

**CHILDREN'S HOME SOCIETY OF WASHINGTON**

Consolidated Financial Statements

For the Year Ended June 30, 2017

## Table of Contents

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|  | Page   |
|--|--------|
| <b>Independent Auditor's Report</b>  | 1 - 3  |
| <b>Financial Statements:</b>   |        |
| Consolidated Statement of Financial Position   | 4      |
| Consolidated Statement of Unrestricted Operating Activities                                    | 5      |
| Consolidated Statement of Changes in Net Assets  | 6      |
| Consolidated Statement of Functional Expenses  | 7      |
| Consolidated Statement of Cash Flows   | 8      |
| Notes to Consolidated Financial Statements   | 9 - 22 |
| <b>Supplementary Information:</b>  |        |
| Children's Home Society of Washington - Schedule of Activities and<br>Changes in Net Assets    | 23     |
| Children's Home Society Trust Foundation - Schedule of Activities and<br>Changes in Net Assets | 24     |
| Consolidated Schedule of Unrestricted Activities   | 25     |

## **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, 2017, which comprise the consolidated statement of financial position as of June 30, 2017, 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, 2017, 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.

## **Other Matter**

As discussed in Note 17 to the financial statements, management determined that certain revenues had been recognized incorrectly in prior periods. Therefore, beginning net assets and prior year comparative balances have been restated to reflect that adjustment. Our opinion is not modified with respect to this matter.

## **Report on Summarized Comparative Information**

We have previously audited the Society's 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 10, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived, except for the prior period adjustment as described in Note 17.

## **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 5 to 6 and the accompanying supplementary information shown on pages 23 to 25 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 December 21, 2017, 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  
December 21, 2017

**CHILDREN'S HOME SOCIETY OF WASHINGTON**

**Consolidated Statement of Financial Position  
For the Year Ended June 30, 2017  
(With Comparative Totals for 2016)**

|  | <u>CHSW</u>          | <u>CHSTF</u>         | <u>Consolidated<br/>2017 Total</u> | <u>Consolidated<br/>2016 Total</u> |
|--|----------------------|----------------------|------------------------------------|------------------------------------|
| <b>Current Assets:</b>   |                      |                      |                                    |                                    |
| Cash and equivalents   | \$ 1,051,440         | \$ 177,017           | \$ 1,228,457                       | \$ 1,507,852                       |
| Accounts receivable, net (Note 2)                                    | 2,110,635            | 242,859              | 2,353,494                          | 2,530,166                          |
| Intercompany (payable) receivable                                    | (96,015)             | 96,015               |                                    |                                    |
| Prepaid expenses and other   | 286,931              |                      | 286,931                            | 189,721                            |
| Current portion of facility<br>contribution receivable (Note 12)     | 20,434               |                      | 20,434                             | 122,602                            |
| <b>Total Current Assets</b>  | <b>3,373,425</b>     | <b>515,891</b>       | <b>3,889,316</b>                   | <b>4,350,341</b>                   |
| Facility contribution receivable,<br>less current portion (Note 12)  |                      |                      |                                    | 122,602                            |
| Property and equipment, net (Note 3)                                 | 3,693,632            |                      | 3,693,632                          | 3,956,735                          |
| Assets designated by the Board for<br>long-term investments (Note 4) |                      | 12,249,280           | 12,249,280                         | 10,062,958                         |
| Investments (Note 4)   |                      | 1,887,505            | 1,887,505                          | 2,487,304                          |
| Beneficial interest in perpetual<br>trusts (Note 6)                  | 4,834,542            |                      | 4,834,542                          | 4,596,651                          |
| <b>Total Assets</b>  | <b>\$ 11,901,599</b> | <b>\$ 14,652,676</b> | <b>\$ 26,554,275</b>               | <b>\$ 25,576,591</b>               |
| <b>Current Liabilities:</b>  |                      |                      |                                    |                                    |
| Accounts payable   | \$ 393,495           | \$ -                 | \$ 393,495                         | \$ 412,765                         |
| Accrued liabilities  | 994,818              |                      | 994,818                            | 979,454                            |
| Deferred revenue   |                      |                      |                                    | 321,602                            |
| Current portion of capital<br>lease obligation (Note 7)              | 22,522               |                      | 22,522                             | 21,858                             |
| <b>Total Current Liabilities</b>                                     | <b>1,410,835</b>     |                      | <b>1,410,835</b>                   | <b>1,735,679</b>                   |
| Long-term forgivable debt (Note 7)                                   | 249,651              |                      | 249,651                            | 249,651                            |
| Capital lease obligation,<br>net of current portion (Note 7)         | 25,246               |                      | 25,246                             | 47,786                             |
| <b>Total Liabilities</b>   | <b>1,685,732</b>     |                      | <b>1,685,732</b>                   | <b>2,033,116</b>                   |
| <b>Net Assets:</b>   |                      |                      |                                    |                                    |
| Unrestricted (Note 13)   | 5,057,391            | 12,688,518           | 17,745,909                         | 16,775,467                         |
| Temporarily restricted (Note 14)                                     | 308,434              | 316,089              | 624,523                            | 510,862                            |
| Permanently restricted (Note 15)                                     | 4,850,042            | 1,648,069            | 6,498,111                          | 6,257,146                          |
| <b>Total Net Assets</b>  | <b>10,215,867</b>    | <b>14,652,676</b>    | <b>24,868,543</b>                  | <b>23,543,475</b>                  |
| <b>Total Liabilities and Net Assets</b>                              | <b>\$ 11,901,599</b> | <b>\$ 14,652,676</b> | <b>\$ 26,554,275</b>               | <b>\$ 25,576,591</b>               |

See accompanying notes.

CHILDREN'S HOME SOCIETY OF WASHINGTON

**Consolidated Statement of Unrestricted Operating Activities  
For the Year Ended June 30, 2017  
(With Comparative Totals for 2016)**

|  | CHSW              | CHSTF               | Eliminating<br>Entries | Consolidated<br>2017 Total | Consolidated<br>2016 Total |
|--|-------------------|---------------------|------------------------|----------------------------|----------------------------|
| <b>Unrestricted Operating Activities</b>                               |                   |                     |                        |                            |                            |
| <b>Private Support and Revenue:</b>                                    |                   |                     |                        |                            |                            |
| Direct support - contributions   | \$ 170,632        | \$ 1,290,645        | \$ -                   | \$ 1,461,277               | \$ 1,495,625               |
| In-kind support  | 224,997           |                     |                        | 224,997                    | 272,454                    |
| In-kind contribution for services<br>from CHSW (Note 11)               |                   | 846,907             | (846,907)              |                            |                            |
| United Way   |                   | 1,116,054           |                        | 1,116,054                  | 1,220,298                  |
| Program service fees   | 600,497           |                     |                        | 600,497                    | 538,066                    |
| Investment return (Note 4)   | (19,858)          | 295,964             |                        | 276,106                    | 212,168                    |
| Rental income and miscellaneous  | 66,314            |                     |                        | 66,314                     | 67,763                     |
| <b>Total Private Support and Revenue</b>                               | <b>1,042,582</b>  | <b>3,549,570</b>    | <b>(846,907)</b>       | <b>3,745,245</b>           | <b>3,806,374</b>           |
| <b>Revenue From Governmental Agencies:</b>                             |                   |                     |                        |                            |                            |
| Federal revenue  | 9,050,182         |                     |                        | 9,050,182                  | 9,677,679                  |
| State revenue  | 4,381,277         |                     |                        | 4,381,277                  | 3,739,656                  |
| County and local   | 7,541,093         |                     |                        | 7,541,093                  | 6,048,199                  |
| <b>Total From Governmental Agencies</b>                                | <b>20,972,552</b> |                     |                        | <b>20,972,552</b>          | <b>19,465,534</b>          |
| Net assets released from restrictions                                  | 407,823           | 75,000              |                        | 482,823                    | 846,280                    |
| <b>Total Support and Revenue</b>                                       | <b>22,422,957</b> | <b>3,624,570</b>    | <b>(846,907)</b>       | <b>25,200,620</b>          | <b>24,118,188</b>          |
| <b>Transfers Between Entities:</b>                                     |                   |                     |                        |                            |                            |
| Contributions transferred  | 2,871,144         | (2,871,144)         |                        |                            |                            |
| Foundation board-approved investment<br>returns distribution (Note 16) | 293,765           | (293,765)           |                        |                            |                            |
| <b>Total Transfers</b>   | <b>3,164,909</b>  | <b>(3,164,909)</b>  |                        |                            |                            |
| <b>Total Support, Revenue and Transfers</b>                            | <b>25,587,866</b> | <b>459,661</b>      | <b>(846,907)</b>       | <b>25,200,620</b>          | <b>24,118,188</b>          |
| <b>Program Services Expenses:</b>                                      |                   |                     |                        |                            |                            |
| Early childhood care education   | 10,879,211        |                     |                        | 10,879,211                 | 10,855,808                 |
| Child and family counseling  | 5,268,976         |                     |                        | 5,268,976                  | 4,796,877                  |
| Adoption and secure families   | 1,234,817         |                     |                        | 1,234,817                  | 1,251,633                  |
| Family support and parent education                                    | 1,659,864         |                     |                        | 1,659,864                  | 1,442,314                  |
| Policy and innovation  | 1,014,709         |                     |                        | 1,014,709                  | 676,947                    |
| <b>Total Program Services</b>  | <b>20,057,577</b> |                     |                        | <b>20,057,577</b>          | <b>19,023,579</b>          |
| <b>Support Services Expenses:</b>                                      |                   |                     |                        |                            |                            |
| General and administrative   | 3,996,689         |                     |                        | 3,996,689                  | 3,711,015                  |
| Fund development   | 1,290,558         | 846,907             | (846,907)              | 1,290,558                  | 1,156,870                  |
| <b>Total Support Services</b>  | <b>5,287,247</b>  | <b>846,907</b>      | <b>(846,907)</b>       | <b>5,287,247</b>           | <b>4,867,885</b>           |
| <b>Total Expenses</b>  | <b>25,344,824</b> | <b>846,907</b>      | <b>(846,907)</b>       | <b>25,344,824</b>          | <b>23,891,464</b>          |
| <b>Change in Unrestricted Net Assets - Operating</b>                   | <b>\$ 243,042</b> | <b>\$ (387,246)</b> | <b>\$ -</b>            | <b>\$ (144,204)</b>        | <b>\$ 226,724</b>          |

See accompanying notes.

**CHILDREN'S HOME SOCIETY OF WASHINGTON**

**Consolidated Statement of Changes in Net Assets  
For the Year Ended June 30, 2017  
(With Comparative Totals for 2016)**

|  | <u>CHSW</u>                 | <u>CHSTF</u>                | <u>Eliminating<br/>Entries</u> | <u>Consolidated<br/>2017 Total</u> | <u>Consolidated<br/>2016 Total</u> |
|--|-----------------------------|-----------------------------|--------------------------------|------------------------------------|------------------------------------|
| <b>Unrestricted Net Assets:</b>  |                             |                             |                                |                                    |                                    |
| Operating activity-  |                             |                             |                                |                                    |                                    |
| Change in unrestricted net assets - operating                              | \$ 243,042                  | \$ (387,246)                | \$ -                           | \$ (144,204)                       | \$ 226,724                         |
| Nonoperating activity-   |                             |                             |                                |                                    |                                    |
| Gain on sale of property (Note 3)  |                             |                             |                                |                                    | 1,312,435                          |
| Endowment investment return (Note 4)                                       |                             | 1,114,646                   |                                | 1,114,646                          | (110,871)                          |
| Transfer of Board Designated Operating<br>Endowment to the Foundation      | <u>(1,283,922)</u>          | <u>1,283,922</u>            |                                |                                    |                                    |
| <b>Change in Unrestricted Net Assets</b>                                   | <b>(1,040,880)</b>          | <b>2,011,322</b>            |                                | <b>970,442</b>                     | <b>1,428,288</b>                   |
| <b>Temporarily Restricted Net Assets:</b>                                  |                             |                             |                                |                                    |                                    |
| Direct support - contributions   |                             | 501,000                     |                                | 501,000                            | 572,000                            |
| In-kind support  |                             |                             |                                |                                    | 326,831                            |
| Loss on early termination of in-kind lease (Note 12)                       | (102,168)                   |                             |                                | (102,168)                          |                                    |
| Endowment investment return (Note 4)                                       |                             | 197,652                     |                                | 197,652                            | (18,900)                           |
| Net assets released from restrictions                                      | (407,823)                   | (75,000)                    |                                | (482,823)                          | (846,280)                          |
| Contributions transferred  | <u>526,074</u>              | <u>(526,074)</u>            |                                |                                    |                                    |
| <b>Change in Temporarily Restricted Net Assets</b>                         | <b>16,083</b>               | <b>97,578</b>               |                                | <b>113,661</b>                     | <b>33,651</b>                      |
| <b>Permanently Restricted Net Assets:</b>                                  |                             |                             |                                |                                    |                                    |
| Direct support - contributions   |                             | 3,074                       |                                | 3,074                              | 4,988                              |
| Net change in value of beneficial interest<br>in perpetual trusts (Note 6) | <u>237,891</u>              |                             |                                | <u>237,891</u>                     | <u>(245,849)</u>                   |
| <b>Change in Permanently Restricted Net Assets</b>                         | <b>237,891</b>              | <b>3,074</b>                |                                | <b>240,965</b>                     | <b>(240,861)</b>                   |
| <b>Total Change in Net Assets</b>  | <b>(786,906)</b>            | <b>2,111,974</b>            |                                | <b>1,325,068</b>                   | <b>1,221,078</b>                   |
| Net assets, beginning of year, as restated (Note 17)                       | <u>11,002,773</u>           | <u>12,540,702</u>           |                                | <u>23,543,475</u>                  | <u>22,322,397</u>                  |
| <b>Net Assets, End of Year</b>   | <b><u>\$ 10,215,867</u></b> | <b><u>\$ 14,652,676</u></b> | <b><u>\$ -</u></b>             | <b><u>\$ 24,868,543</u></b>        | <b><u>\$ 23,543,475</u></b>        |

See accompanying notes.



**CHILDREN'S HOME SOCIETY OF WASHINGTON**

**Consolidated Statement of Functional Expenses  
For the Year Ended June 30, 2017  
(With Comparative Totals for 2016)**

|                                    | Program Services               |                             |                              |                                     |                       | Total Programs       | Supporting Services        |                     | 2017 Total           | 2016 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                           | \$ 6,125,815                   | \$ 3,568,049                | \$ 455,210                   | \$ 879,768                          | \$ 467,407            | \$ 11,496,249        | \$ 1,844,286               | \$ 695,596          | \$ 14,036,131        | \$ 12,342,103        |
| Employee benefits and taxes        | 1,357,522                      | 804,806                     | 103,995                      | 184,569                             | 100,653               | 2,551,545            | 418,598                    | 159,079             | 3,129,222            | 2,653,801            |
|                                    | 7,483,337                      | 4,372,855                   | 559,205                      | 1,064,337                           | 568,060               | 14,047,794           | 2,262,884                  | 854,675             | 17,165,353           | 14,995,904           |
| Other expenses                     | 850,024                        | 421,314                     | 68,042                       | 169,215                             | 122,533               | 1,631,128            | 459,152                    | 254,665             | 2,344,945            | 2,562,324            |
| Professional fees                  | 1,518,873                      | 144,676                     | 4,872                        | 34,246                              | 259,534               | 1,962,201            | 945,173                    | 78,530              | 2,985,904            | 3,387,284            |
| Occupancy                          | 582,498                        | 243,176                     | 28,403                       | 135,318                             | 43,826                | 1,033,221            | 172,970                    | 70,732              | 1,276,923            | 1,330,310            |
| Specific assistance to individuals | 180,029                        | 12,809                      | 569,962                      | 117,018                             | 13,047                | 892,865              | 5,602                      | 768                 | 899,235              | 945,408              |
| In-kind donations                  | 176,602                        | 3,150                       | 2,640                        | 128,108                             | 115                   | 310,615              | 12,015                     | 24,968              | 347,598              | 354,081              |
| Depreciation                       | 87,848                         | 70,996                      | 1,693                        | 11,622                              | 7,594                 | 179,753              | 138,893                    | 6,220               | 324,866              | 316,153              |
| <b>Total CHSW Expenses</b>         | <b>10,879,211</b>              | <b>5,268,976</b>            | <b>1,234,817</b>             | <b>1,659,864</b>                    | <b>1,014,709</b>      | <b>20,057,577</b>    | <b>3,996,689</b>           | <b>1,290,558</b>    | <b>25,344,824</b>    | <b>23,891,464</b>    |
| <b>CHSTF:</b>                      |                                |                             |                              |                                     |                       |                      |                            |                     |                      |                      |
| In-kind support services (Note 11) |                                |                             |                              |                                     |                       |                      |                            | 846,907             | 846,907              | 732,395              |
| <b>Total CHSTF Expenses</b>        |                                |                             |                              |                                     |                       |                      |                            | <b>846,907</b>      | <b>846,907</b>       | <b>732,395</b>       |
| Eliminations                       |                                |                             |                              |                                     |                       |                      |                            | (846,907)           | (846,907)            | (732,395)            |
| <b>Total Expenses</b>              | <b>\$ 10,879,211</b>           | <b>\$ 5,268,976</b>         | <b>\$ 1,234,817</b>          | <b>\$ 1,659,864</b>                 | <b>\$ 1,014,709</b>   | <b>\$ 20,057,577</b> | <b>\$ 3,996,689</b>        | <b>\$ 1,290,558</b> | <b>\$ 25,344,824</b> | <b>\$ 23,891,464</b> |

See accompanying notes.

**CHILDREN'S HOME SOCIETY OF WASHINGTON**

**Consolidated Statement of Cash Flows  
For the Year Ended June 30, 2017  
(With Comparative Totals for 2016)**

|  | <u>2017</u>         | <u>2016</u>         |
|--|---------------------|---------------------|
| <b>Cash Flows From Operating Activities:</b>   |                     |                     |
| Change in net assets   | \$ 1,325,068        | \$ 1,221,078        |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities- |                     |                     |
| Depreciation   | 324,866             | 316,153             |
| Net (gain) loss on long-term investments   | (1,149,498)         | 412,772             |
| Gain on sale of property   |                     | (1,312,435)         |
| (Gain) loss on beneficial interest in perpetual trusts   | (237,891)           | 245,849             |
| Contributions to endowment classified as financing activities                                      | (3,074)             | (4,988)             |
| Decrease (increase) in current assets:   |                     |                     |
| Accounts receivable, net   | 176,672             | (551,555)           |
| Facility contribution receivable   | 224,770             | (245,204)           |
| Prepaid expenses and other   | (97,210)            | (85,500)            |
| Increase (decrease) in current liabilities:  |                     |                     |
| Accounts payable and accrued liabilities   | (3,907)             | (226,290)           |
| Deferred revenue   | (321,602)           | (199,052)           |
| <b>Net Cash Provided (Used) by Operating Activities</b>  | <b>238,194</b>      | <b>(429,172)</b>    |
| <b>Cash Flows From Investing Activities:</b>   |                     |                     |
| Proceeds from sales of investments   | 1,839,727           | 546,035             |
| Purchases of investments   | (1,079,890)         | (349,224)           |
| Proceeds from sales of investments designated by board   | 620,792             | 532,927             |
| Purchase of investments designated by board  | (1,817,654)         | (626,756)           |
| Proceeds from sale of property and equipment   |                     | 1,335,525           |
| Purchases of property and equipment  | (61,762)            | (285,350)           |
| <b>Net Cash (Used) Provided by Investing Activities</b>  | <b>(498,787)</b>    | <b>1,153,157</b>    |
| <b>Cash Flows From Financing Activities:</b>   |                     |                     |
| Payments on capital lease obligations  | (21,876)            | (21,212)            |
| Proceeds from contributions to endowment   | 3,074               | 4,988               |
| <b>Net Cash Used by Financing Activities</b>   | <b>(18,802)</b>     | <b>(16,224)</b>     |
| <b>Net Change in Cash and Equivalents</b>  | <b>(279,395)</b>    | <b>707,761</b>      |
| Cash and equivalents balance, beginning of year  | 1,507,852           | 800,091             |
| <b>Cash and Equivalents Balance, End of Year</b>   | <b>\$ 1,228,457</b> | <b>\$ 1,507,852</b> |
| <b>Supplementary Disclosure:</b>   |                     |                     |
| Cash paid for interest during the year   | \$ 1,772            | \$ 2,631            |

See accompanying notes.

## CHILDREN'S HOME SOCIETY OF WASHINGTON

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2017

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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, 2017

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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.

**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 25,493 and 20,555 hours of their time valued at \$537,479 and \$378,777 (unaudited) during the years ended June 30, 2017 and 2016, respectively.

In-kind contributions recorded consist primarily of donated professional and nonprofessional fees of \$56,842 and \$82,408, in-kind materials/assets of \$168,155 and \$190,046 and in-kind rent of \$0 and \$381,245 for the years ended June 30, 2017 and 2016, respectively. In prior years, the Society signed a multi-year lease with no expense paid and recorded a receivable for future in-kind rent. The lease began July 1, 2016 for a term of 2 years. The facility contribution receivable recorded at June 30, 2016, was \$245,204. The facility contribution receivable balance was written down to a balance of \$20,424 as of June 30, 2017 as the lease was terminated during August of 2017. The related loss on the write off totaled \$102,168.

**CHILDREN'S HOME SOCIETY OF WASHINGTON**

**Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2017**

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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:

|                                 | <u>2017</u>         | <u>2016</u>         |
|---------------------------------|---------------------|---------------------|
| Federal                         | 34.5%               | 39.9%               |
| State                           | 16.7%               | 15.4%               |
| County and local                | <u>28.7%</u>        | <u>24.9%</u>        |
| <b>Total Government Support</b> | <b><u>79.9%</u></b> | <b><u>80.2%</u></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.

**CHILDREN'S HOME SOCIETY OF WASHINGTON**

**Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2017**

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**Note 1 - Continued**

**Comparative Totals** - The financial statements include certain summarized comparative information for the year ended June 30, 2016 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, 2016, from which the summarized information was derived as restated (Note 17).

**Subsequent Events** - The Society has evaluated subsequent events through December 31, 2017, the date on which the financial statements were available to be issued, of which there was one noted as described in Note 12.

**Note 2 - Accounts Receivable**

Accounts receivable consisted of the following at June 30:

|   | <u>2017</u>                | <u>2016</u>                |
|---|----------------------------|----------------------------|
| Government agencies                       | \$ 2,102,161               | \$ 1,885,799               |
| Pledges                                   | 242,859                    | 593,061                    |
| Other                                     | <u>33,474</u>              | <u>76,306</u>              |
|   | 2,378,494                  | 2,555,166                  |
| Less provision for uncollectible accounts | <u>(25,000)</u>            | <u>(25,000)</u>            |
|   | <u><u>\$ 2,353,494</u></u> | <u><u>\$ 2,530,166</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>2017</u>                | <u>2016</u>                |
|---|----------------------------|----------------------------|
| Buildings and improvements                  | \$ 6,209,513               | \$ 6,189,440               |
| Furniture, fixtures, vehicles and equipment | 3,091,003                  | 3,049,303                  |
| Land  | <u>1,528,830</u>           | <u>1,528,830</u>           |
|   | 10,829,346                 | 10,767,573                 |
| Less accumulated depreciation               | <u>(7,135,714)</u>         | <u>(6,810,838)</u>         |
|   | <u><u>\$ 3,693,632</u></u> | <u><u>\$ 3,956,735</u></u> |

CHILDREN'S HOME SOCIETY OF WASHINGTON

Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2017

**Note 4 - Investments**

Investments consisted of the following at June 30:

|                                    | <u>2017</u>                 | <u>2016</u>                 |
|------------------------------------|-----------------------------|-----------------------------|
| Marketable securities and equities | \$ 1,899,015                | \$ 1,518,563                |
| Government securities              |                             | 149,397                     |
| Mutual funds                       | 11,727,162                  | 10,844,154                  |
| Cash and money market accounts     | <u>510,608</u>              | <u>38,148</u>               |
|                                    | <u><b>\$ 14,136,785</b></u> | <u><b>\$ 12,550,262</b></u> |

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

|  | <u>2017</u>                | <u>2016</u>             |
|--|----------------------------|-------------------------|
| Interest and dividend income               | \$ 485,116                 | \$ 535,718              |
| Net realized and unrealized gains (losses) | 1,149,498                  | (412,772)               |
| Investment management fees                 | <u>(46,210)</u>            | <u>(40,549)</u>         |
|  | <u><b>\$ 1,588,404</b></u> | <u><b>\$ 82,397</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 nonendowment. All other investment return is considered nonoperating. The breakout is as follows for the years ended June 30:

|  | <u>2017</u>                | <u>2016</u>             |
|--|----------------------------|-------------------------|
| Operating investment return                                  | \$ 276,106                 | \$ 212,168              |
| Unrestricted endowment investment return (Note 16)           | 1,114,646                  | (110,871)               |
| Temporarily restricted endowment investment return (Note 16) | <u>197,652</u>             | <u>(18,900)</u>         |
|  | <u><b>\$ 1,588,404</b></u> | <u><b>\$ 82,397</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, 2017**

**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, 2017 and 2016.

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, 2017 and 2016, were as follows:

|  | Fair Value Measurements as of June 30, 2017 |             |                     |                      |
|--|---|-------------|---------------------|----------------------|
|  | Level 1                                     | Level 2     | Level 3             | Total                |
| Cash and money market accounts           | \$ 510,608                                  | \$ -        | \$ -                | \$ 510,608           |
| Marketable securities and equities       | 1,899,015                                   |             |                     | 1,899,015            |
| Government securities                    |   |             |                     |                      |
| Mutual funds-                            |   |             |                     |                      |
| Fixed income                             | 3,654,320                                   |             |                     | 3,654,320            |
| Equity                                   | 6,734,864                                   |             |                     | 6,734,864            |
| Nontraditional                           | 1,337,978                                   |             |                     | 1,337,978            |
| Total mutual funds                       | 11,727,162                                  |             |                     | 11,727,162           |
| Total investments                        | 14,136,785                                  |             |                     | 14,136,785           |
| Beneficial interests in perpetual trusts |   |             | 4,834,542           | 4,834,542            |
|  | <b>\$ 14,136,785</b>                        | <b>\$ -</b> | <b>\$ 4,834,542</b> | <b>\$ 18,971,327</b> |



**CHILDREN'S HOME SOCIETY OF WASHINGTON**

**Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2017**

**Note 5 - Continued**

|  | 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                                  | 14,694           |                     | 10,844,154           |
| Total investments                        | 12,505,455                                  | 44,807           |                     | 12,550,262           |
| Beneficial interests in perpetual trusts |   |                  | 4,596,651           | 4,596,651            |
|  | <b>\$ 12,505,455</b>                        | <b>\$ 44,807</b> | <b>\$ 4,596,651</b> | <b>\$ 17,146,913</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:

|                        | 2017                | 2016                |
|------------------------|---------------------|---------------------|
| Beginning balance      | \$ 4,596,651        | \$ 4,842,500        |
| Earnings distributions | (214,446)           | (217,736)           |
| Other changes in value | 452,337             | (28,113)            |
| <b>Ending Balance</b>  | <b>\$ 4,834,542</b> | <b>\$ 4,596,651</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 \$214,446 and \$217,736 in earnings distributions from the trusts during the years ended June 30, 2017 and 2016, respectively. The earnings are available for general operating purposes. The Society's interest in net gains and (losses), in the trusts of \$237,891 and (\$245,849) for the years ended June 30, 2017 and 2016, 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, 2017**

**Note 7 - Long-Term Obligations**

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

|  | <u>2017</u>              | <u>2016</u>              |
|--|--------------------------|--------------------------|
| Capital lease payable for phone equipment, monthly payments of \$1,971 including interest, due July 2019.  | \$ 47,768                | \$ 69,644                |
| 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>           |
|  | 297,419                  | 319,295                  |
| Less current portion   | <u>(22,522)</u>          | <u>(21,858)</u>          |
|  | <u><b>\$ 274,897</b></u> | <u><b>\$ 297,437</b></u> |

Principal maturities on long-term obligations are as follows:

For the Year Ending June 30,

|      |                          |
|------|--------------------------|
| 2018 | \$ 22,522                |
| 2019 | 272,859                  |
| 2020 | <u>2,038</u>             |
|      | <u><b>\$ 297,419</b></u> |

Assets under capitalized leases are included in property and equipment with a total cost of \$242,675 at June 30, 2017 and 2016 and related accumulated amortization of \$196,946 and \$174,996 at June 30, 2017 and 2016, 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, 2017 and 2016. The line bears interest at LIBOR plus 1.25% (LIBOR was 1.74% and 1.34% at June 30, 2017 and 2016, respectively).

## CHILDREN'S HOME SOCIETY OF WASHINGTON

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2017

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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, 2017 and 2016, were \$288,558 and \$212,964, respectively.

#### Note 10 - Commitments

The Society has entered into various operating leases for facilities and equipment expiring through August 2020. Total rent expense under operating leases was \$856,876 and \$863,194 for the years ended June 30, 2017 and 2016, 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,

|      |    |         |
|------|----|---------|
| 2018 | \$ | 810,843 |
| 2019 |    | 781,558 |
| 2020 |    | 326,585 |
| 2021 |    | 13,522  |
| 2022 |    | 4,807   |

**Future Minimum Lease Payments**

**\$ 1,937,315**

#### 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, 2017 and June 30, 2016 as follows:

|                                      | <u>2017</u>              | <u>2016</u>              |
|--------------------------------------|--------------------------|--------------------------|
| Salaries, payroll taxes and benefits | \$ 609,654               | \$ 600,167               |
| Supplies, services and other         | 180,137                  | 77,813                   |
| Facilities and utilities             | 57,116                   | 54,415                   |
|                                      | <b><u>\$ 846,907</u></b> | <b><u>\$ 732,395</u></b> |

**CHILDREN'S HOME SOCIETY OF WASHINGTON**

**Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2017**

**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** - In prior years, the Society leased 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. The facility contribution receivable balance was written down to a balance of \$20,424 as of June 30, 2017 as the lease was terminated during August of 2017.

**Note 13 - Unrestricted Net Assets**

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

|   | <u>2017</u>                 | <u>2016</u>                 |
|---|-----------------------------|-----------------------------|
| General operations quasi-endowment (Note 16)    | \$ 10,495,062               | \$ 9,655,447                |
| Facilities and maintenance fund                 | <u>1,754,218</u>            | <u>407,511</u>              |
| <b>Total Unrestricted Designated Net Assets</b> | <b>12,249,280</b>           | <b>10,062,958</b>           |
| Unrestricted Undesignated Net Assets            | <u>5,496,629</u>            | <u>6,712,509</u>            |
| <b>Total Unrestricted Net Assets</b>            | <b><u>\$ 17,745,909</u></b> | <b><u>\$ 16,775,467</u></b> |

**Note 14 - Temporarily Restricted Net Assets**

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

|  | <u>2017</u>              | <u>2016</u>              |
|--|--------------------------|--------------------------|
| Walla Walla building replacement and maintenance reserve | \$ -                     | \$ 75,000                |
| Unappropriated endowment earnings (Note 16)              | 316,089                  | 143,512                  |
| In-kind lease contribution receivable (Note 12)          | 20,434                   | 245,204                  |
| Other programs   | <u>288,000</u>           | <u>47,146</u>            |
|  | <b><u>\$ 624,523</u></b> | <b><u>\$ 510,862</u></b> |

**CHILDREN'S HOME SOCIETY OF WASHINGTON**

**Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2017**

**Note 14 - Continued**

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

|                                     | <u>2017</u>              | <u>2016</u>              |
|-------------------------------------|--------------------------|--------------------------|
| Releases from program restrictions- |                          |                          |
| Endowment earnings appropriated     | \$ 25,075                | \$ 11,024                |
| Program releases                    | 260,146                  | 753,629                  |
| Releases from time restrictions-    |                          |                          |
| In-kind lease contribution          | <u>122,602</u>           | <u>81,627</u>            |
| <b>Total Net Assets Released</b>    | <b><u>\$ 407,823</u></b> | <b><u>\$ 846,280</u></b> |

**Note 15 - Permanently Restricted Net Assets**

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

|  | <u>2017</u>                | <u>2016</u>                |
|--|----------------------------|----------------------------|
| Endowments (Note 16)-                            |                            |                            |
| Children's Trust endowment                       | \$ 815,442                 | \$ 812,368                 |
| Hugh Cannon staff scholarship fund               | 461,348                    | 461,348                    |
| General endowment                                | 233,782                    | 233,782                    |
| Other endowments for various operating purposes  | <u>152,997</u>             | <u>152,997</u>             |
|  | 1,663,569                  | 1,660,495                  |
| Beneficial interest in perpetual trusts (Note 6) | <u>4,834,542</u>           | <u>4,596,651</u>           |
|  | <b><u>\$ 6,498,111</u></b> | <b><u>\$ 6,257,146</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, 2017

**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, 2017, endowment net assets consisted of the following:

|                                  | <u>Unrestricted</u>         | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>2017 Total</u>           |
|----------------------------------|-----------------------------|-----------------------------------|-----------------------------------|-----------------------------|
| Donor restricted endowment funds | \$ -                        | \$ 316,089                        | \$ 1,663,569                      | \$ 1,979,658                |
| Board designated quasi-endowment | <u>10,495,062</u>           |                                   |                                   | <u>10,495,062</u>           |
| <b>Endowment Net Assets</b>      | <b><u>\$ 10,495,062</u></b> | <b><u>\$ 316,089</u></b>          | <b><u>\$ 1,663,569</u></b>        | <b><u>\$ 12,474,720</u></b> |

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

|                                  | <u>Unrestricted</u>        | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>2016 Total</u>           |
|----------------------------------|----------------------------|-----------------------------------|-----------------------------------|-----------------------------|
| Donor restricted endowment funds | \$ -                       | \$ 143,512                        | \$ 1,660,495                      | \$ 1,804,007                |
| Board designated quasi-endowment | <u>9,655,447</u>           |                                   |                                   | <u>9,655,447</u>            |
| <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> |

CHILDREN'S HOME SOCIETY OF WASHINGTON

Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2017

**Note 16 - Continued**

Changes to endowment net assets for the year ended June 30, 2017, are as follows:

|  | <u>Unrestricted</u>         | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>                |
|--|-----------------------------|-----------------------------------|-----------------------------------|-----------------------------|
| Endowment net assets,<br>June 30, 2016         | \$ 9,655,447                | \$ 143,512                        | \$ 1,660,495                      | \$ 11,459,454               |
| Endowment investment return-                   |                             |                                   |                                   |                             |
| Interest and dividends                         | 188,933                     | 35,050                            |                                   | 223,983                     |
| Realized and unrealized losses                 | 934,888                     | 165,410                           |                                   | 1,100,298                   |
| Investment management fees                     | <u>(9,175)</u>              | <u>(2,808)</u>                    |                                   | <u>(11,983)</u>             |
| Total endowment investment return              | 1,114,646                   | 197,652                           |                                   | 1,312,298                   |
| Appropriations for expenditure                 | (293,810)                   | (25,075)                          |                                   | (318,885)                   |
| Contributions                                  |                             |                                   | 3,074                             | 3,074                       |
| Transfer to endowment                          | <u>18,779</u>               |                                   |                                   | <u>18,779</u>               |
| <b>Endowment Net Assets,<br/>June 30, 2017</b> | <b><u>\$ 10,495,062</u></b> | <b><u>\$ 316,089</u></b>          | <b><u>\$ 1,663,569</u></b>        | <b><u>\$ 12,474,720</u></b> |

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

|  | <u>Unrestricted</u>        | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>                |
|--|----------------------------|-----------------------------------|-----------------------------------|-----------------------------|
| Endowment net assets,<br>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 gains                  | (345,727)                  | (60,187)                          |                                   | (405,914)                   |
| Investment management fees                     | <u>(13,642)</u>            | <u>(2,520)</u>                    |                                   | <u>(16,162)</u>             |
| 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,<br/>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> |

**CHILDREN'S HOME SOCIETY OF WASHINGTON**

**Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2017**

**Note 16 - Continued**

**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, 2017 and 2016.

**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.

**Note 17 - Prior Period Adjustment**

During the year, management determined that revenue on a federally funded cost reimbursement grant had been recognized in excess of the awarded amounts during the fiscal years ended June 30, 2016 and 2015. As such, revenues and accounts receivable in prior years had been overstated. The financial statements have been restated as follows as of and for the year ended June 30, 2016:

|   | <u>Previously<br/>Reported</u> | <u>Adjustments</u> | <u>As Restated</u> |
|---|--------------------------------|--------------------|--------------------|
| Consolidated Statement of Financial Position-     |                                |                    |                    |
| Accounts receivable, net                          | \$ 2,786,294                   | \$ (256,128)       | \$ 2,530,166       |
| Unrestricted net assets                           | 17,031,595                     | (256,128)          | 16,775,467         |
| Total net assets                                  | 23,799,603                     | (256,128)          | 23,543,475         |
| Consolidated Statement of Activities-             |                                |                    |                    |
| Federal Revenue (impact on 2015-16)               | \$ 9,818,103                   | \$ (140,424)       | \$ 9,677,679       |
| Net assets, beginning of year (Impact on 2014-15) | 22,438,101                     | (115,704)          | 22,322,397         |



**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, 2017(With Comparative Totals for 2016)**

|   | CHSW                |                        |                        | 2017 Total           | 2016 Total           |
|---|---------------------|------------------------|------------------------|----------------------|----------------------|
|   | Unrestricted        | Temporarily Restricted | Permanently Restricted |                      |                      |
| <b>Operating Activities</b>   |                     |                        |                        |                      |                      |
| <b>Private Support and Revenue:</b>                                 |                     |                        |                        |                      |                      |
| Direct Support  | \$ 170,632          | \$ -                   | \$ -                   | \$ 170,632           | \$ -                 |
| In-kind support   | 224,997             |                        |                        | 224,997              | 599,285              |
| Loss on early termination of in-kind lease                          |                     | (102,168)              |                        | (102,168)            |                      |
| Program service fees  | 600,497             |                        |                        | 600,497              | 538,066              |
| Investment return   | (19,858)            |                        |                        | (19,858)             | (12,263)             |
| Rental income and miscellaneous                                     | 66,314              |                        |                        | 66,314               | 67,763               |
| <b>Total Private Support and Revenue</b>                            | <b>1,042,582</b>    | <b>(102,168)</b>       |                        | <b>940,414</b>       | <b>1,192,851</b>     |
| <b>Revenue From Governmental Agencies:</b>                          |                     |                        |                        |                      |                      |
| Federal revenue   | 9,050,182           |                        |                        | 9,050,182            | 9,677,679            |
| State revenue   | 4,381,277           |                        |                        | 4,381,277            | 3,739,656            |
| County and local  | 7,541,093           |                        |                        | 7,541,093            | 6,048,199            |
| <b>Total From Governmental Agencies</b>                             | <b>20,972,552</b>   |                        |                        | <b>20,972,552</b>    | <b>19,465,534</b>    |
| Net assets released from restrictions                               | 407,823             | (407,823)              |                        |                      |                      |
| <b>Total Support and Revenue</b>                                    | <b>22,422,957</b>   | <b>(509,991)</b>       |                        | <b>21,912,966</b>    | <b>20,658,385</b>    |
| <b>Transfers to and From the Foundation:</b>                        |                     |                        |                        |                      |                      |
| Contributions transferred from the Foundation                       | 2,871,144           | 526,074                |                        | 3,397,218            | 3,198,539            |
| Foundation board-approved investment returns distribution (Note 16) | 293,765             |                        |                        | 293,765              | 148,848              |
| Transfer of board designated operating endowment to Foundation      | (1,283,922)         |                        |                        | (1,283,922)          |                      |
| <b>Total Transfers</b>  | <b>1,880,987</b>    | <b>526,074</b>         |                        | <b>2,407,061</b>     | <b>3,347,387</b>     |
| <b>Total Support, Revenue and Transfers</b>                         | <b>24,303,944</b>   | <b>16,083</b>          |                        | <b>24,320,027</b>    | <b>24,005,772</b>    |
| <b>Program Services Expenses:</b>                                   |                     |                        |                        |                      |                      |
| Early childhood care education                                      | 10,879,211          |                        |                        | 10,879,211           | 10,855,808           |
| Child and family counseling   | 5,268,976           |                        |                        | 5,268,976            | 4,796,877            |
| Adoption and secure families  | 1,234,817           |                        |                        | 1,234,817            | 1,251,633            |
| Family support and parent education                                 | 1,659,864           |                        |                        | 1,659,864            | 1,442,314            |
| Policy and innovation   | 1,014,709           |                        |                        | 1,014,709            | 676,947              |
| <b>Total Program Services</b>                                       | <b>20,057,577</b>   |                        |                        | <b>20,057,577</b>    | <b>19,023,579</b>    |
| <b>Support Services Expenses:</b>                                   |                     |                        |                        |                      |                      |
| General and administrative  | 3,996,689           |                        |                        | 3,996,689            | 3,711,015            |
| Fund development  | 1,290,558           |                        |                        | 1,290,558            | 1,156,870            |
| <b>Total Support Services</b>                                       | <b>5,287,247</b>    |                        |                        | <b>5,287,247</b>     | <b>4,867,885</b>     |
| <b>Total Expenses</b>   | <b>25,344,824</b>   |                        |                        | <b>25,344,824</b>    | <b>23,891,464</b>    |
| <b>Change in Net Assets - Operating</b>                             | <b>(1,040,880)</b>  | <b>16,083</b>          |                        | <b>(1,024,797)</b>   | <b>114,308</b>       |
| <b>Nonoperating Activities</b>                                      |                     |                        |                        |                      |                      |
| Gain on sale of property  |                     |                        |                        |                      | 1,312,435            |
| Net change in value of beneficial interest in perpetual trusts      |                     |                        | 237,891                | 237,891              | (245,849)            |
| <b>Change in Net Assets From Nonoperating Activities</b>            |                     |                        | <b>237,891</b>         | <b>237,891</b>       | <b>1,066,586</b>     |
| <b>Total Change in Net Assets</b>                                   | <b>(1,040,880)</b>  | <b>16,083</b>          | <b>237,891</b>         | <b>(786,906)</b>     | <b>1,180,894</b>     |
| Net assets, beginning of year                                       | 6,098,271           | 292,351                | 4,612,151              | 11,002,773           | 9,821,879            |
| <b>Net Assets, End of Year</b>                                      | <b>\$ 5,057,391</b> | <b>\$ 308,434</b>      | <b>\$ 4,850,042</b>    | <b>\$ 10,215,867</b> | <b>\$ 11,002,773</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, 2017 (With Comparative Totals for 2016)**

|   | CHSTF                |                        |                        | 2017 Total           | 2016 Total           |
|---|----------------------|------------------------|------------------------|----------------------|----------------------|
|   | Unrestricted         | Temporarily Restricted | Permanently Restricted |                      |                      |
| <b>Operating Activities</b>   |                      |                        |                        |                      |                      |
| <b>Private Support and Revenue:</b>   |                      |                        |                        |                      |                      |
| Direct support - contributions  | \$ 1,290,645         | \$ 501,000             | \$ 3,074               | \$ 1,794,719         | \$ 2,072,613         |
| In-kind contribution for services from CHSW (Note 11)                       | 846,907              |                        |                        | 846,907              | 732,395              |
| United Way  | 1,116,054            |                        |                        | 1,116,054            | 1,220,298            |
| Investment return   | 295,964              |                        |                        | 295,964              | 224,431              |
| <b>Total Private Support and Revenue</b>                                    | <b>3,549,570</b>     | <b>501,000</b>         | <b>3,074</b>           | <b>4,053,644</b>     | <b>4,249,737</b>     |
| Net assets released from restrictions                                       | 75,000               | (75,000)               |                        |                      |                      |
| <b>Total Support and Revenue</b>  | <b>3,624,570</b>     | <b>426,000</b>         | <b>3,074</b>           | <b>4,053,644</b>     | <b>4,249,737</b>     |
| <b>Transfers to and From CHSW:</b>  |                      |                        |                        |                      |                      |
| Contributions transferred to CHSW   | (2,871,144)          | (526,074)              |                        | (3,397,218)          | (3,198,539)          |
| Foundation board-approved investment returns distribution to CHSW (Note 16) | (293,765)            |                        |                        | (293,765)            | (148,848)            |
| Transfer of Board Designated Operating Endowment to the Foundation          | 1,283,922            |                        |                        | 1,283,922            |                      |
| <b>Total Transfers</b>  | <b>(1,880,987)</b>   | <b>(526,074)</b>       |                        | <b>(2,407,061)</b>   | <b>(3,347,387)</b>   |
| <b>Total Support, Revenue and Transfers</b>                                 | <b>1,743,583</b>     | <b>(100,074)</b>       | <b>3,074</b>           | <b>1,646,583</b>     | <b>902,350</b>       |
| <b>Support Services Expenses:</b>   |                      |                        |                        |                      |                      |
| Fund development  | 846,907              |                        |                        | 846,907              | 732,395              |
| <b>Total Expenses</b>   | <b>846,907</b>       |                        |                        | <b>846,907</b>       | <b>732,395</b>       |
| <b>Change in Net Assets - Operating</b>                                     | <b>896,676</b>       | <b>(100,074)</b>       | <b>3,074</b>           | <b>799,676</b>       | <b>169,955</b>       |
| <b>Nonoperating Activities</b>  |                      |                        |                        |                      |                      |
| Endowment investment return   | 1,114,646            | 197,652                |                        | 1,312,298            | (129,771)            |
| <b>Total Change in Net Assets</b>   | <b>2,011,322</b>     | <b>97,578</b>          | <b>3,074</b>           | <b>2,111,974</b>     | <b>40,184</b>        |
| Net assets, beginning of year   | 10,677,196           | 218,511                | 1,644,995              | 12,540,702           | 12,500,518           |
| <b>Net Assets, End of Year</b>  | <b>\$ 12,688,518</b> | <b>\$ 316,089</b>      | <b>\$ 1,648,069</b>    | <b>\$ 14,652,676</b> | <b>\$ 12,540,702</b> |

See independent auditor's report.

CHILDREN'S HOME SOCIETY OF WASHINGTON

Consolidated Schedule of Unrestricted Activities  
For the Year Ended June 30, 2017  
(With Comparative Totals for 2016)

|   | 2017              | 2016                |
|---|-------------------|---------------------|
| <b>Operating Activities</b>                             |                   |                     |
| <b>Private Support and Revenue:</b>                     |                   |                     |
| Direct support - contributions                          | \$ 1,461,277      | \$ 1,495,625        |
| In-kind support   | 224,997           | 272,454             |
| United Way  | 1,116,054         | 1,220,298           |
| Program service fees                                    | 600,497           | 538,066             |
| Operating investment return                             | 276,106           | 212,168             |
| Rental income and miscellaneous                         | 66,314            | 67,763              |
| <b>Total Private Support and Revenue</b>                | <b>3,745,245</b>  | <b>3,806,374</b>    |
| <b>Revenue From Governmental Agencies:</b>              |                   |                     |
| Federal revenue   | 9,050,182         | 9,677,679           |
| State revenue   | 4,381,277         | 3,739,656           |
| County and local  | 7,541,093         | 6,048,199           |
| <b>Total From Governmental Agencies</b>                 | <b>20,972,552</b> | <b>19,465,534</b>   |
| Net assets released from restrictions                   | 482,823           | 846,280             |
| <b>Total Support and Revenue From Operations</b>        | <b>25,200,620</b> | <b>24,118,188</b>   |
| <b>Program Services Expenses:</b>                       |                   |                     |
| Early childhood care education                          | 10,879,211        | 10,855,808          |
| Child and family counseling                             | 5,268,976         | 4,796,877           |
| Adoption and secure families                            | 1,234,817         | 1,251,633           |
| Family support and parent education                     | 1,659,864         | 1,442,314           |
| Policy and innovation                                   | 1,014,709         | 676,947             |
| <b>Total Program Services</b>                           | <b>20,057,577</b> | <b>19,023,579</b>   |
| <b>Support Services Expenses:</b>                       |                   |                     |
| General and administrative                              | 3,996,689         | 3,711,015           |
| Fund development  | 1,290,558         | 1,156,870           |
| <b>Total Support Services</b>                           | <b>5,287,247</b>  | <b>4,867,885</b>    |
| <b>Total Expenses</b>                                   | <b>25,344,824</b> | <b>23,891,464</b>   |
| <b>Change in Unrestricted Net Assets - Operating</b>    | <b>(144,204)</b>  | <b>226,724</b>      |
| <b>Nonoperating Activities</b>                          |                   |                     |
| Gain on sale of property                                |                   | 1,312,435           |
| Endowment investment return                             | 1,114,646         | (110,871)           |
| <b>Change in Unrestricted Net Assets - Nonoperating</b> | <b>1,114,646</b>  | <b>1,201,564</b>    |
| <b>Change in Unrestricted Net Assets</b>                | <b>\$ 970,442</b> | <b>\$ 1,428,288</b> |

See independent auditor's report.