



THE PARISH SCHOOL
and Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS

AS OF AND FOR THE

YEARS ENDED JULY 31, 2016 AND 2015

AND

INDEPENDENT AUDITOR'S REPORT

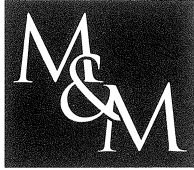


MELTON & MELTON, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

THE PARISH CHILDREN'S SCHOOL & SUBSIDIARIES

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Functional Expenses	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	9



MELTON & MELTON, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Parish Children's School and Subsidiaries

We have audited the accompanying consolidated financial statements of The Parish Children's School and Subsidiaries (the "Organization"), which comprise the consolidated statements of financial position as of July 31, 2016 and 2015, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of July 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.

Melton + Melton, C.C.P.

Houston, Texas
October 28, 2016

THE PARISH CHILDREN'S SCHOOL AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
July 31, 2016 and 2015

ASSETS

	<u>2016</u>	<u>2015</u>
Cash	\$ 2,788,346	\$ 2,746,554
Accounts receivable, net of allowance for doubtful accounts	38,773	39,099
Prepaid expenses and other receivables	36,866	17,141
Pledges receivable	6,655	119,428
Property and equipment, net	5,225,208	5,260,613
Investments	<u>708,531</u>	<u>665,474</u>
Total assets	<u>\$ 8,804,379</u>	<u>\$ 8,848,309</u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 47,858	\$ 36,355
Accrued employee benefits	173,642	168,917
Deferred tuition, fees, and other revenue	1,532,053	1,545,918
Note payable	<u>672,501</u>	<u>793,501</u>
Total liabilities	<u>2,426,054</u>	<u>2,544,691</u>
Net Assets:		
Unrestricted	5,263,036	5,255,197
Temporarily restricted	814,931	749,093
Permanently restricted	<u>300,358</u>	<u>299,328</u>
Total net assets	<u>6,378,325</u>	<u>6,303,618</u>
Total liabilities and net assets	<u>\$ 8,804,379</u>	<u>\$ 8,848,309</u>

(See Notes to Consolidated Financial Statements)

THE PARISH CHILDREN'S SCHOOL AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES
For the Years Ended July 31, 2016 and 2015

<u>2016</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Revenues:				
Tuition and fees, net of financial assistance	\$ 4,632,895	\$ 4,632,895	\$ -	\$ -
Contributions	472,372	119,556	351,786	1,030
Special events	379,565	229,456	150,109	-
Less: Direct donor benefit	(87,074)	(87,074)	-	-
Investment return, net	47,700	34,094	13,606	-
Other income	21,267	21,267	-	-
	<u>5,466,725</u>	<u>4,950,194</u>	<u>515,501</u>	<u>1,030</u>
Net Assets Released from Restrictions:				
Financial assistance	-	244,900	(244,900)	-
Other program expense	-	204,763	(204,763)	-
Total net assets released from restrictions	<u>-</u>	<u>449,663</u>	<u>(449,663)</u>	<u>-</u>
	<u>5,466,725</u>	<u>5,399,857</u>	<u>65,838</u>	<u>1,030</u>
Expenses:				
Educational programs	4,468,510	4,468,510		
General and administrative	616,477	616,477		
Fundraising	307,031	307,031		
Total expenses	<u>5,392,018</u>	<u>5,392,018</u>		
	74,707	7,839	65,838	1,030
Net Assets, beginning of year	<u>6,303,618</u>	<u>5,255,197</u>	<u>749,093</u>	<u>299,328</u>
Net Assets, end of year	<u>\$ 6,378,325</u>	<u>\$ 5,263,036</u>	<u>\$ 814,931</u>	<u>\$ 300,358</u>

(See Notes to Consolidated Financial Statements)

THE PARISH CHILDREN'S SCHOOL AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ACTIVITIES (CONTINUED)
For the Years Ended July 31, 2016 and 2015

<u>2015</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Revenues:				
Tuition and fees, net of financial assistance	\$ 4,680,064	\$ 4,680,064	\$ -	\$ -
Contributions	440,805	129,658	311,022	125
Capital campaign contributions	37,500	-	37,500	-
Special events	274,179	165,196	108,983	-
Less: Direct donor benefit	(55,326)	(55,326)	-	-
Investment return, net	14,007	11,073	2,934	-
Other income	36,693	36,693	-	-
	<u>5,427,922</u>	<u>4,967,358</u>	<u>460,439</u>	<u>125</u>
Net Assets Released from Restrictions:				
Capital campaign		175,700	(175,700)	-
Financial assistance		240,000	(240,000)	-
Other program expense		194,280	(194,280)	-
Total net assets released from restrictions		<u>609,980</u>	<u>(609,980)</u>	<u>-</u>
	<u>5,427,922</u>	<u>5,577,338</u>	<u>(149,541)</u>	<u>125</u>
Expenses:				
Educational programs	4,267,589	4,267,589		
General and administrative	673,019	673,019		
Fundraising	344,805	344,805		
Total expenses	<u>5,285,413</u>	<u>5,285,413</u>		
	142,509	291,925	(149,541)	125
Net Assets, beginning of year	<u>6,161,109</u>	<u>4,963,272</u>	<u>898,634</u>	<u>299,203</u>
Net Assets, end of year	<u>\$ 6,303,618</u>	<u>\$ 5,255,197</u>	<u>\$ 749,093</u>	<u>\$ 299,328</u>

(See Notes to Consolidated Financial Statements)

THE PARISH CHILDREN'S SCHOOL AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended July 31, 2016 and 2015

	Educational Programs		General and Administrative		Fundraising		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Salaries, Benefits and Taxes	\$3,721,227	\$3,216,404	\$487,389	\$520,048	\$175,747	\$218,472	\$ 4,384,363	\$ 3,954,924
Other Expenses:								
Utilities and building maintenance	187,039	205,232	35,366	32,919	5,518	5,981	227,923	244,132
Consultants	22,246	248,628	-	-	-	-	22,246	248,628
Interest	33,055	49,281	2,268	2,341	948	1,657	36,271	53,279
Supplies and materials	51,761	99,931	7,079	10,418	3,581	6,363	62,421	116,712
Purchased and professional services	25,156	37,458	20,562	52,112	12,366	22,023	58,084	111,593
Insurance	52,142	41,140	5,343	7,716	1,617	2,156	59,102	51,012
Technology	32,713	59,258	6,486	4,788	14,585	19,185	53,784	83,231
Professional development	38,733	36,719	2,144	8,170	568	6,914	41,445	51,803
Facility and equipment rental	48,592	42,829	2,719	2,877	3,460	4,963	54,771	50,669
Bank and credit card fees	28,247	25,776	3,039	3,080	13,447	8,162	44,733	37,018
Printing	7,062	4,640	2,051	500	9,419	13,856	18,532	18,996
Licenses and memberships	9,462	9,541	4,704	3,790	1,571	1,966	15,737	15,297
Other miscellaneous expenses	59,068	35,925	26,098	12,823	59,847	28,669	145,013	77,417
Total expenses before depreciation	4,316,503	4,112,762	605,248	661,582	302,674	340,367	5,224,425	5,114,711
Depreciation of Property and Equipment	152,007	154,827	11,229	11,437	4,357	4,438	167,593	170,702
Total	4,468,510	4,267,589	616,477	673,019	307,031	344,805	5,392,018	5,285,413
Direct Donor Benefit							87,074	55,326
Total Expenses	\$ 4,468,510	\$ 4,267,589	\$ 616,477	\$ 673,019	\$ 307,031	\$ 344,805	\$ 5,479,092	\$ 5,340,739
Functional Expense Percentages	<u>83%</u>	<u>81%</u>	<u>11%</u>	<u>13%</u>	<u>6%</u>	<u>7%</u>	<u>100.00%</u>	<u>100.00%</u>

(See Notes to Consolidated Financial Statements)

THE PARISH CHILDREN'S SCHOOL AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended July 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 74,707	\$ 142,509
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Contributions restricted for capital campaign	-	(37,500)
Contributions restricted for endowments	(1,030)	(125)
Depreciation	167,593	170,702
Bad debts	21,826	(558)
Net unrealized/realized (gains) losses on investments	(20,052)	10,674
Cash provided by (used for) the change in:		
Accounts receivable	(21,500)	(9,131)
Prepaid expenses and other receivables	(19,725)	(8,352)
Pledges receivable	102,398	105,647
Accounts payable	11,503	(24,516)
Accrued employee benefits	4,725	(10,990)
Deferred tuition, fees, and other revenues	(13,865)	(141,727)
Total adjustments	<u>231,873</u>	<u>54,124</u>
Net cash provided by operating activities	<u>306,580</u>	<u>196,633</u>
Cash Flows from Investing Activities:		
Property and equipment additions	(132,188)	(10,236)
Purchases of investments	(129,852)	(299,481)
Proceeds from sales of investments	107,402	282,378
Net change in money market mutual funds	(555)	(3,009)
Net cash used in investing activities	<u>(155,193)</u>	<u>(30,348)</u>
Cash Flows from Financing Activities:		
Principal payments on note payable	(121,000)	(525,000)
Contributions received for capital campaign	10,375	74,742
Contributions received for endowments	1,030	125
Net cash used in financing activities	<u>(109,595)</u>	<u>(450,133)</u>
Net change in cash	41,792	(283,848)
Cash, beginning of year	<u>2,746,554</u>	<u>3,030,402</u>
Cash, end of year	<u>\$ 2,788,346</u>	<u>\$ 2,746,554</u>

(See Notes to Consolidated Financial Statements)

THE PARISH CHILDREN'S SCHOOL AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
For the Years Ended July 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Supplemental Disclosure of Cash Flows Information:		
Cash Paid For:		
Interest	<u>\$ 36,445</u>	<u>\$ 55,248</u>
Non-Cash Financing Activities:		
Pledges receivable for capital campaign	<u>\$ -</u>	<u>\$ 10,375</u>

(See Notes to Consolidated Financial Statements)

THE PARISH CHILDREN'S SCHOOL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
July 31, 2016 and 2015

NOTE 1 - ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

Organization

The Parish Children's School is a private, nonprofit school incorporated in the state of Texas in 1983 and operates as The Parish School (the "School"). Located in Houston, Texas, the School specializes in early language intervention and individualized instruction for children 18 months of age through fifth grade with a focus on the education of the whole child. Its mission is to identify, educate, and empower children who have language and learning differences. The School develops communication skills, academic preparedness, resilience, independence, self-advocacy, social competence, and self-confidence in all students. The School also educates parents and the community on early intervention, language and learning development and parent advocacy. The School is accredited by the Southern Association of Colleges and Schools.

The Carruth Center, Inc. ("Carruth") is a private, nonprofit organization incorporated in the state of Texas in 1999. Carruth serves the School's children as well as the general community by providing psychoeducational and neuropsychological assessment testing of children, speech and language therapy, education placement consultation, parental advocacy and education resources, and family counseling and community referral services. The board of directors of Carruth is appointed by the board of directors of the School.

Robbin's Place, L.L.C. ("Robbin's Place") is a Texas limited liability company, wholly owned by the School, and formed in 2010. Robbin's Place was created to manage the donations of the founder's estate upon her death.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the School and its controlled subsidiaries, Carruth and Robbin's Place (together, the "Organization"). All significant intercompany accounts and transactions have been eliminated.

Basis of Accounting

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting and, accordingly, reflect all significant assets, liabilities, revenues, and expenses.

Federal Income Tax Status

The School and Carruth are exempt from federal income taxes under §501(c)(3) of the Internal Revenue Code ("IRC") and are also exempt from Texas state franchise taxes. Robbin's Place is a taxable entity and the State of Texas has a gross margin tax that applies to Robbin's Place. For each reported year, Robbin's Place had no gross margin tax liability. The School is classified as a public charity under §509(a)(1) of the IRC, while Carruth is classified as a public charity under §509(a)(3) of the IRC. The School and Carruth file annual federal information returns and are subject to routine examinations of their returns; however, there are no examinations for any tax periods currently in progress.

THE PARISH CHILDREN'S SCHOOL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
July 31, 2016 and 2015

NOTE 1 - ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES (Continued)

The Organization recognizes the tax benefit associated with tax positions taken for tax return purposes when it is more likely than not the position will be sustained. The Organization does not believe there are any material uncertain tax positions and, accordingly, it has not recognized any liability for uncertain tax benefits. The Organization records tax-related interest and penalties, if any, in expenses in the consolidated statements of activities. For the years ended July 31, 2016 and 2015, the Organization incurred no tax-related interest or penalties.

Cash and Cash Equivalents

The Organization considers cash and cash equivalents to include cash and other short-term, highly liquid instruments with original maturities of three months or less. To minimize the risk associated with its cash balances exceeding FDIC insurance limits, the Organization has implemented a laddered certificate of deposit investment strategy utilizing multiple banking institutions.

Accounts Receivable and Other Receivables

Accounts receivable and other receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. The allowance for doubtful accounts for accounts receivable was \$13,270 and \$280 at July 31, 2016 and 2015 respectively. No allowance for doubtful accounts was considered necessary for other receivables at July 31, 2016 and 2015.

Pledges Receivable

Pledges receivable consist of unconditional promises to give. Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Pledges receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Management provides for probable uncollectible amounts through a provision for bad debts and an adjustment to a valuation allowance based on its assessment of the current status of the individual accounts. Management has determined that no valuation allowance was considered necessary for pledges receivable at July 31, 2016 and 2015.

Investments

Investments are reported at fair value, which 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 4 for discussion of fair value measurements. Investment return is reported in the consolidated statements of activities as a change in unrestricted net assets unless the use of the income is limited by donor-imposed restrictions.

THE PARISH CHILDREN'S SCHOOL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
July 31, 2016 and 2015

NOTE 1 - ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES (Continued)

Property and Equipment

Property and equipment are recorded at cost, if purchased, or at fair value at the date of gift, if donated. Depreciation is calculated when the assets are placed in service using the straight-line method over the estimated useful lives of the assets, which range from 5 to 39 years for buildings and improvements, from 5 to 10 years for furniture, equipment and software, 5 years for vehicles, and 3 years for websites. Expenditures for maintenance and repairs are charged to expense as incurred. The costs of assets retired or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts in the year of disposal. Gains or losses resulting from property and equipment disposals are credited or charged to operations currently.

Net Asset Classification

Contributions and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

Unrestricted net assets include those net assets whose use is not restricted by donor-imposed stipulations, even though their use may be limited in other respects, such as by contract or board designation.

Temporarily restricted net assets include contributions and investment return restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.

Permanently restricted net assets include contributions that donors have restricted in perpetuity. The related investment income is available to support the areas stipulated by the donor or general school operations where no donor stipulation exists.

Tuition and Fees

Tuition and fees are recognized in the period in which the services are provided and are shown net of financial assistance. Tuition and fees collected in advance are deferred until earned. Financial assistance of \$275,635 and \$270,349 was awarded in 2016 and 2015, respectively.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor, even though their use may be limited in other respects, such as by contract or board designation. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support. Amounts received that are restricted in perpetuity are reported as permanently restricted support.

THE PARISH CHILDREN'S SCHOOL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
July 31, 2016 and 2015

NOTE 1 - ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES (Continued)

Gifts and bequests of property and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. In-kind goods to be auctioned at a future date are recorded as unrestricted support at fair value at the time of donation. As the items are auctioned, the proceeds are applied against the asset with any difference recorded as an adjustment to unrestricted support.

Donated Services

No amounts have been reflected in the consolidated financial statements for donated services. Many individuals volunteer their time and perform a variety of tasks that assist the Organization with programs, campaign solicitations, and various committee assignments for which no amount has been recorded in the consolidated financial statements because the services do not meet the criteria for recognition under accounting principles generally accepted in the United States ("US GAAP"). Volunteers contributed approximately 4,201 and 2,515 volunteer hours for the fiscal years ended July 31, 2016 and 2015, respectively.

Endowment Fund

The Organization has a donor-restricted endowment fund whose income is available to support student financial aid and is maintained in accordance with explicit donor stipulations and board-designated endowment funds. The Organization's board of directors (the "Board") has interpreted the Texas Uniform Prudent Management of Institutional Funds Act ("TUPMIFA") 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 stipulation to the contrary. As a result of this interpretation, the Organization classifies the original value of gifts donated to the permanent endowment as permanently restricted net assets. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by TUPMIFA. In accordance with TUPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the endowment fund.
- 2) The purposes of the Organization and the donor-restricted endowment fund.
- 3) General economic conditions.
- 4) The possible effect of inflation and deflation.
- 5) The expected total return from income and the appreciation of investments.
- 6) Other resources of the Organization.
- 7) The Organization's investment policy.

THE PARISH CHILDREN'S SCHOOL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
July 31, 2016 and 2015

NOTE 1 - ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES (Continued)

Investment Objectives

The Organization's investment strategy emphasizes total investment return; that is, the aggregate return from capital appreciation plus dividend, interest, and other income, net of all fees and expenses. Specifically, the primary objectives in the overall investment management for endowment fund assets are:

- 1) To preserve purchasing power.
- 2) To achieve aggregate returns over the investment horizon equal to or in excess of the rate of inflation plus amounts distributed based on the Organization's spending policy.
- 3) To emphasize long-term growth of principal while avoiding excessive risk through diversification of the portfolio and adherence to long-term investment discipline. Short-term volatility will be tolerated inasmuch as it is consistent with the volatility of an appropriate, comparable market index.

Spending Policy

The Organization has a policy of appropriating for distribution each year up to 5% of the endowment fund's average fair value for the preceding twelve quarters (beginning July 31 of the prior year and preceding quarters). In conjunction with the authorization of the annual distribution, the Board will review this policy in light of current and expected market conditions and rate of inflation. Other distributions may be made from time to time at the discretion of the Board.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the consolidated statements of functional expenses. Costs that are not directly associated with providing specific services have been allocated based upon the relative time spent by employees of the Organization providing those services or using other reasonable methodologies, such as square footage or number of employees per area.

Estimates

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Management of the Organization believes that these estimates and assumptions provide a reasonable basis for the fair presentation of the consolidated financial statements.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09 *Revenue from Contracts with Customers* (Topic 606). ASU 2014-09 supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance throughout the Industry Topics of the Codification. ASU 2014-09, as further amended by ASU 2015-14, is effective for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Management does not believe that the eventual adoption of ASU 2014-09 will have a significant impact on the Organization's revenue recognition policy.

THE PARISH CHILDREN'S SCHOOL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
July 31, 2016 and 2015

NOTE 1 - ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES (Continued)

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 amends the financial statement and disclosure requirements under existing US GAAP to:

1. Present on the face of the consolidated statements of financial position amounts for two classes of net assets (i.e., amounts for net assets with donor restrictions and net assets without donor restrictions) at the end of the period, rather than for the currently required three classes.
2. Present on the face of the consolidated statements of activities the amount of the change in each of the two classes of net assets (noted in item 1) rather than that of the currently required three classes.
3. Continue to present on the face of the consolidated statement of cash flows the net amount for operating cash flows using either the direct or indirect method of reporting but no longer require the presentation or disclosure of the indirect method (reconciliation) if using the direct method.
4. Provide various enhanced disclosures regarding the two net asset classifications and how the NFP manages its liquid resources among other things.

ASU 2016-14 is effective for annual reporting periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018, with early adoption permitted.

Management is currently evaluating the effects these ASUs will have on the Organization's consolidated financial statements and will adopt them in the years they become effective.

NOTE 2 - PLEDGES RECEIVABLE

Pledges receivable at July 31, 2016 and 2015 are expected to be collected as follows:

	<u>2016</u>	<u>2015</u>
Within one year	\$ 6,655	\$ 118,428
In one to five years	-	1,000
	<u>\$ 6,655</u>	<u>\$ 119,428</u>

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment at July 31, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Land	\$1,273,618	\$1,273,618
Buildings and improvements	5,551,931	5,456,687
Furniture, equipment, and software	161,527	160,199
Vehicles	9,099	9,100
Website	18,870	-
	<u>7,015,045</u>	<u>6,899,604</u>
Less: Accumulated depreciation	<u>1,789,837</u>	<u>1,638,991</u>
Property and equipment, net of accumulated depreciation	<u>\$5,225,208</u>	<u>\$5,260,613</u>

THE PARISH CHILDREN'S SCHOOL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
July 31, 2016 and 2015

NOTE 4 - FAIR VALUE MEASUREMENTS AND INVESTMENT RETURN

The *Fair Value Measurements and Disclosures* Topic ("ASC 820") clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosure about the use of fair value measurements in an effort to make the measurement of fair value more consistent and comparable.

Various inputs are used in determining the fair value of certain of the Organization's assets. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. In addition, ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The three levels of the fair value hierarchy, including the types of Organization assets that fall under each category and the valuation methodologies used to measure fair value, are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Exchange Traded Funds and Mutual Funds: Valued at net asset value ("NAV") of shares held by the Organization at year-end. NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. The NAV is a quoted price in an active market.

Domestic Equities: Valued at the closing quoted price on the applicable securities exchange.

Level 2 - Inputs to the valuation methodology are other than quoted market prices in active markets that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices that are in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Corporate Bonds: The fair value was determined from independent quotation bureaus that use computerized valuation formulas to calculate fair value based on observable inputs.

Level 3 - Inputs to the valuation methodology are unobservable inputs (i.e., projections, estimates, interpretations, etc.) that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain assets could result in a different fair value measurement at the reporting date.

THE PARISH CHILDREN'S SCHOOL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
July 31, 2016 and 2015

NOTE 4 - FAIR VALUE MEASUREMENTS AND INVESTMENT RETURN (Continued)

The inputs and methodologies used for valuing assets are not an indication of the risk associated with those assets. There have been no changes in the methodologies used at July 31, 2016 or 2015.

The following tables set forth by level, within the fair value hierarchy, the Organization's assets valued at fair value on a recurring basis as of July 31, 2016 and 2015:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>2016</u>				
Corporate Bonds:				
Domestic		\$ 426,548		\$ 426,548
International		25,280		25,280
Total Corporate Bonds		<u>451,828</u>		<u>451,828</u>
Exchange Traded Funds:				
Fixed Income	\$ 37,271			37,271
Real Estate	<u>32,820</u>			<u>32,820</u>
Total Exchange Traded Funds	<u>70,091</u>			<u>70,091</u>
Domestic Equities	<u>161,352</u>			<u>161,352</u>
Money Market Mutual Funds	<u>25,260</u>			<u>25,260</u>
Investments at fair value, July 31, 2016	<u>\$ 256,703</u>	<u>\$ 451,828</u>		<u>\$ 708,531</u>

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>2015</u>				
Corporate Bonds:				
Domestic		\$ 397,149		\$ 397,149
International		<u>26,342</u>		<u>26,342</u>
Total Corporate Bonds		<u>423,491</u>		<u>423,491</u>
Exchange Traded Funds:				
Fixed Income	\$ 62,876			62,876
Real Estate	<u>28,045</u>			<u>28,045</u>
Total Exchange Traded Funds	<u>90,921</u>			<u>90,921</u>
Domestic Equities	<u>126,317</u>			<u>126,317</u>
Money Market Mutual Funds	<u>24,705</u>			<u>24,705</u>
Investments at fair value, July 31, 2015	<u>\$ 241,943</u>	<u>\$ 423,491</u>		665,434
Cash Held as Investment				<u>40</u>
Total Investments, July 31, 2015				<u>\$ 665,474</u>

The Organization did not have any assets valued at fair value on a nonrecurring basis as of July 31, 2016 and 2015.

THE PARISH CHILDREN'S SCHOOL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
July 31, 2016 and 2015

NOTE 4 - FAIR VALUE MEASUREMENTS AND INVESTMENT RETURN (Continued)

Investment return consists of the following:

	<u>2016</u>	<u>2015</u>
Interest and dividends on investments	\$ 23,005	\$ 19,987
Net realized and unrealized gain (loss) on investments	<u>20,052</u>	<u>(10,674)</u>
Total investment return on investments	43,057	9,313
Other interest income	<u>4,643</u>	<u>4,694</u>
	<u>\$ 47,700</u>	<u>\$ 14,007</u>

NOTE 5 - NOTE PAYABLE

Note payable at July 31, 2016 and 2015 consists of the following:

	<u>2016</u>	<u>2015</u>
Note payable to a bank, in annual installments of \$120,000, interest payable monthly at 5%, principal and interest due upon maturity in February 2020, secured by the School's land, buildings, and improvements.	<u>\$672,501</u>	<u>\$793,501</u>

Interest expense of \$36,271 and \$53,279 was recorded in 2016 and 2015, respectively.

Future maturities of the note payable as of July 31, 2016 are as follows:

<u>For the Year Ending July 31:</u>	
2017	\$120,000
2018	120,000
2019	120,000
2020	<u>312,501</u>
	<u>\$672,501</u>

NOTE 6 - UNRESTRICTED NET ASSETS

Unrestricted net assets are comprised of the following at July 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Property and equipment, net of note payable	\$4,552,707	\$4,467,112
Board designated for scholarships	347,932	318,481
Undesignated	<u>362,397</u>	<u>469,604</u>
	<u>\$5,263,036</u>	<u>\$5,255,197</u>

THE PARISH CHILDREN'S SCHOOL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
July 31, 2016 and 2015

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2016</u>	<u>2015</u>
Tuition assistance	\$690,632	\$642,450
Margaret Noecker Nature Center	48,197	49,364
Other restricted contributions	14,831	9,614
Accumulated earnings on endowment	<u>61,271</u>	<u>47,665</u>
	<u>\$814,931</u>	<u>\$749,093</u>

NOTE 8 - ENDOWMENT FUND

Changes in the endowment fund net assets for the years ended July 31, 2016 and 2015 are as follows:

	Unrestricted/ Board <u>Designated</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Endowment fund net assets, July 31, 2014	<u>\$ 312,102</u>	<u>\$ 44,731</u>	<u>\$ 299,203</u>	<u>\$ 656,036</u>
Investment return:				
Interest and dividends	13,688	6,299	-	19,987
Net unrealized losses	<u>(7,309)</u>	<u>(3,365)</u>	<u>-</u>	<u>(10,674)</u>
Net investment return	6,379	2,934	-	9,313
Contributions	<u>-</u>	<u>-</u>	<u>125</u>	<u>125</u>
Endowment fund net assets, July 31, 2015	<u>318,481</u>	<u>47,665</u>	<u>299,328</u>	<u>665,474</u>
Investment return:				
Interest and dividends	15,745	7,260	-	23,005
Net unrealized gains	<u>13,706</u>	<u>6,346</u>	<u>-</u>	<u>20,052</u>
Net investment return	29,451	13,606	-	43,057
Contributions	<u>-</u>	<u>-</u>	<u>1,030</u>	<u>1,030</u>
Endowment fund net assets, July 31, 2016	<u>\$ 347,932</u>	<u>\$ 61,271</u>	<u>\$ 300,358</u>	<u>\$ 709,561</u>

Endowment fund net assets are included in the consolidated statements of financial position as follows at July 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Investments	\$708,531	\$665,474
Cash	<u>1,030</u>	<u>-</u>
	<u>\$709,561</u>	<u>\$665,474</u>

THE PARISH CHILDREN'S SCHOOL AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
July 31, 2016 and 2015

NOTE 8 - ENDOWMENT FUND (Continued)

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the donor or TUPMIFA requires the Organization to retain as permanently restricted. Deficiencies of this nature result from unfavorable market fluctuations and are included in unrestricted net assets. At July 31, 2016 and 2015, no deficiencies were noted.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Concentration of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist primarily of cash deposits in excess of federally insured limits. The Organization places its cash with financial institutions that are considered high quality financial institutions by the Organization's management.

Pension Plan

The School sponsors a defined contribution pension plan under §403(b) of the IRC. Participants in the plan may elect to make voluntary before-tax contributions, subject to certain limitations of the IRC. The School makes employer contributions to the plan based on a percentage of the participants' salary deferrals. Total employer contributions to the plan (net of forfeiture funds utilized) amounted to approximately \$56,000 and \$54,000 for the years ended July 31, 2016 and 2015, respectively. Forfeiture funds of \$5,401 and \$4,731 were utilized by the plan for employer contributions for the years ended July 31, 2016 and 2015, respectively. Forfeiture funds are funds already expensed by the Organization, but forfeited by employees due to vesting requirements.

NOTE 10 - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through October 28, 2016, the date the consolidated financial statements were available to be issued.