Bethany Christian Services

Consolidated Financial Report

December 31, 2017

Contents

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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, 2017 and 2016 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 opinions.

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, 2017 and 2016 and the changes in their net assets, functional expenses, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Praxity MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

To the Board of Directors
Bethany Christian Services

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2018 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 13, 2018

Consolidated Statement of Financial Position

December 31, 2017 and 2016

	2017	2016
Assets		
Current Assets		
Cash and cash equivalents	$ 3,562,701	$ 3,384,158
Investments (Note 3)	33,692,845	30,713,071
Receivables - Net of allowances	14,144,705	13,214,573
Prepaid expenses and other current assets:		
Prepaid expenses	1,285,223	1,053,788
Deposits	311,868	209,274
Total current assets	52,997,342	48,574,864
Property and Equipment - Net (Note 4)	17,715,895	17,413,896
Other Assets	220,000	-
Investment in Unconsolidated Affiliate (Note 3)	538,148	559,813
Total assets	**$ 71,471,385**	**$ 66,548,573**
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 2,839,164	$ 2,662,814
Accrued employee compensation and benefits	6,453,162	5,523,726
Deferred revenue	2,544,086	2,836,792
Current portion of long-term debt (Note 7)	4,831,503	599,103
Total current liabilities	16,667,915	11,622,435
Long-term Debt - Net of current portion (Note 7)	3,506,743	7,993,702
Annuities Payable (Note 5)	297,235	309,467
Total liabilities	20,471,893	19,925,604
Net Assets		
Unrestricted:		
Undesignated	29,620,718	26,485,079
Board designated (Note 10)	19,569,081	18,213,840
Temporarily restricted (Note 10)	1,623,883	1,744,725
Permanently restricted (Note 10)	185,810	179,325
Total net assets	50,999,492	46,622,969
Total liabilities and net assets	**$ 71,471,385**	**$ 66,548,573**

See notes to consolidated financial statements.

Bethany Christian Services

Consolidated Statement of Activities and Changes in Net Assets

Years Ended December 31, 2017 and 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support								
Contributions	$ 16,476,922	$ 479,821	$ 3,620	$ 16,960,363	$ 13,736,273	$ 2,205,641	$ 4,642	$ 15,946,556
Child support	74,489,333	-	-	74,489,333	68,591,691	-	-	68,591,691
Service fees	23,349,440	-	-	23,349,440	22,586,358	-	-	22,586,358
Investments and other	5,180,480	92,764	2,865	5,276,109	4,155,002	64,720	2,009	4,221,731
Total revenue and support	119,496,175	572,585	6,485	120,075,245	109,069,324	2,270,361	6,651	111,346,336
Net assets released from restrictions	693,427	(693,427)	-	-	1,015,486	(1,015,486)	-	-
Total revenue, support, and net assets released from restrictions	120,189,602	(120,842)	6,485	120,075,245	110,084,810	1,254,875	6,651	111,346,336
Expenses								
Program services:								
Adoption	22,605,733	-	-	22,605,733	22,767,387	-	-	22,767,387
Foster care	30,934,269	-	-	30,934,269	27,487,059	-	-	27,487,059
Youth services	2,463,194	-	-	2,463,194	2,359,332	-	-	2,359,332
International social services	1,336,642	-	-	1,336,642	1,224,090	-	-	1,224,090
Refugee and immigrant services	25,199,502	-	-	25,199,502	22,072,436	-	-	22,072,436
Counseling	10,601,627	-	-	10,601,627	10,149,691	-	-	10,149,691
Residential treatment	2,016,925	-	-	2,016,925	1,943,134	-	-	1,943,134
Sponsorship	826,860	-	-	826,860	435,644	-	-	435,644
Other programs	2,794,950	-	-	2,794,950	3,302,699	-	-	3,302,699
Total program services	98,779,702	-	-	98,779,702	91,741,472	-	-	91,741,472
Support services:								
Management and general	10,989,423	-	-	10,989,423	10,011,512	-	-	10,011,512
Fundraising	5,929,597	-	-	5,929,597	5,607,018	-	-	5,607,018
Total expenses	115,698,722	-	-	115,698,722	107,360,002	-	-	107,360,002
Increase in Net Assets	4,490,880	(120,842)	6,485	4,376,523	2,724,808	1,254,875	6,651	3,986,334
Net Assets - Beginning of year	44,698,919	1,744,725	179,325	46,622,969	41,974,111	489,850	172,674	42,636,635
Net Assets - End of year	**$ 49,189,799**	**$ 1,623,883**	**$ 185,810**	**$ 50,999,492**	**$ 44,698,919**	**$ 1,744,725**	**$ 179,325**	**$ 46,622,969**

See notes to consolidated financial statements.

Consolidated Statement of Functional Expenses

Year Ended December 31, 2017

	Adoption	Foster Care	Youth Services	International Social Services	Refugee and Immigrant Services	Counseling	Residential Treatment	Sponsorship	Other Programs	Management and General	Fundraising	Total
Operating Expenses												
Salaries	$11,937,854	$11,671,485	$1,001,999	$ 130,095	$10,454,981	$ 5,406,858	$1,213,952	$ 155,353	$1,377,185	$ 5,867,690	$ 2,090,470	$ 51,307,922
Fringes	2,674,571	2,449,300	305,350	33,970	2,359,488	987,299	252,465	48,910	355,412	1,058,672	471,002	10,996,439
Taxes	877,292	858,843	72,274	9,268	769,761	397,876	90,143	11,209	101,705	420,427	154,737	3,763,535
Professional fees	554,694	193,154	291,444	69,181	1,174,875	435,391	1,260	194,489	50,545	952,034	773,809	4,690,876
Supplies	179,784	128,985	59,667	489	166,195	72,187	29,175	113	39,574	60,274	18,280	754,723
Telephone	314,630	276,203	8,802	438	197,979	146,452	3,021	-	27,107	36,849	24,296	1,035,777
Postage	178,253	40,065	737	104	15,645	21,446	647	2,118	5,801	81,807	107,505	454,128
Occupancy	1,767,591	1,134,873	88,690	4,051	1,245,123	618,108	81,525	39	124,514	279,943	113,675	5,458,132
Printing	137,331	47,411	1,877	275	24,758	32,389	499	21,834	20,413	70,117	424,324	781,228
Information technology	421,947	461,671	35,931	2,797	351,650	165,148	37,589	20,869	30,250	9,957	37,236	1,575,045
Equipment and furnishings	48,890	28,856	3,937	8	38,883	17,028	6,178	-	9,974	29,166	5,470	188,390
Travel	800,352	1,049,153	50,727	41,763	636,275	490,333	26,717	36,127	54,847	513,883	278,379	3,978,556
Conferences and meetings	282,305	195,503	35,727	1,050	110,659	61,577	2,697	1,157	54,071	196,523	147,506	1,088,775
Advertising	822,992	367,346	6,772	-	114,491	490,445	300	13,335	43,239	393,522	4,169	2,256,611
Special assistance	679,815	11,718,762	468,589	40	7,245,268	1,062,856	215,022	1,678	206,713	-	5,322	21,604,065
Overseas contributions	216,577	-	-	936,461	-	-	-	264,524	1,039	-	-	1,418,601
Program development	7,000	-	-	6,599	1,568	-	-	-	-	-	-	15,167
Payment processing fees	306,682	1,997	11	1,174	855	20,664	-	3,392	35,151	4,506	2,690	377,122
Educational and promotional materials	17,223	21,474	382	196	4,118	9,909	863	782	6,808	139,904	73,637	275,296
Miscellaneous fund raising	-	-	-	-	-	-	-	-	-	-	1,110,858	1,110,858
Bad debt	7,692	16,416	-	-	1,000	45,750	-	-	-	39,000	-	109,858
Miscellaneous	215,186	152,086	12,994	98,238	64,247	86,173	3,916	3,333	83,318	366,511	58,959	1,144,961
Depreciation	157,072	120,686	17,284	445	221,683	33,738	50,956	47,598	167,284	468,638	27,273	1,312,657
Total operating expenses	**$22,605,733**	**$30,934,269**	**$2,463,194**	**$ 1,336,642**	**$25,199,502**	**$10,601,627**	**$2,016,925**	**$ 826,860**	**$2,794,950**	**$10,989,423**	**$ 5,929,597**	**$115,698,722**

Bethany Christian Services

Consolidated Statement of Functional Expenses

Year Ended December 31, 2016

	Adoption	Foster Care	Youth Services	International Social Services	Refugee and Immigrant Services	Counseling	Residential Treatment	Sponsorship	Other Programs	Management and General	Fundraising	Total
Operating Expenses												
Salaries	$11,420,634	$10,062,507	$ 860,945	$ 124,542	$ 8,902,027	$ 5,071,053	$1,144,084	$ 84,505	$1,475,834	$ 5,188,604	$ 2,038,642	$ 46,373,377
Fringes	2,683,290	2,272,896	278,436	29,120	2,017,202	990,560	284,765	20,971	432,437	986,630	429,189	10,425,496
Taxes	842,461	740,440	63,041	8,892	657,257	372,466	85,130	6,168	111,219	372,105	150,131	3,409,310
Professional fees	1,109,455	251,221	169,304	55,128	669,573	356,890	36,817	47,752	112,170	801,870	890,873	4,501,053
Supplies	150,522	121,041	141,293	758	165,495	73,649	26,726	44	53,104	50,440	18,571	801,643
Telephone	330,480	251,909	11,243	1,546	162,184	152,125	3,734	65	33,563	38,689	24,555	1,010,093
Postage	197,380	39,177	841	9	14,527	20,304	971	1,487	12,758	72,125	144,586	504,165
Occupancy	1,700,060	1,004,941	205,753	5,337	969,991	567,473	48,593	-	147,456	282,572	112,045	5,044,221
Printing	136,159	52,938	4,780	861	20,443	42,887	136	382	30,403	42,059	374,007	705,055
Information technology	402,901	345,716	36,652	3,067	348,890	141,602	33,670	3,326	52,351	2,374	41,377	1,411,926
Equipment and furnishings	56,077	27,871	35,083	68	70,333	33,717	9,962	-	4,472	30,358	8,636	276,577
Travel	836,822	1,021,982	50,031	45,878	542,740	442,253	22,129	15,216	33,882	391,922	222,885	3,625,740
Conferences and meetings	224,545	150,778	19,062	1,047	110,542	49,745	9,441	295	71,427	168,328	117,279	922,489
Advertising	736,343	386,437	9,138	-	75,154	473,926	180	-	95,553	409,806	13,305	2,199,842
Special assistance	694,941	10,495,077	446,759	-	7,114,578	1,074,308	183,484	1,866	140,543	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	1,824	9	1,744	817	15,850	-	3,629	46,281	1,560	3,049	395,005
Educational and promotional materials	13,766	12,788	502	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	197,180	125,292	9,947	85,914	65,933	84,289	3,173	372	285,095	613,721	45,328	1,516,244
Depreciation	171,418	120,410	16,513	651	160,408	31,778	49,833	0	160,849	415,768	23,056	1,150,684
Total operating expenses	**$22,767,387**	**$27,487,059**	**$2,359,332**	**$ 1,224,090**	**$22,072,436**	**$10,149,691**	**$1,943,134**	**$ 435,644**	**$3,302,699**	**$10,011,512**	**$ 5,607,018**	**$107,360,002**

Consolidated Statement of Cash Flows

Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Increase in net assets	$ 4,376,523	$ 3,986,334
Adjustments to reconcile increase in net assets to net cash and cash equivalents from operating activities:		
Depreciation	1,312,657	1,150,684
Loss on disposal of property and equipment	69,497	629,291
Bad debt expense	109,858	218,462
Net realized and unrealized gains on investments	(2,679,949)	(1,746,311)
Earnings on unconsolidated affiliate	(42,335)	(38,462)
Distributions from unconsolidated affiliate	64,000	64,000
Net present value adjustment of annuities payable	27,754	46,271
Permanently restricted contributions received	(3,620)	(4,642)
Changes in operating assets and liabilities which (used) provided cash and cash equivalents:		
Receivables	(1,039,990)	(1,380,055)
Prepaid expenses and other assets	(524,029)	168,753
Accounts payable	176,350	163,549
Accrued and other liabilities	929,436	448,247
Deferred revenue	(292,706)	363,876
Net cash and cash equivalents provided by operating activities	2,483,446	4,069,997
Cash Flows from Investing Activities		
Purchase of property and equipment	(2,595,486)	(4,309,187)
Proceeds from disposition of property and equipment	911,333	267,542
Purchases of investments	(3,786,856)	(3,782,506)
Proceeds from sales and maturities of investments	3,487,031	3,518,297
Net cash and cash equivalents used in investing activities	(1,983,978)	(4,305,854)
Cash Flows from Financing Activities		
Proceeds from debt	864,168	7,404,189
Payments on debt	(1,118,727)	(5,538,882)
Payments on annuities payable	(39,986)	(40,417)
Payments on revolving credit facilities	750,000	1,250,000
Draws on revolving credit facilities	(750,000)	(2,450,000)
Permanently restricted contributions received	3,620	4,642
Net cash and cash equivalents (used in) provided by financing activities	(290,925)	629,532
Net Increase in Cash and Cash Equivalents	208,543	393,675
Cash and Cash Equivalents - Beginning of year	3,384,158	2,990,483
Cash and Cash Equivalents - End of year	**$ 3,592,701**	**$ 3,384,158**
Supplemental Cash Flow Information - Cash paid for interest	$ 185,722	$ 155,890

See notes to consolidated financial statements.

Note 1 - Nature of Business

Bethany Christian Services (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 65 and 62 percent of operating revenue in 2017 and 2016, respectively, was derived from services provided under contract with governmental units.

Note 2 - Significant Accounting Policies

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 including Bethany Christian Services USA, LLC, Bethany Christian Services Global, LLC, and Bethany Christian Foundation, LLC. All material intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses 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 with an original maturity of three months or less when purchased 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, 2017 and 2016, the Organization had depository accounts with a financial institution in excess of federally insured limits.

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.

Note 2 - Significant Accounting Policies (Continued)

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 $200,000 and $175,000 at December 31, 2017 and 2016, 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, 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, 2017 and 2016.

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.

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.

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.

Note 2 - Significant Accounting Policies (Continued)

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.

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

Costs of providing the program and support services have been reported on a functional basis in the consolidated statement of activities and changes in net assets. Indirect costs have been allocated between the various programs and support services on several bases and estimates, as determined by management. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Income Taxes

The Organization is a not-for-profit corporation and is exempt from tax under the 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, 2017 and 2016, 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 Expense

Advertising expense is charged to income during the year in which it is incurred. Advertising expense for 2017 and 2016 was $2,256,609 and $2,199,841, 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.

The Organization's child support revenue category is made up of approximately 32 percent of contracts with state and federal agencies for international refugee services as of December 31, 2017 and 2016.

Note 2 - Significant Accounting Policies (Continued)

Reclassification

Certain 2016 amounts have been reclassified to conform to the 2017 presentation, including expenses for Youth Services program that was added.

Upcoming Accounting Pronouncements

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 has not yet determined which application method it will use. This 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.

In February 2016, the Financial Accounting Standards Board (FASB) 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 balance sheet. The reporting of lease-related expenses in the statements of operations and cash flows will be generally consistent with the current guidance. The new lease 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.

In August 2016, 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*. ASU No. 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.

Subsequent Events

The financial statements and related disclosures include evaluation of events up through and including March 13, 2018, which is the date the financial statements were available to be issued.

Note 3 - Investments

The details of the Organization's investments at December 31 are as follows:

	2017	2016
Mutual funds	$ 26,342,411	$ 22,832,466
Pooled funds	320,299	320,375
Exchange-traded funds	7,030,135	7,560,230
Subtotal	33,692,845	30,713,071
Investment in unconsolidated affiliate	538,148	559,813
Total	$ 34,230,993	$ 31,272,884

Investment income consists of the following:

	2017	2016
Interest and dividends	$ 1,279,847	$ 984,968
Realized and unrealized gains	2,679,949	1,746,311
Total	$ 3,959,796	$ 2,731,279

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 $42,000 and $43,000 and received a distribution of $64,000 for each of the years ended December 31, 2017 and 2016, respectively. The Organization is the sole tenant of the real estate limited liability company and has incurred lease expenses of $174,123 in 2017 and $169,051 in 2016 related to an operating lease entered into in conjunction with the investment.

Note 4 - Property and Equipment

Property and equipment are summarized as follows:

	2017	2016
Land	$ 1,431,935	$ 1,487,813
Land improvements	1,516,713	1,459,001
Buildings and improvements	20,947,064	19,247,815
Transportation equipment	565,551	579,424
Furniture and fixtures	7,811,840	7,195,450
Construction in progress	381,722	1,539,107
Total cost	32,654,825	31,508,610
Accumulated depreciation	14,938,930	14,094,714
Net property and equipment	$ 17,715,895	$ 17,413,896

Depreciation expense for 2017 and 2016 was $1,312,657 and $1,150,684, respectively.

As of December 31, 2017, the Organization has no significant commitments related to capital improvements.

Note 5 - 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 midterm rate for U.S. Treasury bills, in effect at the time of the gift. At December 31, 2017 and 2016, the Organization recorded $297,235 and $309,467, respectively, in annuities payable relating to such program.

Note 6 - Operating Leases

The Organization is obligated under operating leases primarily for office space and certain equipment and vehicles that expire through 2022.

Future minimum annual commitments under these operating leases are as follows:

Years Ending December 31	Amount
2018	$ 3,206,490
2019	2,539,346
2020	1,667,300
2021	719,432
2022	437,502
Total	$ 8,570,070

Total rent expense on these leases for 2017 and 2016 was $3,078,862 and $2,783,889, respectively.

Note 7 - Long-term Debt and Line of Credit

The Organization has a $5,000,000 line of credit from the bank. There were no outstanding borrowings at December 31, 2017 and 2016. The line of credit bears interest at LIBOR, plus 1.75 percent (an effective rate of 2.92 and 2.37 percent at December 31, 2017 and 2016, respectively). The line of credit is collateralized by the Organization's brokerage accounts and expires on May 9, 2018.

As of December 31, 2017 and 2016, the Organization had outstanding notes payable as follows:

	2017	2016
Barnabas Foundation note payable with principal payable upon the termination of the loan and interest due quarterly. Interest is a variable rate of LIBOR plus 1 percent (an effective rate of 2.56 and 1.62 percent at December 31, 2017 and 2016, respectively). The loan matures on June 21, 2018 and is unsecured	$ 1,500,000	$ 1,500,000
Holland building promissory note with principal payable upon the termination of the loan and interest due monthly. Interest is a variable rate of LIBOR plus 1.75 percent (an effective rate of 3.31 and 2.37 percent at December 31, 2017 and 2016, respectively). The loan matures on July 5, 2018 and is collateralized by the Holland property	1,354,670	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 3.31 and 2.37 percent at December 31, 2017 and 2016, respectively). The loan matures on February 29, 2023 and is unsecured	3,381,834	3,966,063

Note 7 - Long-term Debt and Line of Credit (Continued)

	2017	2016
52nd Street promissory note with principal payable upon the termination of the loan and interest due monthly. Interest is a variable rate of LIBOR plus 1.75 percent (an effective rate of 3.31 and 2.37 percent at December 31, 2017 and 2016, respectively). The loan matured on February 26, 2018 and is collateralized by the 52nd Street property. The loan was paid in full subsequent to year end	$ 1,381,742	$ 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 expected to be forgiven on March 27, 2028. The loan is secured by the housing units associated with the loan	720,000	720,000
Total	8,338,246	8,592,805
Less current portion	4,831,503	599,103
Long-term portion	$ 3,506,743	$ 7,993,702

The balance of the above debt matures as follows:

Years Ending	Amount
2018	$ 4,831,503
2019	613,150
2020	631,758
2021	650,930
2022	670,684
Thereafter	940,221
Total	$ 8,338,246

Interest expense for the line of credit and long-term debt totaled $185,722 and $155,890 for 2017 and 2016, 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 8 - 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.

Note 8 - Employee Benefit Plans (Continued)

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

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 2017 and 2016.

The Organization made contributions of $2,028,936 and $1,904,641 to the plan for the years ended December 31, 2017 and 2016, respectively.

Note 9 - 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, 2017 and 2016 and the valuation techniques used by the Organization to determine those fair values.

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.

As of January 1, 2017, the Organization implemented new guidance, Accounting Standards Update (ASU) No. 2015-07, issued by the Financial Accounting Standards Board (FASB) on *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*. Previously, investments measured at fair value using the NAV practical expedient were classified in the fair value hierarchy based on the redemption features associated with the investment. Under the new guidance, investments measured at fair value using net asset value per share (or its equivalent) as a practical expedient are no longer classified in the fair value hierarchy above, and the information for 2016 has been adjusted to conform to the new disclosure requirements.

Note 9 - Fair Value Measurements (Continued)

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2017			
	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, 2017
Assets				
Investments:				
Mutual funds - Domestic stock	$ 8,488,966	$ -	$ -	$ 8,488,966
Mutual funds - Foreign stock	5,704,076	-	-	5,704,076
Mutual funds - Bonds	11,477,323	-	-	11,477,323
Mutual funds - Real estate	672,046	-	-	672,046
Exchange-traded funds - Domestic stock	3,890,351	-	-	3,890,351
Exchange-traded funds - Foreign stock	2,030,722	-	-	2,030,722
Exchange-traded funds - Real estate	1,109,062	-	-	1,109,062
Pooled funds - Balanced	-	92,557	-	92,557
Pooled funds - Domestic stock	-	47,922	-	47,922
Pooled funds - Foreign equity	-	71,411	-	71,411
Pooled funds - Bonds	-	51,937	-	51,937
Equity securities measured at net asset value				56,472
Total investments	$ 33,372,546	$ 263,827	$ -	$ 33,692,845

	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
Assets				
Investments:				
Mutual funds - Domestic stock	$ 6,919,941	$ -	$ -	$ 6,919,941
Mutual funds - Foreign stock	4,632,383	-	-	4,632,383
Mutual funds - Bonds	10,677,995	-	-	10,677,995
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
Exchange-traded funds - Bonds	1,486,460	-	-	1,486,460
Pooled funds - Balanced	-	91,936	-	91,936
Pooled funds - Domestic stock	-	50,632	-	50,632
Pooled funds - Foreign equity	-	71,675	-	71,675
Pooled funds - Global allocation	-	22,332	-	22,332
Pooled funds - Bonds	-	51,445	-	51,445
Equity securities measured at net asset value				32,355
Total investments	$ 30,392,696	$ 288,020	$ -	$ 30,713,071

Note 9 - Fair Value Measurements (Continued)

The fair value of pooled funds, corporate bonds, and U.S. Treasury and U.S. agency notes at December 31, 2017 and 2016 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, 2017 and 2016, there were no transfers between levels of the fair value hierarchy.

Note 10 - 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:

- The duration and preservation of the fund
- The purpose of the Organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

	Endowment Net Asset Composition by Type of Fund as of December 31, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 526,784	$ 185,810	$ 712,594
Board-designated endowment funds	19,569,081	-	-	19,569,081
Total	$ 19,569,081	$ 526,784	$ 185,810	$ 20,281,675

Note 10 - Donor-restricted and Board-designated Endowments (Continued)

	Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - Beginning of year	$ 18,213,840	$ 486,489	$ 179,325	$ 18,879,654
Investment return:				
Investment income	773,486	-	-	773,486
Net appreciation	1,580,145	83,305	2,865	1,666,315
Total investment return	2,353,631	83,305	2,865	2,439,801
Contributions	124,490	-	3,620	128,110
Appropriation of endowment assets for expenditure	(885,506)	(43,010)	-	(928,516)
Other changes - Transfers from unrestricted - Undesignated net assets	(237,374)	-	-	(237,374)
Endowment net assets - End of year	$ 19,569,081	$ 526,784	$ 185,810	$ 20,281,675

	Endowment Net Asset Composition by Type of Fund as of December 31, 2016			
	Unrestricted	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	$ 18,213,840	$ 486,489	$ 179,325	$ 18,879,654

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

Note 10 - Donor-restricted and Board-designated Endowments (Continued)

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.

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.