MONROE HARDING, INC.

FINANCIAL STATEMENTS

As of and for the Eighteen-Month Period Ended June 30, 2020

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

MONROE HARDING, INC.

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Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

To the Board of Directors
Monroe Harding, Inc.
Nashville, Tennessee

We have audited the accompanying financial statements of Monroe Harding, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, cash flows, and functional expenses for the eighteen-month period 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 Monroe Harding, Inc. as of June 30, 2020, and the changes in its net assets and its cash flows for the eighteen-month period then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 11, towards the end of December 2019, an outbreak of a novel strain of coronavirus (COVID-19) emerged globally. As a result, there have been various mandates and/or requests from federal, state, and local authorities resulting in closures of non-essential businesses, which could negatively impact Monroe Harding, Inc.'s operations. Although it is not possible to reliably estimate the length or severity of this outbreak and hence its financial impact, any significant reduction of government contracts or contributions could negatively impact Monroe Harding, Inc.'s operations for an indeterminable time period. Other financial impacts could occur though such potential impacts are unknown at this time. Our opinion is not modified with respect to this matter.

Cherry Bekaert LLP

Nashville, Tennessee
October 21, 2020

MONROE HARDING, INC.
STATEMENT OF FINANCIAL POSITION

JUNE 30, 2020

ASSETS		
Cash and cash equivalents, including deposits held for others of $1,371	$	654,423
Accounts and pledges receivable		303,932
Prepaid expenses and other assets		58,040
Investments		8,121,815
Pooled investments		23,017
Beneficial interests in perpetual trusts		788,424
Land, buildings, and equipment, net		78,661
Total Assets	$	10,028,312
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	$	41,150
Accrued expenses		167,574
Deferred revenue		64,500
Funds held for others		1,371
Total Liabilities		274,595
Net Assets:		
Without Donor Restriction:		
Board designated endowment		8,006,284
Undesignated		660,556
Total Without Donor Restriction		8,666,840
With Donor Restriction:		1,086,877
Total Net Assets		9,753,717
Total Liabilities and Net Assets	$	10,028,312

MONROE HARDING, INC.
STATEMENT OF ACTIVITIES

EIGHTEEN-MONTH PERIOD ENDED JUNE 30, 2020

	Without Donor Restriction	With Donor Restriction	Total
Public Support and Revenue:			
Public Support:			
Governmental contracts and sub-contracts	$ 3,142,972	$ -	$ 3,142,972
Contributions	883,060	288,400	1,171,460
Special events	223,548	-	223,548
Gifts in-kind	43,270	-	43,270
Miscellaneous	25,494	-	25,494
Net assets released from restriction	285,014	(285,014)	-
Total Public Support	4,603,358	3,386	4,606,744
Revenue:			
Net (loss) gain on investments	(47,436)	86,786	39,350
Interest and dividend income, net of fees	89,942	42,535	132,477
Gain on sale of property and equipment	4,395,978	-	4,395,978
Total Revenue	4,438,484	129,321	4,567,805
Total Public Support and Revenue	9,041,842	132,707	9,174,549
Expenses:			
Program Services:			
Foster care	1,772,411	-	1,772,411
Independent living	1,195,518	-	1,195,518
Youth Connections	794,199	-	794,199
Opportunity Now Reengagement Hub	194,166	-	194,166
Mental health	191,967	-	191,967
Total Program Services	4,148,261	-	4,148,261
Supporting Services:			
General and administrative	568,755	-	568,755
Development	595,985	-	595,985
Total Supporting Services	1,164,740	-	1,164,740
Total Expenses	5,313,001	-	5,313,001
Change in net assets	3,728,841	132,707	3,861,548
Net assets, December 31, 2018	4,937,999	954,170	5,892,169
Net assets, June 30, 2020	$ 8,666,840	$ 1,086,877	$ 9,753,717

MONROE HARDING, INC.
STATEMENT OF CASH FLOWS

EIGHTEEN-MONTH PERIOD ENDED JUNE 30, 2020

Cash flows from operating activities:	
Change in net assets	$ 3,861,548
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	196,471
Change in beneficial interests in perpetual trusts	(129,321)
Change in pooled investments	(1,995)
Gain on sale of property and equipment	(4,395,978)
Net loss on investments	50,907
Changes in operating assets and liabilities:	
Accounts and pledges receivable	268,152
Prepaid expenses and other assets	(9,832)
Accounts payable	(38,403)
Accrued expenses	67,402
Deferred revenue	64,500
Funds held for others	125
Net cash used in operating activities	(66,424)
Cash flows from investing activities:	
Purchases of property and equipment	(52,673)
Purchases of investments	(8,169,652)
Proceeds from disposal of property and equipment	6,010,435
Proceeds from distributions of beneficial interests in trusts	32,214
Proceeds from sale of investments	2,279,815
Net cash provided by investing activities	100,139
Net increase in cash and cash equivalents	33,715
Cash and cash equivalents, December 31, 2018	620,708
Cash and cash equivalents, June 30, 2020	$ 654,423

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

MONROE HARDING, INC.

STATEMENT OF FUNCTIONAL EXPENSES

EIGHTEEN-MONTH PERIOD ENDED JUNE 30, 2020

	Program Services						Supporting Services			
	Foster Care	Independent Living	Youth Connections	Opportunity Now Reengagement Hub	Mental Health	Total	General and Administrative	Development	Total	Total Expenses
Salaries and wages	$ 714,852	$ 617,519	$ 422,932	$ 106,513	$ 54,518	$ 1,916,334	$ 193,264	$ 344,269	$ 537,533	$ 2,453,867
Foster care expenses	639,392	-	-	-	-	639,392	-	-	-	639,392
Employee benefits	123,613	85,815	70,959	15,334	7,509	303,230	17,678	54,562	72,240	375,470
Rent	66,055	206,792	33,851	8,742	1,463	316,903	27,178	24,872	52,050	368,953
Youth expenses	18,399	112,730	127,998	3,203	90	262,420	-	-	-	262,420
Payroll taxes	50,508	46,264	31,158	8,386	3,126	139,442	13,734	23,118	36,852	176,294
Contracted services	29,319	12,396	22,617	3,614	19,776	87,722	59,284	21,487	80,771	168,493
Equipment and software	30,635	33,936	17,379	13,555	362	95,867	34,311	13,856	48,167	144,034
Insurance	24,511	14,721	5,602	1,821	(487)	46,168	18,474	9,177	27,651	73,819
Other	-	-	109	-	-	109	48,528	22,808	71,336	71,445
Professional expenses	7,849	1,377	12,062	532	3,540	25,360	38,474	278	38,752	64,112
Travel and transportation	12,853	12,486	19,690	5,277	542	50,848	1,493	1,094	2,587	53,435
Special events	-	-	-	-	-	-	-	43,962	43,962	43,962
Phone and internet	8,055	20,837	7,426	2,076	154	38,548	2,495	1,649	4,144	42,692
Promotional efforts	4,210	357	547	14,593	58	19,765	435	13,720	14,155	33,920
Utilities	2,859	1,023	-	-	-	3,882	25,296	2,655	27,951	31,833
Printing	4,818	1,151	5,681	971	69	12,690	8,526	7,898	16,424	29,114
Training and education	3,520	516	3,336	1,879	731	9,982	10,478	1,408	11,886	21,868
Maintenance	4,806	6,764	1,772	215	351	13,908	4,564	1,415	5,979	19,887
Office supplies	3,358	2,388	1,294	6,474	76	13,590	2,308	2,801	5,109	18,699
Recognition, gifts, and awards	10,525	-	400	-	-	10,925	539	-	539	11,464
Food and beverages	267	1,061	224	128	-	1,680	4,531	393	4,924	6,604
Recreation and special	134	-	341	-	-	475	1,303	1,202	2,505	2,980
Recruitment	-	141	-	-	-	141	2	1,630	1,632	1,773
	1,760,538	1,178,274	785,378	193,313	91,878	4,009,381	512,895	594,254	1,107,149	5,116,530
Depreciation	11,873	17,244	8,821	853	100,089	138,880	55,860	1,731	57,591	196,471
Total Expenses	$ 1,772,411	$ 1,195,518	$ 794,199	$ 194,166	$ 191,967	$ 4,148,261	$ 568,755	$ 595,985	$ 1,164,740	$ 5,313,001

Note 1—Nature of operations

Founded in 1893, Monroe Harding, Inc. (the "Organization") is a nonprofit foster care organization dedicated to making meaningful change in the lives of children and youth in Middle Tennessee. Our agency supports them, from birth to 26, in the ways they need it most – by providing safe, healthy, and nurturing environments. That could be in the home of one of our foster families, or for older youth aging out, their own apartment or participating in education and job programs through our Resource Center in downtown Nashville. We know that one caring adult can make an enormous difference in the lives of children who had been separated from their birth families. Home, Healing, and Opportunities are what the Organization strives to provide daily.

Note 2—Summary of significant accounting policies

Basis of Presentation – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Financial statement presentation is in accordance with standards of accounting and financial reporting prescribed for not-for-profit organizations. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

> *Net Assets Without Donor Restrictions* – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the board of directors.
>
> *Net Assets with Donor Restrictions* – Net assets subject to stipulations imposed by donors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Cash Equivalents – For purposes of the statement of cash flows, the Organization considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents other than cash and short-term investments held in investment funds.

Contributions – Contributions received are recorded as without donor restriction or with donor restriction depending on the existence and/or nature of any donor restrictions. The expiration of a donor-imposed restriction is recognized in the period in which the restriction expires and at the time the related resources are reclassified to net assets without donor restrictions. A restriction expires when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Contributions whose restrictions are met in the same reporting period are shown as increases in net assets without donor restrictions.

The Organization reports gifts of land, buildings, and equipment as net assets without donor restriction unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as net assets with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Investments – All gains and losses on investments are reported in the statement of activities as increases or decreases in net assets without donor restriction unless their use is restricted by explicit donor stipulations or by law.

Note 2—Summary of significant accounting policies (continued)

Land, Buildings, and Equipment – Land, buildings, and equipment are stated at cost at date of purchase or at estimated fair market value at date of gift. The fair value of donated labor services associated with fixed assets is added to the cost of the asset. Repairs and maintenance are charged to expense as incurred. Purchases with a cost of $2,000 or more and an estimated useful life greater than one year are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from three to twenty-five years.

Income Taxes – The Organization is exempt from federal income taxes under the provisions of Internal Revenue Code (“IRC”) Section 501(c)(3). Accordingly, no provision for income taxes is included in the accompanying financial statements. The Organization follows Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) guidance that clarifies 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 50% likely of being realized upon ultimate settlement. The Organization has no tax penalties or interest reported in the accompanying financial statements. The Organization had no uncertain tax positions at June 30, 2020.

Use of Estimates – The preparation of financial statements in conformity with U.S. GAAP 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. Actual results could differ from those estimates.

Functional Expenses – The costs of providing program and other activities have been summarized on a functional basis in the statement of activities. While most costs have been directly assigned to a functional category, certain joint costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis. Expenses that are allocated consist primarily of salaries and wages which are allocated based on time and effort.

Fair Value Measurements – The Organization follows the provisions of the Fair Value Measurement topic of the FASB ASC. This guidance establishes a framework for measuring fair value for financial assets and liabilities. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices (Level 1). However, in some instances, there are no quoted market prices for financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques (Level 3). Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments.

Note 2—Summary of significant accounting policies (continued)

The three levels of the fair value hierarchy are described below.

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability; and
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

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

Adoption of New Accounting Standards – In June 2018, FASB issued Accounting Standards Update ("ASU") 2018-08, *Not-for-Profit Entities Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The standard provides guidance on determining whether a transaction should be accounted for as a contribution or as an exchange transaction. A primary aspect of this determination is whether the two parties receive and sacrifice commensurate value. The standard also provides guidance on determining whether a contribution is conditional, helping entities better distinguish a donor-imposed condition from a donor-imposed restriction. The standard was adopted for the fiscal year ended June 30, 2020. There was no change in the timing and amount of revenue recognition as a result of the adoption of this ASU.

Accounting Policies for Future Pronouncements – In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 clarifies the principles for recognizing revenue and develops a common revenue standard under U.S. GAAP under which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for the Organization for the year ending June 30, 2021. The Organization is currently evaluating the effect of the implementation of this new standard.

In February 2016, FASB issued ASU 2016-02, *Leases*. ASU requires all leases with lease terms over 12 months to be capitalized as a right of use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement of activities. This ASU will be effective for the fiscal year ending June 30, 2023. The Organization is currently evaluating the effect of the implementation of this new standard.

Subsequent Events – The Organization has evaluated subsequent events for potential recognition and disclosure through October 21, 2020, the date the financial statements were available to be issued.

Note 3—Liquidity and availability of resources

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing program service activities as well as the conduct of services undertaken to support those activities to be general expenditures. Financial assets available for general expenditure, that is, without donor restriction or other restrictions limiting their use within one year of the statement of financial position comprise the following at June 30, 2020:

Financial assets at June 30:	
Cash and cash equivalents	$ 654,423
Accounts and pledges receivable	303,932
Investments	8,121,815
Pooled investments	23,017
Beneficial interests in perpetual trusts	788,424
Total financial assets	9,891,611
Less amounts not available to be used for general expenditures within one year:	
Cash held for others	1,371
Net assets restricted for specific programs	158,705
Board designated endowment	8,006,284
Net assets held in perpetuity	928,172
Total amounts not available to be used for general expenditures within one year	9,094,532
Financial assets available to meet cash needs for general expenditures within one year	$ 797,079

Note 4—Accounts and pledges receivable

Accounts and pledges receivable are due primarily from various government and private agencies and are expected to be received within one year. The carrying values of the receivables, totaling $303,932 at June 30, 2020, approximate their fair values due to the short maturities of these instruments. Management's estimate of uncollectible amounts is based on historical collection experience and a review of the current status of accounts and pledges receivable. It is reasonably possible that management's estimate of the allowance for uncollectible accounts could change. There was no allowance for uncollectible amounts at June 30, 2020.

Note 5—Investments

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value at June 30, 2020:

	Level 1	Level 2	Level 3	Total
Equity funds	$ 1,890,249	$ 3,057,508 *	$ -	$ 4,947,757
Fixed income funds	358,793	2,016,126 *	-	2,374,919
Cash and short-term investments	799,139	-	-	799,139
Pooled accounts	-	23,017	-	23,017
Total	$ 3,048,181	$ 5,096,651	$ -	$ 8,144,832

Investments identified above by asterisk (*) include units of ownership in certain common trust funds owned by the Diversified Trust Company ("DTC"). The Organization values these investments as Level 2 because specific units held do not have quoted prices and are not traded on an active market.

Note 6—Land, buildings, and equipment

A summary of land, buildings, and equipment consists of the following as of June 30, 2020:

Buildings and improvements	$ 40,313
Automobiles	126,304
Land improvements	6,504
Furniture, fixtures, and appliances	47,984
Information/communication technology	49,735
	270,840
Less accumulated depreciation	(192,179)
Land, Buildings, and Equipment, net	$ 78,661

During the eighteen-month period ended June 30, 2020, the Organization sold its real property resulting in a gain on sale of property and equipment totaling $4,395,978. Proceeds from the sale were transferred to the board designated endowment (see Notes 12 and 14).

Note 7—Beneficial interests in perpetual trusts

The Organization is the beneficiary of two perpetual trusts. The Plummer Trust is held by First Presbyterian Church of Clarksville, Tennessee. The Organization is a 25% beneficiary of the trust and receives periodic distributions from the trust. At June 30, 2020, the trust had a fair market value of $2,872,400, of which $718,100 was for the benefit of the Organization.

The Stanley Trust was initially held by Westminster Presbyterian Church of Nashville, Tennessee ("Westminster"). During 2015, Westminster, transferred the funds to a designated account to be held and managed by the Organization. Distributions from the Stanley Trust are made annually at an amount equal to 5.5% of the three-year average annual value of the trust. At June 30, 2020, the trust had a fair market value of $70,324.

Note 7—Beneficial interests in perpetual trusts (continued)

The trusts' assets are invested in money markets and publicly traded mutual funds. Investments identified below by asterisk (*) include units of ownerships in certain common trust funds owned by DTC. The Organization values these investments as Level 2 because specific units held do not have quoted prices and are not traded on an active market.

The following table sets forth by level, within the fair value hierarchy, the trusts' assets at fair value at June 30, 2020:

	Level 1	Level 2		Level 3	Total
Equity funds	$ 720,678	$ 27,506	*	$ -	$ 748,184
Fixed income funds	3,456	17,917	*	-	21,373
Cash and short term investments	18,867	-		-	18,867
Total	$ 743,001	$ 45,423		$ -	$ 788,424

Note 8—Net assets with donor restriction

Net assets with donor restrictions consist of the following at June 30, 2020:

Net assets held in perpetuity	$ 928,172
Foster care	56,407
Fostering Joy event	14,500
Youth Connections programs	12,042
Music program	5,649
Independent living program	4,007
Time restricted	66,100
	$ 1,086,877

Note 9—Gifts in-kind

Gifts in-kind received by the Organization are recorded based on their estimated value on the date of receipt. During the eighteen-month period ended June 30, 2020, the Organization recorded donated materials and services with an estimated value of $43,270. In addition, unpaid volunteers have made significant contributions of their time to assist the Organization in carrying out its programs, operations, and events. During the eighteen-month period ended June 30, 2020, volunteers provided approximately 3,700 hours of service. The value of contributed time is not reflected in these statements since it does not meet the recording requirements specified by U.S. GAAP.

Note 10—Retirement plan

The Organization has a retirement plan in accordance with IRC Section 401. The plan is a defined contribution plan that covers full-time employees who have a minimum of one-year of service with the Organization or another nonprofit organization. During the eighteen-month period ended June 30, 2020, the Organization contributed matching contributions up to 4% of the participants' compensation. Employer contributions are fully vested after four years of service with the Organization or any other nonprofit health or social service organization. Total pension expense incurred during the eighteen-month period ended June 30, 2020 was $38,345.

Note 11—Commitments and contingencies

The Organization has entered into noncancelable operating lease agreements for office space, equipment, and independent living units. The Organization has also entered into leases for independent living units with required monthly rent payments totaling approximately $10,700. These leases are generally short term, and are renewed at the end of each period. Rent expense for all leases for the eighteen-month period ended June 30, 2020 totaled $368,953.

The future minimum lease payments under noncancelable operating lease arrangements are as follows for the years ending June 30:

2021	$ 143,834
2022	147,919
2023	148,932
2024	75,035
	$ 515,720

Late in December 2019, an outbreak of a novel strain of coronavirus ("COVID-19") emerged globally. As a result of the spread of COVID-19, economic uncertainties have arisen which could potentially impact revenue and operations for an indeterminable time period. Other financial impacts could occur though such potential impacts are unknown at this time. It is not possible to reliably estimate the length or severity of this outbreak and hence its financial impact.

Note 12—Board designated net assets

The board of directors has elected to set aside funds for a designated endowment. One of the common uses of board designated funds is for periodic distributions to cover operating expenses that cannot be met with available cash from operations. At June 30, 2020, the board designated balances were as follows:

Endowment	$ 8,006,284
Total board designated net assets	$ 8,006,284

Note 13—Concentrations

The Organization maintains its cash and cash equivalents in financial institutions with balances which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. Management believes it is not exposed to any significant credit risk related to cash. Cash and cash equivalent balances in excess of federally insured limits amounted to approximately $489,000 at June 30, 2020.

The Organization received $3,142,972 for the eighteen-month period ended June 30, 2020, from contracts with governmental entities. A significant reduction in this support could have an adverse effect on the Organization's activities. Accounts receivable related to these contracts amounted to $230,424 at June 30, 2020.

Note 14—Endowment and net assets held in perpetuity

The Organization's endowment consists of individual funds established for a variety of purposes and includes both donor restricted endowment funds and funds designated by the board of directors to function as endowments. As required by U.S. GAAP, net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based upon the existence or absence of donor-imposed restrictions. Net assets held in perpetuity endowment funds are predominantly beneficial interests in perpetual trusts described in Note 7.

Interpretation of Relevant Law – The board of directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act 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 donor restricted net assets (a) the original value of gifts donated to the donor restricted endowment, (b) the original value of subsequent gifts to the donor restricted endowment, and (c) accumulations to the donor restricted 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 net assets held in perpetuity is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by the State Prudent Management of Institutional Funds Act ("SPMIFA"). In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

Endowment Investment Policy and Risk Parameters – The Organization has adopted investment spending policies which allow up to 4% to be drawn per fiscal year for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for donor-specified periods as well as board-designated funds. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of selected market and comparative indices while assuming a moderate level of investment risk. Actual returns will vary in any given year.

Note 14—Endowment and net assets held in perpetuity (continued)

Strategies Employed for Achieving Investment Objectives – To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy – The Organization has a policy which provides for the board of directors to identify distribution amounts, as needed, to fund the Organization's programs. In establishing this policy, the Organization considered the long-term expected return on its endowment. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Endowment net asset composition by type of fund as of June 30, 2020:

	Without Donor Restriction	With Donor Restriction	Total
Donor-restricted endowment funds	$ -	$ 928,172	$ 928,172
Board-restricted endowment funds	8,006,284	-	8,006,284
Total Funds	$ 8,006,284	$ 928,172	$ 8,934,456

Changes in endowment net assets for the eighteen-month period ended June 30, 2020:

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, beginning of year	$ 2,165,259	$ 831,065	$ 2,996,324
Investment Return:			
Investment income	89,942	42,535	132,477
Net (depreciation) appreciation (realized and unrealized)	(47,436)	86,786	39,350
Total Investment Return	42,506	129,321	171,827
Board designated transfers to endowment	6,100,780	-	6,100,780
Appropriation of endowment assets for expenditure	(302,261)	(32,214)	(334,475)
Endowment net assets, end of year	$ 8,006,284	$ 928,172	$ 8,934,456