

Fellowship of Christians in Universities and Schools, Inc.

**Financial Statements with Independent Auditor's Report**

Years Ended May 31, 2018 and 2017

Fellowship of Christians in Universities and Schools, Inc.

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## Independent Auditor's Report

To the Board of Trustees  
Fellowship of Christians in Universities and Schools, Inc.

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Fellowship of Christians in Universities and Schools, Inc. (a Connecticut nonprofit corporation), which comprise the statement of financial position as of May 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 the 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 Fellowship of Christians in Universities and Schools, Inc. as of May 31, 2018, and the changes in its net assets and its cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

***Other Matters***

Fellowship of Christians in Universities and Schools, Inc.'s 2017 financial statements were audited by another auditor who expressed an unmodified audit opinion on those financial statements in their report dated November 7, 2017.

***Nanavaty, Nanavaty & Davenport, LLP***

September 7, 2018

**Statements of Financial Position**

As of May 31,

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,701,232	\$ 2,440,911
Pledges receivable, net	1,287,327	533,486
Prepaid and other assets	102,825	110,583
Investments in securities	1,844,219	1,635,172
Investments in real estate	1,695,000	1,501,000
Property, furniture and equipment	2,176,107	2,225,885
<b>Total Assets</b>	<u>\$ 10,806,710</u>	<u>\$ 8,447,037</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 69,240	\$ 69,736
Deferred revenue	622,711	451,274
Total Liabilities	<u>691,951</u>	<u>521,010</u>
<b>Net Assets:</b>		
Unrestricted net assets	6,070,655	4,883,746
Temporarily restricted net assets	3,044,104	2,042,281
Permanently restricted net assets	1,000,000	1,000,000
Total Net Assets	<u>10,114,759</u>	<u>7,926,027</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 10,806,710</u>	<u>\$ 8,447,037</u>

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

**Statements of Activities**

Year Ended May 31,

	<u>2018</u>	<u>2017</u>
<b>Changes in Unrestricted Net Assets</b>		
Support and Revenue:		
Contributions	\$ 1,491,630	\$ 707,348
Program revenue	564,758	506,387
Other income	83,430	96,339
Rental income	34,200	37,600
Investment income:		
Interest and dividends	113,129	49,350
Net realized and unrealized gain in investment securities	(40,660)	66,359
Unrealized gains (losses) on investments in real estate	194,000	(6,500)
Total investment income	<u>266,469</u>	<u>109,209</u>
Total support and revenue	<u>2,440,487</u>	<u>1,456,883</u>
Net assets released from restrictions	2,309,650	2,384,526
Expenses:		
Program expenses	2,803,982	2,783,729
Management and general	388,266	405,049
Fundraising	370,952	409,101
Total expenses	<u>3,563,200</u>	<u>3,597,879</u>
Change in unrestricted net assets	<u>1,186,937</u>	<u>243,530</u>
<b>Changes in Temporarily Restricted Net Assets:</b>		
Contributions	3,311,445	2,754,829
Net assets released from restrictions	<u>(2,309,650)</u>	<u>(2,384,526)</u>
Change in temporarily restricted net assets	<u>1,001,795</u>	<u>370,303</u>
<b>Change in Net Assets</b>	2,188,732	613,833
<b>Net Assets - beginning of year</b>	7,926,027	7,312,194
<b>Net Assets - end of year</b>	<u>\$ 10,114,759</u>	<u>\$ 7,926,027</u>

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

**Statements of Cash Flows**

Year Ended May 31,

	<u>2018</u>	<u>2017</u>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ 2,188,732	\$ 613,833
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	91,214	89,179
In-kind donations of securities	(506,805)	(307,330)
Discount on pledges receivable	8,281	7,571
Net realized and unrealized gains on investments	(153,340)	(59,859)
(Increase) decrease in operating assets:		
Pledges receivable	(762,122)	(458,057)
Prepaid and other current assets	7,758	(33,326)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(496)	26,318
Deferred revenue	171,437	(35,146)
Net cash provided by (used in) operating activities	<u>1,044,659</u>	<u>(156,817)</u>
<b>Cash Flows from Investing Activities</b>		
Proceeds from sale of investments	508,180	335,623
Purchase of investments	(251,082)	(925,635)
Purchases of property, furniture and equipment	(41,436)	(15,959)
Net cash provided by (used in) investing activities	<u>215,662</u>	<u>(605,971)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	1,260,321	(762,788)
<b>Cash and Cash Equivalents - beginning of year</b>	2,440,911	3,203,699
<b>Cash and Cash Equivalents - end of year</b>	<u>\$ 3,701,232</u>	<u>\$ 2,440,911</u>

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

Fellowship of Christians in Universities and Schools, Inc.

Statements of Functional Expenses

Year Ended May 31,

	2018				2017			
	Program Services	General and Administrative	Development and Fundraising	Total	Program Services	General and Administrative	Development and Fundraising	Total
<b>Personnel:</b>								
Salaries and wages	\$ 1,201,910	\$ 191,567	\$ 167,046	\$ 1,560,523	\$ 1,209,811	\$ 195,147	\$ 165,569	\$ 1,570,527
Payroll taxes	115,844	17,574	14,341	147,759	115,961	16,930	14,856	147,747
Other employee benefits	362,551	52,319	72,779	487,649	332,743	45,012	68,092	445,847
Pension	38,177	8,715	6,784	53,676	31,227	8,023	5,605	44,855
Staff development	25,117	2,727	1,101	28,945	18,826	3,268	2,098	24,192
Total Personnel Expenses	1,743,599	272,902	262,051	2,278,552	1,708,568	268,380	256,220	2,233,168
<b>Area and Programs:</b>								
Camps and conferences	295,058	-	683	295,741	264,264	-	55,710	319,974
Travel	140,479	6,518	8,401	155,398	130,187	5,318	7,419	142,924
Meals	106,989	699	823	108,511	90,195	851	1,275	92,321
Scholarships	43,139	-	-	43,139	59,483	-	-	59,483
Total Area and Program Expenses	585,665	7,217	9,907	602,789	544,129	6,169	64,404	614,702
<b>Operations:</b>								
Occupancy	180,057	32,002	-	212,059	244,345	34,776	-	279,121
Professional fees	21,835	59,031	41,807	122,673	28,364	74,623	37,088	140,075
Depreciation	91,214	-	-	91,214	89,179	-	-	89,179
Bank charges and service fees	24,841	1,426	19,729	45,996	22,883	6,154	16,752	45,789
Insurance	40,626	3,098	511	44,235	33,906	3,142	582	37,630
Equipment rental and maintenance	35,787	650	2,825	39,262	26,165	1,112	3,032	30,309
Fundraising	-	-	31,097	31,097	-	-	24,799	24,799
Conferences and meetings	24,807	3,161	683	28,651	18,122	2,547	735	21,404
Supplies	17,173	2,205	321	19,699	25,779	2,589	1,755	30,123
Printing and copying	14,080	951	1,228	16,259	16,547	531	2,078	19,156
Postage and mailing	5,139	2,897	140	8,176	3,975	2,992	701	7,668
Telephone and internet	19,159	2,591	653	22,403	18,932	1,944	955	21,831
Miscellaneous	-	135	-	135	2,835	90	-	2,925
Total Operations Expense	474,718	108,147	98,994	681,859	531,032	130,500	88,477	750,009
<b>Total Expenses</b>	<b>\$ 2,803,982</b>	<b>\$ 388,266</b>	<b>\$ 370,952</b>	<b>\$ 3,563,200</b>	<b>\$ 2,783,729</b>	<b>\$ 405,049</b>	<b>\$ 409,101</b>	<b>\$ 3,597,879</b>

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



## Notes to the Financial Statements

### NOTE 1 - ORGANIZATION

Fellowship of Christians in Universities and Schools, Inc. (FOCUS) is a Connecticut nonstock, nonprofit corporation. FOCUS is a diverse community of students, alumni, parents, faculty, clergy and professionals from a variety of Christian denominations drawn together by a common faith for the purpose of conveying the traditional Christian message to students in universities and independent schools throughout the United States.

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting and Presentation** – FOCUS prepares its financial statements on the accrual basis in accordance with accounting principles generally accepted in the United States of America. Accordingly, the accounts of FOCUS are reported in the following net asset categories:

**Unrestricted Net Assets** - Unrestricted net assets represent available resources that are free of donor-imposed restrictions. These resources may be expended at the discretion of the Board of Trustees.

**Temporarily Restricted Net Assets** - Temporarily restricted net assets represent contributions that are restricted by the donor as to purpose or time of expenditure and accumulated investment gains and income earned on permanently restricted net assets.

**Permanently Restricted Net Assets** - Permanently restricted net assets represent resources which have donor-imposed restrictions that require that the principal be maintained in perpetuity but permit FOCUS to expend the income earned thereon.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates. Significant estimates include those used in determining the fair value of investments in real estate and the allowance for uncollectible pledges receivable.

**Cash and Cash Equivalents** - Cash and cash equivalents are defined as highly liquid investments with original maturities of up to 90 days. Cash and cash equivalents includes money market deposits maintained in the brokerage accounts.

**Investment Valuation and Income Recognition** - Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 5 for a discussion of fair value measurements.

Purchases and sales of securities are recorded on the trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Realized and unrealized gains include FOCUS's gains and losses on investments bought and sold as well as held during the year.

The Board of Trustees finance committee determines FOCUS's valuation policies and procedures utilizing information provided by asset custodians, fund managers and real estate professionals.

**Notes to the Financial Statements (continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Property, Furniture and Equipment** – Property, furniture and equipment acquisitions and improvements thereon that exceed \$5,000 are capitalized at cost and depreciated on a straight-line basis over their estimated useful lives of 5 to 40 years. Repairs and maintenance are charged to expense as incurred.

**Contributions** - Unconditional contributions are recognized when pledged or received, as applicable, and are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions receivable that are expected to be collected in more than one year are discounted to their present value and are recorded net of an allowance for any uncollectible amounts. Contributions of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit their use. When a donor restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets released from restrictions. Contributions received whose restrictions are met in the same period are recognized with unrestricted net assets. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Conditional gifts received are recognized when the conditions on which they depend on are substantially met.

**Donated Property and Services** - Donated property and the use of equipment and facilities are recorded as support and expenses at fair market value when determinable, otherwise at values indicated by the donor. Donated services are recognized as contributions if the services create or enhance nonfinancial assets or require specialized skills, are performed by people with those skills and would otherwise be purchased by FOCUS.

While many individuals volunteer their time, and perform a variety of tasks that assist FOCUS, no amounts have been recognized in the accompanying financial statements for such services because the criteria for recognition of such volunteer efforts have not been met.

**Program Revenue** - FOCUS recognizes program revenue in the year the program takes place. Any revenue received during the fiscal year for a program that has not taken place is considered deferred revenue.

**Rental Income** - FOCUS recognizes rental income in the month that it is earned. Any rent received in advance of the month that it is earned is considered deferred revenue.

**Income Taxes** - FOCUS is a not-for-profit organization and is exempt from federal and state income taxes as a public charity under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. FOCUS recognizes the benefits of income tax positions only if those positions are more likely than not of being sustained. FOCUS is subject to routine audits by the Internal Revenue Service. There are currently no audits for any tax periods in progress and FOCUS believes that it is no longer subject to audits for years prior to 2014.

**Notes to the Financial Statements (continued)**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Functional Expense Allocation** - Expenses are charged directly to program services, development and fundraising, and general and administrative based on specific identification to the extent practicable. Expenses related to more than one function have been allocated based on periodic time and expense studies. General and administrative expenses include those expenses that are not directly identifiable with a specific function but provide for the overall support and direction of FOCUS.

**Subsequent Events** - In preparing these financial statements, management has evaluated subsequent events through September 7, 2018, which represents the date the financial statements were available to be issued.

**NOTE 3 - CONCENTRATION**

FOCUS's financial instruments that are exposed to a concentration of credit risk consist of cash and cash equivalents, and investments.

**Cash and cash equivalents** – FOCUS places its cash deposits with high credit-quality institutions. Such deposits may exceed federal depository insurance limits at times during the year. However, management believes that these deposits are not subject to significant credit risk. The money market funds held in brokerage accounts is not protected by federal depository insurance.

**Investments** - FOCUS's investments are comprised of various common stocks, mutual funds, and investments in real estate. The value of these investments is subject to fluctuations due to general market conditions and interest rates.

**NOTE 4 - PLEDGES RECEIVABLE**

Pledges receivable consist of the following unconditional promises to give at May 31:

	<u>2018</u>	<u>2017</u>
Amounts expected to be collected in:		
Less than one year	510,596	\$ 162,514
One to five years	792,583	378,543
	<u>1,303,179</u>	<u>541,057</u>
Less: discount to net present value	(15,852)	(7,571)
Net Pledges Receivable	<u>\$ 1,287,327</u>	<u>\$ 533,486</u>

Pledges receivable that are expected to be collected after one year have been discounted at 2% and are reflected in the financial statements at their net present value.

**Notes to the Financial Statements (continued)**

**NOTE 5 - FAIR VALUE MEASUREMENTS**

The Financial Accounting Standards Board (“FASB”) Topic 820, under the FASB Accounting Standards Codification (“ASC”) defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This standard provides a consistent definition of fair value, which focuses on an exit price between market participants in an orderly transaction. The standard also prioritizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the respective asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The hierarchy is categorized into three levels based on the transparency of inputs as follows:

- Level 1** - Quoted prices are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.
- Level 2** - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. The nature of these securities includes investments for which quoted prices are available but traded less frequently and investments that are fair valued using other securities, the parameters of which can be directly observed. Also included in Level 2 are investments measured using a net asset value (“NAV”) per share, or its equivalent, that may be redeemed at NAV at the date of the statement of financial position or in the near term, which FOCUS has determined to be within 90 days.
- Level 3** - Investments that have little to no pricing observability as of the report date. These investments are measured using management’s best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes “observable” requires significant judgment by FOCUS. FOCUS considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

**Notes to the Financial Statements (continued)**

**NOTE 5 - FAIR VALUE MEASUREMENTS (continued)**

The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to FOCUS's perceived risk of that instrument.

FOCUS's policy is to recognize transfers in and transfers out of levels at the end of the reporting period.

The following is a description of the valuation methodologies used for assets measured at fair value:

**Exchanged Traded Funds, Common Stocks and Mutual Funds** – These items are valued at the closing price reported in the active market in which the individual securities are traded.

**Real Estate** – Real estate is valued based on estimates from independent real estate professionals using market values of similar area properties discounted for current market conditions and uncertainty.

There have been no changes in the methodologies used at May 31, 2018 and 2017.

**Assets Measured at Fair-Value on a Recurring Basis** - The following is a summary of the source of fair-value measurements for assets that are measured at fair-value on a recurring basis as of May 31:

Investment Description	2018			
	Level 1	Level 2	Level 3	Total
Exchange traded funds and common stocks	\$ 947,424	\$ -	\$ -	\$ 947,424
Mutual funds	896,795	-		896,795
Investments in real estate:				
Real estate in New York, NY	-	-	1,094,000	1,094,000
Real estate in Greenwich, CT	-	-	601,000	601,000
Total investments at fair value	1,844,219	-	1,695,000	3,539,219
Pledges receivable, net	-	-	1,287,327	1,287,327
Total assets at fair value	\$ 1,844,219	\$ -	\$ 2,982,327	\$ 4,826,546

Notes to the Financial Statements (continued)

NOTE 5 - FAIR VALUE MEASUREMENTS (continued)

Investment Description	2017			
	Level 1	Level 2	Level 3	Total
Exchange traded funds and common stocks	\$ 697,136	\$ -	\$ -	\$ 697,136
Mutual funds	938,036	-		938,036
Investments in real estate:				
Real estate in New York, NY	-	-	960,000	960,000
Real estate in Greenwich, CT	-	-	541,000	541,000
Total investments at fair value	1,635,172	-	1,501,000	3,136,172
Pledges receivable, net	-	-	533,486	533,486
Total assets at fair value	\$ 1,635,172	\$ -	\$ 2,034,486	\$ 3,669,658

**Assets Measured at Fair-Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)** - The following is a summary of the changes in the balances of investments measured at fair-value on a recurring basis, using significant unobservable inputs for May 31:

	Investments in Real Estate	
	2018	2017
Balance - beginning of year	\$ 1,501,000	\$ 1,507,500
Change in investment value	194,000	(6,500)
Balance - end of year	\$ 1,695,000	\$ 1,501,000

	Pledges Receivable	
	2018	2017
Balance - beginning of year	\$ 533,486	\$ 83,000
Additions	1,262,775	710,866
Collections on pledges receivable	(500,653)	(252,809)
Change in value of discount on pledges receivable	(8,281)	(7,571)
Balance - end of year	\$ 1,287,327	\$ 533,486

**Notes to the Financial Statements (continued)**

**NOTE 6 - PROPERTY, FURNITURE AND EQUIPMENT**

Property, furniture and equipment consist of the following at May 31:

	<u>2018</u>	<u>2017</u>
Land	\$ 812,791	\$ 812,791
Land improvements	93,357	93,357
Buildings and improvements	2,901,692	2,901,692
Furniture, fixtures and equipment	259,381	259,381
Vehicles	51,411	51,411
Construction in progress	41,436	-
	<u>4,160,068</u>	<u>4,118,632</u>
Less: accumulated depreciation	(1,983,961)	(1,892,747)
Property, Furniture and Equipment, net	<u>\$ 2,176,107</u>	<u>\$ 2,225,885</u>

**NOTE 7 - LINE OF CREDIT**

FOCUS has an available line of credit with a financial institution in the amount of \$400,000 that expired June 23, 2018. Borrowings are due on demand and are collateralized by certain real estate assets of FOCUS. Interest on the outstanding balance is due monthly based on the bank's prime lending rate of 4.25% and 4% at May 31, 2018 and 2017, respectively. There were no outstanding borrowings on the line of credit at May 31, 2018 and 2017.

**NOTE 8 - BOARD DESIGNATED NET ASSETS**

*Designation for Operational Needs*

Included in cash and cash equivalents is \$650,000 that has been designated by the Board of Trustees for operational uses at May 31, 2018 and 2017, respectively.

*Designated for FOCUS Endowment Fund*

In fiscal year 2017, FOCUS initiated a capital campaign in support of the FOCUS Endowment Fund. The Board of Trustees has designated \$1,700,090 and \$664,429 of contributions received through May 31, 2018 and 2017, respectively, to be spent in accordance with the FOCUS Endowment Spending Policy in NOTE 12.

*Designation from Unrestricted Net Assets*

In April 2018, the Board voted to designate \$1,000,000 from unrestricted net assets to be spent in accordance with the FOCUS Endowment Spending Policy. This designation is to take effect on June 1, 2018.

**Notes to the Financial Statements (continued)**

**NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes at June 30:

	<u>2018</u>	<u>2017</u>
Time restricted	1,287,327	\$ 533,486
Purpose restricted:		
Regional support	853,790	734,939
Investment in real estate	695,000	501,000
Founder's Fund	173,220	183,220
Scholarship	34,767	40,010
Study Center Capital Improvement Fund	-	49,626
	<u>\$ 3,044,104</u>	<u>\$ 2,042,281</u>

**NOTE 10 - NETS ASSETS RELEASED FROM RESTRICTIONS**

Net assets were released from donor restrictions by incurring expenses satisfying the restrictions as follows during the year ended May 31:

	<u>2018</u>	<u>2017</u>
Time restricted	\$ 508,934	\$ 260,380
Purpose restricted:		
Regional support	1,888,437	1,874,334
Change in real estate values	(194,000)	6,500
Study Center Capital Improvement Fund	53,140	35,594
Scholarship	43,139	106,822
Founder's Fund	10,000	10,000
Endowment	-	8,000
Reclassification of restriction per donor intent	-	82,896
	<u>\$ 2,309,650</u>	<u>\$ 2,384,526</u>

**NOTE 11 - PERMANENTLY RESTRICTED NETS ASSETS**

Permanently restricted net assets consist of donations totaling \$1,000,000, which have been invested in real estate. In 1994, FOCUS received \$1,000,000 of permanently restricted contributions to support operations. The Board of Trustees determined that a prudent and allowable use of these contributions was to invest in real estate within regional areas of FOCUS's activities.



**Notes to the Financial Statements (continued)**

**NOTE 12 - ENDOWMENT**

FOCUS's endowment consists of individual funds established for a variety of purposes and two real estate property investments made for the purpose of supporting operations. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law** - The Board of Trustees of FOCUS has interpreted the Connecticut Prudent Management of Institutional Funds Act (CTPMIFA) 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, FOCUS classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by FOCUS in a manner consistent with the standard of prudence prescribed by CTPMIFA.

In accordance with CTPMIFA, FOCUS 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
- The investment policies of the organization
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization

**Endowment Net Assets** - Endowment net assets composition by type of fund is as follows as of May 31:

<u>2018</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board-designated endowment funds	\$ 1,700,090	\$ -	\$ -	\$ 1,700,090
Donor-restricted endowment funds	-	695,000	1,000,000	1,695,000
	<u>\$ 1,700,090</u>	<u>\$ 695,000</u>	<u>\$ 1,000,000</u>	<u>\$ 3,395,090</u>

**Notes to the Financial Statements (continued)****NOTE 12 - ENDOWMENT (continued)**

<u>2017</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board-designated endowment funds	\$ 664,429	\$ -	\$ -	\$ 664,429
Donor-restricted endowment funds	-	501,000	1,000,000	1,501,000
	<u>\$ 664,429</u>	<u>\$ 501,000</u>	<u>\$ 1,000,000</u>	<u>\$ 2,165,429</u>

Changes in endowment net assets for the year ended May 31 are as follows:

<u>2018</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets - beginning of year	\$ 664,429	\$ 501,000	\$ 1,000,000	\$ 2,165,429
Change in investment value	-	194,000	-	194,000
Additional board designation of assets	1,035,661	-	-	1,035,661
Endowment net assets - end of year	<u>\$ 1,700,090</u>	<u>\$ 695,000</u>	<u>\$ 1,000,000</u>	<u>\$ 3,395,090</u>

<u>2017</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets - beginning of year	\$ -	\$ 507,500	\$ -	\$ 507,500
Change in investment value	-	(6,500)	1,000,000	993,500
Additional board designation of assets	664,429	-	-	664,429
Endowment net assets - end of year	<u>\$ 664,429</u>	<u>\$ 501,000</u>	<u>\$ 1,000,000</u>	<u>\$ 2,165,429</u>

**Funds with Deficiencies** - From time to time, the fair value of investments associated with donor-restricted endowment funds may fall below the level that the donor or CTPMIFA requires FOCUS to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no funds with deficiencies as of May 31, 2018, and May 31, 2017.

**Return Objectives and Risk Parameters** - FOCUS has adopted an investment policy for endowment assets that attempts 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 donor-restricted assets that FOCUS must hold in perpetuity. Under this policy, as approved by the Board of Trustees, endowment assets are invested in a manner that is intended to meet FOCUS's primary objective of preservation of their capital investments and the secondary objective of long-term capital appreciation.

**Notes to the Financial Statements (continued)**

**NOTE 12 - ENDOWMENT (continued)**

**Strategies Employed for Achieving Objectives** - To satisfy its long-term rate-of-return objectives, FOCUS currently relies on a strategy of investing in real estate which investment returns are achieved through capital appreciation (realized and unrealized).

**Spending Policy and How the Investment Objectives Relate to Spending Policy** - FOCUS's Board of Trustees has adopted a spending policy that evaluates an annual contribution to operations constrained to a level that is deemed sustainable on average, based on financial market conditions over time. The initial policy is to limit spending in a given year to 4% of the prior year balance. This policy will be regularly reviewed by the Board of Trustees. FOCUS has an investment objective to maintain the purchasing power of the endowment assets held in perpetuity, as well as to provide additional real growth through new gifts and investment return.

**NOTE 13 - EMPLOYEE BENEFITS**

FOCUS has a defined contribution pension plan under Section 403(b) of the Internal Revenue Code. All employees are eligible to participate in the plan on a deferred or non-tax deferred basis up to the maximum amount allowed by the Internal Revenue Code. FOCUS provides a discretionary matching contribution up to 5% of each participant's eligible compensation, beginning on the first entry date after the employee completes one year of service, has worked 1,000 hours or more during a consecutive 12-month period, and is above the age of 21. FOCUS contributed \$53,676 and \$44,855 to the plan during the years ended May 31, 2018 and 2017, respectively.

**NOTE 14 - LEASE COMMITMENTS**

FOCUS has entered into agreements to lease office space for its programs and administrative operations, which terms expire at various times through December 2019. It also leases office space under month-to-month agreements. Rent expense was \$57,198 and \$65,051 for the years ended May 31, 2018 and 2017, respectively.

Future minimum lease payments under the operating leases are \$9,500 as of May 31, 2018.

The lease for the National Office expired in November 2017 and was operated on a month-to-month arrangement. On June 7, 2018 the lease for the National Office was extended for two years beginning on July 1, 2018. Base rent shall be \$3,068.37 per month for the term of the lease.