

***WAYNE REED CHRISTIAN
CHILDCARE CENTER, INC.***

**FINANCIAL STATEMENTS
& INDEPENDENT AUDITORS' REPORT**

DECEMBER 31, 2016 and 2015

WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.

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MULLINS CLEMMONS & MAYES, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Wayne Reed Christian Childcare Center, Inc.

We have audited the accompanying financial statements of Wayne Reed Christian Childcare Center, Inc. (a nonprofit organization) as of December 31, 2016 and 2015, which comprise the statements of financial position as of December 31, 2016 and 2015, 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 of 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 Wayne Reed Christian Childcare Center, Inc. as of December 31, 2016 and 2015, 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.

Mullins Clemmons & Mager, PLLC

Brentwood, Tennessee
December 28, 2017

WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.

**STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015**

| | <u>2016</u> | <u>2015</u> |
|--|---------------------|---------------------|
| <u>ASSETS</u> | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 239,891 | \$ 221,544 |
| Accounts receivable, net | 17,950 | 16,775 |
| Promises to give | 63,262 | 55,043 |
| Investments in marketable securities | 1,092,627 | 1,096,085 |
| Prepaid expenses and other assets | 7,295 | 6,886 |
| Total current assets | <u>1,421,025</u> | <u>1,396,333</u> |
| PROPERTY AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION | 446,990 | 457,336 |
| DEPOSITS | <u>-</u> | <u>1,000</u> |
| TOTAL ASSETS | <u>\$ 1,868,015</u> | <u>\$ 1,854,669</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 4,829 | \$ 4,313 |
| Accrued liabilities | 7,967 | 24,255 |
| Wages and payroll taxes payable | <u>29,592</u> | <u>23,447</u> |
| Total current liabilities | <u>42,388</u> | <u>52,015</u> |
| NET ASSETS: | | |
| Unrestricted net assets: | | |
| Invested in property and equipment | 446,990 | 457,336 |
| Undesignated | <u>875,307</u> | <u>842,289</u> |
| Total unrestricted | 1,322,297 | 1,299,625 |
| Temporarily restricted | 296,765 | 296,464 |
| Permanently restricted | <u>206,565</u> | <u>206,565</u> |
| Total net assets | <u>1,825,627</u> | <u>1,802,654</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 1,868,015</u> | <u>\$ 1,854,669</u> |

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

WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016**

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|---------------------|
| SUPPORT AND REVENUES: | | | | |
| State grants | \$ 37,795 | \$ - | \$ - | \$ 37,795 |
| Donations and private grants | 139,417 | 145,688 | - | 285,105 |
| Child care fees and subsidies | 213,958 | - | - | 213,958 |
| Fundraising events | 176,868 | - | - | 176,868 |
| Total | 568,038 | 145,688 | - | 713,726 |
| Net assets released from restrictions | 145,387 | (145,387) | - | - |
| Total support, revenues and reclassifications | 713,425 | 301 | - | 713,726 |
| NET INVESTMENT RETURN | 106,987 | - | - | 106,987 |
| EXPENSES: | | | | |
| Program services: | | | | |
| Child development | 590,010 | - | - | 590,010 |
| Supporting services: | | | | |
| Management and general | 169,121 | - | - | 169,121 |
| Fundraising | 38,609 | - | - | 38,609 |
| Total expenses | 797,740 | - | - | 797,740 |
| CHANGE IN NET ASSETS | 22,672 | 301 | - | 22,973 |
| NET ASSETS: | | | | |
| Beginning of year | 1,299,625 | 296,464 | 206,565 | 1,802,654 |
| End of year | <u>\$ 1,322,297</u> | <u>\$ 296,765</u> | <u>\$ 206,565</u> | <u>\$ 1,825,627</u> |

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

WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|--|---------------------|-----------------------------------|-----------------------------------|------------------|
| SUPPORT AND REVENUES: | | | | |
| State grants | \$ 41,513 | \$ - | \$ - | \$ 41,513 |
| Donations and private grants | 181,171 | 98,138 | - | 279,309 |
| Child care fees and subsidies | 162,203 | - | - | 162,203 |
| Fundraising events | 166,066 | - | - | 166,066 |
| Total | 550,953 | 98,138 | - | 649,091 |
| Net assets released from restrictions | 69,861 | (69,861) | - | - |
| Total support, revenues and reclassifications | 620,814 | 28,277 | - | 649,091 |
| NET INVESTMENT RETURN | (12,180) | - | - | (12,180) |
| EXPENSES: | | | | |
| Program services: | | | | |
| Child development | 602,840 | - | - | 602,840 |
| Supporting services: | | | | |
| Management and general | 171,820 | - | - | 171,820 |
| Fundraising | 22,299 | - | - | 22,299 |
| Total expenses | 796,959 | - | - | 796,959 |
| CHANGE IN NET ASSETS | (188,325) | 28,277 | - | (160,048) |
| NET ASSETS: | | | | |
| Beginning of year | 1,487,950 | 268,187 | 206,565 | 1,962,702 |
| End of year | \$ 1,299,625 | \$ 296,464 | \$ 206,565 | \$ 1,802,654 |

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

WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016**

| | Program Services | Supporting Services | | |
|---------------------------------------|------------------------------|-----------------------------------|--------------------------|-------------------|
| | Child Development | Management and General | Fund- Raising | Total |
| Salaries | \$ 340,234 | \$ 113,411 | \$ - | \$ 453,645 |
| Employee benefits | 32,996 | 10,999 | - | 43,995 |
| Payroll taxes | 24,469 | 8,156 | - | 32,625 |
| Total personnel costs | 397,699 | 132,566 | - | 530,265 |
| Fundraising expenses | - | - | 38,609 | 38,609 |
| Daycare supplies | 69,434 | - | - | 69,434 |
| Utilities | 18,485 | 6,162 | - | 24,647 |
| Contract labor | 9,000 | 3,000 | - | 12,000 |
| Office supplies | 2,807 | - | - | 2,807 |
| Insurance | 17,791 | 5,931 | - | 23,722 |
| Telephone | 3,094 | 1,032 | - | 4,126 |
| Administrative expenses | 42,449 | 14,150 | - | 56,599 |
| Bad debt expense | 10,412 | - | - | 10,412 |
| Total expenses before depreciation | 571,171 | 162,841 | 38,609 | 772,621 |
| Depreciation | 18,839 | 6,280 | - | 25,119 |
| Total expenses | <u>\$ 590,010</u> | <u>\$ 169,121</u> | <u>\$ 38,609</u> | <u>\$ 797,740</u> |

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

WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015**

| | Program Services | Supporting Services | | |
|---------------------------------------|------------------------------|-----------------------------------|--------------------------|-------------------|
| | Child Development | Management and General | Fund- Raising | Total |
| Salaries | \$ 327,056 | \$ 109,019 | \$ - | \$ 436,075 |
| Employee benefits | 41,362 | 13,788 | - | 55,150 |
| Payroll taxes | 24,502 | 8,168 | - | 32,670 |
| Total personnel costs | 392,920 | 130,975 | - | 523,895 |
| Fundraising expenses | - | - | 22,299 | 22,299 |
| Daycare supplies | 83,623 | - | - | 83,623 |
| Utilities | 13,782 | 4,594 | - | 18,376 |
| Contract labor | 9,750 | 3,250 | - | 13,000 |
| Office supplies | 3,765 | - | - | 3,765 |
| Insurance | 12,338 | 4,113 | - | 16,451 |
| Telephone | 2,940 | 980 | - | 3,920 |
| Administrative expenses | 57,357 | 19,119 | - | 76,476 |
| Total expenses before depreciation | 576,475 | 163,031 | 22,299 | 761,805 |
| Depreciation | 26,365 | 8,789 | - | 35,154 |
| Total expenses | <u>\$ 602,840</u> | <u>\$ 171,820</u> | <u>\$ 22,299</u> | <u>\$ 796,959</u> |

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

WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

| | <u>2016</u> | <u>2015</u> |
|--|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net change in net assets | \$ 22,973 | \$ (160,048) |
| Adjustments to reconcile net change in net assets to net cash used in operating activities: | | |
| Depreciation | 25,119 | 35,154 |
| Noncash stock donations | - | (3,761) |
| Net unrealized (appreciation) depreciation in fair value of investments | (69,805) | 188,404 |
| Net realized (gain) on disposal of investments | (17,538) | (105,461) |
| Net changes in other operating assets and liabilities: | | |
| Accounts receivable | (1,175) | (6,678) |
| Promises to give | (8,219) | 7,149 |
| Prepaid expenses and other assets | (409) | 509 |
| Other long-term assets | 1,000 | - |
| Accounts payable and accrued liabilities | (9,627) | 8,530 |
| Net cash used in operating activities | <u>(57,681)</u> | <u>(36,202)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | (14,773) | (8,977) |
| Purchases of investments | (407,788) | (1,167,013) |
| Proceeds from sale of investments | 498,589 | 1,171,668 |
| Net cash provided by (used in) investing activities | <u>76,028</u> | <u>(4,322)</u> |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 18,347 | (40,524) |
| CASH AND CASH EQUIVALENTS, BEGINNING | <u>221,544</u> | <u>262,068</u> |
| CASH AND CASH EQUIVALENTS, ENDING | <u>\$ 239,891</u> | <u>\$ 221,544</u> |

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

WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

NOTE 1 – STATEMENT OF PURPOSE

Wayne Reed Christian Childcare Center, Inc. (the “Center”), founded in 1996, is qualified as a tax-exempt organization under section 501(c)(3) of the Internal Revenue Code. The primary program of the Center is the operation of a day care facility for inner city and low-income children.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Periods

All references to 2016 and 2015 in these financial statements refer to the years ended December 31, 2016 and 2015, respectively, unless otherwise noted.

Basis of Accounting

The financial records of the Center are maintained on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles.

Financial Statement Presentation

The Center is required to report information regarding its financial position and activities according to three classes of net assets as follows:

Unrestricted – This class includes net assets that are not subject to any donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

Temporarily Restricted – This class includes net assets whose use by the Center is subject to donor-imposed restrictions that can be fulfilled by actions of the Center pursuant to those restrictions or that expire by the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted – This class includes net assets subject to donor-imposed restrictions that require the assets to be maintained permanently by the Center. Generally, the donors of these assets permit the Center to use all or part of the income earned on any related investments for general or specific purposes.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Center considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments are reported at fair value. Gains and losses, whether realized or unrealized, are included in the statement of activities and changes in net assets. Investment income is allocated on a monthly basis to each fund based on the fund's percentage of total market value.

The Center's investments are held and managed by various independent investment advisors who report regularly to the Center.

The Center utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the statements of financial position.

See Note 3 for further details related to investments.

Accounts Receivable

Accounts receivable consist of receivables from parents, guardians, and governmental agencies for child care fees and subsidies and from governmental agencies for grants earned. The Center uses the allowance method to determine any uncollectible accounts receivable. The allowance is based on prior years' experience and management's analysis of specific accounts receivable. At December 31, 2016 and 2015, management believes that all accounts receivable are fully collectible. Therefore, no allowance was deemed necessary.

Contributions and Promises to Give

Contributions are recognized when the donor makes a promise to give to the Center that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction is satisfied or expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Center uses the allowance method to determine uncollectible promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. At December 31, 2016 and 2015, management believes that all promises to give are fully collectible. Therefore, no allowance was deemed necessary.

Property and Equipment

Property and equipment are recorded at cost. Maintenance and repairs are expensed as incurred; major renewals and improvements are capitalized. When items of property or equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in revenue or expense. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Revenue

Tuition is recorded by the Center as revenue in the period to which the tuition relates. Tuition collected in the current year, which is applicable to future years, is deferred and recognized as revenue in the appropriate year.

Income Taxes

As mentioned in Note 1, the Center is a tax-exempt organization; accordingly, no provision for income taxes is included in the accompanying financial statements.

The Center files an annual information return (Form 990) with the U.S. government. At December 31, 2016, the Center is no longer subject to U.S. tax examinations of these information returns by tax authorities for years before December 31, 2013.

Grant Revenues

Grant revenues are recognized when qualified, reimbursable expenses are incurred or when services are performed.

Donated Materials and Services

Donated materials are recognized as contributions at their estimated fair values at date of receipt. The value of donated services meeting the requirements for recognition in the financial statements was not material and has not been recorded. A substantial number of volunteers have donated significant amounts of time in the Center's programs, development and fund raising activities.

Functional Allocation of Expenses

Expenses, which are directly related to a function, are charged to that function. Expenses that are related to more than one function are allocated to the applicable functions based upon various allocation methods in order to reflect the total cost of each function.

Recently Issued Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (the "ASU"), which affects all nonprofit organizations. The ASU significantly changes how not-for-profit organizations present net assets on the face of the financial statements, as well as requiring additional disclosures for expenses by nature and function and for the liquidity and availability of resources. The ASU is effective for annual financial statements for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early adoption is permitted. Wayne Reed Christian Childcare Center, Inc. expects to adopt the provisions of the ASU in the financial statements for the year ending December 21, 2018. Management is currently assessing the impact that the adoption of the ASU will have on the financial statements.

WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates

The preparation of financial statements in conformity 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.

Reclassifications

Certain prior year amounts have been reclassified for consistency with the current period presentation.

Events Occurring After Reporting Date

The Center has evaluated events and transactions that occurred between December 31, 2016 and December 28, 2017, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 3 – INVESTMENTS IN MARKETABLE SECURITIES

Generally accepted accounting principles have established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs have the lowest priority. The Center uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Center measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

Following are the fair values of investments according to the fair value hierarchy at December 31, 2016 and 2015:

| | Fair Value | Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1) |
|---|---------------------|---|
| At December 31, 2016: | | |
| Mutual funds, stocks and exchange traded funds | <u>\$ 1,092,627</u> | <u>\$ 1,092,627</u> |
| At December 31, 2015: | | |
| Mutual funds, stocks and exchange traded funds | <u>\$ 1,096,085</u> | <u>\$ 1,096,085</u> |

WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016 AND 2015

NOTE 3 – INVESTMENTS IN MARKETABLE SECURITIES (CONTINUED)

Level 1 Fair Value Measurements - The fair values of the mutual funds, stocks and exchange traded funds are based on quoted market prices in active markets.

Following are the details of the net investment return for 2016 and 2015:

| | <u>2016</u> | <u>2015</u> |
|---|-------------------|--------------------|
| Interest and dividends | \$ 34,415 | \$ 77,516 |
| Realized gains on disposal of investments | 17,538 | 105,461 |
| Unrealized appreciation (depreciation) in fair value of investments | 69,805 | (188,404) |
| Portfolio management fee | <u>(14,771)</u> | <u>(6,753)</u> |
| Net investment return | <u>\$ 106,987</u> | <u>\$ (12,180)</u> |

At December 31, 2016, the cumulative unrealized appreciation of investments is \$3,419.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following, as of December 31, 2016 and 2015:

| | <u>2016</u> | <u>2015</u> |
|-----------------------------------|-------------------|-------------------|
| Building and related improvements | \$ 772,767 | \$ 772,767 |
| Office equipment and computers | 80,030 | 69,077 |
| Kitchen equipment and cabinets | 41,153 | 41,153 |
| Playground equipment | <u>60,263</u> | <u>56,443</u> |
| Total cost | 954,213 | 939,440 |
| Less accumulated depreciation | <u>(507,223)</u> | <u>(482,104)</u> |
| Net property and equipment | <u>\$ 446,990</u> | <u>\$ 457,336</u> |

Depreciation expense for the years ending 2016 and 2015 was \$25,119 and \$35,154, respectively.

NOTE 5 – EMPLOYEE BENEFIT PLAN

The Center maintains a 403(b) plan for its employees. Upon completion of one year of service, the Center will match an employee's annual contribution, up to \$1,000. The Center recognized \$3,860 and \$2,198 of costs related to this plan during 2016 and 2015, respectively.

WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2016 AND 2015

NOTE 6 – LEASES

In 1997, the Center entered into a ground lease and operating lease with Youth Encouragement Services for the use of their premises for a period of thirty years ending December 2026. The Center agreed to pay rent of one dollar each year of the lease. Under the terms of the leases the Center has the right of first refusal should Youth Encouragement Services desire to sell the facility.

NOTE 7 – CONCENTRATIONS

The Center maintains bank accounts whose balances may, at times, exceed FDIC insurance limits. The Center has not experienced any losses in such accounts, and management does not believe that they are exposed to any significant credit risks on these accounts.

See Note 3 for a description of the risks associated with the Center's investments in marketable securities.

The Center relies heavily on donations and grants to fund its operations. The loss of these funds would have a significant impact on the operations of the Center.

NOTE 8 – NET ASSETS

The State of Tennessee has passed the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). The Center 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 restrictions to the contrary. The Center classifies as permanently restricted net assets the sum of (a) the original value of gifts donated to the permanent endowments, (b) the original value of subsequent gifts to the permanent endowments, and (c) accumulations to the permanent endowments made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. At the current time, none of the endowment funds have donor-imposed instructions that specify accumulations, as noted in item (c) of the preceding sentence.

The remaining portion of the donor-restricted endowment funds that are not classified in permanently restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Center in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Center considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) General economic conditions;
- (2) The possible effect of inflation and deflation;
- (3) The expected tax consequences, if any, of investment decisions or strategies;
- (4) The role that each investment or course of action plays within the overall investment portfolio;
- (5) The expected total return from income and appreciation of investments;
- (6) Other resources of the Center;

WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016 AND 2015

NOTE 8 – NET ASSETS (CONTINUED)

- (7) The needs of the Center and the endowment funds to make distributions and to preserve capital; and
- (8) An asset's special relationship or special value, if any, to the charitable purposes of the Center.

The Center has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Center must hold in perpetuity or for a donor-specified period as well as any entity-designated funds.

To satisfy its long-term return objectives, the Center relies on a total return strategy in which the investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Permanently restricted net assets consist of the following at December 31, 2016 and 2015:

| | <u>2016</u> | <u>2015</u> |
|---------------------------------|-------------------|-------------------|
| Donor-restricted endowment fund | <u>\$ 206,565</u> | <u>\$ 206,565</u> |

Temporarily restricted net assets were available for the following purposes at December 31, 2016 and 2015:

| | <u>2016</u> | <u>2015</u> |
|--------------------------------------|-------------------|-------------------|
| Multicultural center | \$ 131,232 | \$ 131,232 |
| United Way literacy grant | 155,533 | 149,075 |
| Memorial Foundation remodeling grant | - | 6,157 |
| Pre-K summer program | <u>10,000</u> | <u>10,000</u> |
| Total temporarily restricted assets | <u>\$ 296,765</u> | <u>\$ 296,464</u> |

The entire release of temporarily restricted net assets for both years was related to the incurrence of various expenses that satisfied the respective donor restrictions.