

**HIGH PLAINS CHILDREN'S HOME
AND FAMILY SERVICES, INC.
(A NOT-FOR-PROFIT ORGANIZATION)**

**CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT**

**FOR THE YEAR ENDED DECEMBER 31, 2018
(WITH COMPARATIVE TOTALS FOR 2017)**

**HIGH PLAINS CHILDREN'S HOME
AND FAMILY SERVICES, INC.**

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BROWN, GRAHAM & COMPANY

PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

**Board of Directors
High Plains Children's Home
and Family Services, Inc.
Amarillo, Texas**

We have audited the accompanying consolidated statement of financial position of High Plains Children's Home and Family Services, Inc. (a not-for-profit organization) (the "Home") as of December 31, 2018, and the related consolidated statements of activities, cash flows and functional expenses for the year then ended and the related notes to the consolidated financial statements.

Management's Responsibilities for the Consolidated Financial Statements

Management is responsible for the preparation and the 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 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 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 Home'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 Home'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.

**Board of Directors
High Plains Children's Home
and Family Services, Inc.**

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Opinion

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

The prior year summarized comparative information has been derived from the Home's 2017 consolidated financial statements and in our report dated April 19, 2018, we expressed an unmodified opinion on those consolidated financial statements.

Brown, Graham & Company, P.C.

Amarillo, Texas
May 16, 2019

HIGH PLAINS CHILDREN'S HOME AND FAMILY SERVICES, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018
(WITH COMPARATIVE TOTALS FOR 2017)

	2018			2017
	Home	Foundation	Consolidated	Consolidated
Assets:				
Cash and cash equivalents	\$ 616,722	\$ 56,435	\$ 673,157	\$ 2,744,836
Accrued dividends receivable	-	22,416	22,416	21,519
Receivables	105,368	21,373	126,741	66,733
Prepaid expenses	46,196	650	46,846	31,798
Investments, at fair value	771,150	2,431,548	3,202,698	2,098,377
Construction in progress	95,196	-	95,196	95,196
Land, buildings and other property, net of accumulated depreciation	9,562,286	2,890,586	12,452,872	12,335,178
Cash surrender value of life insurance policies	36,650	-	36,650	34,913
Total Assets	<u>\$ 11,233,568</u>	<u>\$ 5,423,008</u>	<u>\$ 16,656,576</u>	<u>\$ 17,428,550</u>
Liabilities:				
Accounts payable	\$ 234,345	\$ 27,317	\$ 261,662	\$ 157,840
Charitable gift annuities	-	187,272	187,272	216,098
Total Liabilities	<u>234,345</u>	<u>214,589</u>	<u>448,934</u>	<u>373,938</u>
Net Assets:				
Net assets without donor restrictions:				
Undesignated	10,079,433	-	10,079,433	12,196,099
Board designated endowment	-	5,072,263	5,072,263	4,278,730
Net assets with donor restrictions:				
Restricted by purpose or time	919,790	70,156	989,946	513,783
Restricted in perpetuity	-	66,000	66,000	66,000
Total Net Assets	<u>10,999,223</u>	<u>5,208,419</u>	<u>16,207,642</u>	<u>17,054,612</u>
Total Liabilities and Net Assets	<u>\$ 11,233,568</u>	<u>\$ 5,423,008</u>	<u>\$ 16,656,576</u>	<u>\$ 17,428,550</u>

The accompanying notes are an integral part of the consolidated financial statements.

HIGH PLAINS CHILDREN'S HOME AND FAMILY SERVICES, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018
(WITH COMPARATIVE TOTALS FOR 2017)

	2018			2017
	Home	Foundation	Consolidated	Consolidated
Changes in Net Assets without Donor Restrictions:				
Revenues, gains and other support:				
Contributions	\$ 1,380,753	\$ 130	\$ 1,380,883	\$ 4,285,714
Governmental and family support	359,724	-	359,724	339,615
Investment income, net of expenses	18,269	126,243	144,512	100,602
Net realized and unrealized gains (losses) on long-term investments	4,561	(204,467)	(199,906)	199,357
Loss on disposal of assets	(31,865)	-	(31,865)	-
Investment rental income	-	83,350	83,350	98,250
Rents and royalties	48,636	13,983	62,619	51,371
Miscellaneous	172,311	-	172,311	474,615
Total revenues, gains and other support	<u>1,952,389</u>	<u>19,239</u>	<u>1,971,628</u>	<u>5,549,524</u>
Net assets released from restrictions:				
Satisfaction of program restrictions	34,219	9,724	43,943	36,531
Total revenues, gains and other support and net assets released from restrictions	<u>1,986,608</u>	<u>28,963</u>	<u>2,015,571</u>	<u>5,586,055</u>
Expenses:				
Program Services:				
Residential care	1,711,909	-	1,711,909	1,753,618
Pa & Megan's Place @ High Plains	232,357	-	232,357	240,312
Facilities	514,950	-	514,950	539,174
After care	1,632	-	1,632	17,082
Support Services:				
Administrative	283,899	-	283,899	303,069
Fund Raising and Development:				
Home development	406,348	-	406,348	443,468
Foundation development	-	187,609	187,609	100,662
Total expenses	<u>3,151,095</u>	<u>187,609</u>	<u>3,338,704</u>	<u>3,397,385</u>
Net transfers between the Home and the Foundation				
	<u>(952,179)</u>	<u>952,179</u>	<u>-</u>	<u>-</u>
Change in net assets without donor restrictions	<u>(2,116,666)</u>	<u>793,533</u>	<u>(1,323,133)</u>	<u>2,188,670</u>
Changes in Net Assets with Donor Restrictions:				
Contributions	523,644	-	523,644	173,230
Investment income, net of expenses	-	1,127	1,127	1,712
Net realized and unrealized gains (losses) on long-term investments	-	(4,665)	(4,665)	4,719
Net assets released from restrictions for satisfaction of program restrictions	(34,219)	(9,724)	(43,943)	(36,531)
Change in net assets with donor restrictions	<u>489,425</u>	<u>(13,262)</u>	<u>476,163</u>	<u>143,130</u>
Change in Net Assets	(1,627,241)	780,271	(846,970)	2,331,800
Net Assets at Beginning of Year	<u>12,626,464</u>	<u>4,428,148</u>	<u>17,054,612</u>	<u>14,722,812</u>
Net Assets at End of Year	<u>\$ 10,999,223</u>	<u>\$ 5,208,419</u>	<u>\$ 16,207,642</u>	<u>\$ 17,054,612</u>

The accompanying notes are an integral part of the consolidated financial statements.

HIGH PLAINS CHILDREN'S HOME AND FAMILY SERVICES, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018
(WITH COMPARATIVE TOTALS FOR 2017)

	2018			2017
	Home	Foundation	Consolidated	Consolidated
Cash Flows From Operating Activities:				
Change in net assets	\$ (1,627,241)	\$ 780,271	\$ (846,970)	\$ 2,331,800
Adjustments to reconcile change in net assets to net cash flows from operating activities:				
Depreciation	545,008	88	545,096	546,444
Net realized and unrealized (gains) losses on investments	(4,561)	209,132	204,571	(204,076)
Loss on disposal of capital assets	31,865	-	31,865	-
Investment donations received	(8,450)	-	(8,450)	(16,386)
Noncash donations received for land, buildings, other property, and construction in progress	(10,000)	-	(10,000)	(19,250)
(Increase) decrease in operating assets:				
Accrued dividends receivable	-	(897)	(897)	1,793
Receivables	(58,635)	(1,373)	(60,008)	(42,796)
Prepaid expenses	(14,398)	(650)	(15,048)	(779)
Increase (decrease) in operating liabilities:				
Accounts payable	103,358	464	103,822	22,561
Deferred revenue	-	-	-	(6,400)
Net Cash Flows from Operating Activities	<u>(1,043,054)</u>	<u>987,035</u>	<u>(56,019)</u>	<u>2,612,911</u>
Cash Flows From Investing Activities:				
Purchase of land, buildings, and other property	(684,656)	-	(684,656)	(82,603)
Proceeds from sale of investments	460,964	454,724	915,688	522,374
Purchase of investments	<u>(535,981)</u>	<u>(1,681,885)</u>	<u>(2,217,866)</u>	<u>(466,465)</u>
Net Cash Flows from Investing Activities	<u>(759,673)</u>	<u>(1,227,161)</u>	<u>(1,986,834)</u>	<u>(26,694)</u>
Cash Flows From Financing Activities:				
Charitable gift annuities received	-	-	-	25,883
Proceeds from advances on line of credit	133,000	-	133,000	478,000
Payments on line of credit	(133,000)	-	(133,000)	(478,000)
Payments on charitable gift annuities	<u>-</u>	<u>(28,826)</u>	<u>(28,826)</u>	<u>(26,064)</u>
Net Cash Flows from Financing Activities	<u>-</u>	<u>(28,826)</u>	<u>(28,826)</u>	<u>(181)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,802,727)	(268,952)	(2,071,679)	2,586,036
Cash and Cash Equivalents:				
Beginning of year	<u>2,419,449</u>	<u>325,387</u>	<u>2,744,836</u>	<u>158,800</u>
End of year	<u>\$ 616,722</u>	<u>\$ 56,435</u>	<u>\$ 673,157</u>	<u>\$ 2,744,836</u>

The accompanying notes are an integral part of the consolidated financial statements.

HIGH PLAINS CHILDREN'S HOME AND FAMILY SERVICES, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018
(WITH COMPARATIVE TOTALS FOR 2017)
(continued)

	2018			2017
	Home	Foundation	Consolidated	Consolidated
Supplemental information:				
Cash Paid for Interest During the Year	\$ 1,196	\$ 11,514	\$ 12,710	\$ 12,516
Non-cash Donations of Goods and Services During the Year	\$ 108,396	\$ -	\$ 108,396	\$ 118,734
Non-cash Investments Donated During the Year	\$ 8,450	\$ -	\$ 8,450	\$ 16,386
Non-cash Capital Assets Donated During the Year	\$ 10,000	\$ -	\$ 10,000	\$ 19,250

The accompanying notes are an integral part of the consolidated financial statements.

HIGH PLAINS CHILDREN'S HOME AND FAMILY SERVICES, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018
(WITH COMPARATIVE TOTALS FOR 2017)

	Program Services			
	Residential Care	Pa & Megan's Place @ High Plains	Facilities	After Care
Salaries and Related Expenses				
Salaries	\$ 581,822	\$ 45,294	\$ 217,267	\$ -
Payroll taxes	45,577	3,412	16,480	-
Employee benefits	140,028	9,474	39,194	-
Total Salaries and Related Expenses	767,427	58,180	272,941	-
Other Functional Expenses				
Advertising	24,841	-	-	-
Automobile expense	56,976	10,773	15,978	-
Clothing	21,440	-	-	-
Computer expense	-	-	-	-
Dues, fees and subscriptions	339	147	752	-
Educational	14,801	-	-	351
Feed, ag supplies and veterinary	39,083	-	-	-
Food and household	177,961	-	-	1,281
Insurance	89,863	16,505	15,277	-
Interest	-	-	-	-
Maintenance and repairs	126,789	10,353	27,742	-
Medical	3,650	-	-	-
Professional fees	17,780	-	-	-
Property taxes	-	-	-	-
Recreation and allowance	60,429	1,863	-	-
Rent	-	-	-	-
Supplies, postage and office expense	8,349	2,239	207	-
Telephone and utilities	79,553	21,921	3,810	-
Training	1,953	-	-	-
Travel	4,155	-	-	-
Total Expenses Before Depreciation	1,495,389	121,981	336,707	1,632
Depreciation	216,520	110,376	178,243	-
Total Functional Expenses	\$ 1,711,909	\$ 232,357	\$ 514,950	\$ 1,632

The accompanying notes are an integral part of the consolidated financial statements.

Support Services	Fund Raising & Development		Consolidated 2018	Consolidated 2017
	Home Development	Foundation Development		
Administrative				
\$ 124,727	\$ 256,649	\$ 107,120	\$ 1,332,879	\$ 1,325,812
9,450	17,196	7,859	99,974	102,014
22,597	31,195	11,096	253,584	235,494
156,774	305,040	126,075	1,686,437	1,663,320
72	16,712	-	41,625	41,436
12,443	17,718	1,526	115,414	87,264
-	-	-	21,440	23,250
-	31,660	-	31,660	22,973
3,806	1,100	14	6,158	7,736
-	-	-	15,152	20,460
-	-	-	39,083	47,721
-	-	-	179,242	262,272
11,006	4,128	2,358	139,137	118,547
1,196	-	11,514	12,710	12,516
25,132	-	544	190,560	183,424
-	-	-	3,650	5,953
17,191	-	8,063	43,034	34,714
629	-	25,156	25,785	26,159
-	-	-	62,292	60,816
-	-	8,825	8,825	-
12,104	21,820	369	45,088	77,500
2,920	3,432	1,857	113,493	138,241
28	150	-	2,131	2,590
729	4,588	1,220	10,692	14,049
244,030	406,348	187,521	2,793,608	2,850,941
39,869	-	88	545,096	546,444
<u>\$ 283,899</u>	<u>\$ 406,348</u>	<u>\$ 187,609</u>	<u>\$ 3,338,704</u>	<u>\$ 3,397,385</u>

**HIGH PLAINS CHILDREN’S HOME AND FAMILY SERVICES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

High Plains Children’s Home and Family Services, Inc. (the “Home”) is a not-for-profit corporation organized under the laws of the State of Texas. The Home’s mission is dedicated to providing residential Christian care to children and adults with special needs who are orphaned, neglected, abused, dependent, under privileged or otherwise taken advantage of, while ensuring their physical, emotional, social and spiritual development is nurtured by consistent encouragement instilling within each individual a model of love, safety, purpose, productivity, service to others and trust in God. The Home is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Home receives revenue in the form of contributions from individuals, churches, foundations and various other entities as well as support from governmental agencies and families of residents of the Home.

Scope and Description of Reporting Entity

The accompanying consolidated financial statements present the consolidated financial position and changes in net assets, cash flows and functional expenses of the Home and High Plains Children’s Home and Family Services Foundation, Inc. (the “Foundation”). The Home is governed by a Board of Directors of not less than three and not more than eight members. The Home’s Board appoints the Board of Directors for the Foundation, and is the only member of the Foundation. Inter-organizational transactions have been eliminated in the consolidation. The purpose of the Foundation is to provide support and assistance to the Home, to accept gifts of money, property, and other donations of value, and to manage, control, invest, and reinvest properties and funds, and to contribute income or principal or both therefrom to the furtherance of the work of the Home. The Foundation was also established to act as trustee of any funds or properties committed to it for any purpose or purposes designated by any donor under terms that are acceptable to its Board of Directors. References below to the Home may include the Foundation as well for purposes of disclosure.

Basis of Presentation

The Home prepares its consolidated financial statements on the accrual basis of accounting as applicable to a not-for-profit organization. Net assets, revenues, gains and losses are classified based upon the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Home and changes therein are classified and reported as follows:

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

Net assets with donor restrictions - Net assets subject to donor-imposed restrictions on their use that may be met either by actions of the Home or the passage of time or net assets subject to donor-imposed or other legal restrictions requiring that the principal be maintained permanently by the Home. Generally, the donors permit the Home to use all or part of the income earned for either general or donor-imposed restricted purposes.

Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the U.S. (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses, including functional allocations during the reporting period. Actual results could differ from those estimates.

**HIGH PLAINS CHILDREN’S HOME AND FAMILY SERVICES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Prior Year Comparative Information

The consolidated financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Home’s consolidated financial statements for the year ended December 31, 2017, from which the summarized information was derived.

Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, the Home considers all cash in operating accounts, cash on hand, and highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash equivalents include all demand deposits in bank accounts.

Investments

The Home reports investments in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 958-320, *Not-for-Profit Entities-Investments-Debt and Equity Securities*. Under FASB ASC Topic 958-320, investments in marketable securities with readily determinable fair values and all investments in debt securities are measured at their fair value in the consolidated statement of financial position. Donated investments are reported at their fair value as of the date they were given by the donor. Realized and unrealized gains and losses are included in the consolidated statement of activities. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date.

Receivables

The Home follows the direct write-off method of expensing receivables when considered uncollectible. The effect of using this method (as compared to an allowance method required under GAAP) on the consolidated financial statements is immaterial.

Land, Buildings and Other Property

Land, buildings and other property are capitalized at cost or if acquired by gift, at the estimated fair market value at the date of the gift. Assets are generally capitalized if the cost is \$5,000 or greater and the estimated useful life of the asset is two or more years. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. Estimated useful lives are as follows:

Buildings and improvements	10 to 39 years
Furniture and fixtures	5 to 10 years
Office equipment	3 to 10 years
Automotive equipment	3 to 5 years
Campus equipment	5 to 10 years

Revenue Recognition

The Home accounts for contributions in accordance with FASB ASC Topic 958-605, *Not-for-Profit Entities-Revenue Recognition*. Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period received or promised. Conditional contributions are recorded when the conditions have been substantially met. Contributions are considered to be unrestricted unless specifically restricted by the donor.

HIGH PLAINS CHILDREN'S HOME AND FAMILY SERVICES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

The Home reports contributions in the net assets with donor restrictions category if they are received with donor stipulations as to their use. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are released and reclassified to net assets without donor restrictions in the consolidated statement of activities. Donor-restricted contributions are initially reported in the net asset with donor restrictions category if the Home is unable to satisfy the donor restriction in the same financial reporting period. If the Home is able to satisfy the donor restriction in the same reporting period, the contribution is initially reported in the net assets without donor restrictions category.

Unconditional pledges that are expected to be collected within one year are recorded at their net realizable value. Unconditional pledges that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are calculated using risk-free yield rates applicable to the years in which the pledges are received, and reduce the pledge amounts in the year the pledge is received. Subsequent amortization of the discounts is recorded as an increase in contribution revenue.

Service revenue, which principally arises from the provision of services to residents of the Home, is generally recognized as the services are provided. Rental revenue, arising from the rental of land and property, is recognized in the period the rent is earned.

Gains and losses on investments and other assets and liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law.

Donated Materials, Services, and Long-Lived Assets

Contributed services are reported at fair value in the consolidated financial statements for voluntary donations of services when those services (1) create or enhance nonfinancial assets or (2) require specialized skills provided by individuals possessing those skills and are services that would be typically purchased if not provided by donation. Donated materials are recorded at their fair value at the date of the gift when there is an objective basis available to measure their value.

Gifts of land, buildings, and other property (long-lived assets) are presented as net assets without donor restrictions support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets 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 long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Home reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Advertising

Advertising is recorded as an expense in the period incurred. Advertising expense for the year ended December 31, 2018 was \$41,625.

Rounding

The amounts on the accompanying consolidated financial statements have been rounded individually; consequently, some columns may not total and some schedules may not agree because of this rounding.

HIGH PLAINS CHILDREN’S HOME AND FAMILY SERVICES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional Allocation of Expenses

The costs of providing various programs, support services and fund raising activities have been summarized on a functional basis in the consolidated statement of functional expenses. Costs that are directly related to the Home’s specific purposes have been recorded as direct expense and included as program expenses. Other expenses are allocated between program services, support services (administration), and development (fund raising) based upon the amount of employee time involved and other factors.

Federal Income Tax

The Home and the Foundation are not-for-profit organizations that are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Home and the Foundation have been classified as organizations that are not private foundations under Section 509(a) of the Internal Revenue Code. As a result, no provision for current or deferred income tax liability is recognized in the Home’s or the Foundation’s books and records.

The Home and the Foundation follow the provisions of FASB ASC 740, *Income Taxes*, which requires extensive disclosures about uncertain income tax positions. This standard seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. The Home and the Foundation evaluate any uncertain tax positions using the provisions of FASB ASC 450, *Contingencies*. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the consolidated financial statements and the amounts of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. The Home and the Foundation do not believe that they have engaged in any activity that would result in any uncertain tax positions. As a result, management does not believe that any uncertain tax positions currently exist and no loss contingency has been recognized in the accompanying consolidated financial statements. Federal income tax statutes dictate that tax returns filed in any of the previous three reporting periods remain open to examination. Currently, the Home and the Foundation have no open examinations with the Internal Revenue Service.

The Home’s and the Foundation’s policy is to record any income tax related penalties and interest incurred as an operating expense. There were no income tax related penalties or interest included in the accompanying consolidated financial statements. The Home and Foundation have historically had no unrelated business income subject to taxation.

Risks and Uncertainties

The Home invests in various types of investment securities. These investments are exposed to several risks, such as interest rate, market, and credit risks. Due to the level of risks associated with certain investment securities, it is reasonably possible that changes in the fair value of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Home’s financial statements.

**HIGH PLAINS CHILDREN’S HOME AND FAMILY SERVICES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

NOTE 2 – RECEIVABLES

The Home’s management anticipates collecting all pledges receivable within the next twelve months. The following is a summary of receivables at December 31, 2018:

	<u>Home</u>	<u>Foundation</u>	<u>Total</u>
Pledges	\$ 28,109	\$ 21,373	\$ 49,482
Insurance proceeds	46,316	-	46,316
Accounts	30,943	-	30,943
	<u>\$ 105,368</u>	<u>\$ 21,373</u>	<u>\$ 126,741</u>

NOTE 3 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

FASB ASC 820, *Fair Value Measurement*, defines fair value, establishes a framework hierarchy for measuring fair value that prioritizes the inputs to valuation techniques used to measure fair value, and expands disclosures about fair value measurements. Fair value is defined as 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. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability, or in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by ASC Topic 820, are used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements) The three levels of the fair value hierarchy under ASC Topic 820 are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Home has ability to access (examples include equity securities).

Level 2: Inputs to the valuation methodology include: quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability (examples include corporate or municipal bonds).

Level 3: Inputs to the valuation methodology are unobservable (supported by little or no market activity) and significant to the fair value measurement. The inputs to the determination of fair value require significant management judgment (examples include certain private equity securities and hedge funds).

HIGH PLAINS CHILDREN'S HOME AND FAMILY SERVICES, INC.
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NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (continued)

Most investments classified in Level 2 consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the net asset value reported by each fund is used as a practical expedient to estimate fair value of the Home's interest therein, its classification in Level 2 or 3 is based on the Home's ability to redeem its interest at or near December 31. If the interest can be redeemed in the near term, the investment is classified as Level 2.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There have been no changes in the methodologies used at December 31, 2018.

The methods used may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Home believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Home's assets at fair value as of December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value 12/31/18</u>
Home:				
Equity securities - Happy State				
Bank stock	\$ -	\$ -	\$ 63,621	\$ 63,621
Fixed income - CLI Capital	-	-	577,406	577,406
Precious metals	130,123	-	-	130,123
	<u>130,123</u>	<u>-</u>	<u>-</u>	<u>130,123</u>
Total - Home	<u>\$ 130,123</u>	<u>\$ -</u>	<u>\$ 641,027</u>	<u>\$ 771,150</u>
Foundation:				
Money market & equivalents	\$ -	\$ 38,678	\$ -	\$ 38,678
Equity securities	925,501	-	-	925,501
Equity securities - CLI Capital	-	-	1,031,119	1,031,119
Fixed income	387,228	5,993	-	393,221
Fixed income - CLI Capital	-	-	34,186	34,186
Alternative investments	6,228	-	-	6,228
Precious metals	2,615	-	-	2,615
	<u>1,321,572</u>	<u>44,671</u>	<u>1,065,305</u>	<u>2,431,548</u>
Total - Foundation	<u>\$ 1,321,572</u>	<u>\$ 44,671</u>	<u>\$ 1,065,305</u>	<u>\$ 2,431,548</u>

**HIGH PLAINS CHILDREN'S HOME AND FAMILY SERVICES, INC.
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NOTE 3 - INVESTMENTS AND FAIR VALUE MEASUREMENTS (continued)

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies from December 31, 2017.

Money market and equivalent funds are principally valued at a 1 to 1 rate: i.e. \$1 invested in the fund equals 1 share invested in the fund. This valuation remains consistent from year to year and does not fluctuate.

Level 1 equity and debt securities as well as precious metals are principally valued based upon quoted market prices listed on national exchanges or other sources at the regular trading session closing price on the exchange or market in which such securities are principally traded on the last business day of each period presented using the market approach. Level 2 equity and debt securities are typically held as common trust funds, and are generally valued using the market approach on the basis of the relative interest of each participating investor (including each participant) in the fair value of the underlying assets of each of the respective common trust funds. Level 3 equity and debt securities are typically private placement securities, and are generally valued using the market approach on the basis of what other investors are paying for the private placement stock or debt on the last business day of each period presented. The market price is provided by the private placement issuer; however, it is not observable.

The following table summarizes the changes in the fair value of the Home's and Foundation's Level 3 assets measured on a recurring basis for the year ended December 31, 2018:

	Equity Securities - Private Placement	Debt Securities - Private Placement	Total Level 3 Investments
Home:			
Balance as of December 31, 2017	\$ 60,311	\$ 494,423	\$ 554,734
Purchases/donations received	-	521,928	521,928
Sales	-	(453,000)	(453,000)
Interest reinvested	-	14,055	14,055
Unrealized gains	3,310	-	3,310
Balance as of December 31, 2018	<u>\$ 63,621</u>	<u>\$ 577,406</u>	<u>\$ 641,027</u>
Foundation:			
Balance as of December 31, 2017	\$ 1,111,815	\$ 33,153	\$ 1,144,968
Interest reinvested	-	1,033	1,033
Unrealized losses	(80,696)	-	(80,696)
Balance as of December 31, 2018	<u>\$ 1,031,119</u>	<u>\$ 34,186</u>	<u>\$ 1,065,305</u>

HIGH PLAINS CHILDREN'S HOME AND FAMILY SERVICES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 3 – INVESTMENTS (continued)

Gains and losses on investments are reported in the consolidated statement of activities as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law, in which case they are classified as net assets with donor restrictions.

Investment income for the year ended December 31, 2018 is shown below. Investment fees shown below are netted against investment income on the consolidated statement of activities:

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions		Total
		Net Assets Restricted as to Time or Purpose	Restricted as to Held in Perpetuity	
Home:				
Interest earned	\$ 18,269	\$ -	\$ -	\$ 18,269
Net realized losses	(486)	-	-	(486)
Net unrealized gains	5,047	-	-	5,047
Total investment income, net	<u>\$ 22,830</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,830</u>
Foundation:				
Interest earned	\$ 4,712	\$ 131	\$ -	\$ 4,843
Dividends received	126,031	1,946	-	127,977
Net realized gains	14,893	521	-	15,414
Net unrealized losses	(219,360)	(5,186)	-	(224,546)
Investment fees charged	(4,500)	(950)	-	(5,450)
Total investment loss, net	<u>\$ (78,224)</u>	<u>\$ (3,538)</u>	<u>\$ -</u>	<u>\$ (81,762)</u>

NOTE 4 – REVOLVING LINE OF CREDIT

The Home entered into an unsecured \$250,000 revolving line of credit with Amarillo National Bank during the year ended December 31, 2018, with a maturity date of July 10, 2019 and interest payable at a variable rate which is the prime rate set by J.P. Morgan Chase & Co., Inc. New York, which was 5.50% as of December 31, 2018. As of December 31, 2018, there is no outstanding balance on the line of credit, and the Home has not taken any advances on the line of credit through the date the financial statements were available to be issued. The following is a summary of the activity on the line of credit for the year ended December 31, 2018:

	Balance 12/31/17	Loan Advances	Loan Repayments	Balance 12/31/18	Interest Paid
Home:					
Line of Credit	\$ -	\$ 133,000	\$ (133,000)	\$ -	\$ 1,196

HIGH PLAINS CHILDREN'S HOME AND FAMILY SERVICES, INC.
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NOTE 5 – LAND, BUILDINGS AND OTHER PROPERTY

Activity for the year for the Home and the Foundation for land, buildings, and other property consists of the following:

	<u>Balance 12/31/17</u>	<u>Purchases and Additions</u>	<u>Sales and Disposals</u>	<u>Assets Transferred</u>	<u>Balance 12/31/18</u>
Home:					
Land	\$ 377,062	\$ -	\$ -	\$ -	\$ 377,062
Buildings & improvements	11,806,693	684,656	(38,715)	-	12,452,634
Furniture & fixtures	774,473	-	-	-	774,473
Office equipment	115,906	-	-	-	115,906
Automotive equipment	627,453	10,000	-	(43,622)	593,831
Campus equipment	202,543	-	-	-	202,543
Total land, buildings, & other property	13,904,130	694,656	(38,715)	(43,622)	14,516,449
Less: Accumulated depreciation	(4,459,627)	(545,008)	6,850	43,622	(4,954,163)
Total land, buildings, & other property, net of accumulated depreciation	<u>\$ 9,444,503</u>	<u>\$ 149,648</u>	<u>\$ (31,865)</u>	<u>\$ -</u>	<u>\$ 9,562,286</u>
Foundation:					
Land	\$ 2,887,830	\$ -	\$ -	\$ -	\$ 2,887,830
Automotive equipment	-	-	-	43,622	43,622
Buildings & improvements	3,430	-	-	-	3,430
Total land, buildings, & other property	2,891,260	-	-	43,622	2,934,882
Less: Accumulated depreciation	(586)	(88)	-	(43,622)	(44,296)
Total land, buildings, & other property, net of accumulated depreciation	<u>\$ 2,890,674</u>	<u>\$ (88)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,890,586</u>

Activity for the year for the Home for construction in progress consists of the following:

	<u>Balance 12/31/17</u>	<u>Purchases and Additions</u>	<u>Assets Placed In Service</u>	<u>Balance 12/31/18</u>
Home:				
Construction in progress	\$ 95,196	\$ -	\$ -	\$ 95,196

**HIGH PLAINS CHILDREN’S HOME AND FAMILY SERVICES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 5 – LAND, BUILDINGS AND OTHER PROPERTY (continued)

Construction in progress as of December 31, 2018 consisted of various costs incurred on a project that was ongoing, but not complete as of year-end. The following summarizes the project that was in progress as of year end. This project is discussed further in Note 14:

<u>Project Description</u>	<u>Construction in Progress as of December 31, 2018</u>	<u>Estimated Total Project Costs</u>	<u>Anticipated Completion Date</u>
Maintenance shop	<u>\$ 54,753</u>	<u>\$ 450,000</u>	3 to 5 years

In addition to the ongoing project above, the following project is in the exploratory stages to determine the feasibility of the following:

<u>Project Description</u>	<u>Construction in Progress as of December 31, 2018</u>	<u>Estimated Total Project Costs</u>	<u>Anticipated Completion Date</u>
Volunteer Village roadway & infrastructure	<u>\$ 40,443</u>	<u>\$ 1,400,000</u>	Unknown

NOTE 6 – CHARITABLE REMAINDER TRUST SPLIT INTEREST AGREEMENT

The Home is the beneficiary of a charitable remainder trust (the “Trust”) established by a donor with Amarillo National Bank naming the Home as the ultimate beneficiary of the trust. Under the terms of the Trust agreement, beginning with the passing of the donor’s wife, the Home is to receive the income from the Trust for a period of 20 years, with the funds to be used for such needs as determined by the Home’s Board of Directors. After a period of 20 years, the Board of Directors was given the option to notify the bank of the intention to terminate the Trust. The Home’s Board of Directors voted to terminate the trust, and beginning in July, 2007, the Trust began distributing to the Home 10% of the corpus plus the annual income from the Trust. Each year, an additional 10% of the corpus is to be distributed to the Home until such time as the entire corpus has been distributed. The remaining corpus of the Trust as of December 31, 2018 was \$70,156. Distributions received by the Home during 2018 totaled \$9,724, including the required 10% corpus distribution.

NOTE 7 – DONATED ITEMS

Clothing, food, property and miscellaneous goods in the amount of \$108,396, which included \$10,000 of costs included in additions to land, buildings and other property as of December 31, 2018, were donated during the year. The fair market value of these items is shown in the consolidated statement of activities as unrestricted contributions received.

HIGH PLAINS CHILDREN'S HOME AND FAMILY SERVICES, INC.
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NOTE 8 – CHARITABLE GIFT ANNUITIES

The Home is the beneficiary of various charitable gift annuities. Charitable gift annuities require an annuity to be paid to the donor or the donor's beneficiary, funded by the donated assets, over a designated period of time or the beneficiary's lifetime, with the remainder becoming a gift to the Home. The liability is recorded based on the terms of the gift, and the difference between the present value of the estimated liability and the fair value of the gift is recognized as revenue at the time of the gift. Sufficient assets are maintained by the Home to meet the annuity requirements stipulated by the annuity agreement and by state law. If the amounts given by the donor are restricted to a specified purpose or includes a time restriction, such gifts are recorded as net assets with donor restrictions. None of the Home's current charitable gift annuities had any specified purpose or time restrictions placed upon them. The following is a summary of the changes in the charitable gift annuities payable for the year ended December 31, 2018:

	<u>Balance 12/31/17</u>	<u>Annuities Received</u>	<u>Annuity Principal Payments</u>	<u>Balance 12/31/18</u>
Foundation:				
G/L Account #02-2170-01	\$ 464	\$ -	\$ (407)	\$ 57
G/L Account #02-2175-01	3,527	-	(1,299)	2,228
G/L Account #02-2176-01	4,636	-	(1,624)	3,012
G/L Account #02-2177-01	12,113	-	(3,861)	8,252
G/L Account #02-2178-01	7,293	-	(2,002)	5,291
G/L Account #02-2179-01	11,571	-	(3,380)	8,191
G/L Account #02-2180-01	128,121	-	(5,889)	122,232
G/L Account #02-2181-01	10,074	-	(2,659)	7,415
G/L Account #02-2182-01	13,955	-	(3,404)	10,551
G/L Account #02-2183-01	16,949	-	(3,300)	13,649
G/L Account #02-2184-01	7,395	-	(1,001)	6,394
Total charitable gift annuities payable	<u>\$ 216,098</u>	<u>\$ -</u>	<u>\$ (28,826)</u>	<u>\$ 187,272</u>

NOTE 9 – RETIREMENT PLAN

Effective January 1, 1995, the Home adopted a 403(b) Tax Sheltered Annuity Plan covering all employees. Employees may elect to contribute a portion of their wages to the plan, of which the Home will match 50% of the contribution up to the first 6% of eligible employees' salaries. Total matching contributions for the year ended December 31, 2018 were \$18,753 and are included in employee benefits on the consolidated statement of functional expenses. Effective as of March 1, 2019, the board raised the Home's matching portion to 100% of the contribution up to the first 6% of eligible employees' salaries.

NOTE 10 – NET ASSETS WITH DONOR RESTRICTIONS TO BE HELD IN PERPETUITY

The Foundation has received donations from various donors to be held in perpetuity, with the income from these funds to be used to support the operations of the Home. The cumulative amount of these donations received in previous years is \$66,000, which is shown on the accompanying consolidated statement of financial position as net assets with donor restrictions – restricted in perpetuity. These funds are reported within various investments held by the Foundation.

**HIGH PLAINS CHILDREN’S HOME AND FAMILY SERVICES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 11 – NET ASSETS WITH DONOR RESTRICTIONS – RESTRICTED AS TO TIME OR PURPOSE:

Changes in net assets with donor restrictions as to time or purpose as well as the amounts available as of December 31, 2018 are as follows:

	<u>Balance 12/31/17</u>	<u>Income Allocated to the Restricted Purpose</u>	<u>Donor Restrictions Satisfied</u>	<u>Balance 12/31/18</u>
Home:				
Capital projects:				
Derek Dickson putting green	\$ 3,700	\$ -	\$ -	\$ 3,700
Children's cottage construction and furnishings	250,000	521,928	-	771,928
Jennings Restoration Library	20,000	-	-	20,000
Sports complex	2,000	-	-	2,000
50th anniversary capital campaign	129,230	1,716	(34,219)	96,727
Ag program	4,435	-	-	4,435
Higher education	15,000	-	-	15,000
Cottage computers	1,000	-	-	1,000
Gazebo updates	5,000	-	-	5,000
Total - Home	<u>\$ 430,365</u>	<u>\$ 523,644</u>	<u>\$ (34,219)</u>	<u>\$ 919,790</u>
Foundation:				
Time restrictions:				
C.K. Cloud Trust	<u>\$ 83,418</u>	<u>\$ (3,538)</u>	<u>\$ (9,724)</u>	<u>\$ 70,156</u>

NOTE 12 – ENDOWMENT FUNDS

Effective September 1, 2007, the State of Texas enacted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”), the provisions of which apply to endowment funds existing on or established after that date. FASB ASC Subtopic 958-205, *Not-for-Profit Entities: Presentation of Financial Statements*, provides guidance on the net asset classification of donor-restricted funds for a not-for-profit organization that is subject to an enacted version of UPMIFA and also requires disclosures about endowment funds, both donor-restricted and board-designated. The sole purpose of the Foundation is to provide financial support and assistance for the Home.

The Board of Directors has accepted its financial responsibility outlined with the UPMIFA, and has adopted and implemented an investment policy statement accordingly. The Foundation is being used by the Board of Directors to meet the requirements of the UPMIFA and to maintain the Home’s investments.

The Board of Directors has interpreted the UPMIFA to require that investment funds restricted by donors to be held in perpetuity by the Foundation be maintained to provide total return through appreciation, dividends, and interest income from the endowment fund’s assets.

**HIGH PLAINS CHILDREN’S HOME AND FAMILY SERVICES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 12 – ENDOWMENT FUNDS (continued)

The careful management of the assets of the endowment fund is designed to ensure a return necessary to preserve, and it is hoped, enhance (in real dollar terms), the principal of the funds, and at the same time support the general operations and capital projects surrounding the Home. The management philosophy of the investment policy statement should be disciplined and consistent, taking into consideration all those events and occurrences considered reasonable and probable. Extreme positions and opportunistic styles do not fit the general philosophy and tone of the Foundation and are not acceptable. The overall investment direction is to maximize the return consistent with the risks that the Board of Directors is willing to accept as stated herein. The Board of Directors recognizes that risk (i.e. the potential for variability of asset values), and the potential of loss in purchasing power, (due to inflation), are present to some degree with all types of investment vehicles. Investment manager(s) will be required to comply with all applicable laws, rules and regulations. The investment manager(s) will be given full discretion in managing the funds within the Home’s investment policy statement.

Within the investment guidelines and constraints of the investment policy statement, the portfolio should be diversified so as to provide reasonable assurance that no single class of investment will have a disproportionate impact on the total portfolio. The Board of Directors may elect to serve as the investment committee, and authorizes the Board President to engage in “investment agency agreements” with any fund manager(s).

The Home’s endowment consists of both donor-restricted endowment funds as well as board-designated endowment funds. Net assets associated with endowments are classified and reported based on the existence or absence of donor-imposed restrictions.

As a result of the Board of Director’s interpretation of the UPMIFA, the Home classifies as net assets restricted by donors to be held in perpetuity (1) the original value of gifts donated to the endowment, (2) the original value of subsequent gifts to the endowment, and (3) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment is classified as net assets restricted by donors as to time or purpose until those amounts are appropriate for expenditure by the Home in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with the UPMIFA, the Home considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Home 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 Home
- The investment policies of the Home

HIGH PLAINS CHILDREN'S HOME AND FAMILY SERVICES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 12 – ENDOWMENT FUNDS (continued)

Return Objectives and Risk Parameters

The investment goal of the total endowment fund is to achieve a 5% average annual real rate of total return, (income and appreciation), over a full market cycle, (3 to 5 years). The following guidelines apply to four main investment asset classes:

- Cash and equivalents – allowable range of a minimum of 5% up to a maximum of 45% of total assets. A quality money market fund may be utilized for the liquidity needs of the portfolio whose objective is to seek as high a current income as is consistent with liquidity and stability of principal.
- Equities – allowable range of a minimum of 30% up to a maximum of 70% of total assets. The equity component of the portfolio will consist of high-quality domestic (United States) or International securities traded on the New York, NASDAQ, or American Stock Exchanges. The securities must be screened for their above average financial consideration such as price-to-earnings, return-on-equity and debt-to-capital.
- Fixed income – allowable range of a minimum of 30% up to a maximum of 70% of total assets. Bond investments will consist solely of taxable fixed income securities that have an investment grade rating (Baa or higher), and that possess a liquid secondary market.
- Real estate – allowable range up to 90% of total assets. Foundation owned income producing or appreciating property whose net return on investment, allowing for property taxes, insurance, maintenance and management personnel costs, will meet or exceed the existing performance measurement standard for the fixed income portion of the portfolio.

Strategies Employed for Achieving Objectives

The Home relies on a variety of strategies to satisfy its long-term rate-of-return objectives. The Home's investment policy addresses a variety of issues, including:

- Performance measurement checklist
- Monthly, quarterly, and annual review requirements by the Board of Directors or its designee
- Investment guidelines
- Selection of investment money manager(s)
- Control procedures
- Spending/Distribution policy

Spending/Distribution Policy

The proceeds of any withdrawals or transfers to the Home, whether interest earnings or corpus, may be utilized for daily operations, capital projects, securing challenge grants from other foundations, and/or debt retirement, and may be withdrawn or transferred as needed towards the successful operation of the Home, upon request, by any two of the following individuals: The Executive Director, Director of Capital Planning, Controller, and/or the Home's Board President.

HIGH PLAINS CHILDREN'S HOME AND FAMILY SERVICES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 12 - ENDOWMENT FUNDS (continued)

The following shows the composition of net assets by endowment type at December 31, 2018:

	<u>Unrestricted</u>	<u>Restricted by Purpose or Time</u>	<u>Restricted in Perpetuity</u>	<u>Total</u>
Foundation:				
Donor-restricted endowment funds	\$ -	\$ 70,156	\$ 66,000	\$ 136,156
Board-designated endowment funds	5,072,263	-	-	5,072,263
	<u>\$ 5,072,263</u>	<u>\$ 70,156</u>	<u>\$ 66,000</u>	<u>\$ 5,208,419</u>

A reconciliation of the beginning and ending balance of the Home's endowment in total and by net asset class is as follows:

	<u>Unrestricted</u>	<u>Restricted by Purpose or Time</u>	<u>Restricted in Perpetuity</u>	<u>Total</u>
Foundation:				
Endowment assets, beginning of year	\$ 4,278,730	\$ 83,418	\$ 66,000	\$ 4,428,148
Investment return:				
Investment income, net	126,243	1,127	-	127,370
Net realized and unrealized gains and losses	(204,467)	(4,665)	-	(209,132)
Total investment return:	(78,224)	(3,538)	-	(81,762)
Other Foundation activities:				
Contributions	130	-	-	130
Investment rental income	83,350	-	-	83,350
Royalty income	13,983	-	-	13,983
Foundation development expenses	(187,609)	-	-	(187,609)
Total other Foundation activities	(90,146)	-	-	(90,146)
Board designated transfers	952,179	-	-	952,179
Satisfaction of donor restrictions	9,724	(9,724)	-	-
Endowment assets, end of year	<u>\$ 5,072,263</u>	<u>\$ 70,156</u>	<u>\$ 66,000</u>	<u>\$ 5,208,419</u>

NOTE 13 – CONCENTRATIONS OF CREDIT RISK

At December 31, 2018, the Home had various bank accounts at Amarillo National Bank. The combined amount of bank deposits for all bank accounts as of December 31, 2018 was \$663,576, which was \$413,576 more than the maximum amount of \$250,000 of coverage provided from the Federal Deposit Insurance Corporation.

**HIGH PLAINS CHILDREN’S HOME AND FAMILY SERVICES, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 14 – COMMITMENTS AND CONTINGENCIES

The Home has been active in recent years with various projects pertaining to new construction or repairs and renovations to existing campus facilities as a part of a long range plan. During a previous year the Home completed the final stages of its capital campaign entitled “Tomorrow Begins Today” which has been used to fund projects that have either been completed or are ongoing at year end. Additional funding for the projects has come from various donations and bequests. The Home also began its 50th anniversary capital campaign to raise additional funds for these projects. During 2018, the Home continued with ongoing projects pertaining to construction of new facilities as well as to add landscaping and other projects as well as completion of an infrastructure project that was placed in service during 2018. See further details related to construction projects in Note 5.

NOTE 15 – LEASES

The Home leases a copier and a postage meter under operating leases. Total rent expense for the year ended December 31, 2018 for these leases was \$4,318, which is included in supplies, postage, and office expense on the consolidated statement of functional expenses. Future minimum payments under these leases are as follows:

<u>Fiscal year ending</u>		
December 31, 2019	\$	4,798
December 31, 2020		4,798
December 31, 2021		<u>2,479</u>
	<u>\$</u>	<u>12,075</u>

The Home also leased office space under a twelve month operating lease in the Firstbank Southwest Tower in downtown Amarillo. Total lease expense for the year ended December 31, 2018 was \$8,825, which is included as rent on the consolidated statement of functional expenses. Subsequent to year end, the Home renewed the lease for the twelve months ending December 31, 2019 at a rate of \$690 per month for total lease expense to be paid during 2019 of approximately \$8,280.

NOTE 16 – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Recently Issued and Adopted Accounting Pronouncements

In August 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-14 *Presentation of Financial Statement for Not-for-Profit Entities*, with the goal of improving not-for-profit entity financial statements to provide more useful information to donors, grantors, creditors and other financial statement users. The ASU significantly changes how entities present net assets on the face of the financial statements, as well as requires additional disclosures for expenses by nature and function and for the liquidity and availability of resources. This ASU is effective for financial statements with a reporting period beginning after December 15, 2017. This ASU 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 between not-for-profit entities.

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NOTE 16 – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS (continued)

Recently Issued and Adopted Accounting Pronouncements (continued)

A key change required by the ASU is the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions. A footnote on liquidity has also been added (Note 20). The accompanying summarized information from the 2017 financial statements has been restated to conform to the 2018 presentation and disclosure requirements of the ASU.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-02 *Leases* (Topic 842), which supersedes the lease requirements in *Leases* (Topic 840). The objective of the ASU is to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from a lease. The FASB is issuing this update to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This ASU is effective for financial statements with a reporting period beginning after December 15, 2019. The Home is currently evaluating the effects that this standard will have on the financial statements of the Home.

NOTE 17 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 16, 2019, the date on which the consolidated financial statements were available to be issued. Management is not aware of any subsequent events that would require adjustment to the financial statements or disclosure in the notes to the financial statements.

NOTE 18 – TENTATIVE SALE OF INVESTMENT PROPERTY

The Home is currently in negotiations to sell approximately 16 acres of land located in the Dallas-Fort Worth Metro area held in the Foundation. Although subject to change, the tentative price currently being negotiated is approximately \$1,353,972. The current basis of the land to be sold is \$604,390, which would result in an estimated gain on the sale of the property of \$749,582 before any commissions or closing costs. The Home anticipates closing on this sale during the year ended December 31, 2019, assuming the final terms of the sales contract are agreed upon by both parties.

The Home is also currently in negotiations to sell approximately 48.44 acres of land located in the Dallas-Fort Worth area held in the Foundation. Although subject to change, the tentative price currently being negotiated is approximately \$4,024,000. The current basis of the land to be sold is \$239,687, which would result in an estimated gain on the sale of the property of \$3,784,313 before any commissions or closing costs. The Home anticipates closing on the sale during the year ended December 31, 2019, assuming the final terms of the sales contract are agreed upon by both parties.

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NOTE 19– MISCELLANEOUS INCOME

During the year ended December 31, 2018, the Home received \$156,549 in insurance proceeds for hail damage to various properties incurred during a previous year and another \$2,035 in insurance proceeds for damages to various vehicles owned by the Home. The Home had also received in the prior year \$453,811 of insurance proceeds from hail damage from the same incident. Management replaced the roofs on substantially all buildings during the year ended December 31, 2018, which included \$653,164 in additions to the Home’s capital assets. The \$158,584 in insurance proceeds received in the current year are included in miscellaneous income for the year ended December 31, 2018 along with other sources as follows:

Home:	
Insurance proceeds - hail damages	\$ 156,549
Insurance proceeds - other	2,035
Stock show sales	8,149
Other	<u>5,578</u>
	<u><u>\$ 172,311</u></u>

NOTE 20 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Home’s primary sources of support are contributions, income from investments, and governmental and family support. Much of the support received each year by the Home is free from contractual or donor restrictions, unless the Home makes specific appeals to donors for capital contributions and similar projects. Donor-restrict support has historically funded capital expenditures such as infrastructure and cottage construction and improvements to existing facilities. Donor support can also vary substantially from year to year as the Home receives bequests on an irregular basis from the estates of individuals naming the Home as a beneficiary.

The Home has a policy to manage its liquidity and reserves essentially following three guiding principles: operating within a prudent range of financial stability, maintaining adequate liquidity to fund near-term operations, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

The table on the following page reflects the Home’s financial assets as of the balance sheet date, reduced by amounts not available for general use within one year of the balance sheet date because of contractual or donor-imposed restrictions or internal designations. Amounts available include the Board-approved endowment fund, as the Home’s spending and distribution policy for the Foundation stipulates the proceeds of any withdrawals or transfers to the Home, whether interest earnings or corpus, may be utilized for daily operations, capital projects, securing challenge grants from other foundations, and/or debt retirement, and may be withdrawn or transferred as needed towards the successful operation of the Home, upon request, by any two of the following individuals: The Executive Director, Director of Capital Planning, Controller, and/or the Home’s Board President.

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NOTE 20 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (continued)

	2018			2017
	Home	Foundation	Consolidated	Consolidated
Cash and cash equivalents	\$ 616,722	\$ 56,435	\$ 673,157	\$ 2,744,836
Accrued dividends receivable	-	22,416	22,416	21,519
Receivables	105,368	21,373	126,741	66,733
Investments, at fair value	<u>771,150</u>	<u>2,431,548</u>	<u>3,202,698</u>	<u>2,098,377</u>
Total financial assets	1,493,240	2,531,772	4,025,012	4,931,465
Contractual or donor-imposed restrictions:				
Cash and investments restricted as to time or purpose	(919,790)	(70,156)	(989,946)	(513,783)
Investments to be held in perpetuity	-	(66,000)	(66,000)	(66,000)
Charitable gift annuity obligations to be paid out during the year ended December 31, 2019	<u>-</u>	<u>(40,727)</u>	<u>(40,727)</u>	<u>(40,341)</u>
Financial assets available to meet cash needs for expenditures within one year not restricted by contractual obligation or donor restrictions	<u>\$ 573,450</u>	<u>\$ 2,354,889</u>	<u>\$ 2,928,339</u>	<u>\$ 4,311,341</u>

The Home also has an unsecured \$250,000 line of credit, which it could draw upon in the event of an anticipated liquidity need. The line of credit matures on July 1, 2019. The interest rate is a variable rate, which is the prime rate set by J.P. Morgan Chase & Co., Inc. New York (5.50% as of December 31, 2018), with interest due monthly and principal due upon maturity. The Home borrowed \$133,000 under this agreement during the fiscal year ended December 31, 2018, which was re-paid prior to the end of the fiscal year.