CHILDREN'S HOME SOCIETY OF MINNESOTA

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

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CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Children's Home Society of Minnesota
St. Paul, Minnesota

We have audited the accompanying financial statements of Children's Home Society of Minnesota (the Organization) which comprise the statements of financial position as of June 30, 2019 and 2018, the related statements of activities, functional expenses, and cash flows 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.

Auditors' 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 audit 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 auditors' 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.

A member of Nexia International

Board of Directors
Children's Home Society of Minnesota

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2019 and 2018, 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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
October 31, 2019

CHILDREN'S HOME SOCIETY OF MINNESOTA
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 125,764	$ 135,643
Accounts Receivable, Net	857,100	512,829
Prepaid Expenses and Other	198,356	249,673
Total Current Assets	1,181,220	898,145
PROPERTY AND EQUIPMENT, NET		
Property and Equipment	10,773,349	10,640,364
Less: Accumulated Depreciation	(4,681,690)	(4,463,375)
Total Property and Equipment, Net	6,091,659	6,176,989
OTHER ASSETS		
Investments	7,681,513	7,803,727
Contributions Receivable Under Split Interest Agreements	44,100	43,865
Investments Held for Trust	158,728	152,259
Beneficiary Interest in Perpetual Trust	1,752,499	1,727,855
Total Other Assets	9,636,840	9,727,706
Total Assets	$ 16,909,719	$ 16,802,840
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Other Accrued Liabilities	$ 25,254	$ 17,804
Pension Liability, Current Portion	16,873	-
Deferred Revenue	129,368	146,050
International Program Liability	598,195	525,605
Refundable Fees and Deposits	273,125	278,275
Accrued Compensation	337,230	353,533
Total Current Liabilities	1,380,045	1,321,267
NONCURRENT LIABILITIES		
Accounts Payable to LSS under Management Agreement	458,868	849,948
Pension Liability, Excluding Current Portion (see Note 14)	1,496,814	-
Liability Under Trust and Annuity Agreements	20,011	31,507
Post Retirement Benefits Obligation	63,240	118,142
Total Noncurrent Liabilities	2,038,933	999,597
Total Liabilities	3,418,978	2,320,864
NET ASSETS		
Net Assets Without Donor Restrictions	3,744,994	4,732,207
Net Assets With Donor Restrictions	9,745,747	9,749,769
Total Net Assets	13,490,741	14,481,976
Total Liabilities and Net Assets	$ 16,909,719	$ 16,802,840

See accompanying Notes to Financial Statements.

CHILDREN'S HOME SOCIETY OF MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Support:			
United Way	$ 8,750	$ -	$ 8,750
Contributions	1,544,437	170,337	1,714,774
Change in Value of Split Interest Agreements	-	235	235
Change in Value of Investments Held for Trust	-	6,469	6,469
Change in Value of Beneficial Interest Holdings	-	24,644	24,644
Investment Income	13,932	235,551	249,483
Total Support	1,567,119	437,236	2,004,355
Revenue:			
Fees for Services	28,295	-	28,295
Fees and Grants from Governmental Agencies	1,502,566	-	1,502,566
International Adoption Fees	1,398,915	-	1,398,915
Rent and Miscellaneous Income	271,991	-	271,991
Total Revenue	3,201,767	-	3,201,767
Net Assets Released from Restrictions	441,258	(441,258)	-
Total Support and Revenue	5,210,144	(4,022)	5,206,122
EXPENSE			
Program Services	3,439,441	-	3,439,441
Support Services:			
Finance and Administration	808,163	-	808,163
Development and Community Relations	436,066	-	436,066
Total Support Services	1,244,229	-	1,244,229
Total Expense	4,683,670	-	4,683,670
CHANGES IN NET ASSETS BEFORE NONOPERATING ACTIVITIES	526,474	(4,022)	522,452
NONOPERATING ACTIVITIES			
Pass-Through Revenues	570,964	-	570,964
Pass-Through Expenses	(570,964)	-	(570,964)
Expense Recognized on Termination and Pay-Off of Pension Plan Obligation (See Note 14)	(1,513,687)	-	(1,513,687)
Total Nonoperating Activities	(1,513,687)	-	(1,513,687)
CHANGE IN NET ASSETS	(987,213)	(4,022)	(991,235)
Net Assets - Beginning of Year	4,732,207	9,749,769	14,481,976
NET ASSETS - END OF YEAR	$ 3,744,994	$ 9,745,747	$ 13,490,741

See accompanying Notes to Financial Statements.

CHILDREN'S HOME SOCIETY OF MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Support:			
United Way	$ 51,891	$ -	$ 51,891
Contributions	1,483,865	173,498	1,657,363
Change in Value of Split Interest Agreements	-	3,021	3,021
Change in Value of Investments Held for Trust	-	11,555	11,555
Change in Value of Beneficial Interest Holdings	-	38,647	38,647
Investment Income	4,709	527,523	532,232
Total Support	1,540,465	754,244	2,294,709
Revenue:			
Fees for Services	25,895	-	25,895
Fees and Grants from Governmental Agencies	1,325,722	-	1,325,722
International Adoption Fees	1,449,968	-	1,449,968
Rent and Miscellaneous Income	239,005	-	239,005
Total Revenue	3,040,590	-	3,040,590
Net Assets Released from Restrictions	431,944	(431,944)	-
Total Support and Revenue	5,012,999	322,300	5,335,299
EXPENSE			
Program Services	3,275,961	-	3,275,961
Support Services:			
Finance and Administration	788,836	-	788,836
Development and Community Relations	431,020	-	431,020
Total Support Services	1,219,856	-	1,219,856
Total Expense	4,495,817	-	4,495,817
CHANGES IN NET ASSETS BEFORE NONOPERATING ACTIVITIES	517,182	322,300	839,482
NONOPERATING ACTIVITIES			
Pass-Through Revenues	672,573	-	672,573
Pass-Through Expenses	(672,573)	-	(672,573)
Total Nonoperating Activities	-	-	-
CHANGE IN NET ASSETS	517,182	322,300	839,482
Net Assets - Beginning of Year	4,215,025	9,427,469	13,642,494
NET ASSETS - END OF YEAR	$ 4,732,207	$ 9,749,769	$ 14,481,976

See accompanying Notes to Financial Statements.

CHILDREN'S HOME SOCIETY OF MINNESOTA
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019

	Program Services	Supporting Services: Finance and Administration	Supporting Services: Development and Community Relations	Supporting Services: Total Support Services	Total All Services
Salaries	$ 1,493,844	$ 209,119	$ 199,372	$ 408,491	$ 1,902,335
Employee Benefits and Payroll Taxes	680,890	125,713	107,354	233,067	913,957
Total Personnel Costs	2,174,734	334,832	306,726	641,558	2,816,292
Professional Fees and Contract Services	113,908	250,872	14,424	265,296	379,204
Supplies	2,884	11,946	-	11,946	14,830
Communications	50,229	38,497	105,469	143,966	194,195
Occupancy	286,572	45,198	8,697	53,895	340,467
Equipment	24,087	16,489	-	16,489	40,576
Transportation	61,078	1,080	48	1,128	62,206
Staff Development	20,377	6,172	702	6,874	27,251
Client and Volunteer Expenses	522,675	244	-	244	522,919
Community Support and Other Expenses	89,022	(21,606)	-	(21,606)	67,416
Total Expense Before Depreciation	3,345,566	683,724	436,066	1,119,790	4,465,356
Depreciation	93,875	124,439	-	124,439	218,314
Total Expense	$ 3,439,441	$ 808,163	$ 436,066	$ 1,244,229	$ 4,683,670

See accompanying Notes to Financial Statements.

CHILDREN'S HOME SOCIETY OF MINNESOTA
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018

	Program Services	Supporting Services: Finance and Administration	Supporting Services: Development and Community Relations	Supporting Services: Total Support Services	Total All Services
Salaries	$ 1,431,191	$ 217,253	$ 144,881	$ 362,134	$ 1,793,325
Employee Benefits and Payroll Taxes	704,794	129,446	78,013	207,459	912,253
Total Personnel Costs	2,135,985	346,699	222,894	569,593	2,705,578
Professional Fees and Contract Services	99,664	225,758	91,950	317,708	417,372
Supplies	2,062	15,985	-	15,985	18,047
Communications	52,080	14,347	107,205	121,552	173,632
Occupancy	285,850	45,976	8,746	54,722	340,572
Equipment	8,023	27,926	-	27,926	35,949
Transportation	60,447	489	225	714	61,161
Staff Development	18,954	11,547	-	11,547	30,501
Client and Volunteer Expenses	456,492	2,445	-	2,445	458,937
Community Support and Other Expenses	65,684	(22,592)	-	(22,592)	43,092
Total Expense Before Depreciation	3,185,241	668,580	431,020	1,099,600	4,284,841
Depreciation	90,720	120,256	-	120,256	210,976
Total Expense	$ 3,275,961	$ 788,836	$ 431,020	$ 1,219,856	$ 4,495,817

See accompanying Notes to Financial Statements.

CHILDREN'S HOME SOCIETY OF MINNESOTA
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ (991,235)	$ 839,482
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	218,314	210,976
Realized and Unrealized Gain on Investments	(112,625)	(395,880)
Contributions Restricted for Investment in Endowment	(43,235)	(60,642)
Change in Value of Contributions Receivable Under Split Interest Agreements	(235)	(3,021)
Change in Value of Beneficial Interest in Perpetual Trust	(104,644)	(118,647)
Liability Under Trust and Annuity Agreements	(11,496)	(2,035)
Post Retirement Gain	(54,902)	(24,470)
Changes in Current Assets and Liabilities:		
Accounts Receivable	(344,271)	(23,767)
Prepaid Expenses and Other	51,317	36,990
Accounts Payable and Other Accrued Liabilities	7,450	3,853
Deferred Revenue	(16,682)	3,030
Pension Obligation	1,513,687	-
Refundable Fees and Deposits	(5,150)	(23,600)
Other Accrued Expenses	56,287	128,290
Net Cash Provided by Operating Activities	162,580	570,559
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments	(129,395)	(141,881)
Proceeds from Sale of Investments	357,765	157,630
Distribution Received from Perpetual Trust	80,000	80,000
Purchases of Property and Equipment	(132,984)	(91,501)
Net Cash Provided by Investing Activities	175,386	4,248
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from Contributions Restricted for Investment in Endowment	43,235	60,642
Change in Accounts Payable to LSS under Management Agreement	(391,080)	(611,387)
Net Cash Used by Financing Activities	(347,845)	(550,745)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(9,879)	24,062
Cash and Cash Equivalents - Beginning of Year	135,643	111,581
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 125,764	$ 135,643

See accompanying Notes to Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Organization

Founded in 1889, Children's Home Society of Minnesota (the Organization) has as its mission to help children thrive, and to build, strengthen, and sustain family and community life.

Primary sources of revenue are derived from client service fees, government grants, and contributions from the general public. The Organization is licensed by the Minnesota Department of Human Services; fully accredited by the National Council of Accreditation; Hauge accredited as an adoption service provider; and meets all standards established by the Minnesota Charities Review Council.

The Organizations programs are as follows:

Adoption and Post-Adoption Services

The Organization's adoption program includes the Domestic infant program, Adoption from Minnesota Foster Care program, international programs, and a post-adoption program.

The Organization maintains offices in the St. Paul-Minneapolis and Washington D.C. metropolitan areas to serve families in Minnesota, Wisconsin, Maryland, and Virginia. Using a network of partner agencies, the Organization serves families throughout the U.S. with cooperative adoption.

The Organization's post-adoption services were the first of their kind in the U.S., and provide domestic search and background services; international search and outreach services; birth-land tours; and support, counseling, and educational services to all members of the adoptive circle.

International Child Welfare (ICW)

To date, the Organization has distributed $5 million to 15 countries through special projects, financial support, and volunteers donating their time for various efforts to support both children and caregivers. ICW programs make a difference in the lives of thousands of children today and for generations to come.

The Organization formally affiliated with Lutheran Social Service of Minnesota (LSS), a nonprofit organization, on October 1, 2014. Under the affiliation agreement, LSS appoints up to 70% of the Organization's directors. Accordingly, the Organization's financial statements are consolidated into the financial statements of LSS. As described in Note 16, the Organization operates under a management agreement with LSS of Minnesota.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation

Net assets and revenues, gains, and losses are classified based on donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – are not restricted by donors, or the donor-imposed restrictions have expired. Net assets without donor restrictions represent funds that are fully available, at the discretion of management and the board of directors for the Organization to utilize in any of its programs or supporting services.

Net Assets With Donor Restrictions – are comprised of funds subject to stipulations imposed by donors. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor, and certain income earned on net assets with donor restrictions that has not yet been appropriated for expenditure by the Organization's Board of Directors. Other donor-imposed restrictions are perpetual on nature, where the donor stipulates that resources be maintained in perpetuity. The Organization reports contributions restricted by donors as increases in net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Cash and Cash Equivalents

The Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. At times deposits may be in excess of Federal Deposit Insurance Corporation insurance limits. At times, the investment portfolio may contain cash and cash equivalents that are included in investments in the statement of financial position.

Accounts Receivable

Accounts receivable are stated at net realizable value. Payment is required 30 days after receipt of the invoice. Accounts more than 90 days past due are individually analyzed for collectability. Accordingly, bad debts are provided for using the reserve method based upon prior experience and management's assessment of the collectability of existing specific accounts. When all collection efforts have been exhausted, the accounts are written off against the related allowance. Management has determined that no allowance is necessary as of June 30, 2019 and 2018.

Property and Equipment

Property and equipment purchases are recorded at cost. The Organization capitalizes property and equipment purchases when the cost per item is in excess of $1,500. Contributed items are recorded at fair market value at date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulation, contributions of property and equipment are recorded as contributions without donor restrictions.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued)

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and Leasehold Improvements (Using the Shorter of Asset Life or Lease Term For Leasehold Improvements)	10 to 50 Years
Furniture and Equipment	5 to 10 Years
Information Systems Equipment and Software	3 to 5 Years

Depreciation relating to property and equipment specifically identified with a program or supporting service is allocated to the appropriate service. Depreciation relating to property and equipment utilized by more than one service is allocated to each of the services on a pro rata basis.

Investments

Investments of the Organization are recorded at fair market value. The Organization invests in a variety of investment vehicles. In general, investments are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments, changes in the values of investments will occur in the near term and such changes could materially affect the amounts reported.

Contributions Receivable Under Split Interest Agreements

Remainder trust agreements are recognized as contributions with donor restrictions and as a receivable at the present value of the estimated future benefits to be received when the trust assets are distributed. Any changes in the value of the trust agreements are reported as a change in the value of the contribution receivable.

Beneficial Interest in Perpetual Trust

The Organization is a 5% benefactor of a trust held by a third party. The asset was recorded as a donor restricted contribution at the present value of the estimated future cash receipts. The valuation of the Organization’s interest in the perpetual trust is adjusted to fair market value at the statement of financial position date.

Fair Value Measurements

The Organization accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement. Investments are stated at fair value and are recorded on the trade date. The fair value of all debt and equity securities with a readily determinable fair value are based on quotations obtained from national securities exchanges. The Organization also accounts for certain assets at fair value under applicable industry guidance.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Hierarchy

The Organization has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Level 1 – Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Organization has the ability to access.

Level 2 – Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management’s own assumptions about the assumptions a market participant would use in pricing the asset or liability (examples include certain private equity investments, long-term promises to give, split-interest agreements, and long-term grants payable).

Liability Under Trust and Annuity Agreements

Based on the life income and annuity gift agreements the liability is the present value of the future required payments. The Organization is the trustee and sole benefactor of these life income and annuities.

International Adoption Revenue Recognition

Revenue recognition of international adoption fees occurs as follows: Half of the initial coordination fees are recognized at the initiation of the adoption process; the remaining portion is amortized over 16 months, management’s estimated average length of time until an adoption is completed. Country fees are recognized when earned and a portion is deferred as pass-through to country programs. International program liabilities at June 30, 2019 and 2018 consist of funds received for adoptions and other services in process for which corresponding expenses have not yet been incurred.

Contributions

Contributions, unconditional promises to give, and other assets are recognized at fair values and are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions (Continued)

The Organization reports gifts as donor restricted support if they are received with donor stipulations that limit the use of donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, donor restricted net assets are reclassified as net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Donated Services and Property

Numerous volunteers donated their time and skills during the year to the Organization. Although these services are valuable to the Organization, they do not meet the criteria required by accounting standards to be recorded in the financial statements. These additional volunteer hours totaled approximately 2,116 and 3,333 in the years ended June 30, 2019 and 2018, respectively.

Government Grants and Contracts

Government grants and contracts are recognized as earned. Unexpended receipts are considered grant advances and recorded in refundable fees and deposits. Expenditures under government contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, the Organization will record such disallowance at the time the final assessment is made.

Concentrations

The Organization maintains accounts at several financial institutions. At times, the amounts may be in excess of federally insured limits.

Functional Allocation of Expense

Salaries and related benefits are allocated based on employees' and management's direct time spent on program or support activities or the best estimate of time spent. Occupancy and depreciation are allocated based on direct program or support service usage. Other expenses, such as professional fees and staff development, are directly identified to specific programs or administrative functions.

Advertising Costs

Advertising costs are expensed as incurred. Total advertising expenses were approximately $47,000 and $41,000 for the years ended June 30, 2019 and 2018, respectively.

Tax-Exempt Status

The Organization is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC) and applicable state statues and is generally not subject to income taxes. It has been classified as an organization that is not a private foundation under the IRC. Charitable contributions by donors are tax deductible.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax-Exempt Status (Continued)

The Organization follows the income tax standard regarding the recognition and measurement of uncertain tax position. The Organization’s tax returns are subject to review by federal and state authorities. The Organization is not aware of any activities that would jeopardize its tax-exempt status.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from the estimates used.

Pass-Through Activities

Pass-through revenues and expenses relate to adoption funds handled by the Organization to which the Organization has no right to recognize as revenue or record as expenses.

Liquidity and Availability

As part of the Organization’s liquidity management, it has an affiliation with LSS and invests cash in excess of daily requirement in repayment of short-term cash advances from LSS. In the event of an unanticipated liquidity need, the Organization also could draw upon short-term cash advances from LSS, which has a $3 million line of credit to support cash flow needed for operations. The following reflects the Organization’s financial assets as of the balance sheet date, including amounts not available within one year of the balance sheet date. Amounts not available include unappropriated earnings of the endowment funds that could be drawn upon if the governing board approves that action.

Cash, Accounts Receivable and Investments as of June 30, 2019:	$	8,664,377
Less:		
Contractual or Donor Imposed Restrictions Making Financial Assets Unavailable for General Expenditure		(7,808,870)
Financial Assets Available Within One Year to Meet Cash Needs for General Expenditures Within One Year	$	855,507

Adoption of Accounting Principle

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. 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. The Organization has implemented ASU 2016-14 and adjusted the presentation in these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented which increased net assets as of July 1, 2017 without donor restrictions by $5,133,427 and decreased net asset with donor restrictions by $5,133,427 resulting from the reclassifications of capital fund restrictions as required under ASU 2016-14.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through October 31, 2019, the date the financial statements were available to be issued.

NOTE 2 ACCOUNTS RECEIVABLE

Accounts receivable as of June 30 are as follows:

	2019	2018
Adoption	$ 701,100	$ 480,329
Other	156,000	32,500
Accounts Receivable	$ 857,100	$ 512,829

NOTE 3 PROPERTY AND EQUIPMENT

A summary of property and equipment at June 30 is as follows:

	2019	2018
Land	$ 573,040	$ 573,040
Building and Leasehold Improvements	8,237,685	8,134,797
Furniture and Equipment	931,050	931,050
Information Systems Equipment and Software	718,864	688,767
Donated Artwork	312,710	312,710
Total	10,773,349	10,640,364
Less: Accumulated Depreciation	(4,681,690)	(4,463,375)
Net Property and Equipment	$ 6,091,659	$ 6,176,989

Depreciation expense was $218,314 and $210,976 for the years ended June 30, 2019 and 2018, respectively.

NOTE 4 INVESTMENTS

The following is a summary of investments in securities at June 30:

	2019	2018
Money Market	$ 7,917	$ 23,330
Equities	3,223,929	3,387,298
Fixed Income	1,386,396	1,324,412
Dynamic Asset Allocation Overlay	2,021,130	2,041,083
Alternative Investments	1,042,141	1,027,604
Investments	$ 7,681,513	$ 7,803,727

NOTE 5 CONTRIBUTIONS RECEIVABLE UNDER SPLIT INTEREST AGREEMENTS

The Organization was named as beneficiary of one charitable remainder trust at June 30, 2016 and two charitable remainder trusts at June 30, 2015, of which the Organization is not a trustee. The related contribution receivables included in the statements of financial position as of June 30, 2019 and 2018 were $44,100 and $43,865, respectively.

NOTE 6 INVESTMENTS HELD FOR TRUST

Investments at June 30 are primarily a managed portfolio and mutual funds of stock and bonds which are held by investment managers and are as follows:

	2019	2018
Equities	$ 61,175	$ 94,201
Fixed Income	97,553	58,058
Total	$ 158,728	$ 152,259

NOTE 7 BENEFICIARY INTEREST IN PERPETUAL TRUST

The Organization is named as a 5% beneficiary of a perpetual trust held by a third party. The Organization will receive 5% of the designated distributions from the trust. The value of the Organization’s interests in the trust at June 30, 2019 and 2018 totaled $1,752,499 and $1,727,855, respectively. Distributions from the trust in 2019 and 2018 totaled $80,000 and $80,000, respectively.

NOTE 8 FAIR VALUE MEASUREMENTS

The Organization uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

The following tables present the Organization’s fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2019 and 2018.

	2019			
	Level 1	Level 2	Level 3	Total
Fixed Income	$ 1,483,949	$ -	$ -	$ 1,483,949
Equities	3,285,104	-	-	3,285,104
Beneficiary Interest in Perpetual Trust	-	-	1,752,499	1,752,499
Split-Interest Agreements	-	-	44,100	44,100
Total	$ 4,769,053	$ -	$ 1,796,599	$ 6,565,652

	2018			
	Level 1	Level 2	Level 3	Total
Fixed Income	$ 1,382,470	$ -	$ -	$ 1,382,470
Equities	3,481,499	-	-	3,481,499
Beneficiary Interest in Perpetual Trust	-	-	1,727,855	1,727,855
Split-Interest Agreements	-	-	43,865	43,865
Total	$ 4,863,969	$ -	$ 1,771,720	$ 6,635,689

NOTE 8 FAIR VALUE MEASUREMENTS (CONTINUED)

Level 3 Assets

The following tables provide a summary of changes in fair value of the Organization's Level 3 financial assets and liabilities for the years ended June 30, 2019 and 2018:

	Beneficiary Interest in Perpetual Trust	Split-Interest Agreement	Total
Balance - July 1, 2018	$ 1,727,855	$ 43,865	$ 1,771,720
Distributions	(80,000)	-	(80,000)
Change in Value of Interest	104,644	235	104,879
Balance - June 30, 2019	$ 1,752,499	$ 44,100	$ 1,796,599
Balance - July 1, 2017	$ 1,689,208	$ 40,844	$ 1,730,052
Distributions	(80,000)	-	(80,000)
Change in Value of Interest	118,647	3,021	121,668
Balance - June 30, 2018	$ 1,727,855	$ 43,865	$ 1,771,720

The unobservable inputs for Alternative Investments, Beneficiary Interest in Perpetual Trust, and Split-Interest Agreement are the underlying assets controlled by the trustee. The underlying assets consist of securities that are classified as Level 3 assets and the Organization's fair value is determined by taking the fund or trust's total value multiplied by their interest in the fund or trust, as stated in the fund and trust document.

Other Investment Funds/Alternative Investments

The Organization invests primarily in investment funds, limited partnerships, or interest-bearing securities, referred to collectively for this purpose as investment funds. Investment funds are presented in the accompanying financial statements at fair value as determined under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820: *Fair Value Measurements and Disclosures*. In situations where the investment fund does not have a readily determinable fair value and meets other eligibility criteria, the Organization measures fair value based on net asset value (NAV) per share or its equivalent. The following table lists investments in investment funds by major category:

	2019 Net Asset Value	2018 Net Asset Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Dynamic Asset Allocation Overlay	$ 2,021,130	$ 2,041,083	$ -	Monthly	90 Days
Alternative Investments	1,042,141	1,027,604	-	Monthly	30 Days
Total	$ 3,063,271	$ 3,068,687	$ -		

Basis for Fair Value Measurements

Dynamic Asset Allocation Overlay

Dynamic asset allocation overlay funds include investments in two portfolios that do not have active tickers. The investment objective of these two portfolios is to moderate the volatility of an equity-oriented asset allocation over the long term. Accordingly, the portfolios may invest in a diversified portfolio of securities. The fund strikes a daily NAV, but because these portfolios are private, this is not published on the NASDAQ.

NOTE 8 FAIR VALUE MEASUREMENTS (CONTINUED)

Basis for Fair Value Measurements (Continued)

Alternative Investments

Alternative investments represent ownership interests in a fund that exists to seek long-term capital appreciation. The fund seeks to achieve its investment objective primarily by allocating its assets among investments in a diversified portfolio of private investment vehicles, commonly referred to as hedge funds. The fund pursues the following strategies: long/short equity, event driven, credit/distressed, emerging markets, global macro, and other strategies. The fund is valued and traded monthly and generally uses the NAV provided by the underlying portfolios to determine the monthly value of the fund.

NOTE 9 LIFE INCOME AND ANNUITY GIFTS

The Organization's investments include deferred giving vehicles subject to split-interest agreements. Three different types of agreements are currently maintained: charitable gift annuity, charitable remainder unitrust, and pooled income fund.

The Organization initially values deferred gifts of cash at face value and those of equities at market value; these values are then actuarially discounted. Published Internal Revenue Service discount rates are employed to determine the net present value of both contributions and liabilities pertaining to these deferred giving arrangements.

The imputed interest rate ranged between 6.0% and 8.2% as of June 30, 2019 and 2018, respectively. The present values of future liabilities are as follows:

	2019	2018
Unitrust	$ 18,450	$ 19,794
Annuity Agreements	1,561	11,713
Total Liability Under Trust and Annuity Agreements	$ 20,011	$ 31,507

The assets held by the Organization on behalf of the pooled life trust and unitrust agreements are included in the investments and totaled $158,728 and $152,259 as of June 30, 2019 and 2018, respectively.

NOTE 10 DEFINED POSTRETIREMENT BENEFITS

The Organization has an unfunded postretirement benefit plan to provide health and life insurance benefits after age 65 for those individuals in certain work classifications who were hired prior to January 1, 1984 and who terminate employment with at least 20 years of service.

NOTE 10 DEFINED POSTRETIREMENT BENEFITS (CONTINUED)

The following table sets forth the plan's funded status and amounts recognized in the Organization's statement of financial position at June 30:

	2019	2018
Post Retirement Benefits Obligation	$ 63,240	$ 118,142
Fair Value of Plan Assets	-	-
Unfunded Status	$ 63,240	$ 118,142
Accrued Benefit Cost Recognized in the Statements of Financial Position	$ 63,240	$ 118,142
Benefit Cost	$ 8,817	$ 13,000
Employer Contribution	8,817	13,000
Plan Participants' Contributions	-	-
Benefits Paid	8,817	13,000
Weighted-Average Assumptions as of June 30:		
Discount Rate	3.50%	3.50%
Rate of Health Insurance Benefit Increase	10.00%	10.00%
Rate of Life Insurance Benefit Increase	0.00%	0.00%

Future benefit obligations are expected to be paid as follows:

Year Ending June 30,	Amount
2020	$ 9,235
2021	9,695
2022	10,201
2023	10,758
2024	11,371
Thereafter	21,368
Total	$ 72,628

NOTE 11 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes at June 30:

	2019	2018
Subject to Expenditure for Specified Purpose:		
International Child Welfare	$ 81,153	$ 78,648
Other Program	94,063	122,068
Total	175,216	200,716
Subject to Passage of Time:		
Beneficial Interest in Charitable Trusts Held by Others	1,752,499	1,727,855
Assets Held under Split Interest Agreements	184,378	176,330
Total	1,936,877	1,904,185
Endowments:		
Subject to Endowment Spending Policy and Appropriation:		
Earnings on Endowment Funds	867,044	953,092
Original Donor-Restricted Gift Amount to be Maintained in Perpetuity:		
Campaign for Children	2,000,000	2,000,000
Endowment Funds	4,766,610	4,691,776
Total Endowments	7,633,654	7,644,868
Total Net Assets with Donor Restriction	$ 9,745,747	$ 9,749,769

Net Assets Released from Restrictions

The net assets released from restrictions during the years ended June 30 are as follows:

	2019	2018
Purpose Restrictions	$ 151,258	$ 185,758
Appropriation of Endowment Earnings	290,000	246,186
Total	$ 441,258	$ 431,944

NOTE 12 ENDOWMENTS

The Organization’s endowment consists of funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the board of directors to function as an endowment. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

NOTE 12 ENDOWMENTS (CONTINUED)

Interpretation of Relevant Law

The board of directors has interpreted the Minnesota Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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. As a result of this interpretation, the Organization classifies as donor restricted net assets the original value of the gifts to the perpetual endowment, the value of subsequent gifts to the perpetual endowment, plus any required inflationary adjustments to the original gifts. The remaining portion of donor-restricted net assets is classified as donor restricted net assets until those amounts are appropriated for expenditure by the Organization. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. All funds shall be used as the donor intended at the time the Organization solicited or accepted the gift.
2. Investment portfolio shall provide long-term, real (inflation-adjusted) growth.
3. Provide a predictable stream of income to the Organization for programs.
4. Follow investment policies of the Organization.
5. Other resources of the Organization.
6. General economic conditions.

The following is a reconciliation of endowment activities for the years ended June 30:

	Without Donor Restriction	With Donor Restriction	Total
Donor-Restricted Endowment Funds - July 1, 2018	$ -	$ 7,644,868	$ 7,644,868
Investment Return:			
Investment Income	-	31,598	31,598
Net Realized and Unrealized Gains	-	203,953	203,953
Total Investment Return	-	235,551	235,551
Contributions	-	43,235	43,235
Appropriation of Endowment Assets for Expenditure	-	(290,000)	(290,000)
Donor-Restricted Endowment Funds - June 30, 2019	$ -	$ 7,633,654	$ 7,633,654

NOTE 12 ENDOWMENTS (CONTINUED)

Interpretation of Relevant Law (Continued)

	Without Donor Restriction	With Donor Restriction	Total
Donor-Restricted Endowment Funds - July 1, 2017	$ -	$ 7,302,889	$ 7,302,889
Investment Return:			
Investment Income	-	52,737	52,737
Net Realized and Unrealized Gains	-	474,786	474,786
Total Investment Return	-	527,523	527,523
Contributions	-	60,642	60,642
Appropriation of Endowment Assets for Expenditure	-	(246,186)	(246,186)
Donor-Restricted Endowment Funds - June 30, 2018	$ -	$ 7,644,868	$ 7,644,868

Fund with Deficiencies

From time to time, 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. In accordance with U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions. There were no deficiencies at June 30, 2019 and 2018 resulting from unfavorable market fluctuations.

Spending Policy

Annual distributions of endowment funds are based on an amount up to 5% of their 12-quarter average market value. In establishing this policy, the Organization considered the long-term expected return on its endowment. At no time will the distributions reduce the value of the endowment below the perpetual net asset portion of the endowment.

For the years ended June 30, 2019 and 2018, there was $290,000 and $246,186, respectively, of board-approved appropriations of endowment earnings. In each case, the board carefully considered the factors specified in UPMIFA governing appropriation of funds.

Investment Objectives and Strategies

The Organization has adopted an investment policy to provide guidelines for investing endowment assets. Under this policy, as approved by the Investment Committee of the board of directors, the endowment assets are invested in a manner that is intended to maintain the purchasing power of the current assets and all future contributions, maximize return within reasonable and prudent levels of risk, and maintain an appropriate asset allocation based on a total return policy that is compatible with a flexible spending policy.

NOTE 12 ENDOWMENTS (CONTINUED)

Investment Objectives and Strategies (Continued)

To achieve these objectives, the Organization follows an asset diversification plan, sets performance benchmarks for investment managers, and has established various asset quality and limitations thresholds. These total returns are intended to meet or exceed the composite performance of the securities markets on a three- to five-year basis. Actual returns in any given year may vary from this amount.

NOTE 13 LEASE COMMITMENTS

The Organization leases office and program space under operating lease agreements, which vary in length. Total rent expense for the years ended June 30, 2019 and 2018 was $59,874 and $32,400, respectively. The Organization also leases several copier machines under capital and operating leases expiring in various years through fiscal year 2022. Total equipment lease expense for the years ended June 30, 2019 and 2018 was $11,011 and $19,243, respectively.

Future minimum lease commitments for all space and equipment lease agreements are as follows:

Year Ending June 30,	Amount
2020	$ 58,271
2021	44,193
2022	8,793
2023	5,862
Total	$ 117,119

NOTE 14 MULTI-EMPLOYER DEFINED BENEFIT PENSION PLAN

The Organization participated in a multi-employer defined benefit pension plan with 15 other agencies. Of the approximate 1,100 participants, 28% were those of the Organization. Benefit accruals under the plan were frozen on December 31, 2004 and, as a result, employees did not earn additional defined benefits for services after that date.

On September 24, 2019, the participating agencies terminated the plan and paid-off the pension liability. In order to finance the pay-off, nine of the participating agencies secured financing through a pooled loan of $2,067,965 with U.S. Bank. All 16 participating agencies are 20% guarantors on the U.S. Bank pooled loan. The remaining participating agencies secured their own separate financing. The CHS portion of the guarantee is $302,737.

NOTE 14 MULTI-EMPLOYER DEFINED BENEFIT PENSION PLAN (CONTINUED)

CHS secured its financing through LSS, which entered into a loan with Sunrise Bank (Sunrise) for the CHS portion of the liability totaling $1,513,687. With the pension liability paid in full, CHS will no longer make monthly pension liability contribution payments. The CHS financing was secured in two parts. A term loan for $750,000 bears interest at 5% (locked for five years, then variable based on the U.S. Treasury Constant five-year maturity rate (currently 1.4%), plus a margin of 2.25%), with a loan term of 10 years. The balance of $763,687 was financed through a line of credit with Sunrise and bears interest at 3.75% for a term of five years. The Organization expects to make monthly principal and interest payments to be approximately $28,570 (annual amount $342,840) beginning in October 2019 for the next five years.

Under U.S. GAAP, since the liability for the pension obligation had become probable and estimable as of the Organization's year-end of June 30, 2019, the pension liability was recorded on the financial statements at June 30, 2019 with an increase to liabilities and pension settlement expense of $1,513,687.

Prior to June 30, 2019, in accordance with U.S. GAAP, the pension liability was not recorded on the statement of financial position. CHS recognized as net pension cost the required contribution for the period and as a liability any contribution due and unpaid. The funding was determined by the actuary and was allocated based on employee compensation among the participating agencies. The objective in funding the plan was to accumulate sufficient funds to provide for benefits and to achieve full funding to allow for termination of the plan. Because the plan's unfunded projected termination liability exceeded the fair market value of plan assets, continued annual contributions were required in order to achieve full funding. If any participating agency defaulted on their annual contributions, the remaining agencies assumed the liability and contributions of the agency in default.

The Organization made contributions of $371,732 and $408,615 in the years ended June 30, 2019 and 2018, respectively, which are included in Employee Benefits and Payroll Taxes Expense on the statement of functional expenses. These contributions represented 28% of total plan contributions in 2019 and 2018, respectively.

The legal name of the plan is the Twin Cities Nonprofit Partners Pension Plan with an E.I.N. of 41-1973442/333. The percentage funded under the Pension Protection Act was 110% at June 30, 2019 and 2018, respectively.

NOTE 15 OTHER RETIREMENT BENEFITS

The Organization implemented a defined contribution 403(b) plan in June 1994. All employees are eligible immediately upon hire. After one year of service with the Organization or one year of previous service with a qualified nonprofit employer within the last three years, the employer matches up to 1.5% of an employee's salary. All employees are immediately eligible for a 50% employer match up to 2% of the employee's salary. Employer contributions vest over a five-year period. The Organization contributed $58,489 and $45,561 to the plan for the years ended June 30, 2019 and 2018, respectively.

NOTE 16 RELATED PARTY

Effective July 1, 2012, the Organization entered into a management agreement with LSS. Under this agreement, LSS provides management and administrative services for the Organization in exchange for a management fee which is calculated based on the Organization's operating revenues.

For the years ended June 30, 2019 and 2018, the management fees were $126,711 and $125,353, respectively.

In addition, LSS secured a $3 million line of credit for the Organization's use and has advanced a net amount of approximately $458,868 and $849,948 for cash flow purposes as of June 30, 2019 and 2018, respectively. During the duration of the agreement, interest on the line of credit shall neither accrue nor be payable to LSS on all nonpension related financing. With the financing discussed in Note 14, CHS will begin paying interest at the rate in the underlying loan from Sunrise Bank to LSS, which is the pension-related financing only.

In conjunction with this management agreement, LSS and the Organization also signed a lease whereby LSS will lease space from the Organization beginning July 1, 2012 through June 30, 2018 (renewed annually thereafter). The lease provides for annual rental payments to the Organization of approximately $248,000. The rental revenue for the years ended June 30, 2019 and 2018 was $265,214 and $255,414, respectively.