Bethany Christian Services

Consolidated Financial Report
December 31, 2018

Contents

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, 2018 and 2017 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.

Opinions

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, 2018 and 2017 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.

Emphasis of Matter

As described in Note 2 to the consolidated financial statements, the Organization adopted the provisions of Accounting Standards Update No. 2016-14, *Not-for-Profit Entities*, as of December 31, 2018. Our opinion is not modified with respect to this matter.

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 26, 2019 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 26, 2019

Consolidated Statement of Financial Position

December 31, 2018 and 2017

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	$ 4,143,637	$ 3,562,701
Investments (Note 4)	28,958,055	33,692,845
Receivables - Net of allowances	13,517,067	14,144,705
Prepaid expenses and other current assets:		
Prepaid expenses	1,360,722	1,285,223
Deposits	189,629	311,868
Total current assets	48,169,110	52,997,342
Property and Equipment - Net (Note 5)	18,587,682	17,715,895
Other Assets	220,000	220,000
Investment in Unconsolidated Affiliate (Note 4)	561,518	538,148
Total assets	**$ 67,538,310**	**$ 71,471,385**
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 3,089,442	$ 2,839,164
Accrued employee compensation and benefits	6,366,302	6,453,162
Deferred revenue	2,219,169	2,544,086
Other liabilities	856,187	-
Current portion of long-term debt (Note 8)	635,865	4,831,503
Total current liabilities	13,166,965	16,667,915
Long-term Debt - Net of current portion (Note 8)	6,029,583	3,506,743
Annuities Payable (Note 6)	245,625	297,235
Total liabilities	19,442,173	20,471,893
Net Assets		
Net assets without donor restrictions:		
Undesignated	27,700,384	29,620,718
Board designated (Note 11)	17,529,809	19,569,081
Total net assets without donor restrictions	45,230,193	49,189,799
Net assets with donor restrictions (Notes 11 and 12)	2,865,944	1,809,693
Total net assets	48,096,137	50,999,492
Total liabilities and net assets	**$ 67,538,310**	**$ 71,471,385**

See notes to consolidated financial statements.

Bethany Christian Services

Consolidated Statement of Activities and Changes in Net Assets

Years Ended December 31, 2018 and 2017

	2018			2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Gains, and Other Support						
Contributions	$ 17,126,491	$ 1,937,674	$ 19,064,165	$ 16,476,922	$ 483,441	$ 16,960,363
Child support	82,531,401	-	82,531,401	74,489,333	-	74,489,333
Service fees	20,657,512	-	20,657,512	23,349,440	-	23,349,440
Investment (loss) income	(2,347,409)	(55,089)	(2,402,498)	3,874,954	95,629	3,970,583
Other income	1,382,237	-	1,382,237	1,305,526	-	1,305,526
Total revenue, gains, and other support	119,350,232	1,882,585	121,232,817	119,496,175	579,070	120,075,245
Net Assets Released from Restrictions	826,334	(826,334)	-	693,427	(693,427)	-
Total revenue, gains, other support, and net assets released from restrictions	120,176,566	1,056,251	121,232,817	120,189,602	(114,357)	120,075,245
Expenses						
Program expenses:						
Adoption	22,281,764	-	22,281,764	22,605,733	-	22,605,733
Foster care	33,988,537	-	33,988,537	30,934,269	-	30,934,269
International social services	1,671,937	-	1,671,937	1,336,642	-	1,336,642
Refugee and immigrant services	28,178,008	-	28,178,008	25,199,502	-	25,199,502
Counseling	10,753,754	-	10,753,754	10,601,627	-	10,601,627
Residential treatment	2,117,116	-	2,117,116	2,016,925	-	2,016,925
Sponsorship	882,244	-	882,244	826,860	-	826,860
Other programs	2,832,585	-	2,832,585	2,794,950	-	2,794,950
Youth services	2,572,251	-	2,572,251	2,463,194	-	2,463,194
Total program expenses	105,278,196	-	105,278,196	98,779,702	-	98,779,702
Support services:						
Management and general	11,625,750	-	11,625,750	10,989,423	-	10,989,423
Fundraising	6,376,039	-	6,376,039	5,929,597	-	5,929,597
Total support services	18,001,789	-	18,001,789	16,919,020	-	16,919,020
Total expenses	123,279,985	-	123,279,985	115,698,722	-	115,698,722
(Decrease) Increase in Net Assets - Before transfer of assets	(3,103,419)	1,056,251	(2,047,168)	4,490,880	(114,357)	4,376,523
Transfer of Assets	(856,187)	-	(856,187)	-	-	-
(Decrease) Increase in Net Assets	(3,959,606)	1,056,251	(2,903,355)	4,490,880	(114,357)	4,376,523
Net Assets - Beginning of year	49,189,799	1,809,693	50,999,492	44,698,919	1,924,050	46,622,969
Net Assets - End of year	**$ 45,230,193**	**$ 2,865,944**	**$ 48,096,137**	**$ 49,189,799**	**$ 1,809,693**	**$ 50,999,492**

See notes to consolidated financial statements.

Consolidated Statement of Functional Expense

Year Ended December 31, 2018

	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	$ 11,952,625	$ 12,972,755	$ 1,048,471	$ 146,694	$ 11,819,404	$ 5,593,399	$ 1,286,932	$ 161,405	$ 1,248,964	$ 6,321,108	$ 2,604,548	$ 55,156,305
Fringes	2,294,950	2,512,973	310,900	34,173	2,419,164	1,008,487	247,663	45,825	249,815	1,068,276	492,965	10,685,191
Taxes	876,600	951,311	75,089	10,484	872,432	411,363	95,611	11,437	91,788	444,186	189,992	4,030,293
Professional fees	637,377	239,016	254,210	53,272	1,348,733	347,074	978	143,162	117,007	1,212,182	880,492	5,233,503
Supplies	168,635	136,346	63,832	1,168	174,409	62,489	26,567	511	36,112	60,180	11,431	741,680
Telephone	313,172	294,154	9,994	2,752	261,224	142,768	5,709	1,973	19,011	49,357	26,320	1,126,434
Postage	171,690	42,301	1,602	620	18,819	26,850	1,008	2,480	3,354	68,866	135,826	473,416
Occupancy	1,591,886	1,251,728	161,422	6,581	1,237,227	643,001	63,700	604	13,143	273,233	143,042	5,385,567
Printing	149,092	43,563	1,779	274	25,733	95,577	469	9,082	35,428	38,297	403,291	802,585
Information technology	438,192	479,180	43,698	10,155	489,694	177,286	44,778	4,358	29,078	20,142	64,204	1,800,765
Equipment and furnishings	252,494	142,531	16,167	-	167,372	46,374	17,346	304	32,200	71,528	26,766	773,082
Travel	787,243	1,146,289	35,169	49,236	756,273	483,663	27,016	52,372	139,659	527,996	290,447	4,295,363
Conferences and meetings	220,259	221,964	17,591	1,643	170,498	75,388	6,773	300	50,587	209,384	32,982	1,007,369
Advertising	694,623	348,851	7,396	-	114,982	569,884	448	24,953	32,646	383,760	29,014	2,206,557
Special assistance	835,342	12,859,015	495,003	-	8,015,223	937,264	212,255	2,690	120,047	-	11	23,476,850
Overseas contributions	111,753	-	-	1,200,479	-	-	-	332,549	201,887	-	-	1,846,668
Program development	57	-	-	-	617	-	-	-	7,533	-	74	8,281
Payment processing fees	268,327	2,331	11	1,505	579	21,359	-	5,241	42,897	2,808	2,992	348,050
Educational and promotional materials	9,860	9,193	29	827	5,912	9,970	541	83	19,274	183,639	6,822	246,150
Miscellaneous fund raising	-	-	-	-	-	-	-	-	67,714	-	952,747	1,020,461
Bad debt	45,672	22,058	-	-	-	14,141	10,677	-	(1)	-	-	92,547
Miscellaneous	323,438	172,166	7,912	151,317	70,179	43,715	15,500	1,310	137,932	228,146	48,853	1,200,468
Depreciation	138,477	140,812	21,976	757	209,534	43,702	53,145	81,605	136,510	462,662	33,220	1,322,400
Total Operating Expenses	**$ 22,281,764**	**$ 33,988,537**	**$ 2,572,251**	**$ 1,671,937**	**$ 28,178,008**	**$ 10,753,754**	**$ 2,117,116**	**$ 882,244**	**$ 2,832,585**	**$ 11,625,750**	**$ 6,376,039**	**$ 123,279,985**

Consolidated Statement of Functional Expense

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**

Consolidated Statement of Cash Flows

Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
(Decrease) increase in net assets	$ (2,903,355)	$ 4,376,523
Adjustments to reconcile (decrease) increase in net assets to net cash and cash equivalents from operating activities:		
Depreciation	1,322,400	1,312,657
Loss on disposal of property and equipment	3,230	69,497
Bad debt expense	92,547	109,858
Net realized and unrealized losses (gains) on investments	3,793,400	(2,679,949)
Earnings on unconsolidated affiliate	(92,370)	(42,335)
Distributions from unconsolidated affiliate	69,000	64,000
Net present value adjustment of annuities payable	(21,081)	27,754
Donor permanent endowment contributions	(4,577)	(3,620)
Changes in operating assets and liabilities that provided (used) cash and cash equivalents:		
Receivables	535,091	(1,039,990)
Prepaid expenses and other assets	46,740	(554,029)
Accounts payable	250,278	176,350
Accrued and other liabilities	769,327	929,436
Deferred revenue	(324,917)	(292,706)
Net cash and cash equivalents provided by operating activities	3,535,713	2,453,446
Cash Flows from Investing Activities		
Purchase of property and equipment	(2,198,537)	(2,595,486)
Proceeds from disposition of property and equipment	1,120	911,333
Purchases of investments	(795,946)	(3,786,856)
Proceeds from sales and maturities of investments	1,737,336	3,487,031
Net cash and cash equivalents used in investing activities	(1,256,027)	(1,983,978)
Cash Flows from Financing Activities		
Proceeds from debt	1,654,670	864,168
Payments on debt	(3,327,468)	(1,118,727)
Payments on annuities payable	(30,529)	(39,986)
Payments on revolving credit facilities	8,500,000	750,000
Draws on revolving credit facilities	(8,500,000)	(750,000)
Permanently restricted contributions received	4,577	3,620
Net cash and cash equivalents used in financing activities	(1,698,750)	(290,925)
Net Increase in Cash and Cash Equivalents	580,936	178,543
Cash and Cash Equivalents - Beginning of year	3,562,701	3,384,158
Cash and Cash Equivalents - End of year	**$ 4,143,637**	**$ 3,562,701**
Supplemental Cash Flow Information - Cash paid for interest	$ 237,553	$ 185,722

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 38 home offices in 36 states plus Washington, D.C., with the central business office located in Grand Rapids, Michigan. Approximately 68 and 62 percent of operating revenue in 2018 and 2017, 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, 2018 and 2017, 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 net assets without donor restrictions unless their use is 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 $203,031 and $200,000 at December 31, 2018 and 2017, 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.

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, 2018 and 2017.

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 incurred.

Classification of Net Assets

Net assets of the Organization are classified based on the presence or absence for donor-imposed restrictions.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions or the donor-imposed restrictions have expired or been fulfilled. Net assets in this category may be expended for any purpose in performing the primary objectives of the Organization.

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

Earnings, gains, and losses on donor-restricted net assets are classified as net assets without donor restrictions 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 and contributions with donor-imposed time or purpose restrictions that are met in the same period as the gift are both reported as contributions without donor restrictions.

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 postplacement 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 financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Organization. Those expenses include salaries and wages, employee benefits, depreciation, and occupancy expenses. Salaries, wages, and associated employee benefits are allocated based on estimates of time and effort. Depreciation and occupancy expenses are allocated based on square footages. All other expenses are allocated based on direct identification and utilization. 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).

Advertising Expense

Advertising expense is charged to income during the year in which it is incurred. Advertising expense for 2018 and 2017 was $2,206,557 and $2,256,611, respectively.

Transfer of Assets

On November 1, 2018, Bethany Christian Services of Mississippi (BCSM) entered into an assignment and assumption agreement with a third-party nonprofit based in Alabama that provides adoption-related services in Alabama and Mississippi. The agreement transfers certain assets and liabilities of BCSM to this third-party organization. Operating revenue and expenses are those directly related to the purpose and primary mission of the Organization; therefore, the transfer of assets was reported as nonoperating expenses.

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 2 - Significant Accounting Policies (Continued)

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, 2018 and 2017.

Reclassification

Certain 2017 amounts have been reclassified to conform to the 2018 presentation.

Adoption of New Accounting Pronouncement

As of December 31, 2018, the Organization adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities*. This standard requires net assets to be classified in two categories, net assets without donor restrictions and net assets with donor restrictions, rather than the three previous classifications. In addition, the underwater portion of donor-restricted endowments is now reported as net assets with donor restrictions. This standard also requires changes in the way certain information is aggregated and reported by the Organization, including disclosures of quantitative and qualitative information about the liquidity and availability of resources and the presentation of expenses by both functional and natural classification. The standard also clarifies the definition of management and general and prohibits certain expenses from being allocated out of management and general. As a result of the adoption of this standard, the financial information for the year ended December 31, 2017 has been restated, as follows: net assets of $1,623,883 previously reported as temporarily restricted net assets and net assets of $185,810 previously reported as permanently restricted net assets have been combined into net assets with donor restrictions.

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 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 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 either the beginning of the earliest period presented or the beginning of the year of adoption. 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 2 - Significant Accounting Policies (Continued)

In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The accounting guidance will result in more governmental contracts being accounted for as contributions and may delay revenue recognition for certain grants and contributions that no longer meet the definition of unconditional. The new guidance will be effective for the Organization's year ending December 31, 2020 and will be applied on a modified prospective basis. The Organization does not expect the standard to have a significant impact on the timing of revenue recognition for government grants and contracts but has not yet determined the impact on the timing of recognition of foundation and individual grants and contributions.

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including March 26, 2019, which is the date the consolidated financial statements were available to be issued.

Note 3 - Liquidity and Availability of Resources

The following reflects the Organization's financial assets as of the consolidated statement of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the consolidated statement of financial position date.

	2018	2017
Cash and cash equivalents	$ 4,143,637	$ 3,562,701
Accounts receivable - Net	13,517,067	14,144,705
Investments	28,958,055	33,692,845
Financial assets - At year end	46,618,759	51,400,251
Less those unavailable for general expenditures within one year, due to contractual or donor-imposed restrictions:		
Restricted by donor with time or purpose restrictions	1,424,941	588,904
Restricted by donors in perpetuity	188,723	185,810
Less amounts unavailable to management without board approval - Board-designated endowments	16,653,319	18,590,627
Financial assets available to meet cash needs for general expenditures within one year	$ 28,351,776	$ 32,034,910

The Organization's endowment funds consist of donor-restricted endowments and board-designated quasi-endowments. Income from donor-restricted endowments is not restricted for specific purposes and is available for general expenditure. As described in Note 11, the Organization applies a spending rate of 5 percent; therefore, $876,490 and $978,454 of appropriations from the endowment will be available within the next 12 months as of December 31, 2018 and 2017, respectively. Although the Organization does not intend to spend from its quasi-endowment other than amounts appropriated for general expenditure as part of its annual budget approval and appropriation process, amounts from its quasi-endowment could be made available if necessary.

The Organization's cash flows have seasonal variations during the year attributable to service reimbursement from various governmental entities and a concentration of approximately 40 percent of contributions received in the fourth quarter. The Organization maintains a $5 million unsecured line of credit that can be drawn upon to manage liquidity needs.

Note 4 - Investments

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

	2018	2017
Mutual funds	$ 22,504,415	$ 26,342,411
Pooled funds	264,853	320,299
Exchange-traded funds	6,188,787	7,030,135
Subtotal	28,958,055	33,692,845
Investment in unconsolidated affiliate	561,518	538,148
Total	$ 29,519,573	$ 34,230,993

Investment (loss) income consists of the following:

	2018	2017
Interest and dividends	$ 1,391,467	$ 1,279,847
Realized and unrealized (losses) gains	(3,793,965)	2,690,736
Total	$ (2,402,498)	$ 3,970,583

During 2005, the Organization purchased a 40 percent minority interest in a limited liability company for $802,060. This investment in the unconsolidated affiliate is accounted for using the equity method of accounting. The Organization recognized income of approximately $49,000 and $42,000 and received a distribution of $69,000 and $64,000 for the years ended December 31, 2018 and 2017, respectively. The Organization is the sole tenant of the real estate limited liability company and has incurred lease expenses of $179,346 in 2018 and $174,123 in 2017 related to an operating lease entered into in conjunction with the investment.

Note 5 - Property and Equipment

Property and equipment are summarized as follows:

	2018	2017
Land	$ 1,456,935	$ 1,431,935
Land improvements	1,516,713	1,516,713
Buildings and improvements	22,073,129	20,947,064
Transportation equipment	591,794	565,551
Furniture and fixtures	8,586,070	7,811,840
Construction in progress	553,785	381,722
Total cost	34,778,426	32,654,825
Accumulated depreciation	16,190,744	14,938,930
Net property and equipment	$ 18,587,682	$ 17,715,895

Depreciation expense for 2018 and 2017 was $1,322,400 and $1,312,657, respectively.

As of December 31, 2018, the Organization has $2,300,000 of open commitments related to capital expenditures.

Note 6 - 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, 2018 and 2017, the Organization recorded $245,625 and $297,235, respectively, in annuities payable relating to such program.

Note 7 - Operating Leases

The Organization is obligated under operating leases primarily for office space and certain equipment and vehicles that expire through 2023.

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

Years Ending December 31	Amount
2019	$ 3,705,884
2020	2,660,259
2021	1,662,687
2022	1,121,147
2023	784,221
Total	$ 9,934,198

Total rent expense on these leases for 2018 and 2017 was $3,470,409 and $3,078,862, respectively.

Note 8 - 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, 2018 and 2017. The line of credit bears interest at LIBOR, plus 1.75 percent (an effective rate of 4.25 and 3.31 percent at December 31, 2018 and 2017, respectively). The line of credit is collateralized by the Organization's brokerage accounts and expires on May 9, 2019.

As of December 31, 2018 and 2017, the Organization had outstanding notes payable as follows:

	2018	2017
Barnabas Foundation note payable with principal payable upon the termination of the loan and interest due quarterly. During 2018, the note was amended to accrue interest at a fixed interest rate of 3.0 percent. In 2017, interest accrued at a variable rate of LIBOR plus 1 percent (an effective rate of 2.56 percent at December 31, 2017). The loan matures on June 21, 2020 and is unsecured	$ 1,500,000	$ 1,500,000
Holland building promissory note collateralized by the Holland property 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 percent at December 31, 2017). The loan was paid off in 2018	-	1,354,670
Holland building promissory note payable in monthly principal installments of $10,860, including interest at a fixed rate of 5.0 percent. The loan matures on July 5, 2023 and is collateralized by the Holland property	1,635,898	-

Note 8 - Long-term Debt and Line of Credit (Continued)

	2018	2017
Term loan payable in monthly principal installments of $57,350, plus interest at LIBOR plus 1.75 percent (an effective rate of 4.25 and 3.31 percent at December 31, 2018 and 2017, respectively). The loan matures on February 29, 2023 and is unsecured	$ 2,809,550	$ 3,381,834
52nd Street promissory note collateralized by the 52nd Street property, 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 percent at December 31, 2017). The loan was paid off in 2018	-	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	6,665,448	8,338,246
Less current portion	635,865	4,831,503
Long-term portion	$ 6,029,583	$ 3,506,743

The balance of the above debt matures as follows:

Years Ending	Amount
2019	$ 635,865
2020	2,162,424
2021	690,545
2022	719,634
2023	1,736,980
Thereafter	720,000
Total	$ 6,665,448

Interest expense for the line of credit and long-term debt totaled $237,553 and $185,722 for 2018 and 2017, 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 9 - Employee Benefit 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

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 not made for 2018. The contribution was made for 2017.

The Organization made contributions of $1,669,456 and $2,028,936 to the plan for the years ended December 31, 2018 and 2017, respectively.

Note 10 - 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, 2018 and 2017 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.

Note 10 - Fair Value Measurements (Continued)

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2018			
	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, 2018
Assets				
Investments:				
Mutual funds - Domestic stock	$ 6,534,384	$ -	$ -	$ 6,534,384
Mutual funds - Foreign stock	4,469,797	-	-	4,469,797
Mutual funds - Bonds	10,906,220	-	-	10,906,220
Mutual funds - Real estate	594,014	-	-	594,014
Exchange-traded funds - Domestic stock	3,430,312	-	-	3,430,312
Exchange-traded funds - Foreign stock	1,719,140	-	-	1,719,140
Exchange-traded funds - Real estate	1,039,335	-	-	1,039,335
Pooled funds - Balanced	-	80,375	-	80,375
Pooled funds - Domestic stock	-	37,005	-	37,005
Pooled funds - Foreign equity	-	56,748	-	56,748
Pooled funds - Bonds	-	45,101	-	45,101
Equity securities measured at net asset value				45,624
Total investments	$ 28,693,202	$ 219,229	$ -	$ 28,958,055

	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

The fair value of pooled funds at December 31, 2018 and 2017 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.

Note 10 - Fair Value Measurements (Continued)

The Organization’s policy is to recognize transfers in and transfers between levels of the fair value hierarchy as of the end of the reporting period. For the years ended December 31, 2018 and 2017, there were no transfers between levels of the fair value hierarchy.

Note 11 - 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 Organization is subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the board of directors appropriates such amounts for expenditures. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The board of directors of the Organization had interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Organization considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund, and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Organization has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, 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, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	$ 17,529,809	$ -	$ 17,529,809
Donor-restricted endowment funds:	-	633,121	633,121
Total	$ 17,529,809	$ 633,121	$ 18,162,930

Note 11 - Donor-restricted and Board-designated Endowments (Continued)

	Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	$ 19,569,081	$ 712,594	$ 20,281,675
Investment return:			
Investment income	834,368	-	834,368
Net depreciation	(2,347,971)	(55,820)	(2,403,791)
Total investment return	(1,513,603)	(55,820)	(1,569,423)
Contributions	612,604	4,573	617,177
Appropriation of endowment assets for expenditure	(878,997)	(28,226)	(907,223)
Other changes - Transfers to net assets without donor restrictions - Undesignated	(259,276)	-	(259,276)
Endowment net assets - End of year	$ 17,529,809	$ 633,121	$ 18,162,930

	Endowment Net Asset Composition by Type of Fund as of December 31, 2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	$ 19,569,081	$ -	$ 19,569,081
Donor-restricted endowment funds:	-	712,594	712,594
Total	$ 19,569,081	$ 712,594	$ 20,281,675

	Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets - Beginning of year	$ 18,213,840	$ 665,814	$ 18,879,654
Investment return:			
Investment income	773,486	-	773,486
Net appreciation	1,580,145	86,170	1,666,315
Total investment return	2,353,631	86,170	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 to net assets without donor restrictions - Undesignated	(237,374)	-	(237,374)
Endowment net assets - End of year	$ 19,569,081	$ 712,594	$ 20,281,675

Note 11 - 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 rate of return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to grow an average of 3 percent annual. The Organization has a policy that permits spending from underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations.

Note 12 - Net Assets

Net assets with donor restrictions as of December 31 are available for the following purposes:

	2018	2017
Subject to expenditures for a specified purpose:		
Term endowments	$ 440,954	$ 504,279
Accumulated earnings on donor endowments	58,752	84,625
Washington Foster Care	158,375	-
Unaccompanied Children Crisis	1,082,099	-
Total subject to expenditures for a specified purpose	1,740,180	588,904
Subject to the passage of time - Pledges	937,041	1,034,979
Subject to the Organization's spending policy and appropriation - Donor endowment	188,723	185,810
Total	$ 2,865,944	$ 1,809,693