

PRESBYTERIAN CHILDREN'S
HOMES AND SERVICES
(a non-profit organization)
FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS
December 31, 2018 and 2017



Presbyterian Children's
Homes and Services

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES

FINANCIAL STATEMENTS

AND

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

DECEMBER 31, 2018 AND 2017

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Presbyterian Children's Homes and Services
Austin, Texas

We have audited the accompanying financial statements of Presbyterian Children's Homes and Services (a nonprofit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, the statement of functional expenses for the year ended December 31, 2018, 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 of 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 of 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.

OFFICE LOCATIONS

TEXAS | Waco | Temple | Hillsboro | Houston
NEW MEXICO | Albuquerque

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 Presbyterian Children's Homes and Services as of December 31, 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.

Effect of Adopting New Accounting Standard

As discussed in Note 2, Presbyterian Children's Homes and Services adopted the provisions of Financial Accounting Standards Board Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended December 31, 2018. The requirements of ASU 2016-14 have been retrospectively applied to all periods presented with the exception of the presentation of expenses by both function and nature for the year ended December 31, 2017 being omitted, as is allowable by the ASU. Our opinion is not modified with respect to this matter.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
July 10, 2019

FINANCIAL STATEMENTS

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

	2018		Total
	Without Donor Restrictions	With Donor Restrictions	
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,475,756	\$ 4,587,310	\$ 7,063,066
Short-term investments	29,635	-	29,635
Accounts receivable, net of allowance	1,669,198	-	1,669,198
Related party receivable	218,284	-	218,284
Interest receivable	22,308	-	22,308
Contributions receivable, net of allowance and discount	117,354	6,477,825	6,595,179
Estates receivable	183,500	41,019	224,519
Prepaid assets	290,552	-	290,552
Other assets	-	-	-
Notes receivable, net of allowance	5,728	4,823	10,551
Total current assets	5,012,315	11,110,977	16,123,292
Long-term investments	57,578,071	63,643,155	121,221,226
Property and equipment, net of accumulated depreciation	14,324,890	-	14,324,890
Total assets	\$ 76,915,276	\$ 74,754,132	\$ 151,669,408
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accounts payable	\$ 597,282	\$ -	\$ 597,282
Accrued payroll and compensated absences	1,004,172	-	1,004,172
Lines of credit	-	-	-
Other accrued expenses	2,141	-	2,141
Current portion of long-term debt	98,851	-	98,851
Current portion of annuities payable	25,684	-	25,684
Other liabilities	22,415	-	22,415
Total current liabilities	1,750,545	-	1,750,545
Non-current portion of long-term debt	1,456,587	-	1,456,587
Non-current portion of annuities payable	115,240	-	115,240
Total liabilities	3,322,372	-	3,322,372
Net assets:			
Without donor restrictions	73,592,904	-	73,592,904
With donor restrictions	-	74,754,132	74,754,132
Total net assets	73,592,904	74,754,132	148,347,036
Total liabilities and net assets	\$ 76,915,276	\$ 74,754,132	\$ 151,669,408

2017		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 4,229,472	\$ 3,739,268	\$ 7,968,740
44,852	-	44,852
1,083,347	-	1,083,347
44,014	-	44,014
15,998	-	15,998
289,721	6,589,584	6,879,305
1,124,657	94,719	1,219,376
84,301	43,296	127,597
13,440	-	13,440
6,190	4,823	11,013
6,935,992	10,471,690	17,407,682
64,327,312	68,549,383	132,876,695
14,846,948	-	14,846,948
<u>\$ 86,110,252</u>	<u>\$ 79,021,073</u>	<u>\$ 165,131,325</u>
\$ 619,948	\$ -	\$ 619,948
849,833	-	849,833
195,935	-	195,935
5,079	-	5,079
1,739,561	-	1,739,561
25,684	-	25,684
35,927	-	35,927
3,471,967	-	3,471,967
1,130,315	-	1,130,315
122,284	-	122,284
4,724,566	-	4,724,566
81,385,686	-	81,385,686
-	79,021,073	79,021,073
81,385,686	79,021,073	160,406,759
<u>\$ 86,110,252</u>	<u>\$ 79,021,073</u>	<u>\$ 165,131,325</u>

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018		Total
	Without Donor Restrictions	With Donor Restrictions	
OPERATING ACTIVITIES			
Revenue and support:			
Contributions and bequests	\$ 6,153,465	\$ 1,002,575	\$ 7,156,040
Fees for service	11,371,512	118,815	11,490,327
Other income	851,943	-	851,943
Gain (loss) on sale of assets	(27,516)	-	(27,516)
Total revenue and support before releases	<u>18,349,404</u>	<u>1,121,390</u>	<u>19,470,794</u>
Net assets released from restrictions	813,528	(813,528)	-
Total revenue and support	<u>19,162,932</u>	<u>307,862</u>	<u>19,470,794</u>
Expenses:			
Residential group home program	2,393,030	-	2,393,030
Single parent programs	1,168,665	-	1,168,665
Foster care & adoption services	6,135,492	-	6,135,492
Community services	1,890,829	-	1,890,829
Residential treatment programs	4,630,802	-	4,630,802
Professional services	4,600,706	-	4,600,706
Advanced & student education	345,291	-	345,291
Program services	<u>21,164,815</u>	<u>-</u>	<u>21,164,815</u>
Fundraising	1,709,164	-	1,709,164
Management & general	2,454,151	-	2,454,151
Support services	<u>4,163,315</u>	<u>-</u>	<u>4,163,315</u>
Total expenses	<u>25,328,130</u>	<u>-</u>	<u>25,328,130</u>
Change in nets assets from operating activities	<u>(6,165,198)</u>	<u>307,862</u>	<u>(5,857,336)</u>
NONOPERATING ACTIVITIES			
Contributions to endowments	-	122,007	122,007
Investment income, net of investment expenses	2,735,298	219,694	2,954,992
Change in fair value of split interest and annuities	(18,717)	(479,136)	(497,853)
Realized gains (losses) on long-term investments	8,202,271	333,423	8,535,694
Unrealized gains (losses) on long-term investments	(12,280,752)	(5,036,475)	(17,317,227)
Change in nets assets from nonoperating activities	<u>(1,361,900)</u>	<u>(4,840,487)</u>	<u>(6,202,387)</u>
CHANGE IN NET ASSETS	<u>(7,527,098)</u>	<u>(4,532,625)</u>	<u>(12,059,723)</u>
NET ASSETS, BEGINNING OF YEAR			
As previously reported	81,385,686	79,021,073	160,406,759
Adjustment to beginning net assets due to merger	<u>(265,684)</u>	<u>265,684</u>	<u>-</u>
NET ASSETS, BEGINNING OF YEAR, RESTATED	<u>81,120,002</u>	<u>79,286,757</u>	<u>160,406,759</u>
NET ASSETS, END OF YEAR	<u>\$ 73,592,904</u>	<u>\$ 74,754,132</u>	<u>\$ 148,347,036</u>

The accompanying notes are an integral part of this statement.

2017		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 7,608,490	\$ 418,325	\$ 8,026,815
12,049,322	144,805	12,194,127
372,973	-	372,973
2,310,099	-	2,310,099
<u>22,340,884</u>	<u>563,130</u>	<u>22,904,014</u>
858,230	(858,230)	-
<u>23,199,114</u>	<u>(295,100)</u>	<u>22,904,014</u>
2,995,715	-	2,995,715
1,071,332	-	1,071,332
6,648,705	-	6,648,705
2,136,839	-	2,136,839
3,850,698	-	3,850,698
3,985,404	-	3,985,404
405,934	-	405,934
<u>21,094,627</u>	<u>-</u>	<u>21,094,627</u>
1,785,924	-	1,785,924
2,416,451	-	2,416,451
<u>4,202,375</u>	<u>-</u>	<u>4,202,375</u>
25,297,002	-	25,297,002
<u>(2,097,888)</u>	<u>(295,100)</u>	<u>(2,392,988)</u>
-	189,629	189,629
2,801,723	172,190	2,973,913
9,109	843,203	852,312
2,306,296	227,567	2,533,863
7,597,202	5,976,473	13,573,675
<u>12,714,330</u>	<u>7,409,062</u>	<u>20,123,392</u>
10,616,442	7,113,962	17,730,404
70,769,244	71,907,111	142,676,355
-	-	-
<u>70,769,244</u>	<u>71,907,111</u>	<u>142,676,355</u>
<u>\$ 81,385,686</u>	<u>\$ 79,021,073</u>	<u>\$ 160,406,759</u>

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

Classification	Residential Group Home Program	Single Parent Programs	Foster Care & Adoption Services	Community Services	Residential Treatment Programs
Salaries and wages	\$ 1,163,910	\$ 476,805	\$ 2,604,762	\$ 1,184,601	\$ 2,704,663
Employee benefits and taxes	353,655	150,149	753,156	321,256	746,602
	<u>1,517,565</u>	<u>626,954</u>	<u>3,357,918</u>	<u>1,505,857</u>	<u>3,451,265</u>
Bad debt expense	295	104	868	263	99,242
Client care services	231,856	44,275	1,853,678	121,552	250,337
Contracted services	7,091	2,258	76,862	5,582	47,021
Depreciation	106,436	115,031	86,173	9,275	153,423
Information technology	14,747	17,905	30,850	14,940	17,136
Insurance	48,675	35,087	64,857	23,141	123,398
Interest expense	549	258	1,501	448	38,387
Occupancy	151,263	136,934	263,371	50,656	180,287
Office expenses	41,823	16,445	39,868	32,154	54,065
Other expenses	2,853	2,731	16,156	4,967	4,964
Public relations and advertising	8,944	1,521	17,296	4,143	4,541
Recruiting and other employment	5,647	4,415	31,341	3,906	18,098
Repair and maintenance	97,066	117,580	58,337	4,188	92,924
Training	5,183	1,564	22,623	5,203	14,677
Transportation	136,677	34,629	39,913	17,494	45,799
Travel	16,360	10,974	173,880	87,060	35,238
Total	<u>\$ 2,393,030</u>	<u>\$ 1,168,665</u>	<u>\$ 6,135,492</u>	<u>\$ 1,890,829</u>	<u>\$ 4,630,802</u>

Professional Services	Advanced & Student Education	Total Program Services	Fundraising	Management & General	Total Support Services	Total
\$ 3,033,960	\$ 230,537	\$ 11,399,238	\$ 868,051	\$ 1,398,776	\$ 2,266,827	\$ 13,666,065
804,410	57,289	\$ 3,186,517	223,761	373,385	597,146	3,783,663
<u>3,838,370</u>	<u>287,826</u>	<u>14,585,755</u>	<u>1,091,812</u>	<u>1,772,161</u>	<u>2,863,973</u>	<u>17,449,728</u>
652	48	101,472	-	6,047	6,047	107,519
27,525	16,024	2,545,247	-	-	-	2,545,247
56,575	1,744	197,133	40,612	145,025	185,637	382,770
15,402	2,646	488,386	42,278	123,031	165,309	653,695
15,875	4,941	116,394	45,751	26,426	72,177	188,571
124,073	6,558	425,789	28,824	91,927	120,751	546,540
49,196	82	90,421	2,934	15,198	18,132	108,553
159,876	6,051	948,438	33,746	50,963	84,709	1,033,147
29,548	2,815	216,718	91,395	37,865	129,260	345,978
23,180	727	55,578	7,168	29,301	36,469	92,047
5,124	348	41,917	221,890	132	222,022	263,939
20,636	635	84,678	2,888	8,220	11,108	95,786
49,871	2,792	422,758	11,227	33,626	44,853	467,611
11,242	1,268	61,760	2,700	2,648	5,348	67,108
49,471	5,416	329,399	15,483	26,496	41,979	371,378
124,090	5,370	452,972	70,456	85,085	155,541	608,513
<u>\$ 4,600,706</u>	<u>\$ 345,291</u>	<u>\$ 21,164,815</u>	<u>\$ 1,709,164</u>	<u>\$ 2,454,151</u>	<u>\$ 4,163,315</u>	<u>\$ 25,328,130</u>

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PRESBYTERIAN CHILDREN'S HOMES AND SERVICES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
OPERATING ACTIVITIES		
Change in net assets	\$ (12,059,723)	\$ 17,730,404
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities		
Bad debts	107,519	55,112
Depreciation	653,695	678,908
(Gain) loss on sale of assets	27,516	(2,310,099)
Contributions of investments	70,947	219,701
Realized (gains) losses on long-term investments	(8,535,694)	(2,533,863)
Unrealized (gains) losses on long-term investments	17,317,227	(13,573,675)
Contributions restricted for long-term investments	(122,207)	(190,979)
Change in:		
Accounts receivable	(693,370)	(209,227)
Related party receivable	(174,270)	(44,014)
Interest receivable	(6,310)	46,459
Contributions receivable	284,126	(943,027)
Estates receivable	994,857	1,807,781
Prepaid assets	(162,955)	293,461
Other assets	13,440	1,368
Notes receivable	462	(187)
Accounts payable	(22,666)	(197,413)
Accrued payroll and compensated absences	154,339	33,633
Other accrued expenses	(2,938)	172
Annuities payable	(7,044)	(39,221)
Related party payable	-	(108,420)
Other liabilities	(13,512)	294
Net cash provided (used) by operating activities	(2,176,561)	717,168
INVESTING ACTIVITIES		
Purchase of property and equipment	(160,363)	(500,832)
Proceeds from sale of property and equipment	1,210	3,127,802
Purchase of investments	(16,505,880)	(5,195,684)
Proceeds from sale of investments	19,324,086	6,264,250
Net cash provided by investing activities	2,659,053	3,695,536
FINANCING ACTIVITIES		
Borrowings on lines of credit	-	720,000
Repayment on lines of credit	(195,935)	(624,065)
Repayment of long term debt	(1,314,438)	(161,323)
Cash received from contributions, bequests, etc.	122,207	190,979
Net cash provided (used) by financing activities	(1,388,166)	125,591
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVAL	(905,674)	4,538,295
CASH AND CASH EQUIVALENTS, Beginning	7,968,740	3,430,445
CASH AND CASH EQUIVALENTS, Ending	\$ 7,063,066	\$ 7,968,740
SUPPLEMENTAL DISCLOSURE:		
Interest paid	\$ 123,837	\$ 128,752

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PRESBYTERIAN CHILDREN'S HOMES AND SERVICES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017

1. ORGANIZATION AND PURPOSE

On January 1, 2018, Presbyterian Children's Homes and Services (PCHAS-TX), a Texas non-profit corporation established in 1903 and Presbyterian Children's Homes and Services of Missouri (PCHAS-MO), a Missouri non-profit corporation established in 1914 merged after five years of affiliation. The non-profit corporation, known as Presbyterian Children's Homes and Services (PCHAS), provides Christ-centered care and support to children and families in need in Texas, Louisiana and Missouri.

PCHAS (the Organization) operates residential group foster care homes, community foster homes, and adoption services throughout several communities in Texas. Single Parent Family programs in Waxahachie, San Antonio and Houston work to bring economic and emotional stability to children and their families. Community service programs located throughout Texas and Louisiana provide a child welfare network bringing together churches, schools, and other local resources to meet the varying needs of children and their families. Educational programs are also provided to help meet the needs of children in pursuit of college and vocational goals.

In Missouri, PCHAS operates residential treatment programs in Farmington, Springfield and Columbia. Professional services such as community based case management programs, mentoring programs and other family related services are provided to support children in need of all ages in several cities across the state.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of PCHAS have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The following is a summary of the significant policies.

Basis of Presentation

The financial statements of PCHAS were prepared using the accrual basis of accounting. Under this basis, revenue is recorded when earned and expenses are recorded at the time liabilities are incurred. The financial statements include statements of financial position, statements of activities, statement of functional expenses, statements of cash flows, and related notes. The Financial Accounting Standards Board (FASB) is the accepted standard setting body for non-profit organizations.

PCHAS has adopted FASB Codification Section 958-605 *Not-for-Profit Entities Revenue Recognition* and FASB Codification Section 958-205 *Not-for-Profit Entities Presentation of Financial Statements*, which was effective January 1, 2018.

FASB Codification Section 958-605 requires that unconditional promises to give (pledges) be recorded as receivables and revenue and requires that the organization distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. FASB Codification Section 958-205 requires that the statements be organized based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified as follows:

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Net assets without donor restrictions - Net assets that are not subject to donor imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization's board may designate assets without restrictions for specific operational purposes from time to time.

Net assets with donor restrictions - Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Cash and Cash Equivalents

For the purposes of the statements of cash flows, PCHAS considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash equivalents are stated at cost, which approximates market value.

PCHAS maintains its cash in several financial institutions. These accounts at times may exceed federally insured limits. As of December 31, 2018 and 2017, cash balances in financial institutions exceeded Federal Deposit Insurance Corporation (FDIC) coverage by \$5,831,578 and \$6,744,375, respectively. In addition, PCHAS has money market funds, which are not federally insured, but are subject to Securities Investor Protection Coverage (SIPC) as of December 31, 2018.

PCHAS invests cash in excess of daily requirements in an overnight investment account, for the general operating account.

Investments

Investments in marketable securities are carried at market value based on the closing prices on the stock exchange as of the last day of the period. Realized and unrealized gains or losses are presented in accordance with any donor restrictions. Investment return is presented net of investment fees. PCHAS carries its investments in real estate at fair market value.

Investments include perpetual trusts in which PCHAS has an irrevocable right to receive the income earned on the trust assets in perpetuity, but never receives the assets which are held in trust by a third party. The interests in perpetual trusts are valued at the latest available market value. Changes in unrealized and realized gains (losses) on interests in perpetual trusts are recorded as changes in net assets with donor restrictions.

Investment Pools

PCHAS pools donor-restricted and board-designated endowments into pooled investment accounts. Realized and unrealized gains from the pooled investment accounts are allocated to the individual donor accounts based on the daily average of the market value of each endowment to the market value of the pooled investment accounts.

The fair value of assets in an individual donor restricted endowment are all above the endowments historic cost.

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable

Accounts receivable consists primarily of program services fees. An allowance for uncollectible accounts is determined using the aging method. All accounts over 90 days are reviewed to determine an allowance. Management provides for probable uncollectible amounts through a charge to earnings and a credit to an allowance based on its assessment of the current status of individual accounts.

Contributions and Estates Receivable

Unconditional contributions are recognized when pledged and recorded as assets without donor restrictions or assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional promises to give are recognized only when the condition on which they depend is substantially met making the promise unconditional. PCHAS is the beneficiary of several split interest agreements that include various trusts and charitable gift annuities administered by third parties. The receivable for the split interest agreements is recorded at the present value of the estimated future benefits to be received when the trust assets are distributed.

Estates are recognized in the period when notification is received and the value is determinable. The receivable for the estates is recorded at the estimated fair market value of the Organization's interest in the estate. Pledge contributions are recorded net of discount and allowance. Discounts and allowance are amortized over the term of the pledge contributions using the aging method.

Property and Equipment

PCHAS has adopted a capitalization threshold of \$2,000 and useful lives of five years or more. Therefore, purchases of property and equipment meeting these conditions are stated at cost. Depreciation on property and equipment is calculated on a straight-line basis over the estimated useful lives of the assets, generally 5 to 40 years. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend its life are expensed as incurred.

Donated property and equipment are valued at their estimated fair value at the time of donation and are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor imposed stipulations, PCHAS reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Long-lived assets are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount of an asset may not be recoverable. If the carrying value of the long-lived asset is not recoverable, an impairment charge is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including quoted market values and third-party independent appraisals, as deemed necessary.

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Designation of Unrestricted Net Assets

It is the policy of the Board of Trustees to review its plans for meeting operational needs and its plans for property improvements and acquisitions from time to time and to designate appropriate sums of unrestricted net assets to assure adequate financing of such needs.

Donated Materials, Supplies and Facility Usage

Donated items and free use of facilities are valued at the estimated fair value at the date of donation. As donated items are used by our programs, a corresponding expense is recorded.

Donated Services

Donated services are recognized as contributions if the services create or enhance non-financial assets or if the services require specialized skills, are performed by people with those skills, and would otherwise be purchased by PCHAS. In addition, volunteers provide assistance with specific programs, fundraising, and work on many committees that is not recognized as revenue since the recognition criteria were not met.

Contributions, Fees, Investment Income, and Gains Restricted by Donors

PCHAS recognizes revenue from contributions when they are received and program fees as the services are provided while expenses are reported as incurred. PCHAS reports gifts or investment income and gains as restricted income if it is received with donor stipulation that restricts the gift's use or income to a specific purpose or has a time restriction. When a restriction is met, net assets are reclassified from net assets with donor restriction to net assets without donor restriction and reported in the statement of activities as net assets released from restriction. If these restrictions are met in the same period in which the gift or income is earned, the gift or income is recorded as without donor restriction. Contributions restricted for the acquisition of land, buildings, and equipment are reported as net assets without donor restriction upon acquisition of the assets and the assets are placed in service.

Estimates

In the preparation of financial statements in conformity with GAAP, management uses estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and the reported revenue and expenses. While management believes these estimates to be reasonable, actual results could differ from those estimates. Significant estimates in the financial statements relate to determination of the allowance for uncollectible receivables, student loans and pledges, depreciable lives of property and equipment, value of split interest receivables, valuation of annuities payable and fair value of investments.

Measure of Operations

The statements of activities report all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Organization's ongoing activities. Non-operating activities are limited to resources that generate return from investments, endowment contributions, and other activities considered to be of a more unusual or nonrecurring nature.

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES
NOTES TO FINANCIAL STATEMENTS
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities for the year ended December 31, 2018 and 2017. Accordingly, certain costs in the Statement of Activities have been allocated among the programs and support services that received benefit. Depreciation and utilities for shared facilities is allocated based on square footage. Insurance expense, depending on type, is allocated by budgeted salaries, net book value of assets and number of vehicles. Expenses for shared supplies, postage, and office equipment are allocated based on the number of positions budgeted by department.

Income Tax Status

PCHAS is exempt from federal income tax under Section 501(c)3 of the Internal Revenue Code (IRC), though it would be subject to tax on income unrelated to its exempt purpose (unless that income is otherwise excluded by the IRC). PCHAS has concluded that no tax benefits or liabilities are required to be recognized in accordance with generally accepted accounting principles. The last three tax years remain open to examination by taxing authorities.

PCHAS has adopted FASB Accounting Standards Codification (ASC) 740-10, *Accounting for Uncertainty in Income Tax*. That standard prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in financial statements. It also provides guidance for derecognition, classification, interest and penalties, accounting and interim periods, disclosure, and transition. Management believes there were none. In addition, PCHAS qualifies for the charitable contribution deduction under Section 170 of the IRC and has been classified as an organization other than a private foundation under Section 509(a)3.

Compensated Absences

Full-time employees in Texas and Louisiana earn annual compensated vacation time of 2 to 4 weeks based upon their position and length of service. The maximum accrual allowed is 1½ times the annual accrual. Upon termination, any unused vacation time is paid to the employee. Full-time employees accrue one day of sick leave per month. A maximum of sixty days may be accrued by each employee. Upon termination of employment, unused sick leave is forfeited unless the employee has 5 years or more of service. If the employee has 5 years or more of service, they are paid 25% of their sick leave accrual upon voluntary termination.

Full-time employees in Missouri accrue 18 to 34 days per year of Earned Time Off (ETO) based upon their position and length of service. The maximum balance allowed is 42 days. Upon termination, employees are paid up to 100% of their unused ETO balance depending on their length of service.

The amount expected to be paid to employees for vacation leave, sick leave or ETO not yet taken as of December 31st of each year is recorded as a liability on the statements of financial position.

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES
NOTES TO FINANCIAL STATEMENTS
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications

Certain prior period amounts have been reclassified to conform to current period presentations. Such reclassifications had no effect on previously reported change in net assets, in total.

On January 1, 2018, upon the merger of PCHAS-TX & PCHAS-MO, certain interfund borrowings were repaid including imputed interest on those borrowings in the amount of \$265,684. As a result, the 2018 beginning net assets balances were restated by donor restriction. As shown below, this restatement had no effect on total net assets as reported in 2017.

	Net Assets Without Donor Restriction	With Donor Restriction			Total Net Assets
		Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Net Assets With Donor Restriction	
Beginning net assets (as previously reported)	\$ 81,385,686	\$ 8,900,706	\$ 70,120,367	\$ 79,021,073	\$ 160,406,759
Adjustment	(265,684)	35,992	229,692	265,684	-
Beginning net assets (restated)	<u>\$ 81,120,002</u>	<u>\$ 8,936,698</u>	<u>\$ 70,350,059</u>	<u>\$ 79,286,757</u>	<u>\$ 160,406,759</u>

New Accounting Pronouncements

In August 2016, FASB issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. PCHAS has adjusted the presentation of these financial statements accordingly and has applied the ASU retrospectively to all periods presented.

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The purpose of this update was to provide a standard that increases consistency of revenue recognition for similar contracts, regardless of industry. It also provides for common revenue recognition standards for both GAAP and the International Accounting Standards Board (IASB). This update affects any organization recognizing revenue through various contracts with customers. The standard will become effective for PCHAS for fiscal years beginning after Dec 15, 2018.

The new standard is a single, contract-based approach in which revenue is recognized when an entity satisfies its obligation to its customers, which occurs when controls over a good or service is transferred to a customer. Revenue and cost might change from current revenue recognition practices as it relates to the time and the amount recognized.

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements (Continued)

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which applies to two types of leases: capital (or finance) leases and operating leases. While the requirements for a lessor under the new standard will remain similar to the current guidance, the requirements for a lessee are expanded. Previously, a lessee was only required to recognize capital leases on its balance sheet, however, the new standard now requires that a lessee recognize on the balance sheet assets and liabilities for leases with terms of more than 12 months, regardless of the type of lease. Leases with terms of less than 12 months are exempt from the new standard, if the organization makes the accounting policy election. The standard will become effective for PCHAS for fiscal years beginning after Dec 15, 2019.

The required recognition, measurement and presentation of cash flows by a lessee depend on the type of lease:

- (a) for capital or finance leases, lessees will recognize amortization of the right-of-use asset separately from interest on the lease liability.
- (b) for operating leases, lessees will recognize a single total lease expense calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis.

For both types of leases, lessees will recognize a right-of-use asset and a lease liability.

3. CASH AND INVESTMENTS

Long-term Investments

A portion of long-term investments is held in pooled funds at Texas Presbyterian Foundation (TPF) and is invested generally 70% in equities and 20% in fixed income investments and 10% in real estate and alternative strategies. A portion of long-term investments is invested in passive index funds.

PCHAS also holds some investments in real estate, mineral interests and securities, all of which were donated. Long-term investments at the end of the year consist of the following:

Investment Type	December 31, 2018		December 31, 2017	
	Cost Value	Market Basis	Cost Value	Market Basis
TPF pooled funds	\$ 40,756,980	\$ 57,604,349	\$ 50,365,389	\$ 78,856,583
Equity securities	15,340,753	14,061,188	345,562	509,694
Debt securities	20,000	20,000	20,192	20,192
Beneficial interest in trusts	49,111,028	49,111,028	53,308,973	53,308,973
Alternative strategies	6,082	6,082	5,947	5,947
Real estate	398,636	398,636	161,133	161,133
Mineral interests	12,943	12,943	7,173	7,173
Other miscellaneous investments	7,000	7,000	7,000	7,000
Total investments	<u>\$ 105,653,422</u>	<u>\$ 121,221,226</u>	<u>\$ 104,221,369</u>	<u>\$ 132,876,695</u>

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES
NOTES TO FINANCIAL STATEMENTS
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3. CASH AND INVESTMENTS (Continued)

Fair Value Measurements

The following methods and assumptions were used in estimating the fair value disclosures for the financial instruments:

Investment securities - The fair values of investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices for identical or similar securities.

Receivables - The carrying amounts reported in the statements of financial position for all receivables approximate those receivables' fair values.

Payables - The carrying amounts reported in the statements of financial position for all payables approximate those payables' fair values.

	2018		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Interest receivable	\$ 22,308	\$ 22,308	\$ 15,998	\$ 15,998
Contributions receivable	6,595,179	6,595,179	6,879,305	6,879,305
Estates receivable	224,519	224,519	1,219,376	1,219,376
Notes receivable	10,551	10,551	11,013	11,013
Long term investments	121,221,226	121,221,226	132,876,695	132,876,695

FASB Codification Section 820, *Fair Value Measurements and Disclosure*, establishes a framework for measuring fair value. That framework provides 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 unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB Codification Section 820 are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that can be easily accessed.

Level 2: Inputs to the valuation methodology include:

Quoted prices for similar assets or liabilities in active markets;

Quoted prices for identical or similar assets or liabilities in inactive markets;

Inputs other than quoted prices that are observable for the asset or liability;

Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017

3. CASH AND INVESTMENTS (Continued)

Fair Value Measurements (Continued)

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 value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2018 and 2017 from prior periods.

Common stocks, corporate bonds and U.S. government securities are valued at the closing price reported on the active market on which the individual securities are traded. Mutual funds are valued at the net asset value (NAV) of shares held at the end of the year.

Alternative investments which include pooled real estate funds, real estate, pooled alternative strategies fund, closely held hedge funds, closely held real estate investment trusts (REITs) and private equity are valued at other significant observable and unobservable inputs that include quoted prices of similar securities.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while PCHAS believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, PCHAS assets at fair value as of December 31, 2018:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
TPF pooled funds - stocks, bonds, gov't sec, real estate, alternative strategies	\$ 57,604,349	\$ 46,639,148	\$ 10,965,201	\$ -
Equity securities	14,061,188	14,061,188	-	-
Debt securities	20,000	20,000	-	-
Beneficial interest in trusts	49,111,028	41,386,409	2,848,257	4,876,362
Alternative strategies	6,082	-	-	6,082
Real estate	398,636	-	398,636	-
Mineral interests	12,943	12,435	-	508
Other miscellaneous investments	7,000	-	-	7,000
	<u>\$ 121,221,226</u>	<u>\$ 102,119,180</u>	<u>\$ 14,212,094</u>	<u>\$ 4,889,952</u>

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017

3. CASH AND INVESTMENTS (Continued)

Fair Value Measurements (Continued)

The following table sets forth a summary of changes in the fair value of Level 3 assets for the year ending December 31, 2018:

Beginning balance 1/1/2018	\$ 5,147,653
Asset changes	(463,131)
Income	2,022
Realized loss	(31,100)
Unrealized gain	234,508
Ending balance 12/31/2018	<u>\$ 4,889,952</u>

The following table sets forth by level, within the fair value hierarchy, PCHAS assets at fair value as of December 31, 2017:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
TPF pooled funds - stocks, bonds,				
gov't sec, real estate, alternative strategies	\$ 78,856,583	\$ 64,516,225	\$ 14,340,358	\$ -
Equity securities	509,694	509,694	-	-
Debt securities	20,192	20,000	192	-
Beneficial interest in trusts	53,308,973	45,166,175	3,008,596	5,134,202
Alternative strategies	5,947	-	-	5,947
Real estate	161,133	-	161,133	-
Mineral interests	7,173	6,669	-	504
Other miscellaneous investments	7,000	-	-	7,000
	<u>\$ 132,876,695</u>	<u>\$ 110,218,763</u>	<u>\$ 17,510,279</u>	<u>\$ 5,147,653</u>

The following table sets forth a summary of changes in the fair value of Level 3 assets for the year ending December 31, 2017:

Beginning balance 1/1/2017	\$ 4,817,008
Asset changes	27,110
Income	6,385
Realized gain	71,682
Unrealized gain	225,468
Ending balance 12/31/2017	<u>\$ 5,147,653</u>

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017

4. FINANCIAL ASSETS AND LIQUIDITY RESOURCES

As of December 31, 2018 and 2017, financial assets and liquidity resources available to the Organization for general operating expenses within one year of the balance sheet are as follows:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 2,475,756	\$ 4,229,472
Short-term investments	29,635	44,852
Accounts receivable, net of allowance	1,669,198	1,083,347
Related party receivable	218,284	44,014
Interest receivable	22,308	15,998
Contributions receivable, expected within one year	2,255,963	2,458,333
Estates receivable, expected within one year	178,500	1,124,657
Prepaid assets	290,552	75,288
Other assets	-	13,440
Assets expected from trustee funds, within one year	1,332,450	1,311,580
Board approved draw from endowment, within one year	4,992,003	4,329,228
Total financial assets available for current use	<u>\$ 13,464,649</u>	<u>\$ 14,730,209</u>

As discussed in Note 2, Summary of Significant Accounting Policies, it is the policy of the Board of Trustees to review its plans for meeting operational needs and its plans for property improvements and acquisitions from time to time and to designate appropriate sums of unrestricted net assets to assure adequate financing of such needs and PCHAS invests cash in excess of daily requirements in an overnight investment account, for the general operating account. In addition, PCHAS has Board designated endowment net assets of \$57,152,892 and \$64,145,942 in 2018 and 2017, respectively. Although the Organization does not intend to spend from its board designated funds beyond the amount approved annually for general operating needs, amounts from these funds could be made available with Board approval, if necessary.

5. ENDOWMENT FUNDS

The Organization's endowment consists of a number of individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017

5. ENDOWMENT FUNDS (Continued)

Interpretation of Relevant Law

The Board of Trustees of PCHAS has interpreted the state Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the purchasing power (real value) of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, PCHAS classifies as permanently restricted net assets: (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, and (4) the portion of investment return added to the permanent endowment to maintain its purchasing power. For purposes of determining that portion, each year PCHAS adjusts permanently restricted net assets by an amount determined to be reasonable for use in the operations but also provide for the change in the average Consumer Price Index (CPI). If the endowment assets earn investment returns beyond the amount necessary to maintain the endowment assets' real value, that excess is maintained as endowment assets in permanently restricted net assets until appropriated by the Board for expenditure.

Although UPMIFA does not preclude the Organization from spending below the original gift value of donor-restricted endowments, the Organization considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Organization has adopted a policy not to spend from underwater endowments unless directed otherwise by the donor.

At times the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. As of the date of these statements, no such deficiencies exist in the Organization's endowments.

In accordance with UPMIFA, PCHAS considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund;
- 2) The purposes of the organization and the donor-restricted endowment fund;
- 3) The general economic conditions;
- 4) The possible effect of inflation or deflation;
- 5) The expected total return from income and the appreciation of investments;
- 6) Other resources of the organization;
- 7) The investment policies of the organization.

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017

5. ENDOWMENT FUNDS (Continued)

Endowment Net Asset Classification by Type of Fund as of December 31, 2018

	Without Donor Restriction	With Donor Restriction		Total With Donor Restriction	Total
		Temporarily Restricted	Permanently Restricted		
<u>Endowment Type</u>					
Donor restricted	\$ -	\$ 3,051,134	\$ 65,740,832	\$ 68,791,966	\$ 68,791,966
Board designated	57,152,892	-	-	-	57,152,892
Total investments	<u>\$ 57,152,892</u>	<u>\$ 3,051,134</u>	<u>\$ 65,740,832</u>	<u>\$ 68,791,966</u>	<u>\$ 125,944,858</u>

Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2018

	Without Donor Restriction	With Donor Restriction		Total With Donor Restriction	Total
		Temporarily Restricted	Permanently Restricted		
<u>Endowment Assets</u>					
Beginning balance (as reported)	\$ 64,145,942	\$ 3,827,083	\$ 70,120,367	\$ 73,947,450	\$ 138,093,392
Adjustment			229,692	229,692	229,692
Beginning balance (restated)	\$ 64,145,942	\$ 3,827,083	\$ 70,350,059	\$ 74,177,142	\$ 138,323,084
<u>Investment return</u>					
Investment return	639,649	97,227	7,532	104,759	744,408
Net appreciation (depreciation)					
realized & unrealized	(4,061,759)	(473,594)	(4,732,966)	(5,206,560)	(9,268,319)
Total invest return	<u>(3,422,110)</u>	<u>(376,367)</u>	<u>(4,725,434)</u>	<u>(5,101,801)</u>	<u>(8,523,911)</u>
Contributions	-	-	122,007	122,007	122,007
Appropriation of endowment					
assets for expenditure	84,878	-	(5,800)	(5,800)	79,078
Transfer to undesignated	(3,655,818)	(399,582)	-	(399,582)	(4,055,400)
Ending balance	<u>\$ 57,152,892</u>	<u>\$ 3,051,134</u>	<u>\$ 65,740,832</u>	<u>\$ 68,791,966</u>	<u>\$ 125,944,858</u>

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017

5. ENDOWMENT FUNDS (Continued)

Endowment Net Asset Classification by Type of Fund as of December 31, 2017 (as reported)

	Without Donor Restriction	With Donor Restriction		Total With Donor Restriction	Total
		Temporarily Restricted	Permanently Restricted		
<u>Endowment Type</u>					
Donor restricted	\$ -	\$ 3,827,083	\$ 70,120,367	\$ 73,947,450	\$ 73,947,450
Board designated	64,145,942	-	-	-	64,145,942
Total investments	<u>\$ 64,145,942</u>	<u>\$ 3,827,083</u>	<u>\$ 70,120,367</u>	<u>\$ 73,947,450</u>	<u>\$ 138,093,392</u>

Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2017 (as reported)

	Without Donor Restriction	With Donor Restriction		Total With Donor Restriction	Total
		Temporarily Restricted	Permanently Restricted		
<u>Endowment Assets</u>					
Beginning balance	\$ 55,152,621	\$ 2,833,339	\$ 64,269,370	\$ 67,102,709	\$ 122,255,330
<u>Investment return</u>					
Investment return	682,013	91,587	6,475	98,062	780,075
Net appreciation (depreciation)					
realized & unrealized	9,865,041	1,250,830	5,659,396	6,910,226	16,775,267
Total invest return	<u>10,547,054</u>	<u>1,342,417</u>	<u>5,665,871</u>	<u>7,008,288</u>	<u>17,555,342</u>
Contributions	-	-	189,629	189,629	189,629
Appropriation of endowment					
assets for expenditure	58,709	-	(4,503)	(4,503)	54,206
Transfer to undesignated	(1,612,442)	(348,673)	-	(348,673)	(1,961,115)
Ending balance	<u>\$ 64,145,942</u>	<u>\$ 3,827,083</u>	<u>\$ 70,120,367</u>	<u>\$ 73,947,450</u>	<u>\$ 138,093,392</u>

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 and 2017

5. ENDOWMENT FUNDS (Continued)

Return Objectives and Risk Parameters

PCHAS has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s) as well as board designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to result in high yields while assuming a moderate level of investment risk. PCHAS expects its endowment funds, over time, to provide an average rate of return of approximately eight percent annually. Actual returns in any given year may vary from this amount.

6. RECEIVABLES

Accounts Receivable

Accounts receivable includes fees from public and private sources to assist in the cost of providing services to children.

	<u>2018</u>	<u>2017</u>
Accounts receivable	\$ 1,821,192	\$ 1,145,797
Allowance for uncollectible accounts	(151,994)	(62,450)
	<u>\$ 1,669,198</u>	<u>\$ 1,083,347</u>

Contributions

Contributions receivable consists of the following:

	<u>2018</u>	<u>2017</u>
Donations receivable without donor restrictions	\$ 91,235	\$ 150,792
Donations receivable with donor restrictions	-	800
Pledges without donor restrictions	79,563	185,254
Pledges with donor restrictions	962,736	506,290
Split interest gifts	5,553,788	6,117,803
Total receivables	6,687,322	6,960,939
Allowance for uncollectible pledges	(68,576)	(67,351)
Unamortized discount on pledges	(23,567)	(14,283)
Total	<u>\$ 6,595,179</u>	<u>\$ 6,879,305</u>

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES
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6. RECEIVABLES (Continued)

Contributions (Continued)

In calculating the present value of the long-term pledges, PCHAS used the Internal Revenue Service (IRS) discount rate of the month for December. The rate applied to the pledges was based on the year in which the pledge was made. The rates are as follows:

IRS Discount Rate			
<u>Year</u>	<u>Rate</u>	<u>Year</u>	<u>Rate</u>
2009	3.2%	2014	2.0%
2010	1.8%	2015	2.0%
2011	1.6%	2016	1.8%
2012	1.2%	2017	2.6%
2013	2.0%	2018	3.6%

Total contribution receivables expected to be received within one year total \$2,255,963; between one to five years \$2,236,690 and longer than 5 years are \$2,194,669.

PCHAS is the beneficiary in several split interest agreements. While PCHAS has been named as the remainder beneficiary, PCHAS is not the trustee nor does PCHAS exercise control over the assets of the trusts, except in a limited number of Charitable Remainder Unitrusts. A receivable is recorded for the value provided by the third party trustee, which is the difference between the present value of expected future payments to the specified beneficiary and the market value of the assets. The change in fair value from 2017 to 2018 was a decrease of \$497,853 and from 2016 to 2017 was an increase of \$852,312.

Estates

PCHAS is the beneficiary in several estates that are pending distribution. Receivables from estates total \$224,519 as of December 31, 2018. Amounts expected to be received within one year are \$178,500 and between one and five years \$46,019.

Notes Receivable

Notes receivable consists of the following:

	2018	2017
Scholarship and student loans	\$ 13,584	\$ 14,046
Scholarship loan allowance for doubtful accounts	(3,033)	(3,033)
	\$ 10,551	\$ 11,013

PCHAS extends loans to students on an as needed basis to assist them with various expenses related to their education and daily needs.

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7. FIXED ASSETS

Property and equipment consist of the following at year-end:

	Balance 12/31/2017	Additions/ Transfers	Deletions/ Transfers	Balance 12/31/2018
Land	\$ 2,232,043	\$ -	\$ -	\$ 2,232,043
Buildings and improvements	21,566,631	61,610	(148,480)	21,479,761
Furniture and equipment	1,681,522	47,264	(84,374)	1,644,412
Vehicles	183,468	-	(150,629)	32,839
Capital work in progress	9,312	51,489	-	60,801
Total fixed assets	<u>25,672,976</u>	<u>160,363</u>	<u>(383,483)</u>	<u>25,449,856</u>
Less: accumulated depreciation	(10,826,028)	(653,695)	354,757	(11,124,966)
Net fixed assets	<u>\$ 14,846,948</u>	<u>\$ (493,332)</u>	<u>\$ (28,726)</u>	<u>\$ 14,324,890</u>

Depreciation expense totaled \$653,695 in 2018 and \$678,908 in 2017.

8. LINES OF CREDIT

PCHAS holds a \$200,000 line of credit with a bank that is secured by property. Interest on this line of credit is payable monthly at prime rate plus 0.50% and is subject to 4.50% floor. The principal and interest are due April 9, 2020. The balance of this line of credit was \$0 and \$195,935 as of December 31, 2018 and 2017, respectively.

The prime rate at December 31, 2018 and 2017 was 5.5% and 4.5%, respectively. Interest paid on lines of credit for the years ended December 31, 2018 and 2017 was \$7,855 and \$14,213, respectively.

9. LONG-TERM DEBT

Long-term debt consists of the following:

	2018	2017
\$1,162,982 term loan with bank; payable in monthly installments of \$7,598, including interest, payable at 4.85%; final payment due November 21, 2027; collateralized by real property; paid in full 2018	\$ -	\$ 716,637
\$750,000 term loan with bank; payable in monthly installments of \$4,544, including interest, at lender's 1 yr. CD rate of .75% plus 3.5%; final payment due October 9, 2029; collateralized by real property; paid in full in 2018	-	504,678
\$2,000,000 term loan with bank; payable in monthly installments of \$13,965, including interest, payable at 4.5%; final payment due in January 15, 2021 - collateralized by real property	<u>1,555,438</u>	<u>1,648,561</u>
	1,555,438	2,869,876
Less current portion of long-term debt	98,851	1,739,561
	<u>\$ 1,456,587</u>	<u>\$ 1,130,315</u>

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9. LONG-TERM DEBT (Continued)

Interest paid on long-term debt for the years ended December 31, 2018 and 2017 was \$102,836 and \$111,104, respectively.

Future maturities of long-term debt are as follows:

Year Ending December 31,	
2019 - current portion	\$ 98,851
2020	103,271
2021	1,353,316
Thereafter	-
	\$ 1,555,438

10. ANNUITIES PAYABLE

PCHAS receives donations from benefactors in exchange for annuities that provide income to a named beneficiary (or beneficiaries) until their death. The difference between the amount of the donation and the present value of expected future payments to the beneficiary is recognized as revenue in the year of the donation. The total expected annual payments are \$25,684 at December 31, 2018, with no change over the expected annual payments at December 31, 2017. In calculating the present value of the annuities, PCHAS used a discount rate based on the applicable IRS rate for the month the contributions were received, which were applied to the current expected payoff based on the annuitant's remaining expected life.

Future maturities of annuities payable are as follows:

Year Ending December 31,	
2019 - current portion	\$ 25,684
2020	24,055
2021	22,531
2022	19,784
2023	16,380
Thereafter	32,490
	\$ 140,924

11. NET ASSET CLASSIFICATIONS

Without Donor Restriction

Net assets without donor restriction represent resources over which the Board of Trustees have discretionary authority.

With Donor Restriction

Net assets with donor restriction include both temporarily restricted and permanently restricted net assets.

Temporarily restricted net assets include gifts that were received and are designated for a specific use or have a time restriction. When the restrictions are met, the net assets are released from the temporarily restricted fund to the unrestricted fund and reported on the statements of activities.

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11. NET ASSET CLASSIFICATIONS (Continued)

With Donor Restriction (Continued)

Permanently restricted net assets include endowment funds which PCHAS must hold in perpetuity and can only spend the income. Trusts held by a third party in perpetuity for the benefit of PCHAS are also included in this net asset category. Gains on these investments are available for use as specified by the donor. Permanently restricted net assets are categorized by income restriction.

Net assets with donor restrictions consisted of the following as of December 31, 2018 and 2017:

	December 31, 2018		
	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Net Assets With Donor Restriction
Permanent improvements	\$ 1,810,327	\$ 1,549,595	\$ 3,359,922
Advanced education	4,522,056	4,197,199	8,719,255
General education	446,682	4,748,588	5,195,270
Christian education	36,885	239,804	276,689
Special services	23,212	10,553	33,765
Time restricted	2,075,124	-	2,075,124
Other	99,013	14,299	113,312
Undesignated	-	54,980,795	54,980,795
	\$ 9,013,299	\$ 65,740,833	\$ 74,754,132

	December 31, 2017 (as reported)		
	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Net Assets With Donor Restriction
Permanent improvements	\$ 1,277,542	\$ 1,650,285	\$ 2,927,827
Advanced education	4,696,998	4,098,936	8,795,934
General education	716,982	4,966,808	5,683,790
Christian education	47,378	247,705	295,083
Special services	26,630	10,553	37,183
Time restricted	2,087,505	-	2,087,505
Other	47,671	15,175	62,846
Undesignated	-	59,130,905	59,130,905
	\$ 8,900,706	\$ 70,120,367	\$ 79,021,073

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11. NET ASSET CLASSIFICATIONS (Continued)

With Donor Restriction (Continued)

Net assets were released from donor restrictions in 2018 and 2017, by incurring expenses satisfying the following restricted purposes or by expiration of time restrictions:

	Released from Donor Restrictions	
	2018	2017
Permanent improvements	\$ 81,982	\$ 13,101
Advanced education	111,245	45,785
General education	133,763	91,078
Christian education	6,299	6,465
Special services	1,869	1,810
Time restricted	232,487	296,498
Other	245,883	403,493
	<u>\$ 813,528</u>	<u>\$ 858,230</u>

12. FEES FOR SERVICE

Program service fees consist of the following for the year ended:

	December 31,	
	2018	2017
State of Texas	\$ 3,851,637	\$ 4,225,600
State of Missouri	2,367,900	4,258,706
Missouri Alliance for Children & Families, LLC	2,665,827	637,451
US Department of Agriculture	44,558	48,030
St. Louis County Children's Fund	1,631,632	2,015,613
Other fees	809,958	863,922
	<u>\$ 11,371,512</u>	<u>\$ 12,049,322</u>
Temporarily restricted grants	118,815	144,805
	<u>\$ 11,490,327</u>	<u>\$ 12,194,127</u>

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13. EMPLOYEE DEFINED CONTRIBUTION PLAN

PCHAS-TX has established a 403(b) defined contribution plan for its employees in order to provide funds for their retirement or for their beneficiaries in the event of their death.

All employees of PCHAS are eligible to receive employer contributions upon completion of one year of service or 1,000 hours of service in a twelve month period. Upon meeting eligibility requirements to receive employer contributions, PCHAS will contribute an amount equal to 3% of each employee's base salary as a non-matching contribution. PCHAS will make additional matching contributions based upon 200% of an employee's participation in the plan through a voluntary salary reduction up to a total match of 6%. PCHAS contributed \$857,252 and \$590,801 to the plan on behalf of employees during the year ended December 31, 2018 and 2017, respectively. No significant changes were made to the plan in 2018.

Prior to merger with PCHAS-TX on January 1, 2018, all PCHAS-MO employees were eligible upon employment to contribute by voluntary salary reduction to a 403(b) deferred compensation plan. Under this plan the employer could make, at its discretion, matching contributions for eligible employees. In 2017, PCHAS-MO made discretionary matching contributions of \$20,366, while PCHAS-TX made matching contributions under its plan of \$570,435. Upon merger, all PCHAS-MO employees, became eligible under the PCHAS-TX plan to contribute as described above.

14. RELATED PARTY TRANSACTIONS

PCHAS is a limited member of the Missouri Alliance for Children and Families, L.L.C. (the Alliance) in which it has a 12.5% equity interest. The Alliance contracts with most of its members to provide a variety of services, as well as with non-member agencies and organizations across the state. The Alliance currently provides services to the Missouri Children's Division under two contracts. Both contracts are reviewed with the state and revised and renewed periodically. Under the initial contract, the Alliance provides case management services to children in the care and custody of the state. PCHAS-MO contracts with the Alliance to provide certain services to these clients, including both residential and community-based care.

Under the second contract, the Alliance is the provider of record with the state, but acts primarily to provide administrative services to PCHAS-MO and four other member agencies. These five agencies provide foster care case management services to clients, essentially as subcontractors with the Alliance. The contract provides annually for bonuses and/or penalties. PCHAS-MO also provides other services for its clients and those of other private case management contractors across the state, as determined by the agency assigned to the case. These services include both residential and community-based services.

PCHAS-MO leases office space to the Alliance on a monthly basis. Total rent income received from the related party was \$52,394 and \$40,644 for the years ended December 31, 2018 and 2017, respectively.

Distributions from the Alliance are included in other revenues. Distributions of \$272,289 and \$102,983 were received from the Alliance in 2018 and 2017, respectively.

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15. OPERATING LEASES

PCHAS leases office space under operating leases that have initial or remaining non-cancelable lease terms in excess of one year. In addition, the Organization leases fleet vehicles under an agreement that does not require a minimum term. As of December 31, 2018 the minimum lease payments for those operating leases are as follows:

	<u>Year Ending December 31,</u>
2019	\$ 216,800
2020	195,686
2021	86,764
2022	1,800
Thereafter	<u>36,000</u>
	<u>\$ 537,050</u>

Rent expense for these leases totaled \$468,684 in 2018 and \$533,156 in 2017.

16. SUBSEQUENT EVENTS

Management of PCHAS has evaluated subsequent events through July 10, 2019, the issuance date of this report. Consequently, there are no particular events that have any material effect related to the financial position of the organization for the year ending December 31, 2018 and do not require additional disclosure.