Consolidated Financial Statements
August 31, 2019 and 2018

Sherwood and Myrtie Foster's Home for Children, Inc.

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Independent Auditor's Report

The Board of Directors
Sherwood and Myrtie Foster's Home for Children, Inc.
Stephenville, Texas

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Sherwood and Myrtie Foster's Home for Children, Inc. (a nonprofit organization), which comprise the consolidated statements of financial position as of August 31, 2019 and 2018, and the related consolidated 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. 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 Sherwood and Myrtie Foster's Home for Children, Inc. as of August 31, 2019 and 2018, 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.

Change in Accounting Principle
As discussed in Note 1 and Note 18 to the financial statements, Sherwood and Myrtie Foster's Home for Children, Inc. has adopted the provisions of Financial Accounting Standards Board Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*. Net assets at August 31, 2018 have been adjusted to combine temporarily restricted and permanently restricted net assets into a single category of net assets with donor restrictions. Our opinion is not modified with respect to this matter.

Eide Bailly Signature

Abilene, Texas
December 5, 2019

	2019			2018
	Home Operations	Foundation	Consolidated Total	(As Adjusted) Consolidated Total
Assets				
Cash and cash equivalents	$ 1,029,060	$ 578,329	$ 1,607,389	$ 1,730,320
Investments	636,914	12,018,745	12,655,659	12,907,814
Assets held in charitable remainder trusts	-	38,307	38,307	39,531
Funds held for the benefit of children	18,488	-	18,488	5,536
Receivables, net of allowance	93,464	20,352	113,816	90,570
Prepaid expenses and other current assets	7,374	-	7,374	-
Land, buildings and equipment, net	9,014,068	-	9,014,068	7,505,664
	$ 10,799,368	$ 12,655,733	$ 23,455,101	$ 22,279,435
Liabilities and Net Assets				
Liabilities				
Accounts payable	$ 66,712	$ -	$ 66,712	$ 77,766
Accrued liabilities	25,353	6,510	31,863	33,858
Funds held for the benefit of children	10,257	-	10,257	5,496
Liability under charitable remainder trust agreements	-	23,182	23,182	24,406
Annuities payable	-	624,428	624,428	676,401
Total liabilities	102,322	654,120	756,442	817,927
Net Assets				
Without Donor Restrictions				
Undesignated	9,145,364	11,764,653	20,910,017	18,844,821
Designated for scholarships	-	45,540	45,540	45,540
With Donor Restrictions				
Scholarships	-	176,295	176,295	157,249
Various	2,652	-	2,652	1,535
2020 capital campaign	1,549,030	-	1,549,030	2,397,238
Charitable remainder trusts	-	15,125	15,125	15,125
Total net assets	10,697,046	12,001,613	22,698,659	21,461,508
	$ 10,799,368	$ 12,655,733	$ 23,455,101	$ 22,279,435

	2019			2018
	Home Operations	Foundation	Consolidated Total	As Adjusted Consolidated Total
Changes in net assets without donor restrictions				
Revenues, gains and other support				
Contributions				
Churches	$ 535,503	$ -	$ 535,503	$ 466,260
Individuals and other organizations	2,203,619	7,701	2,211,320	1,473,805
Noncash	168,481	-	168,481	62,433
Wills and estates	134,551	16,843	151,394	196,775
Fundraising appeals	318,975	-	318,975	321,057
Contracted services				
Child care revenues	1,100,048	-	1,100,048	941,610
Investment income				
Net investment return	22,243	287,117	309,360	251,791
Real estate rental income	6,600	-	6,600	-
Oil royalties	-	138,661	138,661	186,681
Realized and unrealized gains (losses) on investments	5,622	(160,667)	(155,045)	472,007
Other income	4,489	-	4,489	13,251
Gain on sale of property	5,987	-	5,987	36,492
Net assets released from restrictions	1,035,959	7,637	1,043,596	1,540,806
Total revenues, gains and other support	5,542,077	297,292	5,839,369	5,962,968
Expenses and losses				
Children's services- Stephenville				
Direct care	1,788,641	-	1,788,641	1,748,890
Campus operation	883,388	-	883,388	803,753
Foster care	214,019	-	214,019	147,100
Scholarship expense	-	9,260	9,260	26,715
General operating expenses	290,765	225,078	515,843	496,661
Financial development services	299,422	-	299,422	314,405
Change in value of split interest agreements	-	43,600	43,600	13,817
Total expenses and losses	3,476,235	277,938	3,754,173	3,551,341
Change in net assets without donor restrictions	2,065,842	19,354	2,085,196	2,411,627

	2019			2018
	Home Operations	Foundation	Consolidated Total	As Adjusted Consolidated Total
Changes in net assets with donor restrictions				
Investment income- scholarship restrictions	-	7,832	7,832	5,743
Contributions restricted for various purposes	52,365	-	52,365	69,038
Contributions restricted for the 2020 capital campaign	136,503	-	136,503	370,926
Realized and unrealized gains (losses) on investments- scholarship	-	(1,149)	(1,149)	(477)
Net assets released from restrictions	(1,035,959)	(7,637)	(1,043,596)	(1,540,806)
Change in net assets with donor restrictions	(847,091)	(954)	(848,045)	(1,095,576)
Change in net assets	1,218,751	18,400	1,237,151	1,316,051
Transfers between consolidated organizations	(750,325)	750,325	-	-
Net assets, beginning of year	10,228,620	11,232,888	21,461,508	20,145,457
Net assets, end of year	$10,697,046	$12,001,613	$22,698,659	$21,461,508

	2019			2018
	Home Operations	Foundation	Consolidated Total	Consolidated Total
Children's services- Stephenville				
Salaries, wages and benefits	$ 1,465,477	$ -	$ 1,465,477	$ 1,390,692
Food, clothing, medical care	153,773	-	153,773	136,506
Supplies and travel	182,319	-	182,319	222,718
Services and professional fees	145,563	-	145,563	141,915
Liability and property insurance	152,354	-	152,354	135,288
Repairs/maintenance and vehicle expense	91,794	-	91,794	87,457
Office and occupancy	197,574	-	197,574	197,753
Foster care pass through	105,680	-	105,680	50,865
Depreciation	391,514	-	391,514	336,549
Total expenses	$ 2,886,048	$ -	$ 2,886,048	$ 2,699,743
General operating expenses				
Salaries, wages and benefits	$ 222,218	$ 193,208	$ 415,426	$ 405,294
Supplies and travel	35,533	3,811	39,344	24,961
Services and professional fees	28,012	10,560	38,572	44,440
Liability insurance	4,580	-	4,580	3,243
Office and occupancy	920	674	1,594	2,140
Property tax	102	12,278	12,380	11,248
Administrative	(635)	4,547	3,912	5,252
Interest	35	-	35	83
Total expenses	$ 290,765	$ 225,078	$ 515,843	$ 496,661
Financial development services				
Salaries, wages and benefits	$ 223,339	$ -	$ 223,339	$ 223,517
Supplies and travel	69,985	-	69,985	82,787
Services and professional fees	4,355	-	4,355	6,671
Office and occupancy	1,743	-	1,743	1,430
Total expenses	$ 299,422	$ -	$ 299,422	$ 314,405

	2019			2018
	Home Operations	Foundation	Consolidated Total	Consolidated Total
Operating activities				
Change in net assets	$ 1,218,751	$ 18,400	$ 1,237,151	$ 1,316,051
Net transfers between consolidated organizations	(750,325)	750,325	-	-
Adjustments to reconcile change in net assets to net cash from operating activities				
Depreciation	391,514	-	391,514	336,549
Realized and unrealized (gains) losses on investments	(5,622)	161,816	156,194	(471,530)
(Gain) loss on sale of assets	(5,987)	-	(5,987)	(36,492)
Change in value of split interest agreements	-	43,600	43,600	13,817
Noncash contributions	(168,481)	-	(168,481)	(62,433)
Contributions restricted for capital improvements	(136,503)	-	(136,503)	(370,926)
(Increase) decrease in receivables	(22,232)	(2,014)	(24,246)	60,020
(Increase) decrease in prepaid expenses/other assets	(7,374)	-	(7,374)	19,946
Increase (decrease) in accounts payable	(1,323)	(9,731)	(11,054)	466
Increase (decrease) in accrued liabilities	(11,288)	1,102	(10,186)	349
Net cash from operating activities	501,130	963,498	1,464,628	805,817
Investing activities				
Purchase of equipment and building construction	(1,839,621)	-	(1,839,621)	(1,790,529)
Proceeds from sale of property	20,750	-	20,750	104,497
Payments received on notes receivable	1,000	-	1,000	18,561
Proceeds from the sale of investments	1,239,895	8,214,476	9,454,371	3,594,697
Purchase of investments	(43,082)	(9,230,683)	(9,273,765)	(2,497,747)
Net cash used for investing activities	(621,058)	(1,016,207)	(1,637,265)	(570,521)
Financing activities				
Contributions restricted for capital improvements	136,503	-	136,503	370,926
Payments on split interest obligations	-	(96,797)	(96,797)	(104,772)
Net cash from (used for) financing activities	136,503	(96,797)	39,706	266,154
Net change in cash and cash equivalents	16,575	(149,506)	(132,931)	501,450
Cash and cash equivalents, beginning of year	1,002,485	727,835	1,730,320	1,228,870
Cash and cash equivalents, end of year	$ 1,019,060	$ 578,329	$ 1,597,389	$ 1,730,320
Noncash investing activities				
Noncash contribution of vehicles and capital assets	$ 75,060	$ -	$ 75,060	$ 62,433

Note 1 - Summary of Significant Accounting Policies

A summary of Sherwood and Myrtie Foster's Home for Children, Inc.'s (the Home) significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Nature of Activities

Sherwood and Myrtie Foster's Home for Children, Inc. was established in 1959 under the oversight of the Boles Home for Children. The Home incorporated and became independent of the Boles Home in January 1972, and a separate board of directors was appointed. The Home is a tax-exempt organization under Internal Revenue Code 501(c)(3).

The Foster's Home Foundation (the Foundation) is a non-profit foundation closely associated with the Sherwood and Myrtie Foster's Home for Children, Inc. The Foundation became an affiliated organization with the board of directors appointed by the Home. Most of the Foundation's board members are also members of the Home's board of directors. The Home also has an economic interest in the Foundation.

Consolidation

The accompanying consolidated financial statements include the financial position, activities and cash flows of Sherwood and Myrtie Foster's Home for Children, Inc. and its affiliate, Foster's Home Foundation. The consolidated entity herein will be referred to as the Organization. All significant interrelated accounts and transactions have been eliminated in the consolidated financial statements.

Basis of Accounting

The consolidated financial statements of the Organization have been prepared on the accrual basis. Under this basis of accounting, revenue is recognized when earned, and expenses are recognized when incurred.

Basis of Presentation

The focus of these financial statements is to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of revenues, expenses, gains and losses into two classes of net assets – net assets without donor restrictions and net assets with donor restrictions.

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor-imposed restrictions. The board of directors has designated, from net assets without donor restrictions, net assets for a scholarship fund.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Organization reports contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. These result in reclassification from net assets with donor restrictions to net assets without donor restrictions.

Revenues are reported as increases in net assets without donor restrictions unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Revenues

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restriction and reported in the statement of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the net assets with donor restrictions class, and a reclassification to net assets without donor restrictions is made to reflect the expiration of such restrictions.

The Organization reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Board designated net assets without donor restrictions have been invested in an investment portfolio specifically for scholarships for children who have lived at Foster's Home for Children. The restricted amounts included in the portfolio are original gifts intended to be held in perpetuity. It is the donors' and the Board's intent that only the scholarship portfolio investment earnings are to be used for the scholarships.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Organization considers all investments with an initial maturity of three months or less to be cash equivalents.

Investments

Investments in debt and equity securities are recorded at fair value. The estimated fair value of debt and equity securities is based on quoted market prices. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by donors are reported as increases in net assets without donor restrictions if the restrictions are met (either by passage of time or by use) in the same reporting period in which the income and gains are recognized. Investments in mineral interests are recorded at cost.

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received. The Organization often receives intentions to give, which are not considered promises to give and thus, intentions to give are not recorded as revenue until the contribution is received in cash. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved.

Accounts Receivable

Accounts receivable includes amounts receivable from parents or state agencies for child care services provided. Provision for bad debts on accounts receivable is made in amounts required to maintain adequate reserves to cover anticipated losses based on historical collection ratios and analysis of aged accounts receivable. Accounts are charged off against the reserve when they are determined to be uncollectible.

Property, Plant and Equipment

Property, plant and equipment were recorded in the financial statements of the Home beginning in January 1972 when the Home became an independent organization. The estimated fair value was used to record fixed assets acquired prior to 1972. Since that date, acquisitions of property, plant and equipment have been recorded at cost, or at estimated fair value for donated property or equipment. The Organization's policy is to capitalize assets which cost $5,000 or more and have a useful life of one year or more.

Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

	Years
Buildings and improvements	10-40
Furniture and fixtures	10
Equipment	5-10
Vehicles	5

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Income Taxes

The Home and Foundation are organized as Texas nonprofit corporations and have been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Sections 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3), qualify for the charitable contribution deduction under Sections 170(b)(1)(A)(vi) and (viii), and have been determined not to be private foundations under Sections 509(a)(1) and (3), respectively. The Home and the Foundation are subject to federal income tax on net unrelated business taxable income. There was no unrelated business taxable net income for the fiscal years ended August 31, 2019 and 2018. The Home and Foundation are required to annually file a Form 990 with the Internal Revenue Service.

Management believes that each entity has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Annuities Payable

Annuities payable represent the present value of future payments to be made to annuitants using a discount rate of 6%.

Functional Allocation of Expenses

Certain joint expenses, such as insurance, employee benefits, and payroll, are allocated among the program and supporting services to which they relate. The basis of allocation is based on employees' time incurred or other appropriate usage factors.

Change in Accounting Policy

As of September 1, 2018, the Organization adopted the provisions of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities*. The provisions of the ASU replace the existing three classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions). The ASU introduces new disclosure requirements to improve a financial statement user's ability to assess an organization's liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single location and to present investment returns on the statements of activities net of external and direct internal investment expenses.

The amendments are applied on a retrospective basis. The Organization has adopted this standard as management believes the standard improves the usefulness and understandability of the Organization's financial reporting.

Note 2 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statements of financial position, comprise the following:

	2019	2018
Cash and cash equivalents	$ 1,607,389	$ 1,730,320
Investments	10,927,682	10,351,792
Receivables, net of allowance	113,816	90,570
	$ 12,648,887	$ 12,172,682

The Organization regularly monitors the availability of resources required to meet its operating needs. For purpose of analyzing resources available to meet general expenditures within one year of the statement of financial position date, the Organization considers all expenditures related to its ongoing programmatic activities, as well as the conduct of services undertaken to support those activities, to be general expenditures.

Note 3 - Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following at August 31, 2019 and 2018:

	2019	2018
Unexpended scholarship income	$ 135,295	$ 116,249
Various	2,652	1,535
2020 capital campaign	1,549,030	2,397,238
Charitable remainder trust	15,125	15,125
Scholarship endowment	41,000	41,000
	$ 1,743,102	$ 2,571,147

Note 4 - Net Assets Released from Restriction

Net assets were released from restriction for the years ended August 31, 2019 and 2018, by incurring expenses satisfying the following donor restrictions:

	2019	2018
Released from Restriction		
Scholarships	$ 7,637	$ 9,950
2020 capital campaign	984,711	1,434,582
Ag program	9,785	11,538
Capital improvements/vehicles	-	40,000
Hospitality house renovation	1,535	4,086
Christmas gifts	37,580	11,500
Achiever's Program	2,348	5,000
Challenge Course	-	1,000
Charitable remainder trust	-	23,150
	$ 1,043,596	$ 1,540,806

The 2020 capital campaign began a few years ago with the vision of serving more children, enlarging a program to serve 18-22 year old young adults, restore various elements of an aging campus, securing scholarship funds for graduates, enlarge the Mabee Health, Education and Services Center, secure additional acreage for expansion and securing commitments to planned gifts.

Note 5 - Mineral Royalty Interests in Oil Leases

The Sherwood and Myrtie Foster's Home for Children transferred the mineral royalty interests in real estate located in Ector County, Texas to the Foundation during the year ended August 31, 2002. The value of the transfer, $299,740, was based upon the Ector County tax appraisal statements for 2002. A warranty deed was issued at that time granting the Foundation the ownership of the mineral interests. Neither the Foster's Home for Children nor the Foundation have ever owned the surface rights to the real estate located above these mineral interests.

Note 6 - Compensated Absences

Vacations are accrued at a rate based upon the number of years of service. A year of full-time service will yield 10 vacation days. For each five-year period of continuous service, 3 additional days are earned, with the maximum number of earned vacation time in a given year being 22 days. Three vacation days may be carried over from the previous calendar year but must be used by March 31 of the succeeding year. As of August 31, 2019 and 2018, vacation payable was $7,800 and $10,922, respectively.

Sick leave benefits are not paid to employees upon termination of employment. As result, no accrual for sick leave is recorded.

Note 7 - Land, Buildings and Equipment

Land in use for purposes of housing children and providing work and play areas for the Organization is not included in investments but is considered property used for operations.

Land, buildings and equipment at August 31 consist of the following:

	2019	2018
Land	$ 784,857	$ 784,857
Construction in progress	1,437,785	778,150
Buildings and improvements	8,740,603	7,755,892
Furniture and fixtures	472,703	424,380
Equipment	470,054	430,938
Vehicles	729,849	609,643
	12,635,851	10,783,860
Less accumulated depreciation	(3,621,783)	(3,278,196)
Net land, buildings and equipment	$ 9,014,068	$ 7,505,664

Depreciation expense for the years ended August 31, 2019 and 2018, was $391,514 and $336,549, respectively.

Note 8 - Intercompany Transactions

Income allocations for monthly support and payments of expenses on behalf of the Home by the Foundation totaled $518,001 and $528,000 for the years ended August 31, 2019 and 2018, respectively. These transactions were eliminated in the consolidation of the financial statements.

The Board of Directors of the Home has adopted a policy allowing unrestricted bequests of $25,000 or less to be utilized for operations of the Home while all unrestricted bequests in excess of $25,000 would be held subject to specific direction by the Board. The board-designated transfers to the Foundation from the Home are intended to be retained and invested to provide endowment income support for the Home for future years. The Home transferred $1,268,326 and $789,246 in contributions to the Foundation for the years ended August 31, 2019 and 2018, respectively.

Note 9 - Pension Trust

In 1972, the Home established a qualified defined contribution pension plan and trust that includes essentially all employees in the child care services, age 19 and over, who have attained one month of service. If employees during the year are no longer employed at the valuation date, December 31, but have 500 hours of service for the calendar year, their salaries are considered in the participant allocations. The Home contributes an amount equivalent to 8% of the annual compensation paid to participants. The plan has been amended to incorporate recent law requirements and legal mandates. Employer contributions vest to the participating employees over 6 service years (over 1,000 hours worked in a service year) of employment as follows:

Years of Service	Percentage Vested
0-1	0%
2	20%
3	40%
4	60%
5	80%
6	100%

During January 2009, the Home converted its existing pension plan to a 401k plan using a third-party servicer, Principal Financial Group. Contributions to the plan as of August 31, 2019 and 2018, totaled $119,781 and $113,793, respectively. As of August 31, 2019 and 2018, the estimated retirement accrual not yet deposited to the Plan's trust was $17,553 and $17,528, respectively.

Note 10 - Investments

The Home's investment portfolio consisted of the following as of August 31, 2019 and 2018:

	Fair Value	
	2019	2018
Certificates of deposit	$ 39,397	$ 1,695,754
Equity securities	18,141	13,234
Mutual funds	579,376	35,696
Total	$ 636,914	$ 1,744,684

The Foundation's investment portfolio consisted of the following as of August 31, 2019 and 2018:

	Fair Value 2019	Fair Value 2018
Money market	$ 25,648	$ 505,234
Mutual funds	11,434,226	10,039,493
Corporate bonds	52,129	49,667
Equity securities	165,115	169,594
Unit investment trust	41,887	45,477
Alternative- hedge funds	-	53,925
	11,719,005	10,863,390
Oil and gas interest *	299,740	299,740
Total	$ 12,018,745	$ 11,163,130

* Oil and gas interests are recorded at cost. Cost value is reported above in fair value columns to reconcile with amounts reported in financial statements.

Note 11 - Concentration of Credit Risk

The Organization carries certain bank accounts with financial institutions which are subject to credit risk by the amount such assets exceed federal deposit insurance limits. The Organization has not experienced any losses on such accounts. Deposits subject to credit risk were $468,749 and $270,208 as of August 31, 2019 and 2018.

The accounts receivable of the Organization are primarily with governmental units and are not considered to be a significant concentration of credit risk.

Note 12 - Risks and Uncertainties

The Organization invests in various investment securities, which are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect amounts reported in the accompanying consolidated financial statements.

Note 13 - Risk Management

The Organization is exposed to various risks of loss related to general liability: torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; malpractice; and natural disasters. The Organization has commercial general liability insurance of $1,000,000 for each occurrence with an annual aggregate limit of $3,000,000; professional liability insurance of $1,000,000 for each occurrence with an annual aggregate limit of $3,000,000; directors and officers liability with an annual aggregate limit of $1,000,000; employment practices liability with an annual aggregate limit of $1,000,000; employee theft insurance of $75,000 for each occurrence and automobile liability of $1,000,000 for each occurrence.

Note 14 - Charitable Trusts and Annuities Payable

For charitable annuities for which the Foundation is trustee and beneficiary, contributions are recorded at fair value in the year of the agreement. In addition to the recording of the assets received, a liability is recorded representing the discounted future cash flows expected to the paid to the annuitant. The estimated liability of future cash flows is based upon the life expectancy of the annuitant, the contractual payout amounts and a discount rate of 6%. Annual adjustments to the annuity liability, as a result of amortization of the discount, annuity maturities and changes in the estimated life expectancies of the annuitants, are reflected as change in value of split-interest agreements in the statements of activities. Annuities payable of $624,428 and $676,401 were recorded at August 31, 2019 and 2018, respectively.

For charitable remainder trusts for which the Foundation is trustee and beneficiary, contributions are recorded at fair value in the year of the agreement and are reflected as charitable trusts in the accompanying consolidated financial statements. In addition to the recording of the assets held in trust, a liability is recorded representing the discounted future cash flows expected to be paid to the specified beneficiary designated by the donor. The estimated liability of future cash flows is based upon the life expectancy of the specified beneficiary, the current fair value of the trust, and the applicable federal rate (“AFR”) related to each trust based on the AFR in effect at the date the trust was created. Investment income, payments to beneficiaries, and adjustments to the liability are reflected as changes in value of split-interest agreements in the consolidated statements of activities. The estimated liability for the future cash flows as of August 31, 2019 and 2018, was $23,182 and $24,460, respectively.

Note 15 - Fair Value Measurement

Authoritative guidance establishes a fair value hierarchy that distinguishes between assumptions based on market data (observable inputs) and the Organization's assumptions (unobservable inputs). Determining where an asset falls within that hierarchy depends on the lowest level input that is significant to the fair value measurement as a whole. An adjustment to the pricing method used within either Level 1 or Level 2 inputs could generate a fair value measurement that effectively falls in a lower level in the hierarchy. The hierarchy consists of the three broad levels as follows:

Level 1 – Quoted market prices in active markets for identical assets or liabilities
Level 2 – Inputs other than Level 1 inputs that are either directly or indirectly observable
Level 3 – Unobservable inputs developed using the Organization's and/or third party estimates and assumptions, which reflect those that market participants would use

The determination of where an asset or liability falls within the hierarchy requires significant judgment. The Organization evaluates its hierarchy disclosures periodically and based on various factors, it is possible that an asset or liability may be classified differently from period to period. However, the Organization expects that changes in classifications between different levels will be rare.

The Foundation uses net asset value (NAV) per share, or its equivalent, such as member units or an ownership interest in partners' capital, as a practical expedient to estimate the fair value of certain hedge funds, private equity funds, funds of funds, and limited partnerships, which do not have readily determinable fair values. Investments that are measured at fair value using NAV per share as a practical expedient are not classified in the fair value hierarchy.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. While management believes the Organization's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Money Market, Mutual Funds, Corporate Bonds, Equity Securities, and Fixed Income

These investments are reported at fair value utilizing Level 1 and Level 2 inputs. For these securities, the Organization obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayments speeds, credit information and the bond's terms and conditions, among other things.

The following table summarizes the Home’s financial instruments measured at fair value as of August 31, 2019, based on the three-tier hierarchy:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial assets				
Certificate of deposit	$ -	$ 39,397	$ -	$ 39,397
Equity securities	18,141	-	-	18,141
Mutual funds	579,376	-	-	579,376
Total financial assets	$ 597,517	$ 39,397	$ -	$ 636,914

The following table summarizes the Home’s financial instruments measured at fair value as of August 31, 2018, based on the three-tier hierarchy:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial assets				
Certificate of deposit	$ -	$ 1,695,754	$ -	$ 1,695,754
Equity securities	13,234	-	-	13,234
Mutual funds	35,696	-	-	35,696
Total financial assets	$ 48,930	$ 1,695,754	$ -	$ 1,744,684

Alternative Investments

Hedge funds are valued at net asset value determined in good faith by third party fund managers based on estimates of the underlying investments and appropriate market indices. The Foundation uses these estimates as reported by the fund managers as the primary input to its estimation of fair valuation.

ASC 820 also requires additional disclosure for certain types of investments that calculate net asset value per share but are not listed on national exchanges to assist in understanding the nature and risk of the investments by major category. The table below summarizes the pertinent liquidity information of investments reported at net asset value at August 31, 2018:

	Fair Value	Redemption Frequency	Redemption Notice Period
Hedge funds:			
Ironwood Multi Strat LLC	$ 53,925	Semi-annual*	95 days notice

* subject to sole discretion of the Board

There are no remaining capital commitments on the above investment at August 31, 2018.

Ironwood Multi Strategy fund strategy includes relative value, convertible bond arbitrage, distressed securities, credit opportunities, event driven, fundamental long/short, statistical arbitrage, portfolio protection, and private securities.

The following table summarizes the Foundation's financial instruments measured at fair value on a recurring basis as of August 31, 2019, based on the three-tier hierarchy:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial assets				
Money market	$ 25,648	$ -	$ -	$ 26,331
Mutual funds	11,472,533	-	-	11,468,290
Equity securities	98,615	66,500	-	165,115
Unit investment trust	-	41,887	-	41,887
Corporate bonds	-	52,129	-	52,129
	$ 11,596,796	$ 160,516	$ -	$ 11,757,312
Reported as				
Investments-only those at FV	$ 11,558,489	$ 160,516	$ -	$ 11,719,005
Charitable remainder trusts	38,307	-	-	38,307
	$ 11,596,796	$ 160,516	$ -	$ 11,757,312

The following table summarizes the Foundation’s financial instruments measured at fair value as of August 31, 2018, based on the three-tier hierarchy:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Reported at Net Asset Value	Total Fair Value
Financial assets					
Money market	$ 506,150	$ -	$ -	$ -	$ 506,150
Mutual funds	10,078,108	-	-	-	10,078,108
Equity securities	103,094	66,500	-	-	169,594
Unit investment trust	-	45,477	-	-	45,477
Alternative- hedge funds	-	-	-	53,925	53,925
Corporate bonds	-	49,667	-	-	49,667
	$ 10,687,352	$ 161,644	$ -	$ 53,925	$ 10,902,921
Reported as					
Investments-only those at FV	$ 10,647,821	$ 161,644	$ -	$ 53,925	$ 10,863,390
Charitable remainder trusts	39,531	-	-	-	39,531
	$ 10,687,352	$ 161,644	$ -	$ 53,925	$ 10,902,921

Note 16 - Endowment

The Foundation’s endowment account contains individual donor restricted endowment funds established for the purpose of assisting the Home with the cost of higher education. The net assets of endowment funds are classified and reported based on the existence or absence of donor restrictions.

Interpretation of Relevant Law

The Foundation, relying on information and advice from legal counsel and appointed officers, has interpreted UPMIFA to require the preservation of the historic dollar value of donor-restricted endowment funds, absent explicit donor direction to the contrary. As a result of this interpretation, for financial reporting purposes, the Foundation classifies as net assets with donor restrictions the historic dollar value of assets held as donor-restricted endowment, including any subsequent gifts and any accumulations to donor-restricted endowments made in accordance with the instructions of the applicable gift instruments.

All of the revenue from these funds is combined with unrestricted funds to pay for the cost of higher education. Costs for higher education have exceeded the revenue generated from this fund for every year of the fund’s existence.

Endowment net assets consist of the following at August 31, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor restricted endowment funds			
Amount held in perpetuity	$ -	$ 41,000	$ 41,000
Unexpended accumulated gains	-	135,295	135,295
Board-designated endowment funds	45,540	-	45,540
Total endowed net assets	$ 45,540	$ 176,295	$ 221,835

Endowment net assets consist of the following at August 31, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor restricted endowment funds			
Amount held in perpetuity	$ -	$ 41,000	$ 41,000
Unexpended accumulated gains	-	116,249	116,249
Board-designated endowment funds	45,540	-	45,540
Total endowed net assets	$ 45,540	$ 157,249	$ 202,789

Changes in endowment net assets for the year ended August 31, 2019 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, August 31, 2018	$ 45,540	$ 157,249	$ 202,789
Contributions	-	20,000	20,000
Investment return			
Endowment and investment income	-	7,832	7,832
Net unrealized loss	-	(1,149)	(1,149)
Distributions and withdrawals	-	(7,637)	(7,637)
Endowment net assets, August 31, 2019	$ 45,540	$ 176,295	$ 221,835

Changes in endowment net assets for the year ended August 31, 2018 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, August 31, 2017	$ 45,540	$ 101,933	$ 147,473
Contributions	-	60,000	60,000
Investment return			
Endowment and investment income	-	5,743	5,743
Net unrealized gain	-	(477)	(477)
Distributions and withdrawals	-	(9,950)	(9,950)
Endowment net assets, August 31, 2018	$ 45,540	$ 157,249	$ 202,789

Return Objectives and Risk Parameters
The Foundation has adopted investment and spending policies that attempt to provide a predictable stream of funding for scholarships. Endowment assets are invested to yield a level of return to meet the objectives of the fund while adhering to a prudent level of risk.

Strategies Employed for Achieving Objectives
To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through capital appreciation and current yield.

Spending Policy and How Investment Objectives Relate to Spending Policy
In accordance with UPMIFA, the Foundation considers the following factors in determining spending policy:

1. The duration and preservation of the endowment fund
2. The purposes of the Home and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation

The spending policy of the Foundation will be reviewed periodically using the seven factors above and approved by the Board of Directors in conjunction with the annual budget. Any subsequent modifications to the spending policy will be approved by the Board of Directors. Based on market performance, distributions may vary from year to year. The Foundation appropriates funds for expenditure as they are utilized for higher education and scholarship needs.

Underwater Endowments
From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Foundation has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. The Foundation had no underwater endowments at August 31, 2019 or 2018.

Note 17 - Related Party Transactions

Board member contributions to the Organization totaled $413,995 and $176,176 for the years ended August 31, 2019 and 2018, respectively.

Note 18 - Adjustment Resulting from Change in Accounting Policy

As disclosed in Note 1, the Organization adopted the provisions of ASU 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities* as of September 1, 2018. As part of the adoption, changes were made to the presentation of the financial statements and classification of net assets, as well as net assets released from restriction. The following is a summary of the effects of the change in accounting policy in the Organization's August 31, 2018 financial statements.

The effect on the Organization's statement of financial position as of August 31, 2018 is as follows:

	As Previously Reported	Adoption of ASU 2016-14	As Adjusted
Net assets, end of year			
Unrestricted net assets	$ 19,668,511	$ (19,668,511)	$ -
Temporarily restricted net assets	1,751,997	(1,751,997)	-
Permanently restricted net assets	41,000	(41,000)	-
Net assets without donor restriction	-	18,890,361	18,890,361
Net assets with donor restriction	-	2,571,147	2,571,147

The effect on the Organization's statement of activities for the year ended August 31, 2018 is as follows:

	As Previously Reported	Adoption of ASU 2016-14	As Adjusted
Net assets released from restriction	$ 2,041,233	$ (500,427)	$ 1,540,806

Note 19 - Upcoming Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). This guidance is a comprehensive new revenue recognition standard that will supersede substantially all existing revenue recognition guidance. The new standard's core principle is that an organization will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the organization expects to be entitled in exchange for those goods or services. In doing so, organizations will need to use more judgment and make more estimates than under existing guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. On July 9, 2015, the FASB agreed to delay the effective date of the standard by one year. Therefore, the new standard will be effective for fiscal years beginning after December 15, 2018 and is not expected to have a significant impact to the Organization's financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). This guidance is intended to improve financial reporting regarding leasing transactions. The new standard affects all companies and organizations that lease assets. The standard will require organizations to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases if the lease terms are more than 12 months. The guidance also will require qualitative and quantitative disclosures providing additional information about the amounts recorded in the financial statements. The amendments in this update are effective for fiscal years beginning after December 15, 2020. The Organization is evaluating the potential impact of the amendment on the Organization’s financial statements.

In June 2018, the FASB issued ASU No. 2018-08, Not-for-Profit Entities (Topic 958) - Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. The FASB issued this Update to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The amendments in this Update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The Organization should apply the Update for transactions in which the entity serves as the resource recipient to annual periods beginning after December 15, 2018. The Organization is evaluating the potential impact of the Update on the Organization’s financial statements.

Note 20 - Subsequent Events

The Organization has evaluated subsequent events through December 5, 2019, the date the consolidated financial statements were available to be issued.