

SPAULDING FOR CHILDREN
(A Texas Non-Profit Organization)

FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011



GAINER | DONNELLY

SPAULDING FOR CHILDREN
(A Texas Non-Profit Organization)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Spaulding for Children
Houston, Texas

We have audited the financial statements of Spaulding for Children (a nonprofit organization) (the "Organization"), which comprise the statements of financial position as of December 31, 2012 and 2011, 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 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 organization'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 organization'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, 2012 and 2011, 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.

Gainer Donnelly LLP

May 16, 2013

SPAULDING FOR CHILDREN
(A Texas Non-Profit Organization)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011

ASSETS	<u>2012</u>	<u>2011</u>
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 121,187	\$ 132,533
Accounts Receivable - Texas Department of Family and Protective Services	281,131	431,033
Accounts Receivable - Other	18,792	19,250
Pledges Receivable	171,946	271,732
Prepaid Expenses	18,139	17,811
Investments	<u>323,299</u>	<u>307,292</u>
Total Current Assets	934,494	1,179,651
PROPERTY AND EQUIPMENT, NET	<u>30,651</u>	<u>33,177</u>
TOTAL ASSETS	<u>\$ 965,145</u>	<u>\$ 1,212,828</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts Payable and Accrued Liabilities	\$ 177,444	\$ 257,530
COMMITMENTS AND CONTINGENCIES		
NET ASSETS:		
Unrestricted	320,545	408,693
Temporarily Restricted	236,277	315,726
Permanently Restricted	<u>230,879</u>	<u>230,879</u>
TOTAL NET ASSETS	<u>787,701</u>	<u>955,298</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 965,145</u>	<u>\$ 1,212,828</u>

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

SPAULDING FOR CHILDREN
(A Texas Non-Profit Organization)
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012				2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT:								
Fees from Texas Department of Family and Protective Services	\$ 1,040,407	\$ -	\$ -	\$ 1,040,407	\$ 1,221,866	\$ -	\$ -	\$ 1,221,866
Federal and State Awards	799,138	-	-	799,138	1,079,520	-	-	1,079,520
United Way Allocation	-	251,093	-	251,093	-	255,877	-	255,877
Contributions and Grants	165,250	457,511	-	622,761	123,650	547,314	-	670,964
Special Events, Net of Direct Donor Benefit Costs of \$24,521 and \$33,255 respectively	69,432	-	-	69,432	97,783	-	-	97,783
Program Service Fees	34,875	-	-	34,875	34,588	-	-	34,588
Investment Income	8,648	20,678	-	29,326	(3,420)	(10,187)	-	(13,607)
Net Assets Released from Restrictions	<u>808,731</u>	<u>(808,731)</u>	<u>-</u>	<u>-</u>	<u>749,275</u>	<u>(749,275)</u>	<u>-</u>	<u>-</u>
Total Revenue and Support	2,926,481	(79,449)	-	2,847,032	3,303,262	43,729	-	3,346,991
EXPENSES:								
Program Services:								
Core Adoption Program	661,104	-	-	661,104	747,865	-	-	747,865
Post Adoption Program	1,129,425	-	-	1,129,425	1,349,853	-	-	1,349,853
Foster Care Program	<u>1,042,799</u>	<u>-</u>	<u>-</u>	<u>1,042,799</u>	<u>948,293</u>	<u>-</u>	<u>-</u>	<u>948,293</u>
Total Program Services	2,833,328	-	-	2,833,328	3,046,011	-	-	3,046,011
Management and General	111,972	-	-	111,972	124,981	-	-	124,981
Fundraising	<u>69,329</u>	<u>-</u>	<u>-</u>	<u>69,329</u>	<u>78,573</u>	<u>-</u>	<u>-</u>	<u>78,573</u>
Total Expenses	<u>3,014,629</u>	<u>-</u>	<u>-</u>	<u>3,014,629</u>	<u>3,249,565</u>	<u>-</u>	<u>-</u>	<u>3,249,565</u>
INCREASE (DECREASE) IN NET ASSETS	(88,148)	(79,449)	-	(167,597)	53,697	43,729	-	97,426
NET ASSETS AT BEGINNING OF YEAR	<u>408,693</u>	<u>315,726</u>	<u>230,879</u>	<u>955,298</u>	<u>354,996</u>	<u>271,997</u>	<u>230,879</u>	<u>857,872</u>
NET ASSETS AT END OF YEAR	<u>\$ 320,545</u>	<u>\$ 236,277</u>	<u>\$ 230,879</u>	<u>\$ 787,701</u>	<u>\$ 408,693</u>	<u>\$ 315,726</u>	<u>\$ 230,879</u>	<u>\$ 955,298</u>

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

SPAULDING FOR CHILDREN
(A Texas Non-Profit Organization)
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012

	Core Adoption Program	Post Adoption Program	Foster Care Program	Management and General	Fundraising	Total Expenses
Conferences and Meetings	\$ 3,225	\$ 479	\$ 250	\$ 1,433	\$ 65	\$ 5,452
Depreciation	1,277	507	597	83	62	2,526
Equipment	7,295	4,067	2,686	789	1,205	16,042
Foster Care and Respite Assistance	-	46,080	479,014	-	-	525,094
Insurance	14,655	14,212	12,694	4,699	1,293	47,553
Membership Dues	2,276	1,845	1,456	217	163	5,957
Occupancy Costs	60,739	73,053	65,407	26,162	7,475	232,836
Other	1,114	654	282	1,500	4,052	7,602
Postage	1,425	2,521	643	1,716	901	7,206
Printing and Publications	-	20	-	4,525	2,174	6,719
Professional Fees	27,987	480,627	23,428	2,080	1,604	535,726
Salaries and Related Expenses	479,417	452,415	423,054	63,985	46,367	1,465,238
Scholarships and Awards	-	15,104	-	-	-	15,104
Supplies	10,214	9,910	3,595	1,937	2,567	28,223
Telephone	14,080	13,044	7,854	1,816	733	37,527
Travel	37,400	14,887	21,839	1,030	668	75,824
Total	<u>\$ 661,104</u>	<u>\$ 1,129,425</u>	<u>\$ 1,042,799</u>	<u>\$ 111,972</u>	<u>\$ 69,329</u>	<u>\$ 3,014,629</u>

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

SPAULDING FOR CHILDREN
(A Texas Non-Profit Organization)
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Core Adoption Program	Post Adoption Program	Foster Care Program	Management and General	Fundraising	Total Expenses
Conferences and Meetings	\$ 2,526	\$ 180	\$ -	\$ 952	\$ 174	\$ 3,832
Depreciation	1,163	795	423	83	62	2,526
Equipment	5,008	8,376	3,548	750	1,257	18,939
Foster Care and Respite Assistance	-	47,844	488,870	-	-	536,714
Insurance	14,040	18,073	8,975	4,571	1,171	46,830
Membership Dues	3,041	2,295	1,120	257	150	6,863
Occupancy Costs	52,729	78,720	48,252	32,743	12,063	224,507
Other	2,468	1,454	548	1,931	5,068	11,469
Postage	1,555	3,063	593	1,272	1,865	8,348
Printing and Publications	-	-	-	4,150	1,544	5,694
Professional Fees	40,006	490,797	23,367	2,509	2,558	559,237
Salaries and Related Expenses	553,824	614,501	343,010	69,010	46,329	1,626,674
Scholarships and Awards	-	12,573	-	-	-	12,573
Supplies	10,052	22,203	3,822	3,357	3,988	43,422
Telephone	11,795	17,878	6,071	1,807	645	38,196
Travel	49,658	31,101	19,694	1,589	1,699	103,741
Total	<u>\$ 747,865</u>	<u>\$ 1,349,853</u>	<u>\$ 948,293</u>	<u>\$ 124,981</u>	<u>\$ 78,573</u>	<u>\$ 3,249,565</u>

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

SPAULDING FOR CHILDREN
(A Texas Non-Profit Organization)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ (167,597)	\$ 97,426
Adjustments to Reconcile Change in Net Assets to Net Cash Used in Operating Activities:		
Unrealized (Gains) Losses on Investments	(23,304)	25,869
Depreciation	2,526	2,526
Changes in Operating Assets and Liabilities:		
Accounts Receivable -Texas Department of Family and Protective Services	149,902	(188,820)
Accounts Receivable - Other	458	(7,335)
Pledges Receivable	99,786	(71,274)
Prepaid Expenses	(328)	1,025
Accounts Payable and Accrued Liabilities	<u>(80,086)</u>	<u>107,865</u>
Net Cash Used in Operating Activities	(18,643)	(32,718)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Sales of Investments	<u>7,297</u>	<u>2,036</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(11,346)	(30,682)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>132,533</u>	<u>163,215</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 121,187</u>	<u>\$ 132,533</u>

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

SPAULDING FOR CHILDREN
(A Texas Non-Profit Organization)
NOTES TO THE 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 POLICES

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.

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.

SPAULDING FOR CHILDREN
(A Texas Non-Profit Organization)
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

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.

SPAULDING FOR CHILDREN
(A Texas Non-Profit Organization)
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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, 2012 and 2011, 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. Management believes that it is not exposed to any significant credit risk on cash accounts, 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.

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 16, 2013. No matters were identified affecting the accompanying financial statements or related disclosures.

SPAULDING FOR CHILDREN
(A Texas Non-Profit Organization)
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 – PLEDGES RECEIVABLE

Pledges are due to be collected as follows at December 31:

	2012	2011
Less than One Year:		
United Way	\$ 59,933	\$ 63,728
Other Pledges	112,013	208,004
Total Pledges Receivable	\$ 171,946	\$ 271,732

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	2012	2011
Furniture and Equipment	\$ 133,973	\$ 133,973
Less: Accumulated Depreciation	(103,322)	(100,796)
Property and Equipment, Net	\$ 30,651	\$ 33,177

Depreciation expense for each of the years ended December 31, 2012 and 2011 was \$2,526.

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
(A Texas Non-Profit Organization)
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 – FAIR VALUE MEASUREMENTS – CONTINUED

Fair value of financial assets measured on a recurring basis at December 31, 2012 and 2011 are as follows:

	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
December 31, 2012:				
Mutual Funds (1)	\$ <u>323,299</u>	\$ <u>323,299</u>	\$ <u>-</u>	\$ <u>-</u>
December 31, 2011:				
Mutual Funds (1)	\$ <u>307,292</u>	\$ <u>307,292</u>	\$ <u>-</u>	\$ <u>-</u>

- (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 statement of activities for the years ended December 31:

	<u>2012</u>	<u>2011</u>
Interest and Dividend Income	\$ 6,022	\$ 12,262
Net Realized and Unrealized Gains (Losses)	<u>23,304</u>	<u>(25,869)</u>
Total Investment Gains (Losses)	\$ <u>29,326</u>	\$ <u>(13,607)</u>

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, 2012 and 2011, related to accumulated earned vacation.

NOTE 7 – RESTRICTIONS ON NET ASSETS

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

	<u>2012</u>	<u>2011</u>
Core Adoption Program	\$ 137,109	\$ 213,691
Post Adoption Program	16,399	26,198
Foster Care Program	13,333	14,343
Scholarships for Adopted Children, Accumulated Undistributed Earnings	<u>69,436</u>	<u>61,494</u>
Total Temporarily Restricted Net Assets	\$ <u>236,277</u>	\$ <u>315,726</u>

SPAULDING FOR CHILDREN
(A Texas Non-Profit Organization)
NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 – RESTRICTIONS ON NET ASSETS – CONTINUED

Permanently restricted net assets are available for the following purposes at December 31:

	2012	2011
Holland Endowment - Scholarships for Adopted Children	\$ 162,632	\$ 162,632
Fondren Endowment - Core Adoption Program	68,247	68,247
Total Permanently Restricted Net Assets	\$ 230,879	\$ 230,879

NOTE 8 – NET ASSETS RELEASED FROM RESTRICTIONS

During the years ended December 31, 2012 and 2011, temporarily restricted net assets of \$808,731 and \$749,275, respectively, were released from donor restrictions by satisfying donor restrictions.

NOTE 9 – 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 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. 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 Objectives 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
(A Texas Non-Profit Organization)
NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 – 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, 2012 and 2011:

Endowment Net Asset Composition by Type of Fund

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
December 31, 2012:				
Donor-Restricted Endowment Funds	\$ <u>24,258</u>	\$ <u>69,436</u>	\$ <u>230,879</u>	\$ <u>324,573</u>
December 31, 2011:				
Donor-Restricted Endowment Funds	\$ <u>15,756</u>	\$ <u>61,494</u>	\$ <u>230,879</u>	\$ <u>308,129</u>

Changes in Endowment Net Assets for the Year Ended December 31, 2012 and 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, January 1, 2011	\$ 26,307	\$ 78,943	\$ 230,879	\$ 336,129
Investment Income	(3,776)	(10,187)	-	(13,963)
Contributions	-	-	-	-
Appropriation of Endowment Assets for Expenditure	(6,629)	(7,099)	-	(13,728)
Other Changes – Fees Paid	(146)	(163)	-	(309)
Endowment Net Assets, December 31, 2011	15,756	61,494	230,879	308,129
Investment Income	8,648	20,678	-	29,326
Contributions	-	-	-	-
Appropriation of Endowment Assets for Expenditure	-	(12,573)	-	(12,573)
Other Changes – Fees Paid	(146)	(163)	-	(309)
Endowment Net Assets, December 31, 2012	\$ <u>24,258</u>	\$ <u>69,436</u>	\$ <u>230,879</u>	\$ <u>324,573</u>

SPAULDING FOR CHILDREN
(A Texas Non-Profit Organization)
NOTES TO THE FINANCIAL STATEMENTS

NOTE 10 – COMMITMENTS

The Organization leases office space and equipment under noncancellable operating leases expiring through October 2016. During the years ended December 31, 2012 and 2011, lease expense amounted to approximately \$232,000 and \$223,000, respectively.

Future minimum lease commitments are as follows:

Year Ending December 31,

2013	\$ 192,387
2014	191,462
2015	32,737
2016	<u>827</u>
Total	\$ <u>417,413</u>