,831</b>		<b>1,192,851</b>	<b>1,018,064</b>
<b>Revenue From Governmental Agencies:</b>					
Federal revenue	9,818,103			9,818,103	7,560,550
State revenue	3,739,656			3,739,656	3,697,883
County and local	6,048,199			6,048,199	4,475,900
<b>Total From Governmental Agencies</b>	<b>19,605,958</b>			<b>19,605,958</b>	<b>15,734,333</b>
Net assets released from restrictions	846,280	(846,280)			
<b>Total Support and Revenue</b>	<b>21,318,258</b>	<b>(519,449)</b>		<b>20,798,809</b>	<b>16,752,397</b>
<b>Transfers to and From the Foundation:</b>					
Contributions transferred from the Foundation	2,585,341	613,198		3,198,539	2,767,096
Foundation board-approved investment returns distribution (Note 16)	148,848			148,848	330,993
Transfer of Auburn property from the Foundation					21,960
Transfer of prior year adjustment from the Foundation					50,000
Transfer of prior year accumulated earnings to the Foundation					(183,490)
<b>Total Transfers</b>	<b>2,734,189</b>	<b>613,198</b>		<b>3,347,387</b>	<b>2,986,559</b>
<b>Total Support, Revenue and Transfers</b>	<b>24,052,447</b>	<b>93,749</b>		<b>24,146,196</b>	<b>19,738,956</b>
<b>Program Services Expenses:</b>					
Early childhood care education	10,855,808			10,855,808	8,521,704
Child and family counseling	4,796,877			4,796,877	3,563,382
Adoption and secure families	1,251,633			1,251,633	1,642,054
Family support and parent education	1,442,314			1,442,314	1,608,341
Policy and innovation	676,947			676,947	482,301
<b>Total Program Services</b>	<b>19,023,579</b>			<b>19,023,579</b>	<b>15,817,782</b>
<b>Support Services Expenses:</b>					
General and administrative	3,711,015			3,711,015	3,307,442
Fund development	1,156,870			1,156,870	1,037,334
<b>Total Support Services</b>	<b>4,867,885</b>			<b>4,867,885</b>	<b>4,344,776</b>
<b>Total Expenses</b>	<b>23,891,464</b>			<b>23,891,464</b>	<b>20,162,558</b>
<b>Change in Net Assets - Operating</b>	<b>160,983</b>	<b>93,749</b>		<b>254,732</b>	<b>(423,602)</b>
<b>Nonoperating Activities</b>					
Gain on sale of property	1,312,435			1,312,435	
Net change in value of beneficial interest in perpetual trusts			(245,849)	(245,849)	(178,027)
<b>Change in Net Assets From Nonoperating Activities</b>	<b>1,312,435</b>		<b>(245,849)</b>	<b>1,066,586</b>	<b>(178,027)</b>
<b>Total Change in Net Assets</b>	<b>1,473,418</b>	<b>93,749</b>	<b>(245,849)</b>	<b>1,321,318</b>	<b>(601,629)</b>
Net assets, beginning of year	4,880,981	198,602	4,858,000	9,937,583	10,539,212
<b>Net Assets, End of Year</b>	<b>\$ 6,354,399</b>	<b>\$ 292,351</b>	<b>\$ 4,612,151</b>	<b>\$ 11,258,901</b>	<b>\$ 9,937,583</b>

See independent auditor's report.

**CHILDREN'S HOME SOCIETY OF WASHINGTON**

**Children's Home Society Trust Foundation -  
Schedule of Activities and Changes in Net Assets  
For the Year Ended June 30, 2016**

	CHSTF			2016 Total	2015 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
<b>Operating Activities</b>					
<b>Private Support and Revenue:</b>					
Direct support - contributions	\$ 1,495,625	\$ 572,000	\$ 4,988	\$ 2,072,613	\$ 1,546,154
In-kind contribution for services from CHSW (Note 11)	732,395			732,395	973,713
United Way	1,220,298			1,220,298	1,136,115
Investment return	224,431			224,431	200,956
<b>Total Private Support and Revenue</b>	<b>3,672,749</b>	<b>572,000</b>	<b>4,988</b>	<b>4,249,737</b>	<b>3,856,938</b>
<b>Transfers to and From CHSW:</b>					
Contributions transferred to CHSW	(2,585,341)	(613,198)		(3,198,539)	(2,767,096)
Foundation board-approved investment returns distribution to CHSW (Note 16)	(148,848)			(148,848)	(330,993)
Transfer of Auburn property to CHSW					(21,960)
Transfer of prior year adjustment to CHSW					(50,000)
Transfer of prior year accumulated earnings from CHSW					183,490
<b>Total Transfers</b>	<b>(2,734,189)</b>	<b>(613,198)</b>		<b>(3,347,387)</b>	<b>(2,986,559)</b>
<b>Total Support, Revenue and Transfers</b>	<b>938,560</b>	<b>(41,198)</b>	<b>4,988</b>	<b>902,350</b>	<b>870,379</b>
<b>Support Services Expenses:</b>					
Fund development	732,395			732,395	973,713
<b>Total Expenses</b>	<b>732,395</b>			<b>732,395</b>	<b>973,713</b>
<b>Change in Net Assets - Operating</b>	<b>206,165</b>	<b>(41,198)</b>	<b>4,988</b>	<b>169,955</b>	<b>(103,334)</b>
<b>Nonoperating Activities</b>					
Endowment investment return	(110,871)	(18,900)		(129,771)	32,382
<b>Total Change in Net Assets</b>	<b>95,294</b>	<b>(60,098)</b>	<b>4,988</b>	<b>40,184</b>	<b>(70,952)</b>
Net assets, beginning of year	10,581,902	278,609	1,640,007	12,500,518	12,571,470
<b>Net Assets, End of Year</b>	<b>\$ 10,677,196</b>	<b>\$ 218,511</b>	<b>\$ 1,644,995</b>	<b>\$ 12,540,702</b>	<b>\$ 12,500,518</b>

See independent auditor's report.

CHILDREN'S HOME SOCIETY OF WASHINGTON

Consolidated Schedule of Unrestricted Activities  
For the Year Ended June 30, 2016  
(With Comparative Totals for 2015)

	<u>2016</u>	<u>2015</u>
<b>Operating Activities</b>		
<b>Private Support and Revenue:</b>		
Direct support - contributions	\$ 1,495,625	\$ 1,097,204
In-kind support	272,454	442,087
United Way	1,220,298	1,136,115
Program service fees	538,066	546,068
Operating investment return	212,168	170,164
Rental income and miscellaneous	67,763	59,905
<b>Total Private Support and Revenue</b>	<b>3,806,374</b>	<b>3,451,543</b>
<b>Revenue From Governmental Agencies:</b>		
Federal revenue	9,818,103	7,560,550
State revenue	3,739,656	3,697,883
County and local	6,048,199	4,475,900
<b>Total From Governmental Agencies</b>	<b>19,605,958</b>	<b>15,734,333</b>
Net assets released from restrictions	846,280	642,117
<b>Total Support and Revenue From Operations</b>	<b>24,258,612</b>	<b>19,827,993</b>
<b>Program Services Expenses:</b>		
Early childhood care education	10,855,808	8,521,704
Child and family counseling	4,796,877	3,563,382
Adoption and secure families	1,251,633	1,642,054
Family support and parent education	1,442,314	1,608,341
Policy and innovation	676,947	482,301
<b>Total Program Services</b>	<b>19,023,579</b>	<b>15,817,782</b>
<b>Support Services Expenses:</b>		
General and administrative	3,711,015	3,307,442
Fund development	1,156,870	1,037,334
<b>Total Support Services</b>	<b>4,867,885</b>	<b>4,344,776</b>
<b>Total Expenses</b>	<b>23,891,464</b>	<b>20,162,558</b>
<b>Change in Unrestricted Net Assets - Operating</b>	<b>367,148</b>	<b>(334,565)</b>
<b>Nonoperating Activities</b>		
Gain on sale of property	1,312,435	
Endowment investment return	(110,871)	20,671
<b>Change in Unrestricted Net Assets - Nonoperating</b>	<b>1,201,564</b>	<b>20,671</b>
<b>Change in Unrestricted Net Assets</b>	<b>\$ 1,568,712</b>	<b>\$ (313,894)</b>

See independent auditor's report.