

THE CHILDREN'S PLACE, INC.

FINANCIAL STATEMENTS
with
INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED DECEMBER 31, 2018

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
The Children's Place, Inc.
Kansas City, Missouri

We have audited the accompanying financial statements of The Children's Place, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Children's Place, Inc. as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Marr and Company

Marr and Company, P.C.
Certified Public Accountants

May 28, 2019

THE CHILDREN'S PLACE, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2018

ASSETS

Cash	\$ 252,570
Accounts receivable:	
Governmental agencies (Note 6)	60,324
Grants	41,345
Accrued investment income and other	3,567
Prepaid expenses	34,875
Unconditional promises to give (Note 7)	352,807
Cash restricted for building and program expansion	922,067
Investments (Notes 1 and 3)	1,444,921
Deposit for acquisition of building	105,000
Property and equipment, less accumulated depreciation	671,115
	<hr/>
Total assets	<u><u>\$ 3,888,591</u></u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable and accrued expenses	\$ 145,016
Advances	59,331
Accrued vacation pay	49,283
	<hr/>
Total liabilities	<u>253,630</u>
Net assets:	
Without donor restrictions:	
Undesignated	727,664
Board-designated endowment	1,448,437
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Total without donor restrictions	2,176,101
With donor restrictions	1,458,860
	<hr/>
Total net assets	<u>3,634,961</u>
	<hr/>
Total liabilities and net assets	<u><u>\$ 3,888,591</u></u>

See the accompanying notes.

THE CHILDREN'S PLACE, INC.

STATEMENT OF ACTIVITIES

For the year ended December 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and revenue:			
Support:			
Contributions (Note 1)	\$ 323,861	\$ -	\$ 323,861
Special events (Note 1):			
Revenues	741,375	-	741,375
Less direct donor benefits	(227,458)	-	(227,458)
United Way	30,913	74,439	105,352
Restricted grants and contributions	-	840,902	840,902
Total support	<u>868,691</u>	<u>915,341</u>	<u>1,784,032</u>
Revenue:			
Fees and grants from governmental and other agencies (Note 6)	1,275,039	-	1,275,039
Client fees and other	4,551	-	4,551
Investment return	(59,657)	-	(59,657)
Total revenues	<u>1,219,933</u>	<u>-</u>	<u>1,219,933</u>
Net assets released from restrictions:			
Satisfaction of usage restrictions	825,135	(825,135)	-
Satisfaction of time restrictions	74,439	(74,439)	-
Total net assets released from restrictions	<u>899,574</u>	<u>(899,574)</u>	<u>-</u>
Total support and revenue	<u>2,988,198</u>	<u>15,767</u>	<u>3,003,965</u>
Expenses:			
Program services:			
Day Treatment Services	1,673,908	-	1,673,908
Parenting Support Services	145,833	-	145,833
Clinical Services	694,071	-	694,071
Total program services	<u>2,513,812</u>	<u>-</u>	<u>2,513,812</u>
Supporting services:			
Management and general	318,770	-	318,770
Resource development	346,869	-	346,869
Total supporting services	<u>665,639</u>	<u>-</u>	<u>665,639</u>
Total expenses	<u>3,179,451</u>	<u>-</u>	<u>3,179,451</u>
Change in net assets	(191,253)	15,767	(175,486)
Net assets, beginning of year	<u>2,367,354</u>	<u>1,443,093</u>	<u>3,810,447</u>
Net assets, end of year	<u>\$ 2,176,101</u>	<u>\$ 1,458,860</u>	<u>\$ 3,634,961</u>

See the accompanying notes.

THE CHILDREN'S PLACE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2018

	Program Services			Total Program Services	Supporting Services		Total Supporting Services	Total
	Day Treatment Services	Parenting Support Services	Clinical Services		Management and General	Resource Development		
Salaries	\$ 901,100	\$ 110,274	\$ 490,668	\$ 1,502,042	\$ 134,924	\$ 194,346	\$ 329,270	\$ 1,831,312
Employee benefits	92,076	11,175	49,982	153,233	16,576	17,651	34,227	187,460
Payroll taxes	67,660	8,303	36,952	112,915	10,181	14,692	24,873	137,788
Total personnel	1,060,836	129,752	577,602	1,768,190	161,681	226,689	388,370	2,156,560
Occupancy	82,466	2,848	10,322	95,636	7,909	4,802	12,711	108,347
Professional and contract fees	37,366	1,030	52,613	91,009	81,731	79,498	161,229	252,238
Equipment rental and repair	1,827	13	95	1,935	6,457	45	6,502	8,437
Food	40,397	-	-	40,397	-	-	-	40,397
Insurance	21,233	1,874	8,778	31,885	6,864	3,170	10,034	41,919
Printing	184	245	-	429	6,745	1,820	8,565	8,994
Postage	13	-	7	20	2,764	1,946	4,710	4,730
Staff development and recruiting	7,563	3,680	16,237	27,480	17,204	4,085	21,289	48,769
Technology and training	21,096	3,281	11,739	36,116	7,133	4,860	11,993	48,109
Supplies	28,443	294	4,504	33,241	2,798	5,981	8,779	42,020
Transportation	269,058	-	-	269,058	-	-	-	269,058
Travel	344	1,445	1,840	3,629	-	737	737	4,366
Public relations	-	-	-	-	6,886	7,596	14,482	14,482
Personnel expenses	1,766	-	-	1,766	2,583	789	3,372	5,138
Uncollectible accounts	-	-	-	-	-	-	-	-
Depreciation	101,316	1,371	10,334	113,021	8,015	4,851	12,866	125,887
Total functional expenses	\$ 1,673,908	\$ 145,833	\$ 694,071	\$ 2,513,812	\$ 318,770	346,869	\$ 665,639	3,179,451
Special events - direct donor benefits:								
Facilities, catering and entertainment						227,458		227,458
Total expenses						\$ 574,327		\$ 3,406,909

See the accompanying notes.

THE CHILDREN'S PLACE, INC.

STATEMENT OF CASH FLOWS

For the year ended December 31, 2018

Cash flows from operating activities:	
Change in net assets	\$ (175,486)
Adjustments to reconcile the change in net assets to net cash provided by operating activities:	
Depreciation	125,887
Contributions restricted for long-term purposes	(30,000)
Reinvested dividends and bond premium amortization	2,628
Net realized gain on investments	(19,545)
Unrealized loss on investments	148,400
(Increase) decrease in operating assets:	
Unconditional promises to give	(96,479)
Accounts receivable	(17,171)
Prepaid expenses	(14,388)
Increase (decrease) in operating liabilities:	
Accounts payable and advances	109,652
Accrued vacation pay	3,764
Net cash provided by operating activities	<u>37,262</u>
Cash flows from investing activities:	
Acquisition of property and equipment	(153,403)
Purchase of investment securities	(762,137)
Proceeds from redemption of investment securities	692,118
Net cash used by investing activities	<u>(223,422)</u>
Cash flows from financing activities:	
Proceeds from contributions restricted for building and service expansion	<u>303,514</u>
Increase in cash and cash equivalents	117,354
Cash and cash equivalents, beginning of year	<u>135,216</u>
Cash and cash equivalents, end of year	<u><u>\$ 252,570</u></u>

See the accompanying notes.

THE CHILDREN'S PLACE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

1. **Organization and Summary of Significant Accounting Policies**

Organization and nature of activities

The Children's Place, Inc. (the Organization) is a Missouri not-for-profit corporation, which in May 2018, changed its name from Child Advocacy Services Center, Inc. The Organization provides a continuum of services to eliminate child abuse and neglect through prevention and treatment programs for young children and families and is supported primarily through fees from government and other agencies, donor contributions and the United Way. The Organization's current programs are as follows:

Day Treatment Services - provides comprehensive, multi-disciplinary therapeutic services to children ages birth through 6 years in order to remediate severe development delays or behavior/emotional problems typically resulting from abuse, neglect, or prenatal substance abuse.

Parenting Support Services - provides educational opportunities to help adults improve their parenting skills by offering the knowledge and support they need to create a healthy, safe and nurturing environment for children in their care.

Clinical Services - provides quality, comprehensive mental health treatment services to young children and their families in order to improve individual and/or family functioning.

Financial statement presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (US GAAP). Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and related changes are classified and reported as follows:

Net assets without donor restrictions - net assets that are not subject to donor-imposed stipulations.

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

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

1. **Organization and Summary of Significant Accounting Policies (continued)**

Contributions

Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. At December 31, 2018, the Organization has received \$73,000 of conditional promises to give for an event to be held in 2019. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their estimated future cash flows, using an appropriate discount rate applicable to the years in which the promises are to be received.

The Organization's contributions receivable consisted of unconditional promises to give in the amount of \$32,500 and receivables from grantors in the amount of \$320,307, \$218,310 of which is expected to be collected within one year and \$134,497 of which is expected to be collected in 2020.

Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Investments

Investments are reported at cost if purchased, or fair value if donated. Thereafter, investments are reported at fair value in the statement of financial position, with unrealized gains and losses included in the change in net assets. In conformity with US GAAP, fair values are determined based on various levels of inputs. The Organization's inputs for mutual funds are Level 1 valuation inputs which consist of actual quoted prices for identical investments based on the markets in which they are traded. The inputs for the U.S. government securities and corporate bonds are Level 2 inputs, which are observable pricing inputs for the investments, either directly or indirectly, but are not the same as those used in Level 1.

Property and equipment

The Organization capitalizes property and equipment over \$1,000. Purchased property and equipment is recorded at cost when purchased. Donations of property and equipment are recorded at their estimated fair value at the date of donation and are reported within net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as net assets with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service by reclassifying net assets with donor restrictions to net assets without donor restrictions. Depreciation is calculated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Building and improvements	10-30
Transportation equipment	5
Other equipment	2-20

1. **Organization and Summary of Significant Accounting Policies (continued)**

Compensated absences

Annual vacation time earned is based on the length of employment and ranges from 15 to 20 days. Depending on their length of service, employees can accumulate 80 to 120 hours of vacation which may be carried over into the following year. The liability for earned but unused vacation pay at December 31, 2018 is recorded in the financial statements. Sick leave does not accumulate and no accrual is required.

Income taxes and accounting for tax positions

The Organization is exempt from Federal income taxes under Internal Revenue Code Section 501(c)(3).

US GAAP prescribes the standards for the recognition, measurement and disclosure of tax positions. For not-for-profit organizations, tax positions include an entity's status as tax exempt, and whether it is subject to tax on unrelated business income. Management does not believe there are any uncertain tax positions that would affect its exempt status or result in any tax on unrelated business income.

Functional expenses

The Organization allocates its costs on a functional basis among its various programs and supporting services. Costs that can be identified with a specific program or supporting service are allocated directly according to their natural expenditure classification. Other costs common to several functions are allocated by management.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries and benefits	Time and effort
Occupancy	Square footage
Insurance	Square footage
Information technology	Usage
Depreciation	Square footage

Cash and cash equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents, except for those included in long-term investments which are designated for endowment use, or donor restricted for long-term purposes. At December 31, 2018, \$922,067 of cash restricted for long-term purposes was excluded from cash and cash equivalents in the statement of cash flows.

Donated services

US GAAP provides for the recording of contributions of donated services at their fair values in the period received if they create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Although a substantial number of volunteers have donated a significant amount of their time to the Organization's programs, no amount has been recorded.

1. **Organization and Summary of Significant Accounting Policies (continued)**

Concentrations

The Organization receives a significant amount of its revenues from the State of Missouri and other governmental agencies under contracts to provide treatment services to children. Given the nature of these agencies, collateralization of the receivables from this group is not possible.

Cash deposits and investments are maintained with a major financial institution and are invested primarily in mutual funds and governmental agency securities.

Special events

Direct donor benefits are displayed as reductions of related revenue on the accompanying statement of activities. Direct donor benefits consist primarily of facilities rental, catering and entertainment provided to attendees.

Allowance for uncollectible receivables

Accounts, promises to give and grants receivable are based on the amounts management expects to collect, and are charged off as they are deemed uncollectible based on a periodic review of the accounts.

Advances

Advances primarily represent amounts received for special events to be held in 2019.

New accounting pronouncement

On August 18, 2016, the FASB issued ASU 2016-14, Not-For-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly.

2. **Availability and Liquidity**

The following represents the Organization's financial assets at December 31, 2018:

Financial assets at year end:	
Cash and cash equivalents	\$ 1,174,637
Accounts receivable	105,236
Contributions receivable	352,807
Investments	1,444,921
Total financial assets	<u>3,077,601</u>
Less amounts not available to be used within one year:	
Net assets with donor restrictions	(1,164,430)
Quasi-endowment established by the Board	<u>(1,448,437)</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 464,734</u>

As part of its liquidity management practices, the Organization structures the timing of its fundraising activities to supplement revenue received from program activities

2. Availability and Liquidity (continued)

to ensure that sufficient cash is available to meet its normal operating expense needs during the year. Excess cash is invested in short-term investments, including money market accounts and certificates of deposit. In its annual budget, the Organization anticipates needing no appropriation of financial assets from the quasi-endowment fund beyond the current year's investment return. However, amounts from the quasi-endowment fund could be made available for general operating expenses, if necessary, in the event of an unanticipated liquidity need. The assets of the endowment are invested in marketable securities as discussed in note 9.

At December 31, 2018, \$294,430 of financial assets with donor restrictions are considered available to meet general expenditures over the next twelve months.

3. Investments

Investments at December 31, 2018 consist of the following:

	<u>Cost</u>	<u>Fair value</u>
Equity mutual funds	\$ 542,888	\$ 569,798
Fixed income mutual funds	415,356	398,537
U.S. government securities	146,685	148,759
Corporate bonds	202,111	201,076
Money market funds	126,751	126,751
	<u>\$ 1,433,791</u>	<u>\$ 1,444,921</u>

4. Retirement Plan

The Organization maintains a defined contribution retirement plan which covers substantially all employees. Contributions are made at the discretion of the Board of Directors. Retirement plan expense was \$11,874 in 2018 and consists of employer matching contributions.

5. Property and Equipment

Property and equipment at December 31, 2018 consists of the following:

Land	\$ 313,379
Building and improvements	1,823,811
Transportation equipment	102,787
Other equipment	495,427
Construction in progress	<u>30,313</u>
	2,765,717
Less accumulated depreciation	<u>(2,094,602)</u>
	<u>\$ 671,115</u>

Depreciation expense in 2018 totaled \$125,887.

6. Fees and Grants From Governmental and Other Agencies

The Organization has entered into various grants and reimbursement arrangements for child treatment, food and other related services it provides under its programs. Accounts receivable from governmental and other agencies represent reimbursements due under these programs. The amounts earned in 2018 and due at December 31, 2018 are as follows:

<u>Program</u>	<u>Earned</u>	<u>Receivable</u>
Child Treatment Services	\$ 302,340	\$ 13,010
Medicaid	742,394	42,367
Child Care Food Program	51,950	2,844
Jackson County Mental Health	170,215	-
Other	8,140	2,103
	<u>\$ 1,275,039</u>	<u>\$ 60,324</u>

7. Promises to Give

Unconditional promises to give at December 31, 2018 are as follows:

Due in 2019	\$218,310
Due in 2020	<u>134,497</u>
	<u>\$352,807</u>
Consisting of:	
United Way allocation for 2019	\$ 74,439
Restricted for clinical services	245,868
Unrestricted	<u>32,500</u>
	<u>\$352,807</u>

No allowance for uncollectible promises to give was deemed necessary for 2018.

8. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes or periods:

Building and service expansion	\$ 922,067
Program activities	440,688
Equipment and building improvements	21,670
United Way allocation for 2019	<u>74,435</u>
Total net assets with donor restrictions	<u>\$1,458,860</u>

Net assets released from restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors were as follows:

Program uses from restricted contributions and grants	\$ 509,255
Building and service expansion	297,040
Equipment and building improvements	18,840
Time restriction on United Way allocation for 2018	<u>74,439</u>
	<u>\$ 899,574</u>

9. Designated Endowment Fund

The Organization maintains a board-designated endowment fund for the purpose of generating an investment return to support its programs and operations, and to maintain a reserve of approximately three to six months of normal operating expenses. The investment objectives are to provide a reasonable rate of return while prioritizing the preservation of capital consistent with a prudent level of risk. To accomplish these objectives, the Organization has established a range and maximum allocation for equity securities and mutual funds, fixed income investments, and cash equivalents. All assets of the board-designated endowment fund are invested in marketable securities that can readily be converted into cash.

The amount appropriated for spending is based on the amount budgeted and is subject to various guidelines, primarily a limitation of 100% of the investment return. These guidelines also provide for the utilization of up to 10% of the principal of the fund, subject to approval by two-thirds of the Board of Directors. However, all assets of the endowment fund could be made available for general operating expenses in the event of an unanticipated liquidity need.

The changes in the net assets of the fund for the year ended December 31, 2018 are as follows:

Net assets, beginning of year	\$ 1,513,884
Investment income, net of fees	63,408
Realized gains	19,545
Unrealized losses	<u>(148,400)</u>
Net assets, end of year	<u>\$ 1,448,437</u>

10. Building Sale, Acquisition and Capital Campaign

In December 2018, the Organization entered into a purchase agreement for the acquisition of a new building and has agreed to the sale of its current building, both of which closed on February 5, 2019. The current building was sold for \$1,500,000, and the purchase price of the new building was \$2,107,700. In connection with the purchase of the new building, the buyer of the current building agreed to provide the Organization a \$700,000 two-year interim loan at 2% to finance its acquisition. The buyer of the current building is also leasing it back to the Organization for a two year period at \$1 per year.

To finance the retirement of the interim loan, the renovation and other costs associated with the new building, the Organization will initiate a capital campaign to raise approximately \$10 million for this purpose.

11. Subsequent Events

Management has evaluated subsequent events through May 28, 2019, the date that the financial statements were authorized to be issued.