

**CHILDREN'S AID SOCIETY
SOUTHERN PENNSYLVANIA DISTRICT -
CHURCH OF THE BRETHREN**

FINANCIAL REPORT

JUNE 30, 2018

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Children's Aid Society
Southern Pennsylvania District - Church of the Brethren
New Oxford, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of Children's Aid Society, Southern Pennsylvania District - Church of the Brethren (Organization) which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, cash flows and functional expenses for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

A handwritten signature in cursive script that reads "Boyer & Ritten". The signature is written in black ink and is centered on the page.

Chambersburg, Pennsylvania
October 19, 2018

**CHILDREN'S AID SOCIETY
SOUTHERN PENNSYLVANIA DISTRICT - CHURCH OF THE BRETHREN**

**STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017**

ASSETS	2018	2017
Current Assets		
Cash and cash equivalents	\$ 478,482	\$ 387,106
Investments	364,717	332,928
Current portion of contributions receivable	47,495	104,501
Accounts receivable	20,890	26,616
Prepaid expenses	3,583	6,941
Inventory	2,942	3,817
Total current assets	918,109	861,909
Assets whose use is limited to long-term purposes		
Cash restricted for endowment	2,241	6,200
Contributions receivable - net of current portion	-	2,409
Property and equipment	508,188	525,454
Beneficial interest in:		
Perpetual trusts	648,796	645,408
Charitable-remainder trusts	29,165	23,590
Endowment funds	613,736	583,532
Other investments	17,962	17,285
Total assets	\$ 2,738,197	\$ 2,665,787

See Notes to Financial Statements.

LIABILITIES AND NET ASSETS	2018	2017
Current Liabilities		
Current portion of long-term debt	\$ -	\$ 187,983
Current portion of obligations under trust and annuity agreements	559	543
Accounts payable	20,606	24,794
Accrued expenses	142,819	93,904
Deferred revenue	2,540	9,965
Total current liabilities	166,524	317,189
Obligations Under Trust and Annuity Agreements - net of current portion	8,059	8,618
Total liabilities	174,583	325,807
Net Assets		
Unrestricted		
Undesignated	665,601	621,838
Board-designated	331,790	319,894
Total unrestricted	997,391	941,732
Temporarily restricted	658,435	496,064
Permanently restricted	907,788	902,184
Total net assets	2,563,614	2,339,980
Total liabilities and net assets	\$ 2,738,197	\$ 2,665,787

**CHILDREN'S AID SOCIETY
SOUTHERN PENNSYLVANIA DISTRICT - CHURCH OF THE BRETHREN**

**STATEMENTS OF ACTIVITIES
Years Ended June 30, 2018 and 2017**

	2018	2017
Changes in Unrestricted Net Assets		
Support and Revenue		
Contributions	\$ 273,817	\$ 292,400
Grants	71,347	66,647
Program service revenue	846,653	747,712
Fundraising proceeds	124,974	117,998
Fundraising direct costs	(19,892)	(23,115)
Investment income	95,317	117,735
Other income	260	222
Total support and revenue	1,392,476	1,319,599
Net Assets Released From Restrictions	266,540	90,235
Total unrestricted support and revenue	1,659,016	1,409,834
Expenses and Losses		
Program services	1,211,956	1,137,877
Management and general	291,513	236,759
Fundraising	99,888	106,101
Total expenses	1,603,357	1,480,737
Increase (decrease) in unrestricted net assets	55,659	(70,903)

(Continued)

**CHILDREN'S AID SOCIETY
SOUTHERN PENNSYLVANIA DISTRICT - CHURCH OF THE BRETHREN**

**STATEMENTS OF ACTIVITIES (Continued)
Years Ended June 30, 2018 and 2017**

	2018	2017
<hr/>		
Changes in Temporarily Restricted Net Assets		
Contributions	419,095	48,705
Sustainability Campaign contributions	3,821	31,426
Investment income	677	671
Changes in values of split-interest agreements	5,318	(2,217)
Net assets released from restrictions	(266,540)	(90,235)
Increase (decrease) in temporarily restricted net assets	<hr/> 162,371	<hr/> (11,650)
Changes in Permanently Restricted Net Assets		
Net unrealized gains on perpetual trusts	3,388	25,953
Sustainability Campaign contributions	2,216	12,250
Increase in permanently restricted net assets	<hr/> 5,604	<hr/> 38,203
Increase (decrease) in net assets	<hr/> 223,634	<hr/> (44,350)
Net Assets:		
Beginning	2,339,980	2,384,330
Ending	<hr/> \$ 2,563,614	<hr/> \$ 2,339,980

See Notes to Financial Statements.

**CHILDREN'S AID SOCIETY
SOUTHERN PENNSYLVANIA DISTRICT - CHURCH OF THE BRETHREN**

**STATEMENTS OF CASH FLOWS
Years Ended June 30, 2018 and 2017**

	2018	2017
Cash Flows From Operating Activities		
Increase (decrease) in net assets	\$ 223,634	\$ (44,350)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities		
Depreciation	39,347	39,708
Donated property	(9,254)	-
Net realized and unrealized gains on investments	(27,997)	(31,909)
Net unrealized gains on perpetual trusts	(3,388)	(25,953)
Changes in values of split-interest agreements	(5,575)	1,346
Changes in values of endowment funds	(29,948)	(42,949)
Changes in values of other investments	(677)	(671)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	5,726	(18,335)
Contributions receivable	59,415	49,285
Prepaid expenses	3,358	(1,822)
Inventory	875	-
(Decrease) increase in:		
Accounts payable	(4,188)	14,266
Accrued expenses	48,915	8,150
Deferred revenue	(7,425)	9,965
Net cash provided by (used in) operating activities	292,818	(43,269)
Cash Flows From Investing Activities		
Purchase of investments	(19,807)	(81,848)
Proceeds from sale of investments	16,015	72,758
Purchases of property and equipment	(12,827)	(19,616)
Net cash used in investing activities	(16,619)	(28,706)
Cash Flows From Financing Activities		
Repayments of long-term debt	(187,983)	(7,934)
Repayments of obligations under trust and annuity agreements	(543)	(529)
Permanently restricted contributions received	(7,751)	(13,700)
Distributions received from endowment funds	11,454	14,050
Net cash used in financing activities	(184,823)	(8,113)
Net increase (decrease) in cash and cash equivalents	91,376	(80,088)
Cash and Cash Equivalents:		
Beginning	387,106	467,194
Ending	\$ 478,482	\$ 387,106

See Notes to Financial Statements.

**CHILDREN'S AID SOCIETY
SOUTHERN PENNSYLVANIA DISTRICT - CHURCH OF THE BRETHREN**

**STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2018**

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 873,670	\$ 165,544	\$ 76,190	\$ 1,115,404
Payroll taxes	64,463	11,503	7,892	83,858
Employee benefits	93,528	7,509	1,245	102,282
Staff training and development	8,041	13,313	2,362	23,716
Program services	50,404	2,864	3,000	56,268
Utilities	30,535	5,355	-	35,890
Repairs and maintenance	16,582	5,314	-	21,896
Office supplies, postage and printing	7,675	9,853	8,344	25,872
Equipment repairs and maintenance	2,001	595	-	2,596
Telephone	6,943	2,030	-	8,973
Insurance	14,254	6,184	180	20,618
Professional services	11,030	28,338	-	39,368
Investment management	-	9,611	-	9,611
Advertising and promotions	1,548	4,803	675	7,026
Bad debts	-	5,103	-	5,103
Miscellaneous	915	1,201	-	2,116
Interest	-	3,413	-	3,413
Depreciation	30,367	8,980	-	39,347
Total	\$ 1,211,956	\$ 291,513	\$ 99,888	\$ 1,603,357

See Notes to Financial Statements.

**CHILDREN'S AID SOCIETY
SOUTHERN PENNSYLVANIA DISTRICT - CHURCH OF THE BRETHREN**

**STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2017**

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 818,176	\$ 101,438	\$ 79,441	\$ 999,055
Payroll taxes	61,324	8,681	8,557	78,562
Employee benefits	73,675	7,657	11,997	93,329
Staff training and development	5,618	10,731	900	17,249
Program services	42,671	2,853	3,134	48,658
Utilities	26,943	4,149	-	31,092
Repairs and maintenance	25,113	8,603	-	33,716
Office supplies, postage and printing	8,019	16,042	1,866	25,927
Equipment repairs and maintenance	6,919	1,934	-	8,853
Telephone	6,876	2,607	-	9,483
Insurance	14,006	6,082	-	20,088
Professional services	15,683	30,085	123	45,891
Investment management	-	8,745	-	8,745
Advertising and promotions	881	3,100	83	4,064
Bad debts	-	3,004	-	3,004
Miscellaneous	1,061	1,333	-	2,394
Interest	-	10,919	-	10,919
Depreciation	30,912	8,796	-	39,708
Total	\$ 1,137,877	\$ 236,759	\$ 106,101	\$ 1,480,737

See Notes to Financial Statements.

**CHILDREN'S AID SOCIETY
SOUTHERN PENNSYLVANIA DISTRICT - CHURCH OF THE BRETHREN**

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Nature of Operations: Children's Aid Society, Southern Pennsylvania District - Church of the Brethren (Organization) was established in 1913 and incorporated under the nonprofit laws of the Commonwealth of Pennsylvania in 1923. The Organization operates programs for children and their families in stressful situations, including counseling; parenting-education services; and short-term, crisis-nursery-respite care.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of Credit Risk: Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash, accounts receivable and investments. The Organization maintains its cash deposits with high, credit-quality financial institutions that provide Federal Deposit Insurance Corporation (FDIC) coverage up to \$250,000. Balances in excess of FDIC-insured limits at June 30, 2018 and 2017, were \$229,354 and \$145,448, respectively. The Organization's investment portfolio is managed by the Trust Department of a commercial bank. Investments are diversified among issuers.

The Organization's accounts receivable consists of unsecured amounts due from program participants and funding sources, the abilities of which to pay are subject to changes in general economic conditions. The Organization performs on-going, credit evaluations of its program participants and funding sources and generally does not require collateral. The Organization records an allowance, when necessary, for potential, credit losses.

Cash and Cash Equivalents: For purposes of the Statements of Cash Flows, the Organization considers all short-term, debt securities purchased with a maturity of three months or less to be cash equivalents.

Investments: Investments in debt securities, equity securities and mutual funds are measured recurrently at fair value. The fair values of investments are based on quoted prices from national exchanges.

Investment income and/or loss (including interest, dividends and gains and losses on investments) are included in the Statements of Activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law. Dividend income is recorded based upon the ex-dividend date; interest income is recorded as earned on an accrual basis. Changes in fair values are reported as investment gains (losses) in the periods of change. Realized gains and losses on sales of investments are determined on the specific-identification basis.

All investment securities are exposed to various risks such as interest-rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the financial statements.

**CHILDREN'S AID SOCIETY
SOUTHERN PENNSYLVANIA DISTRICT - CHURCH OF THE BRETHREN**

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Accounts Receivable: Accounts receivable consist of amounts due from individuals and third-party payers for counseling services. Payments are expected within 30 days from the dates on which services are provided. Outstanding balances are non-interest bearing.

Accounts receivable for counseling services are recorded net of an allowance for expected losses when necessary. The allowance is estimated from historical performance and projections of trends. At June 30, 2018 and 2017, allowances for doubtful accounts were not necessary.

Balances outstanding over 180 days are considered uncollectible and are charged against the allowance for doubtful accounts.

Promises-to-Give: Unconditional promises-to-give that are expected to be collected within one year are recorded at their net realizable values. Unconditional promises-to-give that are expected to be collected in future years are recorded at the present values of their estimated, future, cash flows. The discounts on those amounts are computed using risk-free, interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises-to-give are not included as support until conditions are substantially met.

Property and Equipment: Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Upon retirement or sale, the costs and accumulated depreciation of such assets are removed from the accounts, and any resulting gains or losses are included in the determination of changes in net assets. Expenditures for maintenance and repairs which neither materially add to the value of the property nor appreciably prolong estimated useful lives are charged to expense as incurred.

Split-Interest Agreements: Gifts received under the terms of trust or other arrangements in which the Organization has a beneficial interest but is not the sole beneficiary are accounted for as split-interest agreements. Such agreements include perpetual trusts held by third-parties, charitable-remainder trusts, and charitable-gift annuities. The time periods covered by these agreements are expressed either as specific numbers of years (or in perpetuity), or as the remaining life or lives of an individual or individuals designated by the donor.

Under such arrangements, the assets are invested and administered by the Organization, a trustee, or a fiscal agent, and distributions are made to beneficiaries during the terms of the agreements. At the end of the said terms, the remaining assets covered by the agreements are either distributed to or retained by either the Organization or other beneficiaries.

In the absence of donor-imposed conditions, the Organization recognizes contribution revenue and related assets and liabilities when irrevocable, split-interest agreements, naming the Organization as Trustee or fiscal agent, are executed, or when the Organization is notified of the agreements' existences, as in cases in which unrelated, third-parties (such as banks) act as Trustees.

**CHILDREN'S AID SOCIETY
SOUTHERN PENNSYLVANIA DISTRICT - CHURCH OF THE BRETHREN**

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Split-Interest Agreements (Continued): Contribution revenue recognized under split-interest agreements is classified as an increase in unrestricted, temporarily restricted or permanently restricted net assets based upon the donors' instructions in the underlying agreements. During the terms of the agreements, changes in the values of split-interest agreements are recognized in the Statement of Activities as "changes in values of split-interest agreements" and are classified as unrestricted, temporarily restricted or permanently restricted based upon the classifications when contributions were initially recognized. Upon terminations of the agreements, asset and liability accounts related to the split-interest agreements are closed, and any remaining amounts are recognized as "changes in values of split-interest agreements" and classified in the appropriate, net asset categories.

Endowment Funds: The Organization is the beneficiary of certain endowment funds, including those established by the Organization on its own behalf and a donor-restricted endowment fund. Net assets associated with endowment funds are classified and reported based upon the existence or absence of donor-imposed restrictions.

The Commonwealth of Pennsylvania has not enacted a version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). Relevant law for reporting of endowment funds is provided in Pa. C.S. Section 5548, *Investment of Trust Funds*. The Board of the Organization has interpreted the Commonwealth of Pennsylvania state law as requiring the preservation of the fair values of original gifts as of the dates of the gifts to the donor-restricted endowment fund, absent explicit, donor stipulations to the contrary.

The Organization classifies as permanently restricted net assets the original values of gifts donated to the donor-restricted endowment fund. Investment income from the donor-restricted endowment fund is unrestricted and available to support the operations of the Organization. Net appreciation on the donor-restricted endowment fund is reported as a change in unrestricted net assets.

The Organization has established community-foundation, endowment funds to provide endowments for the benefit of each of its counseling centers. Under these arrangements, the Organization has transferred assets to a third-party recipient and has specified itself as the beneficiary. This type of transfer is considered reciprocal in nature, and thus, does not represent either a contribution to the third-party recipient or an equity transaction.

Under these arrangements, the third-party recipient has retained variance power over contributions received from other donors. Variance power provides the third-party recipient with the discretion to redirect contributions to the benefit of a beneficiary other than that named by the donor. As a result, the Organization does not recognize such contributions until such time as a distribution is received or is unconditionally promised by the third-party recipient.

Investment income from community foundation endowment funds is recognized as a change in unrestricted net assets. Transfers to and distributions from the endowment funds are recognized as components of changes in values of endowment funds.

**CHILDREN'S AID SOCIETY
SOUTHERN PENNSYLVANIA DISTRICT - CHURCH OF THE BRETHREN**

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Support and Revenue: Program service revenue is recognized when the services are performed. Services provided under government grants are based upon fees for individual units of service, up to a pre-approved aggregate amount per an annual contract, plus any subsequent funding. Services billed to third-party payers are reported net of contractual allowances based on negotiated rates. Services provided to uninsured clients are billed at standard rates.

Contributions received, and unconditional promises-to-give are measured at their fair values and are reported as increases in net assets. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donors' restrictions expire, that is, when stipulated, time restrictions end or purpose restrictions are accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as "net assets released from restrictions". Donor-restricted contributions, the restrictions of which are met in the same reporting period, are reported as unrestricted support.

The Organization reports gifts of materials and equipment as unrestricted support unless explicit, donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit, donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

The Organization receives a significant portion of its support under grants from government agencies as discussed in Note 2. A significant reduction in the level of government revenue could have an adverse effect on the Organization's activities.

Revenue from fundraising activities or special events, which are not recurrent, major or central activities of the Organization, is reported in the Statements of Activities, net of direct costs.

Donated Materials and Services: Materials and other assets received as donations are recorded and reflected in the accompanying financial statements at their fair values at the dates of receipt.

Contributed services are reported as contributions at their fair values if such services create or enhance non-financial assets, would have been purchased if not provided by donation, require specialized skills, and are provided by individuals possessing such specialized skills.

Compensated Absences: At year-end, the Organization accrued liabilities for unused vacation, sick leave, and personal time earned by its employees. Employees are allowed to carry over a maximum of 120 hours of paid-time off. Unused paid-time off is paid upon retirement or termination.

**CHILDREN'S AID SOCIETY
SOUTHERN PENNSYLVANIA DISTRICT - CHURCH OF THE BRETHREN**

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Advertising Expense: The Organization expenses advertising costs as incurred.

Income Taxes: The Organization is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. Consequently, the Organization will not incur any liability for Federal income tax, except for tax arising from unrelated-business income.

Management has assessed the Organization's exposure to income taxes at the entity level as a result of potentially-uncertain tax positions taken in current and previously-filed tax returns. Examples of uncertain tax positions taken at the entity level include the continuing validity of the Organization's exempt status and the prospect of being subject to the Federal filing requirement for unrelated-business income. Presently, management believes that it is more likely than not that the Organization's tax positions will be sustained upon examination, including any appeals and litigation, and consequently, management believes that the Organization has no exposure to income-tax liabilities arising from uncertain tax positions. The Organization is subject to routine audits by taxing jurisdictions; however, no audits for any tax periods are currently in progress.

Functional Allocation of Expenses: The costs of providing the Organization's various programs and activities have been summarized on a functional basis in the Statements of Functional Expenses. Accordingly, the Organization's expenses have been allocated among the programs and supporting services benefited.

Reclassifications: Certain amounts in the prior-year financial statements have been reclassified for to conform to the current-year presentations. These reclassifications had no effect on the Organization's financial position, changes in net assets or cash flows as of and for the year ended June 30, 2017.

**CHILDREN'S AID SOCIETY
SOUTHERN PENNSYLVANIA DISTRICT - CHURCH OF THE BRETHREN**

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements:

In June 2018, the Financial Accounting Standards Board (FASB) issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (Topic 958). The amendments in this Update are provided to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance, e.g. Topic 606, and (2) determining whether a contribution is conditional. The amendments in this Update are applicable for contributions received or made to annual periods beginning after June 15, 2018, in which an entity is either a public business entity or a not-for-profit that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or over-the-counter market. For all other entities, the amendments in this Update are applicable to annual periods beginning after December 15, 2018. Early adoption of the amendments is permitted. The amendments in this Update are to be applied on a modified prospective basis, although retrospective application is permitted. Under a modified prospective basis, in the first set of financial statements following the effective date, the amendments should be applied to agreements that are either not completed as of the effective date, or entered-into after the effective date. Management is currently evaluating the effect that the amendments will have on the Organization's financial statements.

In August 2016, FASB issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*. The new guidance is intended to improve and simplify the current, net-asset- classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance, and cash flows. ASU No. 2016-14 is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU No. 2016-14 is to be applied retroactively with transition provisions. Management is assessing the impact that this standard will have on the Organization's financial statements.

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing, revenue- recognition guidance in accounting principles generally accepted in the United States of America (U.S. GAAP), including industry-specific guidance. More judgement and estimates may be required in the revenue- recognition process when compared to existing U.S. GAAP, including identifying performance obligations in contracts, estimating variable consideration, and allocating transaction prices to each performance obligation. ASU 2014-09, as deferred one year by ASU 2015-14, will be effective for annual, reporting periods beginning after December 15, 2018, using either a full-retrospective or retrospective-with-cumulative-effect transition method. Management has not yet selected a transition method and is currently evaluating the effect that the standard will have on the Organization's financial statements.

Subsequent Events: In preparing the financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through October 19, 2018, the date the financial statements were available to be issued.

**CHILDREN'S AID SOCIETY
SOUTHERN PENNSYLVANIA DISTRICT - CHURCH OF THE BRETHREN**

NOTES TO FINANCIAL STATEMENTS

Note 2. Funding

The Organization receives a significant portion of its support under government grants from the U.S. Department of Health and Human Services; this support is passed through the Pennsylvania Department of Human Services, the County of York and the Pennsylvania Medical Assistance Program. For the years ended June 30, 2018 and 2017, 31% and 42%, respectively, of non-investment and fundraising support and revenue was comprised of pass-through government grants.

Note 3. Investments

Investments at June 30, 2018 and 2017, consist of the following:

	2018		2017	
	Fair Value	Cost	Fair Value	Cost
Money market funds	\$ 12,744	\$ 12,744	\$ 16,588	\$ 16,588
Mutual funds - bond	151,987	155,592	155,476	155,764
Mutual funds - equity	286,555	239,587	247,433	222,587
	<u>\$ 451,286</u>	<u>\$ 407,923</u>	<u>\$ 419,497</u>	<u>\$ 394,939</u>

Investments are included in net assets as follows:

	2018	2017
Unrestricted	\$ 364,717	\$ 332,928
Temporarily restricted	12,422	12,422
Permanently restricted	74,147	74,147
	<u>\$ 451,286</u>	<u>\$ 419,497</u>

Income from investments for the years ended June 30, 2018 and 2017, consists of the following:

	2018	2017
Interest and dividends	\$ 7,070	\$ 7,493
Net realized and unrealized gains	27,997	37,560
	<u>\$ 35,067</u>	<u>\$ 45,053</u>

**CHILDREN'S AID SOCIETY
SOUTHERN PENNSYLVANIA DISTRICT - CHURCH OF THE BRETHREN**

NOTES TO FINANCIAL STATEMENTS

Note 4. Contributions Receivable

Included in contributions receivable are the following unconditional promises-to-give:

	2018	2017
Sustainability Campaign - unrestricted	\$ 1,942	\$ 56,442
Sustainability Campaign - endowment	50	6,000
United Way of York County	40,000	43,750
United Way of Franklin County	5,503	4,955
	<u>47,495</u>	<u>111,147</u>
Less discount to present value	-	4,237
	<u>\$ 47,495</u>	<u>\$ 106,910</u>
Contributions receivable in less than one year	\$ 47,495	\$ 104,501
Contributions receivable in one to five years	-	2,409
	<u>\$ 47,495</u>	<u>\$ 106,910</u>

Contributions receivable are included in net assets as follows:

	2018	2017
Temporarily restricted	\$ 47,445	\$ 101,325
Permanently restricted	50	5,585
	<u>\$ 47,495</u>	<u>\$ 106,910</u>

Note 5. Property and Equipment

Property and equipment at June 30, 2018 and 2017, consist of the following:

	2018	2017
Land	\$ 10,000	\$ 10,000
Building and improvements	1,022,859	1,000,777
Office equipment	49,362	49,362
Furniture and fixtures	57,231	61,131
Software	-	3,886
	<u>1,139,452</u>	<u>1,125,156</u>
Less accumulated depreciation	(631,264)	(599,702)
	<u>\$ 508,188</u>	<u>\$ 525,454</u>

Depreciation expense was \$39,347 in 2017 and \$39,708 in 2017.

**CHILDREN'S AID SOCIETY
SOUTHERN PENNSYLVANIA DISTRICT - CHURCH OF THE BRETHREN**

NOTES TO FINANCIAL STATEMENTS

Note 6. Beneficial Interest in Perpetual Trusts

The Organization is the beneficiary of several perpetual trusts, which are administered by third-party trustees. Under the terms of these arrangements, the Organization has the irrevocable right to receive the income earned on the trust assets in perpetuity, but the Organization will never receive the assets held in trust. None of the underlying, trust agreements place any restrictions on the use of the income. The Organization has recorded its beneficial interest in these trusts at fair values of the trust assets when the Organization was notified of the trusts' existences. The contributions have been recognized as permanently restricted support. Distributions from the trusts are reported as unrestricted, investment income. Increases and decreases in the fair values of the trusts' assets are recognized as permanently restricted gains or losses. The fair values of the trusts' assets totaled \$648,796 at June 30, 2018, and \$645,408 at June 30, 2017. Income from the perpetual trusts for the years ended June 30, 2018 and 2017, consists of the following:

	2018	2017
Interest and dividends	\$ 23,394	\$ 22,179
Net unrealized gains	3,388	25,953
	<u>\$ 26,782</u>	<u>\$ 48,132</u>

Note 7. Charitable-Remainder Trusts

The Organization has been named as remainder beneficiary in various charitable-remainder trusts. Under these arrangements in which the Organization has been named as Trustee, the Organization recognizes the fair values of the assets received and records a liability to the specified, lead beneficiary for the present value of the estimated future payments to be distributed over the beneficiary's life or other specified, time period (Note 12). Any differences between the assets and liabilities recognized are recorded as contributions which increase temporarily restricted net assets. Investment income, including realized and unrealized gains and losses, resulting from these arrangements is recognized as a change in temporarily restricted net assets. In instances where the Organization is not the Trustee and does not exercise control over the assets contributed to the trust, the agreements are recognized as beneficial interests in trust. Upon terminations of the agreements, the related assets and liabilities are closed, and any remaining balances are reclassified to unrestricted net assets. Assets held in charitable-remainder trusts at June 30, 2018 and 2017, consist of the following:

	2018	2017
Trusts in which Children's Aid Society is named as Trustee	\$ 12,422	\$ 12,422
Trusts held by third-party Trustees	16,743	11,168
	<u>\$ 29,165</u>	<u>\$ 23,590</u>

The underlying assets of the trusts are managed by various trust departments and foundations. Assets are diversified among issuers. The net increase in values of these trusts was \$5,575 in the year ended on June 30, 2018, and the net decrease in values of these trusts was \$1,946 for the year ended June 30, 2017.

**CHILDREN'S AID SOCIETY
SOUTHERN PENNSYLVANIA DISTRICT - CHURCH OF THE BRETHREN**

NOTES TO FINANCIAL STATEMENTS

Note 8. Endowment Funds

The Organization's endowment funds at June 30, 2018 and 2017, consist of the following:

	2018	2017
Community Foundations		
York Foundation - The Lehman Center	\$ 130,990	\$ 127,318
York Foundation - The Nicarry Center	127,994	124,406
The Franklin County Foundation - The Frances Leiter Center	72,806	68,170
	<u>331,790</u>	<u>319,894</u>
Donor-restricted Endowment Funds		
Everence	207,799	189,491
ACNB	74,147	74,147
	<u>281,946</u>	<u>263,638</u>
Total Endowment Funds	<u>\$ 613,736</u>	<u>\$ 583,532</u>

Amounts held in community foundation endowment funds are invested as part of the foundations' general portfolios. Investments are diversified among issuers. During the years ended June 30, 2018 and 2017, the Organization made no transfers to its community foundation endowment funds.

Amounts held in donor-restricted endowment funds are invested in debt and equity securities and mutual funds. The investments are diversified among issuers and managed by commercial financial institutions. A portion of the donor-restricted endowment funds is invested with the Organization's general investment portfolio (Note 3). Investment income is unrestricted.

Investment income from endowment funds consists of the following:

	2018	2017
Interest and dividends	\$ 8,950	\$ 6,561
Net realized and unrealized gains	27,357	42,147
	<u>\$ 36,307</u>	<u>\$ 48,708</u>

The York Foundation makes annual distributions to the Organization based upon a spending policy of 4.50% of the average, market value of the endowment funds' assets over the 12-preceding, calendar quarters. The Franklin County Foundation distributes the actual, investment earnings of the fund's assets. Distributions from community foundation, endowment funds were \$11,454 and \$14,050 for the years ended June 30, 2018 and 2017, respectively.

**CHILDREN'S AID SOCIETY
SOUTHERN PENNSYLVANIA DISTRICT - CHURCH OF THE BRETHREN**

NOTES TO FINANCIAL STATEMENTS

Note 8. Endowment Funds (Continued)

Endowment, Net Asset Composition by Type of Fund as of June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Community foundation, endowment funds	\$ 331,790	\$ -	\$ -	\$ 331,790
Donor-restricted, endowment funds	25,246	-	256,700	281,946
Total endowment net assets	<u>\$ 357,036</u>	<u>\$ -</u>	<u>\$ 256,700</u>	<u>\$ 613,736</u>

Changes in Endowment, Net Asset Composition by Type of Fund During the Year Ended June 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 338,541	\$ -	\$ 244,991	\$ 583,532
Investment return:				
Investment income	8,950	-	-	8,950
Net appreciation (depreciation)				
Realized	1,912	-	-	1,912
Unrealized	25,445	-	-	25,445
Total investment return	<u>36,307</u>	<u>-</u>	<u>-</u>	<u>36,307</u>
Contributions	-	-	11,710	11,710
Appropriation of endowment assets for expenditures	(11,454)	-	-	(11,454)
Other changes:				
Investment fees	<u>(6,359)</u>	<u>-</u>	<u>-</u>	<u>(6,359)</u>
Endowment net assets, end of year	<u>\$ 357,035</u>	<u>\$ -</u>	<u>\$ 256,701</u>	<u>\$ 613,736</u>

**CHILDREN'S AID SOCIETY
SOUTHERN PENNSYLVANIA DISTRICT - CHURCH OF THE BRETHREN**

NOTES TO FINANCIAL STATEMENTS

Note 8. Endowment Funds (Continued)

Endowment, Net Asset Composition by Type of Fund at June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Community foundation, endowment funds	\$ 319,894	\$ -	\$ -	\$ 319,894
Donor-restricted, endowment funds	18,647	-	244,991	263,638
Total endowment net assets	<u>\$ 338,541</u>	<u>\$ -</u>	<u>\$ 244,991</u>	<u>\$ 583,532</u>

Changes in Endowment, Net Asset Composition by Type of Fund During the Year Ended June 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 309,642	\$ -	\$ 237,491	\$ 547,133
Investment return:				
Investment income	6,561	-	-	6,561
Net appreciation (depreciation)				
Realized	2,928	-	-	2,928
Unrealized	39,219	-	-	39,219
Total investment return	48,708	-	-	48,708
Contributions	-	-	7,500	7,500
Appropriation of endowment assets for expenditures	(14,050)	-	-	(14,050)
Other changes:				
Investment fees	(5,759)	-	-	(5,759)
Endowment net assets, end of year	<u>\$ 338,541</u>	<u>\$ -</u>	<u>\$ 244,991</u>	<u>\$ 583,532</u>

**CHILDREN'S AID SOCIETY
SOUTHERN PENNSYLVANIA DISTRICT - CHURCH OF THE BRETHREN**

NOTES TO FINANCIAL STATEMENTS

Note 9. Other Investments

The Organization is the owner of a cash value, life insurance policy on an individual. Premiums payable under the insurance policy are paid by the insured and recognized as unrestricted contributions by the Organization. The Organization will receive the policy's face value upon the death of the insured or the accumulated cash value upon the termination of the policy. The face value of the insurance policy was \$25,586 at June 30, 2018 and 2017. The accumulated, cash value of the insurance policy was \$17,962 and \$17,285 at June 30, 2018 and 2017, respectively. Increases in the insurance policy's cash value are accounted for as temporarily restricted, investment income. During the years ended June 30, 2018 and 2017, the increases in cash-surrender value of the life-insurance contract were \$677 and \$671, respectively.

Note 10. Notes Payable - Bank

The Organization has a \$50,000 line-of-credit agreement with Adams County National Bank (ACNB). Advances on the line are payable on demand and bear interest at the Wall Street Prime Rate (5.00% as of June 30, 2018) plus 1.00%, with a floor of 4.25%; interest is payable monthly. The line-of-credit is collateralized by the Organization's Investment Management Account held by ACNB. As of June 30, 2018 and 2017, the Organization had no outstanding advances. Interest expense related to the line-of-credit was \$-0- for the years ended June 30, 2018 and 2017.

Note 11. Long-Term Debt

Long-term debt at June 30, 2018 and 2017, consists of the following:

	2018	2017
Note payable, bank, payable in monthly installments of \$1,571 including interest at 5.60% per annum through April 2019, then monthly installments of \$1,571 including interest at 1.00% above the index rate through March 2032, collateralized by a mortgage on real estate.	\$ -	\$ 187,983
	-	187,983
Less current portion	-	(187,983)
	<u>\$ -</u>	<u>\$ -</u>

Interest expense related to long-term debt was \$3,413 and \$10,919 for the years ended June 30, 2018 and 2017, respectively.

**CHILDREN'S AID SOCIETY
SOUTHERN PENNSYLVANIA DISTRICT - CHURCH OF THE BRETHREN**

NOTES TO FINANCIAL STATEMENTS

Note 12. Obligations Under Trust and Annuity Agreements

The Organization has entered into agreements with donors in which the donors have contributed assets to the Organization in exchange for a promise by the Organization to pay a fixed amount for a specified period of time to the donors or other designated beneficiaries. These arrangements include charitable-remainder trusts and charitable-gift annuities. Assets received under charitable-remainder trusts are held by a trust. Assets received under charitable-gift annuities are held as general assets of the Organization. However, state regulations require that certain percentages of outstanding, annuity liabilities be maintained as minimum reserves for protection of the annuitants. Corresponding, annuity liabilities are recognized at the present values of the estimated, future payments to be made to the donors. Any differences between the assets and liabilities recognized are recorded as unrestricted contributions. Changes in the present values of the estimated, future payments to be made to the donors that result from amortization of discounts or changes in actuarial assumptions are recognized in the Statements of Activities as "changes in values of split-interest agreements" in temporarily restricted net assets. Upon terminations of the agreements, the related assets and liabilities are closed, and any remaining balances are reclassified to unrestricted net assets.

Obligations under trust and annuity agreements at June 30, 2018 and 2017, consist of the following:

	2018	2017
Charitable-gift annuities	\$ 8,618	\$ 9,161
Less current portion	(559)	(543)
Long-term portion	<u>\$ 8,059</u>	<u>\$ 8,618</u>

Expected, future, annuity payments are as follows:

Year	Amount
2019	\$ 559
2020	575
2021	590
2022	607
2023	624
Thereafter	5,663
	<u>\$ 8,618</u>

The net decrease in present values of these charitable gift annuities was \$257 and \$271 for the years ended June 30, 2018 and 2017, respectively.

**CHILDREN'S AID SOCIETY
SOUTHERN PENNSYLVANIA DISTRICT - CHURCH OF THE BRETHREN**

NOTES TO FINANCIAL STATEMENTS

Note 13. Fair Value Measurements

The Organization follows the provisions of the Financial Accounting Standards Board's (FASB's) Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*, for fair value measurements of financial assets and financial liabilities. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Organization's financial assets that are recorded at fair value on a current basis consist of investments in marketable securities, beneficial interests in perpetual and charitable-remainder trusts, endowment funds and cash value of a life insurance policy. The Organization's financial liabilities consist of obligations under trust and annuity agreements which approximate the liabilities' fair values. The Organization has no non-financial assets or liabilities that are recognized and disclosed on a current basis at their fair values.

ASC 820 establishes a three-level, fair value hierarchy that describes the inputs that are used to measure the fair values of respective assets and liabilities:

Level 1: Fair values are based on quoted prices in active markets for identical assets and liabilities.

Level 2: Fair values are based on other significant observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full terms of the assets.

Level 3: Fair values are calculated by the use of price models and/or discounted, cash flow methodologies, and may require significant, management judgment or estimation. These methodologies may result in significant portions of the fair values being derived from unobservable data.

The inputs or methodology used for valuing financial instruments are not an indication of the risk associated with investing in those instruments.

The assets or liabilities fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets at fair value. There have been no changes in the methodologies used at June 30, 2018 and 2017.

Money market funds: Money market funds are based on closing market prices for the identical security reported in active markets.

Certificates of Deposit: Certificates of deposit are valued at closing market prices for identical or comparable securities reported in active markets.

**CHILDREN'S AID SOCIETY
SOUTHERN PENNSYLVANIA DISTRICT - CHURCH OF THE BRETHREN**

NOTES TO FINANCIAL STATEMENTS

Note 13. Fair Value Measurements (Continued)

Equity (stock) funds: Equity funds listed or traded on any national market or exchange are valued at the last sales prices as of the close of the exchange on which such securities are traded.

Fixed income (bond) funds: Bond funds, other than money-market instruments, are generally valued at the most recent bid prices of equivalent, quoted yields for such securities (or those of comparable maturities, qualities and types).

The following tables set forth, by level within the fair value hierarchy, the Organization's financial assets at fair value as of June 30, 2018 and 2017:

Financial Assets at Fair Value as of June 30, 2018

	Level 1	Level 2	Level 3	Total
Investments	\$ 364,717	\$ -	\$ -	\$ 364,717
Perpetual trusts	-	-	648,796	648,796
Charitable-remainder trusts	29,165	-	-	29,165
Endowment funds	613,736	-	-	613,736
Cash value of life insurance policy	-	17,962	-	17,962
	<u>\$ 1,007,618</u>	<u>\$ 17,962</u>	<u>\$ 648,796</u>	<u>\$ 1,674,376</u>

Financial Assets at Fair Value as of June 30, 2017

	Level 1	Level 2	Level 3	Total
Investments	\$ 332,928	\$ -	\$ -	\$ 332,928
Perpetual trusts	-	-	645,408	645,408
Charitable-remainder trusts	23,590	-	-	23,590
Endowment funds	583,532	-	-	583,532
Cash value of life insurance policy	-	17,285	-	17,285
	<u>\$ 940,050</u>	<u>\$ 17,285</u>	<u>\$ 645,408</u>	<u>\$ 1,602,743</u>

**CHILDREN'S AID SOCIETY
SOUTHERN PENNSYLVANIA DISTRICT - CHURCH OF THE BRETHREN**

NOTES TO FINANCIAL STATEMENTS

Note 13. Fair Value Measurements (Continued)

The following table sets forth a summary of changes in fair values of the Organization's Level 3 financial assets as of June 30, 2018 and 2017:

	2018	2017
Balances - July 1,	\$ 645,408	\$ 619,455
Realized and unrealized gains (losses), included in changes in permanently restricted net assets	3,388	25,953
Investment income, included in changes in unrestricted net assets	23,394	22,179
Distribution	(23,394)	(22,179)
Balances - June 30,	<u>\$ 648,796</u>	<u>\$ 645,408</u>

Note 14. Net Assets

Temporarily restricted net assets represent amounts received with donor-imposed restrictions for a specific purpose or for use in future periods. Temporarily restricted net assets are available for the following purposes or periods at June 30, 2018 and 2017:

	2018	2017
For future periods	\$ 381,488	\$ 48,705
Sustainability Campaign	229,821	406,485
Charitable-remainder trusts	29,164	23,589
Cash value of life insurance policy	17,962	17,285
	<u>\$ 658,435</u>	<u>\$ 496,064</u>

Permanently restricted net assets at June 30, 2018 and 2017, consist of the following:

	2018	2017
Beneficial interests in perpetual trusts	\$ 648,796	\$ 645,408
Donor-restricted, endowment funds	74,147	74,147
Sustainability Campaign		
Contributions receivable	50	5,585
Endowment funds	184,795	177,044
	<u>\$ 907,788</u>	<u>\$ 902,184</u>

Board-designated net assets consist of amounts transferred to community foundations (Note 8). At June 30, 2018 and 2017, total board designated net assets were \$331,790 and \$319,894, respectively.

**CHILDREN'S AID SOCIETY
SOUTHERN PENNSYLVANIA DISTRICT - CHURCH OF THE BRETHREN**

NOTES TO FINANCIAL STATEMENTS

Note 15. Fundraising Activities

The Organization conducts fundraising activities throughout the year to help support its program services. For the years ended June 30, 2018 and 2017, gross revenues and the related direct costs of special events and fundraising activities were as follows:

	2018	2017
Fundraising proceeds	\$ 124,974	\$ 117,998
Fundraising direct costs	(19,892)	(23,115)
	<u>\$ 105,082</u>	<u>\$ 94,883</u>

Note 16. Retirement Plan

The Organization sponsors a defined-contribution, retirement plan that is available for substantially all employees.

Participating employees may contribute a percentage of their compensation into the plan, subject to annual limits set by law. Employee contributions are matched by the Organization up to 3.00% of employees' eligible compensation.

Retirement plan expense for the years ended June 30, 2018 and 2017, was \$22,349 and \$19,967, respectively.

Note 17. Statements of Cash Flows

Interest paid was \$3,413 in 2018 and \$10,919 in 2017.

Note 18. Commitment

In March 2018, the Organization's Board of Directors approved to proceed with the Scope of Work for interior renovations, for a total estimated cost of \$67,500. Interior renovations are expected to be completed during the year 2018-2019. The Organization is obtaining contributions to assist in the funding of this project.

Note 19. Subsequent Events

In September 2018, the Organization received a \$394,904 bequest restricted for the Organization's Lehman Center.