

**SACRAMENTO CHILDREN'S
HOME, INC.**

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT
AND SUPPLEMENTAL SCHEDULE**

**YEARS ENDED
JUNE 30, 2020 AND 2019**

SACRAMENTO CHILDREN'S HOME, INC.



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INDEPENDENT AUDITOR'S REPORT

**Board of Directors
Sacramento Children's Home, Inc.
Sacramento, California**

Report on the Financial Statements

We have audited the accompanying financial statements of Sacramento Children's Home, Inc. (SCH), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the 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 Sacramento Children's Home, Inc. as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of revenue and expenses for First 5 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2020, on our consideration of the SCH's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the SCH's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the SCH's internal control over financial reporting and compliance.



GILBERT CPAs
Sacramento, California

October 21, 2020



SACRAMENTO CHILDREN'S HOME, INC.

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 11,844,142	\$ 9,213,855
Contracts, grants, and other receivables, net	1,758,383	2,454,575
Prepaid expenses and other assets	<u>351,525</u>	<u>332,420</u>
Total current assets	<u>13,954,050</u>	<u>12,000,850</u>
NONCURRENT ASSETS:		
Investments	18,917,808	17,665,354
Property and equipment, net	<u>6,083,310</u>	<u>6,463,353</u>
Total noncurrent assets	<u>25,001,118</u>	<u>24,128,707</u>
TOTAL ASSETS	<u>\$ 38,955,168</u>	<u>\$ 36,129,557</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,140,344	\$ 979,535
Accrued expenses and other liabilities	1,100,576	696,325
Refundable advance	990,230	
Deferred revenues	<u>1,941,155</u>	<u>1,702,862</u>
Total current liabilities	<u>5,172,305</u>	<u>3,378,722</u>
NET ASSETS:		
Without donor restrictions	23,020,081	21,947,879
With donor restrictions	<u>10,762,782</u>	<u>10,802,956</u>
Total net assets	<u>33,782,863</u>	<u>32,750,835</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 38,955,168</u>	<u>\$ 36,129,557</u>

SACRAMENTO CHILDREN'S HOME, INC.



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STATEMENTS OF ACTIVITIES YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
REVENUES:		
Governmental grants and contracts	\$ 16,750,630	\$ 13,118,867
Contributions, grants, and bequests	1,632,220	1,669,902
Rental income	481,273	500,057
Interest and investment income	169,925	378,353
Special events	54,041	130,969
United Way	46,828	47,419
Other income	40,202	3,046
Net assets released from restriction	<u>934,092</u>	<u>1,212,128</u>
Total revenues	<u>20,109,211</u>	<u>17,060,741</u>
EXPENSES:		
Program services:		
Mental health clinical services	6,357,441	4,156,629
Family support services	5,305,409	4,652,671
Residential treatment and educational services	<u>4,567,674</u>	<u>4,157,470</u>
Total program services	16,230,524	12,966,770
Supporting services:		
General and administrative	2,221,277	2,013,356
Philanthropy	<u>585,208</u>	<u>681,924</u>
Total expenses	<u>19,037,009</u>	<u>15,662,050</u>
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>1,072,202</u>	<u>1,398,691</u>
NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions, grants, and bequests	438,285	304,143
Special events	392,245	513,016
Interest and investment income	39,815	570,261
Other income	23,573	756
Net assets released from restriction	<u>(934,092)</u>	<u>(1,212,128)</u>
INCREASE (DECREASE) IN NET ASSETS WITH DONOR RESTRICTIONS	<u>(40,174)</u>	<u>176,048</u>
INCREASE IN NET ASSETS	1,032,028	1,574,739
NET ASSETS, Beginning of Year	<u>32,750,835</u>	<u>31,176,096</u>
NET ASSETS, End of Year	<u>\$ 33,782,863</u>	<u>\$ 32,750,835</u>

The accompanying notes are an integral part of these financial statements.



SACRAMENTO CHILDREN'S HOME, INC.

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2020

	<u>Program Services</u>			<u>Supporting Services</u>			<u>Total</u>
	<u>Mental Health Clinical Services</u>	<u>Family Support Services</u>	<u>Residential Treatment & Educational Services</u>	<u>Total Program Services</u>	<u>General & Admin.</u>	<u>Philanthropy</u>	
Salaries	\$ 4,083,601	\$ 3,207,187	\$ 2,761,720	\$ 10,052,508	\$ 1,300,554	\$ 288,168	\$ 11,641,230
Employee benefits	646,146	450,900	325,503	1,422,549	166,481	42,056	1,631,086
Payroll taxes and insurance	348,698	286,775	322,638	958,111	97,037	21,850	1,076,998
Total compensation	<u>5,078,445</u>	<u>3,944,862</u>	<u>3,409,861</u>	<u>12,433,168</u>	<u>1,564,072</u>	<u>352,074</u>	<u>14,349,314</u>
Direct support for clients	559,756	348,673	488,793	1,397,222			1,397,222
Occupancy	61,015	325,055	158,605	544,675	103,163	25,625	673,463
Professional fees	101,768	228,955	74,107	404,830	118,613	4,698	528,141
Depreciation	103,813	68,332	112,954	285,099	216,705	12,327	514,131
Communications	193,387	96,055	43,148	332,590	27,142	9,294	369,026
Furniture and equipment	66,386	62,632	98,075	227,093	26,716	3,127	256,936
Travel	51,435	53,769	77,577	182,781	8,596	9,143	200,520
Supplies	51,679	78,795	35,072	165,546	25,497	3,310	194,353
Insurance	38,418	50,894	46,137	135,449	28,376	1,823	165,648
Equipment repairs and rentals	36,589	31,668	16,668	84,925	49,886	26,137	160,948
Events, conferences, and meetings		479	1,716	2,195	4,471	84,324	90,990
Printing and publications	13,288	9,162	648	23,098	3,019	33,121	59,238
Dues and memberships	30	120	1,650	1,800	16,314	6,878	24,992
Miscellaneous	1,432	5,958	2,663	10,053	28,707	13,327	52,087
Total expenses	<u>\$ 6,357,441</u>	<u>\$ 5,305,409</u>	<u>\$ 4,567,674</u>	<u>\$ 16,230,524</u>	<u>\$ 2,221,277</u>	<u>\$ 585,208</u>	<u>\$ 19,037,009</u>

The accompanying notes are an integral part of these financial statements.



SACRAMENTO CHILDREN'S HOME, INC.

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2019

	<u>Program Services</u>				<u>Supporting Services</u>		
	<u>Mental Health Clinical Services</u>	<u>Family Support Services</u>	<u>Residential Treatment & Educational Services</u>	<u>Total Program Services</u>	<u>General & Admin.</u>	<u>Philanthropy</u>	<u>Total</u>
Salaries	\$ 2,472,241	\$ 2,818,753	\$ 2,436,609	\$ 7,727,603	\$ 1,206,495	\$ 274,457	\$ 9,208,555
Employee benefits	370,625	374,756	329,039	1,074,420	141,322	41,295	1,257,037
Payroll taxes and insurance	224,030	257,081	286,210	767,321	96,699	21,187	885,207
Total compensation	<u>3,066,896</u>	<u>3,450,590</u>	<u>3,051,858</u>	<u>9,569,344</u>	<u>1,444,516</u>	<u>336,939</u>	<u>11,350,799</u>
Direct support for clients	487,470	257,821	480,890	1,226,181			1,226,181
Occupancy	102,175	317,660	170,872	590,707	96,696	19,753	707,156
Professional fees	58,162	232,330	87,052	377,544	61,935	32,842	472,321
Depreciation	102,966	68,815	104,676	276,457	225,290	18,094	519,841
Communications	65,757	80,656	38,045	184,458	19,722	13,238	217,418
Furniture and equipment	69,978	22,494	19,073	111,545	9,498	1,251	122,294
Travel	56,592	71,023	102,480	230,095	11,024	2,646	243,765
Supplies	78,957	70,299	37,326	186,582	18,337	5,147	210,066
Insurance	32,082	46,153	44,960	123,195	27,715	1,796	152,706
Equipment repairs and rentals	24,443	20,294	12,559	57,296	45,375	22,256	124,927
Events, conferences, and meetings	3,208	754	614	4,576	5,516	165,093	175,185
Printing and publications	6,516	7,573	1,081	15,170	3,432	39,612	58,214
Dues and memberships	204	120	1,800	2,124	15,690	3,861	21,675
Miscellaneous	1,223	6,089	4,184	11,496	28,610	19,396	59,502
Total expenses	<u>\$ 4,156,629</u>	<u>\$ 4,652,671</u>	<u>\$ 4,157,470</u>	<u>\$ 12,966,770</u>	<u>\$ 2,013,356</u>	<u>\$ 681,924</u>	<u>\$ 15,662,050</u>

The accompanying notes are an integral part of these financial statements.

SACRAMENTO CHILDREN'S HOME, INC.



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STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from contracts and grants	\$ 17,685,115	\$ 12,855,776
Cash received from public support	2,566,569	2,666,495
Cash received from other sources	1,535,278	503,456
Cash received from interest and dividends	409,356	426,381
Cash paid for employee salaries	(11,236,979)	(9,114,325)
Cash paid for services and goods	<u>(6,742,894)</u>	<u>(5,633,663)</u>
Net cash provided by operating activities	<u>4,216,445</u>	<u>1,704,120</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(5,790,376)	(6,179,589)
Proceeds from sale and maturity of investments	4,338,306	4,996,626
Purchases of property and equipment	(134,088)	(163,374)
Proceeds from sale of property and equipment	<u>400</u>	<u>400</u>
Net cash used for investing activities	<u>(1,586,158)</u>	<u>(1,345,937)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,630,287	358,183
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>9,213,855</u>	<u>8,855,672</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 11,844,142</u>	<u>\$ 9,213,855</u>

The accompanying notes are an integral part of these financial statements.

SACRAMENTO CHILDREN'S HOME, INC.



NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

1. ORGANIZATION AND CURRENT PROGRAMS

Sacramento Children's Home, Inc. (SCH) is Sacramento County's oldest private 501(c)(3) not-for-profit organization dedicated to serving children and families at risk. All of the service operations provided by the SCH have been accredited by the Council on Accreditation.

Originally founded as an orphanage in 1867, the SCH has changed with the times and the needs of the community. Today, the SCH programs throughout Sacramento County provide diverse services for children and their families, all designed toward our mission of "Opening doors to the future by maximizing the potential of children and families."

In order to fulfill that mission, the SCH provides a broad range of resources for families including:

Family Support Services: A wide variety of family support services are provided in high-risk communities through family resource centers. The purpose of these programs is to eliminate substantiated complaints to Child Protective Services through in-home visitation and counseling, pre-natal counseling, parenting classes, and peer-family support programs. The innovative Sacramento Crisis Nursery provides short-term respite care for children from birth to age five for families in crisis. The nursery case managers provide problem solving and referrals to parents in order to develop long-term solutions to the crisis while their children are in a safe and caring environment.

STRTP Residential Treatment/Wraparound Program: SCH has a residential capacity for 30 boys ages 6 to 19 at the main 15-acre campus. The residential care team includes licensed therapists, social workers, residential counselors, medical support staff and therapeutic recreation program staff. The teams provide 24-hour-a-day care and trauma treatment to children overcoming issues stemming from neglect, abandonment, sexual or physical abuse, mental health issues or serious family conflict. Emphasis is placed on behavioral stabilization, in the home, school and community in order to move the boys to a home and family. In September of 2018 the Residential Program was licensed as a Short Term Residential Therapeutic Program (STRTP). The Residential and Wraparound goal is to move the children to a family that will provide a stable home and support system for life.

Educational Services: The SCH provides literacy programs and afterschool tutoring assistance for foster youth as well as a violence prevention and early intervention program designed to teach social skills, violence prevention, and conflict management skills for youth and families.

Mental Health Clinical Services: A wide range of clinical intervention is provided to children and families throughout the Sacramento region based on treatment modalities that have been proven to be effective. Treatment interventions are tailored to the specific needs of each child and family based on a needs assessment agreed upon between the clinical services provider and the child/family. Mental Health services are provided at the on-campus clinics as well as in schools, in the community and in home. Services are also provided virtually via telehealth and a crisis support line. Mental Health intervention provides a range of services from prevention and early intervention to intensive trauma treatment.

SACRAMENTO CHILDREN'S HOME, INC.



NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation – The SCH's financial statements are prepared on the accrual basis of accounting in conformity with professional standards applicable to not-for-profit entities. The SCH reports information regarding its financial position and activities according to two classes of net assets: with or without donor restrictions.

Revenue recognition – Revenues from government grants and contracts are recognized when qualifying expenses are incurred or services are provided in compliance with these grants and contracts.

Funds received in advance of being earned are recorded as deferred revenue, which represents a contract liability. Contract liabilities totaled \$1,941,155, \$1,702,862, and \$1,231,972 at June 30, 2020, 2019, and 2018, respectively.

A portion of the SCH's revenue from government grants and contracts are multi-year agreements. Amounts per these agreements that have not been recognized at June 30, 2020 as they relate to qualifying expenses or services to be performed in the year ended June 30, 2021 totaled \$3,152,926.

Contributions are recognized in full when received or unconditionally promised, in accordance with professional standards. All contributions are considered available for unrestricted use unless specifically restricted by donors for future periods or specific purposes. Donor-restricted amounts are reported as increases in net assets with donor restrictions. Net assets with donor restrictions become unrestricted, and are reported in the statements of activities as net assets released from restrictions, when the time restrictions expire or the contributions are used for the restricted purpose. All restricted contributions whose restrictions and conditions are met in the same reporting period are recognized as revenue within net assets without donor restrictions.

Donated materials, equipment, and professional services are recorded as in-kind donations and recognized at the estimated fair value as of the date of donation or service. Contributed services that do not meet the criteria for recognition under professional standards are not reflected in the financial statements.

Cash and cash equivalents – For financial statement purposes, the SCH considers all investments with a maturity at purchase of three months or less to be cash equivalents, unless held for long-term purposes.

SACRAMENTO CHILDREN'S HOME, INC.



NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

The SCH minimizes credit risk associated with cash by periodically evaluating the credit quality of its primary financial institution. The SCH deposits that may be in excess of federally insured limits are held in a financial institution with a deposit rating of Aa1/Prime-1. The SCH deposits held with financial institutions in excess of federal depository insurance limits were \$10,089,764 and \$8,080,868 as of June 30, 2020 and 2019, respectively. The SCH has not experienced any losses in such accounts and management believes the SCH is not exposed to any significant credit risk related to cash.

Contracts, grants, and other receivables are comprised of amounts due to the SCH and are expected to be received within the next fiscal year. An allowance of \$18,843 for the years ended June 30, 2020 and 2019 has been recorded. The allowance is based on historical experience of uncollected receivables for which documentation of the receivable may be discrepant with the contracting agency. Management reviews all receivables on a monthly basis and follows up for collection. Contracts, grants, and other receivables, net totaled \$1,758,383, \$2,454,575, and \$1,720,594 at June 30, 2020, 2019, and 2018, respectively.

Investments are stated at fair value and held for long-term purposes.

Property and equipment are stated at cost or, if donated, at the estimated fair value at the time of donation. The SCH capitalizes all expenditures of property and equipment in excess of \$5,000. Assets are depreciated using the straight-line method over estimated useful lives of 3 to 30 years.

Functional allocation of expenses – The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The financial statements report certain categories of expenses that are attributable to one or more programs or supporting functions of the SCH. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Those expenses include occupancy and depreciation, telephone, the administration office including the CEO, finance department, human resources department, information technology department and portions of the quality improvement department. Occupancy and depreciation are allocated based on square footage, telephone is based on the number of phone lines, the information technology department is allocated based on IT ports utilized, and all other departments are allocated based on direct expenses of each program as a percentage of total program expenses.

Income taxes – The SCH is exempt from income taxes under Section 501(c)(3) of the U. S. Internal Revenue Code and corresponding California state codes. Contributions to the SCH are deductible to the full extent allowable under these laws.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fair value measurements – Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

cases is the same; to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (that is, an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability). In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, as follows:

Level 1 Inputs	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.
Level 2 Inputs	Inputs other than quoted prices in active markets that are observable either directly or indirectly.
Level 3 Inputs	Unobservable inputs for the asset or liability.

New accounting pronouncements – In May 2014, the Financial Accounting Standards Board (FASB) issued Topic 606, *Revenue from Contracts with Customers*. The new accounting standard developed a common standard that removed inconsistencies in revenue requirements, improved comparability of revenue recognition practices, provided more useful information to users of financial statements and simplified the preparation of financial statements. The SCH implemented Topic 606 effective July 1, 2019 for all contracts with no effect on beginning net assets.

In June 2018, the FASB issued Accounting Standards Update (ASU) 2018-08, Not-for-Profit Entities (Topic 958), *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new accounting standard clarified and improved the guidance for (1) evaluating whether transactions should be accounted for as contributions within the scope of Topic 958 or as exchange transactions subject to other guidance and (2) determining whether a contribution is conditional. The SCH implemented this accounting standard in the accompanying financial statements effective July 1, 2019 under the modified prospective basis. Accordingly, there is no effect on beginning net assets in connection with the implementation of ASU 2018-08.

Future accounting pronouncements – In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The new accounting standard requires lessees to recognize a lease liability measured on a discounted basis and a right-of-use asset for all leases with terms longer than 12 months. Application of this statement is effective for the year ending June 30, 2023. The SCH is currently evaluating the impact this pronouncement will have on the financial statements.

Reclassification – Certain 2019 amounts have been reclassified to conform to the 2020 financial statement presentation.

Subsequent events have been evaluated through October 21, 2020, the date the financial statements were available to be issued. Management concluded that no material subsequent events have occurred since June 30, 2020 that require recognition or disclosure in the financial statements.

SACRAMENTO CHILDREN'S HOME, INC.



NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

3. LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects the SCH's financial assets as of the statement of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date. Amounts not available include amounts set aside for long-term investing in the quasi-endowments that can be drawn upon if the governing board approves that action. In addition, amounts already appropriated from either the donor-restricted endowment or quasi-endowment for general expenditure within one year of the statement of financial position date have not been subtracted as unavailable:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 11,844,142	\$ 9,213,855
Contracts, grants, and other receivables, net	1,758,383	2,454,575
Investments	<u>18,917,808</u>	<u>17,665,354</u>
Financial assets, at year end	32,520,333	29,333,784
Less those unavailable for general expenditures within one year, due to:		
Board designated net assets	(9,291,503)	(8,186,333)
Restricted by donor for purpose or to be held in perpetuity	<u>(10,762,782)</u>	<u>(10,802,956)</u>
Total financial assets available to management for general expenditure within one year	<u>\$ 12,466,048</u>	<u>\$ 10,344,495</u>

The SCH is partially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the SCH must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the SCH's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the SCH invests cash in excess of daily requirements in short-term investments. Occasionally, the board designates a portion of any operating surplus to its operating reserve, which was \$3,442,848 and \$3,090,402 as of June 30, 2020 and 2019, respectively. There are funds established by the governing board that may be drawn upon in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities. In the event of an unanticipated liquidity need, the SCH also could draw upon \$1,500,000 of an available line of credit (as further discussed in Note 6) or its quasi-endowment fund.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

4. INVESTMENTS

Corporate bonds and U.S. Treasury notes are classified within Level 2 of the fair value hierarchy because they are valued using observable inputs other than quoted market prices. All other investments are classified within Level 1 of the fair value hierarchy because they are measured by pricing on publicly traded markets with reasonable levels of price transparency. Investments consist of the following:

	<u>2020</u>	<u>2019</u>
Fixed income:		
U.S. Treasury notes	\$ 3,229,868	\$ 3,063,543
Domestic mutual funds	2,717,252	1,641,748
International mutual funds	668,398	729,877
Corporate bonds	260,775	303,528
Stock funds:		
Domestic mutual funds	3,998,291	3,654,540
International mutual funds	2,158,220	2,283,054
Information technology	1,328,878	1,015,107
Health care	566,644	546,992
Consumer discretionary	552,330	481,543
Financials	406,483	476,520
International equities	391,772	474,018
Consumer staples	366,714	346,515
Industrials	319,419	337,568
Utilities	168,400	179,608
Energy	129,511	201,028
Telecommunication services	120,097	121,749
Materials	98,482	94,520
Special equities	36,962	22,676
Real asset funds	1,383,476	1,238,366
Long/short equity fund		397,855
Managed futures fund		16,309
Multialternative fund		10,937
Other	15,836	27,753
Total investments	<u>\$ 18,917,808</u>	<u>\$ 17,665,354</u>

Interest and investment income consist of the following:

	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 409,356	\$ 426,381
Net realized gain	120,961	411,144
Net unrealized gain (loss)	<u>(320,577)</u>	<u>111,089</u>
Total interest and investment income	<u>\$ 209,740</u>	<u>\$ 948,614</u>

Interest and investment income is shown net of investment fees of \$109,285 and \$104,853 in 2020 and 2019, respectively.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2020</u>	<u>2019</u>
Land	\$ 469,350	\$ 469,350
Buildings and improvements	12,315,511	12,225,125
Furniture and equipment	482,608	482,608
Automobiles	198,161	149,173
Construction in progress	16,605	21,891
Total	13,482,235	13,348,147
Less accumulated depreciation	<u>(7,398,925)</u>	<u>(6,884,794)</u>
Property and equipment, net	<u>\$ 6,083,310</u>	<u>\$ 6,463,353</u>

6. LINE OF CREDIT

The SCH has a revolving line of credit up to \$1,500,000 with interest equal to the prime rate announced by Wells Fargo Bank minus 1.25%, maturing February 2021. Investments are pledged in an amount equal to the outstanding balance, if applicable. No amounts were outstanding as of June 30, 2020 and 2019.

7. OPERATING LEASE AGREEMENTS

The SCH leases certain office space and equipment under non-cancelable operating leases and month-to-month leases. Total expense under these leases was \$294,928 for 2020 and \$318,416 for 2019. Future minimum lease payments on non-cancelable leases are as follows:

Fiscal year ending June 30:

2021	\$ 289,631
2022	276,446
2023	237,477
2024	160,886
2025	<u>147,310</u>
Total	<u>\$ 1,111,750</u>

The SCH receives rental income for certain property under non-cancelable operating leases and month-to-month leases. Total revenue under these leases was \$481,273 for 2020 and \$500,057 for 2019. During 2015, SCH entered into a long-term non-cancelable operating lease agreement that expires in January 2041.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

Future minimum rentals are to be received on non-cancelable leases as follows:

Fiscal year ending June 30:

2021	\$ 389,244
2022	370,127
2023	210,000
2024	210,000
2025	210,000
Thereafter	<u>3,255,000</u>
Total	<u>\$ 4,644,371</u>

8. NET ASSETS

Net assets without donor restrictions are as follows:

	<u>2020</u>	<u>2019</u>
Board designated:		
Board designated endowment funds:		
Operating reserve	\$ 3,442,848	\$ 3,090,402
Strategic fund	1,823,237	1,829,423
Deferred maintenance fund	2,461,467	1,691,835
Promise fund	<u>924,559</u>	<u>927,105</u>
Subtotal, board designated endowment funds	8,652,111	7,538,765
Community outreach	460,386	464,038
Employee recruitment	<u>179,006</u>	<u>183,530</u>
Total board designated	9,291,503	8,186,333
Undesignated	<u>13,728,578</u>	<u>13,761,546</u>
Total net assets without donor restrictions	<u>\$ 23,020,081</u>	<u>\$ 21,947,879</u>

SACRAMENTO CHILDREN'S HOME, INC.



NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

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

	<u>2020</u>	<u>2019</u>
Purpose restrictions:		
Operating funds:		
Family support services	\$ 2,826,647	\$ 2,760,989
Residential treatment services	2,463,505	2,427,160
Educational services	26,605	26,605
Subtotal, operating funds	<u>5,316,757</u>	<u>5,214,754</u>
Assets held for scholarship endowments	415,374	403,989
Other	<u>14,106</u>	<u>14,552</u>
Total purpose restrictions	<u>5,746,237</u>	<u>5,633,295</u>
Perpetually restricted:		
Residential treatment services	4,337,209	4,490,325
Crisis nursery	500,000	500,000
Scholarship and other	<u>179,336</u>	<u>179,336</u>
Total perpetually restricted net assets	<u>5,016,545</u>	<u>5,169,661</u>
Total net assets with donor restrictions	<u>\$ 10,762,782</u>	<u>\$ 10,802,956</u>

The SCH's funds include both donor-restricted endowment funds and funds designated by the Board of Directors (Board) to function as endowments. As required by professional standards, net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The SCH classifies as perpetually restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) accumulated unrealized appreciation and depreciation of endowment investments if directed by the donor gift instrument, (c) the original value of subsequent gifts to the permanent endowments, and (d) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, and are to be invested in perpetuity and interest and dividends to be used for operating or other purposes as designated by the Board.

Board designated funds have been established to allow for funding of various strategic programs, outreach programs, and capital improvements. Since 2016 the Board has established and grown a board designated operating reserve with the goal of reaching a balance equal to 20% to 25% of operating expenses. During fiscal year 2020 and 2019, the Board contributed \$265,000 and \$800,000, respectively, with a plan of re-achieving the goal to keep up with expense growth by 2023. Perpetually restricted net assets consist of several endowment-like funds for residential care, providing music lessons and instruments, and scholarships.

The primary investment objectives of the fund's investment policies, approved by the Board, are to preserve principal, to provide a dependable and reasonable rate of return consistent with appropriate investment risk, and to maximize income within a framework of moderate risk assumptions. The Board designated fund objectives are to protect the principal in order to generate interest and appreciation for availability by the Board for the fund's intended use.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

Changes in endowment net assets are as follows:

Year ending June 30, 2020:	<u>Board designated</u>	<u>Time or purpose restricted</u>	<u>Perpetually restricted</u>
Endowment net assets, beginning of year	\$ 7,538,765	\$ 2,226,884	\$ 5,169,661
Investment return:			
Investment income, net of fees	155,032	153,108	
Realized/unrealized gain (loss)	<u>(35,686)</u>	<u>23,741</u>	<u>(153,116)</u>
Total investment income (loss)	119,346	176,849	(153,116)
Contributions	1,019,000		
Endowment expenditures	<u>(25,000)</u>	<u>(187,694)</u>	
Endowment net assets, end of year	<u>\$ 8,652,111</u>	<u>\$ 2,216,039</u>	<u>\$ 5,016,545</u>
Year ending June 30, 2019:	<u>Board designated</u>	<u>Time or purpose restricted</u>	<u>Perpetually restricted</u>
Endowment net assets, beginning of year	\$ 6,538,126	\$ 2,019,618	\$ 5,120,442
Investment return:			
Investment income, net of fees	151,688	174,283	
Realized/unrealized gain	<u>177,383</u>	<u>166,707</u>	<u>49,219</u>
Total investment income	329,071	340,990	49,219
Contributions	904,000		
Endowment expenditures	<u>(232,432)</u>	<u>(133,724)</u>	
Endowment net assets, end of year	<u>\$ 7,538,765</u>	<u>\$ 2,226,884</u>	<u>\$ 5,169,661</u>

9. PAYCHECK PROTECTION PROGRAM LOAN

On May 14, 2020, the SCH received a Paycheck Protection Program (PPP) loan under the Federal Coronavirus Aid, Relief, and Economic Security (CARES) Act totaling \$1,500,000. The terms and repayment conditions of PPP loans were modified through the subsequent Paycheck Protection Program Flexibility Act (PPFPA) signed into law in June 2020. Under the CARES Act, as modified by PPFPA, a portion or all of the loan and accrued interest may be forgiven provided the funds are spent on qualifying payroll and other expenditures in the 24-week period following the loan and provided certain other criteria regarding full-time equivalent employee and payroll levels are maintained.

The SCH has accounted for the loan as a conditional contribution in accordance with professional standards for revenue recognition for not-for profit entities. During the year ended June 30, 2020, the SCH recognized \$509,770 as contribution revenue (included with government grants and contracts), representing the portion of the loan for which it believes it has met the criteria for forgiveness through incurring qualifying expenses. The balance of the loan, totaling \$990,230 as of June 30, 2020 is included in the statements of financial position as a refundable advance and will be recognized as revenue when qualifying expenses are incurred.

SACRAMENTO CHILDREN'S HOME, INC.



NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

The portion of the loan that does not qualify for forgiveness or any additional amount that the SCH chooses to retain as a loan, is required to be repaid within 5 years at 1% interest. The application for loan forgiveness is subject to approval by the lender and could also be subject to audit at a future date. Although the SCH believes it has, or will, meet the criteria for forgiveness through incurring qualifying expenses for the entire amount of this loan, there is a remote chance that a portion of this remaining loan will not be forgiven, and will be required to be repaid. In the event that a portion of this loan is required to be repaid, the SCH has sufficient cash reserves to repay any portion that may not be forgiven.

10. RETIREMENT PLAN

The SCH has a defined contribution retirement plan under Internal Revenue Code Section 403(b). Employees are eligible to participate upon date of hire. On a discretionary basis, the SCH contributes amounts up to 3% of annual salary. Plan expense totaled \$192,398 and \$153,849 in 2020 and 2019, respectively.

11. CONCENTRATION

The SCH receives a significant portion of its public support and revenue from various government agencies. These funds are subject to audit by agents of the funding authorities, the purpose of which is to ensure compliance with conditions precedent to providing such funds. Management believes that any liability for reimbursement that may arise as the result of such audits would not be material. However, if a significant reduction in funding from these government agencies occurred, the SCH's ability to maintain related programs would significantly decrease.

12. OVERHEAD PERCENTAGE

The SCH measures the ratio of its supporting service expenses to its total revenues as follows:

	<u>2020</u>		<u>2019</u>	
	<u>Amounts</u>	<u>% of Total Revenues</u>	<u>Amounts</u>	<u>% of Total Revenues</u>
Supporting service expenses:				
General and administrative	\$ 2,221,277	11.1%	\$ 2,013,356	11.7%
Philanthropy	<u>585,208</u>	<u>2.9%</u>	<u>681,924</u>	<u>4.0%</u>
Total supporting services	<u>\$ 2,806,485</u>	<u>14.0%</u>	<u>\$ 2,695,280</u>	<u>15.7%</u>
Total revenues:				
Total unrestricted revenues	\$ 20,109,211		\$ 17,060,741	
Increase (decrease) in net assets with donor restrictions	<u>(40,174)</u>		<u>176,048</u>	
Total revenues	<u>\$ 20,069,037</u>		<u>\$ 17,236,789</u>	

SACRAMENTO CHILDREN'S HOME, INC.

NOTE TO SCHEDULE OF REVENUE AND EXPENSES FOR FIRST 5 FUNDING YEAR ENDED JUNE 30, 2020



1. BASIS OF PRESENTATION

The accompanying schedule of revenue and expenses for First 5 funding of Sacramento Children's Home, Inc. (SCH) is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of First 5. It is not representative of the full spending of the programs and only includes spending related to First 5. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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SCHEDULE OF REVENUE AND EXPENSES FOR FIRST 5 FUNDING YEAR ENDED JUNE 30, 2020

	<u>Crisis Nurseries</u>	<u>Family Resource Centers</u>	<u>Total</u>
REVENUES:			
First 5 program income	\$ 1,210,725	\$ 1,797,217	\$ 3,007,942
Total revenues	<u>1,210,725</u>	<u>1,797,217</u>	<u>3,007,942</u>
EXPENSES:			
Salaries	870,453	914,135	1,784,588
Employee benefits	118,961	174,131	293,092
Payroll taxes and insurance	<u>59,673</u>	<u>62,939</u>	<u>122,612</u>
Total compensation	1,049,087	1,151,205	2,200,292
Occupancy	44,781	152,866	197,647
Communications	41,992	97,604	139,596
Professional fees	12,868	72,881	85,749
Travel	10,219	29,791	40,010
Supplies	3,838	41,968	45,806
Direct support for clients	7	29,989	29,996
Furniture and equipment	10,635	12,364	22,999
Insurance	5,952	15,930	21,882
Depreciation	8,298	2,291	10,589
Miscellaneous	2,418	30	2,448
Indirect	<u>141,370</u>	<u>222,954</u>	<u>364,324</u>
Total expenses	<u>1,331,465</u>	<u>1,829,873</u>	<u>3,161,338</u>
TOTAL NET DEFICIT	<u>\$ (120,740)</u>	<u>\$ (32,656)</u>	<u>\$ (153,396)</u>