

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

**FINANCIAL STATEMENTS
& INDEPENDENT AUDITORS' REPORT**

DECEMBER 31, 2018 and 2017

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, 2018 and 2017, which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Mullins Clemmons & Mayes, PLLC

Brentwood, Tennessee
December 19, 2019

WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.

**STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 396,114	\$ 706,112
Accounts receivable, net	31,367	15,944
Promises to give	43,202	47,627
Investments in marketable securities	1,340,627	1,217,967
Prepaid expenses and other assets	6,964	7,341
Total current assets	<u>1,818,274</u>	<u>1,994,991</u>
PROPERTY AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION	<u>386,514</u>	<u>416,306</u>
TOTAL ASSETS	<u>\$ 2,204,788</u>	<u>\$ 2,411,297</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 11,195	\$ 9,125
Accrued liabilities	28,413	25,408
Wages and payroll taxes payable	32,651	32,679
Total current liabilities	<u>72,259</u>	<u>67,212</u>
NET ASSETS:		
Without donor restrictions:		
Invested in property and equipment	386,514	416,306
Undesignated	1,127,327	1,196,487
Total net assets without donor restrictions	<u>1,513,841</u>	<u>1,612,793</u>
With donor restrictions	618,688	731,292
Total net assets	<u>2,132,529</u>	<u>2,344,085</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,204,788</u>	<u>\$ 2,411,297</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, 2018**

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUES:			
State grants	\$ 34,213	\$ -	\$ 34,213
Donations and private grants	163,233	98,000	261,233
Child care fees and subsidies	227,371	-	227,371
Fundraising events	224,352	-	224,352
Total	649,169	98,000	747,169
Net assets released from restrictions	230,807	(230,807)	-
Total support, revenues and reclassifications	879,976	(132,807)	747,169
NET INVESTMENT RETURN	(150,725)	-	(150,725)
EXPENSES:			
Program services:			
Child development	591,274	-	591,274
Supporting services:			
Management and general	167,111	-	167,111
Fundraising	49,615	-	49,615
Total expenses	808,000	-	808,000
CHANGE IN NET ASSETS	(78,749)	(132,807)	(211,556)
NET ASSETS AT BEGINNING OF YEAR:			
As previously reported	1,612,793	731,292	2,344,085
Adjustment for restricted contribution	(20,203)	20,203	-
Balance at beginning of year, as restated	1,592,590	751,495	2,344,085
End of year	\$ 1,513,841	\$ 618,688	\$ 2,132,529

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, 2017**

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUES:			
State grants	\$ 69,005	\$ -	\$ 69,005
Donations and private grants	143,214	543,645	686,859
Child care fees and subsidies	231,454	-	231,454
Fundraising events	216,570	-	216,570
Total	660,243	543,645	1,203,888
Net assets released from restrictions	194,768	(194,768)	-
Total support, revenues and reclassifications	855,011	348,877	1,203,888
NET INVESTMENT RETURN	119,883	-	119,883
EXPENSES:			
Program services:			
Child development	590,350	-	590,350
Supporting services:			
Management and general	167,030	-	167,030
Fundraising	47,933	-	47,933
Total expenses	805,313	-	805,313
CHANGE IN NET ASSETS	169,581	348,877	518,458
NET ASSETS AT BEGINNING OF YEAR:			
As previously reported	1,322,297	503,330	1,825,627
Adjustment for release of restriction	120,915	(120,915)	-
Balance at beginning of year, as restated	1,443,212	382,415	1,825,627
End of year	\$ 1,612,793	\$ 731,292	\$ 2,344,085

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, 2018**

	Program Services	Supporting Services		Total
	Child Development	Management and General	Fund- Raising	
Salaries	\$ 342,502	\$ 80,696	\$ -	\$ 423,198
Employee benefits	48,368	11,395	-	59,763
Payroll taxes	24,337	5,734	-	30,071
Total personnel costs	415,207	97,825	-	513,032
Fundraising expenses	-	-	49,615	49,615
Daycare supplies	58,496	-	-	58,496
Utilities	20,261	5,066	-	25,327
Contract labor	4,601	1,534	-	6,135
Office supplies	2,304	2,304	-	4,608
Insurance	12,430	5,110	-	17,540
Telephone	3,781	945	-	4,726
Building expenses	20,298	5,074	-	25,372
Administrative expenses	9,645	42,691	-	52,336
Bad debt expense	18,005	-	-	18,005
Total expenses before depreciation	565,028	160,549	49,615	775,192
Depreciation	26,246	6,562	-	32,808
Total expenses	<u>\$ 591,274</u>	<u>\$ 167,111</u>	<u>\$ 49,615</u>	<u>\$ 808,000</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, 2017**

	Program Services	Supporting Services		Total
	Child Development	Management and General	Fund- Raising	
Salaries	\$ 335,784	\$ 111,928	\$ -	\$ 447,712
Employee benefits	35,088	11,696	-	46,784
Payroll taxes	22,129	7,377	-	29,506
Total personnel costs	393,001	131,001	-	524,002
Fundraising expenses	-	-	47,933	47,933
Daycare supplies	70,318	-	-	70,318
Utilities	17,561	5,854	-	23,415
Contract labor	7,474	2,492	-	9,966
Office supplies	2,664	-	-	2,664
Insurance	13,475	4,492	-	17,967
Telephone	3,345	1,115	-	4,460
Building expenses	16,747	5,583	-	22,330
Administrative expenses	24,598	8,200	-	32,798
Bad debt expense	16,289	-	-	16,289
Total expenses before depreciation	565,472	158,737	47,933	772,142
Depreciation	24,878	8,293	-	33,171
Total expenses	<u>\$ 590,350</u>	<u>\$ 167,030</u>	<u>\$ 47,933</u>	<u>\$ 805,313</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, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net change in net assets	\$ (211,556)	\$ 518,458
Adjustments to reconcile net change in net assets to net cash used in operating activities:		
Depreciation	32,808	33,171
Net unrealized appreciation in fair value of investments	239,121	(78,404)
Net realized gain on disposal of investments	(65,150)	(17,124)
Net changes in other operating assets and liabilities:		
Accounts receivable	(15,423)	2,006
Promises to give	4,425	15,635
Prepaid expenses and other assets	377	(46)
Accounts payable and accrued liabilities	5,047	24,824
Net cash provided by (used in) operating activities	<u>(10,351)</u>	<u>498,520</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(3,016)	(2,487)
Purchases of investments	(1,338,841)	(247,270)
Proceeds from sale of investments	1,042,210	217,458
Net cash provided by (used in) investing activities	<u>(299,647)</u>	<u>(32,299)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(309,998)	466,221
CASH AND CASH EQUIVALENTS, BEGINNING	<u>706,112</u>	<u>239,891</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 396,114</u>	<u>\$ 706,112</u>

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

WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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 2018 and 2017 in these financial statements refer to the years ended December 31, 2018 and 2017, 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 the following net asset classifications:

Net assets without donor restrictions – This class includes net assets that are not subject to any donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Center. These net assets may be used at the discretion of the Center management and the Board of Directors.

Net assets with donor restrictions – This class includes net assets whose use by the Center is subject to donor-imposed restrictions. Some donor restrictions are temporary in nature; those restrictions will be fulfilled by actions of the Center pursuant to those restrictions or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. 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.

Donor restricted contributions are reported as increases in net assets without donor restrictions if the restrictions expire in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

See Note 9 for further details related to net assets.

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, 2018 AND 2017

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 4 for further details related to investments.

Accounts Receivable

Accounts receivable consist of receivables from parents, guardians, and governmental agencies for childcare 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, 2018 and 2017, the allowance for doubtful accounts was \$11,482 and \$16,951, respectively.

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 net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction is satisfied or expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

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, 2018 and 2017, management believes that all promises to give are fully collectible. Therefore, no allowance was deemed necessary.

WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2018, the Center is no longer subject to U.S. tax examinations of these information returns by tax authorities for years before December 31, 2015.

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 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 to reflect the total cost of each function.

See Note 10 for further details related to the methods used to allocate expenses.

WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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"). The Center has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented, except for certain liquidity disclosures, as allowed by the ASU. There were no reclassifications or restatements in the classes of net assets as a result of the adoption of the ASU.

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.

Events Occurring After Reporting Date

The Center has evaluated events and transactions that occurred between December 31, 2018 and December 19, 2019, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

NOTE 3 – LIQUIDITY

Financial assets available for general expenditures within one year of December 31, 2018, consist of the following:

Cash and cash equivalents	\$ 396,114
Accounts receivable, net	31,367
Promises to give	43,202
Investments in marketable securities	<u>1,340,627</u>
Financial assets available to meet general expenditures within one year	<u>\$ 1,811,310</u>

The Center has certain promises to give which are limited to use but expected to be available for general expenditures within one year in the normal course of operations. Accordingly, these promises have been included in the quantitative information above.

NOTE 4 – 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.

WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018 AND 2017

NOTE 4 – INVESTMENTS IN MARKETABLE SECURITIES (CONTINUED)

Following are the fair values of investments according to the fair value hierarchy at December 31, 2018 and 2017:

	<u>Fair Value</u>	<u>Fair Value Measurements Using Quoted Prices Active Markets Identical Assets (Level 1)</u>
At December 31, 2018:		
Mutual funds, stocks and exchange traded funds	<u>1,340,627</u>	<u>\$ 1,340,627</u>
At December 31, 2017:		
Mutual funds, stocks and exchange traded funds	<u>1,217,967</u>	<u>\$ 1,217,967</u>

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 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 40,521	\$ 39,631
Realized gains on disposal of investments	65,150	17,124
Unrealized gains (losses) in fair value of investments	(239,121)	78,404
Portfolio management fee	<u>(17,275)</u>	<u>(15,276)</u>
Net investment return	<u>\$ (150,725)</u>	<u>\$ 119,883</u>

At December 31, 2018, the cumulative unrealized depreciation of investments is \$156,944.

WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018 AND 2017

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following, as of December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Building and related improvements	\$ 772,767	\$ 772,767
Office equipment and computers	82,313	80,030
Kitchen equipment and cabinets	44,374	43,640
Playground equipment	<u>60,263</u>	<u>60,263</u>
Total cost	959,717	956,700
Less accumulated depreciation	<u>(573,203)</u>	<u>(540,394)</u>
Net property and equipment	<u>\$ 386,514</u>	<u>\$ 416,306</u>

Depreciation expense for the years ending 2018 and 2017 was \$32,808 and \$33,171, respectively.

NOTE 6 – 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 \$3,456 and \$3,810 of costs related to this plan during 2018 and 2017, respectively.

NOTE 7 – 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 8 – CONCENTRATIONS

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

See Note 4 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.

WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018 AND 2017

NOTE 9 – 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.

Donor-restricted endowment funds are classified as net assets with donor restrictions 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;
- (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).

Donor-restricted endowment net assets consist of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ 206,565	\$ 206,565

WAYNE REED CHRISTIAN CHILDCARE CENTER, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018 AND 2017

NOTE 9 – NET ASSETS (CONTINUED)

Net assets with donor restrictions were available for the following purposes at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Restricted for future year operations	\$ 62,123	\$ 63,698
Restricted for purposes:		
Multicultural center	-	131,232
Relocation of Center	350,000	350,000
Donor-restricted endowment funds	<u>206,565</u>	<u>206,565</u>
Net assets with donor restrictions	<u>\$ 618,688</u>	<u>\$ 751,495</u>

The release of net assets with donor restrictions for both years was related to the incurrence of various expenses that satisfied the respective donor restrictions. In 2018, the donor who placed the Multicultural Center restrictions on the initial gift approved the removal of the restriction for the Multicultural center. Accordingly, the Center has reclassified the gift as net assets without donor restrictions.

NOTE 10 – FUNCTIONAL EXPENSES

The financial statements report certain categories of expenses which are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis which is consistently applied. The allocated expenses include building expenses, telephone and utilities, which are allocated on a square footage basis, as well as salaries, employee benefits, and payroll taxes, which are allocated based on estimates of time and effort.

NOTE 11 – PRIOR PERIOD ADJUSTMENT

During December 31, 2018, the Center performed additional analysis and identified and reclassified \$125,712 of net assets with donor restrictions to net assets without donor restrictions due to the incurrence of expenses. Additionally, a donation of \$25,000 was identified and reclassified from net assets without donor restrictions to net assets with donor restrictions due to a time period restriction on the donation. These corrections had no effect on total net assets at December 31, 2018 and 2017, or on total change in net assets for the years then ended. However, the effect of the corrections on change in net assets with donor restrictions was an increase of \$20,203 for the year ended December 31, 2018 (a decrease of \$120,915 for the year ended December 31, 2017), with a corresponding decrease in net assets without donor restrictions for the year ended December 31, 2018 (increase for the year ended December 31, 2017).