

**KINGDOM HOUSE  
(A NONPROFIT ORGANIZATION)**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT  
FOR THE YEARS ENDED  
DECEMBER 31, 2016 AND 2015**

Kingdom House

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## **Independent Auditors' Report**

To the Board of Directors of  
Kingdom House  
St. Louis, Missouri

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

We have audited the accompanying financial statements of Kingdom House (a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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

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

#### ***Auditors' 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 auditors' 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 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 Kingdom House as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Schmeissahl Treloar + Co., PC*

St. Louis, Missouri

June 28, 2017

## **FINANCIAL STATEMENTS**

Kingdom House  
STATEMENTS OF FINANCIAL POSITION

ASSETS

	December 31,	
	2016	2015
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 62,092	\$ 103,276
Accounts receivable	355,839	227,480
United Way receivable	601,446	601,446
Pledges - capital campaign, net of long term portion	23,200	80,200
Prepaid expenses	53,841	32,130
<b>Total Current Assets</b>	<b>1,096,418</b>	<b>1,044,532</b>
<b>PLEDGES - CAPITAL CAMPAIGN, net of discount</b>	<b>3,270</b>	<b>12,847</b>
<b>INVESTMENTS</b>	<b>245,032</b>	<b>316,309</b>
<b>PROPERTY AND EQUIPMENT, net of accumulated depreciation</b>	<b>1,592,681</b>	<b>1,697,956</b>
<b>TOTAL ASSETS</b>	<b>\$ 2,937,401</b>	<b>\$ 3,071,644</b>

LIABILITIES AND NET ASSETS

<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 182,823	\$ 137,574
Line of credit	45,000	30,000
Current maturities of long-term debt	362,722	45,359
Accrued expenses	109,427	91,223
Custodial funds	23,522	20,799
<b>Total Current Liabilities</b>	<b>723,494</b>	<b>324,955</b>
<b>LONG-TERM DEBT</b>	<b>348,074</b>	<b>710,032</b>
<b>Total Liabilities</b>	<b>1,071,568</b>	<b>1,034,987</b>
<b>NET ASSETS</b>		
Unrestricted	517,060	721,944
Board Designated	255,423	261,598
<b>Total Unrestricted</b>	<b>772,483</b>	<b>983,542</b>
Temporarily restricted	851,909	811,993
Permanently restricted	241,441	241,122
<b>Total Net Assets</b>	<b>1,865,833</b>	<b>2,036,657</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 2,937,401</b>	<b>\$ 3,071,644</b>

See accompanying notes to financial statements

Kingdom House  
STATEMENTS OF ACTIVITIES

	Year Ended December 31, 2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>SUPPORT AND REVENUE</b>				
Support				
Contributions	\$ 939,354	\$ -	\$ -	\$ 939,354
Grants	260,968	257,071	-	518,039
United Way	1,426	601,446	-	602,872
Pledges - capital campaign	63,774	-	-	63,774
Special events (net of expenses of \$53,222 and \$73,111 respectively)	14,657	-	-	14,657
Total Support	1,280,179	858,517	-	2,138,696
Revenue				
Government agency fees	1,144,613	-	-	1,144,613
Program service fees	61,750	-	-	61,750
Investment income	3,306	-	259	3,565
Net unrealized and realized gains (losses)	16,053	-	1,492	17,545
Miscellaneous	18,162	-	-	18,162
Net assets released from restrictions	820,033	( 818,601)	( 1,432)	-
Total Revenue	2,063,917	( 818,601)	319	1,245,635
Total Support and Revenue	3,344,096	39,916	319	3,384,331
<b>EXPENSES</b>				
Program services	2,879,310	-	-	2,879,310
Management and general	366,426	-	-	366,426
Fundraising	309,419	-	-	309,419
Total Expenses	3,555,155	-	-	3,555,155
CHANGE IN NET ASSETS	( 211,059)	39,916	319	( 170,824)
NET ASSETS, Beginning of year	983,542	811,993	241,122	2,036,657
NET ASSETS, End of year	\$ 772,483	\$ 851,909	\$ 241,441	\$ 1,865,833

See accompanying notes to financial statements



Year Ended December 31, 2015

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 1,005,067	\$ -	\$ -	\$ 1,005,067
171,098	135,000	-	306,098
23,252	601,446	-	624,698
34,019	-	-	34,019
<u>73,249</u>	<u>-</u>	<u>-</u>	<u>73,249</u>
<u>1,306,685</u>	<u>736,446</u>	<u>-</u>	<u>2,043,131</u>
1,191,867	-	-	1,191,867
67,170	-	-	67,170
4,148	-	-	4,148
( 13,516)	-	( 2,313)	( 15,829)
25,925	-	-	25,925
<u>902,936</u>	<u>( 902,936)</u>	<u>-</u>	<u>-</u>
<u>2,178,530</u>	<u>( 902,936)</u>	<u>( 2,313)</u>	<u>1,273,281</u>
<u>3,485,215</u>	<u>( 166,490)</u>	<u>( 2,313)</u>	<u>3,316,412</u>
2,826,324	-	-	2,826,324
380,819	-	-	380,819
<u>302,225</u>	<u>-</u>	<u>-</u>	<u>302,225</u>
<u>3,509,368</u>	<u>-</u>	<u>-</u>	<u>3,509,368</u>
( 24,153)	( 166,490)	( 2,313)	( 192,956)
<u>1,007,695</u>	<u>978,483</u>	<u>243,435</u>	<u>2,229,613</u>
<u>\$ 983,542</u>	<u>\$ 811,993</u>	<u>\$ 241,122</u>	<u>\$ 2,036,657</u>



Kingdom House  
STATEMENT OF FUNCTIONAL EXPENSES  
Year Ended December 31, 2016

	Program Services				
	Day Care	Youth Social Development	Elderly Services	Core Social Services	Total Program Services
Salaries	\$ 763,013	\$ 542,141	\$ 100,396	\$ 200,793	\$ 1,606,343
Employee benefits	106,469	44,363	17,745	23,660	192,237
Payroll taxes	62,149	43,669	10,058	22,640	138,516
Assistance to individuals	1,010	66	50,955	57,290	109,321
Conferences and meetings	8,086	12,764	7,332	6,817	34,999
Depreciation	51,407	33,095	8,004	15,787	108,293
Information technology	15,641	10,164	4,048	19,366	49,219
Interest	16,408	10,558	2,553	5,048	34,567
Local transportation	97	29,600	21,319	1,272	52,288
Miscellaneous	7,456	8,563	2,268	1,253	19,540
Occupancy costs	49,862	48,350	13,599	15,110	126,921
Postage and shipping	974	1,128	243	305	2,650
Print and publications	4,680	3,316	1,124	1,534	10,654
Professional fees and contracted services	31,555	50,889	5,337	21,437	109,218
Supplies	126,675	127,279	6,033	14,477	274,464
Telephone	4,785	3,079	745	1,471	10,080
Total Expenses	<u>\$ 1,250,267</u>	<u>\$ 969,024</u>	<u>\$ 251,759</u>	<u>\$ 408,260</u>	<u>\$ 2,879,310</u>

Supporting Services			
Management and General	Fundraising	Total Supporting Services	Total
\$ 220,872	\$ 180,714	\$ 401,586	\$ 2,007,929
79,853	23,660	103,513	295,750
3,506	9,334	12,840	151,356
494	-	494	109,815
2,352	5,474	7,826	42,825
16,979	17,528	34,507	142,800
5,527	5,578	11,105	60,324
4,147	9,881	14,028	48,595
59	2,690	2,749	55,037
9,749	7,264	17,013	36,553
12,088	12,088	24,176	151,097
-	2,622	2,622	5,272
-	5,423	5,423	16,077
64	7,817	7,881	117,099
9,048	18,096	27,144	301,608
1,688	1,250	2,938	13,018
<u>\$ 366,426</u>	<u>\$ 309,419</u>	<u>\$ 675,845</u>	<u>\$ 3,555,155</u>

Kingdom House  
STATEMENT OF FUNCTIONAL EXPENSES  
Year Ended December 31, 2015

	Program Services				Total Program Services
	Day Care	Youth Social Development	Elderly Services	Core Social Services	
Salaries	\$ 759,064	\$ 539,335	\$ 99,878	\$ 199,754	\$ 1,598,031
Employee benefits	94,732	39,472	15,787	21,052	171,043
Payroll taxes	63,751	26,898	9,701	20,786	121,136
Assistance to individuals	1,446	94	72,913	81,980	156,433
Conferences and meetings	9,352	12,343	8,162	10,060	39,917
Depreciation	47,722	29,561	7,061	13,982	98,326
Information technology	17,016	10,345	2,886	20,543	50,790
Interest	16,003	18,720	2,381	4,734	41,838
Local transportation	1,200	25,253	25,726	1,473	53,652
Miscellaneous	4,215	4,521	1,301	2,257	12,294
Occupancy costs	41,332	40,080	11,272	12,525	105,209
Postage and shipping	706	804	266	222	1,998
Print and publications	3,692	2,255	655	1,057	7,659
Professional fees and contracted services	23,033	58,078	7,359	10,806	99,276
Supplies	119,296	119,864	5,682	13,634	258,476
Telephone	4,975	3,084	733	1,454	10,246
Total Expenses	<u>\$ 1,207,535</u>	<u>\$ 930,707</u>	<u>\$ 271,763</u>	<u>\$ 416,319</u>	<u>\$ 2,826,324</u>

See accompanying notes to financial statements

Supporting Services			
Management and General	Fundraising	Total Supporting Services	Total
\$ 219,729	\$ 179,778	\$ 399,507	\$ 1,997,538
71,049	21,052	92,101	263,144
11,556	16,877	28,433	149,569
707	-	707	157,140
1,598	8,823	10,421	50,338
15,137	11,817	26,954	125,280
6,488	5,308	11,796	62,586
3,891	4,010	7,901	49,739
4,544	2,102	6,646	60,298
11,006	4,719	15,725	28,019
10,020	10,020	20,040	125,249
761	2,661	3,422	5,420
1,911	7,151	9,062	16,721
12,339	9,644	21,983	121,259
8,521	17,042	25,563	284,039
1,562	1,221	2,783	13,029
<u>\$ 380,819</u>	<u>\$ 302,225</u>	<u>\$ 683,044</u>	<u>\$ 3,509,368</u>

Kingdom House  
STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	(\$ 170,824)	(\$ 192,956)
Adjustments to reconcile change in net assets to net change in cash from operating activities:		
Depreciation	142,800	125,280
In-kind contribution capitalized	-	( 25,520)
Net unrealized and realized (gains) losses	( 17,545)	15,829
(Increase) decrease in assets:		
Accounts receivable	( 128,359)	42,176
United Way receivable	-	10,843
Pledges - capital campaign, net of discount	66,577	123,741
Prepaid expenses	( 21,711)	( 15,569)
Increase (decrease) in liabilities:		
Accounts payable	45,249	55,191
Accrued expenses	18,204	( 24,837)
Custodial funds	<u>2,723</u>	<u>( 335)</u>
Net Change in Cash from Operating Activities	<u>( 62,886)</u>	<u>113,843</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	( 37,525)	( 102,302)
Proceeds from sale of investments	91,322	29,180
Purchases of investments	<u>( 2,500)</u>	<u>( 4,095)</u>
Net Change in Cash from Investing Activities	<u>51,297</u>	<u>( 77,217)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net borrowings (payments) on line of credit	15,000	( 95,000)
Payments on long-term debt	<u>( 44,595)</u>	<u>( 42,445)</u>
Net Change in Cash from Financing Activities	<u>( 29,595)</u>	<u>( 137,445)</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<u>( 41,184)</u>	<u>( 100,819)</u>
CASH AND CASH EQUIVALENTS, Beginning of year	<u>103,276</u>	<u>204,095</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 62,092</u>	<u>\$ 103,276</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Cash paid during the year for interest	<u>\$ 48,595</u>	<u>\$ 49,739</u>

See accompanying notes to financial statements



Kingdom House  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015

**A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

Kingdom House (the "Organization") is a neighborhood social service center which has been serving residents of the near south side of St. Louis since 1902 and is a United Way member agency. Its building facilities and staff resources are directed toward organizing groups of residents to develop resources to meet their needs, problems, and mutual concerns. Of prime concern is the provision of social and community services for families, children and individuals under stress, including child day care, education, recreation, counseling, assistance with vocational training, and employment opportunities and direct material relief.

**Basis of Accounting**

The accompanying financial statements of Kingdom House have been prepared on the accrual basis of accounting.

**Financial Statement Presentation**

Financial statement presentation follows the requirements of U.S. Generally Accepted Accounting Principles (GAAP). Therefore, the Organization reports its financial position and activities according to three classes of net assets: unrestricted net assets; temporarily restricted net assets; and permanently restricted net assets.

**Functional Expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**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. Actual results may differ from these estimates.

**Financial Instruments**

The following methods and assumptions were used by the Organization in estimating its fair value disclosure for financial statements:

The carrying amount of cash and cash equivalents, accounts receivable, United Way receivable, current portion of pledges receivable – capital campaign, prepaid expenses, accounts payable, accrued expenses, and custodial funds reported in the Statements of Financial Position approximate fair value because of the short-term maturities of those instruments.

Kingdom House  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015  
(Continued)

A. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Cash and Cash Equivalents**

For purposes of the Statements of Cash Flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

The Organization maintains cash deposits in bank accounts which at times may exceed federally insured limits of up to \$250,000. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk. There were no uninsured cash balances at December 31, 2016 and 2015.

**Property and Equipment**

Property and equipment are valued at cost. Donated assets are recorded at their estimated fair market value when received. Depreciation is computed using the straight-line method as follows:

Building and improvements	10 – 50 Years
Machinery and equipment	3 – 25 Years

Expenditures for maintenance and repairs are charged to operations when incurred. Expenditures for improvements and major rehabilitations that extend the useful life of an asset are capitalized.

**Investments**

The Organization carries investments in marketable securities with readily determinable fair values at their quoted fair values in the Statements of Financial Position. Net unrealized and realized gains are included in the accompanying Statements of Activities.

**Revenue Recognition**

Contributions are recognized when the donor makes a pledge to give the Organization that is, in substance, unconditional. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.



Kingdom House  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015  
(Continued)

A. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Restricted and Unrestricted Revenue and Support**

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

**Custodial Funds**

The Organization acts as the fiscal agent and has received funds on behalf of the Greater St. Louis Federation of Settlement Houses. These funds are segregated in the books and records of the Organization and are included in cash and cash equivalents at December 31, 2016 and 2015.

**Donated Property, Materials, and Services**

Certain donated property and materials are recorded as contributions at their fair market value at the date of receipt. During the year ended December 31, 2015, the Organization received donated remodeling of rooms valued at \$25,520. Food donated to the Organization's pantry was valued at \$12,843 and \$57,130 for the years ended December 31, 2016 and 2015, respectively.

A substantial number of volunteers have donated significant amounts of their time and materials in the Organization's program services and special events. No amounts have been recorded for donated services as no objective basis is available to measure the value of such services.

**Income Taxes**

The Organization qualifies as a nonprofit and religious organization and is exempt from federal and state income tax under Section 501(c)(3) of the Internal Revenue Code. The Organization does not have unrelated business income, excise taxes, or activities that would threaten the Organization's tax-exempt status. Accordingly, no provision for federal or state income taxes is provided. The Organization files an information return, IRS Form 990. The Organization's tax returns for tax years 2013 and later remain subject to examination by taxing authorities.

The Organization adopted the provisions relating to Accounting for Uncertainty in Income Taxes and management is not aware of any uncertain tax positions of the Organization related to tax filings.

**Reclassifications**

Certain amounts in prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

Kingdom House  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015  
(Continued)

A. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Subsequent Events**

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through June 28, 2017, the date the financial statements were available to be issued.

B. **PLEDGES – CAPITAL CAMPAIGN**

Pledges – capital campaign at December 31, are as follows:

	2016	2015
Receivable in less than one year	\$23,200	\$80,200
Receivable in one to five years	4,000	13,100
Less: discount (2.6%) to net present value	( 730)	( 253)
Total Pledges – Capital Campaign, net	<u>\$26,470</u>	<u>\$93,047</u>

C. **INVESTMENTS**

The Organization's investments are stated at fair value and consist of pooled investments in the Missouri United Methodist Foundation Investment Pool.

Investments for the year ended December 31, 2016 are as follows:

	Cost	Fair Value	Unrealized Appreciation
Pooled Balanced Investment Fund			
The Hough Fund	\$ 1,255	\$ 4,001	\$ 2,746
Howard May Endowment Fund	96,906	118,167	21,261
Lions Club Endowment Fund	25,571	27,703	2,132
Salem-in-Ladue Endowment Fund	64,677	65,853	1,176
Kingdom House Endowment Fund	27,515	29,308	1,793
Total Investments	<u>\$215,924</u>	<u>\$245,032</u>	<u>\$29,108</u>

Investment return for the year ended December 31, 2016 is summarized as follows:

Investment income	\$3,565
Net unrealized and realized gains	<u>17,545</u>
Total Investment Return	<u>\$21,110</u>

Kingdom House  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015  
(Continued)

C. INVESTMENTS (Continued)

Investments for the year ended December 31, 2015 are as follows:

	Cost	Fair Value	Unrealized Appreciation
Pooled Balanced Investment Fund			
The Hough Fund	\$ 1,819	\$ 5,800	\$ 3,981
Howard May Endowment Fund	97,251	118,589	21,338
Lions Club Endowment Fund	25,278	27,383	2,105
Salem-in-Ladue Endowment Fund	129,766	132,127	2,360
Kingdom House Endowment Fund	30,429	32,410	1,982
Total Investments	<u>\$284,543</u>	<u>\$316,309</u>	<u>\$31,766</u>

During the year ended December 31, 2014, upon approval by the Board of Directors and in accordance with language included in the Endowment document the Organization internally borrowed \$100,000 from the Salem-in-Ladue Endowment Fund and \$100,000 from the Kingdom House Endowment Fund to purchase two buildings. During the year ended December 31, 2016, the Organization internally borrowed \$65,000 from the Salem-in-Ladue Endowment Fund to fund current operations. The Organization expects to repay the borrowings when funds become available.

Investment return for the year ended December 31, 2015 is summarized as follows:

Investment income	\$4,148
Net unrealized and realized losses	<u>(15,829)</u>
Total Investment Return	<u>\$(11,681)</u>

D. FAIR VALUE MEASUREMENTS

Fair values of assets measured on a recurring basis are as follows:

	Fair Value Measurements at Reporting Date Using:			
	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>December 31, 2016</u>				
Pooled balanced investment fund	<u>\$245,032</u>	<u>\$ -</u>	<u>\$245,032</u>	<u>\$ -</u>
Total	<u>\$245,032</u>	<u>\$ -</u>	<u>\$245,032</u>	<u>\$ -</u>



Kingdom House  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015  
(Continued)

D. FAIR VALUE MEASUREMENTS (Continued)

	Fair Value Measurements at Reporting Date Using:			
	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>December 31, 2015</u>				
Pooled balanced investment fund	\$316,309	\$ -	\$316,309	\$ -
Total	\$316,309	\$ -	\$316,309	\$ -

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using Level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets. Financial assets valued using Level 3 inputs are based primarily on assumptions about the marketability of the assets. The Organization has no Level 3 assets.

E. ENDOWMENT NET ASSETS

Kingdom House has adopted provisions of ASC 958-205-50-1B, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA)*, and *Enhanced Disclosures for All Endowment Funds*. ASC 958-205-50-1B provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization.

The Kingdom House endowment consists of individual funds established including both donor-restricted funds and funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Effective August 28, 2009, the State of Missouri enacted UPMIFA. UPMIFA requires the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, Kingdom House 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.

Kingdom House  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2016 and 2015  
(Continued)

E. **ENDOWMENT NET ASSETS** (Continued)

There are no donor-restricted endowment funds classified as temporarily restricted net assets at December 31, 2016 and 2015.

Investment Return Objectives, Risk Parameters, and Strategies: Kingdom House has adopted an investment policy, approved by the Board of Directors, for endowment assets to provide a clear understanding of the investment philosophy and objectives regarding the investment of funds of Kingdom House. Accordingly, the primary investment objectives of the Board designated endowment funds are to balance growth and income while minimizing risk over an intermediate term time horizon. The primary investment objectives of the permanently restricted endowment funds are growth and income, to maximize total return and to minimize the risk of loss over a longer term time horizon. Endowment assets are invested in a diversified asset mix, which can include cash & cash equivalents, equities, and fixed income securities. The endowment funds have asset allocation targets of equities between 35% and 65% and fixed income between 35% and 65%.

Kingdom House investment performance is evaluated on a 3 and 5 year time horizon and evaluated against peer universes and index benchmarks. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk. Endowment assets include those assets of donor-restricted funds that Kingdom House must hold in perpetuity as well as Board designated funds.

Funds with Deficiencies: From time to time, the fair value of assets associated with individual donor-restricted endowments may fall below the level that the donor or UPMIFA requires Kingdom House to retain as a fund of perpetual duration. Deficiencies of this nature, if any, reduce unrestricted net assets. These deficiencies could result from unfavorable market fluctuations on invested permanently restricted contributions. There were no deficiencies at December 31, 2016 and 2015.

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Donor-restricted endowment funds	\$ -	\$ -	\$241,441	\$241,441
Board designated endowment funds	255,423	-	-	255,423
Total Endowment Net Assets	<u>\$255,423</u>	<u>\$ -</u>	<u>\$241,441</u>	<u>\$496,864</u>



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**E. ENDOWMENT NET ASSETS (Continued)**

Changes in endowment net assets as of December 31, 2016 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Endowment net assets, beginning of year	\$261,598	\$ -	\$241,122	\$502,720
Contributions	-	-	-	-
Investment income	2,241	-	259	2,500
Net unrealized and realized gains	16,053	-	1,492	17,545
Amounts appropriated for operations	(24,469)	-	(1,432)	(25,901)
Endowment net assets, end of year	<u>\$255,423</u>	<u>\$ -</u>	<u>\$241,441</u>	<u>\$496,864</u>

Endowment net asset composition by type of fund as of December 31, 2015 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Donor-restricted endowment funds	\$ -	\$ -	\$241,122	\$241,122
Board designated endowment funds	<u>261,598</u>	<u>-</u>	<u>-</u>	<u>261,598</u>
Total Endowment Net Assets	<u>\$261,598</u>	<u>\$ -</u>	<u>\$241,122</u>	<u>\$502,720</u>

Changes in endowment net assets as of December 31, 2015 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Endowment net assets, beginning of year	\$288,154	\$ -	\$243,435	\$531,589
Contributions	-	-	-	-
Investment income	-	-	-	-
Net unrealized and realized (losses)	(13,516)	-	(2,313)	(15,829)
Amounts appropriated for operations	(13,040)	-	-	(13,040)
Endowment net assets, end of year	<u>\$261,598</u>	<u>\$ -</u>	<u>\$241,122</u>	<u>\$502,720</u>

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December 31, 2016 and 2015  
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**F. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
Land	\$ 157,936	\$ 157,936
Buildings and improvements	2,275,984	2,266,251
Machinery and equipment	<u>416,318</u>	<u>388,526</u>
	2,850,238	2,812,713
Less: accumulated depreciation	<u>1,257,557</u>	<u>1,114,757</u>
Total Property and Equipment, net of accumulated depreciation	<u>\$1,592,681</u>	<u>\$1,697,956</u>

**G. LINE OF CREDIT**

The Organization has a \$125,000 revolving line of credit agreement with a bank, which is collateralized by a Deed of Trust on a building. The line is due on demand with no expiration. Interest is payable at the prime rate (3.75% and 3.50% at December 31, 2016 and 2015, respectively) less one percent, not to fall below 4.00%. The balance at December 31, 2016 and 2015, was \$45,000 and \$30,000, respectively.

**H. LONG-TERM DEBT**

Long-term debt consists of the following at December 31:

	<u>2016</u>	<u>2015</u>
Note payable to Cass Bank, payable in monthly installments of \$3,531 including interest at 5.50%; due September 2017 with a final balloon payment; collateralized by certain real estate.	\$341,114	\$363,706
Note payable to American Eagle Credit Union, payable in monthly installments of \$238 including interest at 2.25%; due July 2017; collateralized by a vehicle.	1,421	4,209
Note payable to Cass Bank, payable in monthly installments of \$2,464 including interest at 5.50%; due October 2019 with a final balloon payment; collateralized by certain real estate.	270,588	284,567



Kingdom House  
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**H. LONG-TERM DEBT (Continued)**

	<u>2016</u>	<u>2015</u>
Note payable to Cass Bank, payable in monthly installments of \$906 including interest at 5.50%; due July 2019 with a final balloon payment; collateralized by certain real estate.	<u>97,673</u>	<u>102,909</u>
	710,796	755,391
Less: current maturities of long-term debt	<u>362,722</u>	<u>45,359</u>
Total Long-Term Debt	<u>\$348,074</u>	<u>\$710,032</u>

The aggregate maturities of long-term debt as of December 31, 2016 are:

<u>Year</u>	<u>Amount</u>
2017	\$ 362,722
2018	21,890
2019	325,254
2020	<u>930</u>
	<u>\$710,796</u>

Total interest expense from all sources for the years ended December 31, 2016 and 2015, was \$48,595 and \$49,739, respectively.

**I. BOARD DESIGNATED NET ASSETS**

Board designated net assets consist of unrestricted legacies, bequests, Salem-in-Ladue Fund, and other significant contributions received by the Organization. These funds are earmarked by the Board of Directors of the Organization for future acquisitions of fixed assets, operations, and other purposes approved by the Board.

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**J. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets as of December 31 are available for the following purposes:

	2016	2015
United Way - time	\$601,446	\$601,446
Campaign pledges	20,370	93,047
Program grants	230,093	117,500
Total Temporarily Restricted Net Assets	<u>\$851,909</u>	<u>\$811,993</u>

**K. PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets consist of a portion of the Howard May Endowment, a gift instrument requiring that the principal be invested in perpetuity and the income only be used to assist community and social welfare ministries of the Organization; a portion of the Kingdom House Endowment Fund, a trust instrument to be operated exclusively for the benefit of the Organization with distributions of a portion of the total returns at such intervals and amounts as determined by the trust instrument; and the Downtown Lions Club Endowment. Permanently restricted net assets at December 31, 2016 and 2015 were \$241,441 and \$241,122, respectively.

**L. RETIREMENT PLAN**

The Organization maintains a defined contribution retirement plan covering all full-time employees with at least one year of service (minimum 1,000 hours worked) with a minimum entry age of 21. During the year ended December 31, 2011, the Organization amended the plan to allow for an employer match of 3% of each participant's annual compensation. The total amounts contributed into the Plan for 2016 and 2015 were \$45,355 and \$30,462, respectively.

**M. CONTINGENCIES**

The Organization, from time to time, receives information regarding potential claims against the Organization from employees, clients, and/or client families. Management has represented that its insurance company is responsible for handling any and all such claims.