

*Children's Home Society
of Virginia*

FINANCIAL REPORT

JUNE 30, 2016

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Statement of Financial Position	2
Statement of Activities and Changes in Net Assets	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6-14

**PILC &
MOSELEY, LLC**
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Children's Home Society of Virginia
Richmond, Virginia

We have audited the accompanying financial statements of Children's Home Society of Virginia (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements. The prior year summarized comparative information has been derived from the Society's June 30, 2015 financial statements issued November 2, 2015.

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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Children's Home Society of Virginia as of June 30, 2016, and the changes in its net assets, functional expenses, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Pilc & Moseley, LLC

Richmond, Virginia
November 15, 2016

FINANCIAL STATEMENTS

CHILDREN'S HOME SOCIETY OF VIRGINIA

Statement of Financial Position

June 30, 2016

With Comparative Amounts as of June 30, 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 585,958	\$ 685,770
Pledges receivable, net	136,611	166,947
Accounts receivable	34,005	14,853
Grant receivable, net	68,942	84,409
Prepaid expenses	<u>14,361</u>	<u>10,411</u>
Total current assets	<u>839,877</u>	<u>962,390</u>
PROPERTY AND EQUIPMENT, NET	<u>175,870</u>	<u>152,263</u>
OTHER ASSETS		
Pledges receivable - long-term, net	52,822	72,583
Beneficial interest in trusts	1,041,793	1,113,902
Security deposits	1,000	-
Due from Children's Home Society of Virginia Memorial Fund, Inc.	<u>431,764</u>	<u>431,764</u>
Total other assets	<u>1,527,379</u>	<u>1,618,249</u>
Total assets	<u>\$ 2,543,126</u>	<u>\$ 2,732,902</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 16,887	\$ 17,553
Accrued payroll and withholdings	38,300	28,700
Accrued vacation	<u>38,426</u>	<u>28,947</u>
Total current liabilities	<u>93,613</u>	<u>75,200</u>
NET ASSETS		
Unrestricted	1,004,326	1,133,934
Temporarily restricted	403,394	409,866
Permanently restricted	<u>1,041,793</u>	<u>1,113,902</u>
Total net assets	<u>2,449,513</u>	<u>2,657,702</u>
Total liabilities and net assets	<u>\$ 2,543,126</u>	<u>\$ 2,732,902</u>

See accompanying notes.

CHILDREN'S HOME SOCIETY OF VIRGINIA

Statement of Activities and Changes in Net Assets

For the Year Ended June 30, 2016

With Comparative Totals for the Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				2016	2015
REVENUES AND OTHER SUPPORT					
Public support:					
Contributions	\$ 286,241	\$ 58,780	\$ -	\$ 345,021	\$ 266,313
Allocation from United Way	-	34,500	-	34,500	138,250
Designation from United Way	40,821	-	-	40,821	51,926
Gifts from trust	96,064	-	-	96,064	114,751
Grant income	26,302	333,195	-	359,497	272,129
Special events	<u>15,062</u>	<u>-</u>	<u>-</u>	<u>15,062</u>	<u>21,262</u>
Total public support	<u>464,490</u>	<u>426,475</u>	<u>-</u>	<u>890,965</u>	<u>864,631</u>
REVENUE					
Program service fees	320,928	-	-	320,928	297,068
Miscellaneous income	-	-	-	-	7,457
Gain on sale of fixed assets	-	-	-	-	66,071
Investment income, net	3,587	-	-	3,587	560
Unrealized net gain (loss) on investments/trusts	<u>-</u>	<u>-</u>	<u>(72,109)</u>	<u>(72,109)</u>	<u>(57,118)</u>
Total revenue	<u>324,515</u>	<u>-</u>	<u>(72,109)</u>	<u>252,406</u>	<u>314,038</u>
Net assets released from restrictions	<u>432,947</u>	<u>(432,947)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues and other support	<u>1,221,952</u>	<u>(6,472)</u>	<u>(72,109)</u>	<u>1,143,371</u>	<u>1,178,669</u>
EXPENSES					
Program services:					
Infant adoptions	317,961	-	-	317,961	309,702
Foster care adoption	359,555	-	-	359,555	575,464
Post adoptions	174,754	-	-	174,754	-
The Possibilities Project	<u>223,835</u>	<u>-</u>	<u>-</u>	<u>223,835</u>	<u>60,170</u>
Total program services	<u>1,076,105</u>	<u>-</u>	<u>-</u>	<u>1,076,105</u>	<u>945,336</u>
Supporting services:					
Administrative	96,745	-	-	96,745	78,682
Fund development	<u>178,710</u>	<u>-</u>	<u>-</u>	<u>178,710</u>	<u>168,912</u>
Total support expenses	<u>275,455</u>	<u>-</u>	<u>-</u>	<u>275,455</u>	<u>247,594</u>
Total expenses	<u>1,351,560</u>	<u>-</u>	<u>-</u>	<u>1,351,560</u>	<u>1,192,930</u>
Change in net assets	(129,608)	(6,472)	(72,109)	(208,189)	(14,261)
Net assets, beginning of year	<u>1,133,934</u>	<u>409,866</u>	<u>1,113,902</u>	<u>2,657,702</u>	<u>2,671,963</u>
Net assets, end of year	<u>\$ 1,004,326</u>	<u>\$ 403,394</u>	<u>\$ 1,041,793</u>	<u>\$ 2,449,513</u>	<u>\$ 2,657,702</u>

See accompanying notes.

CHILDREN'S HOME SOCIETY OF VIRGINIA

Statement of Functional Expenses

For the Year Ended June 30, 2016

With Comparative Totals for the Year Ended June 30, 2015

	Program Services						Support Services			Total		
	Infant	Foster Care Adoption	Post Adoption	The Possibilities Project	Total Program	Total	Administrative	Development	Fund	Total Support	2016	2015
Salaries and related	\$ 210,535	\$ 248,392	\$ 126,913	\$ 155,852	\$ 741,692	\$ 68,429	\$ 96,004	\$ 164,433	\$ 906,125	\$ 730,944		
Human resources	330	318	96	694	1,438	3,997	482	4,479	5,917	3,835		
Professional development	1,297	6,371	54	246	7,968	715	16	731	8,699	11,319		
Professional fees	10,263	10,263	10,263	13,194	43,983	13,684	13,684	27,368	71,351	70,103		
Office	12,470	14,964	4,988	7,482	39,904	2,494	7,482	9,976	49,880	52,920		
Building occupancy	6,910	8,292	2,764	4,146	22,112	1,382	4,146	5,528	27,640	31,601		
Client Assistance	38,673	21,409	12,430	17,426	89,938	-	7,500	7,500	97,438	78,112		
Advocacy	35	35	-	35	105	-	-	-	105	-		
Donor cultivation and stewardship	-	-	-	69	69	-	7,429	7,429	7,498	7,319		
Special events	-	-	-	-	-	-	5,754	5,754	5,754	9,272		
Volunteer Programs	80	80	82	80	322	80	80	160	482	-		
Licenses and permits	-	100	-	-	100	375	-	375	475	458		
Bank fees	1,176	-	84	10	1,270	938	1,515	2,453	3,723	2,869		
Advertising and Marketing	8,483	13,980	5,878	8,972	37,313	1,530	12,618	14,148	51,461	64,996		
Printing	2,872	595	352	224	4,043	-	9,104	9,104	13,147	8,306		
Travel	6,899	13,239	3,736	4,733	28,607	726	1,133	1,859	30,466	26,668		
Membership dues and subscriptions	150	172	-	-	322	45	125	170	492	531		
Insurance	7,794	9,352	3,117	4,676	24,939	1,559	4,676	6,235	31,174	38,885		
Miscellaneous	-	-	-	-	-	(242)	-	(242)	(242)	1,184		
Bad debt expense	6,304	7,564	2,521	3,782	20,171	-	5,043	5,043	25,214	40,829		
Depreciation	3,690	4,429	1,476	2,214	11,809	1,033	1,919	2,952	14,761	12,779		
	<u>\$ 317,961</u>	<u>\$ 359,555</u>	<u>\$ 174,754</u>	<u>\$ 223,835</u>	<u>\$ 1,076,105</u>	<u>\$ 96,745</u>	<u>\$ 178,710</u>	<u>\$ 275,455</u>	<u>\$ 1,351,560</u>	<u>\$ 1,192,930</u>		

See accompanying notes.

CHILDREN'S HOME SOCIETY OF VIRGINIA

Statement of Cash Flows

For the Year Ended June 30, 2016

With Comparative Amounts for the Year Ended June 30, 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (208,189)	\$ (14,261)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	14,762	12,779
Gain on sale of fixed assets	-	(66,071)
Unrealized loss on investments/trusts	72,109	57,118
Changes in assets and liabilities:		
Pledges receivable, net	50,097	55,170
Accounts receivable	(19,152)	43,270
Grant receivable, net	15,467	(24,679)
Prepaid expenses	(3,950)	5,433
Security deposits	(1,000)	-
Accounts payable	(666)	7,437
Accrued liabilities	<u>19,079</u>	<u>3,733</u>
Net cash provided by (used in) operating activities	<u>(61,443)</u>	<u>79,929</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale of fixed assets	-	76,722
Purchase of equipment	<u>(38,369)</u>	<u>(34,053)</u>
Net provided by (used in) investing activities	<u>(38,369)</u>	<u>42,669</u>
Net increase (decrease) in cash	<u>(99,812)</u>	<u>122,598</u>
CASH AND CASH EQUIVALENTS		
Beginning	<u>685,770</u>	<u>563,172</u>
Ending	<u>\$ 585,958</u>	<u>\$ 685,770</u>

See accompanying notes.

CHILDREN'S HOME SOCIETY OF VIRGINIA

Notes to Financial Statements

June 30, 2016

NOTE 1. NATURE OF ORGANIZATION

Children's Home Society of Virginia (the Society) is a private, 501(c)(3) licensed child placing agency that serves children in need of permanent, loving families. The mission of the Society is to build strong permanent families and lifelong relationships for Virginia's at risk children. The Society's programs include Infant Adoption, Foster Care Adoption, Post Adoption and The Possibilities Project.

The Society primarily provides services through its facilities located in Richmond and Fredericksburg, Virginia.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Society reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Society is required to present a statement of cash flows.

Unrestricted net assets impose no restriction on the Society as to their use or purpose. Such net assets are expended for purposes deemed appropriate for operating purposes.

Temporarily restricted net assets are those whose use by the Society has been limited by donors to a specific time period or purpose.

Permanently restricted net assets consist of investments to be held indefinitely, the income from which is expended to support the activities of the Society. Generally, the income from permanently restricted net assets can be used for operating purposes.

Cash and Cash Equivalents

The Society's definition of cash equivalents includes items such as short-term, highly liquid investments with maturities of three months or less at the date of acquisition.

Recognition of Contributions and Grants

Contributions and grants are recognized when the donor makes a promise to give to the Society that is, in substance, unconditional. Contributions and grants that are restricted by the donor are reported as an increase in unrestricted net assets if the restriction expires in the fiscal year in which the contribution or grant is recognized. All other donor-restricted contributions and grants are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified as unrestricted.

(Continued)

CHILDREN'S HOME SOCIETY OF VIRGINIA

Notes to Financial Statements

June 30, 2016

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

The Society charges off accounts to bad debt expense as they are deemed uncollectible based upon a periodic review of the accounts. The allowance for uncollectible accounts was \$19,281 at both June 30, 2016 and June 30, 2015.

Contributed Materials and Services

The value of contributed materials and the value of contributed services that either (a) created or enhanced a nonfinancial asset or (b) required specialized skills, was provided by individuals possessing those skills, and are of a type that would have been purchased if not contributed are recognized in the financial statements. The Society recognized \$23,363 and \$28,995 in 2016 and 2015, respectfully, for services meeting these criteria. Individuals volunteer their time and perform a variety of tasks that assist the Society in achieving its purpose. No value is recognized for these services.

Investments

Investments in marketable equity securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the statement of activities.

Property and Equipment

Purchased property and equipment are stated at cost. The Society follows the practice of capitalizing all material expenditures for property and equipment. Material donated assets are stated at fair value at the time of the donation. Depreciation is computed on the double declining balance and straight line methods over the estimated useful lives of the assets: 3 to 10 years for equipment and 40 years for buildings and improvements.

Concentrations of Credit Risk

Financial instruments which potentially subject the Society to concentrations of credit risk consist primarily of cash and investments. The Society maintains its cash balances in two financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000.

(Continued)

CHILDREN'S HOME SOCIETY OF VIRGINIA

Notes to Financial Statements

June 30, 2016

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Continued)

Revenue earned on allocations and designations from United Way consisted of \$75,321 or 7% of the Society's total revenue for 2016. A significant reduction in the level of this support may have an effect on the Society's programs and activities.

Advertising Costs

Advertising costs are allocated to program and support services as incurred. Advertising costs amounted to \$51,452 for 2016.

Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs benefited.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Tax Status

The Society is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Income Tax Uncertainties

The Society follows FASB guidance for how uncertain tax positions should be recognized, measured, disclosed and presented in the financial statements. This requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Society's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained "when challenged" or "when examined" by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax expense and liability in the current year. Management evaluated the Society's tax positions and concluded that the Society had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. The Society's income tax returns for years since 2013 remain open for examination by tax authorities. The Society is not currently under audit by any tax jurisdiction.

(Continued)

CHILDREN'S HOME SOCIETY OF VIRGINIA

Notes to Financial Statements

June 30, 2016

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Concluded)

Subsequent Events

Management has evaluated subsequent events through November 14, 2016, the date the financial statements were available to be issued, and has determined there are no subsequent events to be reported in the accompanying financial statements.

NOTE 3. PLEDGES RECEIVABLE

Pledges receivable includes the following unconditional promises to give as of June 30, 2016:

Amounts due in:

Less than one year	\$	136,611
One to five years		48,822
Thereafter		4,000
	\$	<u>189,433</u>

NOTE 4. TRUSTS

The Society is currently the partial beneficiary of several perpetual trusts established by split interest agreements. Split interest agreements are trust agreements established by donors under which the Society receives benefits that are shared with other beneficiaries. The trust agreements established by the donors provide for a third party to hold the assets. The Society's share of the market value, which approximates the present value of expected future cash receipts from the trust assets, was \$1,041,793 on June 30, 2016, which is classified as permanently restricted net assets in the financial statements. Income received from these trusts was \$42,415 in 2016 and is classified as unrestricted net assets in the financial statements. The Society also receives income from various trusts where the Society is an income beneficiary. Income received from these trusts was \$96,604 in 2016.

CHILDREN'S HOME SOCIETY OF VIRGINIA

Notes to Financial Statements

June 30, 2016

NOTE 5. FAIR VALUE MEASUREMENTS

FASB ASC 820 establishes a framework for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

- Level 1 Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Society has the ability to access.
- Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 Inputs are unobservable inputs for the asset or liability.

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

Money Market Funds

Money market funds are valued at the realizable cash value equivalent to the specific sum of money held by the Society at year end.

Equities

Equities are valued at the closing price reported on the active market on which the individual securities are traded.

Mutual Funds

Mutual funds are valued at the net asset value ("NAV") of shares held by the Society at year end.

Fixed Income

Fixed income is valued at the net asset value ("NAV") of shares held by the Society at year end.

(Continued)

CHILDREN'S HOME SOCIETY OF VIRGINIA

Notes to Financial Statements

June 30, 2016

NOTE 5. FAIR VALUE MEASUREMENTS

(Continued)

Real Estate

Real estate is valued based on appraisals, broker opinions and tax values.

Due to the nature of the above assets as part of a perpetual trust, the funds have no unfunded commitments and redemption restrictions are not applicable.

Pledges Receivable

Pledges receivable are valued at the sum of future contributions adjusted to the present value using an unobservable discount rate.

Assets measured at fair value on a recurring basis at June 30, 2016 include the following:

	Assets at Fair Value	
	Level 3	Total
Assets:		
Perpetual trusts		
Money market	\$ 26,638	\$ 26,638
Equities	517,557	517,557
Mutual funds	273,898	273,898
Fixed income	142,911	142,911
Tangible assets	41,918	41,918
Real estate	39,591	39,591
Pledges receivable, net	189,433	189,433
Total assets at fair market	<u>\$ 1,231,226</u>	<u>\$ 1,231,226</u>

(Continue)

CHILDREN'S HOME SOCIETY OF VIRGINIA

Notes to Financial Statements

June 30, 2016

NOTE 5. FAIR VALUE MEASUREMENTS

(Continued)

The table below sets forth a summary of changes in the fair value of the Society's Level 3 assets for the year ended June 30, 2016:

	Level 3 Assets	
	Perpetual Trusts	Pledges Receivable
Balances at July 1, 2015	\$ 1,113,902	\$ 239,530
Unrealized loss	(72,109)	-
New pledges	-	45,200
Pledge payments received	-	(90,334)
Write-off of pledges	-	(4,963)
Balances at June 30, 2016	<u>\$ 1,041,793</u>	<u>\$ 189,433</u>

NOTE 6. PROPERTY AND EQUIPMENT

Property and equipment at June 30 consisted of the following:

Land	\$ 27,876
Buildings	376,107
Computers and software	98,397
Furniture and equipment	114,918
	<u>617,298</u>
Less accumulated depreciation	<u>441,428</u>
Property and equipment, net	<u>\$ 175,870</u>

Depreciation expense for fiscal year 2016 was \$14,762.

CHILDREN'S HOME SOCIETY OF VIRGINIA

Notes to Financial Statements

June 30, 2016

NOTE 7. OPERATING LEASES

The Society leases certain office space and equipment under non-cancelable operating lease agreements. Total rental expense under non-cancelable operating leases was \$14,638 for 2016. At June 30, 2016, the future minimum lease payments under these lease agreements are as follows:

2017	\$	4,904
2018		206
		<hr/>
	\$	5,110

NOTE 8. LINE OF CREDIT

Effective August 27, 2013, the Society has available a revolving line of credit with a commercial bank providing for maximum borrowings of \$300,000, renewing annually. Interest on funds advanced is payable monthly at 2.15%, as determined by the loan agreement. The line is collateralized by substantially all the assets of the Society. There were no borrowings on the line of credit as of June 30, 2016.

NOTE 9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following as of June 30:

Pledges Receivable	\$	189,433
Community Foundation		89,131
Wendy's Wonderful Kids Grant		35,000
Brookfield Foundation		30,875
Jenkins Foundation		27,843
Impact 100 Grant		16,435
Fredericksburg United Way		10,000
Altria Foundation		4,677
		<hr/>
	\$	403,394

CHILDREN'S HOME SOCIETY OF VIRGINIA

Notes to Financial Statements

June 30, 2016

NOTE 10. RELATED PARTY

The Children's Home Society of Virginia Memorial Fund, Inc. may reimburse certain expenses to the Society. These expenses include salary and benefit expenses for certain shared employees, rent and insurance expense related to the building and other operational expenses primarily related to fundraising activities, done on behalf of the Memorial Fund. The Society paid \$0 in 2016 in expenses on behalf of the Memorial Fund. The reimbursement for these expenses is shown as part of due from Memorial Fund on the statement of financial position. The Memorial Fund contributed \$0 to the Society for fiscal year 2016.

NOTE 11. GUARANTEES

Pursuant to the Articles of Incorporation, the Society has certain obligations to indemnify its current and former officers and directors for certain events or occurrences while the officer or director is, or was, serving at the Society's request in such capacities. The maximum liability under these obligations is dictated by the Code of the Commonwealth of Virginia; however, the Society's insurance policies serve to limit its exposure. The Society believes that the estimated fair value of these indemnification obligations is minimal.