

**CHILDREN'S HOME SOCIETY  
OF WASHINGTON**

Consolidated Financial Statements

For the Year Ended June 30, 2015

## Table of Contents

---

	Page
<b>Independent Auditor's Report</b>	1 - 2
<b>Financial Statements:</b>	
Consolidated Statement of Financial Position	3
Consolidated Statement of Unrestricted Operating Activities	4
Consolidated Statement of Changes in Net Assets	5
Consolidated Statement of Functional Expenses	6
Consolidated Statement of Cash Flows	7
Notes to Consolidated Financial Statements	8 - 21
<b>Supplementary Information:</b>	
Children's Home Society of Washington - Schedule of Activities and Changes in Net Assets	22
Children's Home Society Trust Foundation - Schedule of Activities and Changes in Net Assets	23
Consolidated Statement of Unrestricted Activities	24

## **Independent Auditor's Report**

### **Board of Directors**

**Children's Home Society of Washington  
Children's Home Society Trust Foundation  
Seattle, Washington**

We have audited the accompanying consolidated financial statements of Children's Home Society of Washington and Children's Home Society & Trust Foundation (collectively, the Society) as of June 30, 2015, which comprise the consolidated statement of financial position as of June 30, 2015, and the related consolidated statements of unrestricted operating activities, changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



T: 425-454-4919  
T: 800-504-8747  
F: 425-454-4620

10900 NE 4th St  
Suite 1700  
Bellevue WA  
98004

[clarknuber.com](http://clarknuber.com)

## **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Society as of June 30, 2015, and the changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Report on Summarized Comparative Information**

We have previously audited the Society's 2014 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 25, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

## **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The CHSW, CHSTF, and eliminating entries columns on pages 3 to 5 and the accompanying supplementary information shown on pages 22 to 24 are presented for purposes of additional analysis, and are not a required part of the consolidated financial statements. Such information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

## **OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2015, on our consideration of the Society's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Society's internal control over financial reporting and compliance.

*Clark Nuber P S*

Certified Public Accountants  
December 10, 2015

CHILDREN'S HOME SOCIETY OF WASHINGTON

Consolidated Statement of Financial Position

June 30, 2015

(With Comparative Totals for 2014)

	CHSW	CHSTF	Consolidated 2015 Total	Consolidated 2014 Total
<b>Current Assets:</b>				
Cash and equivalents	\$ 737,601	\$ 62,490	\$ 800,091	\$ 1,207,418
Accounts receivable, net (Note 3)	2,086,541	7,774	2,094,315	2,393,741
Intercompany (payable) receivable	(380,446)	380,446		
Inventory				5,945
Prepaid expenses and other	104,221		104,221	152,969
<b>Total Current Assets</b>	<b>2,547,917</b>	<b>450,710</b>	<b>2,998,627</b>	<b>3,760,073</b>
Property and equipment, net (Note 4)	3,988,668		3,988,668	3,693,699
Property held for sale, net (Note 4)	21,960		21,960	21,960
Assets designated by board for long-term investments (Note 5)		10,315,982	10,315,982	10,600,495
Investments (Note 5)	1,016,208	1,733,826	2,750,034	1,965,079
Beneficial interest in perpetual trusts (Note 7)	4,842,500		4,842,500	5,020,527
<b>Total Assets</b>	<b>\$ 12,417,253</b>	<b>\$ 12,500,518</b>	<b>\$ 24,917,771</b>	<b>\$ 25,061,833</b>
<b>Current Liabilities:</b>				
Accounts payable	\$ 627,812	\$ -	\$ 627,812	\$ 446,018
Accrued liabilities	990,697		990,697	930,288
Deferred revenue	520,654		520,654	325,194
Current portion of capital lease obligation (Note 8)	21,212		21,212	
<b>Total Current Liabilities</b>	<b>2,160,375</b>		<b>2,160,375</b>	<b>1,701,500</b>
Long-term forgivable debt (Note 8)	249,651		249,651	249,651
Capital lease obligation, net of current portion (Note 8)	69,644		69,644	
<b>Total Liabilities</b>	<b>2,479,670</b>		<b>2,479,670</b>	<b>1,951,151</b>
<b>Net Assets:</b>				
Unrestricted (Note 14)	4,880,981	10,581,902	15,462,883	15,776,777
Temporarily restricted (Note 15)	198,602	278,609	477,211	710,387
Permanently restricted (Note 16)	4,858,000	1,640,007	6,498,007	6,623,518
<b>Total Net Assets</b>	<b>9,937,583</b>	<b>12,500,518</b>	<b>22,438,101</b>	<b>23,110,682</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 12,417,253</b>	<b>\$ 12,500,518</b>	<b>\$ 24,917,771</b>	<b>\$ 25,061,833</b>

See accompanying notes.

**CHILDREN'S HOME SOCIETY OF WASHINGTON**

**Consolidated Statement of Unrestricted Operating Activities  
For the Year Ended June 30, 2015  
(With Comparative Totals for 2014)**

	CHSW	CHSTF	Eliminating Entries	Consolidated 2015 Total	Consolidated 2014 Total
<b>Unrestricted Operating Activities</b>					
<b>Private Support and Revenue:</b>					
Direct support - contributions	\$ -	\$ 1,097,204	\$ -	\$ 1,097,204	\$ 1,699,985
In-kind support	442,087			442,087	369,933
In-kind contribution for services from CHSW (Note 12)		973,713	(973,713)		
United Way		1,136,115		1,136,115	993,831
Program service fees	546,068			546,068	546,156
Investment return (Note 5)	(29,996)	200,160		170,164	191,776
Rental income and miscellaneous	59,905			59,905	97,482
<b>Total Private Support and Revenue</b>	<b>1,018,064</b>	<b>3,407,192</b>	<b>(973,713)</b>	<b>3,451,543</b>	<b>3,899,163</b>
<b>Revenue From Governmental Agencies:</b>					
Federal revenue	7,560,550			7,560,550	6,981,594
State revenue	3,697,883			3,697,883	3,315,736
County and local	4,475,900			4,475,900	3,141,887
<b>Total From Governmental Agencies</b>	<b>15,734,333</b>			<b>15,734,333</b>	<b>13,439,217</b>
Net assets released from restrictions	642,117			642,117	495,652
<b>Total Support and Revenue</b>	<b>17,394,514</b>	<b>3,407,192</b>	<b>(973,713)</b>	<b>19,827,993</b>	<b>17,834,032</b>
<b>Transfers Between Entities:</b>					
Contributions transferred	2,432,662	(2,432,662)			
Foundation board-approved investment returns distribution (Note 17)	306,000	(306,000)			
Transfer of Auburn property (Note 12)	21,960	(21,960)			
Transfer of prior year adjustment (Note 12)	50,000	(50,000)			
<b>Total Transfers</b>	<b>2,810,622</b>	<b>(2,810,622)</b>			
<b>Total Support, Revenue and Transfers</b>	<b>20,205,136</b>	<b>596,570</b>	<b>(973,713)</b>	<b>19,827,993</b>	<b>17,834,032</b>
<b>Program Services Expenses:</b>					
Early childhood care education	8,521,704			8,521,704	7,481,463
Child and family counseling	3,563,382			3,563,382	2,398,971
Adoption and secure families	1,642,054			1,642,054	1,819,732
Family support and parent education	1,608,341			1,608,341	1,767,041
Policy and innovation	482,301			482,301	943,713
Property services					236,685
<b>Total Program Services</b>	<b>15,817,782</b>			<b>15,817,782</b>	<b>14,647,605</b>
<b>Support Services Expenses:</b>					
General and administrative	3,307,442			3,307,442	3,224,172
Fund development	1,037,334	973,713	(973,713)	1,037,334	533,880
<b>Total Support Services</b>	<b>4,344,776</b>	<b>973,713</b>	<b>(973,713)</b>	<b>4,344,776</b>	<b>3,758,052</b>
<b>Total Expenses</b>	<b>20,162,558</b>	<b>973,713</b>	<b>(973,713)</b>	<b>20,162,558</b>	<b>18,405,657</b>
<b>Change in Unrestricted Net Assets - Operating</b>	<b>\$ 42,578</b>	<b>\$ (377,143)</b>	<b>\$ -</b>	<b>\$ (334,565)</b>	<b>\$ (571,625)</b>

See accompanying notes.

**CHILDREN'S HOME SOCIETY OF WASHINGTON**

**Consolidated Statement of Changes in Net Assets  
For the Year Ended June 30, 2015  
(With Comparative Totals for 2014)**

	CHSW	CHSTF	Eliminating Entries	Consolidated 2015 Total	Consolidated 2014 Total
<b>Unrestricted Net Assets:</b>					
Total unrestricted operating revenues, gains, and losses	\$ 19,563,019	\$ 596,570	\$ (973,713)	\$ 19,185,876	\$ 17,338,380
Net assets released from restrictions	642,117			642,117	495,652
Total unrestricted operating expenses	<u>(20,162,558)</u>	<u>(973,713)</u>	<u>973,713</u>	<u>(20,162,558)</u>	<u>(18,405,657)</u>
Change in unrestricted net assets - operating	42,578	(377,143)		(334,565)	(571,625)
Gain on sale of property (Note 4)					13,952,064
Gain on acquisition (Note 2)					845,349
Endowment investment return (Note 5)		<u>20,671</u>		<u>20,671</u>	<u>23,767</u>
<b>Change in Unrestricted Net Assets</b>	<b>42,578</b>	<b>(356,472)</b>		<b>(313,894)</b>	<b>14,249,555</b>
<b>Temporarily Restricted Net Assets:</b>					
Direct support - contributions		334,434		334,434	278,345
Investment return		796		796	4,730
Net assets released from restrictions	(580,117)			(580,117)	(495,652)
Contributions transferred	334,434	(334,434)			
Foundation board-approved investment returns distribution (Note 17)	24,993	(24,993)			
Transfer of prior year accumulated earnings	(183,490)	183,490			
Endowment investment return (Note 5)		<u>11,711</u>		<u>11,711</u>	<u>25,409</u>
<b>Change in Temporarily Restricted Net Assets</b>	<b>(404,180)</b>	<b>171,004</b>		<b>(233,176)</b>	<b>(187,168)</b>
<b>Permanently Restricted Net Assets:</b>					
Direct support - contributions		114,516		114,516	30,000
Net assets released from restrictions (Note 17)	(62,000)			(62,000)	
Net change in value of beneficial interest in perpetual trusts (Note 7)	<u>(178,027)</u>			<u>(178,027)</u>	<u>420,695</u>
<b>Change in Permanently Restricted Net Assets</b>	<b>(240,027)</b>	<b>114,516</b>		<b>(125,511)</b>	<b>450,695</b>
<b>Total Change in Net Assets</b>	<b>(601,629)</b>	<b>(70,952)</b>		<b>(672,581)</b>	<b>14,513,082</b>
Net assets at beginning of year	10,539,212	12,571,470		23,110,682	7,797,600
Contributed net assets from merger (Note 2)					<u>800,000</u>
<b>Net Assets at End of Year</b>	<b><u>\$ 9,937,583</u></b>	<b><u>\$ 12,500,518</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 22,438,101</u></b>	<b><u>\$ 23,110,682</u></b>

See accompanying notes.

**CHILDREN'S HOME SOCIETY OF WASHINGTON**

**Consolidated Statement of Functional Expenses  
For the Year Ended June 30, 2015  
(With Comparative Totals for 2014)**

	Program Services					Total Programs	Supporting Services		2015 Total	2014 Total
	Early Childhood Care Education	Child and Family Counseling	Adoption and Secure Families	Family Support and Parent Education	Policy and Innovation		General and Administrative	Fund Development		
<b>CHSW:</b>										
Salaries	\$ 5,035,246	\$ 2,269,565	\$ 600,070	\$ 962,019	\$ 278,766	\$ 9,145,666	\$ 1,504,263	\$ 588,367	\$ 11,238,296	\$ 10,254,932
Employee benefits and taxes	1,103,649	501,621	130,230	193,517	58,937	1,987,954	358,435	133,019	2,479,408	2,238,097
	6,138,895	2,771,186	730,300	1,155,536	337,703	11,133,620	1,862,698	721,386	13,717,704	12,493,029
Other expenses	557,979	467,221	88,337	119,248	54,672	1,287,457	442,303	147,943	1,877,703	1,932,008
Professional fees	626,527	94,696	173,963	45,542	39,161	979,889	746,157	82,445	1,808,491	1,470,142
Occupancy	605,698	143,967	46,193	76,087	19,656	891,601	173,997	56,638	1,122,236	917,695
Specific assistance to individuals	204,992	20,472	571,798	109,500	513	907,275	22,025	149	929,449	928,448
In-kind donations	294,849	872	15,569	79,388	25,813	416,491	5,376	20,216	442,083	369,522
Depreciation	92,764	64,968	15,894	23,040	4,783	201,449	54,886	8,557	264,892	58,128
<b>Total CHSW Expenses</b>	<b>8,521,704</b>	<b>3,563,382</b>	<b>1,642,054</b>	<b>1,608,341</b>	<b>482,301</b>	<b>15,817,782</b>	<b>3,307,442</b>	<b>1,037,334</b>	<b>20,162,558</b>	<b>18,168,972</b>
<b>CHSTF:</b>										
In-kind support services (Note 12)								973,713	973,713	
Property services										236,685
<b>Total CHSTF Expenses</b>								<b>973,713</b>	<b>973,713</b>	<b>236,685</b>
Eliminations								(973,713)	(973,713)	
<b>Total Expenses</b>	<b>\$ 8,521,704</b>	<b>\$ 3,563,382</b>	<b>\$ 1,642,054</b>	<b>\$ 1,608,341</b>	<b>\$ 482,301</b>	<b>\$ 15,817,782</b>	<b>\$ 3,307,442</b>	<b>\$ 1,037,334</b>	<b>\$ 20,162,558</b>	<b>\$ 18,405,657</b>

See accompanying notes.

**CHILDREN'S HOME SOCIETY OF WASHINGTON**

**Consolidated Statement of Cash Flows  
For the Year Ended June 30, 2015  
(With Comparative Totals for 2014)**

	<u>2015</u>	<u>2014</u>
<b>Cash Flows From Operating Activities:</b>		
Change in net assets	\$ (672,581)	\$ 14,513,082
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities-		
Depreciation	264,892	210,299
Net loss (gain) on long-term investments	169,417	(19,146)
Gain on sale of property		(13,952,064)
Gain on acquisition		(845,349)
Loss (gain) on beneficial interest in perpetual trusts	178,027	(420,695)
Contributions to endowment classified as financing activities	(114,516)	(30,000)
Decrease (increase) in current assets:		
Accounts receivable, net	299,426	155,655
Inventory	5,945	77,643
Prepaid expenses and other	48,748	(74,443)
Increase (decrease) in current liabilities:		
Accounts payable and accrued liabilities	242,203	(81,184)
Deferred revenue	195,460	310,385
Refundable grant		(1,305,071)
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>617,021</b>	<b>(1,460,888)</b>
<b>Cash Flows From Investing Activities:</b>		
Proceeds from sales of investments	1,346,219	1,362,880
Purchases of investments	(2,197,709)	(1,408,456)
Proceeds from sales of investments designated by board	825,556	
Purchase of investments designated by board	(643,925)	(10,600,495)
Proceeds from sale of property and equipment		14,511,535
Purchases of property and equipment	(450,111)	(1,538,417)
<b>Net Cash (Used) Provided by Investing Activities</b>	<b>(1,119,970)</b>	<b>2,327,047</b>
<b>Cash Flows From Financing Activities:</b>		
Net payments on line of credit agreements		(981,658)
Principal payments on long-term debt		(185,021)
Payments on capital lease obligations	(18,894)	
Proceeds from contributions to endowment	114,516	30,000
<b>Net Cash Provided (Used) by Financing Activities</b>	<b>95,622</b>	<b>(1,136,679)</b>
<b>Net Change in Cash and Equivalents</b>	<b>(407,327)</b>	<b>(270,520)</b>
Cash and equivalents balance, beginning of year	1,207,418	1,477,938
<b>Cash and Equivalents Balance, End of Year</b>	<b>\$ 800,091</b>	<b>\$ 1,207,418</b>
<b>Supplemental Disclosure:</b>		
Cash paid for interest during the year	\$ 2,783	\$ 25,805
Property acquired through capital lease obligation	\$ 109,750	\$ -
Property acquired for no consideration	\$ -	\$ 1,095,000
Debt assumed with acquisition	\$ -	\$ 249,651

See accompanying notes.

## CHILDREN'S HOME SOCIETY OF WASHINGTON

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2015

---

#### Note 1 - Organization and Significant Accounting Policies

**Organization** - Children's Home Society of Washington (CHSW) is organized for the purpose of helping children to thrive and become viable members of society through programs designed to provide support by strengthening families. CHSW's programs are provided through regional locations in various communities in the state of Washington.

Children's Home Society of Washington Asset Management (CHSWAM) was incorporated on October 16, 2002, as a nonprofit affiliate organization of CHSW. On June 30, 2014, CHSWAM and Children's Trust Foundation (CTF) completed a merger of their operations (Note 2). As a result of the merger, the combined organization has been renamed Children's Home Society & Trust Foundation (CHSTF). CHSTF is organized to manage investments and raise funds that benefit CHSW.

**Principles of Consolidation** - These financial statements consolidate the statements of CHSW and CHSTF (collectively, the Society). Inter-organization and affiliated organization accounts and transactions have been eliminated in the consolidation.

**Programs** - Major programs and services offered to the community include the following:

Early Childhood Care Education - Supporting healthy growth and development and offering families the information and resources they need to give children a strong foundation during the first five years of life.

Child and Family Counseling - Helping children and parents communicate effectively, manage stress, identify and address problems, and find solutions that strengthen the entire family.

Adoption and Secure Families - Helping children find permanent homes through various adoption services as well as offering search and reunion support for those adopted through the agency.

Family Support and Parent Education - Working with families early in their children's development and assisting them in securing needed services and developing support systems that enable them to prevent unmanageable crises or family dysfunction later on.

Policy and Innovation - Working with policy makers, researchers and philanthropy to improve the well-being of children and families in Washington State and beyond.

**Basis of Presentation** - Net assets and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Society and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets also include Board-designated net assets (Note 14).

Temporarily Restricted Net Assets - Net assets subject to donor-imposed restrictions that will be met by actions of the Society and/or the passage of time.

Permanently Restricted Net Assets - Permanently restricted net assets must be maintained by the Society in perpetuity, the income of which is expendable for operations. Permanently restricted net assets increase when the Society receives contributions for which donor-imposed restrictions limiting the Society's use of an asset for its economic benefits neither expire with the passage of time nor can be removed by the Society meeting certain requirements.

## CHILDREN'S HOME SOCIETY OF WASHINGTON

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2015

---

#### Note 1 - Continued

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets under the caption "net assets released from restrictions." Donor-imposed restrictions that are met in the same reporting period are classified as increases in unrestricted net assets.

**Cash and Equivalents** - Cash in excess of daily requirements is generally invested in interest-bearing instruments. Interest-bearing deposits with initial maturities of three months or less are considered cash equivalents. However, cash and equivalents associated with the Society's investment portfolio are considered investments since the intent is to reinvest them in longer-term instruments when appropriate.

**Accounts Receivable** - Accounts and grants receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable. Changes in the valuation allowance have not been material to the consolidated financial statements.

**Inventories** - Inventories are stated at the lower of cost or market. Cost is determined by the moving average method. Inventories primarily represent books held for sale.

**Investments** - Investments in money market funds are stated at cost which approximates fair value. Investments in debt securities and equity securities with readily determinable market values are recorded at fair value. The fair value of investments in securities traded on national securities exchanges is valued at the closing price on the last day of the fiscal year. Unrealized and realized gains and losses on these investments are reported in the consolidated statement of changes in net assets. It is the Society's policy to invest in short and intermediate term debt and equity securities, emphasizing preservation and safety of capital and diversification of risk.

**Property and Equipment** - Property and equipment are recorded at cost, if purchased, or at fair value at the time of donation, if donated. Property and equipment are depreciated using straight-line methods over estimated useful lives ranging from three to forty years. The Society capitalizes all items and leasehold improvements over \$5,000.

**In-Kind Contributions** - Donated materials, property and equipment are recorded at fair value when received. A substantial number of corporations and volunteers donated significant amounts of time and services in the Society's operations. Such contributed services and the related expenses are only recorded in the accounts to the extent that specific professional expertise is provided or a capitalized asset is constructed, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). These volunteers, whose time has not been recognized in the consolidated financial statements, contributed 23,808 and 22,023 hours of their time valued at \$394,188 and \$321,313 (unaudited) during the years ended June 30, 2015 and 2014, respectively.

In-kind contributions recorded consist primarily of donated professional and nonprofessional fees of \$117,529 and \$8,661, in-kind materials/assets of \$101,678 and \$124,980 and in-kind rent of \$223,880 and \$195,880 for the years ended June 30, 2015 and 2014, respectively.

## CHILDREN'S HOME SOCIETY OF WASHINGTON

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2015

---

#### Note 1 - Continued

**Use of Estimates** - The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Federal Income Taxes** - Both CHSW and CHSTF are nonprofit corporations as defined in Section 501(c)(3) of the Internal Revenue Code (the Code) and, accordingly, the Internal Revenue Service (IRS) has determined they are exempt from federal income taxes under the provisions of Section 501(a) of the Code.

**Allocation of Functional Expenses** - The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statement of unrestricted operating activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Operating vs. Nonoperating** - The consolidated statement of changes in net assets includes certain nonoperating activities. Investment return from endowment accounts and perpetual trusts is considered nonoperating activity, as well as gains or losses on sale of property and acquisition. All other activity is considered operating activity.

**Vulnerability From Certain Concentrations** - The Society receives fees and grants from federal, state, county and municipal governments. The receipt of governmental funding is generally subject to audit by various governmental agencies, the outcome of which is not known until the audit is completed. Revenue from governmental agencies represents the following percentages of total operating support and revenue for the years ended June 30:

	<u>2015</u>	<u>2014</u>
Federal	38.0%	40.0%
State	19.0%	19.0%
County and local	<u>23.0%</u>	<u>18.0%</u>
<b>Total Government Support</b>	<b><u>80.0%</u></b>	<b><u>77.0%</u></b>

CHSW's history has been a mix of public and private funding, typically 70 percent public funding and 30 percent private revenue. Due to the agency's national reputation for high-quality early learning, CHSW continues to be awarded federal Early Head Start/Head Start dollars. CHSW's foundation was created in 2014 to increase private dollar revenue in order to mitigate the vulnerability of overweighting the budget with public dollars and to maintain the organization's historical diversified funding base.

At times, cash deposits and investments exceeded FDIC and SIPC insured amounts.

**Contingencies** - At times, the Society is subject to litigation arising in the normal course of business. Management does not believe any ongoing matters would have a material adverse effect to the Society's future financial position or results from operations.

**Reclassifications of Prior Year Balances** - Certain reclassifications have been made to prior year accounts to conform to the presentation in the current year consolidated financial statements. The reclassifications have no effect on the previously reported consolidated change in net assets or consolidated net asset balances.

## CHILDREN'S HOME SOCIETY OF WASHINGTON

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2015

---

#### Note 1 - Continued

**Subsequent Events** - The Society has evaluated subsequent events through December 10, 2015, the date on which the financial statements were available to be issued.

#### Note 2 - Business Combinations

**Acquisition** - On June 28, 2013, the Secretary of the United States Department of Health and Human Services, acting through Administration for Children and Families, named the Society a successor grantee for an expanded Head Start program previously run by another not-for-profit organization. The acquisition of the program occurred during January 2014. As part of the acquisition, the Society became the title holder of the property valued at \$1,095,000, used to run the program. The Society paid no consideration as part of the acquisition. As part of the title transfer, it also acquired \$249,651 in forgivable debt with the City of Seattle (Note 8). On the statement of changes in net assets, the gain on acquisition is recorded as the excess of the fair value of net assets acquired over the liabilities assumed. Gain on acquisition totaled \$845,349 for the year ending June 30, 2014 and is recognized as a part of nonoperating activities.

**Merger** - On June 30, 2014, CHSWAM and Children's Trust Foundation (CTF) completed a merger of their operations. As a result of the merger, the combined organization has been renamed Children's Home Society & Trust Foundation (CHSTF). CHSTF is organized to manage investments and raise funds that benefit CHSW.

On the date of the merger, the value of CTF of \$800,000 had not yet transferred to CHSTF in cash. As such, \$800,000 is reported as part of accounts receivable (Note 3) on the consolidated statement of financial position and the same amount is reported as contributed assets from merger in the change in permanently restricted net assets as of June 30, 2014.

There were no material transactions between CHSWAM and CTF prior to the merger and there were no material adjustments to conform to the accounting policies of the combined organization.

#### Note 3 - Accounts Receivable

Accounts receivable consisted of the following at June 30:

	<u>2015</u>	<u>2014</u>
Government agencies	\$ 1,873,859	\$ 1,337,244
Pledges	201,331	133,408
Funds from CTF (Note 2)		800,000
Other	44,125	148,089
	<u>2,119,315</u>	<u>2,418,741</u>
Less provision for uncollectible accounts	<u>(25,000)</u>	<u>(25,000)</u>
	<u><u>\$ 2,094,315</u></u>	<u><u>\$ 2,393,741</u></u>

All pledges receivable are scheduled to be collected in less than one year.

**CHILDREN'S HOME SOCIETY OF WASHINGTON**

**Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2015**

**Note 4 - Property and Equipment and Property Held for Sale**

Property and equipment consisted of the following at June 30:

	<u>2015</u>	<u>2014</u>
Buildings and improvements	\$ 6,505,452	\$ 6,380,752
Furniture, fixtures and equipment	2,904,451	2,469,289
Land	<u>1,528,830</u>	<u>1,528,830</u>
	10,938,733	10,378,871
Less accumulated depreciation	(6,928,105)	(6,663,212)
Less property held for sale, net	<u>(21,960)</u>	<u>(21,960)</u>
	<u><b>\$ 3,988,668</b></u>	<u><b>\$ 3,693,699</b></u>

The Society had three properties which were held for sale as of June 30, 2013. One property was sold during the year ended June 30, 2014 and resulted in a gain of \$13,952,064. One property was no longer held for sale as the Society determined they would continue to use the property for programs. As of June 30, 2015 and 2014, the Society had only one remaining property that was held for sale and is being actively marketed. The property held for sale is reported at the lower of fair value or cost. No impairment loss on this property was recognized during the year ended June 30, 2015. Gross amounts of property held for sale consisted of \$456,510 of land, buildings and improvements, net of \$434,550 of accumulated depreciation at June 30, 2015 and 2014.

**Note 5 - Investments**

Investments consisted of the following at June 30:

	<u>2015</u>	<u>2014</u>
Marketable securities and equities	\$ 1,581,819	\$ 6,249
Government securities	204,173	
Mutual funds	11,229,391	1,254,970
Cash and money market accounts	<u>50,633</u>	<u>11,304,355</u>
	<u><b>\$ 13,066,016</b></u>	<u><b>\$ 12,565,574</b></u>

At June 30, 2014, CHSTF held \$10,600,495 in money market accounts that were designated by the Board of CHSTF to be invested in long term investments in subsequent years. During the year ended June 30, 2015, these funds were invested in long term investments.

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

	<u>2015</u>	<u>2014</u>
Interest and dividend income	\$ 403,328	\$ 230,212
Net realized and unrealized (losses) gains	(169,417)	19,146
Investment management fees	<u>(30,569)</u>	<u>(3,676)</u>
	<u><b>\$ 203,342</b></u>	<u><b>\$ 245,682</b></u>

## CHILDREN'S HOME SOCIETY OF WASHINGTON

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2015

---

#### Note 5 - Continued

The Society reports its investment return in the consolidated statements of unrestricted operating activities and changes in net assets as operating and endowment. Operating investment return includes investment income from dividends and interest on cash and investments that are nonendowment. All other investment return is considered nonoperating. The breakout is as follows for the years ended June 30:

	<u>2015</u>	<u>2014</u>
Operating investment return	\$ 170,164	\$ 191,776
Unrestricted endowment investment return (Note 17)	20,671	23,767
Temporarily restricted investment return	796	4,730
Temporarily restricted endowment investment return (Note 17)	<u>11,711</u>	<u>25,409</u>
	<u><u>\$ 203,342</u></u>	<u><u>\$ 245,682</u></u>

#### Note 6 - Fair Value Measurements

U.S. GAAP defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. To increase consistency and comparability in fair value measurements, U. S. GAAP uses a fair value hierarchy that prioritizes the inputs to valuation approaches into three broad levels. The hierarchy gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3).

**Valuation Techniques** - Financial assets and liabilities valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets and liabilities valued using Level 2 inputs are based primarily on quoted prices for similar assets or liabilities in active or inactive markets. Financial assets and liabilities using Level 3 inputs were primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the asset or liability. Valuation techniques utilized to determine fair value are consistently applied.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2015 and 2014.

Cash and Money Market Accounts - Valued at cost, which approximates fair value.

Marketable Securities and Equities - Valued at the closing price reported on the active market on which the securities are traded.

Government Securities - Valued using bid valuations in actively quoted markets.

Mutual Funds - Valued at quoted market prices in active markets, which represent the net asset value (NAV) of shares held by the Society at year-end.

Beneficial Interests in Perpetual Trusts - Valued based on the quoted market prices of the underlying investments of the trusts and the Society's proportional beneficial interests in the trusts.

CHILDREN'S HOME SOCIETY OF WASHINGTON

Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2015

Note 6 - Continued

**Fair Values Measured on a Recurring Basis** - Fair values of assets measured on a recurring basis at June 30, 2015 and 2014, were as follows:

	Fair Value Measurements as of June 30, 2015			
	Level 1	Level 2	Level 3	Total
Cash and money market accounts	\$ 50,633	\$ -	\$ -	\$ 50,633
Marketable securities and equities	1,581,819			1,581,819
Government securities	162,914	41,259		204,173
Mutual funds-				
Fixed income	4,202,494			4,202,494
Equity	5,292,933			5,292,933
Non-traditional	1,733,964			1,733,964
Total mutual funds	11,229,391			11,229,391
Total investments	13,024,757	41,259		13,066,016
Beneficial interests in perpetual trusts			4,842,500	4,842,500
	<b>\$ 13,024,757</b>	<b>\$ 41,259</b>	<b>\$ 4,842,500</b>	<b>\$ 17,908,516</b>

  

	Fair Value Measurements as of June 30, 2014			
	Level 1	Level 2	Level 3	Total
Cash and money market accounts	\$ 11,304,355	\$ -	\$ -	\$ 11,304,355
Marketable securities and equities	6,249			6,249
Mutual funds-				
Fixed income	906,102			906,102
Large cap blended	348,868			348,868
Total mutual funds	1,254,970			1,254,970
Total investments	12,565,574			12,565,574
Beneficial interests in perpetual trusts			5,020,527	5,020,527
	<b>\$ 12,565,574</b>	<b>\$ -</b>	<b>\$ 5,020,527</b>	<b>\$ 17,586,101</b>

## CHILDREN'S HOME SOCIETY OF WASHINGTON

### Notes to Consolidated Financial Statements For the Year Ended June 30, 2015

#### Note 6 - Continued

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

	<u>2015</u>	<u>2014</u>
Beginning balance	\$ 5,020,527	\$ 4,599,832
Earnings distributions	(199,344)	(192,125)
Other changes in value	<u>21,317</u>	<u>612,820</u>
<b>Ending Balance</b>	<b><u>\$ 4,842,500</u></b>	<b><u>\$ 5,020,527</u></b>

#### Note 7 - Beneficial Interest in Perpetual Trusts

The Society is named as a beneficiary in numerous trusts held for the benefit of the Society and other local nonprofit agencies. The trusts, which are held in perpetuity, are administered by financial institutions, the majority of which provide for earnings distributions on a regular basis to the Society. One perpetual trust in which the Society is the sole beneficiary has earnings distributions on a discretionary basis which are determined by the Trustee in response to specific requests for funds from the Society. These trusts are recognized in the consolidated financial statements of the Society at the fair value of the Society's share as of the end of the reporting period. The Society received \$199,344 and \$192,125 in earnings distributions from the trust during the years ended June 30, 2015 and 2014, respectively. The earnings are available for general operating purposes. The Society's interest in net gains and (losses), in the trusts of (\$178,027) and \$420,695 for the years ended June 30, 2015 and 2014, respectively, are recognized in the consolidated statement of changes in net assets as permanently restricted activities.

#### Note 8 - Long-Term Obligations

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

	<u>2015</u>	<u>2014</u>
Capital lease payable for phone equipment, monthly payments of \$1,971 including interest, due July 2019.	\$ 90,856	\$ -
Note payable to City of Seattle in the original amount of \$249,651. Secured by deed of trust on real property. Non-interest bearing and subject to use restriction for Head Start program. Note has the option to be forgiven at maturity date, October 31, 2019, provided the Society remains in compliance with the terms of the note.	<u>249,651</u>	<u>249,651</u>
	340,507	249,651
Less current portion	<u>(21,212)</u>	<u></u>
	<b><u>\$ 319,295</u></b>	<b><u>\$ 249,651</u></b>

**CHILDREN'S HOME SOCIETY OF WASHINGTON**

**Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2015**

---

**Note 8 - Continued**

Principal maturities on long-term obligations are as follows:

For the Year Ending June 30,

2016	\$	21,212
2017		21,858
2018		22,522
2019		272,859
2020		<u>2,056</u>
	\$	<u><b>340,507</b></u>

Assets under capitalized leases are included in property and equipment with a total cost of \$242,675 and \$132,925 at June 30, 2015 and 2014, respectively, and related accumulated amortization of \$153,046 and \$132,925 at June 30, 2015 and 2014, respectively. Amortization expense associated with assets under capital leases is included within depreciation expense.

**Note 9 - Line of Credit**

The Society has a revolving line of credit with its investment custodian for up to \$1,000,000, of which \$0 was outstanding at June 30, 2015 and 2014. The line bears interest at LIBOR plus 1.25% (LIBOR was 2.5% at June 30, 2015 and 2014).

**Note 10 - Benefit Plans**

The Society sponsors a defined contribution profit-sharing pension plan covering all employees meeting minimum age and service requirements. Participants employed on or before July 31, 2009 are fully vested in the plan immediately upon participation. Participants hired August 1, 2009 and thereafter have the following vesting schedule: 1 year - 25%, 2 years - 50%, 3 years - 100%. Effective April 1, 2013, the plan was amended to allow for employee contributions to the plan through a 401(k) plan. The investment of such contributions is directed by each employee based on the investment options available under the plan. In January 2014, the Society declared a match on the first 3% of eligible contributions. Total employer contributions for the years ended June 30, 2015 and 2014, were \$158,474 and \$60,845, respectively.

**CHILDREN'S HOME SOCIETY OF WASHINGTON**

**Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2015**

---

**Note 11 - Commitments**

The Society has entered into various operating leases for facilities and equipment expiring through March 2020. Total rent expense under operating leases was \$770,517 and \$559,496 for the years ended June 30, 2015 and 2014, respectively.

Future minimum payments required under leases with initial or remaining noncancelable lease terms in excess of one year consist of the following:

For the Year Ending June 30,

2016	\$ 567,170
2017	527,303
2018	507,384
2019	404,777
2020	<u>71,239</u>

**Future Minimum Lease Payments**

**\$ 2,077,873**

**Note 12 - Related Party Agreements**

On June 27, 2014, CHSW and CHSTF entered into a memorandum of understanding regarding the functions each entity would perform on a go forward basis starting July 1, 2014. During the year ended June 30, 2015, the two entities also negotiated a management services agreement which was approved by the respective Boards on October 3, 2014. CHSTF receives donated facilities and services from CHSW, which include space usage, furnishings and equipment, utilities, employee services, and other items.

The estimated fair value of such items has been reflected in the consolidated financial statements for the year ended June 30, 2015 as follows:

Salaries, payroll taxes and benefits	\$ 590,761
Supplies, services and other	333,520
Facilities and utilities	<u>49,432</u>
	<b><u>\$ 973,713</u></b>

As part of the reorganization of CHSWAM into CHSTF (Note 1), various items were transferred between CHSTF and CHSW based on the function of each entity. These included a transfer of land with a net value of \$21,960, that had previously been held by CHSWAM to CHSW where it is currently being held for sale as part of property and equipment (Note 4), and the transfer of a prior year adjustment for \$50,000 that pertained to the other entity.

**CHILDREN'S HOME SOCIETY OF WASHINGTON**

**Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2015**

**Note 13 - Contingencies**

The Society acquired block grant funds totaling \$249,651 from the City of Seattle from the Head Start program acquisition (Notes 2 and 8) with the stipulation that the facility be used for a Head Start Program. This stipulation may be removed by the City of Seattle as of October 31, 2019.

Expenses incurred under certain grant programs are subject to audit by granting agencies. If, as a result of such audits, certain expenses incurred are determined to be nonreimbursable, the Society may be liable for repayment of disallowed expenses previously claimed or received.

**Note 14 - Unrestricted Net Assets Designated by the Board**

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

	<u>2015</u>	<u>2014</u>
General operations quasi-endowment (Note 17)	\$ 10,221,166	\$ 10,200,495
Facilities and maintenance fund	<u>400,816</u>	<u>400,000</u>
<b>Total Unrestricted Designated Net Assets</b>	<b><u>\$ 10,621,982</u></b>	<b><u>\$ 10,600,495</u></b>

**Note 15 - Temporarily Restricted Net Assets**

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

	<u>2015</u>	<u>2014</u>
Walla Walla building replacement and maintenance reserve	\$ 105,173	\$ 107,605
Unappropriated endowment earnings (Note 17)	173,436	183,490
Other programs	<u>198,602</u>	<u>419,292</u>
	<b><u>\$ 477,211</u></b>	<b><u>\$ 710,387</u></b>

**Note 16 - Permanently Restricted Net Assets**

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

	<u>2015</u>	<u>2014</u>
Endowments for various operating purposes (Note 17)	\$ 1,194,159	\$ 380,491
Endowment funds receivable from Children's Trust Foundation (Note 17)		800,000
Hugh Cannon staff scholarship fund (Note 17)	461,348	422,500
Beneficial interest in perpetual trusts (Note 7)	<u>4,842,500</u>	<u>5,020,527</u>
	<b><u>\$ 6,498,007</u></b>	<b><u>\$ 6,623,518</u></b>

**CHILDREN'S HOME SOCIETY OF WASHINGTON**

**Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2015**

**Note 17 - Endowment**

The Society's endowment consists of several funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments (quasi-endowments). As required by U.S. GAAP, net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law** - The Board of Directors of the Society has reviewed the Washington State Prudent Management of Institutional Funds Act (PMIFA) and, having considered its rights and obligations thereunder, has determined that it is desirable to preserve, on a long-term basis, the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this determination, the Society classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Society in a manner consistent with the standard of prudence prescribed by PMIFA. In accordance with PMIFA, the Society considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purposes of the Society and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the Society; and
- The investment policies of the Society.

As of June 30, 2015, endowment net assets consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2015 Total</u>
Donor restricted endowment funds	\$ -	\$ 173,436	\$ 1,655,507	\$ 1,828,943
Board designated quasi-endowment	<u>10,221,166</u>			<u>10,221,166</u>
<b>Endowment Net Assets</b>	<b><u>\$ 10,221,166</u></b>	<b><u>\$ 173,436</u></b>	<b><u>\$ 1,655,507</u></b>	<b><u>\$ 12,050,109</u></b>

As of June 30, 2014, endowment net assets consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2014 Total</u>
Donor restricted endowment funds	\$ -	\$ 183,490	\$ 1,602,991	\$ 1,786,481
Board designated quasi-endowment	<u>10,200,495</u>			<u>10,200,495</u>
<b>Endowment Net Assets</b>	<b><u>\$ 10,200,495</u></b>	<b><u>\$ 183,490</u></b>	<b><u>\$ 1,602,991</u></b>	<b><u>\$ 11,986,976</u></b>

CHILDREN'S HOME SOCIETY OF WASHINGTON

Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2015

Note 17 - Continued

Changes to endowment net assets for the year ended June 30, 2015, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2014	\$ 10,200,495	\$ 183,490	\$ 1,602,991	\$ 11,986,976
Endowment investment return-				
Interest and dividends	116,747	66,141		182,888
Realized and unrealized losses	(80,490)	(45,600)		(126,090)
Investment management fees	(15,586)	(8,830)		(24,416)
Total endowment investment return	20,671	11,711		32,382
Appropriations for expenditure		(21,765)		(21,765)
Contributions			114,516	114,516
Net assets released from endowment by the donor			(62,000)	(62,000)
<b>Endowment Net Assets, June 30, 2015</b>	<b><u>\$ 10,221,166</u></b>	<b><u>\$ 173,436</u></b>	<b><u>\$ 1,655,507</u></b>	<b><u>\$ 12,050,109</u></b>

Changes to endowment net assets for the year ended June 30, 2014, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2013	\$ 1,105,436	\$ 198,231	\$ 772,991	\$ 2,076,658
Endowment investment return-				
Interest and dividends	17,027	18,050		35,077
Realized and unrealized gains	8,342	9,108		17,450
Investment management fees	(1,602)	(1,749)		(3,351)
Total endowment investment return	23,767	25,409		49,176
Appropriations for expenditure	(1,128,708)	(40,150)		(1,168,858)
Contributions			830,000	830,000
Transfer to endowment fund	10,200,000			10,200,000
<b>Endowment Net Assets, June 30, 2014</b>	<b><u>\$ 10,200,495</u></b>	<b><u>\$ 183,490</u></b>	<b><u>\$ 1,602,991</u></b>	<b><u>\$ 11,986,976</u></b>

**CHILDREN'S HOME SOCIETY OF WASHINGTON**

**Notes to Consolidated Financial Statements  
For the Year Ended June 30, 2015**

---

**Note 17 - Continued**

During the year ended June 30, 2015, \$62,000 was approved by the donor to be released from permanently restricted endowments to be currently spent on scholarships.

**Funds With Deficiencies** - From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or PMIFA requires the Society to retain as a fund of perpetual duration. These deficiencies result from unfavorable market fluctuations that occur after the investment of new permanently restricted contributions and continued appropriation for certain programs as deemed prudent by the Board of Directors. There were no such deficiencies as of June 30, 2015 and 2014.

**Return Objectives and Risk Parameters** - The Society has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Society must hold in perpetuity or for a donor-specified period as well as board-designated funds as approved by the Board of Directors. The endowment assets are invested in accordance with a board approved investment policy, which has structured the fund as a diversified balanced fund. Its primary investment objective is long-term growth of capital on a total return basis. Thus it is managed to provide consistent inflation-adjusted support to the Society's operating budget in perpetuity.

**Strategies Employed for Achieving Objectives** - To satisfy its long-term rate-of-return objectives, the Society relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Society targets a diversified asset allocation that balances return and risk through prudent management and investment allocations.

**Spending Policy and How the Investment Objectives Relate to Spending Policy** - The Society has a policy of appropriating for distribution 3% of the 12 quarter trailing average of the investment fund's value at the end of the previous year to which the distribution is planned. In establishing this policy, the Society considered the long-term expected return on its endowment. Accordingly, over the long term, the Society expects the current spending policy to allow its endowment to grow at an average of 2.5% annually. This is consistent with the Society's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

**SUPPLEMENTARY INFORMATION**

**CHILDREN'S HOME SOCIETY OF WASHINGTON**

**Children's Home Society of Washington -  
Schedule of Activities and Changes in Net Assets  
For the Year Ended June 30, 2015**

	CHSW			2015 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Operating Activities</b>				
<b>Private Support and Revenue:</b>				
In-kind support	\$ 442,087	\$ -	\$ -	\$ 442,087
Program service fees	546,068			546,068
Investment return	(29,996)			(29,996)
Rental income and miscellaneous	59,905			59,905
<b>Total Private Support and Revenue</b>	<b>1,018,064</b>			<b>1,018,064</b>
<b>Revenue From Governmental Agencies:</b>				
Federal revenue	7,560,550			7,560,550
State revenue	3,697,883			3,697,883
County and local	4,475,900			4,475,900
<b>Total From Governmental Agencies</b>	<b>15,734,333</b>			<b>15,734,333</b>
Net assets released from restrictions	642,117	(580,117)	(62,000)	
<b>Total Support and Revenue</b>	<b>17,394,514</b>	<b>(580,117)</b>	<b>(62,000)</b>	<b>16,752,397</b>
<b>Transfers to and From the Foundation:</b>				
Contributions transferred from the Foundation	2,432,662	334,434		2,767,096
Foundation board-approved investment returns distribution (Note 17)	306,000	24,993		330,993
Transfer of Auburn property from the Foundation	21,960			21,960
Transfer of prior year adjustment from the Foundation	50,000			50,000
Transfer of prior year accumulated earnings to the Foundation		(183,490)		(183,490)
<b>Total Transfers</b>	<b>2,810,622</b>	<b>175,937</b>		<b>2,986,559</b>
<b>Total Support, Revenue and Transfers</b>	<b>20,205,136</b>	<b>(404,180)</b>	<b>(62,000)</b>	<b>19,738,956</b>
<b>Program Services Expenses:</b>				
Early childhood care education	8,521,704			8,521,704
Child and family counseling	3,563,382			3,563,382
Adoption and secure families	1,642,054			1,642,054
Family support and parent education	1,608,341			1,608,341
Policy and innovation	482,301			482,301
<b>Total Program Services</b>	<b>15,817,782</b>			<b>15,817,782</b>
<b>Support Services Expenses:</b>				
General and administrative	3,307,442			3,307,442
Fund development	1,037,334			1,037,334
<b>Total Support Services</b>	<b>4,344,776</b>			<b>4,344,776</b>
<b>Total Expenses</b>	<b>20,162,558</b>			<b>20,162,558</b>
<b>Change in Net Assets - Operating</b>	<b>42,578</b>	<b>(404,180)</b>	<b>(62,000)</b>	<b>(423,602)</b>
<b>Nonoperating Activities</b>				
Net change in value of beneficial interest in perpetual trusts			(178,027)	(178,027)
<b>Total Change in Net Assets</b>	<b>42,578</b>	<b>(404,180)</b>	<b>(240,027)</b>	<b>(601,629)</b>
Net assets at beginning of year	4,838,403	602,782	5,098,027	10,539,212
<b>Net Assets at End of Year</b>	<b>\$ 4,880,981</b>	<b>\$ 198,602</b>	<b>\$ 4,858,000</b>	<b>\$ 9,937,583</b>

See independent auditor's report.

CHILDREN'S HOME SOCIETY OF WASHINGTON

Children's Home Society Trust Foundation -  
Schedule of Activities and Changes in Net Assets  
For the Year Ended June 30, 2015

	CHSTF			2015 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Operating Activities</b>				
<b>Private Support and Revenue:</b>				
Direct support - contributions	\$ 1,097,204	\$ 334,434	\$ 114,516	\$ 1,546,154
In-kind contribution for services from CHSW (Note 12)	973,713			973,713
United Way	1,136,115			1,136,115
Investment return	200,160	796		200,956
<b>Total Private Support and Revenue</b>	<b>3,407,192</b>	<b>335,230</b>	<b>114,516</b>	<b>3,856,938</b>
<b>Transfers to and From CHSW:</b>				
Contributions transferred to CHSW	(2,432,662)	(334,434)		(2,767,096)
Foundation board-approved investment returns distribution to CHSW (Note 17)	(306,000)	(24,993)		(330,993)
Transfer of Auburn property to CHSW	(21,960)			(21,960)
Transfer of prior year adjustment to CHSW	(50,000)			(50,000)
Transfer of prior year accumulated earnings from CHSW		183,490		183,490
<b>Total Transfers</b>	<b>(2,810,622)</b>	<b>(175,937)</b>		<b>(2,986,559)</b>
<b>Total Support, Revenue and Transfers</b>	<b>596,570</b>	<b>159,293</b>	<b>114,516</b>	<b>870,379</b>
<b>Support Services Expenses:</b>				
Fund development	973,713			973,713
<b>Total Expenses</b>	<b>973,713</b>			<b>973,713</b>
<b>Change in Net Assets - Operating</b>	<b>(377,143)</b>	<b>159,293</b>	<b>114,516</b>	<b>(103,334)</b>
<b>Nonoperating Activities</b>				
Endowment investment return	20,671	11,711		32,382
<b>Total Change in Net Assets</b>	<b>(356,472)</b>	<b>171,004</b>	<b>114,516</b>	<b>(70,952)</b>
Net assets at beginning of year	10,938,374	107,605	1,525,491	12,571,470
<b>Net Assets at End of Year</b>	<b>\$ 10,581,902</b>	<b>\$ 278,609</b>	<b>\$ 1,640,007</b>	<b>\$ 12,500,518</b>

See independent auditor's report.

CHILDREN'S HOME SOCIETY OF WASHINGTON

Consolidated Statement of Unrestricted Activities  
For the Year Ended June 30, 2015  
(With Comparative Totals for 2014)

	2015	2014
<b>Operating Activities</b>		
<b>Private Support and Revenue:</b>		
Direct support - contributions	\$ 1,097,204	\$ 1,699,985
In-kind support	442,087	369,933
United Way	1,136,115	993,831
Program service fees	546,068	546,156
Operating investment return	170,164	191,776
Rental income and miscellaneous	59,905	97,482
<b>Total Private Support and Revenue</b>	<b>3,451,543</b>	<b>3,899,163</b>
<b>Revenue From Governmental Agencies:</b>		
Federal revenue	7,560,550	6,981,594
State revenue	3,697,883	3,315,736
County and local	4,475,900	3,141,887
<b>Total From Governmental Agencies</b>	<b>15,734,333</b>	<b>13,439,217</b>
Net assets released from restrictions	642,117	495,652
<b>Total Support and Revenue From Operations</b>	<b>19,827,993</b>	<b>17,834,032</b>
<b>Program Services Expenses:</b>		
Early childhood care education	8,521,704	7,481,463
Child and family counseling	3,563,382	2,398,971
Adoption and secure families	1,642,054	1,819,732
Family support and parent education	1,608,341	1,767,041
Policy and innovation	482,301	943,713
Property services		236,685
<b>Total Program Services</b>	<b>15,817,782</b>	<b>14,647,605</b>
<b>Support Services Expenses:</b>		
General and administrative	3,307,442	3,224,172
Fund development	1,037,334	533,880
<b>Total Support Services</b>	<b>4,344,776</b>	<b>3,758,052</b>
<b>Total Expenses</b>	<b>20,162,558</b>	<b>18,405,657</b>
<b>Change in Unrestricted Net Assets - Operating</b>	<b>(334,565)</b>	<b>(571,625)</b>
<b>Nonoperating Activities</b>		
Gain on sale of property		13,952,064
Gain on acquisition		845,349
Endowment investment return	20,671	23,767
<b>Change in Unrestricted Net Assets - Nonoperating</b>	<b>20,671</b>	<b>14,821,180</b>
<b>Change in Unrestricted Net Assets</b>	<b>\$ (313,894)</b>	<b>\$ 14,249,555</b>

See independent auditor's report.