Board of Directors
St. Luke’s Community House (Episcopal), Inc.

We have audited the financial statements of St. Luke’s Community House (Episcopal), Inc. (the “Organization”) for the year ended December 31, 2017 and have issued our report thereon dated May 1, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 25, 2018. Professional standards also require that we communicate to you the following information related to our audit.

SIGNIFICANT AUDIT FINDINGS

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Organization are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2017. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

> Management’s estimate of the allocation of functional expenses is based on the expenses of each function, including cost directly associated with the function and any allocated depreciation and other indirect costs determined to benefit the function. We evaluated the key factors and assumptions used to develop the allocation in determining that it is reasonable in relation to the financial statements taken as a whole.
>
> Additionally, management’s estimate of depreciation expense is based on the estimated useful lives of capitalized assets. We evaluated the key factors and assumptions used to develop the depreciation expense recorded in the financial statements in determining it is reasonable in relation to the financial statements taken as whole. We also evaluated assumptions and factors used to develop the net present value of the beneficial interest in trust, noting it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We did not record any material misstatements as part of our 2017 audit procedures.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 1, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the board of directors and management of the Organization and is not intended to be and should not be used by anyone other than these specified parties.

Cherry Bekaert LLP

Nashville, Tennessee
May 1, 2018

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.

FINANCIAL STATEMENTS

As of and for Years Ended December 31, 2017 and 2016

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.

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Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

Board of Directors
St. Luke's Community House (Episcopal), Inc.
Nashville, Tennessee

We have audited the accompanying financial statements of St. Luke's Community House (Episcopal), Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017 and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of St. Luke's Community House (Episcopal), Inc. as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements as of December 31, 2016, were audited by other auditors whose report dated April 17, 2017 expressed an unmodified opinion on those statements.

Cherry Bekaert LLP

Nashville, Tennessee
May 1, 2018

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 947,291	$ 815,860
Contributions and accounts receivable, net	130,722	131,992
Prepaid expense	17,501	-
Total Current Assets	1,095,514	947,852
Beneficial interest in trust	46,993	51,710
Land, buildings, and equipment, net of accumulated depreciation of $2,487,300 and $2,333,493, respectively	3,041,587	3,062,757
Investments	1,191,913	1,067,941
Total Assets	$ 5,376,007	$ 5,130,260
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable and accrued expenses	$ 44,459	$ 44,216
Total Current Liabilities	44,459	44,216
Net Assets:		
Unrestricted:		
Undesignated	3,732,703	3,752,105
Designated	307,313	284,892
Total Unrestricted	4,040,016	4,036,997
Temporarily restricted	320,508	179,574
Permanently restricted	971,024	869,473
Total Net Assets	5,331,548	5,086,044
Total Liabilities and Net Assets	$ 5,376,007	$ 5,130,260

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

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.
STATEMENTS OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support and Revenue:				
Public Support:				
Contributions	$ 791,187	$ 367,441	$ 10,859	$ 1,169,487
United Way	233,655	-	-	233,655
Contributions - Thrift Shop	199,175	-	-	199,175
Net assets released from restrictions	259,882	(226,507)	(33,375)	-
Total Public Support	1,483,899	140,934	(22,516)	1,602,317
Revenue:				
Program services	331,912	-	-	331,912
Grants	87,929	-	-	87,929
Investment income, net	32,651	-	124,067	156,718
Miscellaneous	29,397	-	-	29,397
Total Revenue	481,889	-	124,067	605,956
Total Public Support and Revenue	1,965,788	140,934	101,551	2,208,273
Expenses:				
Program Services:				
Preschool childcare	939,884	-	-	939,884
Senior services	142,950	-	-	142,950
Community	84,570	-	-	84,570
Volunteers	55,436	-	-	55,436
Family Resource Center	231,671	-	-	231,671
Total Program Services	1,454,511	-	-	1,454,511
Supporting Services:				
Management and general	321,509	-	-	321,509
Fundraising	186,749	-	-	186,749
Total Supporting Services	508,258	-	-	508,258
Total Expenses	1,962,769	-	-	1,962,769
Change in net assets	3,019	140,934	101,551	245,504
Net assets, beginning of year	4,036,997	179,574	869,473	5,086,044
Net assets, end of year	$ 4,040,016	$ 320,508	$ 971,024	$ 5,331,548

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.
STATEMENTS OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support and Revenue:				
Public Support:				
Contributions	$ 1,303,499	$ 167,729	$ 10,808	$ 1,482,036
United Way	276,572	-	-	276,572
Contributions - Thrift Shop	169,025	-	-	169,025
Net assets released from restrictions	200,612	(167,220)	(33,392)	-
Total Public Support	1,949,708	509	(22,584)	1,927,633
Revenue:				
Program services	240,981	-	-	240,981
Grants	100,243	-	-	100,243
Investment income, net	19,967	-	61,844	81,811
Miscellaneous	38,727	-	-	38,727
Total Revenue	399,918	-	61,844	461,762
Total Public Support and Revenue	2,349,626	509	39,260	2,389,395
Expenses:				
Program Services:				
Preschool childcare	953,530	-	-	953,530
Senior services	143,802	-	-	143,802
Community	131,997	-	-	131,997
Volunteers	50,948	-	-	50,948
Family Resource Center	206,420	-	-	206,420
Total Program Services	1,486,697	-	-	1,486,697
Supporting Services:				
Management and general	293,938	-	-	293,938
Fundraising	170,340	-	-	170,340
Total Supporting Services	464,278	-	-	464,278
Total Expenses	1,950,975	-	-	1,950,975
Change in net assets	398,651	509	39,260	438,420
Net assets, beginning of year	3,638,346	179,065	830,213	4,647,624
Net assets, end of year	$ 4,036,997	$ 179,574	$ 869,473	$ 5,086,044

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.
STATEMENTS OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017

	Program Services						Supporting Services			
	Preschool Childcare	Senior Services	Community	Volunteers	Family Resource Center	Total Program Services	Management and General	Fund-raising	Total Supporting Services	Total Expenses
Salaries and wages	$ 519,701	$ 35,831	$ 20,461	$ 35,423	$ 56,033	$ 667,449	$ 209,377	$ 98,707	$ 308,084	$ 975,533
Benefits	130,572	9,427	4,946	8,695	14,015	167,655	37,463	20,507	57,970	225,625
Food	83,540	54,153	91	1,883	-	139,667	1,119	7,917	9,036	148,703
Equipment and maintenance	29,819	11,292	7,098	1,767	20,902	70,878	28,271	2,181	30,452	101,330
Utilities	23,741	6,009	8,903	1,187	30,811	70,651	6,725	1,187	7,912	78,563
Professional	17,690	962	505	602	4,831	24,590	6,070	28,804	34,874	59,464
Occupancy	16,947	2,840	6,314	842	13,898	40,841	3,982	9,092	13,074	53,915
Program supplies	16,608	3,956	6,129	64	3,559	30,316	705	687	1,392	31,708
Insurance	12,571	1,472	4,417	589	8,833	27,882	2,081	939	3,020	30,902
Contract labor	-	-	-	-	24,000	24,000	-	-	-	24,000
Transportation	10,252	531	-	-	1,359	12,142	3,047	364	3,411	15,553
Telephone	5,012	718	777	307	1,490	8,304	1,828	692	2,520	10,824
Miscellaneous	4,037	219	118	169	312	4,855	4,470	1,372	5,842	10,697
Equipment	2,340	6,328	-	-	-	8,668	-	643	643	9,311
Printing	167	500	-	-	440	1,107	255	6,059	6,314	7,421
Licenses, fees, permits	-	135	43	314	-	492	3,612	2,357	5,969	6,461
Staff	2,338	91	45	68	136	2,678	926	136	1,062	3,740
Gifts in kind	-	-	-	-	3,704	3,704	-	-	-	3,704
Conference and meetings	1,774	-	-	450	220	2,444	885	80	965	3,409
Postage and shipping	50	497	84	-	30	661	664	1,593	2,257	2,918
Office supplies	1,202	84	68	-	397	1,751	801	356	1,157	2,908
Specific assistance	-	-	1,500	-	559	2,059	-	-	-	2,059
Advertising	-	215	-	-	-	215	-	-	-	215
	878,361	135,260	61,499	52,360	185,529	1,313,009	312,281	183,673	495,954	1,808,963
Depreciation	61,523	7,690	23,071	3,076	46,142	141,502	9,228	3,076	12,304	153,806
	$ 939,884	$ 142,950	$ 84,570	$ 55,436	$ 231,671	$ 1,454,511	$ 321,509	$ 186,749	$ 508,258	$ 1,962,769

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.
STATEMENTS OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2016

	Program Services						Supporting Services			
	Preschool Childcare	Senior Services	Community	Volunteers	Family Resource Center	Total Program Services	Management and General	Fund-raising	Total Supporting Services	Total Expenses
Salaries and wages	$ 547,326	$ 56,581	$ 53,936	$ 32,481	$ 40,415	$ 730,739	$ 126,933	$ 88,260	$ 215,193	$ 945,932
Benefits	127,781	12,307	12,528	7,332	10,096	170,044	23,709	12,815	36,524	206,568
Equipment and maintenance	56,017	6,489	17,247	2,926	35,705	118,384	15,580	3,021	18,601	136,985
Food	68,967	44,999	551	2,184	457	117,158	1,185	8,378	9,563	126,721
Utilities	26,962	5,128	10,111	1,348	21,689	65,238	16,087	1,348	17,435	82,673
Program supplies	17,329	1,772	8,743	111	31,155	59,110	1,515	12,278	13,793	72,903
Professional	2,235	261	186	112	149	2,943	41,068	25,235	66,303	69,246
Insurance	15,213	1,823	3,874	774	7,077	28,761	11,834	1,406	13,240	42,001
Gifts in kind	-	-	-	-	-	-	32,395	-	32,395	32,395
Conference and meetings	16,477	32	23	264	661	17,457	5,578	-	5,578	23,035
Office supplies	7,863	1,282	2,215	418	6,035	17,813	2,073	-	2,073	19,886
Contract labor	6,759	4,506	-	-	-	11,265	-	-	-	11,265
Telephone	3,781	473	1,418	189	2,836	8,697	818	479	1,297	9,994
Miscellaneous	-	-	-	-	-	-	3,471	4,913	8,384	8,384
Printing	57	29	214	14	268	582	202	6,812	7,014	7,596
Mercy House	-	-	-	-	5,751	5,751	-	-	-	5,751
Technology	995	305	3	32	453	1,788	879	1,299	2,178	3,966
Transportation	158	800	123	15	2,456	3,552	317	-	317	3,869
Bad debt expense	-	-	-	-	-	-	1,550	-	1,550	1,550
Postage and shipping	18	1	216	-	-	235	125	1,113	1,238	1,473
Licenses, fees, permits	636	144	-	-	-	780	376	235	611	1,391
	898,574	136,932	111,388	48,200	165,203	1,360,297	285,695	167,592	453,287	1,813,584
Depreciation	54,956	6,870	20,609	2,748	41,217	126,400	8,243	2,748	10,991	137,391
	$ 953,530	$ 143,802	$ 131,997	$ 50,948	$ 206,420	$ 1,486,697	$ 293,938	$ 170,340	$ 464,278	$ 1,950,975

ST. LUKE'S COMMUNITY HOUSE (EPISCOPAL), INC.
STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 245,504	$ 438,420
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Contribution for endowment	(10,859)	(10,808)
Depreciation	153,806	137,391
Realized/unrealized gain on investments	(142,177)	(65,368)
Changes in operating assets and liabilities:		
Contributions receivable	1,270	6,331
Prepaid expenses	(17,501)	-
Beneficial interest in trust	4,717	-
Accounts payable and accrued expenses	243	(27,867)
Net cash provided by operating activities	235,003	478,099
Cash flows from investing activities:		
Purchases of equipment	(132,636)	(12,185)
Purchases of investments	(28,521)	(26,834)
Proceeds from liquidation of investments	46,726	78,376
Net cash (used in) provided by investing activities	(114,431)	39,357
Cash flows from financing activities:		
Contribution for endowment	10,859	10,808
Net cash provided by financing activities	10,859	10,808
Net increase in cash and cash equivalents	131,431	528,264
Cash and cash equivalents, beginning of year	815,860	287,596
Cash and cash equivalents, end of year	$ 947,291	$ 815,860

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

Note 1—Nature of operations and summary of significant accounting policies

St. Luke's Community House (Episcopal), Inc. (the "Organization"), was founded in 1913 by the Daughters of the King, an order of the Episcopal Church. The Organization offers a diversity of services to the community, enabling people to maintain their lives in a more healthy and stable environment. The Organization concerns itself with the welfare and dignity of individuals and seeks to strengthen and support the family unit. The Organization is supported primarily through donor contributions and the United Way.

The following program services are offered by the Organization:

Preschool Childcare – The Organization offers a licensed preschool program with focus on kindergarten readiness, for children from 6 weeks of age through 5 years (pre-kindergarten).

Senior Services – The Organization provides free lunches Monday through Friday to low-income seniors, as well as sponsors social and recreational activities for West Nashville seniors.

Community – The Organization provides various services to the community, including food boxes, counseling services, tax return preparation, and emergency financial assistance.

Volunteers – The Organization provides organization and coordination of the significant number of volunteers serving the various programs and services provided by the Organization.

Family Resource Center – Various other programs and services are provided to the community through the Family Resource Center based on various needs.

Basis of Presentation – The Organization presents its financial statements in accordance with standards of accounting and reporting prescribed for not-for-profit organizations. Under these standards, the Organization 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. In addition, the Organization is required to present a statement of cash flows. Net assets of the Organization are presented as follows:

*Un*restricted Net Assets:

Undesignated – net assets not subject to donor-imposed stipulations or designated by the Organization's board.

Designated – net assets designated by the Organization's board for particular purposes, presently designated by the board for endowment.

Temporarily Restricted Net Assets – net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time. When a restriction expires, 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 subject to donor-imposed stipulations that require that the assets be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

Note 1—Nature of operations and summary of significant accounting policies (continued)

Use of Estimates – The preparation of 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 disclosure 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.

Cash and Cash Equivalents – For financial statement purposes, the Organization considers all highly liquid investments with original maturities of three months or less to be cash and cash equivalents.

Contributions – The Organization accounts for contributions in accordance with standards of accounting and reporting prescribed for not-for-profit organizations. In accordance with these standards, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Under these standards, time or purpose restricted contributions are required to be reported as temporarily restricted support and are then reclassified to unrestricted net assets upon expiration of the donor restrictions.

Promises to Give – Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Allowances for uncollectible promises to give are based on management's estimates based on prior collection history.

Investments – Investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. Unrealized gains and losses, as well as appreciation or depreciation in market value, are reflected in the accompanying financial statements.

Fair Value Measurements – The Organization has an established process for determining fair values. Fair value is based upon quoted market prices, where available. If listed prices or quotes are not available, fair value is based upon internally developed models or processes that use primarily market-based or independently-sourced market data and third party information. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. Furthermore, while the Organization believes its valuation methods 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. Accounting principles generally accepted in the United States of America have a three-level valuation hierarchy for fair value measurements. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The three levels are explained as follows:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Note 1—Nature of operations and summary of significant accounting policies (continued)

The following is a description of the valuation methodology used for asset measurement at fair value at December 31, 2017 and 2016:

Mutual Funds maintained as part of the Episcopal Endowment Corporation Common Trust Fund – Valued at net asset value of shares held by the Organization at year-end.

Beneficial Interest in Trust – Valued using information obtained from third-party sources, including financial statements and other information from detailed listing of holdings from the trust. These valuations are typically performed annually, based on the present value of the estimated future distributions the Organization expects to receive over the term of the trust.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization's management believes its valuation methods 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 fair value measurement at the reporting date.

Beneficial Interest in Trust – Accounting standards require that the following instrument be recorded as an asset at the present value of the Organization's ultimate interest:

Charitable Lead Trust – A donor has established and funded a trust designating the Organization as a beneficiary of specific distributions to be made over a specified period. Upon termination of the trust, the remainder of the trust assets is to be paid to a beneficiary designated by the donor.

Restricted Endowment Funds – The Uniform Prudent Management of Institutional Funds Act ("UPMIFA") was enacted in Tennessee effective July 1, 2007. The Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of UPMIFA. It also requires disclosure of a description of the governing board's interpretation of the law that underlies the Organization's net asset classification of donor-restricted endowment funds, a description of the Organization's policies for the appropriation of endowment assets for expenditures (its endowment spending policies), a description of the Organization's endowment investment policies, and additional disclosures not previously required.

Land, Buildings, and Equipment – Land, buildings, and equipment are stated in the accompanying statements of financial position at cost, or if contributed, at estimated fair market value at date of gift. Expenditures for maintenance and repairs are expensed when incurred. Expenditures for renewals or betterments are capitalized. Depreciation is calculated using the straight-line basis with estimated useful lives ranging as follows:

Buildings and improvements	5 – 39 years
Equipment and furniture	3 – 10 years

Note 1—Nature of operations and summary of significant accounting policies (continued)

Donated Services – Donated services are recognized if such services (a) create or enhance non-financial assets or (b) require specialized skills, are provided by persons possessing those skills and would be purchased if not donated.

Amounts have not been reported in the financial statements for certain donated services because they do not meet the criteria for recognition. However, a substantial number of volunteers have donated approximately 5,800 and 10,500 volunteer hours to the Organization's programs during the years ended December 31, 2017 and 2016, respectively. Donated equipment, supplies, and other items are included in the accompanying financial statements at their estimated value.

Income Taxes – The Organization is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and is not considered a private foundation. Accordingly, no provision for income taxes has been made in the financial statements.

The Organization follows guidance concerning the accounting for uncertainty in income taxes recognized in an entity's financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Organization has no tax penalties or interest reported in the accompanying financial statements. Tax years that remain open for examination include years ended December 31, 2013 through December 31, 2017. The Organization had no uncertain tax positions at December 31, 2017 and 2016.

Functional Allocation of Expenses – The costs of providing the various programs and other services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on estimates made by management.

Reclassification – Certain reclassifications have been made to 2016 balances to conform with 2017 presentation.

Subsequent Events – The Organization evaluated subsequent events through May 1, 2018, when these financial statements were available to be issued. The Organization is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the financial statements.

Note 2—Investments

Investments (Level 1) consist of the following at December 31:

	2017	2016
In perpetuity fund	$ 713,485	$ 645,584
Board designated fund	245,378	222,957
Magruder family endowment fund	233,050	199,400
	$ 1,191,913	$ 1,067,941

Investment income is comprised of the following for the year ended December 31:

	2017	2016
Interest	$ 14,541	$ 16,443
Realized and unrealized gain (loss)	142,177	65,368
	$ 156,718	$ 81,811

Note 3—Contributions receivable

Contributions receivable are summarized below at December 31:

	2017	2016
Receipts expected within one year	$ 133,722	$ 134,992
Less allowance for estimated uncollectible amounts	(3,000)	(3,000)
	$ 130,722	$ 131,992

Note 4—Beneficial interest in trust

A donor has established a trust held by a third party naming the Organization as a beneficiary of a charitable lead trust. Under terms of the split-interest agreement, the Organization is to receive 3% of the net fair market value of the trust principal for a period of ten years. Upon termination of the trust, the remaining trust assets are to be distributed to others. Based upon earnings at an estimated rate of 3% over the life of the trust and a 3.04% discount rate, the present value of future benefits expected to be received by the Organization totaled approximately $46,993 and $51,710 at December 31, 2017 and 2016, respectively.

Note 5—Land, buildings, and equipment

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

	2017	2016
Land	$ 245,746	$ 245,746
Building and improvements	4,656,993	4,656,993
Equipment and furniture	615,360	493,511
Construction in progress	10,788	-
	5,528,887	5,396,250
Accumulated depreciation	(2,487,300)	(2,333,493)
	$ 3,041,587	$ 3,062,757

Note 6—Temporarily restricted net assets

Temporarily restricted net assets consist of the following at December 31:

	2017	2016
Unconditional promise to give due in future periods	$ 126,502	$ 131,992
Capital improvements	179,853	-
Cultural enrichment	10,475	3,003
Strategic planning	3,223	44,103
Preschool supplies	455	476
	$ 320,508	$ 179,574

Note 7—Endowment

The Organization's endowment consists of donor restricted gifts as well as assets designated by the board which are held in investment accounts. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based upon the existence or absence of donor-imposed restrictions.

Endowment net asset composition by type of fund as of December 31, 2017:

	Unrestricted	Unrestricted Board Designated	Temporarily Restricted	Permanently Restricted	Total
Board designated endowment funds	$ -	$ 307,313	$ -	$ -	$ 307,313
Donor restricted endowment funds	-	-	-	971,024	971,024
Total	$ -	$ 307,313	-	$ 971,024	$ 1,278,337

Note 7—Endowment (continued)

Changes in endowment net assets for the year ended December 31, 2017:

	Unrestricted	Unrestricted Board Designated	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 284,892	$ -	$ 869,473	$ 1,154,365
Contributions	-	-	-	10,859	10,859
Investment return	-	32,287	-	124,067	156,354
Distributions, net	-	(9,866)	-	(33,375)	(43,241)
Endowment net assets, end of year	$ -	$ 307,313	$ -	$ 971,024	$ 1,278,337

Endowment net asset composition by type of fund as of December 31, 2016:

	Unrestricted	Unrestricted Board Designated	Temporarily Restricted	Permanently Restricted	Total
Board designated endowment funds	$ -	$ 284,892	$ -	$ -	$ 284,892
Donor restricted endowment funds	-	-	-	869,473	869,473
Total	$ -	$ 284,892	$ -	$ 869,473	$ 1,154,365

Changes in endowment net assets for the year ended December 31, 2016:

	Unrestricted	Unrestricted Board Designated	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 238,404	$ -	$ 830,213	$ 1,068,617
Contributions	-	65,800	-	10,808	76,608
Investment return	-	16,401	-	61,844	78,245
Distributions, net	-	(35,713)	-	(33,392)	(69,105)
Endowment net assets, end of year	$ -	$ 284,892	$ -	$ 869,473	$ 1,154,365

Note 7—Endowment (continued)

Interpretation of Relevant Law

The board of directors of the Organization has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. To the extent unrealized losses exceed original permanently restricted net assets plus gains earned in prior periods and earnings for which donor restrictions have not been met, such losses are recognized as losses in the unrestricted net asset class. Future increases in earnings of permanently restricted net assets will be first used to offset losses previously recognized in the unrestricted net asset class, and then increase permanently restricted.

Endowment Investment Policy and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets to support the Organization and to enable it to more completely fulfill its mission by providing funds for (a) capital needs, (b) operating expenses, (c) programs and special projects, and (d) such other purposes as specifically designated by donors. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period as well as amounts designated by the board of directors to be held in perpetuity. Under this policy, as approved by the board of directors, the primary objective is to achieve a reasonable return on the assets, while limiting the risk exposure to ensure the preservation of capital. Investment funds are to be maintained as cash or as publicly traded securities.

Strategies Employed for Achieving Investment Objectives

To satisfy its long term objectives, the Organization relies on a strategy meant to preserve the corpus while providing a reasonable return on assets. The Organization has established a long-term investment goal of earning a minimum real rate of return equal to 5% per annum in excess of the rate of inflation, as measured by the greater of the Consumer Price Index or the GNP Deflator. This goal is measured over 5-10 year time periods.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization determines expendable funds on the basis of a total return principle. The funds available for distribution during any one year shall be determined at the beginning of such year and are limited to 4% of the average value of the corpus. The average value is determined by computing a three-year rolling average of the twelve end-of-quarter market values. Any expended funds from those available for distribution for a given year are accrued and continue to be considered available for distribution in subsequent years, unless otherwise designated by the action of the board of directors.

Note 8—Contributions - thrift shop and associated organizations

The Organization receives support from income generated by a local thrift shop. Such contributions totaled $199,175 and $169,025 for the years ended December 31, 2017 and 2016, respectively. The Organization's executive director serves as a board member of the thrift shop.

In addition, the Organization receives contributions from churches and other organizations associated with the Episcopal Church. Contributions from these organizations totaled $211,143 and $209,177 for the years ended December 31, 2017 and 2016, respectively.

Note 9—Benefit plan

Effective February 2001, the Organization established a 401(k) Retirement Savings Plan. Under the plan, the Organization will match up to 6% of employees' contributions to the plan. Retirement plan contributions totaled $37,830 and $32,974 for the years ended December 31, 2017 and 2016, respectively.

Note 10—Concentrations

The Organization maintains its cash in bank accounts at financial institutions, which at times, may exceed the federally insured limits. The Organization has not experienced any losses in such accounts, therefore management believes it is not exposed to any significant credit risk related to cash and cash equivalents.