

CHILDREN'S COUNTRY HOME

FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Children's Country Home
Woodinville, Washington

We have audited the accompanying statements of financial position of Children's Country Home as of June 30, 2007 and 2006, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Children's Country Home as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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CHILDREN'S COUNTRY HOME
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2007 AND 2006

| | 2007 | 2006 |
|--|--------------|--------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 422,257 | \$ 739,228 |
| Accounts receivable | 133,160 | 151,831 |
| Investments | 397,446 | 52,460 |
| Prepaid expenses | 26,456 | 26,971 |
| Total current assets | 979,319 | 970,490 |
| Property and equipment, net | 483,583 | 496,874 |
| | \$ 1,462,902 | \$ 1,467,364 |
| LIABILITIES AND NET ASSETS | | |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts payable | \$ 15,790 | \$ 16,118 |
| Accrued expenses | 26,389 | 92,376 |
| Accrued vacation | 49,448 | 39,821 |
| Total current liabilities | 91,627 | 148,315 |
| Forgivable loans | 290,000 | 290,000 |
| | 381,627 | 438,315 |
| NET ASSETS | | |
| Unrestricted | | |
| Undesignated | 1,032,507 | 972,897 |
| Board designated for future building remodel | 34,586 | 45,219 |
| | 1,067,093 | 1,018,116 |
| Temporarily restricted | 14,182 | 10,933 |
| | 1,081,275 | 1,029,049 |
| | \$ 1,462,902 | \$ 1,467,364 |

CHILDREN'S COUNTRY HOME
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2007 AND 2006

| | 2007 | 2006 |
|---|--------------|--------------|
| CHANGES IN UNRESTRICTED NET ASSETS | | |
| Support and Revenues | | |
| Fees for services | \$ 1,444,625 | \$ 1,587,663 |
| Contributions | 32,394 | 26,277 |
| In-kind donations | 20,362 | 18,964 |
| Investment Income | 28,043 | 13,116 |
| | 1,525,424 | 1,646,020 |
| Net assets released from restriction | | |
| Restrictions satisfied by payments | 5,988 | 7,083 |
| | 1,531,412 | 1,653,103 |
| Expenses | | |
| Program | 1,242,663 | 1,274,525 |
| Management and general | 150,095 | 122,497 |
| Fund-raising | 89,677 | 20,966 |
| | 1,482,435 | 1,417,988 |
| CHANGE IN UNRESTRICTED NET ASSETS | 48,977 | 235,115 |
| CHANGES IN TEMPORARILY RESTRICTED NET ASSETS | | |
| Contributions | 9,237 | 17,212 |
| Release from restriction | (5,988) | (7,083) |
| CHANGE IN TEMPORARILY RESTRICTED NET ASSETS | 3,249 | 10,129 |
| CHANGE IN NET ASSETS | 52,226 | 245,244 |
| Net assets | | |
| Beginning of the year | 1,029,049 | 783,805 |
| End of the year | \$ 1,081,275 | \$ 1,029,049 |

CHILDREN'S COUNTRY HOME
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2007

| | Support Services | | | Total |
|-------------------------------|---------------------|---------------------------|------------------|---------------------|
| | Program | Management and General | Fund-raising | |
| Salaries and wages | \$ 901,128 | \$ 51,621 | \$ 70,409 | \$ 1,023,158 |
| Payroll taxes | 99,130 | 4,892 | 5,617 | 109,639 |
| Employee benefits | 64,630 | 6,523 | 4,679 | 75,832 |
| | <u>1,064,888</u> | <u>63,036</u> | <u>80,705</u> | <u>1,208,629</u> |
| Nursing contract fees | 28,288 | - | - | 28,288 |
| Professional fees | 3,043 | 47,518 | 111 | 50,672 |
| Insurance | 27,008 | 5,277 | 77 | 32,362 |
| Utilities | 18,411 | 4,514 | 737 | 23,662 |
| Household | 37,911 | 1,878 | 448 | 40,237 |
| Clients | 16,234 | - | - | 16,234 |
| Transportation | 3,028 | - | 53 | 3,081 |
| Office | 4,325 | 7,689 | 4,463 | 16,477 |
| Staff costs | 19,623 | 1,609 | 226 | 21,458 |
| Travel and related expenses | - | 1,916 | - | 1,916 |
| Depreciation | 19,087 | 4,056 | 1,932 | 25,075 |
| Loss on disposal of equipment | - | - | - | - |
| Fundraising/Marketing | 755 | 12,538 | 844 | 14,137 |
| Miscellaneous | 62 | 64 | 81 | 207 |
| | <u>\$ 1,242,663</u> | <u>\$ 150,095</u> | <u>\$ 89,677</u> | <u>\$ 1,482,435</u> |

CHILDREN'S COUNTRY HOME
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2006

| | Program | Support Services | | Total |
|-------------------------------|---------------------|---------------------------|------------------|---------------------|
| | | Management and General | Fund-raising | |
| Salaries and wages | \$ 918,333 | \$ 66,508 | \$ 13,156 | \$ 997,997 |
| Payroll taxes | 106,557 | 5,349 | 997 | 112,903 |
| Employee benefits | 73,211 | 1,192 | 1,630 | 76,033 |
| | <u>1,098,101</u> | <u>73,049</u> | <u>15,783</u> | <u>1,186,933</u> |
| Nursing contract fees | 34,176 | - | - | 34,176 |
| Professional fees | 3,730 | 26,612 | 25 | 30,367 |
| Insurance | 29,818 | 4,914 | - | 34,732 |
| Utilities | 17,498 | 5,353 | - | 22,851 |
| Household | 37,539 | 3,189 | - | 40,728 |
| Clients | 10,560 | - | - | 10,560 |
| Transportation | 1,621 | 27 | 24 | 1,672 |
| Office | 4,273 | 4,194 | 4,727 | 13,194 |
| Staff costs | 12,922 | 403 | 194 | 13,519 |
| Travel and related expenses | 7 | 1,007 | - | 1,014 |
| Depreciation | 22,030 | 3,550 | 213 | 25,793 |
| Loss on disposal of equipment | 2,250 | - | - | 2,250 |
| Miscellaneous | - | 199 | - | 199 |
| | <u>\$ 1,274,525</u> | <u>\$ 122,497</u> | <u>\$ 20,966</u> | <u>\$ 1,417,988</u> |

**CHILDREN'S COUNTRY HOME
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2007 AND 2006**

| | 2007 | 2006 |
|--|--------------|--------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from fees and contributions | \$ 1,504,927 | \$ 1,605,086 |
| Cash received from interest | 26,476 | 13,116 |
| Cash paid to employees and suppliers | (1,488,390) | (1,295,586) |
| | 43,013 | 322,616 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (16,565) | (17,783) |
| Purchase of investments, net | (343,419) | (1,619) |
| | (359,984) | (19,402) |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | (316,971) | 303,214 |
| CASH AND CASH EQUIVALENTS | | |
| Beginning of the year | 739,228 | 436,014 |
| End of the year | \$ 422,257 | \$ 739,228 |

CHILDREN'S COUNTRY HOME
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

Note 1 –Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities – Children's Country Home (the Organization), a not-for-profit organization, is a loving eight-bed home that provides 24-hour skilled care to medically-fragile and technology-dependent children from infancy through young adulthood. Services are available for children needing long-term, transitional, respite or end-of-life care.

When a child has intense disabilities and complex medical needs, providing round-the-clock care can be exhausting and overwhelming. Since 1997, families have turned to Children's Country Home. We serve as an extension to the child's own family. Our dedicated staff and volunteers provide a loving, enriching environment for every child while parents receive support to understand their child's complex medical needs. We accept children with complex needs; children with chronic conditions rendering them medically fragile; children who are severely and multiply handicapped; and children who are terminally ill.

Basis of Accounting and Presentation – The financial statements of the Organization have been prepared on the accrual basis of accounting and report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. There is \$12,111 and \$2,071 remaining in temporarily restricted net assets to be used for remodeling the facility and for the purpose of special care needs, respectively, at June 30, 2007. There is \$10,011 and \$922 remaining in temporarily restricted net assets to be used for remodeling the facility and for the purpose of special care needs at June 30, 2006. There were no permanently restricted net assets at June 30, 2007 or 2006.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporarily restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. It is the Organization's policy to recognize restricted contributions in the unrestricted net asset class if the restrictions have been met in the same year.

CHILDREN'S COUNTRY HOME
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

Note 1 – Nature of Activities and Summary of Significant Accounting Policies
(Continued)

Cash and Cash Equivalents – For purposes of the statements of cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash equivalents include checking and money market accounts deposited with major financial institutions. At times, deposits may exceed federally insured limits.

Accounts Receivable – Accounts receivable are stated at the amount management expects to collect from the outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

Property and Equipment – Purchased property and equipment are carried at cost. Donated property and equipment are carried at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful life of the asset.

Investments – Investments are stated at fair market value and consist of the following at June 30, 2007:

| | 2007 | 2006 |
|------------------------|-------------------|------------------|
| Certificate of Deposit | \$ 54,884 | \$ 52,460 |
| Mutual Funds | 342,562 | - |
| | <u>\$ 397,446</u> | <u>\$ 52,460</u> |

Donated Services and Materials – A substantial number of volunteers, including members of the Board of Directors, have made significant contributions of time to the Organization. The value of this time does not meet the criteria for recognition under current accounting standards and accordingly, is not reflected in the accompanying financial statements. Contributions of materials from various sources, based on market values at the time of contribution, have been recorded in the financial statements. The value of program materials, equipment, land improvements and professional services donated to the Organization for years ended June 30, 2007 and 2006, total \$20,362 and \$18,694, respectively.

Expense Allocation – The costs of providing various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Estimates – Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

CHILDREN'S COUNTRY HOME
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

Note 1 – Nature of Activities and Summary of Significant Accounting Policies
(Continued)

Income Tax Status – The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization other than a private foundation under Section 509(a)(1).

Note 2 – Cash Flow Information

The following reconciles the change in net assets to net cash provided by operating activities for the years ended June 30:

| | <u>2007</u> | <u>2006</u> |
|--|------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 52,226 | \$ 245,244 |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: | | |
| Depreciation | 25,075 | 25,793 |
| Loss on disposal of equipment | 4,781 | 2,250 |
| Unrealized Gain on Investment | (1,567) | - |
| Change in: | | |
| Accounts receivable | 18,671 | (26,066) |
| Prepaid expenses | 515 | (4,339) |
| Accounts payable | (328) | (5,615) |
| Accrued expenses | (65,987) | 82,695 |
| Accrued vacation | 9,627 | 2,654 |
| | <u>\$ 43,013</u> | <u>\$ 322,616</u> |

CHILDREN'S COUNTRY HOME
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

Note 3 – Property and equipment

Property and equipment consists of the following for the years ended June 30:

| | <u>2007</u> | <u>2006</u> |
|--------------------------------|-------------------|-------------------|
| Building and improvements | \$ 381,082 | \$ 385,864 |
| Office equipment | 13,876 | 10,947 |
| Program equipment | 11,316 | 8,140 |
| Building equipment | 17,707 | 17,707 |
| Computer equipment | 20,437 | 9,976 |
| Land improvements | 30,189 | 30,189 |
| Vehicles | 36,936 | 36,936 |
| | <u>511,543</u> | <u>499,759</u> |
| Less: accumulated depreciation | <u>(161,942)</u> | <u>(136,867)</u> |
| | 349,601 | 362,892 |
| Land | 133,982 | 133,982 |
| | <u>\$ 483,583</u> | <u>\$ 496,874</u> |

Property and equipment estimated useful lives are as follows:

| | |
|---------------------------|--------------|
| Building and improvements | 5 - 30 years |
| Office equipment | 5 years |
| Program equipment | 10 years |
| Building equipment | 5 - 20 years |
| Computer equipment | 3 years |
| Land improvements | 5 - 10 years |
| Vehicles | 5 years |

CHILDREN'S COUNTRY HOME
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

Note 5 – Forgivable Loans

The Organization owns property that was purchased for \$395,000, in part with proceeds from grants in the amount of \$230,000 from King County and \$60,000 from the City of Bellevue. This property serves as a home for providing residential and respite care for children with special health care needs on both a short- and long-term basis.

This property is subject to grant conditions that limit the property to be used only for the providing residential and respite care to medically fragile, low-to-moderate income children until December 31, 2016. If the property is converted to other uses, the Organization would be required to repay the grants in the amount of the portion of the then current fair value of the property financed by the grants. These grants, totaling \$290,000, are reported on the statements of financial position as long-term liabilities (forgivable loans) until the conditions expire.

Note 6 – Retirement Plan

The Organization has a 403(b) retirement plan for its employees. Participants may elect to make contributions to the Plan. The Organization does not make an employer match. The Organization did not incur any expenses associated with the Plan for the years ended June 30, 2007 or 2006.

Note 7 – Concentrations, Commitments and Contingencies

The Organization receives a substantial amount of support through insurance reimbursements from governmental agencies and third-party insurers. The Organization is exposed to loss in the event of failure of these governmental or third-party insurers.