THE SCHOLARSHIP FOUNDATION OF ST. LOUIS

REVIEWED FINANCIAL STATEMENTS

Year Ended December 31, 2018
(With Comparative Totals for 2017)

THE SCHOLARSHIP FOUNDATION OF ST. LOUIS

TABLE OF CONTENTS

UHY LLP
Certified Public Accountants

INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors
The Scholarship Foundation of St. Louis

We have reviewed the accompanying financial statements of The Scholarship Foundation of St. Louis (the Foundation) (a Missouri not-for-profit corporation), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Foundation management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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 (GAAP); 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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Basis of Accounting and Report on Summarized Comparative Information

As discussed in Note 1 to the financial statements, the Foundation adopted GAAP as of January 1, 2018.

The prior year summarized comparative information has been derived from the Foundation's financial statements for the year ended December 31, 2017 and, our report dated February 22, 2018, stated that based on our procedures, we were not aware of any material modifications that should be made to those financial statements in order for them to be in conformity with the modified cash basis of accounting. The modified cash basis of accounting is a basis of accounting other than GAAP. It was not practicable to restate the 2017 financial statements in accordance with GAAP.

UHY LLP

St. Louis, Missouri
March 12, 2019

THE SCHOLARSHIP FOUNDATION OF ST. LOUIS
STATEMENT OF FINANCIAL POSITION
December 31, 2018 (With Comparative Totals for 2017)

	December 31, 2018	December 31, 2017
ASSETS		
CURRENT ASSETS		
Cash	**$ 1,495,541**	$ 1,311,075
Unconditional promises-to-give	**54,231**	47,744
Student loan receivables - current	**2,200,000**	2,200,000
Investments	**2,200,303**	2,786,586
Prepaid expenses and other assets	**4,247**	16,333
Total current assets	**5,954,322**	6,361,738
LONG-TERM ASSETS		
Restricted funds for Future Forward Program	**171,853**	158,130
Unconditional promises-to-give	**80,890**	67,032
Student loan receivables	**25,864,372**	25,261,997
Investments	**7,114,037**	7,501,724
Property and equipment	**70,572**	85,275
Total long-term assets	**33,301,724**	33,074,158
Total assets	**$ 39,256,046**	$ 39,435,896
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	**$ 260,065**	$ 263,326
Unconditional promises-to-give for Future Forward Program	**171,853**	158,130
Annuities payable	**2,708**	2,708
Total current liabilities	**434,626**	424,164
LONG-TERM LIABILITIES		
Accounts payable and accrued expenses	**89,330**	113,437
Annuities payable	**6,205**	6,586
Total long-term liabilities	**95,535**	120,023
Total liabilities	**530,161**	544,187
NET ASSETS		
Without donor restrictions		
Undesignated	**2,580,941**	3,406,737
Board designated program reserves	**1,145,620**	1,082,347
Board designated emergency reserves	**610,000**	610,000
Net investment in student loans	**27,417,970**	26,826,244
	31,754,531	31,925,328
With donor restrictions	**6,971,354**	6,966,381
Total net assets	**38,725,885**	38,891,709
Total liabilities and net assets	**$ 39,256,046**	$ 39,435,896

See notes to financial statements and independent accountant's review report.

THE SCHOLARSHIP FOUNDATION OF ST. LOUIS
STATEMENT OF ACTIVITIES
Year Ended December 31, 2018 (With Comparative Totals for 2017)

	Years Ended December 31,			
	2018			2017
	Without Donor Restrictions	With Donor Restrictions	Total	(Comparative Totals Only)
PUBLIC SUPPORT AND REVENUE				
Public support				
Gifts and grants	$ 106,922	$ 3,014,864	$ 3,121,786	$ 2,064,484
Bequests	383,909	-	383,909	622,825
Contributions	877,647	-	877,647	633,982
	1,368,478	3,014,864	4,383,342	3,321,291
Revenue				
Net investment return				
Interest and dividends	151,395	168,165	319,560	181,648
Gains (losses) on investments and restricted funds	(204,435)	(576,113)	(780,548)	574,709
Investment advisory fees	(4,518)	(21,146)	(25,664)	-
	(57,558)	(429,094)	(486,652)	756,357
Gains (losses) from annuities and trusts	(2,327)	-	(2,327)	6,460
Interest income not charged on student loans	1,827,743	-	1,827,743	-
Other	4,351	-	4,351	329
	1,772,209	(429,094)	1,343,115	763,146
Net assets released from restrictions	2,580,797	(2,580,797)	-	-
Total public support and revenue	5,721,484	4,973	5,726,457	4,084,437
EXPENSES				
Program services	5,218,111	-	5,218,111	2,441,833
Supporting services				
Management and general	246,213	-	246,213	308,254
Fund raising	427,957	-	427,957	385,265
Total expenses	5,892,281	-	5,892,281	3,135,352
CHANGES IN NET ASSETS FROM CONTINUING OPERATIONS	(170,797)	4,973	(165,824)	949,085
DISCONTINUED OPERATIONS				
Shop sales, net of retail and processing expenses of $-0- for 2018 and $890,752 for 2017	-	-	-	244,770
Gain on sale of property	-	-	-	640,380
Transfer of donated assets	-	-	-	(100,846)
Transitional and sublease costs related to closure of ScholarShops	-	-	-	(176,234)
CHANGES IN NET ASSETS FROM DISCONTINUED OPERATIONS	-	-	-	608,070
CHANGES IN NET ASSETS	(170,797)	4,973	(165,824)	1,557,155
NET ASSETS, Beginning	31,925,328	6,966,381	38,891,709	37,334,554
NET ASSETS, Ending	$ 31,754,531	$ 6,971,354	$ 38,725,885	$ 38,891,709

See notes to financial statements and independent accountant's review report.

THE SCHOLARSHIP FOUNDATION OF ST. LOUIS
STATEMENT OF CASH FLOWS
Year Ended December 31, 2018 (With Comparative Totals for 2017)

	Years Ended December 31, 2018	Years Ended December 31, 2017
OPERATING ACTIVITIES		
Changes in net assets	**$ (165,824)**	$ 1,557,155
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities		
Gain on sale of property and equipment	**-**	(640,380)
(Gains) losses on investments and restricted funds	**780,548**	(574,709)
Annuity liquidation resulting in contribution	**-**	(110,438)
(Gains) losses from annuities and trusts	**2,327**	(6,460)
Depreciation	**14,703**	153,527
Transfer of donated assets	**-**	43,552
Provision for uncollectible loans	**330,358**	225,982
Provision for sublease costs related to closure of ScholarShops	**-**	125,000
Permanently restricted contributions for endowment	**(14,950)**	(101,600)
Changes in		
Unconditional promises-to-give	**(20,345)**	131,918
Student loan receivables		
New loans awarded	**(3,130,345)**	(2,963,907)
Loans repaid	**2,197,612**	2,277,200
Prepaid expenses and other assets	**12,086**	15,012
Accounts payable and accrued expenses	**(27,368)**	(124,529)
Unconditional promises-to-give for Future Forward Program	**13,723**	34,049
Annuities payable	**(2,708)**	(5,230)
Net cash provided (used) by operating activities	**(10,183)**	36,142
INVESTING ACTIVITIES		
Proceeds from sale of investments	**6,519,392**	2,637,140
Purchases of investments	**(6,324,593)**	(6,013,613)
Proceeds from sale of property and equipment	**-**	2,800,089
Purchases of property and equipment	**-**	(83,275)
Restricted funds for Future Forward Program	**(15,100)**	(17,100)
Net cash provided (used) by investing activities	**179,699**	(676,759)
FINANCING ACTIVITIES		
Proceeds from contributions restricted for endowment	**14,950**	101,600
NET INCREASE (DECREASE) IN CASH	**184,466**	(539,017)
CASH, Beginning	**1,311,075**	1,850,092
CASH, Ending	**$ 1,495,541**	$ 1,311,075
NONCASH OPERATING AND INVESTING ACTIVITIES		
Transfer of donated assets	**$ -**	$ 43,552

See notes to financial statements and independent accountant's review report.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies is presented to assist in understanding the Foundation's financial statements. These accounting policies conform to accounting principles generally accepted in the United States of America.

History and Business Activity

The Scholarship Foundation of St. Louis (the Foundation) is a not-for-profit organization founded in 1920. The Foundation provides access to post-secondary education to members of the community who otherwise would not have the financial means to fulfill their educational goals. This mission is accomplished by awarding interest-free loans and grants to students, as well as providing guidance and planning assistance. Approximately 11,750 students have been awarded more than $78,400,000 in interest-free loans and more than $10,000,000 in grants and paid internships since the Foundation was established. One in six donors is a former Foundation recipient.

The Foundation operated ScholarShop, an upscale resale shop with locations in Clayton and Webster Groves, Missouri. ScholarShop was established for the purpose of providing funds for student loans. The general public donated clothing, accessories, and collectibles that were sold back to the general public through these retail shops. In September 2016, the Board of Directors voted to begin the process to close the ScholarShop stores and focus on maximizing assistance to area students. The ScholarShop stores were closed in 2017, and accordingly, the Foundation has presented that financial information as discontinued operations.

Basis of Accounting and Comparative Totals

In 2018, the Foundation adopted the policy of preparing its financial statements on the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America as of January 1, 2018.

For the 2017 financial statements, the Foundation primarily used the accrual basis of accounting, except for the following transactions:

- The Foundation did not record inventory and contributions for the value of donated merchandise for resale in ScholarShop. As a result, the Foundation did not record inventory as of January 1, 2017 and cost of sales for the sale of donated merchandise for the year ended December 31, 2017.

- The Foundation did not record the fair value of interest not charged on student loans as interest income nor the related grant expense of forgone interest not charged on student loans for the year ended December 31, 2017.

The financial statements include certain prior year summarized comparative information on the modified cash basis of accounting in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2017, from which the summarized information was derived.

NOTE 1 — Summary of Significant Accounting Policies (Continued)

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 the reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Financial Statement Presentation

The Foundation's resources are classified for accounting and reporting purposes into two asset categories according to externally (donor) imposed restrictions. A description of the two net asset categories is as follows:

Net Assets Without Donor Restrictions - Includes resources available for support of program services and operations, which have no donor imposed restrictions (unrestricted). All contributions are considered to be available for unrestricted use and available unless specifically restricted by the donor. The governing board has designated, from net assets without donor restrictions, net assets for program and emergency reserves. The Foundation's net assets without donor restrictions are presented in the accompanying statement of financial position as follows:

- Undesignated: represents resources available for current program services and operations
- Board designated program reserves: represents resources set aside for specific program needs (primarily loans and grants) as determined by the governing board
- Board designated emergency reserves: represents resources that the governing board has designated unrestricted net assets to be reserved for:
  a) operating expenses,
  b) program commitments to renewing students with certain offsets, and
  c) repair, maintenance and capital expenditures.
- Investment in student loans: represents outstanding student loan receivables

Net Assets With Donor Restrictions - Represents those net assets whose use has been limited by donor-imposed stipulations. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity and the income from such resources can be spent for program related expenses. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Cash

Cash includes checking and depository accounts.

The Foundation from time to time during the year may have bank balances in excess of its insured limits. Management has deemed this as a normal business risk.

NOTE 1 — Summary of Significant Accounting Policies (Continued)

Restricted Funds for Future Forward Program

Restricted funds represent investments that are restricted for the Future Forward Program.

Unconditional Promises-to-Give (Assets)

Promises-to-give are recognized as contributions in the period the promises are received. Contributions expected to be received in future years are discounted to their present value at a rate of 4.0% and presented as long-term assets. At December 31, 2018 and 2017, management considers contributions receivable to be fully collectible; accordingly, no allowance for uncollectible pledges is recorded.

Conditional Promises-to-Give

In 2011, the Foundation was notified of its interest in a charitable lead annuity trust related to a bequest in 2009. The terms of the trust provide for the Foundation to receive 15 annual distributions of $300,000 per year; however, the terms of the trust provide the third party trustee with variance power after the first two years of payments to the Foundation. As a result, the Foundation's interest in future annual distribution is uncertain, and accordingly, the Foundation has not recognized an asset based on this annual condition. The estimated net present value of the conditional promises-to-give of $1,658,735 is approximately $1,530,000 at December 31, 2018 (using a discount rate of 2.51% based on a 5 year U.S. Treasury note).

Student Loan Receivables

The Foundation provides interest-free loans to students for post-secondary education. Loans are awarded twice a year with a maximum award of $11,000 per year for a student and lifetime maximum loan of $55,000.

Student loans are stated at cost when awarded. The student is obligated to start repaying loans upon graduation after twelve months of grace period or approved deferment period. Generally, repayment of loans is scheduled over five years. No interest is charged or accrued on loans while a student is actively enrolled in school or during the scheduled or approved repayment period.

The allowance for uncollectible loans is increased by provisions charged to expense and reduced by accounts charged off, net of recoveries. The allowance for uncollectible loans is maintained at a level considered adequate to provide for potential loan losses at 4% of gross student loans outstanding. Past due or default status is based on contractual terms as stated in the signed promissory note.

If any student loan installment becomes delinquent and new contractual terms are not reached, the accounts are turned over to a collection agency and the entire balance owed shall immediately become due and payable. The balance owed shall bear interest at a rate equal to the lesser of ten percent (10%) per year or the highest lawful rate. In addition, the debtor is liable for all costs of collection including reasonable attorney's fees. Interest income on student loans is recognized only to the extent cash payments are received. The Foundation's practice is to charge off any loan or portion of a loan when the loan is determined by management to be uncollectible, due to the debtor's deteriorating or deteriorated financial condition, or for other reasons.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments consist of mutual funds, money market funds, certificates of deposit, and municipal bonds. Additionally, the money market funds and certificates of deposit with maturities less than one year are classified as current investments, whereas those with maturities greater than one year are classified as long-term investments. Investments are presented in the financial statements at fair value. The fair value of substantially all securities is determined by quoted market prices. The estimated fair value of securities for which there are no quoted market prices is based on similar types of securities that are traded in the market. Gains or losses on securities are based on the average cost method.

Net investment return (loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less external and direct internal investment expenses.

Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Foundation determines the fair values of its financial instruments based on the fair value hierarchy established which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

> *Level 1:* financial instruments are valued based on quoted prices in active markets for identical assets or liabilities.
>
> *Level 2*: financial instruments are valued using quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data of substantially the full term of the assets or liabilities.
>
> *Level 3:* financial instruments are valued using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable and when determination of the fair value requires significant management judgment or estimation.

Declines in the fair value of individual investments below their cost that are other-than-temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Purchases of property and equipment with values of $1,000 or more are capitalized, while all other purchases are recorded as expense in the year purchased. Property and equipment are recorded at cost, if purchased, or at estimated fair market value on the date of receipt, if donated. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any resulting gain or loss is included in the statements of activities. Cost of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expenses currently.

The Foundation reviews the carrying value of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There was no impairment for the years ended December 31, 2018 and 2017.

Depreciation of property and equipment is provided according to the following methods and estimated useful lives (Note 7):

	Method	Years
Leasehold Improvements	Straight-line	Term of lease
Equipment	Straight-line	5 - 7
Furniture and Fixtures	Straight-line	5 - 7

Contributions and Grants

All contributions are considered to be available for the general programs of the Foundation unless specifically restricted by the donor. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are released to unrestricted net assets and reported in the statement activities as net assets released from restrictions. Donor restricted contributions are recorded in the temporarily restricted class for restrictions expiring during the fiscal year, and then transferred to the unrestricted class. The Foundation reports certain restricted contributions as unrestricted when the restriction is fulfilled in the same time period in which the contribution is received.

Grants are generally recognized as revenue in the period that specific services are performed. However, certain grants may qualify as contributions, and accordingly, they are recognized as public support when made.

Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses includes $113,437 of estimated accrued lease obligation representing the difference between the Processing Center lease obligation, expected common area maintenance costs and expected sublease rental income (Note 11). Additionally, the Foundation has a sublease deposit of $9,448 as of December 31, 2018 (included in long-term accounts payable and accrued expenses).

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unconditional Promises-to-Give for Future Forward Program (Liabilities)

Unconditional promises-to-give for Future Forward Program (Section 529 College Savings accounts) are recorded as liabilities and expenses in the period the promises are made.

Annuity Trusts, Gift Annuities, and Beneficial Interests in Trusts

The Foundation was a beneficiary and trustee of two annuity trusts. As the trustee, the Foundation was required to invest the funds, and to make annual distributions to the donor or specified beneficiaries and the Foundation has the residual interest in the remainder trust assets. During 2017, these trusts were terminated, and accordingly, the Foundation recognized $110,438 of additional contributions from the liquidation of the annuities during the year ended December 31, 2017.

The Foundation entered into gift annuity agreements for which the donor contributed assets in exchange for distribution of annuity payments to the donor or beneficiaries for their remaining lives.

The liabilities for the future payments to donors or beneficiaries had been recorded using published actuarial lives and discount rates based on the return yields of the trust assets. The annuity trusts and gift annuities were recorded at fair value in the year the irrevocable gift agreements were signed and the difference between the fair value of donated assets and the calculated liability has been recognized as contribution revenue. The Foundation annually revalues the liability for future annuity payments based on changes in actuarial assumptions.

The Foundation is a beneficiary of a unitrust. The Foundation has the irrevocable right to receive a percentage of the fair market value of the trust as stated in the agreement. The Foundation recorded an estimate of its share of the unitrust's net assets as long-term unconditional promises-to-give.

As disclosed in Note 1 (conditional promises-to-give), the Foundation recognized $300,000 of public support bequest revenue from a charitable lead annuity trust for each of the years ended December 31, 2018 and 2017.

Grants and Student Loans Awarded

Grants are recognized as expense based on actual award and/or date of promise.

The Foundation provides interest-free loans to qualified students for post-secondary education. The outstanding loans are presented on the Statement of Financial Position as student loan receivables.

Noncash Interest Income and Grant Expense

For financial reporting for 2018, the Foundation adopted the policy of recording imputed interest income on student loans. To determine a comparable rate, the Foundation used a 12-year average rate consistent with the Federal Student Aid Direct Subsidized Loan rate plus the Disbursement Fee rate. The 12-year average rate was 6.3% at December 31, 2018. As a result, noncash interest income and grant – forgone interest not charged on student loans of $1,827,743 was recognized for the year ended December 31, 2018 in the statement of activities.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Foundation is a not-for-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Foundation is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS.

For income tax reporting, the Foundation reports on the modified cash basis, which includes reporting student loans as “interest-free” and “fee-free” grant expense and student loan repayments as program revenue. For financial reporting, the Foundation reports these student loan transactions as components of the asset “student loans.” In addition, the noncash transactions for interest income on student loans and grants – forgone interest are recorded for financial statement purposes but not for income tax purposes. As a result, there are significant differences in reporting these items (Note 15).

Financial Instruments and Credit Risk

The Foundation manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by the Foundation to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Foundation has not experienced losses in any of these accounts. Credit risk associated with student loan receivables and promises-to-give is considered to be limited due to high historical collection rates. Investments are made by diversified investment managers whose performance is monitored by the Foundation and the Finance Committee of the Board of Directors. Although the fair values of investments are subject to fluctuation on a year-to-year basis, The Foundation and the Finance Committee believe that the investment policies and guidelines are prudent for the long-term welfare of the Foundation.

Functional Expenses

The Foundation allocates expenses on a functional basis among program and supporting services. Expenses that can be directly associated with a specific program are allocated directly according to their functional expense classification. Other expenses that are common to several functions are allocated by various statistical bases.

Discontinued operations expenses are excluded from functional expenses.

Cash Flows Reporting

The Foundation has a policy to immediately sell donated securities from donors and utilize those resources for unrestricted activities unless restricted by the donor for long-term purposes. The Foundation recognized donated securities of $200,899 and $121,924 during the years ended December 31, 2018 and 2017, respectively.

Reclassifications

Certain reclassifications have been made to the financial statements for the year ended December 31, 2017 to conform to the presentation for the year ended December 31, 2018.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Guidance

Effective January 1, 2018, the Foundation adopted Accounting Standards Update No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. The standard requires disclosure of two net asset classes (With Donor Restrictions and Without Donor Restrictions), presentation of information about the liquidity and availability of assets available to meet cash needs for general expenditures within one year of the balance sheet date, and investment returns to be reported net of external and direct internal investment expenses.

Effective for its annual financial statements for 2019, the Foundation expects to adopt new accounting standards issued by Financial Accounting Standards Board that will require changes in accounting for grants and for 2020 changes in accounting for operating leases. The qualitative and quantitative effects on the Foundation's future financial statements of these changes and related retrospective adjustments have not yet been determined.

Subsequent Events

The Foundation has performed a review of events subsequent to the statement of financial position date through March 12, 2019, the date the financial statements were available to be issued.

NOTE 2 — LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

		December 31, 2018
Cash		$ 1,380,323
Unconditional promises-to-give		15,769
Student loans receivable		2,200,000
Investments		
Undesignated	$ 830,598	
Designated – program reserves	701,070	
Designated – emergency reserves	610,000	
		2,141,668
Endowment spending-rate distributions and appropriations		170,300
		5,908,060
Less Board Designated Funds		1,311,070
		$ 4,596,990

NOTE 2 — LIQUIDITY AND AVAILABILITY (Continued)

The Foundation's endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

As part of our liquidity management plan, we invest cash in excess of daily requirements in short-term investments, CDs, and money market funds. Occasionally, the Board designates a portion of any operating surplus to its program and emergency reserves, which were $1,311,070 as of December 31, 2018.

NOTE 3 — RESTRICTED FUNDS FOR FUTURE FORWARD PROGRAM

Restricted funds consist of the following:

	December 31, 2018	December 31, 2017
Future Forward Program (long-term)	$ 171,853	$ 158,130

The Future Forward Program (a 529 College Saving Plan), was launched during 2014 to establish college saving accounts for students attending two local middle schools and a youth agency. As of December 31, 2018, the Foundation committed and funded a total of $171,853 to open the student saving accounts with MOST – Missouri's 529 College Saving Plan. The Foundation is the owner of these accounts with the student listed as the beneficiary. The Foundation has conditionally pledged additional funding up to $900 per student based on certain criteria as defined in the Future Forward Program. These funds are invested in the Vanguard Conservative Growth Portfolio fund (mutual fund, level 1 fair value – Note 5) and had unrealized gains (losses) of ($1,377) and $16,949 for the years ended December 31, 2018 and 2017, respectively.

NOTE 4 — STUDENT LOAN RECEIVABLES

Student loan receivables consist of the following:

	December 31, 2018	December 31, 2017
Loan Balances Not Yet in Repayment	$ 13,366,757	$ 12,821,859
Loan Balances in Repayment	15,866,965	15,784,388
Total student loan receivables	29,233,722	28,606,247
Less Allowance for Student Loan Losses	1,169,350	1,144,250
Net student loan receivables	28,064,372	27,461,997
Less Current Portion (Estimated Repayments in 2018)	2,200,000	2,200,000
Long-Term Student Loan Receivables (Estimated Repayments Beyond 2018)	$ 25,864,372	$ 25,261,997

NOTE 4 — STUDENT LOAN RECEIVABLES (Continued)

Changes in the allowance for uncollectible loans are as follows:

	As of and for the Years Ended December 31, 2018	2017
Balance, Beginning	$ 1,144,250	$ 1,125,053
Provision for uncollectible loans	330,358	225,932
Recoveries on loans	54,395	33,631
Less loans charged off	(359,653)	(240,366)
Balance, Ending	$ 1,169,350	$ 1,144,250

The following table provides aging information on the Foundation's student loans:

		Students in Repayment			
	Students in School - Amounts Not Due (*)	Current or Less Than 30 Days Past Due	30-89 Days Past Due	90 Days Past Due	Total
December 31, 2018					
Student Loans	$13,366,757	$ 10,131,332	$150,533	$5,585,100	$29,233,722
December 31, 2017					
Student Loans	$12,821,859	$ 10,697,085	$166,271	$4,921,032	$28,606,247

(*) Including grace period.

The following table provides information about the credit risk of student loans using the Foundation's internal review process. Student loans are generally not due and payable while a student is enrolled in school and during a one year grace period following graduation. These loan balances are classified as low risk. Loans that are not yet in repayment or are in repayment and being paid on schedule are also classified as low risk. When a student loan is in repayment status and a portion of the debtor's loan balance becomes past due, communication between the Foundation and debtor may result in extension or deferment of the debt. This group of debtors is considered average risk as there is a detailed review of the debtor's current financial condition and ongoing communication between the Foundation and the debtor. When communication with the debtor ceases or there is a further deterioration of the debtor's performance in meeting loan repayment obligations, the loan balance is referred to an external professional collection firm. Even though there is a strong repayment track record by this group of debtors, the loan balance in collections is rated as doubtful and is watched closely for improvement or further deterioration.

	December 31, 2018	2017
Student Loans		
Average or lower risk	$ 24,575,107	$ 24,557,898
Doubtful (in collection)	4,658,615	4,048,349
	$ 29,233,722	$ 28,606,247

NOTE 5 — INVESTMENTS

Investments consist of the following:

	December 31, 2018	December 31, 2017
Mutual Funds		
Dimensional Fund Advisors (DFA) U.S. Core Equity 2	$ 1,613,820	$ 1,204,407
DFA Five Year Global Fixed	1,428,147	533,802
Vanguard GNMA Fund	-	539,323
Vanguard Short-Term Investment Grade	3,412,450	718,642
All other mutual funds	2,091,770	2,063,791
	8,546,187	5,059,965
Money Market Funds	533,577	1,388,153
Certificates of Deposit	234,576	3,840,192
	9,314,340	10,288,310
Less Short-Term Investments	2,200,303	2,786,586
	$ 7,114,037	$ 7,501,724

Investments are classified as follows:

	December 31, 2018	December 31, 2017
Those with donor restrictions		
Specified purposes	$ 390,353	$ 515,044
Endowment funds	4,220,805	4,707,892
	4,611,158	5,222,936
Those without donor restrictions	4,703,182	5,065,224
	$ 9,314,340	$ 10,288,310

Gains (losses) included in earnings on investments and restricted funds are reported as follows:

	Years Ended December 31, 2018	Years Ended December 31, 2017
Realized Gains	$ 2,045	$ 444,120
Unrealized Gains (Losses)	(782,593)	130,589
	$ (780,548)	$ 574,709

Professional fees include investment advisory fees $26,001 for the year ended December 31, 2017. Investment advisory fees of $25,664 are included in net investment return on the statement of activities for the year ended December 31, 2018.

NOTE 6 — FAIR VALUE MEASUREMENTS

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at December 31, 2018 and 2017.

- *Mutual funds*: Valued at the daily closing price reported by the fund, which is the quoted publically traded net asset value (NAV) of shares.
- *Money market funds and certificates of deposit*: Valued at quoted prices in markets that are not active which the individual securities are traded.
- *Municipal bonds*: Valued at quoted prices in markets that are not active which the individual bonds securities are traded.
- *Annuities payable:* Valued at the present value of expected future payments to the beneficiary.

The following are the major categories of assets and liabilities measured at fair value on a recurring basis:

	Level 1	Level 2	Level 3	Fair Value	Fair Value
	December 31, 2018				December 31, 2017
Assets-Investments					
Mutual funds					
Equities	$ 3,705,590	$ -	$ -	$ 3,705,590	$ 2,951,977
Fixed income	4,840,597	-	-	4,840,597	2,107,988
	8,546,187	-	-	8,546,187	5,059,965
Money market funds	-	533,577	-	533,577	1,388,153
Certificates of deposit	-	234,576	-	234,576	3,840,192
2018 Totals	$ 8,546,187	$ 768,153	$ -	$ 9,314,340	
2017 Totals	$ 5,059,965	$ 5,228,345	$ -		$ 10,288,310
Assets-Restricted Funds					
2018	$ 171,853	$ -	$ -	$ 171,853	
2017	$ 158,130	$ -	$ -		$ 158,130
Liability-Annuities Payable					
2018	$ -	$ -	$ 8,913	$ 8,913	
2017	$ -	$ -	$ 9,294		$ 9,294

Annuities payable are measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	As of and for the Years Ended December 31, 2018	2017
Balance, Beginning	$ 9,294	$ 131,422
Annuity liquidation resulting in contribution	-	(110,438)
Revaluation of annuities payable	2,327	(6,577)
Payments	(2,708)	(5,113)
Balance, Ending	$ 8,913	$ 9,294

NOTE 7 — PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	December 31, 2018	December 31, 2017
Leasehold Improvements	$ 46,233	$ 46,233
Equipment	98,276	98,276
Furniture and Fixtures	43,269	43,269
	187,778	187,778
Less Accumulated Depreciation	(117,206)	(102,503)
	$ 70,572	$ 85,275

During 2017, the Foundation sold substantially all property and equipment as a result of the closure of its ScholarShops and moved its corporate headquarters to new leased space. During 2017, the Foundation realized a gain on the sale of property and equipment of $640,380.

NOTE 8 — ANNUITIES PAYABLE

The Foundation receives donations from benefactors in exchange for annuities that provide income to a named beneficiary (or beneficiaries) until their death. The difference between the amount of the donation and the present value of expected future payments to the beneficiary is recognized as revenue in the year of the donation. The total expected annual payments are $2,708 at December 31, 2018 and 2017. In calculating the present value of the annuities, the Foundation used a discount rate based on the IRS applicable federal rate for the month the contributions were received, which were applied to the current expected payoff based on the annuitant's remaining expected life.

Future maturities of annuities payable are as follows:

Year Ending December 31,		
2019 - Current Portion		$ 2,708
2020	$ 2,708	
2021	2,708	
2022	789	6,205
		$ 8,913

NOTE 9 — NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods.

	December 31, 2018	December 31, 2017
Subject to expenditure for specified purpose:		
Other program restrictions		
Advising (a) (b)	$ 175,890	$ 61,838
Advocacy	186,771	161,827
Grants (a) (b)	1,305,626	563,330
Loans	13,595	397,076
	1,681,882	1,184,071
Deedee Becker Fund - loans to nursing students	1,081,370	1,012,453
	2,763,252	2,194,524
Subject to the passage of time	99,000	85,655
Endowment funds:		
Subject to the Foundation's spending policy and appropriation:		
Anonymous Fund	309,598	309,598
Arenberg Fund	100,000	100,000
Borck Fund	129,000	129,000
Clark Cox Fund	250,000	250,000
Janney Fund	150,000	150,000
Kipnis Fund	253,600	253,600
Mildred E. and Francis R. Lynch Designated Scholarship Grant Fund	113,156	113,156
The Helen E. Nash, M.D. Educational Trust Fund for Underprivileged Students	300,723	285,773
The Joanne M. Clevinger Scholarship Fund	219,320	219,320
	1,825,397	1,810,447
Earnings allocated to the Deedee Becker Fund - Horncrest Foundation Fund	1,993,442	1,993,442
	3,818,839	3,803,889
Accumulated investment gains	290,263	880,313
	4,109,102	4,684,202
	$ 6,971,354	$ 6,966,381

(a) The Centennial Scholars Program was launched during 2014 in collaboration with Big Brothers Big Sisters of Eastern Missouri (BBBSEMO) to award scholarships to the high school graduating class of 2014, who were Little Brothers, Little Sisters in BBBSEMO's mentoring programs. Students were eligible to receive up to eight semesters of funding at a maximum of $5,000 per semester for undergraduate studies.

In 2018, a new agreement was reached adding students from College Bound and Wyman Teen Leadership Program and stating students may receive up to ten semesters of funding at a maximum of $6,000 per semester. For the years ended December 31, 2018 and 2017, the Foundation granted awards of $672,850 and $215,200, respectively, for this program. During the years ended December 31, 2018 and 2017, the Foundation recognized $1,000,000 and $215,200 of grant revenues, respectively. As of December 31, 2018, $287,150 was available for future grants.

NOTE 9 — NET ASSETS WITH DONOR RESTRICTIONS (Continued)

(b) The BJC Scholars Fund Program agreement was signed during November 2016 between BJC Health System (BJC) and the Foundation. This program will award scholarships to high school graduates in the communities that BJC hospitals are located starting 2017. Each year, BJC will fund $140,000 to be awarded to 14 new students ($10,000 per student per academic year) pursuing higher education and students may receive additional awards of $10,000 per year for four subsequent academic years as long as the student reapplies and continues to meet eligibility requirements. The program is funded by BJC on a reimbursement basis in which the Foundation receives the funds when the Foundation identifies the new students and verifies the renewing students meet renewal requirements. For the years ended December 31, 2018 and 2017, the Foundation granted awards of $270,000 and $140,000, respectively. For the years ended December 31, 2018 and 2017, BJC granted the Foundation $40,000 and $28,000 for student support services such as advising, workshops, financial aid counseling, and additional funding opportunities.

Net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes or by occurrence of other events specified by donors as follows for the year ended December 31, 2018:

Purpose Restrictions	$ 2,207,623
Time Restrictions	201,663
Endowment Appropriations	171,511
Total restrictions released	$ 2,580,797

NOTE 10 — ENDOWMENT

The Foundation's endowment consists of ten funds established by donors to provide for program purposes (Note 9). Net assets associated with endowment funds are classified and reported based on the existence or absence of donor restrictions.

Interpretation of Relevant Law

The Board of Directors of the Foundation has interpreted State Prudent Management of Institutional Funds Act (SPMIFA) as requiring 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 of this interpretation, the Foundation 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 by temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds.

(1) The duration and preservation of the fund
(2) The purposes of the Foundation 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 Foundation
(7) The investment policies of the Foundation

NOTE 10 — ENDOWMENT (Continued)

Return Objectives and Risk Parameters
The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor restricted funds that the Foundation must hold in perpetuity or for a donor specified period. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the appropriate index while assuring a moderate level of investment risk. Therefore, the Foundation expects its endowment assets, over time, to produce an average rate of return of approximately 5.0% annually. Actual returns in any given year may vary from this amount.

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

Spending Policy and How the Investment Objectives Relate to Spending Policy
The spending policy calculates the amount of money annually distributed from the Foundation's various endowed funds, for grant making and administration. The Foundation has a spending policy to distribute each year an amount at least equal to 4.5% of the endowment funds' average historical cost of the prior twelve quarters through the calendar year end preceding the fiscal year. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets and consistency with programs and commitments to students over a long-term period.

Endowment net asset composition by type of fund is as follows:

	December 31, 2018	December 31, 2017
Donor Restricted Funds - Managed by the Foundation		
Original donor restricted gift amount	$ 3,818,839	$ 3,803,889
Accumulated investment gains	290,263	880,313
	$ 4,109,102	$ 4,684,202

Changes in endowment net assets are as follows:

	As of and for the Years Ended December 31, 2018	2017
Endowment Net Assets		
Beginning of year	$ 4,684,202	$ 4,161,443
Gifts	14,950	101,600
Interest and dividends	157,137	166,537
Gains (losses) on investments	(556,061)	423,511
Investment advisory fees	(19,615)	-
Appropriated for expenditure based on spending rate policy	(171,511)	(168,889)
End of year	$ 4,109,102	$ 4,684,202

NOTE 11 — OPERATING LEASES

The Foundation leases certain equipment and office space for ongoing operations under operating leases which expire at various dates through 2027.

Minimum payments on these operating leases are as follows:

Year Ending December 31,	
2019	$ 159,567
2020	163,620
2021	165,060
2022	167,791
2023	170,522
Thereafter	553,241
	$ 1,379,801

Rent expense for ongoing operations, including common area maintenance, was $138,574 and $80,156 for the years ended December 31, 2018 and 2017, respectively, and is included in occupancy in the statement of functional expenses.

Equipment rental expense was $20,557 and $17,782 for the years ended December 31, 2018 and 2017, respectively, and is included in occupancy in the statement of functional expenses.

Effective July 2017, the processing center was subleased to an unaffiliated organization. The lease obligation and the expected common area maintenance costs related to the discontinued operations will be offset by the expected receipt of payments due under the sublease as follows:

Year Ending December 31,	Existing Lease Payments	Expected Common Area Maintenance	Expected Sublease Receipts	Net Lease Obligation#
2019	$ 74,251	$ 50,454	$ (100,598)	$ 24,107
2020	79,042	53,645	(105,389)	27,298
2021	83,832	57,069	(110,179)	30,722
2022	45,274	42,722	(56,686)	31,310
	$ 282,399	$ 203,890	$ (372,852)	113,437
			Current	(24,107)
			Long-Term	$ 89,330

Included in accounts payable and accrued expenses.

Rent expense, including common area maintenance, was $205,718 for the year ended December 31, 2017, and is included in cost of shop operations in the discontinued operations section.

Rent expense of $94,473 was offset by sublease rental income of $98,469 for the year ended December 31, 2018. The net of these amounts of $3,996 is included in other revenue on the statement of activities.

NOTE 12 — DISCONTINUED OPERATIONS

As disclosed in Note 1, the Foundation's ScholarShop stores were closed by midyear 2017, and accordingly, the Foundation has presented certain financial information as discontinued operations in the accompanying statement of activities.

Shop revenues were recognized when merchandise was sold and are presented net of retail and processing expenses on the statement of activities. Advertising for ScholarShop was charged to operations when incurred.

Shop sales, net of retail and processing expenses, of the Foundation's ScholarShop consist of the following:

	Years Ended December 31,	
	2018	2017 #
Shop Sales	$ -	$ 1,135,522
Retail and Processing Expenses		
Salaries, payroll taxes and benefits	-	418,574
Rent	-	205,718
Advertising	-	5,808
Other operating expenses	-	150,273
Depreciation	-	110,379
	-	890,752
	$ -	$ 244,770

Partial year through June 30, 2017

NOTE 13 — DEFERRED COMPENSATION 403(b) PLAN

The Foundation offers a 403(b) deferred compensation plan for all eligible employees upon their first day of employment. After two years of service, the Foundation matches the employee deferred amount, up to 20%. The Foundation contributed a total of $7,927 and $10,385 to the plan for the years ended December 31, 2018 and 2017, respectively.

NOTE 14 — MAJOR PUBLIC SUPPORT

The Foundation received $1,000,000 (22%) and $751,701 (23%) from one donor of its total public support during the years ended December 31, 2018 and 2017, respectively.

NOTE 15 — FUNCTIONAL EXPENSE ALLOCATION

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, and other, which are allocated on the basis of time and effort.

	Years Ended December 31,				
	2018				2017
		Supporting Services			(Prior Year
	Program Services	Management and General	Fund Raising	Total	Totals - Modified Cash Basis)
Functional Expenses - Financial Reporting					
Compensation, Including Payroll Taxes and Employee Benefits	**$ 872,290**	**$ 132,869**	**$ 280,107**	**$ 1,285,266**	$ 1,173,729
Community Programs	**65,782**	**-**	**-**	**65,782**	137,798
Information Technology	**40,782**	**17,236**	**15,372**	**73,390**	56,676
Meetings and Conferences	**69,247**	**5,938**	**-**	**75,185**	9,752
Occupancy	**116,742**	**21,359**	**37,774**	**175,875**	109,758
Other Items	**104,653**	**20,514**	**42,654**	**167,821**	208,096
Professional Fees	**49,209**	**48,297**	**52,050**	**149,556**	164,309
Provision for Uncollectible Loans	**332,121**	**-**	**-**	**332,121**	225,982
Grants - Forgone Interest Not Charged on Student Loans #	**1,827,743**	**-**	**-**	**1,827,743**	-
Grants Awarded	**1,739,542**	**-**	**-**	**1,739,542**	1,049,252
TOTAL EXPENSES - 2018	**$ 5,218,111**	**$ 246,213**	**$ 427,957**	**$ 5,892,281**	
TOTAL EXPENSES - 2017	$ 2,441,833	$ 308,254	$ 385,265		$ 3,135,352
Functional Expenses – Income Tax Reporting (IRS Form 990)					
Expenses Per Financial Reporting	**$ 5,218,111**	**$ 246,213**	**$ 427,957**	**$ 5,892,281**	$ 3,135,352
Expenses - Discontinued Operations	**-**	**-**	**-**	**-**	100,846
Grants - Loans Made to Students	**3,130,345**	**-**	**-**	**3,130,345**	2,963,907
Grants - Forgone Interest Not Charged on Student Loans #	**(1,827,743)**	**-**	**-**	**(1,827,743)**	-
TOTAL EXPENSES - 2018	**$ 6,520,713**	**$ 246,213**	**$ 427,957**	**$ 7,194,883**	
PERCENTAGE - 2018	**90.6%**	**3.4%**	**6.0%**	**100.0%**	
TOTAL EXPENSES - 2017	$ 5,506,585	$ 308,255	$ 385,265		$ 6,200,105
PERCENTAGE - 2017	88.8%	5.0%	6.2%		100.0%

Refer to Note 1 on page 10.

NOTE 16 — SUBSEQUENT EVENT

The Foundation was named one of the beneficiaries of a donor's estate. On March 6, 2019, the Foundation received $3,800,000 of funds from the donor's estate.