

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

**CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED JUNE 30, 2019 AND 2018**



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**CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE  
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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, 2019 and 2018, 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 audits. We conducted our audits 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, 2019 and 2018, 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 Adoption of Accounting Standard**

As discussed in Note 1 to the financial statements, in 2018, the Agency adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

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

As discussed in Note 4, the consolidated financial statements include certain investments valued at \$4,382,802 and \$4,187,182 as of June 30, 2019 and 2018, 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  
October 31, 2019

**CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2019 AND 2018**

	2019	2018
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 2,218,913	\$ 1,479,086
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$232,797 and \$200,000 in 2019 and 2018, Respectively	7,903,471	8,724,337
Pledges Receivable	504,243	897,871
Prepaid Expenses and Other Assets	591,470	554,838
Other Investment	-	1,164,254
Board-Designated Assets for Investment and Deferred Compensation Plan	20,827,206	20,013,175
Donor-Restricted Cash and Investments	5,707,000	5,305,000
Beneficial Interest in Trusts	5,093,496	5,067,849
Land, Buildings, Equipment, and Leasehold Improvements, Net of Accumulated Depreciation and Amortization	22,610,044	23,951,288
Total Assets	\$ 65,455,843	\$ 67,157,698
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 2,057,251	\$ 3,193,497
Accrued Salaries and Benefits	2,777,536	2,986,345
Line of Credit	-	91,547
Deferred Compensation	540,746	337,149
Deferred Revenue	1,544,406	564,600
Capital Lease Obligation	202,364	286,041
Long-Term Debt	3,763,048	4,624,136
Total Liabilities	10,885,351	12,083,315
<b>NET ASSETS</b>		
Without Donor Restrictions	40,415,955	41,802,630
With Donor Restrictions	14,154,537	13,271,753
Total Net Assets	54,570,492	55,074,383
Total Liabilities and Net Assets	\$ 65,455,843	\$ 67,157,698

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, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUES AND OTHER SUPPORT</b>			
Contributions	\$ 1,930,698	\$ 2,813,279	\$ 4,743,977
Foundations and Trusts	999,690	-	999,690
Contributions from Associated Fundraising Organizations	817,617	-	817,617
Fees and Grants from Governmental Agencies for Services Rendered to Clients	54,744,833	-	54,744,833
Program Service Fees	1,531,492	-	1,531,492
Investment Income	387,251	105,746	492,997
Net Assets Released from Time and Purpose Restrictions and Other Reclassifications	2,439,546	(2,439,546)	-
Miscellaneous	123,194	-	123,194
Total Revenues and Other Support	<u>62,974,321</u>	<u>479,479</u>	<u>63,453,800</u>
<b>EXPENSES</b>			
Total Program Services	53,844,759	-	53,844,759
Supporting Services:			
Management and General	8,644,749	-	8,644,749
Fundraising	2,088,796	-	2,088,796
Total Expenses	<u>64,578,304</u>	<u>-</u>	<u>64,578,304</u>
<b>INCOME (LOSS) FROM OPERATIONS</b>	(1,603,983)	479,479	(1,124,504)
<b>NONOPERATING GAINS</b>			
Net Realized and Unrealized Gains on Investments	<u>217,308</u>	<u>403,305</u>	<u>620,613</u>
<b>CHANGE IN NET ASSETS</b>	(1,386,675)	882,784	(503,891)
Net Assets - Beginning of Year	<u>41,802,630</u>	<u>13,271,753</u>	<u>55,074,383</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 40,415,955</u>	<u>\$ 14,154,537</u>	<u>\$ 54,570,492</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**

	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUES AND OTHER SUPPORT</b>			
Contributions	\$ 3,026,688	\$ 2,379,432	\$ 5,406,120
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	2,459,593	(2,459,593)	-
Miscellaneous	163,205	-	163,205
Total Revenues and Other Support	<u>61,104,623</u>	<u>31,623</u>	<u>61,136,246</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	<u>2,017,385</u>	<u>-</u>	<u>2,017,385</u>
Total Expenses	<u>62,344,731</u>	<u>-</u>	<u>62,344,731</u>
<b>INCOME (LOSS) FROM OPERATIONS</b>	(1,240,108)	31,623	(1,208,485)
<b>NONOPERATING GAINS</b>			
Net Realized and Unrealized Gains on Investments	<u>2,005,075</u>	<u>472,365</u>	<u>2,477,440</u>
<b>CHANGE IN NET ASSETS</b>	764,967	503,988	1,268,955
Net Assets - Beginning of Year	<u>41,037,663</u>	<u>12,767,765</u>	<u>53,805,428</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 41,802,630</u>	<u>\$ 13,271,753</u>	<u>\$ 55,074,383</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, 2019 AND 2018**

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ (503,891)	\$ 1,268,955
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	1,442,215	1,600,022
Loss on Sales of Land, Buildings, Equipment, and Leasehold Improvements	-	27,834
Deferred Compensation	(30,685)	(32,134)
Recovery for Bad Debts	(464)	(148,935)
Net Realized and Unrealized Gains on Permanently and Temporarily Restricted Net Assets	(403,305)	(472,365)
Net Realized and Unrealized Gains on Assets Whose Use is Limited or Restricted, Excluding Investments of Permanently and Temporarily Restricted Net Assets	(217,308)	(2,005,075)
Effects of Changes in Operating Assets and Liabilities:		
Accounts Receivable	821,330	(1,334,440)
Pledges Receivable	393,628	959,743
Prepaid Expenses and Other Assets	(36,632)	(46,534)
Accounts Payable and Accrued Expenses	(1,136,246)	715,681
Accrued Salaries and Benefits	25,473	412,718
Other Liabilities	979,806	(44,190)
Net Cash Provided by Operating Activities	1,333,921	901,280
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of Land, Buildings, Equipment, and Leasehold Improvements	(100,971)	(557,156)
Proceeds from Sales of Land, Buildings, Equipment, and Restricted Cash and Investments	(2,144,130)	(8,127,636)
Sales and Maturities of Trustee-Held, Board-Designated, and Donor-Restricted Cash and Investments	2,687,319	8,417,224
Net Cash Provided (Used) by Investing Activities	442,218	(267,568)

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, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of Long-Term Debt	\$ (861,088)	\$ (991,058)
Net Payments on Line of Credit	(91,547)	(619,837)
Payments on Capital Lease Obligation	<u>(83,677)</u>	<u>(78,675)</u>
Net Cash Used by Financing Activities	<u>(1,036,312)</u>	<u>(1,689,570)</u>
 <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	 739,827	 (1,055,858)
Cash and Cash Equivalents - Beginning of Year	<u>1,479,086</u>	<u>2,534,944</u>
 <b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	 <u>\$ 2,218,913</u>	 <u>\$ 1,479,086</u>
 <b>SUPPLEMENTARY DISCLOSURES</b>		
Schedule of Noncash Financing Transactions:		
Contributions Restricted for Investment in Endowment	<u>\$ -</u>	<u>\$ 150,000</u>
 <b>CASH PAID FOR INTEREST</b>	 <u>\$ 234,931</u>	 <u>\$ 275,549</u>

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, 2019**

	Program Services					
	Counseling	Child Care	Child Care Resource and Referral	Foster Care	Intact Family Services	Parental Support
Salaries	\$ 2,234,391	\$ 6,732,032	\$ 2,221,590	\$ 6,851,454	\$ 2,440,439	\$ 1,793,006
Employee Health and Retirement Benefits	435,949	1,297,080	428,268	1,343,275	474,570	346,802
Payroll Taxes	159,219	476,264	157,189	497,913	175,516	128,214
Total Salaries and Related Expenses	2,829,559	8,505,376	2,807,047	8,692,642	3,090,525	2,268,022
Professional Fees	173,443	411,448	651,531	432,285	138,227	402,267
Supplies	121,808	841,653	148,144	183,870	78,475	134,400
Telephone	67,245	151,467	61,170	220,707	81,180	45,934
Postage and Shipping	2,033	2,564	28,925	11,678	3,203	2,018
Occupancy	287,018	805,770	232,913	836,148	283,123	144,430
Outside Printing	1,747	3,667	19,887	5,229	1,465	2,569
Local Transportation	149,476	64,946	60,206	861,142	283,744	86,429
Conferences and Meetings	50,157	51,290	40,474	138,123	12,419	64,155
Subscriptions and Reference	-	6,240	1,310	152	1,607	1,491
Specific Assistance	44,100	45,121	35,934	5,371,311	125,490	50,722
Membership Dues	1,215	2,960	310	2,210	303	15,871
Repairs, Maintenance, and Rental	7,976	36,433	9,367	24,467	(6,213)	8,833
Miscellaneous	810	54,494	19,724	80,644	16,923	34,555
Total Expenses Before Depreciation, Amortization, Interest, and Financing Fees	3,736,587	10,983,429	4,116,942	16,860,608	4,110,471	3,261,696
Depreciation and Amortization	45,863	705,444	22,197	214,030	71,763	60,229
Interest and Financing Fees	12,219	2,055	1,801	3,394	984	591
Total Functional Expenses	<u>\$ 3,794,669</u>	<u>\$ 11,690,928</u>	<u>\$ 4,140,940</u>	<u>\$ 17,078,032</u>	<u>\$ 4,183,218</u>	<u>\$ 3,322,516</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, 2019**

	Program Services (Continued)				Supporting Services			Totals
	Residential Services	Youth Services	Program Services Management	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries	\$ 3,063,750	\$ 2,565,580	\$ 1,635	\$ 27,903,877	\$ 4,410,778	\$ 1,166,549	\$ 5,577,327	\$ 33,481,204
Employee Health and Retirement Benefits	540,887	492,901	2,548	5,362,280	774,275	222,266	996,541	6,358,821
Payroll Taxes	217,237	180,890	47	1,992,489	287,976	81,336	369,312	2,361,801
Total Salaries and Related Expenses	3,821,874	3,239,371	4,230	35,258,646	5,473,029	1,470,151	6,943,180	42,201,826
Professional Fees	197,393	42,426	-	2,449,020	1,393,234	126,627	1,519,861	3,968,881
Supplies	380,921	93,875	-	1,983,146	225,372	13,839	239,211	2,222,357
Telephone	52,387	81,465	89	761,644	107,417	2,783	110,200	871,844
Postage and Shipping	1,295	4,103	-	55,819	16,194	9,979	26,173	81,992
Occupancy	337,907	217,760	1,115	3,146,184	744,682	10,390	755,072	3,901,256
Outside Printing	4,919	2,249	1,197	42,929	12,604	29,404	42,008	84,937
Local Transportation	72,686	257,545	2,531	1,838,705	75,747	13,267	89,014	1,927,719
Conferences and Meetings	35,266	69,879	-	461,763	58,741	4,804	63,545	525,308
Subscriptions and Reference	-	85	-	10,885	9,981	1,810	11,791	22,676
Specific Assistance	95,113	149,541	11	5,917,343	3,706	1,405	5,111	5,922,454
Membership Dues	2,515	2,960	-	28,344	58,021	6,821	64,842	93,186
Repairs, Maintenance, and Rental	96,246	11,467	-	188,576	19,243	57	19,300	207,876
Miscellaneous	42,056	35,392	3,348	287,946	184,990	395,910	580,900	868,846
Total Expenses Before Depreciation, Amortization, Interest, and Financing Fees	5,140,578	4,208,118	12,521	52,430,950	8,382,961	2,087,247	10,470,208	62,901,158
Depreciation and Amortization	185,343	76,222	9,944	1,391,035	49,640	1,540	51,180	1,442,215
Interest and Financing Fees	615	1,115	-	22,774	212,148	9	212,157	234,931
Total Functional Expenses	<u>\$ 5,326,536</u>	<u>\$ 4,285,455</u>	<u>\$ 22,465</u>	<u>\$ 53,844,759</u>	<u>\$ 8,644,749</u>	<u>\$ 2,088,796</u>	<u>\$ 10,733,545</u>	<u>\$ 64,578,304</u>

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>

See accompanying Notes to Consolidated Financial Statements.

**CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**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. 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.

**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.

The liability for excess revenues is based on management's assessment of the estimated amounts due to funding sources for program revenues in excess of program expenses. If actual excess revenues are higher than the historical experience, management's estimates of the amounts due from the Agency could be adversely affected. A liability of \$1,207,281 and \$150,000 as of June 30, 2019 and 2018, respectively, has been included with deferred revenue on the consolidated statements of financial position. The funding source has indicated that this liability may be mitigated through any one of several approaches including, but not limited to, expansion of allowable costs.

**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)**

**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 two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. In addition, the Agency is required to present a consolidated statement of cash flows.

Net asset classes are defined as follows:

*Net Assets Without Donor Restrictions* – Those resources over which the board of directors (board) has discretionary control.

*Net Assets With Donor Restrictions* – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

**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 until May 2018 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 of the campaign officially began at the Champions for Children Luncheon in May 2018 with the campaign concluding in December 2018. All of its remaining assets and donor restricted net assets were transferred from the Foundation to the Society during the last quarter of fiscal 2019.

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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 with or without donor restrictions based on donor direction.

Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions 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 net assets with donor restrictions. When a restriction expires, the related net assets are reclassified to net assets without donor restrictions. Investment income and realized and unrealized gains and losses resulting from contributions are reported as changes in net assets with or without donor restrictions, 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. The consolidated financial statements report certain categories of expenses that are attributable to more than one program or supporting function (common expenses). These common expenses require allocation to program and support units on a reasonable basis that is consistently applied. They include occupancy costs and some maintenance, supplies, and telephone costs which are allocated based on either square footage of area occupied or on personnel at the location assigned to work in specific programs.

**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.



**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)**

**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 net assets with or without donor restriction 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.

**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, 2019 and 2018, based on management's assessment of the specific promises to give and the aging thereof.

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

**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 \$5,000. 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

**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.

**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 represents a perpetual donor restriction. 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 net assets with donor restrictions 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, 2019 and 2018, there were no liabilities for uncertain tax positions.

**CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE  
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JUNE 30, 2019 AND 2018**

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

**Liquidity**

The Agency's financial assets available for general expenditures within one year of the June 30, 2019 statement of financial position date are as follows:

	2019
Cash and Cash Equivalents	\$ 2,218,913
Accounts and Pledges Receivable Due in One Year	8,159,770
Restricted Assets Expected to be Released	(3,176,002)
Total Financial Assets Available to Meet	
Cash Needs for General Expenditures	
Within One Year	\$ 7,202,681

To help manage seasonal liquidity needs, the Agency maintains a credit facility in the amount of \$5 million.

Additionally, the Foundation maintains a board-designated endowment fund of approximately \$21 million. Although the Foundation does not intend to spend from its endowment fund other than amounts appropriated to support programs and general operations of the Society, amounts from the board-designated endowment fund could be made available if necessary.

**Reclassification**

Prior year amounts have been reclassified, where appropriate, to conform to the current year method of presentation. These changes had no impact to the change in net assets.

**Adoption of New Accounting Standard**

In 2019, the Agency adopted Accounting standards Update (ASU) No. 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes to the financial statements about a nonprofit entity's liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosures for board-designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classifications.

**CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE  
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**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>
2020	\$ 256,299
2021	175,000
2022	150,000
Total Pledges Receivable	<u>581,299</u>
Less: Discount to Net Present Value	<u>(77,056)</u>
Total	<u><u>\$ 504,243</u></u>

The discount rate used for both of the years ended June 30, 2019 and 2018 was 4%.

**NOTE 3 INVESTMENTS**

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

	<u>2019</u>	<u>2018</u>
Fixed Income Mutual Funds	\$ 5,445,401	\$ 5,121,453
Common Stock and Mutual Funds	16,696,411	15,994,339
Nonpublic Pooled Investments	4,382,802	4,187,182
Cash Equivalents and Money Market Funds	9,592	15,201
Beneficial Interest in Trusts	5,093,496	5,067,849
Other Investment	-	1,164,254
Total	<u><u>\$ 31,627,702</u></u>	<u><u>\$ 31,550,278</u></u>

**CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 3 INVESTMENTS (CONTINUED)**

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, 2019 and 2018. The market value for this fund was estimated at \$255,648 and \$309,059 at June 30, 2019 and 2018, respectively. The Agency has invested \$1,000,000 in the SEG Partners Offshore, Ltd. Fund as of June 30, 2019 and 2018. The market value of this fund was estimated at \$1,407,460 and \$1,146,901 at June 30, 2019 and 2018, respectively. The Agency invested \$1,000,000 in the MW Eureka Fund as of June 30, 2019 and 2018. The market value of this fund was estimated at \$1,225,658 and \$1,207,825 at June 30, 2019 and 2018, respectively. The market value for the Cyrus Opportunities Fund II Ltd. fund was estimated at \$1,494,036 and \$1,523,397 as of June 30, 2019 and 2018, 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.

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, 2019, 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, 2019. 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, 2018 was donated stock representing an approximate 1% stake in a closely held bank. 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 liquidated the stock, the proceeds of which were \$934,454 and were 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.

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

The composition of investment return on the Agency's investment portfolio for the years ended June 30, 2019 and 2018, is as follows:

	<u>2019</u>	<u>2018</u>
Interest and Dividend Income, Net of Fees	\$ 492,997	\$ 452,719
Net Realized Gains on Sales	213,824	22,389
Net Unrealized Gains	406,789	2,455,051
Total	<u>\$ 1,113,610</u>	<u>\$ 2,930,159</u>

Investment fees incurred were \$44,298 and \$55,717 for the years ended June 30, 2019 and 2018, 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

*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.

**CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE**  
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**NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)**

The fair values of assets and liabilities measured on a recurring basis at June 30, 2019, are as follows:

	2019			
	Total	Level 1	Level 2	Level 3
Equities:				
U.S. Mutual Funds	\$ 8,455,913	\$ 8,455,913	\$ -	\$ -
International Mutual Funds	8,240,498	8,240,498	-	-
Common Stock	-	-	-	-
Fixed Income:				
Mutual Funds	5,445,401	5,445,401	-	-
Beneficial Interest in Trusts	5,093,496	-	-	5,093,496
Total Assets at Fair Value	<u>27,235,308</u>	<u>22,141,812</u>	<u>\$ -</u>	<u>\$ 5,093,496</u>
Cash and Cash Equivalents	9,592			
Nonpublic Pooled Investments	<u>4,382,802</u>			
Total Assets	<u>\$ 31,627,702</u>			

The fair value 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	<u>4,187,182</u>			
Total Assets	<u>\$ 31,550,278</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. Other investment as of June 30, 2018, consisted of donated stock (see Note 3).

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 \$272,706 and \$559,254 relating to these investments for the years ended June 30, 2019 and 2018, respectively.

**CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)**

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 years ended June 30, 2019 and 2018:

Investments:	
Balance - June 30, 2017	\$ 5,509,899
Change in Beneficial Interest in Trusts	162,950
Conversion of Investment to Publically Traded Stock (Level 1)	(605,000)
Balance - June 30, 2018	<u>5,067,849</u>
Change in Beneficial Interest in Trusts	25,647
Balance - June 30, 2019	<u><u>\$ 5,093,496</u></u>

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

A summary of land, buildings, equipment, and leasehold improvements as of June 30, 2019 and 2018 follows:

	2019	2018
Land	\$ 2,126,786	\$ 2,126,786
Buildings and Improvements	33,324,096	33,271,800
Office Furniture and Equipment	6,085,111	6,005,891
Automobiles	230,973	194,985
Leasehold Improvements	770,002	750,876
Construction in Progress	-	85,655
Total at Cost	<u>42,536,968</u>	<u>42,435,993</u>
Less: Allowance for Depreciation and Amortization	<u>19,926,924</u>	<u>18,484,705</u>
Total Land, Buildings, Equipment, and Leasehold Improvements	<u><u>\$ 22,610,044</u></u>	<u><u>\$ 23,951,288</u></u>

**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 \$498,602 and \$484,869 in 2019 and 2018, respectively.



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

**Deferred Compensation Plan**

The Agency maintains a nonqualified deferred compensation plan for certain of its executives. The Agency recognized plan expense of \$135,000 and \$75,000 for the years ended June 30, 2019 and 2018, respectively. In addition, the Agency allocates appreciation or depreciation to the plan based on the investment performance of the Foundation assets. This amounted to \$30,685 and \$32,134 of appreciation for the years ended June 30, 2019 and 2018, 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 \$303,000 and \$501,000 as of June 30, 2019 and 2018, 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 \$711,000 and \$709,000 as of June 30, 2019 and 2018, 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 \$32,118,488 in 2019 and \$32,736,066 in 2018 of revenue received from the Illinois Department of Children and Family Services (DCFS). In addition, the Society received revenue of \$8,443,596 in 2019 and \$7,386,284 in 2018 from the Illinois Department of Human Services (DHS). The amount of revenue from these funding sources represents approximately 64% and 66% of the Agency's total operating revenue and support for the years ended June 30, 2019 and 2018, respectively.

As of June 30, 2019 and 2018, the Agency's gross accounts receivable includes amounts due from the DCFS and the DHS of \$5,372,662 and \$5,196,756, respectively. A summary of unrestricted governmental agency revenue received, by core service, is presented below:

	2019	2018
Counseling	\$ 2,278,020	\$ 2,240,144
Child Care	11,152,924	9,853,743
Child Care Resource and Referral	4,321,407	3,621,071
Foster Care	20,064,658	20,674,914
Intact Family Services	4,672,672	5,107,396
Parental Support	2,627,965	1,987,384
Residential Services	5,175,399	4,764,569
Youth Services	4,091,788	3,515,380
Other	360,000	-
Total	<u>\$ 54,744,833</u>	<u>\$ 51,764,601</u>

**CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 8 LONG-TERM DEBT**

Long-term debt consists of the following:

<u>Description</u>	<u>2019</u>	<u>2018</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.	\$ 752,041	\$ 867,411
Note payable to a bank with interest at 4.52%. The monthly principal and interest payments are \$15,639 with a final payment of \$4,953. The loan is secured by a mortgage of real property and assignment of rents recorded against the property and matures in December, 2025.	1,056,437	1,413,490
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 4.52% and 2.00% at June 30, 2019 and 2018, respectively.	1,625,000	1,875,000
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.	<u>329,570</u>	<u>468,235</u>
Total	<u>\$ 3,763,048</u>	<u>\$ 4,624,136</u>

Principal maturities of long-term debt are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 644,702
2021	663,216
2022	566,671
2023	543,571
2024	559,029
Thereafter	<u>785,859</u>
Total	<u>\$ 3,763,048</u>

**CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE  
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**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 \$237,749 and \$147,413 at June 30, 2019 and 2018, respectively.

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 101,557
2021	101,557
2022	<u>25,389</u>
Total Minimum Lease Payments	228,503
Less: Amount Representing Interest	<u>26,139</u>
Present Value of Minimum Lease Payments	<u><u>\$ 202,364</u></u>

**NOTE 10 CREDIT FACILITIES**

The Agency has a credit facility (\$5,000,000 as of June 30, 2019 and 2018) with a commercial bank which is currently scheduled to expire on December 31, 2019. Amounts drawn against the facility bear interest at the commercial bank's prime interest rate (5.50% and 5.00% at June 30, 2019 and 2018, respectively). At June 30, 2019 and 2018, the outstanding balances under this credit facility were \$-0- and \$91,547, respectively. The facility contains certain restrictive covenants related to financial performance and debt limitations which management believes have been met or waived. It is secured by cash and investments with a market value of approximately \$22,151,000 and \$21,131,000 at June 30, 2019 and 2018, respectively. The Agency pledged a portion of this credit facility as security on three letters of credit (see Note 13).

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**NOTE 11 NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions are available for the following purposes or periods as directed by the donors as of June 30:

	2019	2018
Subject to Expenditure for Specified Purpose:		
Residential Services	\$ 49,677	\$ 46,932
Counseling	901,261	654,086
Public Policy	842,820	714,000
Child Care	716,088	273,399
Parental Support	554,532	633,133
Youth Services	86,624	154,477
Intact Family Services	25,000	5,750
Other	-	89,088
Endowments:		
Subject to Appropriation and Expenditure when a Specified Event Occurs:		
Unappropriated Earnings on Permanently Restricted Endowment Funds for Various Programs	3,083,310	2,831,310
Subject to Endowment Spending Policy and Appropriation:		
Donor-Restricted Endowment Funds for Various Programs	2,725,777	2,756,364
Not Subject to Spending Policy or Appropriation:		
Beneficial Interest in Trusts	5,093,496	5,067,849
Other Donor Restricted	75,952	45,365
Total Net Assets With Donor Restrictions	\$ 14,154,537	\$ 13,271,753

Certain 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 unappropriated earnings are available to support future program services.

Donor restricted net assets to be held in perpetuity 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.

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**NOTE 12 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 (UPMIFA) 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. Donor-restricted endowment amounts not retained in perpetuity are subject to appropriation in a manner consistent with the standard of prudence prescribed by UPMIFA and in accordance with donor stipulations.

**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.

Endowment net asset composition by type of fund as of June 30, 2019, is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-Restricted Endowment Funds	\$ -	\$ 5,809,087	\$ 5,809,087
Board-Designated Endowment Funds	20,016,238	-	20,016,238
Total Funds	<u>\$ 20,016,238</u>	<u>\$ 5,809,087</u>	<u>\$ 25,825,325</u>

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**NOTE 12 ENDOWMENTS (CONTINUED)**

Changes in endowment net assets for the fiscal year ended June 30, 2019, are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Net Assets - Beginning of Year	\$ 20,234,175	\$ 5,587,674	\$ 25,821,849
Investment Return:			
Investment Income, Net of Fees	387,251	105,746	492,997
Realized and Unrealized Gains	217,308	403,305	620,613
Total Investment Return	604,559	509,051	1,113,610
Contributions to Endowment	-	-	-
Appropriation of Endowment Assets for Expenditures	(822,496)	(287,638)	(1,110,134)
Net Assets - End of Year	<u>\$ 20,016,238</u>	<u>\$ 5,809,087</u>	<u>\$ 25,825,325</u>

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

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-Restricted Endowment Funds	\$ -	\$ 5,587,674	\$ 5,587,674
Board-Designated Endowment Funds	20,234,175	-	20,234,175
Total Funds	<u>\$ 20,234,175</u>	<u>\$ 5,587,674</u>	<u>\$ 25,821,849</u>

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

	Without Donor Restrictions	With Donor Restrictions	Total
Net Assets - Beginning of Year	\$ 18,738,527	\$ 5,246,674	\$ 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	2,346,010	421,200	2,767,210
Contributions to Endowment	-	150,000	150,000
Appropriation of Endowment Assets for Expenditures	(850,362)	(230,200)	(1,080,562)
Net Assets - End of Year	<u>\$ 20,234,175</u>	<u>\$ 5,587,674</u>	<u>\$ 25,821,849</u>

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**NOTE 13 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 \$1,865,410 and \$1,716,485 in 2019 and 2018, respectively.

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 1,870,913
2021	1,841,808
2022	1,684,361
2023	1,399,797
2024	825,031
Thereafter	<u>2,167,913</u>
Total Future Minimum Lease Payments	<u><u>\$ 9,789,823</u></u>

**Letters of Credit**

One of the Agency's banks issued, on behalf of the Agency, three irrevocable standby letters of credit with outstanding amounts of \$80,350, \$25,000, and \$360,000. The first was in favor of 100 North Western Avenue, L.P. that automatically renewed on September 1 of each year through 2019 and pertained 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 expires on May 1, 2022. 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 \$465,350 as of June 30, 2019 and \$838,067 as of June 30, 2018. 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.

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**NOTE 13 COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**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 14 SUBSEQUENT EVENTS**

Management evaluated subsequent events through October 31, 2019, the date the consolidated financial statements were available to be issued. Events or transactions occurring after June 30, 2019, but prior to October 31, 2019, that provided additional evidence about conditions that existed at June 30, 2019, have been recognized in the consolidated financial statements for the year ended June 30, 2019. Events or transactions that provided evidence about conditions that did not exist at June 30, 2019, 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, 2019.



