

CHILDREN'S HOME SOCIETY OF WASHINGTON

Consolidated Financial Statements

For the Year Ended June 30, 2018

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Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Children's Home Society of Washington and Children's Home Society & Trust Foundation (collectively, the Society) as of June 30, 2018, which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of operating revenue and expenses without donor restrictions, 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, 2018, 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.

Effect of Adopting New Accounting Standard

As discussed in Note 1, the Society adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended June 30, 2018. The requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Society's 2017 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 21, 2017. As part of our audit of the 2018 financial statements, we also audited the adjustments described in Note 1 that were applied to retroactively apply the requirements of ASU 2016-14 to the 2017 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived after adjustment for retrospective application of ASU 2016-14.

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 4 to 6 and the accompanying supplementary information shown on pages 25 to 27 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 was 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 October 24, 2018, 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 solely 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 the effectiveness of the Society's 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.C.

Certified Public Accountants
October 24, 2018

CHILDREN'S HOME SOCIETY OF WASHINGTON AND SUBSIDIARY

Consolidated Statement of Financial Position

June 30, 2018

(With Comparative Totals for 2017)

	CHSW	CHSTF	Consolidated 2018 Total	Consolidated 2017 Total
Current Assets:				
Cash and equivalents	\$ 1,080,578	\$ 209,838	\$ 1,290,416	\$ 1,228,457
Current portions of accounts and pledges receivable, net (Note 2)	2,381,148	265,000	2,646,148	2,353,494
Intercompany receivable (payable)	737,965	(737,965)		
Prepaid expenses and other	176,431		176,431	286,931
Current portion of facility contribution receivable (Note 12)				20,434
Total Current Assets	4,376,122	(263,127)	4,112,995	3,889,316
Accounts and pledges receivable net of current portion (Note 2)		362,152	362,152	
Property and equipment, net (Note 3)	3,567,636		3,567,636	3,693,632
Investments (Note 4)		15,848,783	15,848,783	14,136,785
Beneficial interest in perpetual trusts (Note 6)	4,880,198		4,880,198	4,834,542
Total Assets	\$ 12,823,956	\$ 15,947,808	\$ 28,771,764	\$ 26,554,275
Current Liabilities:				
Accounts payable	\$ 471,700	\$ -	\$ 471,700	\$ 393,495
Accrued liabilities	1,008,518		1,008,518	994,818
Deferred revenue	79,167		79,167	
Current portion of capital lease obligations (Note 7)	57,368		57,368	22,522
Total Current Liabilities	1,616,753		1,616,753	1,410,835
Long-term forgivable debt (Note 7)	249,651		249,651	249,651
Capital lease obligations, net of current portion (Note 7)	110,212		110,212	25,246
Total Liabilities	1,976,616		1,976,616	1,685,732
Net Assets:				
Without donor restrictions (Note 13):				
Undesignated	4,941,855	108,929	5,050,784	5,496,629
Designated by the Board for general operating quasi-endowment		11,780,041	11,780,041	10,495,062
Designated by the board for facilities and maintenance		1,928,567	1,928,567	1,754,218
Total without donor restrictions	4,941,855	13,817,537	18,759,392	17,745,909
With donor restrictions (Note 14)	5,905,485	2,130,271	8,035,756	7,122,634
Total Net Assets	10,847,340	15,947,808	26,795,148	24,868,543
Total Liabilities and Net Assets	\$ 12,823,956	\$ 15,947,808	\$ 28,771,764	\$ 26,554,275

See accompanying notes.

CHILDREN'S HOME SOCIETY OF WASHINGTON AND SUBSIDIARY

**Consolidated Statement of Operating Revenue and Expenses Without Donor Restrictions
For the Year Ended June 30, 2018
(With Comparative Totals for 2017)**

	CHSW	CHSTF	Eliminating Entries	Consolidated 2018 Total	Consolidated 2017 Total
Private Support and Revenue:					
Direct support - contributions	\$ -	\$ 1,153,311	\$ -	\$ 1,153,311	\$ 1,461,277
Net assets released from restrictions	1,250,612			1,250,612	482,823
In-kind support	231,141			231,141	224,997
In-kind contribution for services from CHSW (Note 11)		806,803	(806,803)		
United Way		1,002,896		1,002,896	1,116,054
Program service fees	509,879			509,879	600,497
Investment return (Note 4)	(28,765)	475,976		447,211	276,106
Rental income and miscellaneous	74,158			74,158	66,314
Total Private Support and Revenue	2,037,025	3,438,986	(806,803)	4,669,208	4,228,068
Revenue From Governmental Agencies:					
Federal revenue	8,257,603			8,257,603	9,050,182
State revenue	4,415,370			4,415,370	4,381,277
County and local revenue	7,898,871			7,898,871	7,541,093
Total Revenue From Governmental Agencies	20,571,844			20,571,844	20,972,552
Total Support and Revenue	22,608,869	3,438,986	(806,803)	25,241,052	25,200,620
Transfers Between Entities:					
Contributions transferred	2,471,596	(2,471,596)			
Foundation board-approved investment returns distribution (Note 15)	90,772	(90,772)			
Total Transfers	2,562,368	(2,562,368)			
Total Support, Revenue and Transfers	25,171,237	876,618	(806,803)	25,241,052	25,200,620
Program Services Expenses:					
Early childhood care education	10,070,643			10,070,643	10,879,211
Child and family counseling	5,826,852			5,826,852	5,268,976
Adoption and secure families	1,678,571			1,678,571	1,234,817
Family support and parent education	1,912,043			1,912,043	1,659,864
Policy and innovation	1,048,017			1,048,017	1,014,709
Total Program Services	20,536,126			20,536,126	20,057,577
Supporting Services Expenses:					
General and administrative	3,458,052			3,458,052	3,996,689
Fund development	1,170,829	806,803	(806,803)	1,170,829	1,290,558
Total Supporting Services	4,628,881	806,803	(806,803)	4,628,881	5,287,247
Total Expenses	25,165,007	806,803	(806,803)	25,165,007	25,344,824
Change in Net Assets Without Donor Restrictions	\$ 6,230	\$ 69,815	\$ -	\$ 76,045	\$ (144,204)

See accompanying notes.

CHILDREN'S HOME SOCIETY OF WASHINGTON AND SUBSIDIARY

**Consolidated Statement of Changes in Net Assets
For the Year Ended June 30, 2018
(With Comparative Totals for 2017)**

	<u>CHSW</u>	<u>CHSTF</u>	<u>Consolidated 2018 Total</u>	<u>Consolidated 2017 Total</u>
Net Assets Without Donor Restrictions:				
Operating activity-				
Change in net assets without donor restrictions - operating	\$ 6,230	\$ 69,815	\$ 76,045	\$ (144,204)
Nonoperating activity-				
Endowment investment return (Note 4)		1,059,204	1,059,204	1,114,646
Loss on disposal of asset	(121,766)		(121,766)	
Change in Net Assets Without Donor Restrictions	(115,536)	1,129,019	1,013,483	970,442
Net Assets With Donor Restrictions:				
Direct support - contributions		1,929,136	1,929,136	504,074
Loss on early termination of in-kind lease (Note 12)				(102,168)
Endowment investment return (Note 4)		188,942	188,942	197,652
Net assets released from restrictions (Note 14)	(1,250,612)		(1,250,612)	(482,823)
Contributions transferred	1,951,965	(1,951,965)		
Net change in value of beneficial interest in perpetual trusts (Note 6)	45,656		45,656	237,891
Change in Net Assets With Donor Restrictions	747,009	166,113	913,122	354,626
Total Change in Net Assets	631,473	1,295,132	1,926,605	1,325,068
Net assets, beginning of year	10,215,867	14,652,676	24,868,543	23,543,475
Net Assets, End of Year	\$ 10,847,340	\$ 15,947,808	\$ 26,795,148	\$ 24,868,543

See accompanying notes.

CHILDREN'S HOME SOCIETY OF WASHINGTON AND SUBSIDIARY

Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2018
(With Comparative Totals for 2017)

	Program Services						Supporting Services			
	Early Childhood Care Education	Child and Family Counseling	Adoption and Secure Families	Family Support and Parent Education	Policy and Innovation	Total Programs	General and Administrative	Fund Development	2018 Total	2017 Total
CHSW:										
Salaries	\$ 5,573,945	\$ 3,762,199	\$ 721,579	\$ 996,323	\$ 470,647	\$ 11,524,693	\$ 1,817,356	\$ 660,641	\$ 14,002,690	\$ 14,036,131
Employee benefits and taxes	1,352,064	929,481	176,468	258,707	116,514	2,833,234	429,881	157,050	3,420,165	3,129,222
	6,926,009	4,691,680	898,047	1,255,030	587,161	14,357,927	2,247,237	817,691	17,422,855	17,165,353
Other expenses	764,379	481,525	169,099	210,466	90,195	1,715,664	475,192	167,131	2,357,987	2,344,945
Professional fees	1,463,435	287,405	30,258	70,217	310,738	2,162,053	442,162	42,062	2,646,277	2,985,904
Occupancy	597,869	257,745	20,855	147,133	48,618	1,072,220	130,095	65,032	1,267,347	1,276,923
Specific assistance to individuals	186,161	16,839	548,260	77,847	2,149	831,256	13,022	79	844,357	899,235
In-kind donations	43,667	2,525	1,170	131,582		178,944		72,631	251,575	347,598
Depreciation	89,123	89,133	10,882	19,768	9,156	218,062	150,344	6,203	374,609	324,866
Total CHSW Expenses	10,070,643	5,826,852	1,678,571	1,912,043	1,048,017	20,536,126	3,458,052	1,170,829	25,165,007	25,344,824
CHSTF:										
In-kind support services (Note 11)								806,803	806,803	846,907
Total CHSTF Expenses								806,803	806,803	846,907
Eliminations								(806,803)	(806,803)	(846,907)
Total Expenses	\$ 10,070,643	\$ 5,826,852	\$ 1,678,571	\$ 1,912,043	\$ 1,048,017	\$ 20,536,126	\$ 3,458,052	\$ 1,170,829	\$ 25,165,007	\$ 25,344,824

See accompanying notes.

CHILDREN'S HOME SOCIETY OF WASHINGTON AND SUBSIDIARY

**Consolidated Statement of Cash Flows
For the Year Ended June 30, 2018
(With Comparative Totals for 2017)**

	<u>2018</u>	<u>2017</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ 1,926,605	\$ 1,325,068
Adjustments to reconcile change in net assets to net cash provided by operating activities-		
Depreciation	374,609	324,866
Net gain on long-term investments	(1,080,479)	(1,149,498)
Loss on disposal of asset	121,766	
Gain on beneficial interest in perpetual trusts	(45,656)	(237,891)
Contributions to endowment classified as financing activities	(4,252)	(3,074)
Decrease (increase) in current assets:		
Accounts receivable, net	(654,806)	176,672
Facility contribution receivable	20,434	224,770
Prepaid expenses and other	110,500	(97,210)
Increase (decrease) in current liabilities:		
Accounts payable and accrued liabilities	91,905	(3,907)
Deferred revenue	79,167	(321,602)
Net Cash Provided by Operating Activities	939,793	238,194
Cash Flows From Investing Activities:		
Proceeds from sales of investments	4,128,338	1,839,727
Purchases of investments	(4,144,549)	(1,079,890)
Proceeds from sales of investments designated by board	27,976,770	620,792
Purchases of investments designated by board	(28,592,078)	(1,817,654)
Purchases of property and equipment	(199,380)	(61,762)
Net Cash Used in Investing Activities	(830,899)	(498,787)
Cash Flows From Financing Activities:		
Payments on capital lease obligations	(51,187)	(21,876)
Proceeds from contributions to endowment	4,252	3,074
Net Cash Used by Financing Activities	(46,935)	(18,802)
Net Change in Cash and Equivalents	61,959	(279,395)
Cash and equivalents balance, beginning of year	1,228,457	1,507,852
Cash and Equivalents Balance, End of Year	\$ 1,290,416	\$ 1,228,457
Supplementary Disclosure:		
Cash paid for interest	\$ 1,859	\$ 1,772
Property acquired through capital lease obligation	\$ 170,999	\$ -

See accompanying notes.

CHILDREN'S HOME SOCIETY OF WASHINGTON AND SUBSIDIARY

Notes to Consolidated Financial Statements For the Year Ended June 30, 2018

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 throughout 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:

Net Assets Without Donor Restriction - Net assets that are not subject to donor-imposed restrictions. Net assets without donor restriction also include Board-designated net assets (Note 13).

Net Assets With Donor Restriction - Net assets whose use is limited by donor-imposed time and/or purpose restrictions.

CHILDREN'S HOME SOCIETY OF WASHINGTON AND SUBSIDIARY

Notes to Consolidated Financial Statements For the Year Ended June 30, 2018

Note 1 - Continued

Revenues are reported as increases in net assets without donor restriction unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restriction. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions on the 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. The Society has adopted a policy to classify donor-restricted contributions as net assets without donor restriction to the extent that donor restrictions were met in the year the contribution was received.

Cash and Cash 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 and Pledges Receivable - Accounts and pledges 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 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 donate 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 21,729 and 25,493 hours of their time valued at \$458,815 and \$537,479 (unaudited) during the years ended June 30, 2018 and 2017, respectively.

CHILDREN'S HOME SOCIETY OF WASHINGTON AND SUBSIDIARY

Notes to Consolidated Financial Statements For the Year Ended June 30, 2018

Note 1 - Continued

For the years ended June 30, 2018 and 2017, in-kind support recorded consisted of donated professional and nonprofessional fees of \$8,498 and \$56,842, and in-kind materials/assets of \$222,643 and \$168,155, respectively.

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 functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Costs are directly charged to the functions they benefit. Occupancy and other costs are allocated to each function based on employee time utilized by the function.

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 equipment. 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 operating support and revenue without donor restrictions for the years ended June 30:

	2018	2017
Federal	32.9%	35.9%
State	17.6%	17.4%
County and local	31.4%	29.9%
Total Government Support	81.9%	83.2%

CHSW's history has been a mix of public and private funding. Due to CHSW'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 federally insured amounts.

CHILDREN'S HOME SOCIETY OF WASHINGTON AND SUBSIDIARY

Notes to Consolidated Financial Statements For the Year Ended June 30, 2018

Note 1 - Continued

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.

New Accounting Pronouncement - During the year ended June 30, 2018, the Society elected to early adopt the requirements of the Financial Accounting Standards Board's Accounting Standards Update No. 2016-14 - *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14) required for fiscal years ending 2019. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. A key change required by ASU 2016-14 are the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions. A footnote on liquidity and availability of financial assets has also been added (Note 16).

The accompanying summarized information from the 2017 financial statements has been restated to conform to the 2018 presentation and disclosure requirements of ASU 2016-14. As a result, previously reported net assets without donor restrictions (unrestricted net assets) have remained unchanged. Temporarily and permanently restricted net assets have been combined and are now reported as net assets with donor restrictions.

Comparative Totals - The financial statements include certain summarized comparative information for the year ended June 30, 2017 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, 2017, from which the summarized information was derived.

Subsequent Events - The Society has evaluated subsequent events through October 24, 2018, the date on which the financial statements were available to be issued. No additional disclosures were required.

Note 2 - Accounts and Pledges Receivable

Accounts and pledges receivable consisted of the following at June 30:

	2018	2017
Government agencies	\$ 2,458,938	\$ 2,102,161
Pledges	650,000	242,859
Other	1,501	33,474
	3,110,439	2,378,494
Less discount to present value (2.73%)	(22,848)	
Less provision for uncollectible accounts	(79,291)	(25,000)
	<u>\$ 3,008,300</u>	<u>\$ 2,353,494</u>

CHILDREN'S HOME SOCIETY OF WASHINGTON AND SUBSIDIARY

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2018**

Note 2 - Continued

Pledges receivable consisted of the following at June 30:

Receivable in less than one year	\$ 265,000
Receivable in one to five years	385,000
Less discount to present value (2.73%)	<u>(22,848)</u>
	<u>\$ 627,152</u>

Pledges that are receivable in more than one year are discounted at an annual rate of 2.73% for each additional year through the term of the pledge.

Note 3 - Property and Equipment

Property and equipment consisted of the following at June 30:

	<u>2018</u>	<u>2017</u>
Buildings and improvements	\$ 6,109,039	\$ 6,209,513
Furniture, fixtures, vehicles and equipment	3,421,357	3,091,003
Land	<u>1,528,830</u>	<u>1,528,830</u>
	11,059,226	10,829,346
Less accumulated depreciation	<u>(7,491,590)</u>	<u>(7,135,714)</u>
	<u>\$ 3,567,636</u>	<u>\$ 3,693,632</u>

Note 4 - Investments

Investments, as presented in the consolidated statement of financial position, consisted of the following at June 30:

	<u>2018</u>	<u>2017</u>
Assets designated by the Board for long-term investments	\$ 13,708,608	\$ 12,249,280
Other long-term investments	<u>2,140,175</u>	<u>1,887,505</u>
	<u>\$ 15,848,783</u>	<u>\$ 14,136,785</u>

Investments were invested as follows at June 30:

	<u>2018</u>	<u>2017</u>
Marketable securities and equities	\$ -	\$ 1,899,015
Mutual funds	15,404,388	11,727,162
Cash and money market accounts	<u>444,395</u>	<u>510,608</u>
	<u>\$ 15,848,783</u>	<u>\$ 14,136,785</u>

CHILDREN'S HOME SOCIETY OF WASHINGTON AND SUBSIDIARY

Notes to Consolidated Financial Statements For the Year Ended June 30, 2018

Note 4 - Continued

Investment return on investments and cash and cash equivalents was comprised of the following for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 648,956	\$ 485,116
Net realized and unrealized gains	1,080,479	1,149,498
Investment management fees	<u>(34,078)</u>	<u>(46,210)</u>
	<u><u>\$ 1,695,357</u></u>	<u><u>\$ 1,588,404</u></u>

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

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 648,956	\$ 485,116
Net realized and unrealized gains	1,080,479	1,149,498
Investment management fees	<u>(34,078)</u>	<u>(46,210)</u>
	<u><u>\$ 1,695,357</u></u>	<u><u>\$ 1,588,404</u></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).

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.

CHILDREN'S HOME SOCIETY OF WASHINGTON AND SUBSIDIARY

Notes to Consolidated Financial Statements For the Year Ended June 30, 2018

Note 5 - Continued

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, 2018 and 2017.

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.

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, 2018 and 2017, were as follows:

	Fair Value Measurements as of June 30, 2018			
	Level 1	Level 2	Level 3	Total
Cash and money market accounts	\$ 444,395	\$ -	\$ -	\$ 444,395
Mutual funds-				
Fixed income	4,242,613			4,242,613
Equity	11,161,775			11,161,775
Total mutual funds	15,404,388			15,404,388
Total investments	15,848,783			15,848,783
Beneficial interest in perpetual trusts			4,880,198	4,880,198
	<u>\$ 15,848,783</u>	<u>\$ -</u>	<u>\$ 4,880,198</u>	<u>\$ 20,728,981</u>

CHILDREN'S HOME SOCIETY OF WASHINGTON AND SUBSIDIARY

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2018**

Note 5 - Continued

	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
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 interest in perpetual trusts			4,834,542	4,834,542
	<u>\$ 14,136,785</u>	<u>\$ -</u>	<u>\$ 4,834,542</u>	<u>\$ 18,971,327</u>

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

	2018	2017
Beginning balance	\$ 4,834,542	\$ 4,596,651
Earnings distributions	(299,351)	(214,446)
Other changes in value	345,007	452,337
Ending Balance	<u>\$ 4,880,198</u>	<u>\$ 4,834,542</u>

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 \$299,351 and \$214,446 in earnings distributions from the trusts during the years ended June 30, 2018 and 2017, respectively. The earnings are available for general operating purposes. The Society's interest in net gains, in the trusts of \$45,656 and \$237,891 for the years ended June 30, 2018 and 2017, respectively, are recognized in the consolidated statement of changes in net assets as donor-restricted endowment activities.

CHILDREN'S HOME SOCIETY OF WASHINGTON AND SUBSIDIARY

Notes to Consolidated Financial Statements For the Year Ended June 30, 2018

Note 7 - Long-Term Obligations

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

	<u>2018</u>	<u>2017</u>
Capital lease payable for phone equipment, monthly payments of \$1,971 including interest, due July 2019.	\$ 25,246	\$ 47,768
Capital lease payable for network upgrade equipment, monthly payments of \$3,033 including interest, due August 2022.	142,334	
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. The 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>
	417,231	297,419
Less current portion	<u>(57,368)</u>	<u>(22,522)</u>
	<u><u>\$ 359,863</u></u>	<u><u>\$ 274,897</u></u>

Principal maturities on long-term obligations are as follows:

For the Year Ending June 30,

2019	\$ 57,368
2020	285,849
2021	34,160
2022	34,160
2023	<u>5,694</u>
	<u><u>\$ 417,231</u></u>

Assets under capitalized leases are included in property and equipment with a total cost of \$413,674 and \$242,675 at June 30, 2018 and 2017, respectively, and related accumulated amortization of \$247,396 and \$196,946 at June 30, 2018 and 2017, 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, 2018 and 2017. The line bears interest at LIBOR plus 1.25% (LIBOR was 2.76% and 1.74% at June 30, 2018 and 2017, respectively).

CHILDREN'S HOME SOCIETY OF WASHINGTON AND SUBSIDIARY

Notes to Consolidated Financial Statements For the Year Ended June 30, 2018

Note 9 - Benefit Plan

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, 2018 and 2017, were \$312,320 and \$288,558, respectively.

Note 10 - Commitments

The Society has entered into various operating leases for facilities and equipment expiring through August 2022. Total rent expense under operating leases was \$875,651 and \$874,372 for the years ended June 30, 2018 and 2017, 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,

2019	\$ 884,679
2020	505,933
2021	251,907
2022	198,528
2023	1,794
	<u>\$ 1,842,841</u>

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 as follows for the years ended June 30:

	2018	2017
Salaries, payroll taxes and benefits	\$ 617,943	\$ 609,654
Supplies, services and other	135,100	180,137
Facilities and utilities	53,760	57,116
	<u>\$ 806,803</u>	<u>\$ 846,907</u>

CHILDREN'S HOME SOCIETY OF WASHINGTON AND SUBSIDIARY

Notes to Consolidated Financial Statements For the Year Ended June 30, 2018

Note 12 - Contingencies and Contributed Facilities

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 \$20,434 as of June 30, 2017 as the lease was terminated during August of 2017. The related loss on the write-off recognized during the year ended June 30, 2017 was \$102,168.

Note 13 - Net Assets Without Donor Restriction

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

	<u>2018</u>	<u>2017</u>
Net assets without donor restrictions or designations	\$ 5,050,784	\$ 5,496,629
Board-designated endowments-		
General operations quasi-endowment (Note 15)	11,780,041	10,495,062
Facilities and maintenance fund	<u>1,928,567</u>	<u>1,754,218</u>
Total Net Assets Without Donor Restrictions	<u>\$ 18,759,392</u>	<u>\$ 17,745,909</u>

The Board of Directors of CHSW has several standing board policies that affect the presentation of board designations on net assets. In 2014 the Board designated \$10,200,000 from the sale of property to establish a quasi-endowment fund. Bequests without donor restrictions are also designated for long-term investment in the quasi-endowment. The quasi-endowment fund balance totaled \$11,780,041 and \$10,495,062 at June 30, 2018 and 2017, respectively. Additionally, the Board of Directors has established a facilities and maintenance fund with the objective of setting funds aside to be drawn upon in the event of facility purchase and maintenance. The facilities and maintenance fund balance totaled \$1,928,567 and \$1,754,218 at June 30, 2018 and 2017, respectively.

Any use of board-designated funds must be approved by the Board of Directors of CHSW, except for appropriations of the quasi-endowment which are subject to the endowment policy (Note 15).

CHILDREN'S HOME SOCIETY OF WASHINGTON AND SUBSIDIARY

**Notes to Consolidated Financial Statements
For the Year Ended June 30, 2018**

Note 14 - Net Assets With Donor Restrictions

Net assets with donor restriction are available for the following purposes at June 30:

	2018			2017 Total
	CHSW	CHSTF	Total	
Subject to the Passage of Time or Expenditure for Specified Purpose:				
Unappropriated endowment earnings (Note 15)	\$ -	\$ 477,950	\$ 477,950	\$ 316,089
In-kind lease contribution receivable (Note 12)				20,434
Other programs	<u>1,009,787</u>		<u>1,009,787</u>	<u>288,000</u>
Total Subject to the Passage of Time or Expenditure for Specified Purpose	1,009,787	477,950	1,487,737	624,523
Endowment Corpus (Note 15):				
Original gifts and required retained earnings (corpus)-				
Children's Trust endowment		817,442	817,442	815,442
Hugh Cannon staff scholarship fund	15,500	445,848	461,348	461,348
General endowment		236,034	236,034	233,782
Other endowments for various operating purposes		<u>152,997</u>	<u>152,997</u>	<u>152,997</u>
	15,500	1,652,321	1,667,821	1,663,569
Beneficial interest in perpetual trusts (Note 6)	<u>4,880,198</u>		<u>4,880,198</u>	<u>4,834,542</u>
Total Endowment Funds and Beneficial Interests	4,895,698	1,652,321	6,548,019	6,498,111
Total Net Assets with Donor Restrictions	<u>\$ 5,905,485</u>	<u>\$ 2,130,271</u>	<u>\$ 8,035,756</u>	<u>\$ 7,122,634</u>

Net assets with donor restrictions were released from restrictions for the following purposes during the years ended June 30:

	2018	2017
Releases from program restrictions-		
Endowment earnings appropriated	\$ 27,081	\$ 25,075
Program releases	1,203,097	335,146
Releases from time restrictions-		
In-kind lease contribution	<u>20,434</u>	<u>122,602</u>
Total Net Assets Released From Restriction	<u>\$ 1,250,612</u>	<u>\$ 482,823</u>

CHILDREN'S HOME SOCIETY OF WASHINGTON AND SUBSIDIARY

Notes to Consolidated Financial Statements For the Year Ended June 30, 2018

Note 15 - Endowments

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 net assets with donor restriction to be held in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund representing accumulated earnings is held as net assets with donor restriction 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, 2018, endowment net assets consisted of the following:

	Net Assets Without Donor Restriction	Net Assets With Donor Restrictions		
		Accumulated Earnings	Endowment Corpus	2018 Total
Donor restricted endowment funds	\$ -	\$ 477,950	\$ 1,667,821	\$ 2,145,771
Board designated quasi-endowment	11,780,041			11,780,041
Endowment Net Assets	\$ 11,780,041	\$ 477,950	\$ 1,667,821	\$ 13,925,812

CHILDREN'S HOME SOCIETY OF WASHINGTON AND SUBSIDIARY

Notes to Consolidated Financial Statements
For the Year Ended June 30, 2018

Note 15 - Continued

Changes to endowment net assets for the year ended June 30, 2018, are as follows:

	Net Assets Without Donor Restriction	Net Assets With Donor Restrictions		
		Accumulated Earnings	Endowment Corpus	Total
Endowment net assets, June 30, 2017	\$ 10,495,062	\$ 316,089	\$ 1,663,569	\$ 12,474,720
Endowment investment return	1,059,204	188,942		1,248,146
Appropriations for expenditure	(90,772)	(27,081)		(117,853)
Transfers	316,547			316,547
Contributions			4,252	4,252
Endowment Net Assets, June 30, 2018	<u>\$ 11,780,041</u>	<u>\$ 477,950</u>	<u>\$ 1,667,821</u>	<u>\$ 13,925,812</u>

As of June 30, 2017, endowment net assets consisted of the following:

	Net Assets Without Donor Restriction	Net Assets With Donor Restrictions		
		Accumulated Earnings	Endowment Corpus	2017 Total
Donor restricted endowment funds	\$ -	\$ 316,089	\$ 1,663,569	\$ 1,979,658
Board designated quasi-endowment	10,495,062			10,495,062
Endowment Net Assets	<u>\$ 10,495,062</u>	<u>\$ 316,089</u>	<u>\$ 1,663,569</u>	<u>\$ 12,474,720</u>

CHILDREN'S HOME SOCIETY OF WASHINGTON AND SUBSIDIARY

Notes to Consolidated Financial Statements For the Year Ended June 30, 2018

Note 15 - Continued

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

	Net Assets Without Donor Restriction	Net Assets With Donor Restrictions		
		Accumulated Earnings	Endowment Corpus	Total
Endowment net assets, June 30, 2016	\$ 9,655,447	\$ 143,512	\$ 1,660,495	\$ 11,459,454
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
Transfers to endowment	18,779			18,779
Endowment Net Assets, June 30, 2017	<u>\$ 10,495,062</u>	<u>\$ 316,089</u>	<u>\$ 1,663,569</u>	<u>\$ 12,474,720</u>

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 endowment contributions and continued appropriation for certain programs as deemed prudent by the Board of Directors. There were no such deficiencies as of June 30, 2018 and 2017.

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 36 month 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.

CHILDREN'S HOME SOCIETY OF WASHINGTON AND SUBSIDIARY

Notes to Consolidated Financial Statements For the Year Ended June 30, 2018

Note 16 - Liquidity and Availability of Financial Assets

CHSW receives funding for programs through a blend of public funding and private contributions, some of which is restricted either contractually or by donors. The Society considers funding restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for program general expenditures. The Society manages its liquidity by maintaining cash on hand to cover one month of personnel expenses.

The endowment funds include several donor-restricted endowments. Unless otherwise specified by the donor, the endowment is subject to an annual spending rate of up to 3 percent as described in Note 15 and restricted to donor-specified uses. Donor-restricted endowment funds are not available for general expenditure.

The Society's board-designated quasi-endowment is subject to an annual spending rate of up to 3 percent as described in Note 15. Additionally, the board-designated facilities replacement fund is held for the purpose of maintaining current facilities beyond the scope of annual planned maintenance and for the purchase of new facilities. Although CHSW does not intend to spend from the quasi-endowment in excess of the spending rate or from the facilities fund for purposes other than those it is designated for, additional amounts could be made available if necessary.

The following reflects the Society's financial assets as of year end reduced by the amounts not available for general use within one year due to donor-imposed restrictions or internal designations as of June 30:

	2018	2017
Cash and cash equivalents	\$ 1,290,416	\$ 1,228,457
Accounts receivable, net, to be collected in less than one year	2,646,148	2,353,494
Investments	15,848,783	14,136,785
Total financial assets, excluding noncurrent receivables	19,785,347	17,718,736
Contractual or donor-imposed restrictions-		
Endowment fund investments	(2,145,771)	(1,979,658)
Add back: amount to be appropriated for following year	54,990	27,081
Internal designations-		
Quasi-endowments	(11,780,041)	(10,495,062)
Add back amount to be appropriated for following year	310,776	90,772
Investments for facility purchase and maintenance	(1,928,567)	(1,754,218)
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	\$ 4,296,734	\$ 3,607,651

SUPPLEMENTARY INFORMATION

CHILDREN'S HOME SOCIETY OF WASHINGTON AND SUBSIDIARY

Children's Home Society of Washington Schedule of Activities and Changes in Net Assets For the Year Ended June 30, 2018 (With Comparative Totals for 2017)

	CHSW			
	Without Donor Restriction	With Donor Restriction	2018 Total	2017 Total
Operating Activities				
Private Support and Revenue:				
Direct support - contributions	\$ -	\$ -	\$ -	\$ 170,632
Net assets released from restrictions	1,250,612	(1,250,612)		
In-kind support	231,141		231,141	224,997
Loss on early termination of in-kind lease				(102,168)
Program service fees	509,879		509,879	600,497
Investment return	(28,765)		(28,765)	(19,858)
Rental income and miscellaneous	74,158		74,158	66,314
Total Private Support and Revenue	2,037,025	(1,250,612)	786,413	940,414
Revenue From Governmental Agencies:				
Federal revenue	8,257,603		8,257,603	9,050,182
State revenue	4,415,370		4,415,370	4,381,277
County and local revenue	7,898,871		7,898,871	7,541,093
Total Revenue From Governmental Agencies	20,571,844		20,571,844	20,972,552
Total Support and Revenue	22,608,869	(1,250,612)	21,358,257	21,912,966
Transfers to and From the Foundation:				
Contributions transferred from the Foundation	2,471,596	1,951,965	4,423,561	3,397,218
Foundation board-approved investment returns distribution (Note 15)	90,772		90,772	293,765
Transfer of board designated operating endowment to Foundation				(1,283,922)
Total Transfers	2,562,368	1,951,965	4,514,333	2,407,061
Total Support, Revenue and Transfers	25,171,237	701,353	25,872,590	24,320,027
Program Services Expenses:				
Early childhood care education	10,070,643		10,070,643	10,879,211
Child and family counseling	5,826,852		5,826,852	5,268,976
Adoption and secure families	1,678,571		1,678,571	1,234,817
Family support and parent education	1,912,043		1,912,043	1,659,864
Policy and innovation	1,048,017		1,048,017	1,014,709
Total Program Services	20,536,126		20,536,126	20,057,577
Supporting Services Expenses:				
General and administrative	3,458,052		3,458,052	3,996,689
Fund development	1,170,829		1,170,829	1,290,558
Total Supporting Services	4,628,881		4,628,881	5,287,247
Total Expenses	25,165,007		25,165,007	25,344,824
Change in Net Assets - Operating	6,230	701,353	707,583	(1,024,797)
Nonoperating Activities				
Net change in value of beneficial interest in perpetual trusts		45,656	45,656	237,891
Loss on disposal of asset	(121,766)		(121,766)	
Change in Net Assets From Nonoperating Activities	(121,766)	45,656	(76,110)	237,891
Total Change in Net Assets	(115,536)	747,009	631,473	(786,906)
Net assets, beginning of year	5,057,391	5,158,476	10,215,867	11,002,773
Net Assets, End of Year	\$ 4,941,855	\$ 5,905,485	\$ 10,847,340	\$ 10,215,867

See independent auditor's report.

CHILDREN'S HOME SOCIETY OF WASHINGTON AND SUBSIDIARY

**Children's Home Society Trust Foundation
Schedule of Activities and Changes in Net Assets
For the Year Ended June 30, 2018 (With Comparative Totals for 2017)**

	CHSTF			
	Without Donor Restriction	With Donor Restriction	2018 Total	2017 Total
Operating Activities				
Private Support and Revenue:				
Direct support - contributions	\$ 1,153,311	\$ 1,929,136	\$ 3,082,447	\$ 1,794,719
In-kind contribution for services from CHSW (Note 11)	806,803		806,803	846,907
United Way	1,002,896		1,002,896	1,116,054
Investment return	475,976		475,976	295,964
Total Private Support and Revenue	3,438,986	1,929,136	5,368,122	4,053,644
Total Support and Revenue	3,438,986	1,929,136	5,368,122	4,053,644
Transfers to and From CHSW:				
Contributions transferred to CHSW	(2,471,596)	(1,951,965)	(4,423,561)	(3,397,218)
Foundation board-approved investment returns distribution to CHSW (Note 15)	(90,772)		(90,772)	(293,765)
Transfer of Board Designated Operating Endowment to the Foundation				1,283,922
Total Transfers	(2,562,368)	(1,951,965)	(4,514,333)	(2,407,061)
Total Support, Revenue and Transfers	876,618	(22,829)	853,789	1,646,583
Supporting Services Expenses:				
Fund development	806,803		806,803	846,907
Total Expenses	806,803		806,803	846,907
Change in Net Assets - Operating	69,815	(22,829)	46,986	799,676
Nonoperating Activities				
Endowment investment return	1,059,204	188,942	1,248,146	1,312,298
Total Change in Net Assets	1,129,019	166,113	1,295,132	2,111,974
Net assets, beginning of year	12,688,518	1,964,158	14,652,676	12,540,702
Net Assets, End of Year	\$ 13,817,537	\$ 2,130,271	\$ 15,947,808	\$ 14,652,676

See independent auditor's report.

CHILDREN'S HOME SOCIETY OF WASHINGTON AND SUBSIDIARY

**Consolidated Schedule of Changes in Net Assets Without Donor Restriction
For the Year Ended June 30, 2018
(With Comparative Totals for 2017)**

	2018	2017
Operating Activities		
Private Support and Revenue:		
Direct support - contributions	\$ 1,153,311	\$ 1,461,277
Net assets released from restrictions	1,250,612	482,823
In-kind support	231,141	224,997
United Way	1,002,896	1,116,054
Program service fees	509,879	600,497
Investment return	447,211	276,106
Rental income and miscellaneous	74,158	66,314
Total Private Support and Revenue	4,669,208	4,228,068
Revenue From Governmental Agencies:		
Federal revenue	8,257,603	9,050,182
State revenue	4,415,370	4,381,277
County and local revenue	7,898,871	7,541,093
Total Revenue From Governmental Agencies	20,571,844	20,972,552
Total Support and Revenue From Operations	25,241,052	25,200,620
Program Services Expenses:		
Early childhood care education	10,070,643	10,879,211
Child and family counseling	5,826,852	5,268,976
Adoption and secure families	1,678,571	1,234,817
Family support and parent education	1,912,043	1,659,864
Policy and innovation	1,048,017	1,014,709
Total Program Services	20,536,126	20,057,577
Supporting Services Expenses:		
General and administrative	3,458,052	3,996,689
Fund development	1,170,829	1,290,558
Total Supporting Services	4,628,881	5,287,247
Total Expenses	25,165,007	25,344,824
Change in Net Assets Without Donor Restrictions - Operating	76,045	(144,204)
Nonoperating Activities		
Endowment investment return	1,059,204	1,114,646
Loss on disposal of asset	(121,766)	
Change in Net Assets Without Donor Restrictions - Nonoperating	937,438	1,114,646
Change in Net Assets Without Donor Restrictions	\$ 1,013,483	\$ 970,442

See independent auditor's report.