

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

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019



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**CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2020 AND 2019**

INDEPENDENT AUDITORS' REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION	3
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS	4
CONSOLIDATED STATEMENTS OF CASH FLOWS	6
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES	7
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	11



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, 2020 and 2019, 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, 2020 and 2019, 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 \$4,234,189 and \$4,382,802 as of June 30, 2020 and 2019, 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
February 23, 2021

CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 AND 2019

ASSETS	2020	2019
Cash and Cash Equivalents	\$ 1,081,061	\$ 2,218,913
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$385,645 and \$232,797 in 2020 and 2019, Respectively	9,300,447	7,903,471
Pledges Receivable	454,243	504,243
Prepaid Expenses and Other Assets	591,927	591,470
Endowment Investments	27,191,002	26,534,206
Beneficial Interest in Trusts	5,015,418	5,093,496
Land, Buildings, Equipment, and Leasehold Improvements, Net of Accumulated Depreciation and Amortization	21,447,495	22,610,044
Total Assets	\$ 65,081,593	\$ 65,455,843
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 2,181,806	\$ 2,057,251
Accrued Salaries and Benefits	3,688,744	2,777,536
Deferred Compensation	-	540,746
Deferred Revenue	1,586,709	1,544,406
Capital Lease Obligation	119,231	202,364
Long-Term Debt	3,136,775	3,763,048
Total Liabilities	10,713,265	10,885,351
NET ASSETS		
Without Donor Restrictions	41,123,125	40,415,955
With Donor Restrictions	13,245,203	14,154,537
Total Net Assets	54,368,328	54,570,492
Total Liabilities and Net Assets	\$ 65,081,593	\$ 65,455,843

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, 2020**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT			
Contributions	\$ 2,957,397	\$ 1,913,290	\$ 4,870,687
Foundations and Trusts	1,196,789	-	1,196,789
Contributions from Associated Fundraising Organizations	750,525	-	750,525
Fees and Grants from Governmental Agencies for Services Rendered to Clients	57,556,566	-	57,556,566
Program Service Fees	1,722,856	-	1,722,856
Investment Income	373,939	94,083	468,022
Net Assets Released from Time and Purpose Restrictions and Other Reclassifications	2,792,876	(2,792,876)	-
Miscellaneous	84,303	-	84,303
Total Revenues and Other Support	<u>67,435,251</u>	<u>(785,503)</u>	<u>66,649,748</u>
EXPENSES			
Total Program Services	55,998,054	-	55,998,054
Supporting Services:			
Management and General	9,010,799	-	9,010,799
Fundraising	1,962,531	-	1,962,531
Total Expenses	<u>66,971,384</u>	<u>-</u>	<u>66,971,384</u>
INCOME (LOSS) FROM OPERATIONS	463,867	(785,503)	(321,636)
NONOPERATING GAINS (LOSSES)			
Net Realized and Unrealized Gains (Losses) on Investments	<u>243,303</u>	<u>(123,831)</u>	<u>119,472</u>
CHANGE IN NET ASSETS	707,170	(909,334)	(202,164)
Net Assets - Beginning of Year	<u>40,415,955</u>	<u>14,154,537</u>	<u>54,570,492</u>
NET ASSETS - END OF YEAR	<u>\$ 41,123,125</u>	<u>\$ 13,245,203</u>	<u>\$ 54,368,328</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, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND OTHER SUPPORT			
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>
EXPENSES			
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>
INCOME (LOSS) FROM OPERATIONS	(1,603,983)	479,479	(1,124,504)
NONOPERATING GAINS			
Net Realized and Unrealized Gains on Investments	<u>217,308</u>	<u>403,305</u>	<u>620,613</u>
CHANGE IN NET ASSETS	(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>
NET ASSETS - END OF YEAR	<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 STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2020 AND 2019**

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (202,164)	\$ (503,891)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	1,398,832	1,442,215
Deferred Compensation	(540,746)	(30,685)
Recovery for Bad Debts	-	(464)
Net Realized and Unrealized (Gains) Losses on Net Assets with Donor Restrictions	123,831	(403,305)
Net Realized and Unrealized Gains on Assets Whose Use is Limited or Restricted, Excluding Investments of Net Assets with Donor Restrictions	(243,303)	(217,308)
Effects of Changes in Operating Assets and Liabilities:		
Accounts Receivable	(1,396,976)	821,330
Pledges Receivable	50,000	393,628
Prepaid Expenses and Other Assets	(457)	(36,632)
Accounts Payable and Accrued Expenses	124,555	(1,136,246)
Accrued Salaries and Benefits	911,208	25,473
Other Liabilities	42,303	979,806
Net Cash Provided by Operating Activities	267,083	1,333,921
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of Land, Buildings, Equipment, and Leasehold Improvements	(236,283)	(100,971)
Purchases of Trustee-Held, Board-Designated, and Donor-Restricted Cash and Investments	(904,434)	(2,144,130)
Sales and Maturities of Trustee-Held, Board-Designated, and Donor-Restricted Cash and Investments	445,188	2,687,319
Net Cash Provided (Used) by Investing Activities	(695,529)	442,218
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of Long-Term Debt	(626,273)	(861,088)
Net Payments on Line of Credit	-	(91,547)
Payments on Capital Lease Obligation	(83,133)	(83,677)
Net Cash Used by Financing Activities	(709,406)	(1,036,312)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,137,852)	739,827
Cash and Cash Equivalents - Beginning of Year	2,218,913	1,479,086
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,081,061	\$ 2,218,913
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid for Interest	\$ 178,555	\$ 234,931

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, 2020**

	Program Services					
	Counseling	Child Care	Child Care Resource and Referral	Foster Care	Intact Family Services	Parental Support
Salaries	\$ 2,905,356	\$ 6,973,721	\$ 2,653,861	\$ 6,645,040	\$ 2,466,683	\$ 1,818,067
Employee Health and Retirement Benefits	547,580	1,340,958	501,962	1,248,958	472,004	343,138
Payroll Taxes	206,252	497,868	187,791	477,889	178,848	129,289
Total Salaries and Related Expenses	3,659,188	8,812,547	3,343,614	8,371,887	3,117,535	2,290,494
Professional Fees	196,045	501,307	563,589	659,891	150,686	291,965
Supplies	92,222	799,713	299,881	258,491	59,885	140,190
Telephone	70,725	130,200	55,881	193,353	70,002	53,524
Postage and Shipping	2,529	1,667	14,943	10,658	2,337	1,814
Occupancy	315,910	685,710	216,618	814,617	242,155	167,581
Outside Printing	1,393	4,074	39,704	2,579	1,397	2,004
Local Transportation	122,056	62,685	59,358	502,899	223,888	68,480
Conferences and Meetings	15,412	49,377	33,947	42,954	25,517	26,607
Subscriptions and Reference	-	6,890	4,153	-	574	2,026
Specific Assistance Including COVID-19 Assistance Expenditures	67,729	54,002	47,735	4,970,793	140,045	46,888
Membership Dues	567	828	271	863	298	14,966
Repairs, Maintenance, and Rental	9,542	47,809	7,340	31,448	10,527	7,861
Miscellaneous	50,752	130,937	56,574	130,620	40,795	42,618
Total Expenses Before Depreciation, Amortization, Interest, and Financing Fees	4,604,070	11,287,746	4,743,608	15,991,053	4,085,641	3,157,018
Depreciation and Amortization	46,352	704,607	25,219	169,694	61,170	69,992
Interest and Financing Fees	1,901	2,037	1,474	3,528	940	714
Total Functional Expenses	<u>\$ 4,652,323</u>	<u>\$ 11,994,390</u>	<u>\$ 4,770,301</u>	<u>\$ 16,164,275</u>	<u>\$ 4,147,751</u>	<u>\$ 3,227,724</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, 2020**

	Program Services (Continued)				Supporting Services			Totals
	Residential Services	Youth Services	Program Services Management	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries	\$ 3,217,090	\$ 2,835,467	\$ 213,082	\$ 29,728,367	\$ 4,566,336	\$ 1,154,501	\$ 5,720,837	\$ 35,449,204
Employee Health and Retirement Benefits	553,026	537,163	38,807	5,583,596	967,611	220,711	1,188,322	6,771,918
Payroll Taxes	230,509	199,421	14,831	2,122,698	317,250	80,692	397,942	2,520,640
Total Salaries and Related Expenses	4,000,625	3,572,051	266,720	37,434,661	5,851,197	1,455,904	7,307,101	44,741,762
Professional Fees	446,484	66,793	39	2,876,799	1,302,991	178,182	1,481,173	4,357,972
Supplies	482,068	124,732	1,405	2,258,587	270,226	21,601	291,827	2,550,414
Telephone	47,280	88,947	1,960	711,872	90,774	4,124	94,898	806,770
Postage and Shipping	1,073	2,834	26	37,881	19,768	6,012	25,780	63,661
Occupancy	284,322	275,932	6,329	3,009,174	861,322	5,241	866,563	3,875,737
Outside Printing	1,559	3,539	82	56,331	21,544	39,087	60,631	116,962
Local Transportation	59,050	168,873	9	1,267,298	56,098	7,154	63,252	1,330,550
Conferences and Meetings	16,151	46,808	76	256,849	43,717	9,336	53,053	309,902
Subscriptions and Reference	-	750	-	14,393	72,619	2,171	74,790	89,183
Specific Assistance Including COVID-19 Assistance Expenditures	108,550	134,224	232,866	5,802,832	118	880	998	5,803,830
Membership Dues	75	2,944	-	20,812	38,540	534	39,074	59,886
Repairs, Maintenance, and Rental	124,050	11,493	188	250,258	11,189	63	11,252	261,510
Miscellaneous	104,314	64,351	3,389	624,350	171,118	230,390	401,508	1,025,858
Total Expenses Before Depreciation, Amortization, Interest, and Financing Fees	5,675,601	4,564,271	513,089	54,622,097	8,811,221	1,960,679	10,771,900	65,393,997
Depreciation and Amortization	180,781	79,704	26,047	1,363,566	33,425	1,841	35,266	1,398,832
Interest and Financing Fees	615	1,182	-	12,391	166,153	11	166,164	178,555
Total Functional Expenses	<u>\$ 5,856,997</u>	<u>\$ 4,645,157</u>	<u>\$ 539,136</u>	<u>\$ 55,998,054</u>	<u>\$ 9,010,799</u>	<u>\$ 1,962,531</u>	<u>\$ 10,973,330</u>	<u>\$ 66,971,384</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
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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.

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 as of June 30, 2020 and 2019 has been included with deferred revenue on the consolidated statements of financial position. During 2020, the funding source indicated its intent to mitigate the excess revenue by allowing certain unallowed expenses and program deficits in other programs funded by this source. The Agency will reduce the liability recorded once resolution with the funding source is known.

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.

CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Consolidated Financial Statement Presentation (Continued)

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.

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.

Contributions received with donor conditions are deferred until such conditions are met. Included in deferred revenue on the consolidated statements of financial position at June 30, 2020 and 2019, conditional contributions received in advance total \$379,428 and \$337,125, respectively.

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.

CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 net assets with or without donor restriction based upon donor-imposed restrictions.

Board-designated assets at June 30, 2019 included investments set aside by the board for a deferred compensation plan, see Note 6.

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, 2020 and 2019, 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
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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, 2020 and 2019, there were no liabilities for uncertain tax positions.

CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Liquidity

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

	<u>2020</u>	<u>2019</u>
Cash and Cash Equivalents	\$ 1,081,061	\$ 2,218,913
Accounts and Pledges Receivable Due in One Year	9,604,690	8,159,770
Restricted Assets Expected to be Released	<u>(2,530,215)</u>	<u>(3,176,002)</u>
Total Financial Assets Available to Meet		
Cash Needs for General Expenditures		
Within One Year	<u>\$ 8,155,536</u>	<u>\$ 7,202,681</u>

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 \$22 million and \$21 million at June 30, 2020 and 2019, respectively. 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.

Adoption of New Accounting Standard

In June 2018, Financial Accounting Standards Board (FASB) issued Accounting Standards (ASU) 2018-08, *Accounting Guidance for Contributions Received and Made*. This ASU was issued to clarify accounting guidance for contributions received and contributions made. The amendments to this ASU assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as an exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The adoption of this standard had no impact on the Agency's consolidated financial statements.

Pending Accounting Standards

Revenue Recognition

In May 2014, the FASB issued amended guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The guidance will initially be applied retrospectively using one of two methods. The standard was originally effective for the Agency for the fiscal year end June 30, 2020, however, given the impact of the COVID-19 pandemic, the FASB issued ASU 2020-05 allowing for delay in implementing the standard until the fiscal year ending June 30, 2021.

**CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pending Accounting Standards (Continued)

Leases

In February 2016, FASB issued amended guidance for the treatment of leases. The guidance requires lessees to recognize a right-of-use asset and a corresponding lease liability for all operating and finance leases with lease terms greater than one year. The guidance changes the accounting for sale and leaseback transactions to conform to the new revenue recognition standard. The guidance also requires both qualitative and quantitative disclosures regarding the nature of the Agency's leasing activities. The guidance will initially be applied using a modified retrospective approach. The amendments in the guidance are effective for the Agency for the fiscal year ending June 30, 2023.

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>
2021	\$ 381,299
2022	150,000
Total Pledges Receivable	<u>531,299</u>
Less: Discount to Net Present Value	<u>(77,056)</u>
Total	<u>\$ 454,243</u>

The discount rate used for the years ended June 30, 2020 and 2019 was 3% and 4%, respectively.

NOTE 3 INVESTMENTS

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

	<u>2020</u>	<u>2019</u>
Fixed Income Mutual Funds	\$ 5,676,414	\$ 5,445,401
Common Stock and Mutual Funds	17,013,134	16,696,411
Nonpublic Pooled Investments	4,234,189	4,382,802
Cash Equivalents and Money Market Funds	267,265	9,592
Beneficial Interest in Trusts	5,015,418	5,093,496
Total	<u>\$ 32,206,420</u>	<u>\$ 31,627,702</u>

**CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

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, 2020 and 2019. The market value for this fund was estimated at \$200,315 and \$255,648 at June 30, 2020 and 2019, respectively. The Agency has invested \$1,000,000 in the SEG Partners Offshore, Ltd. Fund as of June 30, 2020 and 2019. The market value of this fund was estimated at \$1,464,303 and \$1,407,460 at June 30, 2020 and 2019, respectively. The Agency invested \$1,000,000 in the MW Eureka Fund as of June 30, 2020 and 2019. The market value of this fund was estimated at \$1,279,573 and \$1,225,658 at June 30, 2020 and 2019, respectively. The market value for the Cyrus Opportunities Fund II Ltd. fund was estimated at \$1,289,998 and \$1,494,036 as of June 30, 2020 and 2019, 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 personally guaranteed recovery of the Agency's initial investment in the fund and all fees to the fund have been waived. The guarantee on the fund was in effect through December 2020 at an amount of \$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, 2020, 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, 2020. 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 composition of investment return on the Agency's investment portfolio for the years ended June 30, 2020 and 2019, is as follows:

	2020	2019
Interest and Dividend Income, Net of Fees	\$ 468,022	\$ 492,997
Net Realized Gains on Sales	200,606	213,824
Net Unrealized Gains (Losses)	(81,134)	406,789
Total	<u>\$ 587,494</u>	<u>\$ 1,113,610</u>

Investment fees incurred were \$57,134 and \$44,298 for the years ended June 30, 2020 and 2019, respectively.

CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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.

The fair values of assets and liabilities measured on a recurring basis at June 30, 2020, are as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Equities:				
U.S. Mutual Funds	\$ 8,548,901	\$ 8,548,901	\$ -	\$ -
International Mutual Funds	8,464,233	8,464,233	-	-
Fixed Income:				
Mutual Funds	5,676,414	5,676,414	-	-
Beneficial Interest in Trusts	5,015,418	-	-	5,015,418
Total Assets at Fair Value	<u>27,704,966</u>	<u>22,689,548</u>	<u>\$ -</u>	<u>\$ 5,015,418</u>
Cash and Cash Equivalents	267,265			
Nonpublic Pooled Investments	4,234,189			
Total Assets	<u>\$ 32,206,420</u>			

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

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Equities:				
U.S. Mutual Funds	\$ 8,455,913	\$ 8,455,913	\$ -	\$ -
International Mutual Funds	8,240,498	8,240,498	-	-
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	4,382,802			
Total Assets	<u>\$ 31,627,702</u>			

CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)

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.

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 (losses) of \$(101,525) and \$272,706 relating to these investments for the years ended June 30, 2020 and 2019, 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 years ended June 30, 2020 and 2019:

Investments:	
Balance - June 30, 2018	\$ 5,067,849
Change in Beneficial Interest in Trusts	<u>25,647</u>
Balance - June 30, 2019	5,093,496
Change in Beneficial Interest in Trusts	<u>(78,078)</u>
Balance - June 30, 2020	<u><u>\$ 5,015,418</u></u>

NOTE 5 LAND, BUILDINGS, EQUIPMENT, AND LEASEHOLD IMPROVEMENTS

A summary of land, buildings, equipment, and leasehold improvements as of June 30, 2020 and 2019 follows:

	<u>2020</u>	<u>2019</u>
Land	\$ 2,126,786	\$ 2,126,786
Buildings and Improvements	33,442,490	33,324,096
Office Furniture and Equipment	6,097,073	6,085,111
Automobiles	132,451	230,973
Leasehold Improvements	849,766	770,002
Construction in Progress	<u>26,164</u>	<u>-</u>
Total at Cost	<u>42,674,730</u>	<u>42,536,968</u>
Less: Allowance for Depreciation and Amortization	<u>21,227,235</u>	<u>19,926,924</u>
Total Land, Buildings, Equipment, and Leasehold Improvements	<u><u>\$ 21,447,495</u></u>	<u><u>\$ 22,610,044</u></u>

CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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 \$603,342 and \$498,602 in 2020 and 2019, respectively.

Deferred Compensation Plan

The Agency maintained a nonqualified deferred compensation plan for a certain executive who has since retired. The Agency recognized plan expense of \$-0- and \$135,000 for the years ended June 30, 2020 and 2019, respectively. In addition, the Agency allocated appreciation or depreciation to the plan based on the investment performance of the Foundation assets. This amounted to \$-0- and \$30,685 of appreciation for the years ended June 30, 2020 and 2019, 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 \$4.4 million and \$3.5 million subject to an annually specified maximum amount estimated at \$5.5 million and \$4.9 million, as of June 30, 2020 and 2019, respectively. The Agency has recorded a liability of approximately \$393,000 and \$303,000 as of June 30, 2020 and 2019, 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 approximately \$713,000 and \$711,000 as of June 30, 2020 and 2019, 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 \$33,654,128 in 2020 and \$32,118,488 in 2019 of revenue received from the Illinois Department of Children and Family Services (DCFS). In addition, the Society received revenue of \$8,863,229 in 2020 and \$8,443,596 in 2019 from the Illinois Department of Human Services (DHS). The amount of revenue from these funding sources represents approximately 67% and 64% of the Agency's total operating revenue and support for the years ended June 30, 2020 and 2019, respectively.

**CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 7 FEES AND GRANTS FROM GOVERNMENTAL AGENCIES (CONTINUED)

As of June 30, 2020 and 2019, the Agency's gross accounts receivable includes amounts due from the DCFS and the DHS of \$6,889,946 and \$5,372,662, respectively. A summary of unrestricted governmental agency revenue received, by core service, is presented below:

	<u>2020</u>	<u>2019</u>
Counseling	\$ 2,513,091	\$ 2,278,020
Child Care	11,543,919	11,152,924
Child Care Resource and Referral	5,140,081	4,321,407
Foster Care	20,253,045	20,064,658
Intact Family Services	5,603,483	4,672,672
Parental Support	2,557,107	2,627,965
Residential Services	5,375,632	5,175,399
Youth Services	4,515,669	4,091,788
Other	54,539	360,000
Total	<u>\$ 57,556,566</u>	<u>\$ 54,744,833</u>

NOTE 8 LONG-TERM DEBT

Long-term debt consists of the following:

<u>Description</u>	<u>2020</u>	<u>2019</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.	\$ 661,169	\$ 752,041
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.	914,430	1,056,437
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 2.67% and 4.52% at June 30, 2020 and 2019, respectively.	1,375,000	1,625,000

**CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 8 LONG-TERM DEBT (CONTINUED)

<u>Description (Continued)</u>	<u>2020</u>	<u>2019</u>
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>\$ 186,176</u>	<u>\$ 329,570</u>
Total	<u><u>\$ 3,136,775</u></u>	<u><u>\$ 3,763,048</u></u>

Principal maturities of long-term debt are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 662,686
2022	565,662
2023	541,993
2024	556,850
2025	572,550
Thereafter	237,034
Total	<u><u>\$ 3,136,775</u></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 \$323,112 and \$237,749 at June 30, 2020 and 2019, respectively.

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 101,557
2022	25,389
Total Minimum Lease Payments	126,946
Less: Amount Representing Interest	7,715
Present Value of Minimum Lease Payments	<u><u>\$ 119,231</u></u>

CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 10 CREDIT FACILITIES

The Agency has a credit facility (\$5,000,000 as of June 30, 2020 and 2019) with a commercial bank which is currently scheduled to expire on December 31, 2021. Amounts drawn against the facility bear interest at the commercial bank's prime interest rate (3.25% and 5.50% at June 30, 2020 and 2019, respectively). At June 30, 2020 and 2019, the outstanding balances under this credit facility were \$-0-. 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 \$22,957,000 and \$22,151,000 at June 30, 2020 and 2019, respectively. The Agency pledged a portion of this credit facility as security on a letter of credit (see Note 13).

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:

	2020	2019
Subject to Expenditure for Specified Purpose:		
Residential Services	\$ 57,972	\$ 49,677
Counseling	514,781	901,261
Public Policy	582,552	842,820
Child Care	615,423	716,088
Parental Support	344,516	554,532
Youth Services	87,093	86,624
Intact Family Services	57,500	25,000
COVID-19 Remediation	270,309	-
Endowments:		
Subject to Appropriation and Expenditure when a Specified Event Occurs:		
Unappropriated Earnings on Permanently Restricted Endowment Funds for Various Programs	2,897,910	3,083,310
Subject to Endowment Spending Policy and Appropriation:		
Donor-Restricted Endowment Funds for Various Programs	2,725,777	2,725,777
Not Subject to Spending Policy or Appropriation:		
Beneficial Interest in Trusts	5,015,418	5,093,496
Other Donor Restricted	75,952	75,952
Total Net Assets With Donor Restrictions	\$ 13,245,203	\$ 14,154,537

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.

**CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

NOTE 11 NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

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.

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, 2020, is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-Restricted Endowment Funds	\$ -	\$ 5,623,687	\$ 5,623,687
Board-Designated Endowment Funds	21,567,315	-	21,567,315
Total Funds	<u>\$ 21,567,315</u>	<u>\$ 5,623,687</u>	<u>\$ 27,191,002</u>

CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 12 ENDOWMENTS (CONTINUED)

Changes in endowment net assets for the fiscal year ended June 30, 2020, are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Net Assets - Beginning of Year	\$ 20,016,238	\$ 5,809,087	\$ 25,825,325
Investment Return:			
Investment Income, Net of Fees	373,939	94,083	468,022
Realized and Unrealized Gains (Losses)	<u>243,303</u>	<u>(45,753)</u>	<u>197,550</u>
Total Investment Return	617,242	48,330	665,572
Endowment Contributions and Other			
Changes to Board-Designated Amounts	1,787,935	70	1,788,005
Appropriation of Endowment			
Assets for Expenditures	<u>(854,100)</u>	<u>(233,800)</u>	<u>(1,087,900)</u>
Net Assets - End of Year	<u>\$ 21,567,315</u>	<u>\$ 5,623,687</u>	<u>\$ 27,191,002</u>

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	<u>20,016,238</u>	<u>-</u>	<u>20,016,238</u>
Total Funds	<u>\$ 20,016,238</u>	<u>\$ 5,809,087</u>	<u>\$ 25,825,325</u>

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
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	<u>217,308</u>	<u>403,305</u>	<u>620,613</u>
Total Investment Return	604,559	509,051	1,113,610
Contributions to Endowment	-	-	-
Appropriation of Endowment			
Assets for Expenditures	<u>(822,496)</u>	<u>(287,638)</u>	<u>(1,110,134)</u>
Net Assets - End of Year	<u>\$ 20,016,238</u>	<u>\$ 5,809,087</u>	<u>\$ 25,825,325</u>

**CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019**

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 \$2,456,067 and \$1,865,410 in 2020 and 2019, respectively.

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 1,855,480
2022	1,696,235
2023	1,409,831
2024	830,048
2025	611,511
Thereafter	3,039,670
Total Future Minimum Lease Payments	<u><u>\$ 9,442,775</u></u>

Letters of Credit

One of the Agency's banks issued, on behalf of the Agency, two irrevocable standby letters of credit with total outstanding amounts of \$350,350. The first is in favor of Volant Investments 7th Street LLC and pertains to 424 7th Street, Rockford, Illinois, that automatically renews each October through 2022. The second is in favor of 100 North Western Avenue, L.P. that automatically renews each September through 2020, at which time it will expire. These letters of credit acts 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. These 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.

CHILDREN'S HOME AND AID SOCIETY OF ILLINOIS AND AFFILIATE
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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.

Other

In addition, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to the Agency, COVID-19 may impact various parts of its operations and financial results, including potential negative effects on the Agency's workforce and investments. Management believes the Agency is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events are still developing.

NOTE 14 SUBSEQUENT EVENTS

Management evaluated subsequent events through February 23, 2021, the date the consolidated financial statements were available to be issued. Events or transactions occurring after June 30, 2020, but prior to February 23, 2021, that provided additional evidence about conditions that existed at June 30, 2020, have been recognized in the consolidated financial statements for the year ended June 30, 2020. Events or transactions that provided evidence about conditions that did not exist at June 30, 2020, 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, 2020.

