Children's Place Association
and Its Affiliated Organizations

Independent Auditor's Report and Consolidated Financial Statements

June 30, 2019 and 2018

BKD

CPAs & Advisors

Children’s Place Association
and Its Affiliated Organizations
June 30, 2019 and 2018

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Board of Directors
Children's Place Association
and Its Affiliated Organizations
Chicago, Illinois

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Children's Place Association and Its Affiliated Organizations (collectively, the Association), which comprise the consolidated statements of financial position as of June 30, 2019, and the related consolidated statements of activities, functional expenses and cash flows, for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 audit 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 Association'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 Association'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.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Association as of June 30, 2019, and the change in their net assets and the cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 12 to the consolidated financial statements, in 2019, the Association adopted Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Prior Year Audited by Other Auditors

The 2018 consolidated financial statements were audited by other auditors, and their report thereon, dated March 27, 2019, expressed an unmodified opinion.

Other Reports Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2020, on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely 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 effectiveness of the Association's 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 the Association's internal control over financial reporting and compliance.

BKD, LLP

Oakbrook Terrace, Illinois
October 23, 2020

Children's Place Association
and Its Affiliated Organizations
Consolidated Statements of Financial Position
June 30, 2019 and 2018

Assets

	2019	2018
Current Assets		
Cash and cash equivalents	$ 320,318	$ 231,363
Accounts receivable, net of allowance for doubtful accounts of $0 at June 30, 2019 and $25,000 at June 30, 2018	868,361	1,108,594
Pledges receivable, net	16,500	53,620
Interest receivable	1,458	1,458
Investments	1,460,843	1,387,482
Prepaid expenses	37,765	85,429
Deposits	236,271	215,869
Total current assets	2,941,516	3,083,815
Property and Equipment		
Land	271,110	271,110
Buildings and improvements	8,065,765	8,006,546
Furniture and fixtures	297,815	297,815
Equipment	603,233	547,214
Construction in progress	124,044	124,044
	9,361,967	9,246,729
Less accumulated depreciation	3,342,879	3,054,140
	6,019,088	6,192,589
Other Assets		
Investments held for deferred compensation plan	110,761	99,372
Total assets	$ 9,071,365	$ 9,375,776

Liabilities and Net Assets

	2019	2018
Current Liabilities		
Accounts payable	$ 78,634	$ 158,123
Line of credit	200,000	125,000
Current maturities of notes payable	46,403	45,566
Accrued payroll and payroll taxes	306,210	259,152
Other accrued liabilities	107,266	113,245
Total current liabilities	738,513	701,086
Long-Term Liabilities		
Deferred compensation plan liability	110,761	99,372
Notes payable, less current maturities	529,246	574,011
	640,007	673,383
Total liabilities	1,378,520	1,374,469

Net Assets

	2019	2018
Net assets without donor restrictions		
Undesignated	1,586,708	1,834,696
Net investment in property and equipment	5,443,439	5,573,013
Total net assets without donor restrictions	7,030,147	7,407,709
Net assets with donor restrictions	662,698	593,598
Total net assets	7,692,845	8,001,307
Total liabilities and net assets	$ 9,071,365	$ 9,375,776

Children's Place Association
and Its Affiliated Organizations
Consolidated Statements of Activities
Years Ended June 30, 2019 and 2018

	2019	2018
Net Assets Without Donor Restrictions		
Revenue, gains and other support		
Revenue and grants from government agencies	$ 6,466,186	$ 6,151,138
Contributions for programs, restrictions met in current year	618,473	191,358
Special events	439,667	636,781
Other grants and contributions	-	104,069
Investment income, net	90,945	104,254
Fees and other revenues	478,053	297,234
Net assets released from restrictions	5,800	493,807
Total revenue, gains and other support	8,099,124	7,978,641
Expenses		
Program services	6,966,810	6,624,669
Supporting services		
Management and general	866,365	698,148
Fundraising	643,511	659,792
Total supporting services	1,509,876	1,357,940
Total expenses	8,476,686	7,982,609
Change in Net Assets Without Donor Restrictions	(377,562)	(3,968)
Net Assets With Donor Restrictions		
Contributions	74,900	255,204
Net assets released from restrictions	(5,800)	(493,807)
Change in net assets with donor restrictions	69,100	(238,603)
Change in Net Assets	(308,462)	(242,571)
Net Assets, Beginning of Year	8,001,307	8,243,878
Net Assets, End of Year	$ 7,692,845	8,001,307

Children's Place Association and Its Affiliate Organization

Consolidated Statement of Functional Expenses

Year Ended June 30, 2019

	Program Services				
	Residential Care	Family and Community	West Humboldt Place	Foster Care Specialized	Foster Care Traditional
Functional Expenses					
Salaries	$ 553,782	$ 137,784	$ 42,037	$ 606,806	$ 151,701
Employee benefits	104,453	35,005	27,160	99,278	24,820
Payroll taxes, etc.	30,925	6,211	-	36,491	9,123
Total salaries and related expenses	689,160	179,000	69,197	742,575	185,644
Professional fees, including nurses' salaries and related expenses of approximately $711,859	319,104	17,734	2,143	242,306	60,577
Supplies	53,624	12,273	4,269	24,869	6,217
Telephone	26,945	21,980	7,959	9,265	2,316
Postage and shipping	328	684	-	1,941	485
Occupancy	96,841	34,627	78,642	128,138	32,034
Interest and bank service charges	448	30	35	-	-
Rental and maintenance of equipment	4,446	356	-	-	-
Printing and publications	148	129	-	57	14
Travel and transportation	13,784	10,215	1,776	78,598	19,649
Conference, conventions and meetings	4,254	1,120	24	2,277	569
Specific assistance to individuals	450	23,819	574	439,219	109,804
Membership dues	399	778	630	342	85
Insurance	10,331	259	1,982	12,281	3,070
Other expenses	3,919	3,777	1,075	3,499	875
Special event - cost of direct benefit to participants	-	110	-	-	-
Depreciation and amortization	119,387	11,188	135,652	1,742	436
Bad debt expense	-	-	-	-	-
Total expenses included in the expense section on the consolidated statement of activities	$ 1,343,568	$ 318,079	$ 303,958	$ 1,687,107	$ 421,777

Program Services			Supporting Services			
Early Learning Programs	International	Total	Management and General	Fundraising	Total	Total
$ 1,333,349	$ 247,936	$ 3,073,395	$ 296,165	$ 241,538	$ 537,703	$ 3,611,098
210,692	21,029	522,437	33,776	27,546	61,322	583,759
87,523	18,311	188,584	22,918	18,691	41,609	230,193
1,631,564	287,276	3,784,416	352,859	287,775	640,634	4,425,050
270,659	33,938	946,461	77,768	107,300	185,068	1,131,529
99,116	10,425	210,793	42,532	94,699	137,231	348,024
20,027	5,157	93,649	6,017	4,454	10,471	104,120
1,597	790	5,825	3,391	3,311	6,702	12,527
146,780	4,339	521,401	18,626	9,736	28,362	549,763
-	413	926	43,608	7,320	50,928	51,854
-	72	4,874	-	-	-	4,874
71	609	1,028	607	62,879	63,486	64,514
19,395	29,618	173,035	2,088	2,310	4,398	177,433
5,810	85	14,139	1,801	139	1,940	16,079
16,880	226,197	816,943	564	1,586	2,150	819,093
1,344	265	3,843	20,318	1,345	21,663	25,506
7,761	7,508	43,192	45,024	983	46,007	89,199
7,958	302	21,405	46,945	1,000	47,945	69,350
-	37,259	37,369	-	58,487	58,487	95,856
18,319	787	287,511	1,041	187	1,228	288,739
-	-	-	203,176	-	203,176	203,176
$ 2,247,281	$ 645,040	$ 6,966,810	$ 866,365	$ 643,511	$ 1,509,876	$ 8,476,686

Children's Place Association
and Its Affiliated Organizations
Consolidated Statement of Functional Expenses
Year Ended June 30, 2018

	Program Services				
	Residential Care	Family and Community	West Humboldt Place	Foster Care Specialized	Foster Care Traditional
Functional Expenses					
Salaries	$ 492,555	$ 187,597	$ 47,037	$ 561,294	$ 136,910
Employee benefits	49,941	28,938	11,907	64,137	16,035
Payroll taxes, etc.	64,432	11,022	-	39,875	9,969
Total salaries and related expenses	606,928	227,557	58,944	665,306	162,914
Professional fees, including nurses' salaries and related expenses of approximately $602,093	511,418	24,446	17,170	222,922	71,090
Supplies	34,308	11,621	2,154	21,993	5,528
Telephone	18,598	5,236	11,679	10,783	2,696
Postage and shipping	1,065	761	-	1,982	496
Occupancy	80,595	88,727	26,669	55,013	13,753
Interest and bank service charges	2,006	1,212	69	356	89
Rental and maintenance of equipment	3,468	3,314	-	3,777	944
Printing and publications	111	206	36	391	97
Travel and transportation	9,398	13,685	4,320	73,493	22,716
Conference, conventions and meetings	1,987	405	711	6,988	1,747
Specific assistance to individuals	1,727	18,528	252	432,664	102,440
Membership dues	22	25	375	12	4
Insurance	10,518	1,187	8,114	10,418	98
Other expenses	4,116	4,897	1,014	5,900	1,475
Special event - cost of direct benefit to participants	-	-	-	-	-
Depreciation and amortization	46,981	36,594	123,140	12,344	3,086
Bad debt expense	-	-	2,779	-	-
Total expenses included in the expense section on the consolidated statement of activities	$ 1,333,246	$ 438,401	$ 257,426	$ 1,524,342	$ 389,173

Program Services			Supporting Services			
Early Learning Programs	International	Total	Management and General	Fundraising	Total	Total
$ 1,189,994	$ 261,939	$ 2,877,326	$ 219,320	$ 224,771	$ 444,091	$ 3,321,417
107,211	21,017	299,186	40,216	26,370	66,586	365,772
102,148	17,939	245,385	56,996	23,778	80,774	326,159
1,399,353	300,895	3,421,897	316,532	274,919	591,451	4,013,348
223,253	91,522	1,161,821	157,684	71,742	229,426	1,391,247
120,879	13,206	209,689	56,016	26,133	82,149	291,838
29,678	8,889	87,559	12,148	4,431	16,579	104,138
1,927	864	7,095	1,738	2,416	4,154	11,249
108,699	26,337	399,793	40,995	18,914	59,909	459,702
3,202	1,214	8,148	16,713	4,746	21,459	29,607
30,124	958	42,585	3,284	3,671	6,955	49,540
241	3,672	4,754	191	17,758	17,949	22,703
20,947	31,571	176,130	5,166	3,561	8,727	184,857
13,015	27	24,880	1,840	74	1,914	26,794
13,924	132,497	702,032	531	-	531	702,563
518	244	1,200	9,768	2,087	11,855	13,055
6,898	4,889	42,122	15,258	-	15,258	57,380
13,656	573	31,631	49,844	167	50,011	81,642
-	-	-	-	226,169	226,169	226,169
76,818	1,591	300,554	10,153	3,004	13,157	313,711
-	-	2,779	287	-	287	3,066
$ 2,063,132	$ 618,949	$ 6,624,669	$ 698,148	$ 659,792	$ 1,357,940	$ 7,982,609

Children's Place Association
and Its Affiliated Organizations
Consolidated Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Operating Activities		
Change in net assets	$ (308,462)	$ (242,571)
Items not requiring (providing) cash		
Depreciation and amortization	288,739	313,711
Provision for losses on accounts receivable	203,176	3,066
Net realized and unrealized gains on investments	(10,593)	(23,853)
Changes in		
Accounts receivable	37,057	(473,299)
Pledges receivable	37,120	56,380
Interest receivable	-	(194)
Prepaid expenses	47,664	(9,468)
Deposits	(20,402)	105,596
Accounts payable	(79,489)	75,584
Accrued payroll and payroll taxes	47,058	3,576
Deferred compensation plan liability	11,389	-
Other accrued liabilities	(5,979)	(287,260)
Net cash provided by (used in) operating activities	247,278	(478,732)
Investing Activities		
Purchase of property and equipment	(115,238)	(148,928)
Purchases of investments	(74,157)	(87,575)
Net cash used in investing activities	(189,395)	(236,503)
Financing Activities		
Net borrowings (repayments) under line of credit	75,000	(50,000)
Proceeds on long-term notes payable	-	405,060
Payments on long-term notes payable	(43,928)	(35,081)
Net cash provided by financing activities	31,072	319,979
Increase (Decrease) in Cash and Cash Equivalents	88,955	(395,256)
Cash and Cash Equivalents, Beginning of Year	231,363	626,619
Cash and Cash Equivalents, End of Year	$ 320,318	$ 231,363
Supplemental Cash Flow Information		
Interest Paid	$ 25,872	$ 13,679

Note 1: Description of Program and Supporting Services

The following programs and supporting services are included in the accompanying consolidated financial statements:

Residential Care Program

The 10-bed residential center is a transitional home for children with serious or life-threatening conditions. When a child's illness or the illness or absence of a parent necessitate placement in the home, social work and nursing staff assess the child's needs and attempt to reunite the child with his/her family, or to find another permanent family for him/her. Approximately 30 children are served in the residence each year.

Family and Community Services

Family and Community Services strengthens health compromised families in their efforts to remain together, by providing services such as supportive housing, counseling, case management, summer camp, and support groups. Approximately 200 individuals from 100 families in the community are served in Family and Community Services. Nine very low income and health compromised families live in subsidized apartments owned by the Housing Corporation or leased by the Association. Thirteen additional families currently live in West Humboldt Place.

West Humboldt Place

The West Humboldt Place is a 13-unit apartment building offering supportive housing for families challenged by serious illness and homelessness.

Foster Care Program - Specialized Traditional Adoption

The Foster Care Program addresses the needs of children unable to return to their birth families and in need of a foster or adoptive home. The goal of the Foster Care Program is to see that every child grows up in a stable and loving family. To that end, staff works to reunite children with their birth families whenever possible and assist their foster families in adopting them if parental rights are terminated. Approximately 80 children are served in foster care each year.

Early Learning Programs

The Early Learning Center serves 133 children from infancy through age five in a center-based and a home-based early childhood education program. Priority is given to children from very low-income families where either the child or parent or both are living with a serious health condition.

International Program

Children's Place International partners with front line organizations to provide health, nutrition, and education to approximately 4,400 individuals in Haiti, Kenya, Tanzania, and Zambia.

Management and General

Includes the functions necessary to maintain an equitable employment program; ensure an adequate working environment; provide coordination and articulation of the Association's program strategy through the office of the executive director; secure proper administrative functioning of the board of directors; maintain competent legal services for the program administration of the Association; and manage the financial and budgetary responsibilities of the Association.

Fundraising

Provides the structure necessary to encourage and secure private financial support from individuals, foundations, and corporations and to organize and manage the Association's special events.

Note 2: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Children's Place Association (the Association) was incorporated on April 10, 1989, in the State of Illinois under the *General Not-For-Profit Corporation Act of Illinois*. The mission of the Association is to build a secure and hopeful today so children facing health issues and poverty succeed tomorrow. The Association's five Affiliated Organizations - The Children's Place Housing Corporation, The Children's Place Home Health Corporation, The Children's Place Foundation, The Children's Place International NFP and Children's Place Community Living LLC were incorporated under the *Illinois General Not-For-Profit Corporation Act* in 1996, 1997, 1999, 2008 and 2011, respectively, to support the Association and its programs.

The Association is the only agency of its kind in the Midwest and serves children from the greater Chicago metropolitan area. The Association's revenues are derived primarily from various governmental agencies and the Association's accounts receivables consist of amounts due primarily from the State of Illinois. The Association's fiscal year ends on June 30. Significant accounting policies followed by the Association are presented below.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Association and its five Affiliated Organizations that it controls through common management, board membership, and economic interest. Inter-organization transactions and balances have been eliminated in consolidation. The Affiliated Organizations of the Association are as follows:

The Children's Place Housing Corporation

The purpose of The Children’s Place Housing Corporation (Housing Corporation) is to own all real property for the Association and any other of its Affiliated Organizations. The Housing Corporation charges a fee to the Association for the Association’s use of the properties in running its programs.

The Children's Place Home Health Corporation

The purpose of The Children’s Place Home Health Corporation (Health Corporation) is to provide skilled nursing and ancillary services to children in programs of the Association. The Health Corporation charges the Association for the costs of the skilled nursing provided to the Association’s programs.

Children's Place Community Living LLC

The purpose of Children’s Place Community Living LLC is to own and operate a facility to provide supportive housing for 13 low-income families living with disabilities or chronic illness. The name of this facility is West Humboldt Place.

The Children's Place Foundation

The Children’s Place Foundation (the Foundation) raises the funds for the Association and its Affiliated Organizations. It also manages the Association’s investments. The Foundation charges a fee to the Association and related organizations for its fundraising and fund management activities.

The Children's Place International NFP

Children’s Place International advances equitable access to health, education and opportunity so children and youth can grow to contribute their gifts to their communities, communities and the world.

Use of Estimates

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

Cash Equivalents

The Association considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents. At June 30, 2019 and 2018, cash equivalents consist of interest earning money market accounts. The Association maintains its cash and cash equivalents on deposit with various financial institutions and investment companies, which at times may exceed federally insured limits.

Accounts Receivable

Accounts receivable are uncollateralized funding source obligations, which are generally paid within 30 days from the billing date. Accounts receivable are stated at the invoice amount.

Payments of accounts receivable are generally applied to the specific invoices identified on the funding source's remittance advice or, in some cases, to the earliest unpaid invoices.

The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. The allowance for doubtful accounts is based on management's assessment of the collectability of specific funding source accounts and the aging of accounts receivable. If actual collections are lower than historical experience, management's estimates of the recoverability of recorded amounts due the Association could be adversely affected. All accounts or portions thereof deemed to be uncollectible or to require an excessive collection cost are written off to the allowance for doubtful accounts.

Pledges Receivable

Pledges receivable are unconditional promises to give and are recognized as revenues or gains in the period that the pledge is made and as net assets, decreases in liabilities or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Investments

Investments are carried at fair value with gains and losses included in the consolidated statements of activities. Donated securities are recorded at market value on the date received or at nominal value when the market value is not readily available.

Property and Equipment

Acquisitions of property and equipment in excess of $500 and expenditures that materially increase the value of the assets or prolong their useful lives are capitalized.

The Association depreciates its property and equipment on the straight-line method over the following estimated useful lives:

Building and improvements	5 - 40 years
Furniture and fixtures	5 to 10 years
Equipment	3 to 10 years

Long-Lived Asset Impairment

The Association evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended June 30, 2019 and 2018.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor or certain grantor restrictions.

Net assets with donor restrictions are subject to donor or certain grantor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other restrictions are perpetual in nature, where the donor or grantor stipulates that resources be maintained in perpetuity.

Contributions

Contributions are provided to the Association either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
Conditional gifts, with or without restriction	
Gifts that depend on the Association overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, *i.e.* the donor-imposed barrier is met
Unconditional gifts, with or without restriction	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor-stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Gifts and investment income having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

Conditional contributions having donor stipulations which are satisfied in the period the gift is received are recorded as revenue and net assets without donor restrictions.

Revenue and Grants From Government Agencies

Support funded by grants is recognized as the Organization meets the conditions prescribed by the grant agreement, performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Income Taxes

The Association and its Affiliated Organizations is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Association and its Affiliated Organizations is subject to federal income tax on any unrelated business taxable income.

The Association and its Affiliated Organizations file tax returns in the U.S. federal jurisdiction.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Certain costs have been allocated among the program, management and general and fundraising categories based on salaries, square footage and other methods.

Change in Accounting Principle

In 2019, the Organization, adopted ASU 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. See Note 12 for more information on this change.

Note 3: Pledges Receivable

Pledges receivable at June 30, 2019 and 2018, are all classified as current. Based on management's assessment of the collectability of specific promises to give, no provision has been made for uncollectible amounts as of June 30, 2019 and 2018.

Note 4: Line of Credit

The Association has a line of credit agreement that provides borrowing of up to $450,000, under which $200,000 and $125,000 was outstanding at June 30, 2019 and 2018, respectively. The line of credit agreement is dated May 5, 2019, and matured May 5, 2020. The agreement has an auto renewal where each year on the anniversary date the maturity date is automatically extended for a period of one year unless the lender gives notice at least 30 days prior to anniversary date, and therefore, was auto renewed until May 5, 2021. Amounts drawn against the line of credit are payable on demand and bear interest at prime (5.50% and 5.00% at June 30, 2019 and 2018, respectively), subject to a 4.00% minimum rate. The line of credit is collateralized by substantially all of the Association's assets.

Note 5: Long-Term Debt

At June 30, 2019 and 2018, mortgage and term notes payable consist of the following:

	2019	2018
Illinois Housing Development Authority, term note, monthly payments of $1,608, including interest at 1.00% per year, due in December 2021, secured by property on Augusta Boulevard in Chicago, Illinois	$ 49,195	$ 67,900
Illinois Housing Development Authority, term note, monthly payments of $1,305, noninterest bearing, due in July 2034, secured by mortgage on West Humboldt Place property	283,484	297,504
Illinois Facilities Fund, term note, monthly payments of $2,101; interest at 5.625% per year through January 31, 2023. Starting February 1, 2023, through maturity date of February 1, 2033, fixed interest rate equal to the greater the sum of the yield to maturity plus 2.00% or 5.00%; secured by mortgage on property on Humboldt Boulevard in Chicago, Illinois	242,970	254,173
	575,649	619,577
Less current portion	46,403	45,566
	$ 529,246	$ 574,011

Future maturities of the mortgage and term notes are as follows:

Year Ending June 30	Amount
2020	$ 46,403
2021	47,276
2022	40,135
2023	220,990
2024	15,660
Thereafter	205,185
	$ 575,649

Interest expense recognized in 2019 and 2018 was $25,405 and $13,679, respectively.

Note 6: Operating Leases

The Association leases office space, miscellaneous equipment and rental apartments under operating leases expiring in various years through 2024. Under the Association's lease for office space, the Association is also liable for its proportionate share of real estate taxes, assessments and other operating costs.

Future minimum lease payments under these leases are as follows:

Year Ending June 30	Amount
2020	$ 157,704
2021	157,704
2022	157,704
2023	157,704
Thereafter	55,563
	$ 686,379

Total rental expense on these leases for the years ended June 30, 2019 and 2018, was $152,233 and $216,368, respectively.

Note 7: Deferred Compensation Agreements

The Association has a deferred compensation arrangement with its executive director, which will provide benefits to the executive director upon retirement. The Association entered into a Section 457(b) deferred compensation arrangement effective December 1, 2008. Amounts contributed on an annual basis are at the discretion of the Association and will be invested in a portfolio determined by the executive director. Expense incurred by the Association for contributions made to the deferred compensation arrangement totaled $10,000 and $5,000 for the years ended June 30, 2019 and 2018, respectively. The value of the plan assets held by the Association for the deferred compensation plan was $110,761 and $99,372 at June 30, 2019 and 2018, respectively. The corresponding liability to the plan participant was $110,761 and $99,372 at June 30, 2019 and 2018, respectively.

Note 8: Net Assets

Net Assets With Donor Restrictions

At June 30, 2019 and 2018, net assets with donor restrictions are restricted for the following purposes or periods:

	2019	2018
Restricted for purpose		
Early Learning Center and Family Care program	$ 570,477	$ 409,077
Residential Program	79,300	79,300
West Humboldt Place	12,921	105,221
	$ 662,698	$ 593,598

Net Assets Released From Restrictions

For the years ended June 30, 2019 and 2018, net assets were released from donor restrictions when payments were made satisfying the restricted purposes are as follows:

	2019	2018
Payments for Family Care services	$ -	$ 44,176
Payments for Early Learning Center services	-	201,813
Payments of International Program	-	245,868
Payments for West Humboldt Place	5,800	1,950
	$ 5,800	$ 493,807

Note 9: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2019, comprise the following:

Financial assets		
Cash and cash equivalents	$	320,318
Accounts receivable		868,361
Pledges receivable		16,500
Interest receivable		1,458
Investments		1,460,843
Total financial assets		2,667,480
Donor-imposed restrictions		
Restricted funds		662,698
Financial assets available to meet cash needs for general expenditures within one year	$	2,004,782

The Association is substantially supported by grants and contributions without donor restrictions. The Association manages its liquidity following these guiding principles: operating within a prudent range of financial soundness and stability and maintaining adequate liquid assets to fund near-term operating needs. As part of the Association's liquidity management plan, the Association invests in cash and cash equivalents. Another part of the Plan is the approval of the annual budget in June every year. The Association forecasts its future cash flows and monitors its liquidity monthly and monitors its reserves quarterly. During the year ended June 30, 2019, the level of liquidity and reserves was managed within the policy requirements.

Note 10: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. The hierarchy comprises three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2019 and 2018:

		Fair Value Measurements Using		
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2019				
Investments				
Mutual funds				
Large value	$ 64,053	$ 64,053	$ -	$ -
Large growth	69,871	69,871	-	-
Large blend	384,484	384,484	-	-
Mid blend	99,643	99,643	-	-
Intermediate term bond	38,543	38,543	-	-
Nontraditional bond	39,466	39,466	-	-
Short term bond	70,915	70,915	-	-
Tactical Allocation	21,789	21,789	-	-
Exchange traded funds	672,079	672,079	-	-
Total investments	1,460,843	1,460,843	-	-
Investments held for deferred compensation plan				
Mutual funds				
Government money market	869	869	-	-
Large growth	12,258	12,258	-	-
Large blend	20,582	20,582	-	-
Large value	9,790	9,790	-	-
Mid blend	9,230	9,230	-	-
Intermediate term bond	8,571	8,571	-	-
Short term bond	15,762	15,762	-	-
Exchange traded funds	33,699	33,699	-	-
Total investments held for deferred compensation plan	110,761	110,761	-	-
Total assets	$ 1,571,604	$ 1,571,604	$ -	$ -
Deferred compensation plan liability	$ 110,761	$ 110,761	$ -	$ -

		Fair Value Measurements Using		
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2018				
Investments				
Mutual funds				
Large value	$ 63,029	$ 63,029	$ -	$ -
Large growth	216,607	216,607	-	-
Large blend	449,921	449,921	-	-
Mid value	53,137	53,137	-	-
Mid blend	95,236	95,236	-	-
Intermediate term bond	36,222	36,222	-	-
Nontraditional bond	28,185	28,185	-	-
Short term bond	57,688	57,688	-	-
Exchange traded funds	345,457	345,457	-	-
Corporate bonds	42,000	-	42,000	-
Total investments	1,387,482	1,345,482	42,000	-
Investments held for deferred compensation plan				
Mutual funds				
Government money market	705	705	-	-
Large growth	18,953	18,953	-	-
Large blend	18,963	18,963	-	-
Large value	9,350	9,350	-	-
Mid blend	8,822	8,822	-	-
Intermediate term bond	3,567	3,567	-	-
Short term bond	14,997	14,997	-	-
Exchange traded funds	24,015	24,015	-	-
Total investments held for deferred compensation plan	99,372	99,372	-	-
Total assets	$ 1,486,854	$ 1,444,854	$ 42,000	$ -
Deferred compensation plan liability	$ 99,372	$ 99,372	$ -	$ -

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in

Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. There were no level 3 investments as of June 30, 2019 and 2018.

Note 11: Significant Estimates and Concentrations

Liability for Excess Revenues

The liability for excess revenues is based on management's assessment of the estimated amounts due to funding sources for program revenues in excess of program expenses. If actual excess revenues are higher than the historical experience, management's estimates of the amounts due from the Association could be adversely affected. A liability of $61,994 and $94,682 as of June 30, 2019 and 2018, respectively, has been included in other accrued liabilities on the consolidated statements of financial position.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is based on management's assessment of the estimated amounts of accounts receivable that may not be collected. If actual write offs are higher than the historical experience, management's estimates of the allowance could be adversely affected. An allowance of $0 and $25,000 as of June 30, 2019 and 2018, respectively, has been netted against accounts receivable on the consolidated statements of financial position.

Concentrations

Approximately 58% and 53% of the Association's revenues without donor restrictions for the years ended June 30, 2019 and 2018, respectively, were from one department of the state of Illinois.

Amounts due from this agency represent 10% and 0% of the total outstanding accounts receivable balance as of June 30, 2019 and 2018, respectively.

Investments

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 accompanying statements of financial position.

Note 12: Change in Accounting Principle

In 2019, the Association adopted ASU 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities.* A summary of the changes is as follows:

Consolidated Statement of Financial Position

- The consolidated statement of financial position distinguishes between two new classes of net assets – those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets – unrestricted, temporarily restricted and permanently restricted.

Consolidated Statement of Activities

- Expenses are presented by function in the consolidated statement of activities and in the consolidated statement of functional expenses which presents expenses by both natural and functional amounts.
- Investment return is shown net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.

Notes to the Consolidated Financial Statements

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one-year from the date of the consolidated statement of financial position.

This change had no impact on previously reported total change in net assets.

Note 13: Future Change in Accounting Principle

Revenue Recognition

The Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, *Revenue from Contracts with Customers,* amending its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment 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 those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for nonpublic entities for annual periods beginning after December 15, 2019, and any interim periods within annual reporting periods that begin after December 15, 2020. The Association expects to first apply the ASU during its fiscal year ending June 30, 2021. The impact of applying the ASU has not yet been determined.

Contributions Received and Contributions Made

The FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance applies to all entities that receive or make contributions. The new guidance clarifies the definition of an exchange transaction. The criteria for evaluating whether contributions are unconditional (and thus recognized immediately as revenue) or conditional (for which revenue recognition is deferred) have been clarified. The focus is whether a gift or grant agreement both (1) specifies a "barrier or hurdle" that the recipient must overcome to be entitled to the resources, and (2) releases the donor from its obligation to transfer resources if the barrier or hurdle is not achieved. An agreement that includes both is a conditional contribution. The Association expects to first apply the ASU during its fiscal year ending June 30, 2020. The impact of applying the ASU has not yet been determined.

Accounting for Leases

The FASB issued ASU No. 2016-02, *Leases*, the long-awaited standard on lease accounting. Under the new standard, lessees will now be required to recognize substantially all leases on the statement of financial position as both a right-of-use asset and a liability. The standard has two types of leases for statement of activities recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard is effective for annual periods beginning after December 15, 2021, and any interim periods within annual reporting periods that begin after December 15, 2022. The Association expects to first apply the ASU during its fiscal year ending June 30, 2023. The impact of applying the ASU has not yet been determined.

Note 14: Subsequent Events

As a result of the spread of the SARS-CoV-2 virus and the incidence of COVID-19, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of the Association. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

On March 27, 2020, President Trump signed into law the *Coronavirus Aid, Relief, and Economic Security Act.* On May 13, 2020, the Association borrowed $289,539 under the Paycheck Protection Program. The Association anticipates using all of the proceeds to make eligible payments, and therefore expects substantially all of the loan to be forgiven.

The Children's Place Association discontinued the Residential Services program as of June 30, 2020.

Subsequent events have been evaluated through October 23, 2020, which is the date the consolidated financial statements were available to be issued.