

# Spaulding for Children

## FINANCIAL STATEMENTS


December 31, 2014 and 2013



**CRI** CARR  
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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Spaulding for Children  
Houston, Texas

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

We have audited the accompanying financial statements of Spaulding for Children (a nonprofit organization) (the "Organization"), which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Spaulding for Children as of December 31, 2014 and 2013, 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.

*Carr, Riggs & Ingram, L.L.C.*

Houston, Texas

May 21, 2015

## Spaulding for Children Statements of Financial Position

<i>December 31,</i>	<b>2014</b>	2013
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 248,768	\$ 105,905
Accounts receivable - Texas Department of Family and Protective Services	215,321	196,051
Accounts receivable - other	5,079	7,055
Pledges receivable	234,988	241,200
Prepaid expenses	24,643	16,369
Investments	324,399	348,453
Total current assets	1,053,198	915,033
Property and equipment, net	41,092	23,419
Long-term assets		
Pledges receivable	-	65,000
Total assets	\$ 1,094,290	\$ 1,003,452
<b>Liabilities and net assets</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 92,379	\$ 101,303
Deferred revenue	13,283	-
Current portion of long-term debt	4,656	-
Line of credit	-	50,000
Total current liabilities	110,318	151,303
Long-term debt, net of current portion	12,106	-
Total liabilities	122,424	151,303
<b>Commitment and contingencies</b>		
Net Assets		
Unrestricted	397,757	229,755
Temporarily restricted	343,230	391,515
Permanently restricted	230,879	230,879
Total net assets	971,866	852,149
Total liabilities and net assets	\$ 1,094,290	\$ 1,003,452

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

## Spaulding for Children Statement of Activities and Changes in Net Assets

*For the year ended December 31,*

**2014**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue and support</b>				
Fees from Texas Department of Family and Protective Services	\$ 1,004,031	\$ -	\$ -	\$ 1,004,031
Federal and state awards	518,726	-	-	518,726
United Way allocation	-	220,008	-	220,008
Contributions and grants	129,428	383,192	-	512,620
Special events, net of direct donor benefit cost of \$28,862	196,937	-	-	196,937
Program service fees	26,599	-	-	26,599
Investment income	895	3,960	-	4,855
Net assets released from restrictions	655,445	(655,445)	-	-
<b>Total revenue and support</b>	<b>2,532,061</b>	<b>(48,285)</b>	<b>-</b>	<b>2,483,776</b>
<b>Expenses</b>				
Program services				
Core adoption program	483,859	-	-	483,859
Post adoption program	637,679	-	-	637,679
Foster care program	1,012,849	-	-	1,012,849
<b>Total program services</b>	<b>2,134,387</b>	<b>-</b>	<b>-</b>	<b>2,134,387</b>
Management and general	132,359	-	-	132,359
Fundraising	97,313	-	-	97,313
<b>Total expenses</b>	<b>2,364,059</b>	<b>-</b>	<b>-</b>	<b>2,364,059</b>
<b>Increase (decrease) in net assets</b>	<b>168,002</b>	<b>(48,285)</b>	<b>-</b>	<b>119,717</b>
<b>Net assets, beginning of year</b>	<b>229,755</b>	<b>391,515</b>	<b>230,879</b>	<b>852,149</b>
<b>Net assets, end of year</b>	<b>\$ 397,757</b>	<b>\$ 343,230</b>	<b>\$ 230,879</b>	<b>\$ 971,866</b>

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

## Spaulding for Children Statement of Activities and Changes in Net Assets

*For the year ended December 31,*

**2013**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue and support</b>				
Fees from Texas Department of Family and Protective Services	\$ 1,082,140	\$ -	\$ -	\$ 1,082,140
Federal and state awards	466,490	-	-	466,490
United Way allocation	-	235,443	-	235,443
Contributions and grants	81,840	427,581	-	509,421
Special events, net of direct donor benefit cost of \$21,653	129,062	-	-	129,062
Program service fees	27,827	-	-	27,827
Investment income	13,715	30,901	-	44,616
Loss on disposal of equipment	(5,075)	-	-	(5,075)
Net assets released from restrictions	538,687	(538,687)	-	-
<b>Total revenue and support</b>	<b>2,334,686</b>	<b>155,238</b>	<b>-</b>	<b>2,489,924</b>
<b>Expenses</b>				
Program services				
Core adoption program	490,406	-	-	490,406
Post adoption program	680,034	-	-	680,034
Foster care program	1,065,006	-	-	1,065,006
<b>Total program services</b>	<b>2,235,446</b>	<b>-</b>	<b>-</b>	<b>2,235,446</b>
Management and general	112,024	-	-	112,024
Fundraising	78,006	-	-	78,006
<b>Total expenses</b>	<b>2,425,476</b>	<b>-</b>	<b>-</b>	<b>2,425,476</b>
<b>Increase (Decrease) in net assets</b>	<b>(90,790)</b>	<b>155,238</b>	<b>-</b>	<b>64,448</b>
<b>Net assets, beginning of year</b>	<b>320,545</b>	<b>236,277</b>	<b>230,879</b>	<b>787,701</b>
<b>Net assets, end of year</b>	<b>\$ 229,755</b>	<b>\$ 391,515</b>	<b>\$ 230,879</b>	<b>\$ 852,149</b>

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

**Spaulding for Children  
Statement of Functional Expenses**

*For the year ended December 31,*

**2014**

	Core Adoption Program	Post Adoption Program	Foster Care Program	Management and General	Fundraising	Total Expenses
Conference and meetings	\$ 3,372	\$ 318	\$ 997	\$ 1,715	\$ -	\$ 6,402
Depreciation	848	1,109	1,044	164	273	3,438
Equipment	2,578	2,072	3,555	1,140	1,453	10,798
Foster care and respite assistance	2,082	15,582	438,180	-	-	455,844
Insurance	9,701	12,686	11,940	5,238	1,119	40,684
Membership dues	1,648	1,525	1,504	294	177	5,148
Occupancy costs	48,439	54,249	66,665	26,666	7,619	203,638
Other	790	301	-	2,319	5,325	8,735
Postage	712	1,062	653	882	1,207	4,516
Printing and publications	-	1,825	-	4,900	600	7,325
Professional fees	29,831	144,945	26,782	5,775	11,549	218,882
Salaries and related expenses	341,231	367,346	425,032	78,059	58,412	1,270,080
Scholarships and awards	-	12,855	-	-	-	12,855
Supplies	5,680	8,666	8,239	2,522	7,565	32,672
Telephone	11,041	9,384	8,838	1,933	982	32,178
Travel	25,906	3,754	19,420	752	1,032	50,864
<b>Total</b>	<b>\$ 483,859</b>	<b>\$ 637,679</b>	<b>\$ 1,012,849</b>	<b>\$ 132,359</b>	<b>\$ 97,313</b>	<b>\$ 2,364,059</b>

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



**Spaulding for Children  
Statement of Functional Expenses**

*For the year ended December 31,*

							2013
	Core Adoption Program	Post Adoption Program	Foster Care Program	Management and General	Fundraising	Total Expenses	
Conference and meetings	\$ 5,736	\$ 179	\$ 125	\$ 1,786	\$ 41	\$	7,867
Depreciation	636	666	666	104	85		2,157
Equipment	1,697	1,174	2,623	1,350	1,221		8,065
Foster care and respite assistance	-	26,746	484,456	-	-		511,202
Insurance	11,497	13,668	13,668	5,275	1,708		45,816
Membership dues	1,869	1,504	1,504	240	508		5,625
Occupancy costs	49,890	57,056	66,665	26,666	7,619		207,896
Other	3,517	522	135	3,897	4,292		12,363
Postage	1,028	1,386	838	1,307	1,453		6,012
Printing and publications	-	-	-	4,300	716		5,016
Professional fees	27,840	186,689	22,665	2,739	11,200		251,133
Salaries and related expenses	333,609	351,882	435,770	59,111	39,823		1,220,195
Scholarships and awards	-	16,759	-	-	-		16,759
Supplies	6,445	8,555	4,871	1,841	7,586		29,298
Telephone	11,334	9,928	9,503	2,062	978		33,805
Travel	35,308	3,320	21,317	1,346	776		62,067
<b>Total</b>	<b>\$ 490,406</b>	<b>\$ 680,034</b>	<b>\$ 1,064,806</b>	<b>\$ 112,024</b>	<b>\$ 78,006</b>	<b>\$</b>	<b>2,425,276</b>

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

## Spaulding for Children Statements of Cash Flows

<i>For the years ended December 31,</i>	<b>2014</b>	2013
<b>Operating activities</b>		
Change in net assets	\$ 119,717	\$ 64,448
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Unrealized gain (loss) on investments	34,009	(19,646)
Depreciation	3,438	2,157
Loss on disposal of equipment	-	5,075
Changes in operating assets and liabilities		
Accounts receivable -Texas Department of Family and Protective Services	(19,270)	85,080
Accounts receivable - other	1,976	11,737
Pledges receivable	71,212	(134,254)
Prepaid expenses	2,188	1,770
Accounts payable and accrued liabilities	(8,924)	(76,141)
Deferred revenue	13,283	-
<b>Net cash provided by (used in) operating activities</b>	<b>217,629</b>	<b>(59,774)</b>
<b>Investing activities</b>		
Purchases of investments	(9,955)	(5,508)
Purchases of property and equipment	(14,811)	-
<b>Net cash used in investing activities</b>	<b>(24,766)</b>	<b>(5,508)</b>
<b>Financing activities</b>		
Repayments on line of credit	(50,000)	-
Borrowings from line of credit	-	50,000
<b>Net cash (used in) provided by financing activities</b>	<b>(50,000)</b>	<b>50,000</b>
<b>Net change in cash and cash equivalents</b>	<b>142,863</b>	<b>(15,282)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>105,905</b>	<b>121,187</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 248,768</b>	<b>\$ 105,905</b>
<b>Supplemental disclosure of cash flow information</b>		
Interest paid	\$ 714	\$ 638
<b>Supplemental disclosure of noncash investing activities</b>		
Disposal of fully depreciated property and equipment	\$ 60,089	\$ -
Software purchase and maintenance services financed with long-term debt	\$ 16,762	\$ -

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

## Spaulding for Children Notes to Financial Statements

### NOTE 1: ORGANIZATION

Providing children in need of a loving home with the joy of having one, Spaulding for Children (the "Organization") was incorporated in 1980 to build and sustain strong, nurturing families for children who have endured abuse, neglect or abandonment. Services provided by the Organization include foster care for children who are awaiting permanent placement; recruitment of adoptive families; education for adoptive families; adoptive placement activities; supervision of adoptive families; and post adoption services such as individual, family and group therapy, respite care, day treatment, and residential treatment. The Organization is headquartered in Houston, Texas with offices in Corpus Christi, Texas, and Brownsville, Texas.

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### ***Basis of Accounting***

The Organization's financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Organization's resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

*Unrestricted* – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

*Temporarily Restricted* – Net assets whose use by the Organization is subject to donor imposed stipulations that can be fulfilled by action of the Organization pursuant to those stipulations or that expire by the passage of time.

*Permanently Restricted* – Net assets subject to donor imposed stipulations that assets be maintained permanently by the Organization. Generally, the donor of these assets permits the Organization to use all or part of the investment income on these assets. The investment income is used to provide scholarships and support the adoption program.

Support that is restricted by the donor and is to be used in future periods or for a specific purpose is reported as an increase in temporarily restricted or permanently restricted net assets in the reporting period in which the support is recognized. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions.

#### ***Cash Equivalents***

The Organization considers all highly liquid investments with initial maturities of three months or less at the time of purchase to be cash equivalents.

## Spaulding for Children Notes to Financial Statements

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### ***Pledges Receivable***

Pledges are recorded as revenue in the year they are received unless they contain a conditional promise to give. Conditional promises to give are not included as revenue until the conditions have been substantially met. Pledges receivable that are expected to be collected within one year are recorded at net realizable value. Amounts that are expected to be collected in future years are discounted to estimate the present value of future cash flows, if material.

#### ***Fair Value Considerations***

The Organization uses fair value to measure certain financial and nonfinancial assets and liabilities. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair value hierarchy established and prioritized fair value measurements into three levels based on the nature of the inputs. The hierarchy gives the highest priority to inputs based on market data from independent sources (observable inputs-Level 1) and the lowest priority to a reporting entity's internal assumptions based upon the best information available when external market data is limited or unavailable (unobservable inputs-Level 3).

The fair value option allows entities to choose, at specified election dates, to measure eligible financial assets and financial liabilities at fair value that are not otherwise required to be measured at fair value. If an organization elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in current earnings. The Organization did not elect the fair value option for the measurement of any eligible assets or liabilities.

The Organization's financial instruments (primarily cash and cash equivalents, receivables, investments and accounts payable) are carried in the financial statements at amounts that reasonably approximate fair value.

#### ***Investments***

Investments are recorded at fair value based on quoted market price. The net change in unrealized appreciation or depreciation of investments during the year is recorded as investment income in unrestricted net assets in the statement of activities and changes in net assets unless the use of the income is limited by donor-imposed restrictions. Investment income whose use is restricted by the donor is reported as an increase (decrease) in temporarily restricted net assets.

#### ***Property and Equipment***

Property and equipment are recorded at cost, or in the case of donated property, at the approximate fair value at the date of donation. Depreciation is provided on a straight-line basis over the estimated useful lives which range from five to twenty years.



## Spaulding for Children Notes to Financial Statements

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### ***Fees for Service***

Revenues from government grants and program services are recognized when the related services are provided.

#### ***Donated Materials and Services***

A substantial number of volunteers have contributed significant amounts of time in conjunction with the program services and administration of the Organization for which no amount has been recorded in the financial statements because the services did not meet the criteria for recognition under accounting principles generally accepted in the United States of America.

#### ***Functional Expenses***

The majority of expenses can generally be directly identified with the program or supporting services to which they relate and are charged accordingly. Other expenses have been allocated among the programs and supporting services benefited based on various determinations by management.

#### ***Income Taxes***

The Organization is exempt from Federal income tax under Section 501 (c)(3) of the Internal Revenue Code and is classified as a public charity under Section 509(b)(1)(A)(vi).

The Organization accounts for uncertain tax positions, when it is more likely than not, that such an asset or a liability will be realized. As of December 31, 2014 and 2013, management believes there were no uncertain tax positions.

#### ***Concentration of Credit Risk***

At various times during the year, the Organization's cash balances may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents, due to the financial strength of the financial institutions where deposits are held.

Credit risk for accounts and pledges receivable is concentrated as well because substantially all of the balances are receivables from foundations and agencies located within the same geographic region.

## Spaulding for Children Notes to Financial Statements

### NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *Use of Estimates*

In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that have the most impact on financial position and results of operations primarily relate to the collectability of accounts and pledges receivable, certain accrued liabilities and allocation of expense by function. Management believes these estimates and assumptions provide a reasonable basis for the fair presentation of the financial statements.

#### *Subsequent Events*

The Organization has evaluated subsequent events through the time the financial statements are available for issuance on May 21, 2015. No matters were identified affecting the accompanying financial statements or related disclosures that have not been disclosed elsewhere.

### NOTE 3: PLEDGES RECEIVABLE

Pledges receivables consisted of the following:

<i>December 31,</i>	<b>2014</b>	2013
Less than one year		
United Way	\$ 52,258	\$ 56,082
Other pledges	<b>182,730</b>	185,118
One to five years		
Other pledges	-	65,000
<b>Total pledges receivable</b>	<b>\$ 234,988</b>	<b>\$ 306,200</b>

## Spaulding for Children Notes to Financial Statements

### NOTE 4: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

<i>December 31,</i>	<b>2014</b>	2013
Furniture and equipment	\$ 86,105	\$ 125,083
Less: accumulated depreciation	<b>(45,013)</b>	(101,664)
<b>Property and equipment, net</b>	<b>\$ 41,092</b>	\$ 23,419

Depreciation expense for each of the years ended December 31, 2014 and 2013 was \$3,438 and \$2,157 respectively.

### NOTE 5: 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 three tier fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are as follows:

*Level 1* – Quoted market prices in active markets for identical assets or liabilities.

*Level 2* – Inputs other than Level 1 inputs that are either directly or indirectly observable such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable; or other inputs not directly observable, but derived principally from, or corroborated by, observable market data.

*Level 3* – Unobservable inputs that are supported by little or no market activity.

Investments in mutual funds are carried at fair value based on quoted market values in active markets (Level 1).

## Spaulding for Children Notes to Financial Statements

### NOTE 5: FAIR VALUE MEASUREMENTS (Continued)

Fair value of financial assets measured on a recurring basis at December 31, 2014 and 2013 are as follows:

<i>December 31,</i>	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2014 Mutual funds (1)	\$ 324,399	\$ 324,399	\$ -	\$ -
2013 Mutual funds (1)	\$ 348,453	\$ 348,453	\$ -	\$ -

(1) The strategy is focused on providing long-term growth of the assets for future needs without exposure to undue risk. The fund invests a significant portion of its portfolio in mutual funds, closed end funds and UITs as determined by the adviser.

The following summarizes the investment return in the statements of activities and changes in net assets:

<i>For the years ended December 31,</i>	<b>2014</b>	2013
Interest and dividend income	\$ 38,865	\$ 24,970
Net realized and unrealized gain (loss)	<b>(34,010)</b>	19,646
<b>Total investment return</b>	<b>\$ 4,855</b>	<b>\$ 44,616</b>

### NOTE 6: COMPENSATED ABSENCES

Employees earn annual vacation leave monthly. Accrued vacation hours may be payable upon termination. The Organization has accrued approximately \$15,000 at December 31, 2014 and 2013, related to accumulated earned vacation.

### NOTE 7: LINE OF CREDIT

Spaulding for Children has a line of credit with a bank totaling \$100,000. The line has a maturity date of May 15, 2015 and is unsecured. Borrowings under the credit agreement bear interest at 1% over the current Index (4.250%). As of December 31, 2014, the Organization's did not have an outstanding balance.

As of May 21, 2015, the renewal of this line of credit is in process.



## Spaulding for Children Notes to Financial Statements

### NOTE 8: LONG TERM DEBT

During 2014, the Organization purchased software licenses and maintenance services through a software finance agreement with a financial institution. The Organization pays monthly installments of \$466 through February 2018. The agreement bears no interest and is unsecured.

Annual payments for the years subsequent to December 31, 2014 are as follows:

*For the year ending December 31,*

2015	\$	4,656
2016		5,587
2017		5,587
2018		932
<b>Total</b>		<b>\$ 16,762</b>

### NOTE 9: RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes:

<i>December 31,</i>	<b>2014</b>	2013
Core adoption program	<b>\$ 203,525</b>	\$ 272,885
Post adoption program	<b>57,896</b>	21,153
Foster care program	<b>10,373</b>	12,418
Scholarships for adopted children, accumulated undistributed earnings	<b>71,436</b>	85,059
<b>Total temporarily restricted net assets</b>	<b>\$ 343,230</b>	<b>\$ 391,515</b>

Permanently restricted net assets are available for the following purposes:

<i>December 31,</i>	<b>2014</b>	2013
Holland Endowment - scholarships for adopted children	<b>\$ 162,632</b>	\$ 162,632
Fondren Endowment - core adoption program	<b>68,247</b>	68,247
<b>Total permanently restricted net assets</b>	<b>\$ 230,879</b>	<b>\$ 230,879</b>

## Spaulding for Children Notes to Financial Statements

### NOTE 10: NET ASSETS RELEASED FROM RESTRICTIONS

During the years ended December 31, 2014 and 2013, temporarily restricted net assets of \$655,445 and \$538,687, respectively, were released from donor restrictions by satisfying donor restrictions.

### NOTE 11: ENDOWMENTS

#### *Interpretation of Relevant Law*

The Endowment Fund Trustees of the Organization has interpreted the Texas Uniform Prudent Management of Institutional Funds Act (the Act) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts donated 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 Holland donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by the Act. The remaining portion of the Fondren donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted net assets.

In accordance with the Act, the Organization considers the following factors in making the determination to appropriate or accumulate donor-restricted endowment funds:

- Duration and preservation of the funds
- Purposes of the Organization and the donor-restricted endowment fund
- General economic conditions
- Possible effect of inflation and deflation
- Earnings of the fund the previous year such that the fund's value will increase at least at the rate of inflation as reported by the U.S. Department of Labor, Bureau of Labor Statistics.
- Other resources of the Organization
- Investment policies of the Endowment Fund

#### *Return Objective and Risk Parameters*

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for scholarships supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, the endowment assets are invested in a manner to provide long-term growth of the assets for future needs without exposure to undue risk.

## Spaulding for Children Notes to Financial Statements

### NOTE 11: ENDOWMENTS (Continued)

#### *Strategies Employed for Achieving Objectives*

To satisfy its long-term growth objectives, the Organization 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 Organization targets an asset allocation that will achieve its long-term return objectives within prudent risk constraints.

#### *Spending Policy and How the Investment Objectives Relate to Spending Policy*

The Organization has a policy of appropriating for distribution each year the percent of the fair market value of the assets of the fund on December 31 of the preceding year. The Board of Directors may elect not to receive the full amount available. The percentage of the fair market value of the fund that is made available to the Organization shall be based on the earnings of the fund the previous year and so that the fund's value will increase at least at the rate of inflation as reported by the U.S. Department of Labor, Bureau of Labor Statistics.

The following tables describe the Organization's endowment net asset composition by type of fund and the changes in endowment net assets as of and for the years ended December 31, 2014 and 2013:

Endowment net asset composition by type of fund:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
December 31, 2014				
Donor-restricted endowment funds	\$ 23,453	\$ 71,436	\$ 230,879	\$ 325,768
December 31, 2013				
Donor-restricted endowment funds	\$ 33,794	\$ 85,059	\$ 230,879	\$ 349,732

**Spaulding for Children  
Notes to Financial Statements**

**NOTE 11: ENDOWMENTS (Continued)**

Changes in the Endowment net assets for the years end December 31, 2014 and 2013:

	Unrestricted	Temporarily	Permanently	Total
Endowment net assets, January 1, 2013	\$ 24,258	\$ 69,436	\$ 230,879	\$ 324,573
Investment income	13,715	30,901	-	44,616
Contributions	-	-	-	-
Appropriation of endowment assets for expenditure	(3,984)	(15,104)	-	(19,088)
Other Changes – fees paid	(195)	(174)	-	(369)
Endowment net assets, December 31, 2013	<b>33,794</b>	<b>85,059</b>	<b>230,879</b>	<b>349,732</b>
Investment income	<b>895</b>	<b>3,960</b>	-	<b>4,855</b>
Contributions	-	-	-	-
Appropriation of endowment assets for expenditure	<b>(10,938)</b>	<b>(17,282)</b>	-	<b>(28,220)</b>
Other changes – fees paid	<b>(298)</b>	<b>(301)</b>	-	<b>(599)</b>
Endowment net assets, December 31, 2014	<b>\$ 23,453</b>	<b>\$ 71,436</b>	<b>\$ 230,879</b>	<b>\$ 325,768</b>

**NOTE 12: COMMITMENTS**

The Organization leases office space and equipment under noncancellable operating leases expiring through October 2016. During the years ended December 31, 2014 and 2013, lease expense amounted to approximately \$212,000 and \$214,000, respectively.

Future minimum lease commitments are as follows:

<i>For the year ending December 31,</i>	
2015	\$ 127,972
2016	827
<b>Total</b>	<b>\$ 128,799</b>