

**ST. JOHN'S EPISCOPAL SCHOOL
OF ABILENE, INC.**

FINANCIAL STATEMENTS
and
INDEPENDENT AUDITORS' REPORT

YEARS ENDED JULY 31, 2018 and 2017

**ST. JOHN'S EPISCOPAL SCHOOL
OF ABILENE, INC.**

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Merritt, McLane & Hamby, P.C.

401 Cypress Street, Suite 303
Abilene, TX 79601

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
**St. John's Episcopal School
of Abilene, Inc.**
Abilene, Texas

We have audited the accompanying financial statements of St. John's Episcopal School of Abilene, Inc. (a nonprofit Organization), which comprise the statements of financial position as of July 31, 2018 and 2017, 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of St. John's Episcopal School of Abilene, Inc. as of July 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.


MERRITT, MCLANE & HAMBY, P.C.

Abilene, Texas
September 14, 2018

FINANCIAL STATEMENTS

ST. JOHN'S EPISCOPAL SCHOOL OF ABILENE, INC.

STATEMENTS OF FINANCIAL POSITION

July 31, 2018 and 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Current Assets		
Cash and cash equivalents	\$ 425,445	\$ 421,428
Restricted cash	30,891	85,697
Investments	466,179	112,003
Accounts receivable	14,853	47,570
Prepaid expenses	45,122	24,208
Total Current Assets	<u>982,490</u>	<u>690,906</u>
Noncurrent Assets		
Investments	200,000	200,000
Contributions and beneficial interest receivable from split interest agreements	807,985	756,396
Property and equipment, net of accumulated depreciation	1,827,043	1,059,687
Total Noncurrent Assets	<u>2,835,028</u>	<u>2,016,083</u>
Total Assets	\$ <u>3,817,518</u>	\$ <u>2,706,989</u>

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable and accrued expenses	\$ 73,135	\$ 34,438
Deferred income	209,707	133,895
Current portion of long-term debt	3,075	19,708
Total Current Liabilities	<u>285,917</u>	<u>188,041</u>
Noncurrent Liabilities		
Long-term debt		3,075
Total Noncurrent Liabilities		<u>3,075</u>
 Total liabilities	 <u>285,917</u>	 <u>191,116</u>
Unrestricted	2,738,514	1,821,202
Board designated	63,529	31,305
Temporarily restricted	393,445	327,653
Permanently restricted	336,113	335,713
 Total net assets	 <u>3,531,601</u>	 <u>2,515,873</u>
Total Liabilities and Net Assets	\$ <u>3,817,518</u>	\$ <u>2,706,989</u>

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

ST. JOHN'S EPISCOPAL SCHOOL OF ABILENE, INC.

STATEMENTS OF ACTIVITIES

For the Years Ended July 31, 2018 and 2017

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Support, Tuition, and Other Revenues				
Support				
Contributions	\$ 32,834	\$ 926,400	\$ 400	\$ 959,634
Grants	9,121			9,121
Fund-raising activities	237,786			237,786
Total support	<u>279,741</u>	<u>926,400</u>	<u>400</u>	<u>1,206,541</u>
Tuition				
Tuition	1,850,692			1,850,692
Registration fees	98,300			98,300
Discounts allowed	(250,110)			(250,110)
Scholarships given	(23,900)			(23,900)
After school care	50,010			50,010
Total tuition	<u>1,724,992</u>	<u></u>	<u></u>	<u>1,724,992</u>
Other Revenues				
Lunch program	26,722			26,722
Investment earnings	280,776	20,811		301,587
Other	187			187
Unrealized gain (loss) on investments	25,805	25,284		51,089
Net assets released from restrictions:				
Restrictions satisfied by payments	906,703	(906,703)		
Total other revenues	<u>1,240,193</u>	<u>(860,608)</u>	<u></u>	<u>379,585</u>
 Total Support, Tuition, and Other Revenues	 <u>3,244,926</u>	 <u>65,792</u>	 <u>400</u>	 <u>3,311,118</u>
Expenses				
Program Services:				
Instruction and student activities	1,562,320			1,562,320
Supporting Services:				
Management and general	690,850			690,850
Fund-raising	42,220			42,220
Total Expenses	<u>2,295,390</u>	<u></u>	<u></u>	<u>2,295,390</u>
 Change in Net Assets	 949,536	 65,792	 400	 1,015,728
Net Assets, Beginning of Year	<u>1,852,507</u>	<u>327,653</u>	<u>335,713</u>	<u>2,515,873</u>
Net Assets, End of Year	<u>\$ 2,802,043</u>	<u>\$ 393,445</u>	<u>\$ 336,113</u>	<u>\$ 3,531,601</u>

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

2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$	73,975	\$ 128,235	\$ 500	\$ 202,710
	43,150			43,150
	179,869			179,869
	<u>296,994</u>	<u>128,235</u>	<u>500</u>	<u>425,729</u>
	1,770,106			1,770,106
	102,347			102,347
	(265,359)			(265,359)
	(16,730)			(16,730)
	46,962			46,962
	<u>1,637,326</u>	<u></u>	<u></u>	<u>1,637,326</u>
	16,831			16,831
	267,631	19,172		286,803
	283			283
	14,296	40,273		54,569
	<u>285,525</u>	<u>(285,525)</u>	<u></u>	<u></u>
	<u>584,566</u>	<u>(226,080)</u>	<u></u>	<u>358,486</u>
	<u>2,518,886</u>	<u>(97,845)</u>	<u>500</u>	<u>2,421,541</u>
	1,640,313			1,640,313
	615,130			615,130
	<u>48,653</u>	<u></u>	<u></u>	<u>48,653</u>
	<u>2,304,096</u>	<u></u>	<u></u>	<u>2,304,096</u>
	214,790	(97,845)	500	117,445
	<u>1,637,717</u>	<u>425,498</u>	<u>335,213</u>	<u>2,398,428</u>
\$	<u><u>1,852,507</u></u>	<u><u>\$ 327,653</u></u>	<u><u>\$ 335,713</u></u>	<u><u>\$ 2,515,873</u></u>

ST. JOHN'S EPISCOPAL SCHOOL OF ABILENE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended July 31, 2018

	<u>Program Services</u>	
	<u>Instruction and Student Activities</u>	<u>Total Program Services</u>
Salaries and wages	\$ 1,077,403	\$ 1,077,403
Payroll taxes	79,985	79,985
Employee benefits	95,688	95,688
Total salaries and payroll related expenses	<u>1,253,076</u>	<u>1,253,076</u>
Advertising and promotion		
Accreditation expense		
Bad debt		
Bank charges		
Dues and subscriptions		
Fundraising expenses		
Employee search		
Hiring expense		
Insurance		
Legal and accounting		
Lunch program expense	22,783	22,783
Office lease expense		
Office and medical supplies		
Postage		
Printing		
Professional development		
Repairs, maintenance, depreciation	132,158	132,158
Teaching supplies and aids	97,058	97,058
Telephone		
Utilities	<u>57,245</u>	<u>57,245</u>
Total Expenses	<u>\$ 1,562,320</u>	<u>\$ 1,562,320</u>

Supporting Services

Management and General	Fund Raising	Total Supporting Services	Combined Total
\$ 433,386	\$	\$ 433,386	\$ 1,510,789
32,256		32,256	112,241
38,589		38,589	134,277
<u>504,231</u>		<u>504,231</u>	<u>1,757,307</u>
17,163		17,163	17,163
137		137	137
36,702		36,702	36,702
13,098		13,098	13,098
4,595		4,595	4,595
	42,220	42,220	42,220
2,645		2,645	2,645
235		235	235
34,889		34,889	34,889
7,500		7,500	7,500
			22,783
10,961		10,961	10,961
2,587		2,587	2,587
2,784		2,784	2,784
1,025		1,025	1,025
4,825		4,825	4,825
28,053		28,053	160,211
			97,058
8,565		8,565	8,565
<u>10,855</u>		<u>10,855</u>	<u>68,100</u>
\$ 690,850	\$ 42,220	\$ 733,070	\$ 2,295,390

ST. JOHN'S EPISCOPAL SCHOOL OF ABILENE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended July 31, 2017

	<u>Program Services</u>	
	<u>Instruction and Student Activities</u>	<u>Total Program Services</u>
Salaries and wages	\$ 1,113,733	\$ 1,113,733
Payroll taxes	81,829	81,829
Employee benefits	132,170	132,170
Total salaries and payroll related expenses	<u>1,327,732</u>	<u>1,327,732</u>
Advertising and promotion		
Accreditation expense		
Bank charges		
Dues and subscriptions		
Fundraising expenses		
Employee search		
Hiring expense		
Insurance		
Legal and accounting		
Lunch program expense	14,237	14,237
Office lease expense		
Office supplies		
Postage		
Printing		
Professional development		
Repairs, maintenance, depreciation	146,255	146,255
Teaching supplies and aids	90,816	90,816
Telephone		
Utilities	<u>61,273</u>	<u>61,273</u>
Total Expenses	\$ <u>1,640,313</u>	\$ <u>1,640,313</u>

Supporting Services

Management and General	Fund Raising	Total Supporting Services	Combined Total
\$ 386,956	\$	\$ 386,956	\$ 1,500,689
30,093		30,093	111,922
48,607		48,607	180,777
<u>465,656</u>		<u>465,656</u>	<u>1,793,388</u>
14,485		14,485	14,485
494		494	494
11,882		11,882	11,882
4,997		4,997	4,997
	48,653	48,653	48,653
1,772		1,772	1,772
477		477	477
33,261		33,261	33,261
7,500		7,500	7,500
			14,237
10,007		10,007	10,007
4,284		4,284	4,284
2,604		2,604	2,604
1,936		1,936	1,936
3,472		3,472	3,472
34,551		34,551	180,806
			90,816
6,900		6,900	6,900
10,852		10,852	72,125
<u>615,130</u>	<u>48,653</u>	<u>663,783</u>	<u>2,304,096</u>

ST. JOHN'S EPISCOPAL SCHOOL OF ABILENE, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended July 31, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Change in net assets	\$ 1,015,728	\$ 117,445
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	119,488	106,582
Unrealized gain on investments	(51,089)	(54,569)
(Increase) Decrease in operating assets		
Accounts receivable	32,717	6,575
Pledge receivable		500
Prepaid expense	(20,914)	(4,350)
Increase (Decrease) in operating liabilities		
Accounts payable	38,697	(22,264)
Deferred income	75,812	(68,909)
Contributions restricted for long-term investments	<u>(400)</u>	<u>(400)</u>
Net cash provided by operating activities	<u>1,210,039</u>	<u>80,610</u>
Cash flows from investing activities		
Purchase of property and equipment	(886,844)	(311,415)
Purchase of investments	<u>(354,676)</u>	<u>(4,485)</u>
Net cash used by investing activities	<u>(1,241,520)</u>	<u>(315,900)</u>
Cash flows from financing activities		
Payment on long-term debt	(19,708)	(29,145)
Contributions restricted for long-term investments	<u>400</u>	<u>400</u>
Net cash used by financing activities	<u>(19,308)</u>	<u>(28,745)</u>
Net decrease in cash and cash equivalents	(50,789)	(264,035)
Cash and cash equivalents at beginning of year	<u>507,125</u>	<u>771,160</u>
Restricted cash and cash equivalents	30,891	85,697
Unrestricted cash and cash equivalents	425,445	421,428
Cash and cash equivalents at end of year	<u>\$ 456,336</u>	<u>\$ 507,125</u>

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

**ST. JOHN'S EPISCOPAL SCHOOL
OF ABILENE, INC.**

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SCHOOL AND PURPOSE

St. John's Episcopal School of Abilene, Inc. (the School) is a nonprofit organization devoted to providing an enriched academic program that emphasizes the development of each child's potential within a caring and Christian environment.

The School was incorporated on July 25, 1983 to provide a religious atmosphere based on the doctrines of the Episcopal Church and maintain high standards consistent with standards set by the Southwestern Association of Episcopal Schools. The School has classes for two years old to grade five. The School's principle sources of income are tuition, contributions, and grants.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of St. John's Episcopal School of Abilene, Inc. have been prepared on the accrual basis of accounting. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Basis of Presentation

The School has adopted FASB ASC 958. The School is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Income Taxes

The School is a nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and did not conduct unrelated business activities. Therefore the School has made no provisions for federal income taxes in the accompanying financial statements. The School files a federal informational return (990), and is generally no longer subject to examination by the Internal Revenue Service for years before 2014.

Reclassification

Certain prior year amounts have been reclassified for consistency with the current period presentation. The functional expense allocation of utilities was adjusted to be consistent.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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 statement of activities as net assets released from restrictions.

Land, Buildings and Equipment

Land, buildings and equipment are recorded at cost when purchased or at fair market value when contributed. Although the School does not have a formal capitalization policy, items with a useful life of three years or more and a value of \$500 or more are capitalized.

**ST. JOHN'S EPISCOPAL SCHOOL
OF ABILENE, INC.**

NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Depreciation and amortization are computed by the straight-line method over the estimated useful life of the asset as follows:

	<u>Years</u>
Buildings and improvements	5-25
Equipment	3-10
Vehicles	5

Use of Estimates

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid investments with an initial maturity of three months or less. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

Investments

Investments are valued at fair market value at July 31, 2018 and 2017. Investments consist of certificates of deposits and First Financial Trust short-term investments.

Accounts Receivables

The amounts shown in accounts receivable consists of tuition receivable of \$14,853 and \$47,570, at July 31, 2018 and 2017. No allowance for uncollectible accounts has been provided, and amounts are written off if deemed uncollectible, which is a departure from GAAP. The amount deemed uncollectible and written off for the years ended July 31, 2018 and 2017 was \$36,702 and \$0, respectively.

Deferred Income

Deferred income consists of tuition income the School has received for the following school year. At July 31, 2018 and 2017, deferred revenue was \$209,707 and \$133,895, respectively.

Contributed Services

The School receives a substantial amount of services donated by the families of the School. No amounts have been reflected in the financial statements for those services since they do not meet the criteria for recognition under FASB ASC 958-605-30-10.

Concentration of Credit Risk

The School maintains bank deposits that do not exceed the combination of the federally insured limits and the collateral from the repurchase agreement. No concentration of credit risk exists at July 31, 2018 or 2017.

**ST. JOHN'S EPISCOPAL SCHOOL
OF ABILENE, INC.**

NOTES TO FINANCIAL STATEMENTS

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Inventory

The cost of inventory is recorded in expense as the items are purchased (purchase method).

NOTE 3: LIQUIDITY

The Organization has \$937,368 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditures, consisting of cash of \$456,336, investments of \$466,179, and receivables of \$14,853. \$30,891 of the cash is subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the balance sheet date.

NOTE 4: LAND, BUILDING AND EQUIPMENT

Property and equipment consisted of the following at July 31, 2018 and 2017:

	2018	2017
Land, Buildings and improvements	\$ 1,488,903	\$ 1,367,939
Furniture and fixtures	147,166	142,262
Construction in progress	758,575	7,800
Computer equipment	183,589	173,388
	2,578,233	1,691,389
Less: Accumulated depreciation	751,190	631,702
Net property and equipment	\$ 1,827,043	\$ 1,059,687

Depreciation expense for the years ended July 31, 2018 and 2017 was \$119,488 and \$106,582.

NOTE 5: SPLIT-INTEREST AGREEMENTS

The School is the income beneficiary of certain assets held in trust by the Community Foundation of Abilene and the Church of the Heavenly Rest Foundation. The School receives income generated by these trust assets less administrative and investment fees. The original corpus held by the Church of the Heavenly Rest Foundation is to be retained permanently and the income received is restricted for scholarships. The fair value of the trust assets held at the Church of the Heavenly Rest Foundation at July 31, 2018 and 2017, amounted to \$409,750 and \$385,997.

The original corpus of the trust assets held at the Community Foundation of Abilene in the Agency fund is to be retained permanently and the income received is unrestricted and is recorded as investment income in the accompanying financial statements. At July 31, 2018 and 2017, the fair value of the Agency fund held at the Community Foundation of Abilene amounted to \$134,895 and \$128,443. The trust assets held at the Community Foundation of Abilene in the Learning for a Lifetime fund is temporarily restricted for use toward financial aid and the income from this fund is used for financial aid by the School. The fair value of the Learning for a Lifetime assets at July 31, 2018 and 2017, amounted to \$263,340 and \$241,956.

**ST. JOHN'S EPISCOPAL SCHOOL
OF ABILENE, INC.**

NOTES TO FINANCIAL STATEMENTS

NOTE 5: SPLIT-INTEREST AGREEMENTS - continued

The Community Foundation of Abilene holds certain investments in trust for St. John's Episcopal School. In accordance with FASB ASC 958-605-25-33, these endowments are not recorded in the financial statements. The following is a list of the endowments held at the Community Foundation of Abilene:

	Market Value 2018	Market Value 2017
Headmasters Endowment	\$ 1,319,866	\$ 1,256,718
Morford Endowment	348,303	328,777
Owen Endowment	81,443	77,548
Designated Endowment	29,619	28,174
School Excellence Fund	4,889,040	4,655,139
Taliaferro Endowment	35,302	33,614
Total	<u>\$ 6,703,573</u>	<u>\$ 6,379,970</u>

NOTE 6: LONG-TERM DEBT

On November 18, 2013, the School entered into a note agreement with The Episcopal Church of the Heavenly Rest Foundation in the amount of \$38,000 to be used for the construction of a fence around the School property. Repayment is to be made in monthly principal-only installments of \$635 beginning December 20, 2013, with a final payment of \$535, due December 20, 2018. The balance of the note at July 31, 2018 and 2017 was \$3,075 and \$10,695, respectively. The imputed interest rate for this loan is immaterial and therefore, not recorded.

On December 29, 2015, the School entered into a note agreement with Batjer and Associates in the amount of \$48,350 to be used to finance a portion of the HVAC unit for the gym. Repayment is to be made in 24 monthly principal-only installments of \$2,015 with a final payment due in December 2017. The balance of the note at July 31, 2018 and 2017 was \$0 and \$12,088, respectively. The imputed interest rate for this loan is immaterial and therefore, not recorded.

The maturity schedule is as follows:

	Principal	Interest	Total
2019 \$	<u>3,075</u>	<u>\$</u>	<u>\$ 3,075</u>
\$	<u>3,075</u>	<u>\$ -</u>	<u>\$ 3,075</u>

NOTE 7: OPERATING LEASE AGREEMENTS

During the year ended July 31, 2016, the School committed to two operating lease agreements for Xerox photocopy machines for use by the business office and teachers. This lease concludes in August 2020. Minimum lease payments in fiscal years 2019 and 2020 is \$9,108 and \$759 in 2021.

Lease expense recognized for the years ended July 31, 2018 and 2017, was \$10,961 and \$10,007, respectively, which includes additional charges for copies and supplies.

**ST. JOHN'S EPISCOPAL SCHOOL
OF ABILENE, INC.**

NOTES TO FINANCIAL STATEMENTS

NOTE 8: NET ASSETS

Permanently Restricted Net Assets

Permanently restricted net assets consist of the corpus of the split-interest agreement receivable from two separate organizations. The amounts permanently restricted at July 31, 2018 and 2017 are comprised of the following:

	<u>2018</u>	<u>2017</u>
Community Foundation of Abilene	\$ 60,810	\$ 60,810
Church of the Heavenly Rest Foundation	275,303	274,903
	<u>\$ 336,113</u>	<u>\$ 335,713</u>

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of funds given by the donor to be used for specific purposes. The assets will be released from restriction when the monies are used for the specific purpose. The amounts temporarily restricted at July 31, 2018 and 2017, are comprised of the following amounts for the purposes identified:

	<u>2018</u>	<u>2017</u>
Academic abatement/upgrades	\$ 6,341	\$ 56,144
Bathroom remodel	500	500
Chapel	3,628	7,114
EPK play area	5,500	-
Godly play	-	455
HVAC/Boiler upgrades	99,214	-
Learning for a Lifetime	263,340	241,956
Learning garden	2,167	2,261
Library	1,956	2,037
Playground	-	711
Playground shade	1,750	9,300
Scholarships	5,048	6,115
Supplies	721	1,060
3D printing lab	3,280	-
	<u>\$ 393,445</u>	<u>\$ 327,653</u>

Board Designated Net Assets

The Board has designated net assets for the following purpose:

	<u>2018</u>	<u>2017</u>
Library	\$ 4,877	\$ 16,300
Parent/Teacher Organization	14,755	6,920
Spirit Team	250	1,088
VPO	1,596	2,190
Student Council	530	4,807
Elementary School	40,218	-
5th Grade	363	-
Million Word Reader	48	-
Professional Development	892	-
	<u>\$ 63,529</u>	<u>\$ 31,305</u>

**ST. JOHN'S EPISCOPAL SCHOOL
OF ABILENE, INC.**

NOTES TO FINANCIAL STATEMENTS

NOTE 9: ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors. Total assets released from restrictions are comprised of the following:

	<u>2018</u>	<u>2017</u>
Academic abatement/upgrades	\$ 49,803	\$ 27,361
Chapel	3,486	226,613
EPK area	12,500	-
Fan for gym	-	2,065
Godly play	455	1,545
HVAC/Boiler upgrades	800,786	-
Learning for a lifetime	1,877	-
Learning garden	95	179
Library	81	-
Playground	711	732
Playground shade	7,800	7,800
Scholarships/Discounts	23,900	16,730
Supplies	339	2,500
3D printing lab	4,870	-
	<u>\$ 906,703</u>	<u>\$ 285,525</u>

NOTE 10: REPURCHASE AGREEMENT

The School entered into a repurchase agreement with First Financial Bank. First Financial Bank agreed to transfer securities against the transfer of immediately available funds by the School. Upon the School's return of the securities, First Financial Bank will pay an agreed upon consideration, in the form of interest, and the original investment. At July 31, 2018 and 2017, the carrying amount of the repurchase agreement was \$450,000 and \$510,000, respectively. The School was fully collateralized at July 31, 2018 and 2017.

NOTE 11: PENSION PLAN

In October 2000, the School adopted a 401(k) retirement plan available to all permanent salaried employees. The employees that enroll in the plan may contribute up to 15% of their gross salary. The School may contribute to the plan at its discretion. During the years ended July 31, 2018 and 2017, the School contributed \$21,182 and \$18,627 respectively.

NOTE 12: FINANCIAL INSTRUMENTS

Fair Value Measurements

Generally accepted accounting principles require the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be

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NOTES TO FINANCIAL STATEMENTS

NOTE 12: FINANCIAL INSTRUMENTS - continued

consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

A fair value hierarchy exists for valuation inputs that give the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 – Inputs other than quoted prices included in Level I 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 (for example: interest rates, volatilities, prepayment speeds, loss severities, credit risks and default rates) or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Significant unobservable inputs that reflect an entity's own assumptions that market participants would use in pricing the assets or liabilities.

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 School'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.

Investments

Investments are reported at fair value as follows:

2018	Cost	Market Value	Identical In Active Markets for Assets (Level 1)	Quoted Prices Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Community Foundation					
Beneficial interest in assets held at the Community Foundation	\$ 205,810	\$ 398,235		\$	\$ 398,235

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NOTES TO FINANCIAL STATEMENTS

NOTE 12: FINANCIAL INSTRUMENTS - continued

Church of the Heavenly Rest Foundation					
EFT funds	204,528	315,042	315,042		
Bond mutual funds	<u>70,775</u>	<u>94,708</u>	<u>94,708</u>		
Total	<u>275,303</u>	<u>409,750</u>	<u>409,750</u>	-	-
Investment total	\$ <u>481,113</u>	\$ <u>807,985</u>	\$ <u>409,750</u>	\$ -	\$ <u>398,235</u>

<u>2017</u>	Cost	Market Value	Identical In Active Markets for Assets (Level 1)	Quoted Prices Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Community Foundation					
Beneficial interest in assets held at the Community Foundation	\$ 205,810	\$ 370,399	\$	\$	\$ 370,399
Church of the Heavenly Rest Foundation					
EFT funds	254,113	357,169	357,169		
Bond mutual funds	<u>20,790</u>	<u>28,828</u>	<u>28,828</u>		
Total	<u>274,903</u>	<u>385,997</u>	<u>385,997</u>	-	-
Investment total	\$ <u>480,713</u>	\$ <u>756,396</u>	\$ <u>385,997</u>	\$ -	\$ <u>370,399</u>

The beneficial interest in assets held at the Abilene Community Foundation has been valued, as a practical expedient, at the fair value of the Organization's share of the Foundation's investment pool as of the measurement date. The Foundation values securities and other financial instruments on a fair value basis of accounting. The estimated fair values of certain investments of the Foundation, which includes private placements and other securities for which prices are not readily available, are determined by the management of the Foundation and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. The Foundation's investments are composed approximately of 35 percent domestic equities, 30 percent foreign stock, 25 percent bonds and 10 percent alternative investments including hedge funds, real estate and private equity funds. The beneficial interest in assets held at the Community Foundation is not redeemable by the Organization as described in Note 5.

Financial instruments classified as Level 3 in the fair value hierarchy represent the Organization's investments in financial instruments in which management has used at least one significant unobservable input in the valuation model. The following table represents a reconciliation of the activities for Level 3 financial instruments:

	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 370,399	\$ 332,799
Change in market value	25,284	38,440
Interest & dividends	10,326	6,604
Fees	(2,872)	(2,668)
Distributions received	<u>(4,902)</u>	<u>(4,776)</u>
Ending balance	<u>\$ 398,235</u>	<u>\$ 370,399</u>

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NOTES TO FINANCIAL STATEMENTS

NOTE 13: SUBSEQUENT EVENT

The School entered into a financing agreement with Dell Financial Services effective August 1, 2018 for 14 laptop computers and the networking software and hardware in the amount of \$82,612. The agreement requires the School to make monthly payments in the amount of \$2,588 for 36 months, including interest at 7.989%. The loan matures September 1, 2021.

NOTE 14: DATE OF MANAGEMENT'S REVIEW

Subsequent events were evaluated through September 14, 2018, the date the financial statements were available to be issued.