Financial Statements
December 31, 2017 and 2016

# Neighborhood House Association

**Independent Auditor's Report**

The Board of Directors
Neighborhood House Association
Salt Lake City, Utah

**Report on the Financial Statements**
We have audited the accompanying financial statements of Neighborhood House Association (a nonprofit organization) which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Neighborhood House Association as of December 31, 2017 and 2016, 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.

Eide Bailly LLP

Salt Lake City, Utah
June 28, 2018

| | 2017 | 2016 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 209,015 | $ 187,451 |
| Program and other receivables, net of allowance for doubtful accounts of $54,038 and $63,113 | 111,371 | 93,624 |
| Unconditional promises to give | 32,500 | 32,500 |
| Prepaid expenses | 19,752 | 19,342 |
| Total current assets | 372,638 | 332,917 |
| Unconditional promises to give restricted to long-term purposes | 1,500,631 | - |
| Investments (including endowment) | 9,174,114 | 7,190,203 |
| Property and equipment, net | 1,319,345 | 885,809 |
| | $ 12,366,728 | $ 8,408,929 |
| **Liabilities and Net Assets** | | |
| Current liabilities | | |
| Accounts payable | $ 15,109 | $ 71,779 |
| Accrued expenses | 129,453 | 103,062 |
| Total current liabilities | 144,562 | 174,841 |
| Net assets | | |
| Unrestricted | | |
| Undesignated | 1,141,969 | 970,258 |
| Board designated | 3,227,926 | 2,896,292 |
| Invested in property and equipment | 1,319,345 | 885,809 |
| Total unrestricted net assets | 5,689,240 | 4,752,359 |
| Temporarily restricted | 5,951,576 | 3,371,729 |
| Permanently restricted | 581,350 | 110,000 |
| Total net assets | 12,222,166 | 8,234,088 |
| | $ 12,366,728 | $ 8,408,929 |

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Revenue, Support, and Gains | | | | |
| Program income | $ 1,131,350 | $ - | $ - | $ 1,131,350 |
| Food service reimbursement | 150,200 | - | - | 150,200 |
| Royalties - oil and gas | 27,869 | - | - | 27,869 |
| Net investment return | 482,409 | 23,842 | - | 506,251 |
| Other income | 12,296 | - | - | 12,296 |
| Grants and contributions | 259,078 | 3,995,739 | 471,350 | 4,726,167 |
| In-kind contributions | 20,571 | - | - | 20,571 |
| Gross special events revenue | 322,173 | - | - | 322,173 |
| Less cost of direct benefit to donors | (32,114) | - | - | (32,114) |
| Net special events revenue | 290,059 | - | - | 290,059 |
| Net assets released from restrictions | 1,439,734 | (1,439,734) | - | - |
| Total revenue, support and gains | 3,813,566 | 2,579,847 | 471,350 | 6,864,763 |
| Expenses | | | | |
| Program services expenses | | | | |
| Children’s Day Care | 1,813,003 | - | - | 1,813,003 |
| Adult Day Services | 573,088 | - | - | 573,088 |
| Total program services expenses | 2,386,091 | - | - | 2,386,091 |
| Supporting services expenses | | | | |
| Management and general | 262,686 | - | - | 262,686 |
| Fundraising | 227,908 | - | - | 227,908 |
| Total supporting services expenses | 490,594 | - | - | 490,594 |
| Total expenses | 2,876,685 | - | - | 2,876,685 |
| Change in Net Assets | 936,881 | 2,579,847 | 471,350 | 3,988,078 |
| Net Assets, Beginning of Year | 4,752,359 | 3,371,729 | 110,000 | 8,234,088 |
| Net Assets, End of Year | $ 5,689,240 | $ 5,951,576 | $ 581,350 | $ 12,222,166 |

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Revenue, Support, and Gains | | | | |
| Program income | $ 1,145,839 | $ - | $ - | $ 1,145,839 |
| Food service reimbursement | 163,949 | - | - | 163,949 |
| Royalties - oil and gas | 51,261 | - | - | 51,261 |
| Net investment return | 126,541 | 8,243 | - | 134,784 |
| Other income | 6,351 | - | - | 6,351 |
| Grants and contributions | 189,801 | 1,072,013 | - | 1,261,814 |
| In-kind contributions | 23,439 | - | - | 23,439 |
| Gross special events revenue | 244,539 | - | - | 244,539 |
| Less cost of direct benefit to donors | (33,787) | - | - | (33,787) |
| Net special events revenue | 210,752 | - | - | 210,752 |
| Net assets released from restrictions | 927,069 | (927,069) | - | - |
| Total revenue, support and gains | 2,845,002 | 153,187 | - | 2,998,189 |
| Expenses | | | | |
| Program services expenses | | | | |
| Children’s Day Care | 1,792,485 | - | - | 1,792,485 |
| Adult Day Services | 546,671 | - | - | 546,671 |
| Total program services expenses | 2,339,156 | - | - | 2,339,156 |
| Supporting services expenses | | | | |
| Management and general | 232,508 | - | - | 232,508 |
| Fundraising | 144,863 | - | - | 144,863 |
| Total supporting services expenses | 377,371 | - | - | 377,371 |
| Total expenses | 2,716,527 | - | - | 2,716,527 |
| Change in Net Assets | 128,475 | 153,187 | - | 281,662 |
| Net Assets, Beginning of Year | 4,623,884 | 3,218,542 | 110,000 | 7,952,426 |
| Net Assets, End of Year | $ 4,752,359 | $ 3,371,729 | $ 110,000 | $ 8,234,088 |

| | Program Services Expenses | | | Supporting Services Expenses | | | |
|---|---|---|---|---|---|---|---|
| | Children's Day Care | Adult Day Services | Total Program Services | Management and General | Fundraising | Total Support Services | Total |
| Salaries, benefits, and taxes | $ 1,266,198 | $ 400,861 | $ 1,667,059 | $ 205,677 | $ 126,078 | $ 331,755 | $ 1,998,814 |
| Program and office expenses | 120,443 | 10,515 | 130,958 | 10,788 | 4,383 | 15,171 | 146,129 |
| Food | 116,573 | 22,472 | 139,045 | - | - | - | 139,045 |
| Depreciation | 91,724 | 26,235 | 117,959 | 3,708 | 3,708 | 7,416 | 125,375 |
| Occupancy and maintenance | 52,188 | 27,332 | 79,520 | 2,566 | 612 | 3,178 | 82,698 |
| Professional and contract services | 8,307 | 7,107 | 15,414 | 11,200 | 72,250 | 83,450 | 98,864 |
| Bad debt | 37,277 | 15,811 | 53,088 | - | - | - | 53,088 |
| Telephone and utilities | 43,724 | 16,569 | 60,293 | 2,113 | 2,113 | 4,226 | 64,519 |
| Transportation | 12,033 | 21,538 | 33,571 | 177 | 223 | 400 | 33,971 |
| Insurance | 19,586 | 13,463 | 33,049 | 2,867 | 1,912 | 4,779 | 37,828 |
| Licensing, education, and training | 26,573 | 3,570 | 30,143 | 2,424 | 1,183 | 3,607 | 33,750 |
| Donated goods and services | 15,616 | 4,955 | 20,571 | - | - | - | 20,571 |
| Printing and promotion | 734 | 2,160 | 2,894 | 12,196 | 15,398 | 27,594 | 30,488 |
| Other | 2,027 | 500 | 2,527 | 8,970 | 48 | 9,018 | 11,545 |
| Events | - | - | - | - | 32,114 | 32,114 | 32,114 |
| | 1,813,003 | 573,088 | 2,386,091 | 262,686 | 260,022 | 522,708 | 2,908,799 |
| Less expenses included with revenues on the statement of activities | | | | | | | |
| Cost of direct benefits to donors | - | - | - | - | (32,114) | (32,114) | (32,114) |
| Total expenses included in the expense section on the statement of activities | $ 1,813,003 | $ 573,088 | $ 2,386,091 | $ 262,686 | $ 227,908 | $ 490,594 | $ 2,876,685 |

| | Program Services Expenses | | | Supporting Services Expenses | | | |
|---|---|---|---|---|---|---|---|
| | Children's Day Care | Adult Day Services | Total Program Services | Management and General | Fundraising | Total Support Services | Total |
| Salaries, benefits, and taxes | $ 1,228,060 | $ 353,515 | $ 1,581,575 | $ 179,274 | $ 90,635 | $ 269,909 | $ 1,851,484 |
| Program and office expenses | 128,570 | 14,912 | 143,482 | 8,048 | 7,533 | 15,581 | 159,063 |
| Food | 122,955 | 20,254 | 143,209 | - | - | - | 143,209 |
| Depreciation | 75,472 | 25,876 | 101,348 | 2,897 | 2,897 | 5,794 | 107,142 |
| Occupancy and maintenance | 53,949 | 25,895 | 79,844 | 438 | 438 | 876 | 80,720 |
| Professional and contract services | 628 | 20,945 | 21,573 | 23,045 | 32,338 | 55,383 | 76,956 |
| Bad debt | 53,576 | 22,961 | 76,537 | - | - | - | 76,537 |
| Telephone and utilities | 47,174 | 15,828 | 63,002 | 1,940 | 1,940 | 3,880 | 66,882 |
| Transportation | 22,537 | 21,255 | 43,792 | 512 | 512 | 1,024 | 44,816 |
| Insurance | 18,143 | 14,363 | 32,506 | 2,048 | 2,048 | 4,096 | 36,602 |
| Licensing, education, and training | 19,341 | 3,452 | 22,793 | 789 | 150 | 939 | 23,732 |
| Donated goods and services | 18,751 | 4,688 | 23,439 | - | - | - | 23,439 |
| Printing and promotion | 626 | 938 | 1,564 | 3,884 | 6,297 | 10,181 | 11,745 |
| Other | 2,703 | 1,789 | 4,492 | 9,633 | 75 | 9,708 | 14,200 |
| Events | - | - | - | - | 33,787 | 33,787 | 33,787 |
| | 1,792,485 | 546,671 | 2,339,156 | 232,508 | 178,650 | 411,158 | 2,750,314 |
| Less expenses included with revenues on the statement of activities | | | | | | | |
| Cost of direct benefits to donors | - | - | - | - | (33,787) | (33,787) | (33,787) |
| Total expenses included in the expense section on the statement of activities | $ 1,792,485 | $ 546,671 | $ 2,339,156 | $ 232,508 | $ 144,863 | $ 377,371 | $ 2,716,527 |

See Notes to Financial Statements

| | 2017 | 2016 |
|---|---|---|
| Operating Activities | | |
| Change in net assets | $ 3,988,078 | $ 281,662 |
| Adjustments to reconcile change in net assets to net cash from (used for) operating activities | | |
| Depreciation | 125,375 | 107,142 |
| Royalties - oil and gas | (27,869) | (51,261) |
| Net realized and unrealized gain on investments | (430,188) | (84,044) |
| Gain on disposal of property and equipment | - | (750) |
| Contributions restricted to building project | (2,156,388) | - |
| Bad debt | 53,088 | 76,537 |
| Change in operating assets and liabilities | | |
| Program and other receivables | (70,835) | 1,492 |
| Promises to give restricted to long-term purposes | (1,500,631) | - |
| Prepaid expenses | (410) | (127) |
| Accounts payable | (56,670) | 55,570 |
| Accrued expenses | 1,801 | 20,796 |
| Net Cash from (used for) Operating Activities | (74,649) | 407,017 |
| Investing Activities | | |
| Purchase of property and equipment | (534,321) | (177,351) |
| Royalty income | 27,869 | 51,261 |
| Purchases of investments | (3,330,897) | (1,455,603) |
| Sales of investments | 1,777,174 | 1,225,648 |
| Net Cash used for Investing Activities | (2,060,175) | (356,045) |
| Financing Activities | | |
| Collections of contributions restricted to building project | 2,156,388 | - |
| Net Cash from Financing Activities | 2,156,388 | - |
| Net Change in Cash and Cash Equivalents | 21,564 | 50,972 |
| Cash and Cash Equivalents, Beginning of Year | 187,451 | 136,479 |
| Cash and Cash Equivalents, End of Year | $ 209,015 | $ 187,451 |
| Supplemental Disclosure of Non-cash Investing Activity | | |
| Equipment financed through capital lease arrangement | $ 24,590 | $ - |

## Note 1 - Principal Activity and Significant Accounting Policies

### Organization

The Neighborhood House Association (the Association) is a nonprofit organization established under the laws of the State of Utah to provide child and adult day care services in the Salt Lake City area.

The Association's principal programs comprise the following:

- The Children's Day Care program provides preschool child care and before and after school day care for elementary aged children and the summer program includes activities for 13 and 14 year olds. The program is designed to promote the physical, mental and social well-being of the children.

- The Adult Day Services program offers an alternative to premature nursing home care for the elderly. Supportive services are provided at the Center and at a satellite location for patrons who are no longer able to remain alone during the day.

### Cash and Cash Equivalents

The Association considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to capital expenditures, permanent endowment, or other long-term purposes of the Association are excluded from this definition.

### Receivables and Credit Policies

Accounts receivable consist primarily of noninterest-bearing amounts due for program services provided. Management determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. At December 31, 2017 and 2016, the allowance was $54,038 and $63,113, respectively.

### Promises to Give

Unconditional promises to give expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. Management determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. At December 31, 2017 and 2016, no allowance has been recorded for promises to give.

**Property and Equipment**

Property and equipment additions over $2,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from three to thirty-three years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

The Association reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent the carrying value exceeds the fair value of the asset. At December 31, 2017 and 2016, no impairment loss has been recorded.

**Investments**

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment gain (loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees.

**Net Assets**

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Unrestricted Net Assets* – Net assets available for use in general operations. Unrestricted board-designated net assets consist of net assets designated by the Board of Directors for operating reserve and quasi-endowment.

*Temporarily Restricted Net Assets* – Net assets subject to donor restrictions that may or will be met by expenditures or actions of the Association and/or the passage of time, and certain income earned on permanently restricted net assets that has not yet been appropriated for expenditure by the Association's Board of Directors.

The Association reports contributions as temporarily 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

*Permanently Restricted Net Assets* – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of the Association. The restrictions stipulate that resources be maintained permanently but permit the Association to expend the income generated in accordance with the provisions of the agreements.

**Revenue and Revenue Recognition**

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

**Donated Services and In-Kind Contributions**

Volunteers contribute significant amounts of time to the Association's program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. The Association records donated professional services at the respective fair values of the services received.

**Functional Allocation of Expenses**

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Income Taxes**

The Association is organized as a Utah nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3), qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi), and has been determined not to be a private foundation under Section 509(a)(1). The Association is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the entity is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. The Association has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

The Association believes that it 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 Association 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.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and those differences could be material.

**Financial Instruments and Credit Risk**

The Association manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Association has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from board members, governmental agencies, and foundations supportive of the Association's mission. Investments are made by diversified investment managers whose performance is monitored by management and the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, management and the Board of Directors believe that the investment policies and guidelines are prudent for the long-term welfare of the Association.

**Reclassifications**

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

## Note 2 - Fair Value Measurements and Disclosures

Certain assets are reported at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Association can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These 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 market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, the Association develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Association's assessment of the quality, risk or liquidity profile of the asset or liability.

A significant portion of the Association's investment assets are classified within Level 1 because they are comprised of open-end mutual funds and equity securities with readily determinable fair values based on daily redemption values. The Association invests in U.S. Government obligations that are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates and market-rate assumptions, and are classified within Level 2.

Net Asset Value (NAV) per share, or its equivalent, such as member units or an ownership interest in partners' capital, is used to estimate the fair values 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.

The following table presents assets measured at fair value on a recurring basis, except those measured at cost or by using NAV per share as a practical expedient as identified in the following, at December 31, 2017:

| Assets | Level 1 | Level 2 | Level 3 | NAV | Total |
|---|---|---|---|---|---|
| Money market funds, cash equivalents | $ 5,861,489 | $ - | $ - | $ - | $ 5,861,489 |
| Debt securities | - | 537,597 | - | - | 537,597 |
| Equity securities | 2,131,413 | - | - | - | 2,131,413 |
| Mutual funds | 536,592 | - | - | - | 536,592 |
| Real estate funds | - | - | - | 107,023 | 107,023 |
| Total assets at fair value | $ 8,529,494 | $ 537,597 | $ - | $ 107,023 | $ 9,174,114 |

The following table presents assets measured at fair value on a recurring basis, except those measured at cost or by using NAV per share as a practical expedient as identified in the following, at December 31, 2016:

| Assets | Level 1 | Level 2 | Level 3 | NAV | Total |
|---|---|---|---|---|---|
| Money market funds, cash equivalents | $ 2,267,335 | $ - | $ - | $ - | $ 2,267,335 |
| Debt securities | 2,001,887 | 508,141 | - | - | 2,510,028 |
| Equity securities | 1,798,709 | - | - | - | 1,798,709 |
| Mutual funds | 514,663 | - | - | - | 514,663 |
| Real estate funds | - | - | - | 99,468 | 99,468 |
| Total assets at fair value | $ 6,582,594 | $ 508,141 | $ - | $ 99,468 | $ 7,190,203 |

## Note 3 - Net Investment Return

Net investment return consists of the following for the years ended December 31, 2017 and 2016:

| | 2017 | 2016 |
|---|---|---|
| Operating investments | | |
| Interest and dividends, net of fees | $ 21,737 | $ 1,369 |
| Net realized and unrealized gain (loss) | (928) | 2,008 |
| Less investment management and custodial fees | (169) | (151) |
| | 20,640 | 3,226 |
| Endowment investments (board designated and permanently restricted) | | |
| Interest and dividends, net of fees | 86,370 | 81,257 |
| Net realized and unrealized gain | 431,116 | 82,036 |
| Less investment management and custodial fees | (31,875) | (31,735) |
| | 485,611 | 131,558 |
| | $ 506,251 | $ 134,784 |

## Note 4 - Promises to Give

*Unconditional Promises to Give*

Unconditional promises to give are estimated to be collected as follows at December 31, 2017 and 2016:

| | 2017 | 2016 |
|---|---|---|
| Within one year | $ 638,400 | $ - |
| In one to five years | 926,000 | - |
| | 1,564,400 | - |
| Less discount to net present value at a rate of 4.5% | (63,769) | - |
| | $ 1,500,631 | $ - |

Unconditional promises to give consists of the following:

| | 2017 | 2016 |
|---|---|---|
| Promises to give for capital campaign, net | $ 1,029,281 | $ - |
| Endowment promises to give, net | 471,350 | - |
| | $ 1,500,631 | $ - |

At December 31, 2017, three donors accounted for 68% of total promises to give. Four contributors accounted for approximately 49% of total contribution revenue for the year ended December 31, 2017.

*Conditional Promises to Give*

As of December 31, 2017 the Association has received conditional promises to give totaling $4,000,000 from two different donors for the capital campaign. These promises to give are conditional on the Association receiving additional funding sufficient to build a proposed new building or start construction on that building. Since the Association had not yet satisfied the conditions of these promises to give at December 31, 2017, they have not been recorded as revenue as of December 31, 2017. These contributions are expected to be received during the years 2018 through 2020.

## Note 5 - Property and Equipment

Property and equipment consists of the following at December 31, 2017 and 2016:

| | 2017 | 2016 |
|---|---|---|
| Land and improvements | $ 415,137 | $ 415,137 |
| Buildings and improvements | 2,324,207 | 2,324,207 |
| Furniture and equipment | 992,964 | 927,384 |
| Construction in progress | 574,434 | 83,834 |
| | 4,306,742 | 3,750,562 |
| Less accumulated depreciation | (2,987,397) | (2,864,753) |
| | $ 1,319,345 | $ 885,809 |

## Note 6 - Endowment

The Association's endowment includes one donor-restricted endowment fund for children's scholarships and certain unrestricted net asset funds designated by the Board of Directors (the Endowment). The Endowment assets are invested along with the Association's other investments (Note 2). Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Association's Board of Directors has interpreted the Utah Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At December 31, 2017 and 2016, there were no such donor stipulations. As a result of this interpretation, the Association classifies as permanently restricted net assets (a) the original value of gifts donated to the Endowment, (b) the original value of subsequent gifts donated to the Endowment (including promises to give net of discount and allowance for doubtful accounts and (c) accumulations to the Endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. The remaining portion of the donor-restricted Endowment is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Association in a manner consistent with the standard of prudence prescribed by UPMIFA. The Association considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

*Investment and Spending Policies*

The Association has adopted investment and spending policies for the Endowment that attempt to provide a predictable stream of funding for operations while seeking to maintain the purchasing power of the Endowment assets. Over time, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of the Endowment assets, to provide the necessary capital to fund the spending policy, and to cover the costs of managing the Endowment investments. Actual returns in any given year vary. To satisfy this long-term rate-of-return objective, the investment portfolio is structured on a total-return approach through which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). A significant portion of the funds are invested to seek growth of principal over time.

The Association has determined to spend $5,000 from the permanent endowment earnings each year. This amount, determined and adjusted from time to time by the Board of Directors, was effective during 2017 and 2016. In establishing this policy, the Association considered the long-term expected return on the permanent endowment, and set the withdrawal amount with the objective of maintaining the purchasing power of the permanent endowment over time.

As of December 31, 2017 and 2016, the Association had the following endowment net asset composition by type of fund:

| December 31, 2017 | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Board-designated endowment | $ 3,227,926 | $ - | $ - | $ 3,227,926 |
| Donor-restricted for permanent endowment | - | 51,180 | 110,000 | 161,180 |
| | $ 3,227,926 | $ 51,180 | $ 110,000 | $ 3,389,106 |

| December 31, 2016 | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Board-designated endowment | $ 2,894,540 | $ - | $ - | $ 2,894,540 |
| Donor-restricted for permanent endowment | - | 32,338 | 110,000 | 142,338 |
| | $ 2,894,540 | $ 32,338 | $ 110,000 | $ 3,036,878 |

Changes in Endowment net assets for the years ending December 31, 2017 and 2016 are as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Balance at December 31, 2015 | $ - | $ 29,217 | $ 110,000 | $ 139,217 |
| Contributions / deposits | 2,771,103 | - | - | 2,771,103 |
| Appropriation of endowment assets pursuant to spending-rate policy | - | (5,000) | - | (5,000) |
| Investment returns: | | | | |
| Dividends and interest, net of fees | 45,511 | 4,011 | - | 49,522 |
| Unrealized and realized gains | 77,926 | 4,110 | - | 82,036 |
| Balance at December 31, 2016 | 2,894,540 | 32,338 | 110,000 | 3,036,878 |
| Appropriation of endowment assets pursuant to spending-rate policy | - | (5,000) | - | (5,000) |
| Distribution from board-designated endowment pursuant to distribution policy | (128,384) | - | - | (128,384) |
| Investment returns: | | | | |
| Dividends and interest, net of fees | 51,591 | 2,905 | - | 54,496 |
| Unrealized and realized gains | 410,179 | 20,937 | - | 431,116 |
| Balance at December 31, 2017 | $ 3,227,926 | $ 51,180 | $ 110,000 | $ 3,389,106 |

## Note 7 - Unrestricted Net Assets

Unrestricted net assets have been designated by the Board of Directors for specific purposes as follows:

| | 2017 | 2016 |
|---|---|---|
| Children's field trips | $ - | $ 1,752 |
| Endowment | 3,227,926 | 2,894,540 |
| | $ 3,227,926 | $ 2,896,292 |

## Note 8 - Restricted Net Assets

*Temporarily Restricted*

Temporarily restricted net assets at December 31, 2017 and 2016, consist of:

| | 2017 | 2016 |
|---|---|---|
| Adult programs | $ 90,450 | $ 78,950 |
| Children's day care program and scholarships | 218,420 | 228,056 |
| Capital improvements | 5,543,612 | 2,995,415 |
| Other projects | 15,414 | 4,470 |
| Unconditional promises to give - time restriction | 32,500 | 32,500 |
| Rosenblatt earnings - children's scholarships | 51,180 | 32,338 |
| | $ 5,951,576 | $ 3,371,729 |

*Permanently Restricted*

Permanently restricted net assets consist of endowment funds restricted by donors for investment in perpetuity, and held for the benefit of the Association. Distributions from and earnings on endowment funds are available for the purposes specified by the donors. The permanently restricted net assets balance at December 31, 2016 of $110,000 represents a permanently restricted donation from The Rosenblatt Charitable Fund. Earnings on this donation are restricted to provide scholarships for children in the Association's Children's Day Care program. The permanently restricted net assets balance at December 31, 2017 of $581,350 represents the $110,000 Rosenblatt Charitable Fund as well as a permanently restricted donation of $471,350 from a different donor. The new donor has not yet determined what requirements it will place on earnings of this endowment.

## Note 9 - Donated Services, Materials and Facilities

The Association received donated services, materials and facilities of $20,571 and $23,439 during the years ended December 31, 2017 and 2016 respectively. The donated materials primarily represent the donation of food items that are provided to or consumed by participants in the Association's programs. Donated food items are recorded as contributions and as expenses in the statements of activities.

## Note 10 - Land Lease

The Association entered into agreements to lease land the Association owns in Duchesne County, Utah. Under the terms of the lease agreement the Association is to receive a portion of the proceeds relating to the sale of oil and gas extracted from the property by the lessee. During the years ended December 31, 2017 and 2016, the Association recorded royalties – oil and gas totaling $27,869 and $51,261, respectively.

## Note 11 - Subsequent Events

The Association has evaluated subsequent events through June 28, 2018, the date the financial statements were available to be issued. In June 2018, in connection with the Association's efforts to build new facilities, the Association partnered with US Bancorp Community Development Corporation (USBank) and obtained additional funding by utilizing the New Markets Tax Credit Program (NMTC). As part of the NMTC funding obtained, the Association received outside funding consisting of a bridge loan of up to $3.6 million from Ally Bank repayable with interest at 4.5% and due as the Association collects certain pledges from donors. Construction and financing costs totaling approximately $17 million have been committed to be funded by the Association and are expected to be paid through a combination of the NMTC program funding, collected pledges from donors and the aforementioned bridge loan.