

Good Shepherd School for Children

Independent Auditor's Report and Financial Statements

For the years ended June 30, 2018 and 2017



Good Shepherd School for Children
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For the years ended June 30, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Good Shepherd School for Children

We have audited the accompanying financial statements of Good Shepherd School for Children (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018 and 2017, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Good Shepherd School for Children as of June 30, 2018 and 2017 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.



Creve Coeur, Missouri
November 20, 2018

Good Shepherd School for Children
Statements of Financial Position
June 30, 2018 and 2017

<u>Assets</u>	2018	2017
Current Assets		
Cash and cash equivalents	\$ 133	\$ 351
Cash and cash equivalents - restricted	69	1,106
Accounts receivable, net	6,911	12,903
Prepaid expenses	13,590	15,475
Total Current Assets	<u>20,703</u>	<u>29,835</u>
Property and Equipment		
Building	1,612,401	1,612,401
Land improvements	114,331	101,160
Furniture and equipment	176,900	179,520
	<u>1,903,632</u>	<u>1,893,081</u>
Less: Accumulated depreciation	(1,040,449)	(1,005,759)
Property and Equipment, net	<u>863,183</u>	<u>887,322</u>
Other Assets		
Prepaid ground lease	157,941	163,827
Scholarship funds - investments	70,684	75,010
Endowment funds - investments	850,721	834,561
Endowment funds - receivable	40,000	45,000
Total Other Assets	<u>1,119,346</u>	<u>1,118,398</u>
Total Assets	<u>\$ 2,003,232</u>	<u>\$ 2,035,555</u>
	<u>Liabilities and Net Assets</u>	
Current Liabilities		
Accounts payable	\$ 14,442	\$ 17,698
Accrued expenses	19,288	17,198
Wages payable	53,127	54,120
Current maturities of long-term debt	41,724	40,271
Line of credit payable	67,816	71,816
Endowment funds - payable	40,000	45,000
Total Current Liabilities	<u>236,397</u>	<u>246,103</u>
Long-Term Liabilities		
Long-term debt, less current maturities	134,750	176,474
Total Long-Term Liabilities	<u>134,750</u>	<u>176,474</u>
Total Liabilities	<u>371,147</u>	<u>422,577</u>
Net Assets		
Unrestricted	685,235	615,753
Temporarily restricted	195,008	217,727
Permanently restricted	751,842	779,498
Total Net Assets	<u>1,632,085</u>	<u>1,612,978</u>
Total Liabilities and Net Assets	<u>\$ 2,003,232</u>	<u>\$ 2,035,555</u>

See Notes to the Financial Statements

Good Shepherd School for Children
Statement of Activities
For the year ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue				
Tuition:				
Full day care, net of discounts and scholarships	\$ 913,236	\$ -	\$ -	\$ 913,236
Preschool and registration fees	3,570	-	-	3,570
Therapy services, net of discounts and adjustments	38,954	-	-	38,954
Contributions	60,681	50,214	-	110,895
Special events, net of direct expense of \$1,977	9,034	-	-	9,034
Other support (expense):				
Miscellaneous	15,707	-	-	15,707
Interest and dividend income	12,616	39,181	-	51,797
Gain (loss) on investments	639	(586)	-	53
Net assets released from restrictions:				
Satisfaction of purpose restrictions	139,184	(139,184)	-	-
Donor releases	-	27,656	(27,656)	-
Total Support and Revenue	<u>1,193,621</u>	<u>(22,719)</u>	<u>(27,656)</u>	<u>1,143,246</u>
Functional Expenses				
Program services	929,597	-	-	929,597
Management and general	142,705	-	-	142,705
Fundraising	51,837	-	-	51,837
Total Functional Expenses	<u>1,124,139</u>	<u>-</u>	<u>-</u>	<u>1,124,139</u>
Changes in Net Assets	\$ 69,482	\$ (22,719)	\$ (27,656)	\$ 19,107
Net Assets - Beginning of Year	<u>615,753</u>	<u>217,727</u>	<u>779,498</u>	<u>1,612,978</u>
Net Assets - End of Year	<u>\$ 685,235</u>	<u>\$ 195,008</u>	<u>\$ 751,842</u>	<u>\$ 1,632,085</u>

See Notes to the Financial Statements

Good Shepherd School for Children
Statement of Activities
For the year ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Revenue				
Tuition:				
Full day care, net of discounts and scholarships	\$ 800,662	\$ -	\$ -	\$ 800,662
Preschool and registration fees	7,860	-	-	7,860
Therapy services, net of discounts and adjustments	51,673	-	-	51,673
Contributions	50,129	63,609	-	113,738
Special events, net of direct expense of \$3,197	17,844	-	-	17,844
Other support (expense):				
Miscellaneous	50,851	-	-	50,851
Interest and dividend income	8,166	26,710	-	34,876
Gain (loss) on investments	11,674	33,524	-	45,198
Net assets released from restrictions:				
Satisfaction of purpose restrictions	115,949	(115,949)	-	-
Donor releases	-	27,655	(27,655)	-
Total Support and Revenue	<u>1,114,808</u>	<u>35,549</u>	<u>(27,655)</u>	<u>1,122,702</u>
Functional Expenses				
Program services	908,212	-	-	908,212
Management and general	152,955	-	-	152,955
Fundraising	20,681	-	-	20,681
Total Functional Expenses	<u>1,081,848</u>	<u>-</u>	<u>-</u>	<u>1,081,848</u>
Changes in Net Assets	\$ 32,960	\$ 35,549	\$ (27,655)	\$ 40,854
Net Assets - Beginning of Year	<u>582,793</u>	<u>182,178</u>	<u>807,153</u>	<u>1,572,124</u>
Net Assets - End of Year	<u>\$ 615,753</u>	<u>\$ 217,727</u>	<u>\$ 779,498</u>	<u>\$ 1,612,978</u>

See Notes to the Financial Statements

**Good Shepherd School for Children
Statement of Functional Expenses
For the year ended June 30, 2018**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and Related Benefits:				
Therapy salaries and fees	\$ 43,983	\$ -	\$ -	\$ 43,983
Teacher and assistant salaries	511,676	-	-	511,676
Office salaries	24,326	97,303	41,877	163,506
Employee benefits	94,499	13,910	6,283	114,692
Total Salaries and Related Benefits:	<u>674,484</u>	<u>111,213</u>	<u>48,160</u>	<u>833,857</u>
Advertising	5,787	129	21	5,937
Bank charges and credit card fees	1,488	1,384	16	2,888
Camp and childcare activities	232	-	-	232
Computer	14,414	222	37	14,673
Copier	6,901	446	74	7,421
Donor recognition and cultivation	-	-	129	129
Food	49,160	-	-	49,160
Hiring	61	-	-	61
Insurance	27,610	1,781	297	29,688
Interest	6,951	1,937	75	8,963
Lease	5,474	353	59	5,886
Maintenance and repairs	44,425	2,866	477	47,768
Memberships	2,779	-	-	2,779
Miscellaneous	9,347	4,694	594	14,635
Postage	442	29	16	487
Professional fees and services	-	13,033	-	13,033
Staff training and education	1,896	-	-	1,896
Staff travel	200	-	126	326
Supplies	8,470	136	1,009	9,615
Telephone	9,826	634	105	10,565
Utilities	15,163	978	163	16,304
Total Expenses before Depreciation	<u>\$ 885,110</u>	<u>\$ 139,835</u>	<u>\$ 51,358</u>	<u>\$ 1,076,303</u>
Depreciation	<u>44,487</u>	<u>2,870</u>	<u>479</u>	<u>47,836</u>
Total Expenses	<u><u>\$ 929,597</u></u>	<u><u>\$ 142,705</u></u>	<u><u>\$ 51,837</u></u>	<u><u>\$ 1,124,139</u></u>

See Notes to the Financial Statements

Good Shepherd School for Children
Statement of Functional Expenses
For the year ended June 30, 2017

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and Related Benefits:				
Therapy salaries and fees	\$ 43,614	\$ -	\$ -	\$ 43,614
Teacher and assistant salaries	471,706	-	-	471,706
Office salaries	72,859	110,552	8,213	191,624
Employee benefits	90,873	10,944	9,313	111,130
Total Salaries and Related Benefits:	<u>679,052</u>	<u>121,496</u>	<u>17,526</u>	<u>818,074</u>
Advertising	5,312	166	28	5,506
Bank charges and credit card fees	608	1,357	868	2,833
Camp and childcare activities	258	-	-	258
Computer	9,022	117	19	9,158
Copier	6,244	403	67	6,714
Donor recognition and cultivation	-	-	-	-
Food	43,808	-	-	43,808
Hiring	80	-	-	80
Insurance	24,440	1,577	263	26,280
Interest	8,185	1,975	88	10,248
Lease	5,474	353	59	5,886
Maintenance and repairs	41,975	2,708	452	45,135
Memberships	2,863	-	286	3,149
Miscellaneous	4,686	5,860	-	10,546
Postage	821	53	9	883
Professional fees and services	2,821	12,678	-	15,499
Staff training and education	3,049	-	-	3,049
Staff travel	256	-	65	321
Supplies	5,674	110	268	6,052
Telephone	5,085	328	54	5,467
Utilities	15,159	978	163	16,300
Total Expenses before Depreciation	<u>\$ 864,872</u>	<u>\$ 150,159</u>	<u>\$ 20,215</u>	<u>\$ 1,035,246</u>
Depreciation	<u>43,340</u>	<u>2,796</u>	<u>466</u>	<u>46,602</u>
Total Expenses	<u><u>\$ 908,212</u></u>	<u><u>\$ 152,955</u></u>	<u><u>\$ 20,681</u></u>	<u><u>\$ 1,081,848</u></u>

See Notes to the Financial Statements

Good Shepherd School for Children
Statements of Cash Flows
For the years ended June 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Cash received from contributions, operations, and service fees	\$ 1,081,681	\$ 982,562
Cash paid to suppliers and employees	(1,061,727)	(1,012,939)
Interest and dividends received	51,797	34,876
Interest paid	(8,963)	(10,248)
Other cash receipts	15,707	50,851
Net Cash Provided (Used) by Operating Activities*	<u>78,495</u>	<u>45,102</u>
Cash Flows from Investing Activities		
Purchase of/proceeds from investments, net	(11,782)	10,897
Proceeds from endowment receivable	5,000	5,000
Purchase of property and equipment	(23,697)	(77,448)
Net Cash Provided (Used) by Investing Activities	<u>(30,479)</u>	<u>(61,551)</u>
Cash Flows from Financing Activities		
Proceeds from/payment on line of credit	(4,000)	25,000
Payments on endowment payable	(5,000)	(5,000)
Payments on long-term debt	(40,271)	(38,903)
Net Cash Provided (Used) by Financing Activities	<u>(49,271)</u>	<u>(18,903)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (1,255)	\$ (35,352)
Cash and Cash Equivalents - Beginning of Year	<u>1,457</u>	<u>36,809</u>
Cash and Cash Equivalents - End of Year	<u>\$ 202</u>	<u>\$ 1,457</u>
*Reconciliation of change in net assets to		
Net Cash Provided (Used) by Operating Activities:		
Change in net assets:	\$ 19,107	\$ 40,854
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	47,836	46,602
Amortization of prepaid lease	5,886	5,886
(Gain) loss on sale of investments	(53)	(45,198)
(Increase) Decrease in assets:		
Accounts receivable	5,992	(7,975)
Prepaid expenses	1,885	(5,560)
Increase (Decrease) in liabilities:		
Wages payable	(992)	5,000
Accounts payable	(3,256)	3,039
Accrued expenses	2,090	3,694
Unearned revenue	-	(1,240)
Net Cash Provided (Used) by Operating Activities	<u>\$ 78,495</u>	<u>\$ 45,102</u>

See Notes to the Financial Statements

Good Shepherd School for Children
Notes to the Financial Statements
For the years ended June 30, 2018 and 2017

Note 1 - Summary of Significant Accounting Policies

This summary of significant accounting policies is presented to assist in understanding the Good Shepherd School for Children's financial statements. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Nature of Organization

Good Shepherd School for Children (the "Center") is a not-for-profit, nonsectarian, child care center, preschool and therapy center for typically developing children and children with special needs. Children of all abilities, ages six weeks to six years, participate in inclusive preschool and child care. The program specializes in helping children to improve upon social, emotional, developmental, physical and educational goals through its inclusion model, modifications to the Center's curriculum, and on-site therapy services. Additionally, occupational, physical, speech language, developmental, behavioral, music and art therapies are provided to children up to age 18 through home-based and outpatient services.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles and reflect all significant receivables, payables and other liabilities.

Basis of Presentation

The Center has adopted the provisions of the Financial Accounting Standards Board ("FASB") in regard to financial statements of not-for-profit organizations as discussed under this topic of the Accounting Standards Codification (ASC) 958-205, *Not-for-Profit Entities, Presentation of Financial Statements*. Under FASB ASC 958-205, the Center is required to report information regarding its financial position and activities according to three classes of net assets - unrestricted, temporarily restricted, and permanently restricted. A description of each class of net assets as follows:

Unrestricted - Those resources over which the Board has discretionary control. Designated amounts represent those resources for which the Board has set aside for a specific purpose. The Center's Board had not designated any net assets at June 30, 2018.

Temporarily Restricted - Those resources subject to donor-imposed or time restrictions that will be satisfied by actions of the Center or the passage of time. The Center had \$195,008 of temporarily restricted net assets at June 30, 2018.

Permanently Restricted - Those resources subject to donor-imposed restrictions that will be maintained permanently by the Center. The Center had \$751,842 of permanently restricted net assets at June 30, 2018.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from estimated amounts.

Good Shepherd School for Children
Notes to the Financial Statements
For the years ended June 30, 2018 and 2017

Note 1 - Summary of Significant Accounting Policies (continued)

Cash and cash equivalents

For the purpose of the Statements of Financial Position and Statements of Cash Flows, the Center considers all short-term investments with an original maturity of three months or less to be cash.

Restricted cash and cash equivalents of \$69 is funds being held for the Parent Association.

Accounts Receivable

Accounts receivable consists primarily of receivables for tuition and therapy services. The Center provides an allowance for doubtful accounts equal to the estimated collection loss that will be incurred in the collection of all receivables. The estimated loss is based on historical collection experience, coupled with a review of the current status of the existing receivables. At June 30, 2018, the Center had an allowance of \$107.

Property and Equipment

Property and equipment are stated at historical cost, if purchased, or at fair market value at the date of gift, if donated. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. Expenditures, which extend the useful lives of the assets, are capitalized, while maintenance and repairs are expensed. The Center capitalizes all expenditures for property and equipment in excess of \$1,000. Depreciation is calculated using the straight-line method over the following applicable estimated useful lives:

Furniture and equipment	3-15 years
Buildings and land improvements	10-40 years

Investments

Investments consist of marketable securities and mutual funds, with readily determinable fair values, which are recorded at such fair value in the Statements of Financial Position.

Restricted and Unrestricted Support

Contributions and unconditional promises to give are recorded as unrestricted, temporarily restricted, or permanently restricted support in accordance with the existence or nature of any donor restrictions. When restrictions expire, restricted net assets are reclassified as unrestricted net assets. Promises to give are recorded at net realizable value if they are expected to be collected in one year and at fair value if they are expected to be collected in more than one year.

Program service revenues are recorded as unrestricted support when earned.

Good Shepherd School for Children
Notes to the Financial Statements
For the years ended June 30, 2018 and 2017

Note 1 - Summary of Significant Accounting Policies (continued)

Donated Services and Materials

Donated services are recognized as contributions in accordance with FASB ASC 958-605, *Not-for-Profit Entities, Revenue Recognition*, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Center. The Center recognized no donated services for the years ended June 30, 2018 and 2017.

Donated materials are recognized as contributions in accordance with the same provision as donated services. In determining the fair value, the Center considers the quality and quantity of the donation, as well as any applicable discounts that would be received by the Center if those materials would otherwise be purchased.

Income Taxes

The Center has been granted tax-exempt status under §501(c)(3) of the Internal Revenue Code, except for any net income derived from unrelated business activities. The Center did not have any unrelated business activities for the years ended June 30, 2018 and 2017.

The Center follows provisions set forth in FASB ASC 740-10, *Income Taxes - Overall*. The Center has assessed its federal, state, and local tax positions and determined that there were no unrelated business related income taxes and no uncertainties or possible related effects that need to be recorded as of or for the years ended June 30, 2018 and 2017. The Center's federal income tax returns are subject to examination by the IRS for the remaining statutory period.

Unearned Revenue

Income from tuition revenue is deferred and recognized in the period in which the revenue is earned.

Advertising Costs

Advertising costs are deducted in the year in which the costs are incurred.

Functional Allocation of Expenses

Directly identifiable expenses are charged to program services, general and administrative, and fundraising. Expenses related to more than one function are charged to program services, general and administrative, and fundraising on the basis of management's analysis of time and expense. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provided for the overall support and direction of the Center.

Good Shepherd School for Children
Notes to the Financial Statements
For the years ended June 30, 2018 and 2017

Note 2 - Endowment Fund - Receivable

Endowment fund receivables at June 30, 2018 and 2017 consist of the following:

	2018	2017
Borrowing and advances due	\$ 40,000	\$ 45,000
Amounts due in:		
Less than one year	\$ 12,500	\$ 12,500
One to five years	27,500	32,500
	\$ 40,000	\$ 45,000

Generally accepted accounting principles require endowment fund receivables to be reported at net present value. The difference between future cash flows and net present value is not significant for the Center.

During the year ended June 30, 2012, the Center was granted the temporary use of \$60,000 of endowment funds for general operations. Borrowing and advances due to the endowment fund at June 30, 2018 and 2017 are \$40,000 and \$45,000, respectively.

Note 3 - Prepaid Ground Lease

On April 20, 1995, the Center entered into a ground lease agreement with an unrelated not-for-profit organization. The agreement allows the Center to use 2.943 acres of land in St. Louis County, Missouri for a period of 50 years. The Center is operating from a building that was constructed on the land. The lease agreement provides for rental payments of \$1 per year.

The Center recorded a donation valued at \$294,300 at inception, which represents the estimated fair market value of the lease rental payments in excess of the required \$1 annual rental payments. The land lease was recorded at inception as a prepaid ground lease and is being amortized on a straight-line basis over the life of the lease. Amortization expense for the years ended June 30, 2018 and 2017 was \$5,886 and \$5,886, respectively.

Note 4 - Fair Value Measurements

FASB ASC 820-10, *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value, and enhances disclosure requirements for fair value measurements. The standard maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect management's assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. This hierarchy consists of three broad levels:

Level I - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Center has the ability to access at the measurement date.

Level II - Inputs other than quoted prices included within Level I that are observable for the assets or liability, either directly or indirectly. Level II inputs include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Good Shepherd School for Children
Notes to the Financial Statements
For the years ended June 30, 2018 and 2017

Note 4 - Fair Value Measurements (continued)

Level III - Unobservable inputs for the asset or liability for which there is little, if any, market activity for the asset or liability at the measurement date. Unobservable inputs reflect the Center's own assumptions about what market participants would use to price the asset or liability. These inputs may include internally developed pricing models, discounted cash flow methodologies, as well as instruments for which the fair value determination requires significant management judgment.

The Center records marketable securities held at fair value on the Statements of Financial Position with all unrealized gains and losses reflected in the Statements of Activities. The degree of judgment used in measuring the fair value of investments held generally correlates to the level of pricing observability. Pricing observability is impacted by a number of factors, including the type of investment held, whether the investment is new to the market and not yet established, and the characteristics specific to the transaction.

Investments held, with readily available active quoted prices for which fair value can be measured from actively quoted prices, generally will have a higher degree of pricing observability and a lesser degree of judgment used in measuring fair value. Conversely, investments held, rarely traded, or not quoted, will generally have less or no pricing observability and a higher degree of judgment used in measuring fair value.

The Center's investments are reported at fair value in the accompanying Statements of Financial Position. A summary of investments at fair value for the years ended June 30, 2018 and 2017, as follows:

	June 30, 2018			
	Fair Value	Level I	Level II	Level III
Cash and Money Markets	\$ 71,552	\$ 71,552	\$ -	\$ -
Certificate of Deposit	67,596	67,596	-	-
Mutual Funds	782,257	782,257	-	-
Endowment fund - receivable	40,000	-	-	40,000
Total investments	\$ 961,405	\$ 921,405	\$ -	\$ 40,000

	June 30, 2017			
	Fair Value	Level I	Level II	Level III
Cash and Money Markets	\$ 54,995	\$ 54,995	\$ -	\$ -
Certificate of Deposit	74,971	74,971	-	-
Mutual Funds	779,605	779,605	-	-
Endowment fund - receivable	45,000	-	-	45,000
Total investments	\$ 954,571	\$ 909,571	\$ -	\$ 45,000

For the years ended June 30, 2018 and 2017, investments consisted of \$0 and \$50,037 in temporarily restricted scholarship fund investments and \$868,317 and \$859,534 in permanently, temporarily, and unrestricted endowment fund investments, respectively.

The Center uses appropriate valuation technique based on the available inputs to measure the fair value of its investments. When available, the Center measures fair value using Level I inputs because they generally provide the most reliable evidence of fair value. Level III inputs are only used when Level I or Level II inputs are not available. Valuation techniques utilized to determine fair values are consistently applied.

Good Shepherd School for Children
Notes to the Financial Statements
For the years ended June 30, 2018 and 2017

Note 4 - Fair Value Measurements (continued)

The following table provides further details of the Level III fair value measurements.

<u>Endowment fund - receivable</u>	
Balance at June 30, 2016	\$ 50,000
Contributions and borrowed advances	-
Payments received on borrowed advances	<u>(5,000)</u>
Balance at June 30, 2017	45,000
Contributions and borrowed advances	-
Payments received on borrowed advances	<u>(5,000)</u>
Balance at June 30, 2018	<u><u>\$ 40,000</u></u>

Note 5 - Investments Concentration

The following are individual investments that represent 10% or more of the Center's total assets for the years ended June 30, 2018 and 2017.

	<u>2018</u>	<u>2017</u>
Investments at Fair Value		
Vanguard Wellington Admiral Fund	<u>\$ 292,445</u>	<u>\$ 292,032</u>

Note 6 - Line of Credit Payable

On February 3, 2008, the Center signed a promissory note for a working capital line of credit in the amount of \$50,000. The Center refinanced the note, increasing the principal to \$68,000, on October 27, 2017 at an interest rate of 2.25% per annum. The loan is due in one payment of all outstanding principal plus any accrued, unpaid interest, on October 18, 2018. The working capital line of credit is secured by a \$68,000 certificate of deposit held at the bank. The Center's balances were \$67,816 and \$71,816 at June 30, 2018 and 2017.

Note 7 - Long Term Debt

	<u>2018</u>	<u>2017</u>
Note payable secured by the Deed of Trust on the building for \$453,000 due in monthly installments of \$3,360 through January 1, 2022 with interest payable at 3.29% through January 2022	\$ 136,343	\$ 171,614
Note payable secured by the Deed of Trust on building fixture for \$74,500 due in monthly installments of \$613 through December 1, 2024 with interest payable at 5.50%. The interest rate is subject to change on December 1, 2019	<u>40,131</u>	<u>45,131</u>
	176,474	216,745
Less: Current maturities of long-term debt	<u>(41,724)</u>	<u>(40,271)</u>
	<u><u>\$ 134,750</u></u>	<u><u>\$ 176,474</u></u>

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Note 7 - Long Term Debt (continued)

Principal maturities on the long-term debt as of June 30, 2018 are as follows:

Year ended June 30,	Principal	Interest	Total
2019	\$ 41,724	\$ 6,022	\$ 47,746
2020	43,235	4,511	47,746
2021	44,813	2,933	47,746
2022	29,525	1,392	30,917
2023	6,573	784	7,357
2024-2025	10,604	474	11,078
	<u>\$ 176,474</u>	<u>\$ 16,116</u>	<u>\$ 192,590</u>

Note 9 - Allocation of Joint Costs

The Center has incurred joint costs for informational materials and activities that include fund raising appeals. The joint costs have been allocated to program services, fundraising and general and administrative activities of the unrestricted fund.

Note 10 - Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for the following purposes at June 30, 2018 and 2017:

	2018	2017
Library	\$ 2,639	\$ 2,639
Scholarships	40,366	87,911
Program services	150,689	124,212
Various other	1,314	2,965
Total	<u>\$ 195,008</u>	<u>\$ 217,727</u>

Note 11 - Permanently Restricted Net Assets

Permanently restricted net assets are made up of two endowment funds consisting of funds held at registered investment companies and advance borrowing. Contributions received for the Center's endowment funds are restricted in perpetuity unless released are authorized by donors or through provisions in the Center's investment policy. Income generated by these assets can be used for educational teaching programs. During the years ended June 30, 2018 and 2017, donors released permanent restrictions in the amounts of \$27,656 and \$27,655, respectively, for educational teaching programs.

Note 12 - Donor-Designated Endowment Funds

The Center's donor-designated endowment funds consist of funds established for the Center's various endeavors and activities. As required by generally accepted accounting principles, net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Center has interpreted the State Prudent Management of Institutional Funds Act ("SPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

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For the years ended June 30, 2018 and 2017

Note 12 - Donor-Designated Endowment Funds (continued)

As a result of this interpretation, the Center classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) 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. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as unrestricted net assets available for expenditure by the Center, as elected by the Board of Directors, in a manner consistent with the standard prudence prescribed by SPMIFA. In accordance with SPMIFA, the Center considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from the income and the appreciation of investments, (6) other resources of the Center, and (7) the Center's investment policies.

Investment Return Objectives, Risk Parameters, and Strategies: The Center has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in registered investment companies and a money market account, which is intended to result in a consistent inflation-protection rate of return that has sufficient liquidity to make distributions of unrestricted earnings at the Board of Directors' discretion, while growing the funds, if possible. Therefore, the Center expects its endowment assets, over time, to produce an average rate of return that is consistently available to fund operations. Actual returns in any given year may vary. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy: The Center has a policy of appropriating for distribution available earnings to serve operations of the Center at the discretion of the Board of Directors. In establishing this policy, the Center considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, all of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Center expects the current spending policy to allow its endowment funds to grow at a nominal average rate in line with economic growth. If the total value that is equal to or lesser than the contributions base, then no future endowment fund income shall be distributed until the total value of the endowment fund subsequently increases to an amount that is greater than the contribution base. In March 2011, the investment policy was amended to include the adoption of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), which will allow for distributions below the contributor's base so long as it is in a prudent manner and follows considerations enumerated in the policy. This is consistent with the Center's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

Endowment net asset composition by type of fund as of June 30, 2018 is as follows:

	Temporarily and Unrestricted	Permanently Restricted	Total Endowment Net Assets
Donor-restricted endowment funds	<u>\$ 157,159</u>	<u>\$ 751,842</u>	<u>\$ 909,001</u>

Good Shepherd School for Children
Notes to the Financial Statements
For the years ended June 30, 2018 and 2017

Note 12 - Donor-Designated Endowment Funds (continued)

Endowment net asset composition by type of fund as of June 30, 2017 is as follows:

	Temporarily and Unrestricted	Permanently Restricted	Total Endowment Net Assets
	<u> </u>	<u> </u>	<u> </u>
Donor-restricted endowment funds	\$ 125,343	\$ 779,498	\$ 904,841
	<u> </u>	<u> </u>	<u> </u>

Changes in endowment net assets as of June 30, 2018 are as follows:

	Temporarily and Unrestricted	Permanently Restricted	Total Endowment Net Assets
	<u> </u>	<u> </u>	<u> </u>
Endowment net assets beginning of year	\$ 125,343	\$ 779,498	\$ 904,841
Contributions	-	-	-
Gain (loss) on investments	53	-	53
Investment income	52,547	-	52,547
Appropriated for expenditure per endowment agreement	(48,440)	-	(48,440)
Donor release	27,656	(27,656)	-
Adjustments	-	-	-
Endowment net assets end of year	<u>\$ 157,159</u>	<u>\$ 751,842</u>	<u>\$ 909,001</u>

Changes in endowment net assets as of June 30, 2017 are as follows:

	Temporarily and Unrestricted	Permanently Restricted	Total Endowment Net Assets
	<u> </u>	<u> </u>	<u> </u>
Endowment net assets beginning of year	\$ 62,711	\$ 807,153	\$ 869,864
Contributions	1,138	-	1,138
Gain (loss) on investments	45,198	-	45,198
Investment income	35,579	-	35,579
Appropriated for expenditure per endowment agreement	(46,938)	-	(46,938)
Donor release	27,655	(27,655)	-
Adjustments	-	-	-
Endowment net assets end of year	<u>\$ 125,343</u>	<u>\$ 779,498</u>	<u>\$ 904,841</u>

Good Shepherd School for Children
Notes to the Financial Statements
For the years ended June 30, 2018 and 2017

Note 12 - Donor-Designated Endowment Funds (continued)

Adoption of UPMIFA

The State of Missouri enacted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") effective January 1, 2009, the provisions of which apply to endowment funds existing on or established after that date. The Board of Directors has determined that the majority of the Center's permanently restricted net assets meet the definition of endowment funds under UPMIFA.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that UPMIFA requires the Center to retain as a fund of perpetual duration. There were no deficiencies as of June 30, 2018 and 2017.

Note 13 - Subsequent Events

The Center has evaluated events subsequent to June 30, 2018 to assess the need for potential recognition or disclosure in the financial statements. Such events have been evaluated through November 20, 2018, the date the financial statements were available to be issued. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or additional disclosure in the financial statements.

Note 14 - Adoption of New Accounting Pronouncements

FASB Update 2016-14, Not-for-Profit Entities (Topic 958), The primary objective of this update is to improve the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. This update will provide more useful information to donors, grantors, creditors, and other users of financial statements. This update will be effective for the year ended June 30, 2019.