

**CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS  
AND AFFILIATE**

**CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED JUNE 30, 2018 AND 2017**

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Children's Home and Aid Society of Illinois and Affiliate  
Chicago, Illinois

We have audited the accompanying consolidated financial statements of Children's Home and Aid Society of Illinois and Affiliate (the Agency), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and changes in net assets, cash flows, and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Consolidated 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend upon the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Children's Home and Aid Society of Illinois and Affiliate as of June 30, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis-of-Matter Regarding Significant Estimates***

As discussed in Note 4, the consolidated financial statements include certain investments valued at \$4,187,182 and \$3,909,671 as of June 30, 2018 and 2017, respectively. Valuation of these investments is based either upon information provided by fund managers or on the net asset value of shares held utilizing various pricing techniques. Because of the inherent uncertainty of these valuation techniques, those estimated values may differ significantly from the values that would have been used had readily determinable fair values existed for the investments, and the differences could be material. Our opinion is not modified with respect to that matter.



**CliftonLarsonAllen LLP**

Oak Brook, Illinois  
September 26, 2018

**CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2018 AND 2017**

<b>ASSETS</b>	<u>2018</u>	<u>2017</u>
Cash and Cash Equivalents	\$ 1,479,086	\$ 2,534,944
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$200,000 and \$190,905 in 2018 and 2017, Respectively	8,724,337	7,240,962
Pledges Receivable	897,871	1,857,614
Prepaid Expenses and Other Assets	554,838	508,304
Other Investment	1,164,254	605,000
Board-Designated Assets for Investment and Deferred Compensation Plan	20,013,175	18,738,527
Donor-Restricted Cash and Investments	5,305,000	5,114,000
Beneficial Interest in Trusts	5,067,849	4,904,899
Land, Buildings, Equipment, and Leasehold Improvements, Net of Accumulated Depreciation and Amortization	<u>23,951,288</u>	<u>25,021,988</u>
Total Assets	<u><u>\$ 67,157,698</u></u>	<u><u>\$ 66,526,238</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 3,193,497	\$ 2,477,816
Accrued Salaries and Benefits	2,986,345	2,712,895
Line of Credit	91,547	711,384
Deferred Compensation	337,149	230,015
Deferred Revenue	564,600	608,790
Capital Lease Obligation	286,041	364,716
Long-Term Debt	<u>4,624,136</u>	<u>5,615,194</u>
Total Liabilities	12,083,315	12,720,810
<b>NET ASSETS</b>		
Unrestricted	41,802,630	41,037,663
Temporarily Restricted	5,402,175	5,211,136
Permanently Restricted	<u>7,869,578</u>	<u>7,556,629</u>
Total Net Assets	<u>55,074,383</u>	<u>53,805,428</u>
Total Liabilities and Net Assets	<u><u>\$ 67,157,698</u></u>	<u><u>\$ 66,526,238</u></u>

See accompanying Notes to Consolidated Financial Statements.

**CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE  
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
YEAR ENDED JUNE 30, 2018**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES AND OTHER SUPPORT</b>				
Contributions	\$ 3,026,688	\$ 2,080,951	\$ -	\$ 5,107,639
Foundations and Trusts	853,602	-	-	853,602
Contributions from Associated Fundraising Organizations	834,881	-	-	834,881
Fees and Grants from Governmental Agencies for Services Rendered to Clients	51,764,601	-	-	51,764,601
Program Service Fees	1,661,118	-	-	1,661,118
Investment Income	340,935	111,784	-	452,719
Net Assets Released from Time and Purpose Restrictions and Other Reclassifications	2,050,912	(1,085,284)	-	965,628
Miscellaneous	163,205	-	-	163,205
Total Revenues and Other Support	<u>60,695,942</u>	<u>1,107,451</u>	<u>-</u>	<u>61,803,393</u>
<b>EXPENSES</b>				
Total Program Services	52,393,136	-	-	52,393,136
Supporting Services:				
Management and General	7,934,210	-	-	7,934,210
Fundraising	2,017,385	-	-	2,017,385
Total Expenses	<u>62,344,731</u>	<u>-</u>	<u>-</u>	<u>62,344,731</u>
<b>INCOME (LOSS) FROM OPERATIONS</b>	(1,648,789)	1,107,451	-	(541,338)
<b>COMPREHENSIVE FUNDRAISING CAMPAIGN REVENUE</b>				
General Public, Corporate, and Foundation Support	-	298,481	-	298,481
Net Assets Released from Time and Purpose Restrictions and Other Reclassifications	408,681	(1,524,309)	150,000	(965,628)
Total Comprehensive Fundraising Campaign Revenue (Expense)	408,681	(1,225,828)	150,000	(667,147)
<b>NONOPERATING GAINS</b>				
Net Realized and Unrealized Gains on Investments	2,005,075	309,416	162,949	2,477,440
<b>CHANGE IN NET ASSETS</b>	764,967	191,039	312,949	1,268,955
Net Assets - Beginning of Year	<u>41,037,663</u>	<u>5,211,136</u>	<u>7,556,629</u>	<u>53,805,428</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 41,802,630</u>	<u>\$ 5,402,175</u>	<u>\$ 7,869,578</u>	<u>\$ 55,074,383</u>

See accompanying Notes to Consolidated Financial Statements.

**CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE  
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
YEAR ENDED JUNE 30, 2017**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES AND OTHER SUPPORT</b>				
Contributions	\$ 3,393,881	\$ 1,336,637	\$ -	\$ 4,730,518
Foundations and Trusts	994,649	-	-	994,649
Contributions from Associated Fundraising Organizations	1,024,534	-	-	1,024,534
Fees and Grants from Governmental Agencies for Services Rendered to Clients	50,575,347	-	-	50,575,347
Program Service Fees	1,597,835	-	-	1,597,835
Investment Income	277,005	71,439	-	348,444
Net Assets Released from Time and Purpose Restrictions and Other Reclassifications	2,727,967	(1,641,580)	-	1,086,387
Miscellaneous	143,534	-	-	143,534
Total Revenues and Other Support	<u>60,734,752</u>	<u>(233,504)</u>	<u>-</u>	<u>60,501,248</u>
<b>EXPENSES</b>				
Total Program Services	51,893,871	-	-	51,893,871
Supporting Services:				
Management and General	8,062,548	-	-	8,062,548
Fundraising	1,886,221	-	-	1,886,221
Total Expenses	<u>61,842,640</u>	<u>-</u>	<u>-</u>	<u>61,842,640</u>
<b>LOSS FROM OPERATIONS</b>	(1,107,888)	(233,504)	-	(1,341,392)
<b>COMPREHENSIVE FUNDRAISING CAMPAIGN REVENUE</b>				
General Public, Corporate, and Foundation Support	-	1,683,073	-	1,683,073
Net Assets Released from Time and Purpose Restrictions and Other Reclassifications	6,172,168	(7,258,555)	-	(1,086,387)
Total Comprehensive Fundraising Campaign Revenue (Expense)	6,172,168	(5,575,482)	-	596,686
<b>NONOPERATING GAINS</b>				
Net Realized and Unrealized Gains on Investments	2,122,043	547,271	297,182	2,966,496
<b>CHANGE IN NET ASSETS</b>	7,186,323	(5,261,715)	297,182	2,221,790
Net Assets - Beginning of Year	<u>33,851,340</u>	<u>10,472,851</u>	<u>7,259,447</u>	<u>51,583,638</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 41,037,663</u>	<u>\$ 5,211,136</u>	<u>\$ 7,556,629</u>	<u>\$ 53,805,428</u>

See accompanying Notes to Consolidated Financial Statements.

**CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 1,268,955	\$ 2,221,790
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	1,600,022	1,675,651
Loss on Sales of Land, Buildings, Equipment, and Leasehold Improvements	27,834	13,680
Deferred Compensation	(32,134)	(71,056)
Recovery for Bad Debts	(148,935)	-
Net Realized and Unrealized Gains on Permanently and Temporarily Restricted Net Assets	(472,365)	(844,453)
Net Realized and Unrealized Gains on Assets Whose Use is Limited or Restricted, Excluding Investments of Permanently and Temporarily Restricted Net Assets	(2,005,075)	(2,122,043)
Effects of Changes in Operating Assets and Liabilities:		
Accounts Receivable	(1,334,440)	396,051
Pledges Receivable	959,743	(27,471)
Prepaid Expenses and Other Assets	(46,534)	51,397
Accounts Payable and Accrued Expenses	715,681	(833,844)
Accrued Salaries and Benefits	412,718	(1,274,526)
Other Liabilities	(44,190)	(769,045)
Net Cash Provided (Used) by Operating Activities	901,280	(1,583,869)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of Land, Buildings, Equipment, and Leasehold Improvements	(557,156)	(753,482)
Purchases of Trustee-Held, Board-Designated, and Donor-Restricted Cash and Investments	(8,127,636)	(6,030,834)
Sales and Maturities of Trustee-Held, Board-Designated, and Donor-Restricted Cash and Investments	8,417,224	7,477,186
Net Cash Provided (Used) by Investing Activities	(267,568)	692,870

See accompanying Notes to Consolidated Financial Statements.



**CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE  
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)  
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of Long-Term Debt	(991,058)	(529,597)
Net Borrowings (Payments) on Line of Credit	(619,837)	711,384
Payments on Capital Lease Obligation	(78,675)	(56,960)
Net Cash Provided (Used) by Financing Activities	(1,689,570)	124,827
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(1,055,858)	(766,172)
Cash and Cash Equivalents - Beginning of Year	2,534,944	3,301,116
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 1,479,086	\$ 2,534,944
<b>SUPPLEMENTARY DISCLOSURES</b>		
Schedule of Noncash Investing and Financing Transactions:		
Investing:		
Total Capital Acquisitions	\$ -	\$ 1,121,676
Financing:		
Long-Term Debt Borrowing to Finance Capital Acquisitions	\$ -	\$ 700,000
Capital Lease Obligation Borrowing to Finance Capital Acquisitions	\$ -	\$ 421,676
Contributions Restricted for Investment in Endowment	\$ 150,000	\$ -
<b>CASH PAID FOR INTEREST</b>	\$ 275,549	\$ 246,038

See accompanying Notes to Consolidated Financial Statements.

**CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2018**

	Program Services					
	Counseling	Child Care	Child Care Resource and Referral	Foster Care	Intact Family Services	Parental Support
Salaries	\$ 2,434,601	\$ 6,057,897	\$ 1,710,009	\$ 6,739,476	\$ 2,442,276	\$ 1,381,911
Employee Health and Retirement Benefits	462,233	1,161,549	315,298	1,263,921	450,015	250,309
Payroll Taxes	172,053	439,318	119,251	477,356	171,481	97,683
Total Salaries and Related Expenses	3,068,887	7,658,764	2,144,558	8,480,753	3,063,772	1,729,903
Professional Fees	404,460	331,749	611,871	500,277	191,386	415,440
Supplies	45,943	771,354	125,940	146,918	49,612	113,937
Telephone	71,500	159,515	52,736	253,776	69,531	44,718
Postage and Shipping	2,996	1,878	33,633	21,053	6,117	874
Occupancy	313,774	692,217	175,522	874,781	258,386	95,655
Outside Printing	1,129	5,789	21,247	4,913	1,777	4,896
Local Transportation	155,926	61,801	42,597	856,212	291,036	68,202
Conferences and Meetings	11,726	27,393	12,696	47,579	28,598	65,279
Subscriptions and Reference	-	10,442	1,668	726	2,053	1,699
Specific Assistance	39,381	49,830	22,929	6,072,407	96,896	39,793
Membership Dues	474	11,871	442	841	32	17,660
Repairs, Maintenance, and Rental	14,800	23,493	11,909	63,054	24,850	15,010
Miscellaneous	17,883	72,028	13,910	57,411	22,075	17,413
Total Expenses Before Depreciation, Amortization, Interest, and Financing Fees	4,148,879	9,878,124	3,271,658	17,380,701	4,106,121	2,630,479
Depreciation and Amortization	70,234	707,499	21,343	211,725	54,788	65,459
Interest and Financing Fees	1,456	2,640	1,440	4,221	807	1,078
Total Functional Expenses	<u>\$ 4,220,569</u>	<u>\$ 10,588,263</u>	<u>\$ 3,294,441</u>	<u>\$ 17,596,647</u>	<u>\$ 4,161,716</u>	<u>\$ 2,697,016</u>

See accompanying Notes to Consolidated Financial Statements.

**CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)  
YEAR ENDED JUNE 30, 2018**

	Program Services (Continued)				Supporting Services			Totals
	Residential Services	Youth Services	Program Services Management	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries	\$ 2,915,282	\$ 2,237,606	\$ 467,330	\$ 26,386,388	\$ 4,147,914	\$ 995,441	\$ 5,143,355	\$ 31,529,743
Employee Health and Retirement Benefits	492,620	375,768	86,380	4,858,093	759,654	182,324	941,978	5,800,071
Payroll Taxes	205,196	159,890	33,322	1,875,550	270,170	69,822	339,992	2,215,542
Total Salaries and Related Expenses	3,613,098	2,773,264	587,032	33,120,031	5,177,738	1,247,587	6,425,325	39,545,356
Professional Fees	261,988	81,906	8,746	2,807,823	1,137,580	254,616	1,392,196	4,200,019
Supplies	338,777	72,853	59,502	1,724,836	255,598	8,962	264,560	1,989,396
Telephone	62,094	79,208	36,254	829,332	52,853	1,731	54,584	883,916
Postage and Shipping	1,037	3,478	6,570	77,636	20,999	8,034	29,033	106,669
Occupancy	278,048	223,561	70,389	2,982,333	739,892	8,557	748,449	3,730,782
Outside Printing	4,466	3,958	9,623	57,798	17,891	45,769	63,660	121,458
Local Transportation	67,791	187,540	13,512	1,744,617	80,420	14,049	94,469	1,839,086
Conferences and Meetings	18,866	44,210	12,399	268,746	64,662	4,674	69,336	338,082
Subscriptions and Reference	30	1,621	-	18,239	5,049	252	5,301	23,540
Specific Assistance	96,524	143,542	9,046	6,570,348	1,476	215	1,691	6,572,039
Membership Dues	80	2,299	1,696	35,395	53,449	2,019	55,468	90,863
Repairs, Maintenance, and Rental	66,965	16,532	7,412	244,025	18,164	3	18,167	262,192
Miscellaneous	39,023	46,644	50,147	336,534	8,320	420,908	429,228	765,762
Total Expenses Before Depreciation, Amortization, Interest, and Financing Fees	4,848,787	3,680,616	872,328	50,817,693	7,634,091	2,017,376	9,651,467	60,469,160
Depreciation and Amortization	339,723	74,649	15,527	1,560,947	39,066	9	39,075	1,600,022
Interest and Financing Fees	766	1,924	164	14,496	261,053	-	261,053	275,549
Total Functional Expenses	<u>\$ 5,189,276</u>	<u>\$ 3,757,189</u>	<u>\$ 888,019</u>	<u>\$ 52,393,136</u>	<u>\$ 7,934,210</u>	<u>\$ 2,017,385</u>	<u>\$ 9,951,595</u>	<u>\$ 62,344,731</u>

**CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2017**

	Program Services						
	Adoption	Counseling	Child Care	Child Care Resource and Referral	Foster Care	Intact Family Services	Parental Support
Salaries	\$ 13,929	\$ 2,539,629	\$ 5,992,597	\$ 1,471,074	\$ 7,337,852	\$ 2,084,667	\$ 1,342,696
Employee Health and Retirement Benefits	2,768	520,425	1,220,283	295,605	1,495,273	420,036	272,043
Payroll Taxes	877	182,512	423,397	102,578	521,425	146,577	96,074
Total Salaries and Related Expenses	17,574	3,242,566	7,636,277	1,869,257	9,354,550	2,651,280	1,710,813
Professional Fees	256	575,700	322,259	592,843	700,532	148,644	229,900
Supplies	593	32,205	686,905	77,977	85,715	41,841	57,252
Telephone	3,593	100,242	161,073	56,834	284,483	79,599	50,463
Postage and Shipping	-	2,163	2,116	22,491	9,806	1,569	390
Occupancy	1,018	278,557	698,963	173,611	848,910	192,249	51,151
Outside Printing	-	1,742	9,708	31,201	6,677	1,491	3,083
Local Transportation	1,445	164,833	61,150	34,643	901,269	244,348	53,969
Conferences and Meetings	-	14,845	36,782	16,623	50,661	35,850	26,800
Subscriptions and Reference	-	-	667	1,121	760	704	2,574
Specific Assistance	-	38,568	23,560	11,506	6,755,917	91,761	44,540
Membership Dues	-	350	4,275	1,403	640	-	7,834
Repairs, Maintenance, and Rental	23	13,011	20,253	6,487	39,030	9,097	6,095
Miscellaneous	75	14,791	51,711	8,015	51,912	12,735	10,160
Total Expenses Before Depreciation, Amortization, Interest, and Financing Fees	24,577	4,479,573	9,715,699	2,904,012	19,090,862	3,511,168	2,255,024
Depreciation and Amortization	110	68,787	756,022	20,344	218,697	49,365	73,920
Interest and Financing Fees	7	1,476	2,189	1,537	4,554	888	369
Total Functional Expenses	<u>\$ 24,694</u>	<u>\$ 4,549,836</u>	<u>\$ 10,473,910</u>	<u>\$ 2,925,893</u>	<u>\$ 19,314,113</u>	<u>\$ 3,561,421</u>	<u>\$ 2,329,313</u>

See accompanying Notes to Consolidated Financial Statements.

**CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)  
YEAR ENDED JUNE 30, 2017**

	Program Services (Continued)				Supporting Services			Totals
	Residential Services	Youth Services	Program Services Management	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries	\$ 2,959,908	\$ 1,684,704	\$ 396,827	\$ 25,823,883	\$ 3,972,074	\$ 994,956	\$ 4,967,030	\$ 30,790,913
Employee Health and Retirement Benefits	547,140	307,639	80,042	5,161,254	867,823	181,639	1,049,462	6,210,716
Payroll Taxes	207,800	121,672	28,758	1,831,670	264,334	69,345	333,679	2,165,349
Total Salaries and Related Expenses	3,714,848	2,114,015	505,627	32,816,807	5,104,231	1,245,940	6,350,171	39,166,978
Professional Fees	289,954	86,672	10,874	2,957,634	1,079,806	162,495	1,242,301	4,199,935
Supplies	317,554	45,764	26,825	1,372,631	178,620	8,939	187,559	1,560,190
Telephone	45,034	61,322	25,216	867,859	196,216	2,988	199,204	1,067,063
Postage and Shipping	1,276	2,873	8,264	50,948	13,401	6,544	19,945	70,893
Occupancy	261,558	122,444	29,385	2,657,846	713,991	10,468	724,459	3,382,305
Outside Printing	1,650	1,947	7,372	64,871	28,340	63,003	91,343	156,214
Local Transportation	58,145	117,829	16,363	1,653,994	70,643	15,125	85,768	1,739,762
Conferences and Meetings	33,960	20,271	10,050	245,842	69,525	9,930	79,455	325,297
Subscriptions and Reference	-	768	354	6,948	6,940	6,225	13,165	20,113
Specific Assistance	91,118	134,229	17,181	7,208,380	1,032	465	1,497	7,209,877
Membership Dues	90	211	1,896	16,699	87,168	2,191	89,359	106,058
Repairs, Maintenance, and Rental	21,135	5,908	1,588	122,627	52,565	160	52,725	175,352
Miscellaneous	18,254	72,527	14,923	255,103	134,653	351,158	485,811	740,914
Total Expenses Before Depreciation, Amortization, Interest, and Financing Fees	4,854,576	2,786,780	675,918	50,298,189	7,737,131	1,885,631	9,622,762	59,920,951
Depreciation and Amortization	338,066	52,315	5,250	1,582,876	92,204	571	92,775	1,675,651
Interest and Financing Fees	719	951	116	12,806	233,213	19	233,232	246,038
Total Functional Expenses	<u>\$ 5,193,361</u>	<u>\$ 2,840,046</u>	<u>\$ 681,284</u>	<u>\$ 51,893,871</u>	<u>\$ 8,062,548</u>	<u>\$ 1,886,221</u>	<u>\$ 9,948,769</u>	<u>\$ 61,842,640</u>

**CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Children's Home and Aid Society of Illinois (the Society), an Illinois nonprofit corporation, is a social service organization serving families throughout the state of Illinois. The Society provides adoption, foster care, residential care, child care, and child and family counseling and related services. A description of affiliated organizations follows:

- Children's Home and Aid Society Foundation (the Foundation), an Illinois nonprofit corporation of which the Society is the sole corporate member, oversees investments of the Society.
- The Federation for Community Schools (FCS) was an Illinois nonprofit corporation of which the Society became the sole member on June 26, 2016. The assets were combined with those of the Society and FCS was formally dissolved in fiscal year 2017.

**Business Combination**

Effective January 1, 2018, the Society acquired the assets and assumed the operations of FCAN. FCAN's activity has been assumed by the Society and the former FCAN entity has been dissolved. FCAN was a social service agency that worked to strengthen HIV-affected families statewide. The business combination was accounted for as an acquisition and there was no consideration given. The following assets were recognized in the acquisition (at fair value):

Cash	\$ 30,224
Accounts Receivable	150,877
Total	<u>\$ 181,101</u>

The assets received were recorded as an unrestricted contribution on the 2018 consolidated statement of activities and changes in net assets.

**Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of the Society and its wholly owned and controlled affiliate (the Agency). All significant transactions among these corporations have been eliminated in consolidation.

**Use of Estimates in Preparing Consolidated Financial Statements**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at 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.

**CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE**  
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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Consolidated Financial Statement Presentation**

The Agency prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Under accounting principles generally accepted in the United States of America, the Agency is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Agency is required to present a consolidated statement of cash flows.

**Basis of Presentation**

The Agency follows the requirements of the Financial Accounting Standards Board (FASB) in its Accounting Standards Codification (ASC) No. 958-205, *Not-For-Profit Entities - Presentation of Financial Statements*. Under ASC No. 958-205, the Agency is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets, defined as follows:

Unrestricted Net Assets – Those resources over which the board of trustees (the board) has discretionary control.

Temporarily Restricted Net Assets – Those resources subject to donor-imposed stipulations that may be fulfilled by actions of the board to meet the stipulations, or become unrestricted at the date specified by the donor. When a donor or time restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statements of activities and changes in net assets as “Net Assets Released from Restrictions.”

Permanently Restricted Net Assets – Those resources subject to donor-imposed stipulations that they be maintained permanently by the Agency.

**Basis of Accounting**

The consolidated financial statements have been prepared using the accrual basis of accounting.

**Comprehensive Fundraising Campaign**

During the fiscal year ended June 30, 2013, the Agency embarked on a comprehensive fundraising campaign to raise funds for its overall strategic plan which encompasses facility, endowment, and program initiatives. The campaign continued in its “silent” phase cultivating and soliciting gifts to meet its goal. In the years ended June 30, 2018 and 2017, the Agency secured donations to support two new initiatives in children’s mental health and engagement of fathers in a child’s life. Fundraising continues in support of growing the Agency’s endowment, of securing gifts to liquidate the debt incurred in the construction of the Jerri Hoffmann Child and Family Center, and of providing sustaining funds for other needed programs. The public phase of the campaign is being aligned with the Agency’s 135<sup>th</sup> anniversary celebration, a year-long, statewide effort to raise awareness of the campaign, as well as donations at a more moderate level. The public phase officially began at the Champions for Children Luncheon in May 2018 with the campaign targeted to conclude in December 2018.

**CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Revenues and Other Support**

Revenue transactions deemed by management to be ongoing, major, or central to the provision of social services are included in revenues and other support on the consolidated statements of activities and changes in net assets. Transactions incidental to the provision of social services are reported as nonoperating gains and losses.

The Agency receives contributions through pledges, bequests, beneficial interests in trusts, and outright gifts of cash and property. Contributions are classified as unrestricted, temporarily restricted, or permanently restricted based on donor direction.

Contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the contribution is recognized. All other donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, as appropriate. When a temporary restriction expires, the related net assets are reclassified to unrestricted net assets. Investment income and realized and unrealized gains and losses resulting from contributions are reported as unrestricted, temporarily restricted, or permanently restricted net assets, as directed by the donor.

**Functional Allocation of Expenses**

The costs of providing various program and supporting services have been summarized on a functional basis in the consolidated statements of activities and changes in net assets and the consolidated statements of functional expenses.

**Cash Equivalents**

The Agency considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents. However, all cash and investments whose use is limited by the board or restricted by donors are considered long-term investments.

At times, the amounts in these accounts may exceed federally insured limits. However, the Agency has not experienced any losses on these accounts and does not believe it is exposed to significant risk.

**Investments**

The Agency accounts for investments in accordance with accounting principles generally accepted in the United States of America, which requires investments in equity securities with readily determinable fair values and all investments in debt securities be reported at fair value. Investment income (comprised of interest and dividends) is included in revenues and other support. Realized and unrealized gains and losses on investments are reported in the consolidated statements of activities and changes in net assets as nonoperating gains and losses and as an increase or decrease in unrestricted, temporarily restricted, or permanently restricted net assets based upon donor-imposed restrictions.

Board-designated assets include investments set aside by the board for the deferred compensation plan and other purposes. The board retains discretionary control over these investments.



**CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Accounts Receivable**

Accounts receivable are primarily uncollateralized governmental obligations stated at the invoice amounts that generally are payable within 30 days from the billing date.

Payments of accounts receivable are applied to the specific invoices identified on the funding source's remittance advice or, if unspecified, to the earliest unpaid invoices.

Accounts receivable is reduced by a valuation allowance that reflects management's best assessment of the collectability of specific funding source accounts based on specific information, the aging of specific accounts, and historical experience. If actual amounts collected are lower than management's estimates thereof, the Agency's financial results could be adversely affected. All accounts or portions thereof deemed to be uncollectible or to require an excessive collection cost are written off to the allowance for doubtful accounts.

**Pledges Receivable**

Unconditional pledges to give cash and property are reported at fair value at the date the pledge is received.

Any amounts that are known to be uncollectible are written off and thus, a provision has not been made for potentially uncollectible amounts as of June 30, 2018 and 2017, based on management's assessment of the specific promises to give and the aging thereof.

**Land, Buildings, Equipment, and Leasehold Improvements**

Land, buildings, equipment, and leasehold improvements are stated at cost, less accumulated depreciation and amortization. The Agency's capitalization threshold is \$1,500. Depreciation and amortization is provided on the straight-line method over the estimated useful lives of the assets as follows:

Buildings and Improvements	5 to 39 Years
Office Furniture and Equipment	5 to 15 Years
Automobiles	5 Years
Leasehold Improvements	2 to 10 Years

Equipment specifically funded from government sources is depreciated in full in the year of acquisition.

**Long-Lived Assets**

The Agency evaluates its long-lived assets for any events or changes in circumstances which indicate that the carrying amount of such assets may not be fully recoverable. The Agency evaluates the recoverability of long-lived assets by measuring the carrying amount of such assets against the estimated undiscounted future cash flows associated with them. At the time such evaluation indicates that the future undiscounted cash flows of certain long-lived assets are not sufficient to recover the carrying value of such assets, the assets are adjusted to their fair values.

**CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Beneficial Interest in Trusts**

Beneficial interest in trusts represents the fair value of the portion of trusts for which the Agency is beneficiary in perpetuity and is permanently restricted. The trusts, which are all administered by bank trustees, are comprised primarily of farm land and equity or fixed-income securities. Fair value of equity and fixed-income securities is based primarily on quoted market prices. Fair value for farm land is based on periodic independent appraisals. Realized and unrealized gains and losses on the beneficial interest in trusts are recorded to permanently restricted net assets in the consolidated statements of activities and changes in net assets.

**Income Taxes**

All entities included in the Agency are nonprofit corporations as described in Section 501(c)(3) of the Internal Revenue Code. The entities qualify for the charitable contribution deduction under Section 170(b)(1)(A) and have been classified as organizations that are not private foundations under Section 509(a)(1).

The Agency evaluates its exposure for uncertain tax positions on an annual basis. As of June 30, 2018 and 2017, there were no liabilities for uncertain tax positions.

**Reclassifications**

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

**NOTE 2 PLEDGES RECEIVABLE**

Pledges receivable consist of pledges that are expected to be collected during the following fiscal years:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 459,927
2020	190,000
2021	175,000
2022	150,000
Total Pledges Receivable	974,927
Less: Discount to Net Present Value	(77,056)
Total	<u>\$ 897,871</u>

The discount rate used for both of the years ended June 30, 2018 and 2017 was 4%.

**CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE  
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**NOTE 3 INVESTMENTS**

A summary of the composition of the Agency's investments follows:

	<u>2018</u>	<u>2017</u>
Fixed Income Mutual Funds	\$ 5,121,453	\$ 4,860,842
Common Stock and Mutual Funds	15,994,339	15,055,338
Nonpublic Pooled Investments	4,187,182	3,909,671
Cash Equivalents and Money Market Funds	15,201	26,676
Beneficial Interest in Trusts	5,067,849	4,904,899
Other Investment	1,164,254	605,000
Total	<u>\$ 31,550,278</u>	<u>\$ 29,362,426</u>

The nonpublic pooled investments consist of private equity funds that invest primarily in diversified leveraged buyouts, venture capital companies, and other investment funds. Included in nonpublic pooled investments is the Portfolio Advisors Private Equity Fund IV, L.P., the SEG Partners Offshore, Ltd., the MW Eureka Fund, and the Cyrus Opportunities Fund II Ltd. These funds are nonpublic, pooled investments that are not registered as investment companies with the U.S. Securities and Exchange Commission. They are considered speculative with a higher degree of risk and potential volatile performance than the Agency's other investments. The estimated market value of these funds is determined by the funds' custodians based on the net asset value of the Agency's ownership interest, as quoted market prices are not available. The Agency has invested \$1,142,259 (\$1,400,000 total commitment) in the Portfolio Advisors Private Equity Fund IV, L.P., as of June 30, 2018 and 2017. The market value for this fund was estimated at \$309,059 and \$430,804 at June 30, 2018 and 2017, respectively. The Agency has invested \$1,000,000 in the SEG Partners Offshore, Ltd. Fund as of June 30, 2018 and 2017. The market value of this fund was estimated at \$1,146,901 and \$1,043,524 at June 30, 2018 and 2017, respectively. The Agency invested \$1,000,000 in the MW Eureka Fund as of June 30, 2018 and 2017. The market value of this fund was estimated at \$1,207,825 and \$1,079,672 at June 30, 2018 and 2017, respectively. The market value for the Cyrus Opportunities Fund II Ltd. fund was estimated at \$1,523,397 and \$1,355,671 as of June 30, 2018 and 2017, respectively.

On December 1, 2010, the Agency invested \$1,000,000 in Cyrus Opportunities Fund II Ltd. One of the principals of this fund is related to a trustee of the Agency. The principal of the fund has personally guaranteed recovery of the Agency's initial investment in the fund and all fees to the fund have been waived. This guarantee had an initial term of five years ending on December 1, 2015. This agreement has been verbally extended for an additional five years and the amount of the guarantee is \$1,250,000.

**CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE**  
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**NOTE 3 INVESTMENTS (CONTINUED)**

Currently, the Agency is not eligible to redeem the investment in the Portfolio Advisors Private Equity Fund IV, L.P. until the later of the termination of the partnership or one year after all the assets of the partnership have been liquidated. As of June 30, 2018, the partnership has not liquidated all assets. The Agency has no other unfunded commitments for further investment in the SEG Partners Offshore, Ltd., the MW Eureka Fund, and the Cyrus Opportunities Fund II Ltd. as of June 30, 2018. There are no additional redemption restrictions on these investments as well. These investments can be liquidated with no notice period and on a daily basis.

The other investment at June 30, 2017 was donated stock representing an approximate 1% stake in a closely held bank, with a value of \$605,000. The fair value at the time of the donation was determined by comparing the number of shares donated to the Agency to the current stock transactions disclosed in the bank's financial statements. During the year ended June 30, 2018, the closely held bank merged with an unrelated publicly traded bank and the Agency received common stock and cash as part of the merger transaction. The Agency intends to liquidate the stock, the proceeds of which are restricted for use in the comprehensive fundraising programs. The fair value of the other investment in the unrelated publically traded bank received as a result of the merger was \$1,164,254 at June 30, 2018.

The composition of investment return on the Agency's investment portfolio for the years ended June 30, 2018 and 2017, is as follows:

	2018	2017
Interest and Dividend Income, Net of Fees	\$ 452,719	\$ 348,444
Net Realized Gains on Sales	22,389	96,248
Net Unrealized Gains	2,455,051	2,870,248
Total	<u>\$ 2,930,159</u>	<u>\$ 3,314,940</u>

Investment fees incurred were \$55,717 and \$50,336 for the years ended June 30, 2018 and 2017, respectively.

**NOTE 4 FAIR VALUE MEASUREMENTS**

In determining fair value, the Agency uses various valuation approaches within the fair value measurement framework. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability. The fair value measurement framework establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The framework defines levels within the hierarchy based on the reliability of inputs as follows:

*Level 1* – Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;

*Level 2* – Valuations based on quoted prices for similar assets or liabilities or identical assets or liabilities in less active markets, such as dealer or broker markets; and

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**NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)**

*Level 3* – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models, and similar techniques not based on market, exchange, dealer, or broker-traded transactions.

The fair values of assets and liabilities measured on a recurring basis at June 30, 2018, are as follows:

	2018			
	Total	Level 1	Level 2	Level 3
Equities:				
U.S. Mutual Funds	\$ 6,609,738	\$ 6,609,738	\$ -	\$ -
International Mutual Funds	9,384,601	9,384,601	-	-
Common Stock	1,164,254	1,164,254	-	-
Fixed Income:				
Mutual Funds	5,121,453	5,121,453	-	-
Beneficial Interest in Trusts	5,067,849	-	-	5,067,849
Total Assets at Fair Value	<u>27,347,895</u>	<u>22,280,046</u>	<u>\$ -</u>	<u>\$ 5,067,849</u>
Cash and Cash Equivalents	15,201			
Nonpublic Pooled Investments	4,187,182			
Total Assets	<u>\$ 31,550,278</u>			

The fair value of assets and liabilities measured on a recurring basis at June 30, 2017 are as follows:

	2017			
	Total	Level 1	Level 2	Level 3
Equities:				
U.S. Mutual Funds	\$ 8,578,283	\$ 8,578,283	\$ -	\$ -
International Mutual Funds	5,524,425	5,524,425	-	-
Hedge Funds	952,630	952,630	-	-
Fixed Income:				
Mutual Funds	4,860,842	4,860,842	-	-
Beneficial Interest in Trusts	4,904,899	-	-	4,904,899
Other Investment	605,000	-	-	605,000
Total Assets at Fair Value	<u>25,426,079</u>	<u>\$ 19,916,180</u>	<u>\$ -</u>	<u>\$ 5,509,899</u>
Cash and Cash Equivalents	26,676			
Nonpublic Pooled Investments	3,909,671			
Total Assets	<u>\$ 29,362,426</u>			

Fair value for Level 1 equities and mutual funds are determined by reference to quoted market transactions. Fair value of Level 3 beneficial interest in trusts is determined by reference to quoted market transactions for assets similar to those held to support the underlying assets. Fair value for the Level 3 other investment, consists of donated stock (see Note 3). The fair value of this investment was determined to be \$55 per share at June 30, 2017, the price the Agency received on recent stock liquidations. As of June 30, 2018, the other investment was converted to Level 1 common stock.

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**NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)**

Gains and losses (realized and unrealized) on the investments valued using significant unobservable inputs are included in net realized and unrealized gains on investments in the accompanying consolidated statements of activities and changes in net assets. There were unrealized gains of \$559,254 and \$-0- relating to these investments for the years ended June 30, 2018 and 2017, respectively.

The following is a reconciliation of the beginning and ending balances of assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) during the year ended June 30, 2017:

Investments:		
Balance - June 30, 2016	\$	5,542,717
Change in Beneficial Interest in Trusts		297,182
Sale of Investments, Net		<u>(330,000)</u>
Balance - June 30, 2017		5,509,899
Change in Beneficial Interest in Trusts		162,950
Conversion of Investment to Publically Traded Stock (Level 1)		<u>(605,000)</u>
Balance - June 30, 2018	<u>\$</u>	<u>5,067,849</u>

**NOTE 5 LAND, BUILDINGS, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS**

A summary of land, buildings, equipment, and leasehold improvements as of June 30, 2018 and 2017 follows:

	<u>2018</u>	<u>2017</u>
Land	\$ 2,126,786	\$ 2,138,088
Buildings and Improvements	33,271,800	33,071,755
Office Furniture and Equipment	6,005,891	5,777,361
Automobiles	194,985	194,985
Leasehold Improvements	750,876	625,409
Construction in Progress	<u>85,655</u>	<u>228,776</u>
Total at Cost	42,435,993	42,036,374
Less: Allowance for Depreciation and Amortization	<u>18,484,705</u>	<u>17,014,386</u>
Total Land, Buildings, Equipment, and Leasehold Improvements	<u>\$ 23,951,288</u>	<u>\$ 25,021,988</u>

During the year ended June 30, 2017, the Agency replaced the roofs and heating, ventilation, and air conditioning equipment at its Ada Rice Residential Center in Evanston, Illinois at a cost of approximately \$1.3 million. This project was financed by internal cash and a \$700,000 five-year loan.

**CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE  
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**NOTE 6 RETIREMENT AND OTHER EMPLOYEE BENEFIT PLANS**

**Employee Retirement Plan**

The Agency sponsors a defined contribution 401(k) plan covering all employees who have completed 12 months of service, performed 975 hours of service, and are age 21 or older. The 401(k) plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 and is a contributory plan to which the Agency may make discretionary contributions. The Agency recognized benefit expense related to the 401(k) plan of \$484,869 and \$233,250 in 2018 and 2017, respectively.

**Deferred Compensation Plan**

The Agency maintains a nonqualified deferred compensation plan for certain of its executives. The Agency recognized plan expense of \$75,000 for each of the years ended June 30, 2018 and 2017. In addition, the Agency allocates appreciation or depreciation to the plan based on the investment performance of the Foundation assets. This amounted to \$32,134 and \$71,056 of appreciation for the years ended June 30, 2018 and 2017, respectively.

**Self-Funded Medical Plan**

The Agency self-funds the claims cost of its medical plan covering those employees who elect coverage and their dependents. Under the terms of the coverage, the Agency's estimated annual claim costs are \$3.5 million subject to an annually specified maximum amount estimated at \$4.9 million. The Agency has recorded a liability of \$501,000 and \$468,000 as of June 30, 2018 and 2017, respectively, on the consolidated statements of financial position that represents management's estimate of reported and unreported medical claims incurred prior to that date. Claims incurred but not reported are expected to be insignificant. The Agency also maintains a cash reserve of \$709,000 and \$707,000 as of June 30, 2018 and 2017, respectively, to cover both the liability noted above and potential cash needs of this plan.

**NOTE 7 FEES AND GRANTS FROM GOVERNMENTAL AGENCIES**

Included in fees and grants from governmental agencies is \$32,736,066 in 2018 and \$33,662,531 in 2017 of revenue received from the Illinois Department of Children and Family Services (DCFS). In addition, the Society received revenue of \$7,386,284 in 2018 and \$6,390,658 in 2017 from the Illinois Department of Human Services (DHS). The amount of revenue from these funding sources represents approximately 63% and 66% of the Agency's total operating revenue and support for the years ended June 30, 2018 and 2017, respectively.

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**NOTE 7 FEES AND GRANTS FROM GOVERNMENTAL AGENCIES (CONTINUED)**

As of June 30, 2018 and 2017, the Agency's gross accounts receivable includes amounts due from the DCFS and the DHS of \$5,196,756 and \$4,047,791, respectively. A summary of unrestricted governmental agency revenue received, by core service, is presented below:

	<u>2018</u>	<u>2017</u>
Adoption	\$ -	\$ 1,700
Counseling	2,240,144	2,143,515
Child Care	9,853,743	9,437,895
Child Care Resource and Referral	3,621,071	3,122,670
Foster Care	20,674,914	21,940,207
Intact Family Services	5,107,396	4,848,884
Parental Support	1,987,384	1,730,111
Residential Services	4,764,569	4,861,416
Youth Services	3,515,380	2,228,550
Other	-	260,399
Total	<u>\$ 51,764,601</u>	<u>\$ 50,575,347</u>

**NOTE 8 LONG-TERM DEBT**

Long-term debt consists of the following:

<u>Description</u>	<u>2018</u>	<u>2017</u>
Note payable to the Illinois Facilities Fund as a fully amortized mortgage with interest at 5.875%. The loan requires monthly principal and interest payments of \$12,557, and is secured by a mortgage of real property and assignment of rents recorded against the property, maturing in July 2025.	\$ 867,411	\$ 964,904
Note payable to a bank with interest at 4.52%. The monthly principal and interest payments are \$15,639 with a final payment of \$1,518,727. The loan is secured by a mortgage of real property and assignment of rents recorded against the property and matures in December, 2025.	1,413,490	1,922,989



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**NOTE 8 LONG-TERM DEBT (CONTINUED)**

<u>Description</u>	<u>2018</u>	<u>2017</u>
<p>Note payable to a bank with a variable interest rate. The initial monthly principal and interest payments are \$20,833 with a final payment of \$20,881. The loan is secured by a mortgage of real property and assignment of rents recorded against the property and matures in December, 2025. The interest rate is based on changes in the one-month London Interbank Offered Rate (LIBOR) with an initial rate of 2.744%. The interest rate was 2.00% and 1.06% at June 30, 2018 and 2017, respectively.</p>	\$ 1,875,000	\$ 2,125,000
<p>Note payable to a bank with interest at 3.375%. The monthly principal and interest payments are \$12,695 with a final payment of \$12,413. The loan is secured by a mortgage of real property and assignment of rents recorded against the property and matures September, 2021.</p>	<u>468,235</u>	<u>602,301</u>
Total	<u>\$ 4,624,136</u>	<u>\$ 5,615,194</u>

Principal maturities of long-term debt are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 679,334
2020	689,897
2021	700,951
2022	596,969
2023	565,946
Thereafter	<u>1,391,039</u>
Total	<u>\$ 4,624,136</u>

**NOTE 9 CAPITAL LEASE OBLIGATION**

During the year ended June 30, 2017, the Agency financed the purchase of new office equipment totaling \$421,676 through a capital lease obligation which expires in September 2021. This office equipment is included in office furniture and equipment. Accumulated depreciation for equipment under the capital lease was \$147,413 and \$63,078 at June 30, 2018 and 2017, respectively.

**CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE  
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**NOTE 9 CAPITAL LEASE OBLIGATION (CONTINUED)**

The future minimum lease payments under this lease are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 95,094
2020	95,094
2021	95,094
2022	<u>23,775</u>
Total Minimum Lease Payments	309,057
Less: Amount Representing Interest	<u>23,016</u>
Present Value of Minimum Lease Payments	<u><u>\$ 286,041</u></u>

**NOTE 10 CREDIT FACILITIES**

The Agency has a credit facility (\$5,000,000 as of June 30, 2018 and 2017) with a commercial bank which is currently scheduled to expire on December 31, 2018. Amounts drawn against the facility bear interest at the commercial bank's prime interest rate (5.00% and 4.25% at June 30, 2018 and 2017, respectively). At June 30, 2018 and 2017, the outstanding balances under this credit facility were \$91,547 and \$711,384, respectively. The facility contains certain restrictive covenants related to financial performance and debt limitations which management believes have been met. It is secured by cash and investments with a market value of approximately \$21,131,000 and \$19,943,000 at June 30, 2018 and 2017, respectively. The Agency pledged a portion of this credit facility as security on three letters of credit (see Note 14).

**NOTE 11 TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following programs and purposes as directed by the donors as of June 30:

	<u>2018</u>	<u>2017</u>
Residential Services	\$ 46,932	\$ 149,979
Counseling	546,916	678,224
Comprehensive Fundraising Campaign	917,219	1,238,465
Unappropriated Earnings on Permanently Restricted Endowments	2,831,310	2,640,310
Child Care	177,350	61,673
Parental Support	633,133	17,340
Youth Services	154,477	90,573
Intact Family Services	5,750	50,000
Other	<u>89,088</u>	<u>284,572</u>
Total	<u><u>\$ 5,402,175</u></u>	<u><u>\$ 5,211,136</u></u>

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**NOTE 12 PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets represent donor-restricted investments to be held in perpetuity. Each year, the trustees of the investments appropriate a portion of the income from there to support program services. The remaining income is classified as temporarily restricted net assets.

Permanently restricted net assets are included in donor-restricted cash and investments, beneficial interest in trusts, and other cash and cash equivalents on the consolidated statements of financial position.

Permanently restricted net assets consist of the following:

	2018	2017
Donor-Restricted Endowment Funds	\$ 2,756,364	\$ 2,606,364
Beneficial Interest in Trusts	5,067,849	4,904,899
Other Donor Restricted	45,365	45,366
Total	<u>\$ 7,869,578</u>	<u>\$ 7,556,629</u>

**NOTE 13 ENDOWMENTS**

The Agency's endowments consist of three donor-restricted funds and the Agency's board-designated fund. The donor-restricted funds have been established to support various programs of the Agency. Net assets associated with the endowment funds are classified and reported based on the existence of any donor-imposed restrictions.

**Interpretation of Relevant Law**

The Agency has interpreted the Uniform Prudent Management of Institutional Funds Act as requiring the preservation of the fair value of the original gift as of the gift date of any donor-restricted endowment funds absent explicit donor stipulations to the contrary.

The remaining portion of donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure.

**Return Objectives and Risk Parameters**

The Agency has adopted investment and distribution policies for endowment investments that attempt to enhance their real value. The intent is to earn a high rate of return while maintaining a balanced portfolio relative to risk.

**Distribution Policy**

The Agency's distribution policy for endowment investments includes board approvals of amounts to be distributed to the Agency's programs during each fiscal year.

**Strategies Employed for Achieving Objectives**

The Agency's investment strategy is to achieve a target allocation of 50% of the endowment in direct equity investments, including United States and international investments, 35% in partnerships and hedge funds, and 15% in fixed-income securities.

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**NOTE 13 ENDOWMENTS (CONTINUED)**

Endowment net asset composition by type of fund as of June 30, 2018, is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor Restricted Endowment Funds	\$ -	\$ 2,831,310	\$ 2,756,364	\$ 5,587,674
Board-Designated Endowment Funds	20,234,175	-	-	20,234,175
Total Funds	<u>\$ 20,234,175</u>	<u>\$ 2,831,310</u>	<u>\$ 2,756,364</u>	<u>\$ 25,821,849</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net Assets - Beginning of Year	\$ 18,738,527	\$ 2,640,310	\$ 2,606,364	\$ 23,985,201
Investment Return:				
Investment Income, Net of Fees	340,935	111,784	-	452,719
Realized and Unrealized Gains	2,005,075	309,416	-	2,314,491
Total Investment Return	<u>2,346,010</u>	<u>421,200</u>	<u>-</u>	<u>2,767,210</u>
Contributions to Endowment	-	-	150,000	150,000
Appropriation of Endowment Assets for Expenditures	<u>(850,362)</u>	<u>(230,200)</u>	<u>-</u>	<u>(1,080,562)</u>
Net Assets - End of Year	<u>\$ 20,234,175</u>	<u>\$ 2,831,310</u>	<u>\$ 2,756,364</u>	<u>\$ 25,821,849</u>

Endowment net asset composition by type of fund as of June 30, 2017, is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor Restricted Endowment Funds	\$ -	\$ 2,640,310	\$ 2,606,364	\$ 5,246,674
Board-Designated Endowment Funds	18,738,527	-	-	18,738,527
Total Funds	<u>\$ 18,738,527</u>	<u>\$ 2,640,310</u>	<u>\$ 2,606,364</u>	<u>\$ 23,985,201</u>

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**NOTE 13 ENDOWMENTS (CONTINUED)**

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets - Beginning of Year	\$ 17,566,565	\$ 2,259,310	\$ 2,606,364	\$ 22,432,239
Investment Return:				
Investment Income, Net of Fees	277,005	71,439	-	348,444
Realized and Unrealized Gains	2,122,043	547,271	-	2,669,314
Total Investment Return	2,399,048	618,710	-	3,017,758
Contributions to Endowment	-	-	-	-
Appropriation of Endowment Assets for Expenditures	(1,227,086)	(237,710)	-	(1,464,796)
Net Assets - End of Year	<u>\$ 18,738,527</u>	<u>\$ 2,640,310</u>	<u>\$ 2,606,364</u>	<u>\$ 23,985,201</u>

**NOTE 14 COMMITMENTS AND CONTINGENCIES**

**Operating Leases**

The Agency maintains an operating lease agreement for its principal administrative offices that expires in January 2022. The terms of the agreement provide for an abatement of rental payments, along with sharing of operation and maintenance costs. Rental expense is recorded on a straight-line basis over the life of the lease term. The excess of rental expense recognized over rental payments is included in "Accounts Payable and Accrued Expenses" on the consolidated statements of financial position. The Agency also maintains operating lease agreements at various other locations throughout the state of Illinois for the use of land and buildings. Rental expense recognized under these operating leases was \$1,716,485 and \$1,678,717 in 2018 and 2017, respectively.

Future minimum rental payments over the remainder of operating lease terms are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 1,800,307
2020	1,487,212
2021	1,446,058
2022	1,321,529
2023	1,118,168
Thereafter	2,615,989
Total Future Minimum Lease Payments	<u>\$ 9,789,263</u>

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**NOTE 14 COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**Letters of Credit**

One of the Agency's banks issued, on behalf of the Agency, three irrevocable standby letters of credit in the amounts of \$321,400, \$200,000, and \$450,000. The first is in favor of 100 North Western Avenue, L.P. that automatically renews on September 1 of each year through 2019 and pertains to leased space at 100 North Western Avenue, Chicago, Illinois. The second is in favor of 125 S. Wacker Street Property Owner LLC and pertains to 125 South Wacker Drive, Chicago, Illinois, that automatically renews each February through 2019. The third is in favor of Volant Investments 7<sup>th</sup> Street LLC and pertains to 424 7<sup>th</sup> Street, Rockford, Illinois, that automatically renews each October through 2022. These letters of credit act as a security deposit for the Agency's lease of space and would be applied by the beneficiary for the purpose of curing any amount of default on the lease by the Agency. The combined, unamortized balance of these letters of credit was \$838,067 as of June 30, 2018 and \$374,384 as of June 30, 2017. The letters of credit are payable in the amount of the remaining balance if drawn upon.

**Litigation**

The Agency is named in various lawsuits arising in the ordinary course of business. The ultimate resolution of these lawsuits, including any related financial effects on the Agency, is currently unknown. The Agency has not provided for any potential future losses arising from the resolution of these matters in the accompanying consolidated financial statements. Despite the inherent uncertainties of litigation, management does not believe that the lawsuits will have a material adverse impact on the financial condition of the Agency at this time.

**State Funding**

The Agency receives a significant portion of its revenues and other support from agencies of the state of Illinois. Payments for the Agency's programs funded by the state of Illinois may be subject to modification based on the amount of funding made available by the state. Should such funding modifications occur, they could have an adverse effect on the Agency's revenue and other support.

**Compliance with Grant Restrictions**

The state and federal grants received by the Agency are subject to audit. Management believes that any disallowance of expenditures under these grants would not be material.

**NOTE 15 SUBSEQUENT EVENTS**

Management evaluated subsequent events through September 26, 2018, the date the consolidated financial statements were available to be issued. Events or transactions occurring after June 30, 2018, but prior to September 26, 2018, that provided additional evidence about conditions that existed at June 30, 2018, have been recognized in the consolidated financial statements for the year ended June 30, 2018. Events or transactions that provided evidence about conditions that did not exist at June 30, 2018, but arose before the consolidated financial statements were available to be issued have not been recognized in the consolidated financial statements for the year ended June 30, 2018.



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