

ChildServ and Homes for Children Foundation

Consolidating Financial Report
June 30, 2017

ChildServ and Homes for Children Foundation

Contents

Report Letter	1-2
Consolidating Financial Statements	
Statement of Financial Position	3
Statement of Activities and Changes in Net Assets	4-5
Statement of Functional Expenses	6-11
Statement of Cash Flows	12
Notes to Consolidating Financial Statements	13-27

Independent Auditor's Report

To the Board of Directors
ChildServ and Homes for
Children Foundation

Report on the Consolidating Financial Statements

We have audited the accompanying consolidating financial statements of ChildServ and Homes for Children Foundation (collectively, the "Organization"), which comprise the consolidating statement of financial position as of June 30, 2017 and 2016 and the related consolidating statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidating financial statements.

Management's Responsibility for the Consolidating Financial Statements

Management is responsible for the preparation and fair presentation of these consolidating 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 consolidating 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 consolidating financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the consolidating financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidating financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidating 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 consolidating 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 consolidating 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 consolidating financial statements referred to above present fairly, in all material respects, the financial position of ChildServ and Homes for Children Foundation as of June 30, 2017 and 2016 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.

To the Board of Directors
ChildServ and Homes for
Children Foundation

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2018 on our consideration of ChildServ and Homes for Children Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 ChildServ and Homes for Children Foundation's internal control over financial reporting and compliance.

Plante & Morse, PLLC

March 1, 2018

ChildServ and Homes for Children Foundation

Consolidating Statement of Financial Position

	June 30, 2017				June 30, 2016			
	ChildServ	Homes for Children Foundation	Eliminations	Total	ChildServ	Homes for Children Foundation	Eliminations	Total
Assets								
Cash and cash equivalents	\$ 7,341	\$ -	\$ -	\$ 7,341	\$ 209,759	\$ -	\$ -	\$ 209,759
Program receivables - Net	1,367,347	-	-	1,367,347	1,094,881	-	-	1,094,881
Grant receivable from related party	-	-	-	-	420,000	-	(420,000)	-
Investments	-	15,945,806	-	15,945,806	-	15,725,597	-	15,725,597
Beneficial interest in split-interest agreements	574,157	324,380	-	898,537	547,832	329,297	-	877,129
Property and equipment - Net	1,696,479	-	-	1,696,479	1,762,289	-	-	1,762,289
Due from related party	-	39,014	(39,014)	-	-	13,011	(13,011)	-
Loan receivable from related party	-	2,176,020	(2,176,020)	-	-	1,876,020	(1,876,020)	-
Investment receivable	-	227,311	-	227,311	-	-	-	-
Prepaid expenses and other assets	136,186	-	-	136,186	77,937	-	-	77,937
Total assets	<u>\$ 3,781,510</u>	<u>\$ 18,712,531</u>	<u>\$ (2,215,034)</u>	<u>\$ 20,279,007</u>	<u>\$ 4,112,698</u>	<u>\$ 17,943,925</u>	<u>\$ (2,309,031)</u>	<u>\$ 19,747,592</u>
Liabilities								
Borrowings under line of credit	\$ 465,000	\$ -	\$ -	\$ 465,000	\$ 296,732	\$ -	\$ -	\$ 296,732
Bank overdraft	78,948	-	-	78,948	-	-	-	-
Accounts payable	316,188	-	-	316,188	299,288	-	-	299,288
Accrued payroll	555,110	-	-	555,110	516,044	-	-	516,044
Grant payable to related party	-	-	-	-	-	420,000	(420,000)	-
Advances under government contracts	226,432	-	-	226,432	208,352	-	-	208,352
Due to related party	39,014	-	(39,014)	-	13,011	-	(13,011)	-
Loan payable to related party	2,176,020	-	(2,176,020)	-	1,876,020	-	(1,876,020)	-
Note payable and capital lease liability	1,056,793	-	-	1,056,793	1,096,923	-	-	1,096,923
Other liabilities	214,496	-	-	214,496	165,447	-	-	165,447
Total liabilities	5,128,001	-	(2,215,034)	2,912,967	4,471,817	420,000	(2,309,031)	2,582,786
Net (Deficit) Assets								
Unrestricted	(2,902,094)	18,348,196	-	15,446,102	(1,929,450)	17,154,673	-	15,225,223
Temporarily restricted	981,447	-	-	981,447	1,022,500	-	-	1,022,500
Permanently restricted	574,156	364,335	-	938,491	547,831	369,252	-	917,083
Total net (deficit) assets	(1,346,491)	18,712,531	-	17,366,040	(359,119)	17,523,925	-	17,164,806
Total liabilities and net (deficit) assets	<u>\$ 3,781,510</u>	<u>\$ 18,712,531</u>	<u>\$ (2,215,034)</u>	<u>\$ 20,279,007</u>	<u>\$ 4,112,698</u>	<u>\$ 17,943,925</u>	<u>\$ (2,309,031)</u>	<u>\$ 19,747,592</u>

ChildServ and Homes for Children Foundation

Consolidating Statement of Activities and Changes in Net Assets Year Ended June 30, 2017

	ChildServ				Homes for Children Foundation				Consolidated				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Eliminations	Total
Support and Revenue													
Government fee for service contracts	\$ 6,145,118	\$ -	\$ -	\$ 6,145,118	\$ -	\$ -	\$ -	\$ -	\$ 6,145,118	\$ -	\$ -	\$ -	\$ 6,145,118
Grants from government agencies	1,439,775	-	-	1,439,775	-	-	-	-	1,439,775	-	-	-	1,439,775
Program service fees	88,618	-	-	88,618	-	-	-	-	88,618	-	-	-	88,618
Private support	1,134,032	468,947	-	1,602,979	-	-	-	-	1,134,032	468,947	-	-	1,602,979
Grants from HFCF	926,192	-	-	926,192	-	-	-	-	926,192	-	-	(926,192)	-
Special events - Gross	212,197	-	-	212,197	-	-	-	-	212,197	-	-	-	212,197
Investment income	16	-	-	16	2,093,714	-	-	2,093,714	2,093,730	-	-	-	2,093,730
Related party interest income	-	-	-	-	82,877	-	-	82,877	82,877	-	-	(82,877)	-
Change in beneficial interest in split-interest agreements	-	-	26,325	26,325	-	-	(4,917)	(4,917)	-	-	21,408	-	21,408
Other income	146,523	-	-	146,523	2,624	-	-	2,624	149,147	-	-	(48,000)	101,147
Net assets released from restriction	510,000	(510,000)	-	-	-	-	-	-	510,000	(510,000)	-	-	-
Total support and revenue	10,602,471	(41,053)	26,325	10,587,743	2,179,215	-	(4,917)	2,174,298	12,781,686	(41,053)	21,408	(1,057,069)	11,704,972
Expenses													
Program services	9,470,532	-	-	9,470,532	926,192	-	-	926,192	10,396,724	-	-	(926,192)	9,470,532
Management and general	1,377,277	-	-	1,377,277	59,500	-	-	59,500	1,436,777	-	-	(130,877)	1,305,900
Development	727,306	-	-	727,306	-	-	-	-	727,306	-	-	-	727,306
Total expenses	11,575,115	-	-	11,575,115	985,692	-	-	985,692	12,560,807	-	-	(1,057,069)	11,503,738
Change in Net Assets	(972,644)	(41,053)	26,325	(987,372)	1,193,523	-	(4,917)	1,188,606	220,879	(41,053)	21,408	-	201,234
Net Assets (Deficit) - Beginning of year	(1,929,450)	1,022,500	547,831	(359,119)	17,154,673	-	369,252	17,523,925	15,225,223	1,022,500	917,083	-	17,164,806
Net Assets (Deficit) - End of year	<u>\$ (2,902,094)</u>	<u>\$ 981,447</u>	<u>\$ 574,156</u>	<u>\$ (1,346,491)</u>	<u>\$ 18,348,196</u>	<u>\$ -</u>	<u>\$ 364,335</u>	<u>\$ 18,712,531</u>	<u>\$ 15,446,102</u>	<u>\$ 981,447</u>	<u>\$ 938,491</u>	<u>\$ -</u>	<u>\$ 17,366,040</u>

ChildServ and Homes for Children Foundation

Consolidating Statement of Activities and Changes in Net Assets Year Ended June 30, 2016

	ChildServ				Homes for Children Foundation				Consolidated				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Eliminations	Total
Support and Revenue													
Government fee for service contracts	\$ 6,226,076	\$ -	\$ -	\$ 6,226,076	\$ -	\$ -	\$ -	\$ -	\$ 6,226,076	\$ -	\$ -	\$ -	\$ 6,226,076
Grants from government agencies	1,498,247	-	-	1,498,247	-	-	-	-	1,498,247	-	-	-	1,498,247
Program service fees	74,856	-	-	74,856	-	-	-	-	74,856	-	-	-	74,856
Private support	815,060	127,500	-	942,560	-	-	-	-	815,060	127,500	-	-	942,560
Grants from HFCE	1,482,032	-	-	1,482,032	-	-	-	-	1,482,032	-	-	(1,482,032)	-
In-kind contributions	-	-	-	-	-	-	-	-	-	-	-	-	-
Special events - Gross	108,508	-	-	108,508	-	-	-	-	108,508	-	-	-	108,508
Investment income	4	-	-	4	137,885	-	-	137,885	137,889	-	-	(50,123)	87,766
Change in beneficial interest in split-interest agreements	-	-	(36,625)	(36,625)	-	-	(10,232)	(10,232)	-	-	(46,857)	-	(46,857)
Other income	163,321	-	-	163,321	-	-	-	-	163,321	-	-	(42,000)	121,321
Net assets released from restriction	194,167	(194,167)	-	-	-	-	-	-	194,167	(194,167)	-	-	-
Total support and revenue	10,562,271	(66,667)	(36,625)	10,458,979	137,885	-	(10,232)	127,653	10,700,156	(66,667)	(46,857)	(1,574,155)	9,012,477
Expenses													
Program services	10,010,949	-	-	10,010,949	1,482,032	-	-	1,482,032	11,492,981	-	-	(1,482,032)	10,010,949
Management and general Development	1,907,187	-	-	1,907,187	52,194	-	-	52,194	1,959,381	-	-	(92,123)	1,867,258
	619,170	-	-	619,170	-	-	-	-	619,170	-	-	-	619,170
Total expenses	12,537,306	-	-	12,537,306	1,534,226	-	-	1,534,226	14,071,532	-	-	(1,574,155)	12,497,377
Change in Net Assets	(1,975,035)	(66,667)	(36,625)	(2,078,327)	(1,396,341)	-	(10,232)	(1,406,573)	(3,371,376)	(66,667)	(46,857)	-	(3,484,900)
Net Assets - Beginning of year	45,585	1,089,167	584,456	1,719,208	18,551,014	-	379,484	18,930,498	18,596,599	1,089,167	963,940	-	20,649,706
Net Assets (Deficit) - End of year	<u>\$ (1,929,450)</u>	<u>\$ 1,022,500</u>	<u>\$ 547,831</u>	<u>\$ (359,119)</u>	<u>\$ 17,154,673</u>	<u>\$ -</u>	<u>\$ 369,252</u>	<u>\$ 17,523,925</u>	<u>\$ 15,225,223</u>	<u>\$ 1,022,500</u>	<u>\$ 917,083</u>	<u>\$ -</u>	<u>\$ 17,164,806</u>

ChildServ and Homes for Children Foundation

Consolidating Statement of Functional Expenses Year Ended June 30, 2017

	ChildServ						
	Program Services			Support Services			
	DCFS Programs	Other Programs	Total Program Services	Management and General	Development	Total Support Services	Total
Cost of Care							
Provider payments	\$ 906,037	\$ 1,000,689	\$ 1,906,726	\$ -	\$ -	\$ -	\$ 1,906,726
Contract supporting services	29,961	2,438	32,399	-	-	-	32,399
Client assistance (as needed)	125,007	37,258	162,265	-	-	-	162,265
Biological parents assistance	40,810	1,020	41,830	-	-	-	41,830
Consumables	66,346	9,521	75,867	59	65	124	75,991
Reunification/After care	7,140	-	7,140	-	-	-	7,140
Total cost of care	1,176,136	1,051,141	2,227,277	59	65	124	2,227,401
Salaries and Benefits							
Salaries and wages	2,747,974	1,412,421	4,160,395	779,289	401,971	1,181,260	5,341,655
Taxes	242,313	124,364	366,677	69,238	35,467	104,705	471,382
Staff benefits	410,194	210,623	620,817	122,699	60,235	182,934	803,751
Total salaries and benefits	3,400,481	1,747,408	5,147,889	971,226	497,673	1,468,899	6,616,788
Cost of Operations							
General office	100,253	73,330	173,583	27,674	15,403	43,077	216,660
Business travel	153,031	49,243	202,274	6,377	3,033	9,410	211,684
Staff training	4,182	10,807	14,989	1,744	512	2,256	17,245
Professional fees	225,970	305,941	531,911	133,514	63,878	197,392	729,303
Dues and membership	240	3,285	3,525	12,275	266	12,541	16,066
Media production	448	-	448	-	14,730	14,730	15,178
ChildServ meetings	3,858	1,645	5,503	6,083	1,107	7,190	12,693
Events	1,053	1,000	2,053	208	87,742	87,950	90,003
Staff recruiting	-	-	-	5,172	-	5,172	5,172
Equipment charges	50,882	29,533	80,415	34,953	13,498	48,451	128,866
Rent and occupancy	397,418	443,017	840,435	30,693	15,755	46,448	886,883
Insurance	77,430	44,159	121,589	42,344	9,640	51,984	173,573
Corporate vehicles	45,480	-	45,480	-	-	-	45,480
Interest	39,488	32,111	71,599	99,577	42	99,619	171,218
Grant to ChildServ	-	-	-	-	-	-	-
Miscellaneous	830	732	1,562	5,378	3,962	9,340	10,902
Total cost of operations	1,100,563	994,803	2,095,366	405,992	229,568	635,560	2,730,926
Total expenses	\$ 5,677,180	\$ 3,793,352	\$ 9,470,532	\$ 1,377,277	\$ 727,306	\$ 2,104,583	\$ 11,575,115

ChildServ and Homes for Children Foundation

Consolidating Statement of Functional Expenses (Continued) Year Ended June 30, 2017

	Homes for Children Foundation						
	Program Services			Support Services			
	DCFS Programs	Other Programs	Total Program Services	Management and General	Development	Total Support Services	Total
Cost of Care							
Provider payments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contract supporting services	-	-	-	-	-	-	-
Client assistance (as needed)	-	-	-	-	-	-	-
Biological parents assistance	-	-	-	-	-	-	-
Consumables	-	-	-	-	-	-	-
Reunification/After care	-	-	-	-	-	-	-
Total cost of care	-	-	-	-	-	-	-
Salaries and Benefits							
Salaries and wages	-	-	-	-	-	-	-
Taxes	-	-	-	-	-	-	-
Staff benefits	-	-	-	-	-	-	-
Total salaries and benefits	-	-	-	-	-	-	-
Cost of Operations							
General office	-	-	-	-	-	-	-
Business travel	-	-	-	-	-	-	-
Staff training	-	-	-	-	-	-	-
Professional fees	-	-	-	59,500	-	59,500	59,500
Dues and membership	-	-	-	-	-	-	-
Media production	-	-	-	-	-	-	-
ChildServ meetings	-	-	-	-	-	-	-
Events	-	-	-	-	-	-	-
Staff recruiting	-	-	-	-	-	-	-
Equipment charges	-	-	-	-	-	-	-
Rent and occupancy	-	-	-	-	-	-	-
Insurance	-	-	-	-	-	-	-
Transportation equipment	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Grant to ChildServ	-	926,192	926,192	-	-	-	926,192
Miscellaneous	-	-	-	-	-	-	-
Total cost of operations	-	926,192	926,192	59,500	-	59,500	985,692
Total expenses	\$ -	\$ 926,192	\$ 926,192	\$ 59,500	\$ -	\$ 59,500	\$ 985,692

ChildServ and Homes for Children Foundation

Consolidating Statement of Functional Expenses (Continued) Year Ended June 30, 2017

	Total							
	Eliminations	Program Services			Support Services			Total
		DCFS Programs	Other Programs	Total Program Services	Management and General	Development	Total Support Services	
Cost of Care								
Provider payments	\$ -	\$ 906,037	\$ 1,000,689	\$ 1,906,726	\$ -	\$ -	\$ -	\$ 1,906,726
Contract supporting services	-	29,961	2,438	32,399	-	-	-	32,399
Client assistance (as needed)	-	125,007	37,258	162,265	-	-	-	162,265
Biological parents assistance	-	40,810	1,020	41,830	-	-	-	41,830
Consumables	-	66,346	9,521	75,867	59	65	124	75,991
Reunification/After care	-	7,140	-	7,140	-	-	-	7,140
Total cost of care	-	1,176,136	1,051,141	2,227,277	59	65	124	2,227,401
Salaries and Benefits								
Salaries and wages	-	2,747,974	1,412,421	4,160,395	779,289	401,971	1,181,260	5,341,655
Taxes	-	242,313	124,364	366,677	69,238	35,467	104,705	471,382
Staff benefits	-	410,194	210,623	620,817	122,699	60,235	182,934	803,751
Total salaries and benefits	-	3,400,481	1,747,408	5,147,889	971,226	497,673	1,468,899	6,616,788
Cost of Operations								
General office	-	100,253	73,330	173,583	27,674	15,403	43,077	216,660
Business travel	-	153,031	49,243	202,274	6,377	3,033	9,410	211,684
Staff training	-	4,182	10,807	14,989	1,744	512	2,256	17,245
Professional fees	(48,000)	225,970	305,941	531,911	145,014	63,878	208,892	740,803
Dues and membership	-	240	3,285	3,525	12,275	266	12,541	16,066
Media production	-	448	-	448	-	14,730	14,730	15,178
ChildServ meetings	-	3,858	1,645	5,503	6,083	1,107	7,190	12,693
Events	-	1,053	1,000	2,053	208	87,742	87,950	90,003
Staff recruiting	-	-	-	-	5,172	-	5,172	5,172
Equipment charges	-	50,882	29,533	80,415	34,953	13,498	48,451	128,866
Rent and occupancy	-	397,418	443,017	840,435	30,693	15,755	46,448	886,883
Insurance	-	77,430	44,159	121,589	42,344	9,640	51,984	173,573
Transportation equipment	-	45,480	-	45,480	-	-	-	45,480
Interest	(82,877)	39,488	32,111	71,599	16,700	42	16,742	88,341
Grant to ChildServ	(926,192)	-	926,192	-	-	-	-	-
Miscellaneous	-	830	732	1,562	5,378	3,962	9,340	10,902
Total cost of operations	(1,057,069)	1,100,563	1,920,995	2,095,366	334,615	229,568	564,183	2,659,549
Total expenses	\$ (1,057,069)	\$ 5,677,180	\$ 4,719,544	\$ 9,470,532	\$ 1,305,900	\$ 727,306	\$ 2,033,206	\$ 11,503,738

ChildServ and Homes for Children Foundation

Consolidating Statement of Functional Expenses Year Ended June 30, 2016

	ChildServ						Total
	Program Services			Support Services			
	DCFS Programs	Other Programs	Total Program Services	Management and General	Development	Total Support Services	
Cost of Care							
Provider payments	\$ 989,104	\$ 845,574	\$ 1,834,678	\$ -	\$ -	\$ -	\$ 1,834,678
Contract supporting services	36,524	2,500	39,024	-	-	-	39,024
Client assistance (as needed)	131,430	36,156	167,586	10	195	205	167,791
Biological parents assistance	22,446	109	22,555	-	-	-	22,555
Consumables	88,366	14,740	103,106	-	1,220	1,220	104,326
Reunification/After care	4,146	-	4,146	-	-	-	4,146
Cash assistance	-	-	-	-	-	-	-
Total cost of care	1,272,016	899,079	2,171,095	10	1,415	1,425	2,172,520
Salaries and Benefits							
Salaries and wages	3,042,384	1,545,438	4,587,822	803,712	341,768	1,145,480	5,733,302
Taxes	258,486	131,508	389,994	65,744	29,222	94,966	484,960
Staff benefits	632,748	321,058	953,806	194,740	72,623	267,363	1,221,169
Total salaries and benefits	3,933,618	1,998,004	5,931,622	1,064,196	443,613	1,507,809	7,439,431
Cost of Operations							
General office	99,076	81,522	180,598	31,623	15,824	47,447	228,045
Business travel	153,657	57,913	211,570	7,545	3,560	11,105	222,675
Staff training	16,838	11,177	28,015	5,662	4,101	9,763	37,778
Professional fees	207,219	79,436	286,655	563,723	27,096	590,819	877,474
Dues and membership	880	2,695	3,575	31,085	33	31,118	34,693
Media production	-	-	-	-	30,552	30,552	30,552
ChildServ meetings	3,983	1,331	5,314	2,651	2,108	4,759	10,073
Events	-	-	-	-	55,511	55,511	55,511
Staff recruiting	500	-	500	6,295	-	6,295	6,795
Equipment charges	54,587	30,898	85,485	49,513	12,108	61,621	147,106
Rent and occupancy	422,326	441,235	863,561	35,593	15,941	51,534	915,095
Insurance	53,720	30,262	83,982	30,305	5,200	35,505	119,487
Transportation equipment	48,419	-	48,419	5,023	-	5,023	53,442
Interest	28,282	16,276	44,558	68,722	61	68,783	113,341
Grant to ChildServ	-	-	-	-	-	-	-
Miscellaneous	40,700	25,300	66,000	5,241	2,047	7,288	73,288
Total cost of operations	1,130,187	778,045	1,908,232	842,981	174,142	1,017,123	2,925,355
Total expenses	<u>\$ 6,335,821</u>	<u>\$ 3,675,128</u>	<u>\$ 10,010,949</u>	<u>\$ 1,907,187</u>	<u>\$ 619,170</u>	<u>\$ 2,526,357</u>	<u>\$ 12,537,306</u>

ChildServ and Homes for Children Foundation

Consolidating Statement of Functional Expenses (Continued) Year Ended June 30, 2016

	Homes for Children Foundation						
	Program Services			Support Services			
	DCFS Programs	Other Programs	Total Program Services	Management and General	Development	Total Support Services	Total
Cost of Care							
Provider payments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contract supporting services	-	-	-	-	-	-	-
Client assistance (as needed)	-	-	-	-	-	-	-
Biological parents assistance	-	-	-	-	-	-	-
Consumables	-	-	-	-	-	-	-
Reunification/After care	-	-	-	-	-	-	-
Cash assistance	-	-	-	-	-	-	-
Total cost of care	-	-	-	-	-	-	-
Salaries and Benefits							
Salaries and wages	-	-	-	-	-	-	-
Taxes	-	-	-	-	-	-	-
Staff benefits	-	-	-	-	-	-	-
Total salaries and benefits	-	-	-	-	-	-	-
Cost of Operations							
General office	-	-	-	-	-	-	-
Business travel	-	-	-	-	-	-	-
Staff training	-	-	-	-	-	-	-
Professional fees	-	-	-	52,194	-	52,194	52,194
Dues and membership	-	-	-	-	-	-	-
Media production	-	-	-	-	-	-	-
ChildServ meetings	-	-	-	-	-	-	-
Events	-	-	-	-	-	-	-
Staff recruiting	-	-	-	-	-	-	-
Equipment charges	-	-	-	-	-	-	-
Rent and occupancy	-	-	-	-	-	-	-
Insurance	-	-	-	-	-	-	-
Transportation equipment	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Grant to ChildServ	-	1,482,032	1,482,032	-	-	-	1,482,032
Miscellaneous	-	-	-	-	-	-	-
Total cost of operations	-	1,482,032	1,482,032	52,194	-	52,194	1,534,226
Total expenses	\$ -	\$ 1,482,032	\$ 1,482,032	\$ 52,194	\$ -	\$ 52,194	\$ 1,534,226

See Notes to Consolidating Financial Statements.

ChildServ and Homes for Children Foundation

Consolidating Statement of Functional Expenses (Continued) Year Ended June 30, 2016

	Total							
	Eliminations	Program Services			Support Services			Total
		DCFS Programs	Other Programs	Total Program Services	Management and General	Development	Total Support Services	
Cost of Care								
Provider payments	\$ -	\$ 989,104	\$ 845,574	\$ 1,834,678	\$ -	\$ -	\$ -	\$ 1,834,678
Contract supporting services	-	36,524	2,500	39,024	-	-	-	39,024
Client assistance (as needed)	-	131,430	36,156	167,586	10	195	205	167,791
Biological parents assistance	-	22,446	109	22,555	-	-	-	22,555
Consumables	-	88,366	14,740	103,106	-	1,220	1,220	104,326
Reunification/After care	-	4,146	-	4,146	-	-	-	4,146
Cash assistance	-	-	-	-	-	-	-	-
Total cost of care	-	1,272,016	899,079	2,171,095	10	1,415	1,425	2,172,520
Salaries and Benefits								
Salaries and wages	-	3,042,384	1,545,438	4,587,822	803,712	341,768	1,145,480	5,733,302
Taxes	-	258,486	131,508	389,994	65,744	29,222	94,966	484,960
Staff benefits	-	632,748	321,058	953,806	194,740	72,623	267,363	1,221,169
Total salaries and benefits	-	3,933,618	1,998,004	5,931,622	1,064,196	443,613	1,507,809	7,439,431
Cost of Operations								
General office	-	99,076	81,522	180,598	31,623	15,824	47,447	228,045
Business travel	-	153,657	57,913	211,570	7,545	3,560	11,105	222,675
Staff training	-	16,838	11,177	28,015	5,662	4,101	9,763	37,778
Professional fees	(42,000)	207,219	79,436	286,655	573,917	27,096	601,013	887,668
Dues and membership	-	880	2,695	3,575	31,085	33	31,118	34,693
Media production	-	-	-	-	-	30,552	30,552	30,552
ChildServ meetings	-	3,983	1,331	5,314	2,651	2,108	4,759	10,073
Events	-	-	-	-	-	55,511	55,511	55,511
Staff recruiting	-	500	-	500	6,295	-	6,295	6,795
Equipment charges	-	54,587	30,898	85,485	49,513	12,108	61,621	147,106
Rent and occupancy	-	422,326	441,235	863,561	35,593	15,941	51,534	915,095
Insurance	-	53,720	30,262	83,982	30,305	5,200	35,505	119,487
Transportation equipment	-	48,419	-	48,419	5,023	-	5,023	53,442
Interest	(50,123)	28,282	16,276	44,558	18,599	61	18,660	63,218
Grant to ChildServ	(1,482,032)	-	1,482,032	-	-	-	-	-
Miscellaneous	-	40,700	25,300	66,000	5,241	2,047	7,288	73,288
Total cost of operations	(1,574,155)	1,130,187	2,260,077	1,908,232	803,052	174,142	977,194	2,885,426
Total expenses	\$ (1,574,155)	\$ 6,335,821	\$ 5,157,160	\$ 10,010,949	\$ 1,867,258	\$ 619,170	\$ 2,486,428	\$ 12,497,377

ChildServ and Homes for Children Foundation

Consolidating Statement of Cash Flows

	Year Ended							
	June 30, 2017				June 30, 2016			
	ChildServ	Homes for Children Foundation	Eliminations	Total	ChildServ	Homes for Children Foundation	Eliminations	Total
Cash Flows from Operating Activities								
Change in net assets	\$ (987,372)	\$ 1,188,606	\$ -	\$ 201,234	\$ (2,078,327)	\$ (1,406,573)	\$ -	\$ (3,484,900)
Adjustments to reconcile change in net assets to net cash from operating activities:								
Provision for bad debts	-	-	-	-	66,000	-	-	66,000
Realized and change in unrealized net (gains) losses on investments	-	(1,718,978)	-	(1,718,978)	-	310,939	-	310,939
Change in beneficial interest in split-interest agreements	(26,325)	4,917	-	(21,408)	36,625	10,232	-	46,857
Donated properties	-	-	-	-	-	-	-	-
Depreciation	166,254	-	-	166,254	167,239	-	-	167,239
(Increase) decrease in assets:								
Program receivables	(272,466)	-	-	(272,466)	(174,472)	-	-	(174,472)
Grant receivable from related party	420,000	-	(420,000)	-	140,000	-	(140,000)	-
Prepaid expenses and other	(58,249)	(227,311)	-	(285,560)	203,479	-	-	203,479
Increase (decrease) in liabilities:								
Accounts payable	16,900	-	-	16,900	(22,332)	-	-	(22,332)
Grant payable to related party	-	(420,000)	420,000	-	-	(140,000)	140,000	-
Advances and deferred support	18,080	-	-	18,080	(151,410)	-	-	(151,410)
Accrued payroll	39,066	-	-	39,066	378,620	-	-	378,620
Other liabilities	127,997	-	-	127,997	(72,612)	-	-	(72,612)
Total adjustments	431,257	(2,361,372)	-	(1,930,115)	571,137	181,171	-	752,308
Net cash used in operating activities	(556,115)	(1,172,766)	-	(1,728,881)	(1,507,190)	(1,225,402)	-	(2,732,592)
Cash Flows from Investing Activities								
Proceeds from sale of investments	-	1,873,505	-	1,873,505	-	2,322,031	-	2,322,031
Purchases of investments	-	(374,736)	-	(374,736)	-	(398,702)	-	(398,702)
Loan to related party	-	(326,003)	326,003	-	-	(700,000)	700,000	-
Due to (from) related party	326,003	-	(326,003)	-	(2,073)	2,073	-	-
Purchase of property and equipment	(100,444)	-	-	(100,444)	(400,270)	-	-	(400,270)
Net cash provided by (used in) investing activities	225,559	1,172,766	-	1,398,325	(402,343)	1,225,402	700,000	1,523,059
Cash Flows from Financing Activities								
Net repayments under line of credit	168,268	-	-	168,268	(307,756)	-	-	(307,756)
Repayments on note payable	(1,096,923)	-	-	(1,096,923)	(322,946)	-	-	(322,946)
Borrowing from related party	-	-	-	-	700,000	-	(700,000)	-
Borrowings on promissory note	1,056,793	-	-	1,056,793	1,096,923	-	-	1,096,923
Net cash provided by financing activities	128,138	-	-	128,138	1,166,221	-	(700,000)	466,221
Net Decrease in Cash and Cash Equivalents	(202,418)	-	-	(202,418)	(743,312)	-	-	(743,312)
Cash and Cash Equivalents - Beginning of year	209,759	-	-	209,759	953,071	-	-	953,071
Cash and Cash Equivalents - End of year	\$ 7,341	\$ -	\$ -	\$ 7,341	\$ 209,759	\$ -	\$ -	\$ 209,759
Supplemental Disclosure of Cash Flow Information -								
Cash payments for interest	\$ 99,567	\$ -	\$ -	\$ 99,567	\$ 76,988	\$ -	\$ -	\$ 76,988

ChildServ and Homes for Children Foundation

Notes to Consolidating Financial Statements June 30, 2017 and 2016

Note I - Nature of Activities and Significant Accounting Policies

Nature of Organization - ChildServ (ChildServ) and Homes for Children Foundation (HFCF) are separate corporations organized separately under the laws of the State of Illinois pursuant to the provisions of the "General Not-For-Profit Corporation Act." ChildServ's mission is to meet the needs of children by empowering communities and families with children through child advocacy, prevention, early intervention, and out-of-home treatment services. ChildServ provides adoption, foster care, residential care, child care, and child and family counseling and related services. HFCF's mission is to solicit, invest, and distribute funds to meet the needs of children. HFCF was originally organized and is operated to provide financial support to ChildServ.

Significant accounting policies are as follows:

Basis of Presentation - The financial statements of ChildServ and HFCF are consolidated in accordance with accounting principles generally accepted in the United States of America using the accrual basis of accounting.

The accompanying consolidating financial statements include the accounts of ChildServ and HFCF (collectively, the "Organization"). ChildServ is the sole member of HFCF. Intercompany transactions and balances have been eliminated in consolidation. The separate classes of net assets are defined as follows:

- Unrestricted - Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by actions of the board of directors.
- Temporarily restricted - Net assets whose use by the Organization is subject to donor-imposed restrictions that can be fulfilled by actions of the Organization pursuant to those restrictions or that expire by the passage of time
- Permanently restricted - Net assets that are subject to donor-imposed restrictions stipulating that the corpus be held in perpetuity

Cash and Cash Equivalents - ChildServ and HFCF consider their operating and payroll checking accounts, petty cash, money market funds, and overnight investments to be cash equivalents. ChildServ's cash and cash equivalents are held by a financial institution. Management has not experienced any losses in such accounts and believes it is not exposed to any significant risk on cash and cash equivalents.

Program Receivables - Program receivables primarily represent uncollateralized funding source obligations from government fee-for-service contracts, grants from government agencies, and program service fees. Program receivables are stated at the invoice amount.

ChildServ and Homes for Children Foundation

Notes to Consolidating Financial Statements June 30, 2017 and 2016

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Payments of program receivables are applied to the specific invoices identified on the funding source's remittance advice or, in some cases, to the earliest unpaid invoices.

The carrying amount of program receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected. The allowance for doubtful accounts is based on management's assessment of the collectibility of specific funding source accounts and the aging of the program receivables. 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.

Support and Revenue - ChildServ receives a significant portion of its operating funds from grants and awards. These funds are reported as unrestricted support as the grants reimburse ChildServ for services provided.

Contributions are recognized as revenue when the donor makes a promise to give that is, in substance, unconditional. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidating statement of activities and changes in net assets as net assets released from restrictions.

Investments - Investments include marketable equity securities. Investments are carried at fair value, with unrealized and realized gains and losses on investments reported as an increase or decrease in unrestricted, temporarily restricted, or permanently restricted net assets, based upon donor-imposed restrictions. Donated investments are recorded at fair value as of the date that the donation is made.

Investment income includes realized gains and losses on investments, changes in unrealized holding gains and losses, and interest and dividend income. Investment income is recorded on the accrual basis of accounting and is included in investment returns in the consolidating statement of activities and changes in net assets. Gains and investment income that are limited to specific uses by donor-imposed restrictions are reported in unrestricted net assets when the restrictions are met in the same reporting period as the gains and income are recognized.

ChildServ and Homes for Children Foundation

Notes to Consolidating Financial Statements June 30, 2017 and 2016

Note I - Nature of Activities and Significant Accounting Policies (Continued)

Advances of Government Contracts and Deferred Grants - Funds received by ChildServ in advance of providing services under the terms of a contract or grant are recorded as a liability until services are performed.

Property and Equipment - Property and equipment are recorded at cost when purchased or at fair value at the date of donation and are being depreciated on a straight-line basis over their estimated useful lives. Costs of maintenance and repairs are charged to expense when incurred.

Donated Assets and Services - Certain donated materials are recognized as support in the consolidating statement of activities and changes in net assets. The values of the materials are determined based on estimated fair value. Donations of services are recorded if they create or enhance a nonfinancial asset or are specialized skills that would be purchased if they were not donated. The value of these services was determined based on their estimated fair value. Other volunteer services are not reflected in the consolidating financial statements because the services are not recordable under accounting principles generally accepted in the United States of America.

Beneficial Interest in Split-interest Agreements - Beneficial interest in trusts is stated at the estimated fair value of the assets from trusts based on the percentage of the trust designated to the Organization applied to the total fair value of the trust, which is based primarily on quoted market prices. Changes in the fair value of the underlying trust assets, as determined by the trustees that hold and/or manage these assets, are recognized in the consolidating statement of activities and changes in net assets in the periods in which they occur.

Functional Allocation of Expenses - The costs of providing the program and support services have been reported on a functional basis in the consolidating statement of activities and changes in net assets. Indirect costs have been allocated between the various programs and support services based on estimates, as determined by management. Although the methods of allocation used are considered reasonable, other methods could be used that would produce a different amount.

Income Taxes - The Organization is exempt from income tax under provisions of Internal Revenue Code Section 501(c)(3).

ChildServ and Homes for Children Foundation

Notes to Consolidating Financial Statements June 30, 2017 and 2016

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Use of Estimates - The preparation of 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 financial statements and the reported amounts of revenue, expenses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Concentrations - ChildServ receives a significant portion of its support and revenue from three State of Illinois and City of Chicago agencies (66 and 77 percent of total support and revenue in the years ended June 30, 2017 and 2016, respectively, and 30 percent and 28 percent of gross receivables as of June 30, 2017 and 2016). If the governmental units terminate their support for ChildServ, their ability to provide the program services could be significantly reduced.

Recent Accounting Change - In April 2015, the Financial Accounting Standards Board issued ASU No. 2015-03, *Interest - Imputation of Interest*, which superseded the current debt issuance costs requirements in ASC 835. The ASU guidance was adopted for the Organization's year ended June 30, 2016 related to new debt issuance costs. The adoption of the new guidance required the financing charges to be netted against the debt in the consolidating statement of financial position. See Note 8 for further information.

Upcoming Accounting Change - The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, in August 2016. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Organization, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Organization's year ending June 30, 2019 and thereafter and must be applied on a retrospective basis. The Organization is currently gathering the appropriate information to implement these disclosure changes in a timely manner as the Organization believes there will be some impact on the consolidating financial statements as well as additional disclosures relating to liquidity and availability of funds.

ChildServ and Homes for Children Foundation

Notes to Consolidating Financial Statements June 30, 2017 and 2016

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Upcoming Accounting Change - In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Organization's year ending June 30, 2020. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Organization has determined that the standard will not have a significant impact on the consolidating financial statements. The Organization is currently gathering the appropriate information to implement these disclosure changes in a timely manner.

Upcoming Accounting Change - In February 2016, the Financial Accounting Standards Board issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC No. 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Organization's year ending June 30, 2021 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The new lease standard is expected to have a significant effect on the Organization's consolidating financial statements as a result of the leases for offices and facilities classified as operating leases, which are further described in Note 12. The Organization is currently gathering the appropriate information to implement these disclosure changes in a timely manner.

Subsequent Events - The consolidating financial statements and related disclosures include evaluation of events up through and including March 1, 2018, which is the date the consolidating financial statements were available to be issued.

ChildServ and Homes for Children Foundation

Notes to Consolidating Financial Statements June 30, 2017 and 2016

Note 2 - Related Party Transactions

HFCF provides financial support to ChildServ. Under HFCF's current policy, the directors of HFCF determine its annual contribution to ChildServ based on 5 percent of the three-year average market value of HFCF's assets. Additional operating grants might be awarded at the discretion of the HFCF board.

Additionally, HFCF pledged an unconditional grant in the amount of \$700,000 to ChildServ on June 30, 2014. Payments were originally scheduled in five equal installments from fiscal year 2015 to 2019. The pledge payment was received in 2015 and 2016 in addition to the annual HFCF grant. In 2017, the remaining three pledge payments were received in addition to annual HFCF grant.

The grant amounts made by the Foundation to ChildServ during the years ended June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Grant approved based on policy	\$ 926,192	\$ 918,477
Pledge payment, as stated above	<u>(420,000)</u>	<u>(140,000)</u>
Subtotal	506,192	778,477
Additional grants approved	-	563,555
Pledge payment, considered as an additional grant rather than part of annual grant approved based on policy	<u>420,000</u>	<u>140,000</u>
Subtotal	<u>420,000</u>	<u>703,555</u>
Total	<u>\$ 926,192</u>	<u>\$ 1,482,032</u>

Due from affiliate balances of \$39,014 and \$13,011 as of June 30, 2017 and 2016, respectively, represent operating advances from HFCF to ChildServ, including accrued interest.

ChildServ's related party debt payable to HFCF as of June 30 is as follows:

	<u>2017</u>	<u>2016</u>
Loan payable originally due in yearly installments of \$24,000, plus interest payment with an interest rate at 4 percent, with a final lump-sum payment of \$157,020 due on June 30, 2018. As of December 5, 2017, the debt is due in quarterly payments of \$5,125 beginning July 1, 2018, plus interest payment at a rate of 4 percent, with a final payment due on June 30, 2028	\$ 205,020	\$ 205,020

ChildServ and Homes for Children Foundation

Notes to Consolidating Financial Statements June 30, 2017 and 2016

Note 2 - Related Party Transactions (Continued)

	<u>2017</u>	<u>2016</u>
Loan payable originally due in yearly installments of \$194,200 from 2018 to 2022, plus interest at a rate of 4 percent, due on June 30, 2022. As of December 5, 2017, the debt is due in quarterly payments of \$24,275 beginning July 1, 2018, plus interest payment at a rate of 4 percent, with a final payment due on June 30, 2028	\$ 971,000	\$ 971,000
\$1,000,000 revolving line of credit with an interest rate of LIBOR plus 275 floating basis points, interest due quarterly starting on July 1 2018, principal due at maturity on June 30, 2028, and collateralized by the assets of ChildServ	<u>1,000,000</u>	<u>700,000</u>
Total	<u>\$ 1,971,000</u>	<u>\$ 1,671,000</u>

The loans are payable with maturities as of June 30 as follows:

2018	\$ -
2019	117,600
2020	117,600
2021	117,600
2022	117,600
Thereafter	<u>1,705,620</u>
Total	<u>\$ 2,176,020</u>

ChildServ provides office space and administrative management services for HFCE. Fees for these services amounted to \$48,000 and \$42,000 for the years ended June 30, 2017 and 2016, respectively.

Interest expenses of \$82,877 and \$50,123 to HFCE for the years ended June 30, 2017 and 2016, respectively, are included in the consolidating statement of activities and changes in net assets.

These amounts above are eliminated in the consolidating statements of financial position and activities and changes in net assets.

ChildServ and Homes for Children Foundation

Notes to Consolidating Financial Statements June 30, 2017 and 2016

Note 3 - Program Receivables

Program receivables consisted of the following as of June 30:

	2017	2016
Contracts	\$ 598,489	\$ 519,059
Grants	745,013	568,749
Other	45,335	49,000
Total receivables	1,388,837	1,136,808
Less allowance for uncollectible receivables	(21,490)	(41,927)
Net program receivables	<u>\$ 1,367,347</u>	<u>\$ 1,094,881</u>

Note 4 - Investments

HFCF's investments consisted of the following Vanguard Funds at June 30:

	2017 Cost	2017 Fair Value	2016 Cost	2016 Fair Value
Institutional index fund	\$ 3,278,865	\$ 5,644,764	\$ 3,488,979	\$ 5,329,685
Mid-cap fund	775,991	1,281,996	781,306	1,202,111
Small-cap fund	774,443	1,253,292	782,821	1,157,469
Bond market index institutional	2,708,395	2,837,260	3,017,191	3,266,230
Total bond market index institutional	196	197	-	-
REIT index fund	413,869	520,589	397,780	530,825
High yield corporate fund	373,220	409,725	351,419	371,352
Short-term investment grade	227,652	228,272	222,809	225,319
International equity funds	3,238,440	3,769,711	3,698,567	3,642,606
Total	<u>\$ 11,791,071</u>	<u>\$ 15,945,806</u>	<u>\$ 12,740,872</u>	<u>\$ 15,725,597</u>

Investment income is as follows:

	ChildServ	HFCF	Elimination	2017
Interest and dividends	\$ 16	\$ 460,237	\$ (82,877)	377,376
Net realized and unrealized gains	-	1,718,978	-	1,718,978
Total investment income	<u>\$ 16</u>	<u>\$ 2,179,215</u>	<u>\$ (82,877)</u>	<u>\$ 2,096,354</u>

ChildServ and Homes for Children Foundation

Notes to Consolidating Financial Statements June 30, 2017 and 2016

Note 4 - Investments (Continued)

	ChildServ	HFCF	Elimination	2016
Interest and dividends	\$ 4	\$ 448,824	\$ (50,123)	398,705
Net realized and unrealized gains	-	(310,939)	-	(310,939)
Total investment income	\$ 4	\$ 137,885	\$ (50,123)	\$ 87,766

Note 5 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Organization's assets measured at fair value on a recurring basis at June 30, 2017 and 2016 and the valuation techniques used by the Organization to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Organization has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

The Organization does not currently utilize any Level 2 inputs.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Organization's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

The Organization's policy is to recognize transfers in and transfers out of Level 1, 2, and 3 fair value classifications as of the beginning of the reporting period in which the circumstances that caused the transfer. During the years ended June 30, 2017 and 2016, there were no such transfers.

ChildServ and Homes for Children Foundation

Notes to Consolidating Financial Statements June 30, 2017 and 2016

Note 5 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at June 30, 2017

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2017
Assets				
Mutual funds:				
Institutional index fund	\$ 5,644,961	\$ -	\$ -	\$ 5,644,961
Mid-cap fund	1,281,996	-	-	1,281,996
Small-cap fund	1,253,292	-	-	1,253,292
Corporate bond funds	3,246,985	-	-	3,246,985
International equity funds	3,769,711	-	-	3,769,711
REIT Index Fund	520,589	-	-	520,589
Short-term investment grade	<u>228,272</u>	<u>-</u>	<u>-</u>	<u>228,272</u>
Total investments	15,945,806	-	-	15,945,806
Beneficial interests in split- interest agreements	<u>-</u>	<u>-</u>	<u>898,537</u>	<u>898,537</u>
Total assets	<u>\$ 15,945,806</u>	<u>\$ -</u>	<u>\$ 898,537</u>	<u>\$ 16,844,343</u>

Assets Measured at Fair Value on a Recurring Basis at June 30, 2016

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2016
Assets				
Mutual funds:				
Institutional index fund	\$ 5,329,685	\$ -	\$ -	\$ 5,329,685
Mid-cap fund	1,202,111	-	-	1,202,111
Small-cap fund	1,157,469	-	-	1,157,469
Corporate bond funds	3,637,582	-	-	3,637,582
International equity funds	3,642,606	-	-	3,642,606
REIT Index Fund	530,825	-	-	530,825
Short-term investment grade	<u>225,319</u>	<u>-</u>	<u>-</u>	<u>225,319</u>
Total investments	15,725,597	-	-	15,725,597
Beneficial interests in split- interest agreements	<u>-</u>	<u>-</u>	<u>877,129</u>	<u>877,129</u>
Total assets	<u>\$ 15,725,597</u>	<u>\$ -</u>	<u>\$ 877,129</u>	<u>\$ 16,602,726</u>

ChildServ and Homes for Children Foundation

Notes to Consolidating Financial Statements June 30, 2017 and 2016

Note 5 - Fair Value Measurements (Continued)

Estimated fair value for the Organization's beneficial interests in split-interest agreements is based on the percentage of the trust designated to the Organization, applied to the trust's total fair value, which is based primarily on quoted market prices of the underlying investments.

Changes in Level 3 assets measured at fair value on a recurring basis for the years ended June 30, 2017 and 2016 are as follows:

	ChildServ	HFCF	2017
Balance at July 1, 2016	\$ 547,832	\$ 329,297	\$ 877,129
Change in fair value	26,325	(4,917)	21,408
Balance at June 30, 2017	<u>\$ 574,157</u>	<u>\$ 324,380</u>	<u>\$ 898,537</u>
	ChildServ	HFCF	2016
Balance at July 1, 2015	\$ 584,457	\$ 339,529	\$ 923,986
Change in fair value	(36,625)	(10,232)	(46,857)
Balance at June 30, 2016	<u>\$ 547,832</u>	<u>\$ 329,297</u>	<u>\$ 877,129</u>

There were three beneficial interests in split-interest agreements under ChildServ with 50 percent, 8.33 percent, and 5 percent interests. The fair values of the trusts were \$386,258, \$44,044, and \$143,855 as of June 30, 2017 and \$368,758, \$43,599, and \$135,475 as of June 30, 2016. There was one beneficial interest in split-interest agreement under HFCF with a 6.5 percent interest.

Both observable and unobservable inputs may be used to determine the fair value of positions classified as Level 3 assets and liabilities. As a result, the unrealized gains and losses for these assets presented in the tables above may include changes in fair value that were attributable to both observable and unobservable inputs. There are no unfunded commitments for 2017 and 2016 and the Organization does not have any ability to redeem any portion of its beneficial interest in split-interest agreements.

ChildServ and Homes for Children Foundation

Notes to Consolidating Financial Statements June 30, 2017 and 2016

Note 6 - Property and Equipment

The cost of property and equipment is summarized as follows:

	2017	2016	Depreciable Life - Years
Land	\$ 347,595	\$ 347,595	-
Buildings and improvements	2,049,506	2,003,716	10-20
Leasehold improvements	387,958	338,663	5-10
Office equipment and furniture	898,486	893,130	3-5
Computer hardware, software, network, and other	<u>3,094,933</u>	<u>3,094,933</u>	3-5
Total property and equipment	6,778,478	6,678,037	
Accumulated depreciation and amortization	<u>(5,081,999)</u>	<u>(4,915,748)</u>	
Net property and equipment	<u>\$ 1,696,479</u>	<u>\$ 1,762,289</u>	

Depreciation expense was \$166,254 for 2017 and \$167,239 for 2016.

Note 7 - Line of Credit Agreement

ChildServ has a \$1,000,000 line of credit agreement with a commercial bank that matured on March 4, 2018. ChildServ expects the agreement will be extended through March 4, 2019. Borrowings under this line of credit bear interest at the prime rate (4.25 percent and 3.50 percent at June 30, 2017 and 2016, respectively) plus 1 percent, and are secured by the property and equipment of ChildServ. The balances outstanding as of June 30, 2017 and 2016 were \$465,000 and \$296,732, respectively. The line of credit agreement requires ChildServ to maintain a debt service ratio and a minimum of \$450,000 in unrestricted net assets. ChildServ was in violation of these covenants as of June 30, 2017, September 30, 2017, and December 31, 2017 and subsequently obtained a waiver from the bank.

ChildServ and Homes for Children Foundation

Notes to Consolidating Financial Statements June 30, 2017 and 2016

Note 8 - Notes Payable

Long-term debt at June 30 is as follows:

	<u>2017</u>	<u>2016</u>
Promissory note agreement with Illinois Facilities Fund (IFF) in the original amount of \$1,100,000. The note bears interest at the rate of 5.75 percent per annum and has a maturity date of January 1, 2021. The note is payable in monthly installments of \$7,723, including principal and interest. A balloon payment of \$945,149 is due on January 1, 2021. The balances are net of \$28,970 and \$37,247 of financing charges in 2017 and 2016, respectively. The note is secured by mortgages, assignments of leases and rents, and security agreements and fixture filings for certain properties stated in the agreement	\$ 1,025,049	\$ 1,047,864

The balance of the above debt matures as follows:

2018	\$ 24,651
2019	26,595
2020	28,654
2021	<u>945,149</u>
Total	<u>\$ 1,025,049</u>

Note 9 - Capital Leases

On March 31, 2016, ChildServ entered into a 36-month software capital lease agreement with LEAF Capital Funding, LLC in the original amount of \$51,945, with monthly payments of \$1,443. The future minimum lease payments under capital leases as are follows:

2018	\$ 17,315
2019	<u>14,429</u>
Total minimum lease payments	<u>\$ 31,744</u>

ChildServ and Homes for Children Foundation

Notes to Consolidating Financial Statements June 30, 2017 and 2016

Note 10 - Employee Benefit Plan

ChildServ offers its employees a defined contribution and profit-sharing plan qualified under Section 401(k) of the Internal Revenue Code. Employees can elect to defer up to 20 percent of their pretax compensation, not to exceed IRS limitations. The plan includes a discretionary employer matching contribution whereby the employer may match the employee deferral at an amount determined by the board. ChildServ elected not to match contributions beginning July 1, 2016. The percentage as of June 30, 2016 was 4 percent. Employer contributions for the years ended June 30, 2017 and 2016 amounted to \$0 and \$85,706, respectively.

Note 11 - Restricted Net Assets

Temporarily

ChildServ's temporarily restricted net assets at June 30, 2017 and 2016 are restricted for time and purpose of the following:

	<u>2017</u>	<u>2016</u>
Wendy's Wonderful Kids	\$ 70,000	\$ -
Illinois Military Initiative	37,500	112,500
Health Fit Program	15,000	15,000
Military family homes - Restricted by time and purpose	475,000	475,000
Community Sense	383,947	-
Operating grant from HFCF - Restricted by time	-	420,000
Total temporarily restricted net assets	<u>\$ 981,447</u>	<u>\$ 1,022,500</u>

Permanently

Permanently restricted net assets consist primarily of beneficial interests in trusts as of June 30, 2017 and 2016. The income from the trusts may be used for operating activities of the Organization. The remaining balance in permanently restricted net assets, \$39,955 as of June 30, 2017 and 2016, represents various other permanently restricted contributions.

Note 12 - Lease Obligation and Rental Expense

ChildServ leases space for its main offices and facilities. The leases expire through July 2020. ChildServ is also liable for its proportionate share of increase, if any, of the landlord's total cost for operation of the building. Total rent expense under this lease was approximately \$413,000 and \$410,000 for the years ended June 30, 2017 and 2016, respectively.

ChildServ also leases apartments for program residents with leases expiring from October 2016 to May 2017. The rent expense under these leases was approximately \$140,000 and \$139,000 for the years ended June 30, 2017 and 2016, respectively.

ChildServ and Homes for Children Foundation

Notes to Consolidating Financial Statements June 30, 2017 and 2016

Note 12 - Lease Obligation and Rental Expense (Continued)

The following is a schedule of approximate future minimum base rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2017.

Future minimum rental commitments are as follows:

Years Ending June 30	Amount
2018	\$ 533,698
2019	246,806
2020	235,079
2021	202,088
2022	202,709
Thereafter	<u>1,038,085</u>
Total	<u>\$ 2,458,465</u>