

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

FINANCIAL REPORT

JUNE 30, 2016

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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, 2016 and 2015, 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, 2016 and 2015, and the results of its operations 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
September 29, 2016

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

**STATEMENTS OF FINANCIAL POSITION
June 30, 2016 and 2015**

ASSETS	2016	2015
Current Assets		
Cash and cash equivalents	\$ 467,194	\$ 352,074
Investments	291,929	317,700
Current portion of contributions receivable	98,009	234,641
Accounts receivable	8,281	60,758
Prepaid expenses	5,119	4,382
Inventory	3,817	-
Total current assets	874,349	969,555
Cash restricted for endowment	-	80,496
Contributions receivable - net of current portion	58,186	110,331
Property and equipment	545,546	534,013
Beneficial interest in:		
Perpetual trusts	619,455	649,516
Charitable remainder trusts	24,936	19,107
Endowment funds	547,133	406,267
Other investments	16,614	15,858
Total assets	\$ 2,686,219	\$ 2,785,143

See Notes to Financial Statements.

LIABILITIES AND NET ASSETS	2016	2015
Current Liabilities		
Current portion of long-term debt	\$ 8,116	\$ 7,967
Current portion of obligations under trust and annuity agreements	529	514
Accounts payable	10,528	26,363
Accrued expenses	85,754	53,316
Total current liabilities	104,927	88,160
 Long-Term Debt - net of current portion	 187,801	 195,417
Obligations Under Trust and Annuity Agreements - net of current portion	9,161	9,690
Total liabilities	301,889	293,267
 Net Assets		
Unrestricted		
Undesignated	717,238	728,401
Board-designated	303,039	332,120
Total unrestricted	1,020,277	1,060,521
Temporarily restricted	500,072	554,993
Permanently restricted	863,981	876,362
Total net assets	2,384,330	2,491,876
 Total liabilities and net assets	 \$ 2,686,219	 \$ 2,785,143

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

**STATEMENTS OF ACTIVITIES
Years Ended June 30, 2016 and 2015**

	2016	2015
Changes in Unrestricted Net Assets		
Support and Revenue		
Contributions	\$ 324,915	\$ 116,829
Grants	52,938	63,140
Program service revenue	787,366	920,133
Fundraising proceeds	101,350	100,366
Fundraising direct costs	(23,298)	(28,043)
Investment income	26,137	39,016
Other income	3,556	766
Total support and revenue	1,272,964	1,212,207
Net Assets Released From Restrictions	147,019	226,491
Total unrestricted support and revenue	1,419,983	1,438,698
Expenses and Losses		
Program services	1,161,721	1,110,536
Management and general	213,918	170,665
Fundraising	83,972	106,258
Total expenses	1,459,611	1,387,459
Loss on disposal of assets	616	-
(Decrease) increase in unrestricted net assets	(40,244)	51,239

(Continued)

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

**STATEMENTS OF ACTIVITIES (Continued)
Years Ended June 30, 2016 and 2015**

	2016	2015
Changes in Temporarily Restricted Net Assets		
Sustainability Campaign contributions	49,592	136,651
Contributions and grants	43,250	43,250
Investment income	756	747
Change in values of split-interest agreements	(1,500)	(1,493)
Net assets released from restrictions	(147,019)	(226,491)
Decrease in temporarily restricted net assets	(54,921)	(47,336)
Changes in Permanently Restricted Net Assets		
Net unrealized losses on perpetual trusts	(30,061)	(28,447)
Sustainability Campaign contributions	17,680	144,785
(Decrease) increase in permanently restricted net assets	(12,381)	116,338
(Decrease) increase in net assets	(107,546)	120,241
Net Assets:		
Beginning	2,491,876	2,371,635
Ending	<u>\$ 2,384,330</u>	<u>\$ 2,491,876</u>

See Notes to Financial Statements.

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

**STATEMENTS OF CASH FLOWS
Years Ended June 30, 2016 and 2015**

	2016	2015
Cash Flows From Operating Activities		
(Decrease) increase in net assets	\$ (107,546)	\$ 120,241
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities		
Depreciation	40,512	37,120
Net realized and unrealized losses (gains) on investments	3,666	(10,384)
Net unrealized losses on perpetual trusts	30,061	28,447
Changes in values of split-interest agreements	(5,543)	1,492
Changes in values of endowment funds	7,801	8,874
Changes in values of other investments	(756)	(747)
Loss on disposal of equipment	616	-
Donated property	(3,933)	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	52,477	(6,442)
Contributions receivable	188,777	189,180
Prepaid expenses	(737)	(1,013)
Inventory	(3,817)	-
(Decrease) increase in:		
Accounts payable	(15,835)	19,623
Accrued expenses	32,438	(2,366)
Deferred revenue	-	(16,817)
Net cash provided by operating activities	218,181	367,208
Cash Flows From Investing Activities		
Purchase of investments	(180,883)	(261,494)
Proceeds from sale of investments	38,644	228,295
Purchases of property and equipment	(48,728)	(27,420)
Net cash used in investing activities	(190,967)	(60,619)
Cash Flows From Financing Activities		
Repayments of long-term debt	(7,467)	(7,087)
Repayments of obligations under trust and annuity agreements	(800)	(800)
Permanently restricted contributions received	(82,847)	(80,096)
Distributions received from endowment funds	15,677	10,727
Income reinvested in endowment funds	163,343	-
Net cash provided by (used in) financing activities	87,906	(77,256)
Net increase in cash and cash equivalents	115,120	229,333
Cash and Cash Equivalents:		
Beginning	352,074	122,741
Ending	\$ 467,194	\$ 352,074

See Notes to Financial Statements.

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

**STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2016**

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 822,922	\$ 63,693	\$ 53,144	\$ 939,759
Payroll taxes	61,269	3,254	3,553	68,076
Employee benefits	87,914	5,988	9,802	103,704
Staff training and development	7,095	22,874	379	30,348
Program services	63,991	181	-	64,172
Utilities	26,487	5,254	-	31,741
Repairs and maintenance	15,464	5,444	-	20,908
Office supplies, postage and printing	1,212	12,890	9,317	23,419
Equipment repairs and maintenance	3,285	1,031	-	4,316
Telephone	6,331	1,641	-	7,972
Insurance	13,765	6,086	-	19,851
Professional services	18,513	48,859	7,255	74,627
Investment management	-	7,285	-	7,285
Advertising and promotions	365	1,988	522	2,875
Bad debt	-	6,110	-	6,110
Miscellaneous	951	1,599	-	2,550
Interest	-	11,386	-	11,386
Depreciation	32,157	8,355	-	40,512
Total	\$ 1,161,721	\$ 213,918	\$ 83,972	\$ 1,459,611

See Notes to Financial Statements.

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

**STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2015**

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 794,944	\$ 51,582	\$ 68,099	\$ 914,625
Payroll taxes	59,518	2,046	5,129	66,693
Employee benefits	72,989	5,099	11,170	89,258
Staff training and development	6,556	14,596	983	22,135
Program services	50,655	1,058	437	52,150
Utilities	29,674	5,253	-	34,927
Repairs and maintenance	19,427	7,584	1,635	28,646
Office supplies, postage and printing	1,686	13,642	6,969	22,297
Equipment repairs and maintenance	3,316	1,017	-	4,333
Telephone	9,466	2,223	-	11,689
Insurance	15,653	4,441	-	20,094
Professional services	15,447	26,493	11,836	53,776
Investment management	-	5,272	-	5,272
Advertising and promotions	461	5,469	-	5,930
Bad debt	-	4,384	-	4,384
Miscellaneous	1,117	1,247	-	2,364
Interest	-	11,766	-	11,766
Depreciation	29,627	7,493	-	37,120
Total	\$ 1,110,536	\$ 170,665	\$ 106,258	\$ 1,387,459

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 coverage up to \$250,000. Balances in excess of FDIC insured limits at June 30, 2016 and 2015, were \$225,702 and \$190,604, 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 consist of unsecured amounts due from program participants and funding sources whose ability to pay is 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 at fair value on a recurring basis. The fair values of investments are based on quoted prices from national security exchanges.

Investment income or loss (including gains and losses on investments, interest, and dividends) is 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 consists of amounts due from individuals and third-party payers for counseling services. Payments are expected within 30 days from the dates on which services were 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, 2016 and 2015, 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 net realizable value. Unconditional promises-to-give that are expected to be collected in future years are recorded at the present value 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 gain or loss is included in the determination of net income. 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 period covered by these agreements is expressed either as a specific number 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' existence, as in cases in which an unrelated third-party (such as a bank) acts as Trustee.

**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 revenues recognized under split-interest agreements are classified as increases in unrestricted, temporarily restricted or permanently restricted net assets based on 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 "change in values of split interest agreements" and classified as unrestricted, temporarily restricted or permanently restricted based upon the classifications when the contributions were initially recognized. Upon terminations of the agreements, asset and liability accounts related to the split-interest agreement are closed, and any remaining amounts are recognized as changes in the values of split-interest agreements and classified in the appropriate, net asset category.

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 the endowment funds are classified and reported based on 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 value of the original gift as of the gift date of 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 the 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 change 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 a fee 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 donor's 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 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 considered on-going, 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 nonfinancial assets, would have been purchased if not provided by donation, require specialized skills, and are provided by individuals possessing such specialized skills.

Compensated Absences: The Organization has accrued a liability for unused vacation, sick leave, and personal time, available to its employees at year-end. Employees are allowed to carry over unused paid time off earned up to 120 hours. 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 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 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, 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. Management believes the Organization is no longer subject to income tax examinations for years ended prior to June 30, 2013.

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 comparative purposes to conform to the current year presentation. These reclassifications had no effect on the Organization's financial position, change in net assets or cash flows as of and for the year ended June 30, 2015.

Subsequent Events: In preparing the financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through September 29, 2016, the date the financial statements were available to be issued.

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, passed through the Pennsylvania Department of Human Services and the County of York and from the Pennsylvania Medical Assistance Program. For the years ended June 30, 2016 and 2015, 40% and 44%, respectively, of non-investment and fundraising support and revenue was comprised of pass-through government grants.

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

NOTES TO FINANCIAL STATEMENTS

Note 3. Investments

Investments at June 30, 2016 and 2015, consist of the following:

	2016		2015	
	Fair Value	Cost	Fair Value	Cost
Cash and cash equivalents	\$ 9,430	\$ 9,430	\$ 16,867	\$ 16,225
U.S. Government agency obligations	131,170	130,931	133,155	131,393
Mutual funds - equity	237,898	242,000	254,247	242,000
	<u>\$ 378,498</u>	<u>\$ 382,361</u>	<u>\$ 404,269</u>	<u>\$ 389,618</u>

Investments are included in net assets as follows:

	2016	2015
Unrestricted	\$ 291,929	\$ 317,700
Temporarily restricted	12,422	12,422
Permanently restricted	74,147	74,147
	<u>\$ 378,498</u>	<u>\$ 404,269</u>

Income from investments for the years ended June 30, 2016 and 2015, consists of the following:

	2016	2015
Interest and dividends	\$ 6,762	\$ 10,122
Net realized and unrealized (losses) gains	(3,657)	9,036
	<u>\$ 3,105</u>	<u>\$ 19,158</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:

	2016	2015
Sustainability Campaign - unrestricted	\$ 111,597	\$ 235,344
Sustainability Campaign - deficit reduction	-	7,600
Sustainability Campaign - endowment	7,500	75,296
United Way of York County	40,000	40,000
United Way of Franklin County	3,250	3,250
	<u>162,347</u>	<u>361,490</u>
Less discount to present value	6,152	16,517
	<u>\$ 156,195</u>	<u>\$ 344,973</u>
Contributions receivable in less than one year	\$ 98,009	\$ 234,641
Contributions receivable in one to five years	58,186	110,332
	<u>\$ 156,195</u>	<u>\$ 344,973</u>

Contributions receivable are included in net assets as follows:

	2016	2015
Temporarily restricted	\$ 149,160	\$ 272,770
Permanently restricted	7,035	72,203
	<u>\$ 156,195</u>	<u>\$ 344,973</u>

Note 5. Property and Equipment

Property and equipment at June 30, 2016 and 2015, consist of the following:

	2016	2015
Land	\$ 10,000	\$ 10,000
Building and improvements	982,692	955,501
Office equipment	66,393	60,083
Furniture and fixtures	66,992	67,942
Software	3,886	3,886
	<u>1,129,963</u>	<u>1,097,412</u>
Less accumulated depreciation	(584,417)	(563,399)
	<u>\$ 545,546</u>	<u>\$ 534,013</u>

Depreciation expense was \$40,512 in 2016 and \$37,120 in 2015.

**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 it 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 the fair value of the trust assets at the time it was notified of the trusts' existence. 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 \$619,455 at June 30, 2016 and \$649,516 at June 30, 2015. Income from the perpetual trusts for the years ended June 30, 2016 and 2015, consists of the following:

	2016	2015
Interest and dividends	\$ 22,691	\$ 24,481
Net unrealized gains (losses)	(30,061)	(28,447)
	<u>\$ (7,370)</u>	<u>\$ (3,966)</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, 2016 and 2015, consist of the following:

	2016	2015
Trusts in which Children's Aid Society is named as Trustee	\$ 12,422	\$ 12,422
Trusts held by third-party Trustees	12,514	6,686
	<u>\$ 24,936</u>	<u>\$ 19,108</u>

The underlying assets of the trusts are managed by various trust departments and foundations. Assets are diversified among issuers. The Organization was named as a remainder beneficiary of an additional trust during 2016 with a value of \$7,642 as of June 30, 2016. The net decrease in values of these trusts was \$1,214 and \$1,192 for the years ended June 30, 2016 and 2015, respectively.

**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, 2016 and 2015, consist of the following:

	2016	2015
Community Foundations		
York Foundation - The Lehman Center	\$ 121,400	\$ 133,148
York Foundation - The Nicarry Center	118,625	130,103
The Franklin County Foundation - The Frances Leiter Center	63,014	68,869
	<u>303,039</u>	<u>332,120</u>
Donor-restricted Endowment Funds		
Sustainability Campaign	169,947	80,496
Other	74,147	74,147
	<u>244,094</u>	<u>154,643</u>
Total Endowment Funds	<u><u>\$ 547,133</u></u>	<u><u>\$ 486,763</u></u>

Amounts held in community foundation endowment funds are invested as part of the foundations' general portfolio. Investments are diversified among issuers. During the years ended June 30, 2016 and 2015, the Organization made no transfers to its community foundation endowment funds.

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

Investment income from endowments consists of the following:

	2016	2015
Interest and dividends	\$ 3,712	\$ 1,834
Net realized and unrealized gains (losses)	(6,130)	(6,985)
	<u>\$ (2,418)</u>	<u>\$ (5,151)</u>

The York Foundation makes annual distributions to the Organization based on 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 \$15,677 and \$10,727 for the years ended June 30, 2016, and June 30, 2015.

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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, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Community foundation endowment funds	\$ 303,039	\$ -	\$ -	\$ 303,039
Donor-restricted endowment funds	6,603	-	237,491	244,094
Total endowment net assets	<u>\$ 309,642</u>	<u>\$ -</u>	<u>\$ 237,491</u>	<u>\$ 547,133</u>

Endowment Net Asset Composition by Type of Fund as of June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 332,120	\$ -	\$ 154,643	\$ 486,763
Investment return:				
Investment income	3,712	-	-	3,712
Net appreciation (depreciation)				
Realized	(40)	-	-	(40)
Unrealized	(6,090)	-	-	(6,090)
Total investment return	(2,418)	-	-	(2,418)
Contributions	-	-	82,848	82,848
Appropriation of endowment assets for expenditures	(15,677)	-	-	(15,677)
Other changes:				
Investment fees	(4,383)	-	-	(4,383)
Endowment net assets, end of year	<u>\$ 309,642</u>	<u>\$ -</u>	<u>\$ 237,491</u>	<u>\$ 547,133</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 as of June 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Community foundation endowment funds	\$ 332,120	\$ -	\$ -	\$ 332,120
Donor-restricted endowment funds	-	-	74,147	74,147
Cash restricted for endowment	-	-	80,496	80,496
Total endowment net assets	<u>\$ 332,120</u>	<u>\$ -</u>	<u>\$ 154,643</u>	<u>\$ 486,763</u>

Endowment Net Asset Composition by Type of Fund as of June 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 351,721	\$ -	\$ 74,547	\$ 426,268
Investment return:				
Investment income	1,834	-	-	1,834
Net appreciation (depreciation)				
Realized	521	-	-	521
Unrealized	(7,506)	-	-	(7,506)
Total investment return	(5,151)	-	-	(5,151)
Contributions	-	-	80,096	80,096
Appropriation of endowment assets for expenditures	(10,727)	-	-	(10,727)
Other changes:				
Investment fees	(3,723)	-	-	(3,723)
Endowment net assets, end of year	<u>\$ 332,120</u>	<u>\$ -</u>	<u>\$ 154,643</u>	<u>\$ 486,763</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, 2016 and 2015. The accumulated cash value of the insurance policy was \$16,614 and \$15,858 at June 30, 2016 and 2015, respectively. Increases in the insurance policy's cash value are accounted for as temporarily restricted investment income. During the years ended June 30, 2016 and 2015, the increase in cash-surrender value of the life insurance contract was \$756 and \$747, 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 plus 1.00% (4.75% as of June 30, 2016), 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, 2016, the Organization had no outstanding advances. Interest expense related to the line-of-credit was \$-0- for the years ended June 30, 2016 and 2015.

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SOUTHERN PENNSYLVANIA DISTRICT - CHURCH OF THE BRETHREN**

NOTES TO FINANCIAL STATEMENTS

Note 11. Long-Term Debt

Long-term debt at June 30, 2016 and 2015, consists of the following:

	2016	2015
Note payable, bank, payable in monthly installments of \$1,571 plus interest at 5.60% per annum through April 2019, then monthly installments of \$1,571 including interest of 1.00% above the index rate through March 2032, collateralized by real estate.	\$ 195,917	\$ 203,384
	<u>195,917</u>	<u>203,384</u>
Less current portion	(8,116)	(7,967)
	<u>\$ 187,801</u>	<u>\$ 195,417</u>

In March 2012, the Organization entered into a Business Loan Agreement (Agreement) with Adams County National Bank (ACNB) for \$225,000, to refinance the existing balance on the line-of-credit (Note 10). The Agreement requires monthly payments of \$1,571 including interest at 5.60%, through March 2032, and is collateralized by real estate. Interest expense related to the mortgage was \$11,386 and \$11,766 for the years ended June 30, 2016 and 2015, respectively.

Future maturities of long-term debt are as follows:

Years	Amount
2017	\$ 8,116
2018	8,582
2019	9,238
2020	10,184
2021	10,625
Thereafter	149,172
	<u>\$ 195,917</u>

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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 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 a certain percentage of the outstanding annuity liability be maintained as a minimum reserve for protection of the annuitants. A corresponding annuity liability is recognized at the present value 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 change 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, 2016 and 2015, consist of the following:

	2016	2015
Charitable gift annuities	\$ 9,690	\$ 10,204
Less current portion	(529)	(514)
Long-term portion	<u>\$ 9,161</u>	<u>\$ 9,690</u>

Expected future annuity payments are as follows:

Year	Amount
2017	\$ 529
2018	543
2019	559
2020	575
2021	590
Thereafter	6,894
	<u>\$ 9,690</u>

The net decrease in present values of these charitable gift annuities was \$286 and \$300 for the years ended June 30, 2016 and 2015, respectively.

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NOTES TO FINANCIAL STATEMENTS

Note 13. Fair Value Measurements

The Organization follows the provisions of the Accounting Standards Codification, 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 recurring basis consist of investments in marketable securities, beneficial interests in perpetual trusts and charitable remainder trusts, endowment funds and the cash values of life insurance policies. The Organization's financial liabilities consist of obligations under trust and annuity agreements which approximate fair value. The Organization has no non-financial items that are recognized and disclosed at their fair values on a recurring basis.

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 a significant portion of the fair values being derived from unobservable data.

The following tables set forth, by level within the fair-value hierarchy, the Organization's financial assets at fair value as of June 30, 2016 and 2015:

	Level 1	Level 2	Level 3	Total
Investments	\$ 291,929	\$ -	\$ -	\$ 291,929
Perpetual trusts	-	-	619,455	619,455
Charitable remainder trusts	24,936	-	-	24,936
Endowment funds	547,133	-	-	547,133
Cash value of life insurance contracts	-	16,614	-	16,614
	<u>\$ 863,998</u>	<u>\$ 16,614</u>	<u>\$ 619,455</u>	<u>\$ 1,500,067</u>

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NOTES TO FINANCIAL STATEMENTS

Note 13. Fair Value Measurements (Continued)

	Level 1	Level 2	Level 3	Total
Investments	\$ 317,700	\$ -	\$ -	\$ 317,700
Perpetual trusts	-	-	649,516	649,516
Charitable remainder trusts	19,107	-	-	19,107
Endowment funds	486,763	-	-	486,763
Cash value of life insurance contracts	-	15,858	-	15,858
	<u>\$ 823,570</u>	<u>\$ 15,858</u>	<u>\$ 649,516</u>	<u>\$ 1,488,944</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:

	2016	2015
For future periods	\$ 43,250	\$ 43,250
Sustainability Campaign	422,315	478,778
Charitable remainder trusts	17,893	19,107
Cash value of life insurance contracts	16,614	15,858
	<u>\$ 500,072</u>	<u>\$ 556,993</u>

Permanently restricted net assets at June 30, 2016 and 2015, consist of the following:

	2016	2015
Beneficial interests in perpetual trusts	\$ 619,455	\$ 649,516
Donor-restricted endowment funds	74,147	74,147
Sustainability Campaign		
Contributions receivable	7,035	72,203
Endowment funds	163,344	80,496
	<u>\$ 863,981</u>	<u>\$ 876,362</u>

Board-designated net assets consist of amounts transferred to community foundations (Note 8). At June 30, 2016 and 2015, total board-designated net assets were \$303,039 and \$332,120, respectively.

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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, 2016 and 2015, gross revenues and the related direct costs of special events and fundraising activities were as follows:

	2016	2015
Fundraising proceeds	\$ 101,350	\$ 100,366
Fundraising direct costs	(23,298)	(28,043)
	<u>\$ 78,052</u>	<u>\$ 72,323</u>

Note 16. Retirement Plan

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

Effective July 2015, 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 compensation.

Retirement plan expense for the years ended June 30, 2016 and 2015, was \$13,258 and \$8,427, respectively.

Note 17. Statements of Cash Flows

Interest paid was \$11,386 in 2016 and \$11,766 in 2016.