Bethany Christian Services

Consolidated Financial Report
December 31, 2016

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Plante & Moran, PLLC
Suite 400
634 Front Avenue N.W.
Grand Rapids, MI 49504
Tel: 616.774.8221
Fax: 616.774.0702
plantemoran.com

Independent Auditor's Report

To the Board of Directors
Bethany Christian Services

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Bethany Christian Services and its subsidiaries (the "Organization"), which comprise the consolidated statement of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

To the Board of Directors
Bethany Christian Services

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bethany Christian Services and its subsidiaries as of December 31, 2016 and 2015, and the changes in net assets, functional expenses, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2017 on our consideration of Bethany Christian Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Bethany Christian Services' internal control over financial reporting and compliance.

Plante & Moran, PLLC

March 14, 2017

Bethany Christian Services

Consolidated Statement of Financial Position

	December 31, 2016	December 31, 2015
Assets		
Current Assets		
Cash and cash equivalents	$ 3,384,158	$ 2,990,483
Investments (Note 2)	30,713,071	28,702,551
Receivables - Net	13,214,573	12,052,980
Prepaid expenses and other current assets:		
Prepaid expenses	1,053,788	1,141,724
Deposits	209,274	290,091
Total current assets	48,574,864	45,177,829
Property and Equipment - Net (Note 3)	17,413,896	15,152,226
Investment in Unconsolidated Affiliate (Note 2)	559,813	585,351
Total assets	**$ 66,548,573**	**$ 60,915,406**
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	$ 2,662,814	$ 2,499,265
Bank line of credit (Note 6)	-	1,200,000
Current portion of long-term debt (Note 6)	599,103	646,216
Deferred revenue	2,836,792	2,472,916
Accrued employee compensation and benefits	5,523,726	5,075,479
Total current liabilities	11,622,435	11,893,876
Annuities Payable (Note 4)	309,467	303,613
Long-term Debt - Net of current portion (Note 6)	7,993,702	6,081,282
Total liabilities	19,925,604	18,278,771
Net Assets		
Unrestricted:		
Undesignated	26,485,079	24,751,797
Board-designated (Note 9)	18,213,840	17,222,314
Temporarily restricted (Note 9)	1,744,725	489,850
Permanently restricted (Note 9)	179,325	172,674
Total net assets	46,622,969	42,636,635
Total liabilities and net assets	**$ 66,548,573**	**$ 60,915,406**

Bethany Christian Services

Consolidated Statement of Activities and Changes in Net Assets

	Year Ended							
	December 31, 2016				December 31, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support								
Contributions	$ 13,736,273	$ 2,205,641	$ 4,642	$ 15,946,556	$ 16,353,107	$ -	$ 7,590	$ 16,360,697
Child support	68,591,691	-	-	68,591,691	58,009,703	-	-	58,009,703
Service fees	22,586,358	-	-	22,586,358	22,657,150	-	-	22,657,150
Investments and other	4,155,002	64,720	2,009	4,221,731	657,484	(7,234)	(318)	649,932
Total revenue and support	109,069,324	2,270,361	6,651	111,346,336	97,677,444	(7,234)	7,272	97,677,482
Net Assets Released from Restrictions	1,015,486	(1,015,486)	-	-	149,795	(49,795)	(100,000)	-
Total revenue, support, and net assets released from restrictions	110,084,810	1,254,875	6,651	111,346,336	97,827,239	(57,029)	(92,728)	97,677,482
Expenses								
Program services:								
Adoption	23,535,635	-	-	23,535,635	23,628,286	-	-	23,628,286
Foster care	28,728,340	-	-	28,728,340	25,847,924	-	-	25,847,924
International social services	1,224,090	-	-	1,224,090	1,229,699	-	-	1,229,699
Refugee services	22,069,414	-	-	22,069,414	15,607,613	-	-	15,607,613
Counseling	10,413,250	-	-	10,413,250	10,328,045	-	-	10,328,045
Residential treatment	1,943,134	-	-	1,943,134	1,822,481	-	-	1,822,481
Sponsorship	435,644	-	-	435,644	363,421	-	-	363,421
Other programs	3,391,965	-	-	3,391,965	2,993,678	-	-	2,993,678
Total program services	91,741,472	-	-	91,741,472	81,821,147	-	-	81,821,147
Support services:								
Management and general	10,011,512	-	-	10,011,512	9,384,727	-	-	9,384,727
Fundraising	5,607,018	-	-	5,607,018	5,068,901	-	-	5,068,901
Total expenses	107,360,002	-	-	107,360,002	96,274,775	-	-	96,274,775
Net Increase (Decrease) in Net Assets	2,724,808	1,254,875	6,651	3,986,334	1,552,464	(57,029)	(92,728)	1,402,707
Net Assets - Beginning of year	41,974,111	489,850	172,674	42,636,635	40,421,647	546,879	265,402	41,233,928
Net Assets - End of year	**$ 44,698,919**	**$ 1,744,725**	**$ 179,325**	**$ 46,622,969**	**$ 41,974,111**	**$ 489,850**	**$ 172,674**	**$ 42,636,635**

Bethany Christian Services

Consolidated Statement of Functional Expenses
Year Ended December 31, 2016

	Adoption	Foster Care	International Social Services	Refugee Services	Counseling	Residential Treatment	Sponsorship	Other Programs	Management and General	Fundraising	Total
Operating Expenses											
Salaries	$ 11,705,125	$ 10,466,184	$ 124,542	$ 8,902,027	$ 5,204,811	$ 1,144,084	$ 84,505	$ 1,514,853	$ 5,188,604	$ 2,038,642	$ 46,373,377
Fringes	2,792,286	2,400,002	29,120	2,017,202	1,024,809	284,765	20,971	440,522	986,630	429,189	10,425,496
Taxes	863,312	768,769	8,892	657,257	383,675	85,130	6,168	113,871	372,105	150,131	3,409,310
Professional fees	1,210,672	305,439	55,128	669,573	367,959	36,817	47,752	114,970	801,870	890,873	4,501,053
Supplies	187,554	214,136	758	165,495	84,564	26,726	44	53,355	50,440	18,571	801,643
Telephone	339,018	254,006	1,546	162,184	152,732	3,734	65	33,564	38,689	24,555	1,010,093
Postage	197,429	39,925	9	14,527	20,347	971	1,487	12,759	72,125	144,586	504,165
Occupancy	1,775,038	1,119,375	5,337	969,991	578,443	48,593	-	152,827	282,572	112,045	5,044,221
Printing	139,388	54,195	861	20,443	43,183	136	382	30,401	42,059	374,007	705,055
Information technology	416,505	362,612	3,067	348,890	146,733	33,670	3,326	53,372	2,374	41,377	1,411,926
Equipment and furnishings	66,180	48,692	68	70,333	37,375	9,962	-	4,973	30,358	8,636	276,577
Travel	848,939	1,049,132	45,878	542,740	452,929	22,129	15,216	33,970	391,922	222,885	3,625,740
Conferences and meetings	232,825	158,216	1,047	110,542	52,810	9,441	295	71,706	168,328	117,279	922,489
Advertising	742,647	389,090	-	75,154	474,106	180	-	95,554	409,806	13,305	2,199,842
Special assistance	765,556	10,818,320	-	7,114,578	1,101,028	183,484	1,866	166,724	492	203	20,152,251
Overseas contributions	467,328	-	859,366	-	-	-	249,566	1,142	-	-	1,577,402
Program development	3,777	15	-	103	-	-	-	-	-	-	3,895
Payment processing fees	320,242	1,832	1,744	817	15,850	-	3,629	46,282	1,560	3,049	395,005
Educational and promotional materials	13,952	13,104	162	4,239	10,036	29	-	2,160	142,089	25,797	211,568
Miscellaneous fund raising	-	-	-	-	-	-	-	-	-	923,504	923,504
Bad debt	71,606	1,799	-	-	144,780	277	-	-	-	-	218,462
Miscellaneous	198,418	133,193	85,914	62,911	85,102	3,173	372	288,112	613,721	45,328	1,516,244
Depreciation	177,838	130,304	651	160,408	31,978	49,833	-	160,848	415,768	23,056	1,150,684
Total operating expenses	**$ 23,535,635**	**$ 28,728,340**	**$ 1,224,090**	**$ 22,069,414**	**$ 10,413,250**	**$ 1,943,134**	**$ 435,644**	**$ 3,391,965**	**$ 10,011,512**	**$ 5,607,018**	**$ 107,360,002**

Bethany Christian Services

Consolidated Statement of Functional Expenses
Year Ended December 31, 2015

	Adoption	Foster Care	International Social Services	Refugee Services	Counseling	Residential Treatment	Sponsorship	Other Programs	Management and General	Fundraising	Total
Operating Expenses											
Salaries	$ 11,884,951	$ 9,558,235	$ 194,126	$ 6,599,236	$ 5,427,658	$ 1,064,477	$ 44,692	$ 1,423,991	$ 4,796,012	$ 1,706,869	$ 42,700,247
Fringes	2,630,429	2,130,968	25,982	1,526,467	1,069,912	246,243	11,238	415,568	908,152	291,152	9,256,111
Taxes	875,181	700,616	13,832	485,424	396,239	78,327	3,253	105,196	345,502	123,760	3,127,330
Professional fees	1,001,509	301,789	62,532	226,275	326,573	34,802	201	176,930	948,339	1,279,070	4,358,020
Supplies	191,673	215,639	3,098	139,630	72,350	30,622	21	24,412	55,975	16,933	750,353
Telephone	405,666	227,804	1,829	125,143	155,475	6,246	32	38,954	40,868	23,451	1,025,468
Postage	236,617	40,855	138	12,479	24,033	496	2,260	12,691	89,786	56,784	476,139
Occupancy	1,743,163	989,335	10,090	753,893	515,334	67,722	-	169,876	309,140	108,478	4,667,031
Printing	152,231	42,536	1,291	15,761	42,021	311	345	21,180	38,089	78,816	392,581
Information technology	328,662	291,248	5,194	189,716	102,424	22,260	498	48,059	131,587	26,447	1,146,095
Equipment and furnishings	41,724	51,331	404	145,722	11,312	10,791	-	16,106	35,399	4,175	316,964
Travel	873,651	914,344	65,128	422,616	443,601	23,352	531	124,104	356,626	200,410	3,424,363
Conferences and meetings	385,321	129,547	1,100	74,627	44,406	2,398	74	40,723	134,465	123,516	936,177
Advertising	664,887	521,217	2,568	63,883	472,249	546	1,388	41,161	327,591	15,044	2,110,534
Special assistance	744,324	9,390,878	12,105	4,636,474	1,105,857	172,485	2,344	102,396	25	123	16,167,011
Overseas contributions	663,555	-	723,326	-	-	-	291,798	27,256	-	-	1,705,935
Program development	12,597	5,651	6,703	1,342	5,102	11	-	4,461	11,750	1,000	48,617
Payment processing fees	288,573	1,055	926	272	14,261	58	3,808	54,340	1,654	20	364,967
Educational and promotional materials	36,336	27,790	119	12,037	8,713	2,538	-	3,815	173,765	14,801	279,914
Miscellaneous fund raising	-	-	-	-	-	-	-	-	-	915,989	915,989
Bad debt	55,012	67,708	-	850	41,706	-	-	-	-	-	165,276
Miscellaneous	227,664	124,806	95,839	68,989	20,055	10,937	938	2,460	311,854	51,861	915,403
Depreciation	184,560	114,572	3,369	106,777	28,764	47,859	-	139,999	368,148	30,202	1,024,250
Total operating expenses	**$ 23,628,286**	**$ 25,847,924**	**$ 1,229,699**	**$ 15,607,613**	**$ 10,328,045**	**$ 1,822,481**	**$ 363,421**	**$ 2,993,678**	**$ 9,384,727**	**$ 5,068,901**	**$ 96,274,775**

Bethany Christian Services

Consolidated Statement of Cash Flows

	Year Ended December 31, 2016	Year Ended December 31, 2015
Cash Flows from Operating Activities		
Increase in net assets	$ 3,986,334	$ 1,402,707
Adjustments to reconcile increase in net assets to net cash and cash equivalents from operating activities:		
Depreciation	1,150,684	1,024,250
Loss on sale of property and equipment	629,291	11,502
Permanently restricted contributions received	(4,642)	(7,590)
Bad debt expense	(218,462)	(165,276)
Net realized and unrealized (gains) losses on investments	(1,746,311)	1,208,609
Earnings on unconsolidated investment	(38,462)	(42,000)
Distributions from unconsolidated affiliate	64,000	64,000
Net present value adjustment of annuities payable	46,271	22,047
Changes in operating assets and liabilities which (used) provided cash:		
Receivables	(943,131)	(1,645,264)
Prepaid expenses and other	168,753	(272,418)
Accounts payable and accrued expenses	163,549	(779,262)
Accrued employee compensation and benefits	448,247	148,130
Deferred revenue	363,876	(139,123)
Net cash and cash equivalents provided by operating activities	4,069,997	830,312
Cash Flows from Investing Activities		
Purchase of property and equipment	(4,309,187)	(1,379,308)
Proceeds from disposition of property and equipment	267,542	-
Purchases of investments	(3,782,506)	(1,476,709)
Proceeds from sales of investments	3,518,297	1,271,110
Net cash and cash equivalents used in investing activities	(4,305,854)	(1,584,907)
Cash Flows from Financing Activities		
Payments on annuities payable	(40,417)	(41,693)
Payments on long-term debt	(5,538,882)	(872,060)
Proceeds from long-term debt	7,404,189	296,250
Draws from revolving credit facilities	1,250,000	1,200,000
Payments on revolving credit facilities	(2,450,000)	-
Permanently restricted contributions received	4,642	7,590
Net cash and cash equivalents provided by financing activities	629,532	590,087
Net Increase (Decrease) in Cash and Cash Equivalents	393,675	(164,508)
Cash and Cash Equivalents - Beginning of year	2,990,483	3,154,991
Cash and Cash Equivalents - End of year	**$ 3,384,158**	**$ 2,990,483**
Supplemental Disclosure of Cash Flow Information - Cash paid for interest	$ 155,890	$ 132,718

See Notes to Consolidated Financial Statements.

Note 1 - Nature of Activities and Significant Accounting Policies

Nature of Organization - Bethany Christian Services and its subsidiaries (the "Organization") is a not-for-profit corporation whose sources of revenue are derived principally from public contributions, government grants, and service fees. The Organization operates a child placement agency and provides such services as foster care, pregnancy counseling, adoptive services, and other related social services as may be appropriate in stabilizing and/or improving human relationships and conditions. Currently, these services are provided in 39 home offices in 37 states plus Washington D.C., with the central business office located in Grand Rapids, Michigan. Approximately 62 and 59 percent of operating revenue in 2016 and 2015, respectively, was derived from services provided under contract with governmental units.

Significant accounting policies are as follows:

Principles of Consolidation - The consolidated financial statements include the accounts of the Organization and all of its wholly owned subsidiaries, which include all of the various branches and related legal entities. All material intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue, expenses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Basis of Presentation - The Organization prepares its consolidated financial statements in accordance with the accounting principles outlined in the American Institute of Certified Public Accountants' *Audit and Accounting Guide for Not-for-Profit Entities* and accounting standards for financial statements of not-for-profit organizations.

Cash Equivalents - The Organization considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Concentration of Credit Risk Arising from Deposit Accounts - The Organization maintains cash balances at several banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $250,000 and certain other federally managed programs. As of December 31, 2016 and 2015, the Organization had depository accounts with a financial institution in excess of federally insured limits.

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Investments - Investments are stated at fair value, except for the investment in unconsolidated affiliate, which is recorded using the equity method. Gains or losses on investments are reported in the consolidated statement of activities and changes in net assets as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law.

Receivables - Receivables are stated at invoice amounts. An allowance for doubtful accounts is established based on a specific assessment of all invoices that remain unpaid following normal payment periods. In addition, a general valuation allowance is established for other accounts receivable based on historical loss experience. All amounts deemed uncollectible are charged against the allowance for doubtful accounts in the period that determination is made. The allowance was $175,000 and $164,050 at December 31, 2016 and 2015, respectively.

Property and Equipment - Property and equipment are recorded at cost when purchased or at fair value at the date of donation and are being depreciated on a straight-line basis over their estimated useful lives. Costs of maintenance and repairs are charged to expense when incurred. Estimated useful lives are 40 years for buildings, 20 years for land improvements (or the lease term, whichever is shorter), 10 years for furniture and fixtures, three to six years for machinery and equipment, and three to five years for vehicles.

The Organization reports gifts of property and equipment as unrestricted support, unless explicit donor stipulations specify how the donated assets must be used. Gifts of property and equipment with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire property and equipment are reported as restricted support. Absent explicit donor stipulations about how long the property and equipment must be maintained, the Organization reports expirations of donor restrictions over time based on an estimate of the useful lives of the donated or acquired property and equipment.

Certain property and equipment were acquired with funds from grant contracts that include the option for the grantor to require reversion of title at the end of the grant contract. These assets are insignificant to the consolidated financial statements as a whole and were fully depreciated as of December 31, 2016 and 2015.

Deferred Revenue - Deferred revenue consists primarily of adoption fees billed to prospective parents and collected in advance of providing adoption services and grant revenue received in advance of expenditures.

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Classification of Net Assets - Net assets of the Organization are classified as unrestricted, temporarily restricted, or permanently restricted depending on the presence and characteristics of donor-imposed restrictions limiting the Organization's ability to use or dispose of contributed assets or the economic benefits embodied in those assets.

Donor-imposed restrictions that expire with the passage of time or can be removed by meeting certain requirements result in temporarily restricted net assets. Temporarily restricted net assets include accumulated endowment earnings and pledges not available for current purposes that will be released from restriction due to the passage of time. Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. Earnings, gains, and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law.

During 2015, the Organization received communication from a donor to release the restriction of a gift in permanently restricted net assets for $100,000.

Contributions - Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value. Donor promises to give in the future are recorded at the present value of estimated future cash flows. Contributions resulting from split-interest agreements, measured at the time the agreements are entered into, are based on the difference between the fair value of the assets received or promised and the present value of the obligation to the third-party recipient(s) under the contract.

Contributions without donor-imposed restrictions are reported as unrestricted support. Other restricted gifts are reported as restricted support and temporarily or permanently restricted net assets.

Grant Revenue - Grant revenue received for grants determined to be exchange transactions is recognized as services are provided. Grant money received in excess of that earned is recorded as deferred revenue. Grant revenue is primarily received for child support services.

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Service Fee Revenue - Prospective parents involved in the domestic infant and international adoption process are charged a fee for services, which consists of the home study, placement of the child, and supervision during the post-placement probationary time period. The international adoption process also includes fees charged by the Organization for acting as a liaison with the international agency. These fees are billed at the time the home study is complete. The Organization's policy is to recognize a portion of the fee as revenue at the time of home study completion and record a deferred revenue related to the remaining balance. A portion of the deferred revenue is recognized at the time of placement, with the remainder balance being recognized when the adoption is closed.

Functional Allocation of Expenses - The costs of providing the program and support services have been reported on a functional basis in the statement of activities and changes in net assets. Indirect costs have been allocated between the various programs and support services based on estimates, as determined by management. Although the methods of allocation used are considered reasonable, other methods could be used that would produce a different amount.

Federal Income Taxes - The Organization is exempt from income tax under provisions of Internal Revenue Code Section 501(c)(3).

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Organization and has concluded that as of December 31, 2016 and 2015, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the consolidated financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Advertising - Advertising costs are expensed as incurred and amounted to $2,199,842 and $2,110,534 in 2016 and 2015, respectively.

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

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

The Organization's child support revenue category is made up of approximately 32 percent and 29 percent of contracts with state and federal agencies for international refugee services as of December 31, 2016 and 2015, respectively.

Revenue Recognition - In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Organization's year ending December 31, 2019. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Organization anticipates this standard will have an impact on the consolidated financial statements, specifically related to certain child support and service fee contracts with customers. The Organization is continuing to assess all potential impacts.

Lease Recognition - In February 2016, the Financial Accounting Standards Board issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital leases recognized on the statement of financial position. The reporting of lease-related expenses in the statements of activities and changes in net assets and cash flows will be generally consistent with the current guidance. The lease new guidance will be effective for the Organization’s year ending December 31, 2020 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. Upon implementation, the Organization's lease payment obligations will be recognized at their estimated present value along with a corresponding right-of-use asset. Lease expense recognition will be generally consistent with current practice.

Note 1 - Nature of Activities and Significant Accounting Policies (Continued)

Not-for-Profit Financial Reporting - The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, in August 2016. ASU 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Organization, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Organization's year ending December 31, 2018 and thereafter and must be applied on a retrospective basis. The Organization is currently evaluating the impact this standard will have on the consolidated financial statements.

Subsequent Events - The consolidated financial statements and related disclosures include evaluation of events up through and including March 14, 2017, which is the date the consolidated financial statements were available to be issued.

Note 2 - Investments

Investments consisted of the following at December 31:

	2016	2015
Mutual funds	$ 22,832,465	$ 22,433,691
Pooled funds	320,375	347,140
Exchange traded funds	7,560,230	5,921,720
Subtotal	30,713,071	28,702,551
Investment in unconsolidated affiliate	559,813	585,351
Total	$ 31,272,884	$ 29,287,902

Investment income consists of the following:

	2016	2015
Interest and dividends	$ 984,968	$ 947,846
Realized and unrealized gains (losses)	1,746,311	(1,208,609)
Total	$ 2,731,279	$ (260,763)

Note 2 - Investments (Continued)

During 2005, the Organization purchased a 40 percent minority interest in a limited liability company for $802,060. This investment is accounted for using the equity method of accounting. The Organization recognized income of approximately $43,000 and $42,000 and received a distribution of $64,000 for each of the years ended December 31, 2016 and 2015. The Organization is the sole tenant of the real estate limited liability company and has incurred lease expenses of $169,051 in 2016 and $164,928 in 2015 related to an operating lease entered into in conjunction with the investment.

Note 3 - Property and Equipment

The cost of property and equipment is summarized as follows:

	2016	2015
Land	$ 1,487,813	$ 1,440,054
Land improvements	1,459,001	1,450,028
Buildings and improvements	19,247,815	18,042,518
Transportation equipment	579,424	528,989
Furniture and fixtures	7,195,450	6,646,760
Construction in progress	1,539,107	238,334
Total cost	31,508,610	28,346,683
Accumulated depreciation	(14,094,714)	(13,194,457)
Net carrying amount	$ 17,413,896	$ 15,152,226

Depreciation expense was $1,150,684 for 2016 and $1,024,250 for 2015.

As of December 31, 2016, the Organization has no significant commitments related to capital improvements.

Note 4 - Annuities Payable

The Organization sponsors a program in which donors may transfer assets to the Organization for the right to receive a predetermined return during their lifetimes (an annuity). Based upon the terms of each annuity agreement, the Organization determines its liability under the agreement using the estimated present value of future payments to the annuitant. Such future payments are determined utilizing the life expectancy of the annuitant (based on Annuity 2012 Table for males and females) and the interest rate (discount rate), the applicable federal mid-term rate for U.S. Treasury bills, in effect at the time of the gift. At December 31, 2016 and 2015, the Organization recorded $309,467 and $303,613, respectively, in annuities payable relating to such program.

Note 5 - Operating Leases

The Organization leases office space and certain equipment and vehicles under operating lease agreements that expire through 2021. The following is a schedule of future minimum rental payments for the years ending December 31:

2017	$	2,962,709
2018		2,146,053
2019		1,561,773
2020		842,282
2021		281,391
Total	$	7,794,208

Total rent expense on these leases for 2016 and 2015 was $2,783,889 and $2,591,840, respectively.

Note 6 - Line of Credit

During the year, the Organization refinanced its line of credit and increased available borrowings from $3,000,000 to $5,000,000. There were no outstanding borrowings at December 31, 2016. There were outstanding borrowings of $1,200,000 at December 31, 2015. The 2016 line of credit bears interest at LIBOR, plus 1.75 percent (an effective rate of 2.37 percent at December 31, 2016). The 2015 line of credit bears interest at LIBOR plus 1.7 percent (an effective rate of 1.94 percent at December 31, 2015). The line of credit is collateralized by the Organization's brokerage accounts and expires on May 9, 2017.

As of December 31, 2016 and 2015, the Organization had outstanding notes payable as follows:

	2016	2015
Thrift store mortgage, payable in monthly installments of $1,919, increasing to $2,058 in 2017, including interest of LIBOR plus 2.05 percent (an effective rate of 2.29 percent at December 31, 2015). The loan was paid off in 2016	$ -	$ 355,025
Term loan payable in monthly installments of $49,523, increasing to $53,000 in 2017, including interest of LIBOR plus 1.7 percent (an effective rate of 1.94 percent at December 31, 2015). The loan was paid off in 2016	-	3,872,681

Note 6 - Line of Credit (Continued)

	2016	2015
Barnabas Foundation note payable with principal payable upon the termination of the loan and interest due quarterly. Interest is a fixed rate of LIBOR plus 1 percent (an effective rate of 1.62 and 1.24 percent at December 31, 2016 and 2015, respectively). The loan matures on June 21, 2018 and is unsecured	$ 1,500,000	$ 1,500,000
Girls Group Home mortgage payable in monthly principal installments of $1,646 plus interest of LIBOR plus 2.65 percent (an effective rate of 2.89 percent at December 31, 2015). The loan was paid off in 2016	-	279,792
Holland building promissory note with principal payable upon the termination of the loan and interest due monthly. Interest is a fixed rate of LIBOR plus 1.75 percent (an effective rate of 2.37 percent at December 31, 2016). The loan matures on July 5, 2018 and the loan is collateralized by the Holland property	1,025,000	-
Term loan payable in monthly principal installments of $57,350 plus interest at LIBOR plus 1.75 percent (an effective rate of 2.37 percent at December 31, 2016). The loan matures on February 29, 2023 and is unsecured	3,966,063	-
52nd Street promissory note with principal payable upon the termination of the loan and interest due monthly. Interest is a fixed rate of LIBOR plus 1.75 percent (an effective rate of 2.37 percent at December 31, 2016). The loan matures on February 26, 2018 and is collateralized by the 52nd Street property	1,381,742	-
Federal Home Loan Bank Affordable Housing Program notes payable, received to assist in the building of low-income housing units. This loan has no repayment requirements, no interest, and will be forgiven at the end of the 15-year compliance period if the related projects are operated in compliance with the grant terms. The loan is secured by the housing units associated with the loan	720,000	720,000
Total	8,592,805	6,727,498
Less current portion	599,103	646,216
Long-term portion	$ 7,993,702	$ 6,081,282

Note 6 - Line of Credit (Continued)

The debt service requirements are as follows:

Years Ending December 31		Amount
2017		$ 599,103
2018		3,020,463
2019		2,128,695
2020		643,899
2021		659,746
Thereafter		1,540,899
	Total	$ 8,592,805

Interest expense for the line of credit and long-term debt totaled $155,890 and $132,718 for 2016 and 2015, respectively.

The Organization is required to meet quarterly debt covenants that include liquidity requirements in relation to the term loan payables and line of credit.

Note 7 - Employee Benefit Plans

403(b) Retirement Plan

The Organization has a 403(b) retirement plan. Under the plan, employees can elect to defer up to 85 percent of their annual compensation up to the maximum dollar amount determined by the Internal Revenue Code.

The Organization provides a discretionary match for eligible employee contributions in an amount equal to 100 percent of elective deferral contributions according to the following schedule:

Years of Service	Limit on Contributions Matched
Less than 2	No matching contribution
2-4	4 percent
5-9	6 percent
10 or more	8 percent

Note 7 - Employee Benefit Plans (Continued)

In addition, the Organization can make a discretionary contribution of 2 percent of salary for each participant employed at the end of the year, with at least two years of service, and who has worked at least 1,000 hours during the year. The discretionary contribution was made for 2016 and 2015.

The Organization made contributions of $1,904,641 and $1,634,891 to the plan for the years ended December 31, 2016 and 2015, respectively.

Note 8 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the consolidated financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Organization's assets measured at fair value on a recurring basis at December 31, 2016 and 2015 and the valuation techniques used by the Organization to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Organization has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Organization's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Note 8 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at December 31, 2016

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2016
Investments:				
Mutual funds - Domestic stock	$ 6,919,941	$ -	$ -	$ 6,919,941
Mutual funds - Foreign stock	4,632,383	-	-	4,632,383
Mutual funds - Real estate	602,147	-	-	602,147
Exchange traded funds - Domestic stock	3,344,857	-	-	3,344,857
Exchange traded funds - Foreign stock	1,701,229	-	-	1,701,229
Exchange traded funds - Real estate	1,027,684	-	-	1,027,684
Mutual funds - Bonds	10,677,995	-	-	10,677,995
Exchange traded funds - Bonds	1,486,460	-	-	1,486,460
Pooled funds - Balanced	-	91,936	-	91,936
Pooled funds - Domestic stock	-	50,632	12,404	63,036
Pooled funds - Foreign equity	-	71,675	-	71,675
Pooled funds - Global allocation	-	22,332	-	22,332
Pooled funds - Bonds	-	51,445	-	51,445
Pooled funds - Alternatives	-	-	19,951	19,951
Total investments	$ 30,392,696	$ 288,020	$ 32,355	$ 30,713,071

Assets Measured at Fair Value on a Recurring Basis at December 31, 2015

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2015
Investments:				
Mutual funds - Domestic stocks	$ 6,462,673	$ -	$ -	$ 6,462,673
Mutual funds - Foreign stock	4,276,458	-	-	4,276,458
Mutual funds - Bonds	11,151,475	-	-	11,151,475
Mutual funds - Real estate	543,085	-	-	543,085
Exchange traded funds - Domestic stock	3,071,531	-	-	3,071,531
Exchange traded funds - Foreign stock	1,567,944	-	-	1,567,944
Exchange traded funds - Real estate	985,377	-	-	985,377
Exchange traded funds - Bonds	296,868	-	-	296,868
Pooled funds - Balanced	-	97,188	-	97,188
Pooled funds - Domestic stocks	-	51,747	11,988	63,735
Pooled funds - Foreign equity	-	77,044	-	77,044
Pooled funds - Global allocation	-	25,571	-	25,571
Pooled funds - Bonds	-	59,117	-	59,117
Pooled funds - Alternatives	-	-	24,485	24,485
Total investments	$ 28,355,411	$ 310,667	$ 36,473	$ 28,702,551

Note 8 - Fair Value Measurements (Continued)

The fair value of pooled funds, corporate bonds, and U.S. Treasury and U.S. agency notes at December 31, 2016 and 2015 was determined primarily based on Level 2 inputs. The Organization estimates the fair value of these investments using quoted prices for similar assets in active markets and other inputs such as interest rates and yield curves.

The Organization's policy is to recognize transfers between levels of the fair value hierarchy as of the end of the reporting period. For the years ended December 31, 2016 and 2015, there were no transfers between levels of the fair value hierarchy.

Note 9 - Donor-restricted and Board-designated Endowments

The Organization’s endowment includes both donor-restricted endowment funds and funds designated by the board of directors to function as endowments. Net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The board of directors of the Organization has interpreted the 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 funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) 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. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization 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) General economic conditions
(4) The possible effect of inflation and 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

Note 9 - Donor-restricted and Board-designated Endowments (Continued)

Endowment Net Asset Composition by Type of Fund as of December 31, 2016

	Unrestricted - Board-designated	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 486,489	$ 179,325	$ 665,814
Board-designated endowment funds	18,213,840	-	-	18,213,840
Total funds	$ 18,213,840	$ 486,489	$ 179,325	$ 18,879,654

Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2016

	Unrestricted - Board-designated	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	$ 17,222,314	$ 427,923	$ 172,674	$ 17,822,911
Investment return:				
Investment income	634,680	-	-	634,680
Net appreciation	1,085,491	58,566	2,009	1,146,066
Total investment return	1,720,171	58,566	2,009	1,780,746
Contributions	231,996	-	4,642	236,638
Appropriation of endowment assets for expenditure	(840,641)	-	-	(840,641)
Other changes - Transfers from unrestricted - undesignated net assets	(120,000)	-	-	(120,000)
Endowment net assets - End of year	$ 18,213,840	$ 486,489	$ 179,325	$ 18,879,654

Endowment Net Asset Composition by Type of Fund as of December 31, 2015

	Unrestricted - Board-designated	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 427,923	$ 172,674	$ 600,597
Board-designated endowment funds	17,222,314	-	-	17,222,314
Total funds	$ 17,222,314	$ 427,923	$ 172,674	$ 17,822,911

Note 9 - Donor-restricted and Board-designated Endowments (Continued)

Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2015

	Unrestricted - Board-designated	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	$ 17,860,092	$ 480,338	$ 265,402	$ 18,605,832
Investment return:				
Investment income	614,229	-	-	614,229
Net depreciation	(873,539)	(11,378)	(318)	(885,235)
Total investment return	(259,310)	(11,378)	(318)	(271,006)
Contributions	416,546	-	7,590	424,136
Appropriation of endowment assets for expenditure	(823,214)	(41,037)	-	(864,251)
Net assets reclassed - Permanently restricted released from restriction	100,000	-	(100,000)	-
Other changes - Transfers from unrestricted - undesignated net assets	(71,800)	-	-	(71,800)
Endowment net assets - End of year	$ 17,222,314	$ 427,923	$ 172,674	$ 17,822,911

Return Objectives and Risk Parameters

The Organization 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 directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results while assuming a moderate level of investment risk. The Organization expects its endowment funds, over time, to provide an average rate of return of approximately 8 percent annually. Actual returns in any given year may vary from this amount.

Note 9 - Donor-restricted and Board-designated Endowments (Continued)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization has a policy of appropriating for distribution each year 5 percent of its endowment fund's average fair value over the prior eight quarters through the calendar year end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to grow at an average of 3 percent annually. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.