

# Spaulding for Children

## FINANCIAL STATEMENTS


December 31, 2016 and 2015



**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, 2016 and 2015, 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 audit 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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

Houston, Texas

May 18, 2017

## Spaulding for Children Statements of Financial Position

<i>December 31,</i>	<b>2016</b>	2015
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 451,254	\$ 406,161
Accounts receivable - Texas Department of Family and Protective Services	212,972	279,267
Accounts receivable - other	26,018	12,358
Pledges receivable	198,240	246,943
Prepaid expenses	14,500	14,652
Investments	340,326	321,018
Total current assets	<b>1,243,310</b>	1,280,399
Property and equipment, net	<b>42,917</b>	52,781
Long-term assets		
Pledges receivable	-	26,000
Total assets	<b>\$ 1,286,227</b>	\$ 1,359,180
<b>Liabilities and net assets</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 136,323	\$ 153,703
Deferred revenue	8,000	-
Current portion of long-term debt	5,588	5,587
Total current liabilities	<b>149,911</b>	159,290
Other liabilities		
Deferred rent liability	33,884	21,151
Long-term debt, net of current portion	931	6,519
Total other liabilities	<b>34,815</b>	27,670
Total liabilities	<b>184,726</b>	186,960
<b>Commitment and contingencies</b>		
Net assets		
Unrestricted	559,691	572,429
Temporarily restricted	310,931	368,912
Permanently restricted	230,879	230,879
Total net assets	<b>1,101,501</b>	1,172,220
Total liabilities and net assets	<b>\$ 1,286,227</b>	\$ 1,359,180

*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,*

**2016**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue and support</b>				
Fees from Texas Department of Family and Protective Services	\$ 718,907	\$ -	\$ -	\$ 718,907
Federal and state awards	623,750	-	-	623,750
United Way allocation	-	202,781	-	202,781
Contributions and grants	71,631	417,721	-	489,352
Special events, net of direct donor benefit cost of \$28,329	244,746	-	-	244,746
In kind contributions	4,935	-	-	4,935
Program service fees	32,772	-	-	32,772
Investment income	5,585	13,723	-	19,308
Net assets released from restrictions	692,206	(692,206)	-	-
<b>Total revenue and support</b>	<b>2,394,532</b>	<b>(57,981)</b>	<b>-</b>	<b>2,336,551</b>
<b>Expenses</b>				
Program services				
Core adoption program	469,332	-	-	469,332
Post adoption program	813,443	-	-	813,443
Foster care program	830,776	-	-	830,776
<b>Total program services</b>	<b>2,113,551</b>	<b>-</b>	<b>-</b>	<b>2,113,551</b>
Management and general	178,436	-	-	178,436
Fundraising	115,283	-	-	115,283
<b>Total expenses</b>	<b>2,407,270</b>	<b>-</b>	<b>-</b>	<b>2,407,270</b>
<b>Decrease in net assets</b>	<b>(12,738)</b>	<b>(57,981)</b>	<b>-</b>	<b>(70,719)</b>
<b>Net assets, beginning of year</b>	<b>572,429</b>	<b>368,912</b>	<b>230,879</b>	<b>1,172,220</b>
<b>Net assets, end of year</b>	<b>\$ 559,691</b>	<b>\$ 310,931</b>	<b>\$ 230,879</b>	<b>\$ 1,101,501</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,*

**2015**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenue and support</b>				
Fees from Texas Department of Family and Protective Services	\$ 819,428	\$ -	\$ -	\$ 819,428
Federal and state awards	663,696	-	-	663,696
United Way allocation	-	209,032	-	209,032
Contributions and grants	131,800	478,107	-	609,907
Special events, net of direct donor benefit cost of \$28,665	257,764	-	-	257,764
In kind contributions	56,232	-	-	56,232
Program service fees	27,957	-	-	27,957
Investment income	1,170	6,935	-	8,105
Loss on disposal of equipment	(20,123)	-	-	(20,123)
Net assets released from restrictions	668,392	(668,392)	-	-
<b>Total revenue and support</b>	<b>2,606,316</b>	<b>25,682</b>	<b>-</b>	<b>2,631,998</b>
<b>Expenses</b>				
Program services				
Core adoption program	516,461	-	-	516,461
Post adoption program	813,567	-	-	813,567
Foster care program	834,503	-	-	834,503
<b>Total program services</b>	<b>2,164,531</b>	<b>-</b>	<b>-</b>	<b>2,164,531</b>
Management and general	149,263	-	-	149,263
Fundraising	117,850	-	-	117,850
<b>Total expenses</b>	<b>2,431,644</b>	<b>-</b>	<b>-</b>	<b>2,431,644</b>
<b>Increase in net assets</b>	<b>174,672</b>	<b>25,682</b>	<b>-</b>	<b>200,354</b>
<b>Net assets, beginning of year</b>	<b>397,757</b>	<b>343,230</b>	<b>230,879</b>	<b>971,866</b>
<b>Net assets, end of year</b>	<b>\$ 572,429</b>	<b>\$ 368,912</b>	<b>\$ 230,879</b>	<b>\$ 1,172,220</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,*

**2016**

	Core Adoption Program	Post Adoption Program	Foster Care Program	Management and General	Fundraising	Total Expenses
Conference and meetings	\$ 1,675	\$ 1,108	\$ -	\$ 3,113	\$ 7	\$ 5,903
Depreciation	2,575	3,332	2,990	485	2,418	11,800
Equipment	3,444	2,280	3,116	823	1,859	11,522
Foster care and respite assistance	-	62,877	296,305	-	-	359,182
Insurance	9,541	13,661	11,009	5,385	1,101	40,697
Membership dues	1,645	1,830	1,437	489	174	5,575
Occupancy costs	45,942	60,385	76,018	17,473	11,779	211,597
Other	541	-	-	1,576	4,768	6,885
Postage	657	1,198	324	2,437	1,465	6,081
Printing and publications	294	196	-	3,535	5,107	9,132
Professional fees	38,410	167,748	24,667	42,254	8,507	281,586
Salaries and related expenses	308,261	447,536	384,139	93,619	69,755	1,303,310
Scholarships and awards	-	9,650	-	-	-	9,650
Supplies	10,417	24,970	6,667	4,753	6,725	53,532
Telephone	10,516	9,473	7,260	1,763	1,070	30,082
Travel	35,414	7,199	16,844	731	548	60,736
<b>Total</b>	<b>\$ 469,332</b>	<b>\$ 813,443</b>	<b>\$ 830,776</b>	<b>\$ 178,436</b>	<b>\$ 115,283</b>	<b>\$ 2,407,270</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,*

							2015
	Core Adoption Program	Post Adoption Program	Foster Care Program	Management and General	Fundraising	Total Expenses	
Conference and meetings	\$ 1,159	\$ 145	\$ -	\$ 1,884	\$ 14	\$ 3,202	
Depreciation	2,718	2,912	3,203	485	2,488	11,806	
Equipment	2,853	1,400	1,739	745	2,564	9,301	
Foster care and respite assistance	-	59,114	329,755	-	-	388,869	
Insurance	10,052	10,770	11,847	5,347	1,436	39,452	
Membership dues	2,287	1,693	1,626	239	1,192	7,037	
Occupancy costs	49,777	56,722	71,158	24,199	9,129	210,985	
Other	497	-	-	1,230	4,759	6,486	
Postage	607	1,132	393	1,505	1,518	5,155	
Printing and publications	426	1,078	441	2,768	4,555	9,268	
Professional fees	40,460	259,823	34,261	17,642	17,126	369,312	
Salaries and related expenses	354,025	372,042	354,385	86,031	64,733	1,231,216	
Supplies	8,038	32,985	4,214	4,739	6,529	56,505	
Telephone	9,183	6,388	5,767	1,436	1,005	23,779	
Travel	34,379	7,363	15,714	1,013	802	59,271	
<b>Total</b>	<b>\$ 516,461</b>	<b>\$ 813,567</b>	<b>\$ 834,503</b>	<b>\$ 149,263</b>	<b>\$ 117,850</b>	<b>\$ 2,431,644</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>	2016	2015
<b>Operating activities</b>		
Change in net assets	\$ (70,719)	\$ 200,354
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Realized and unrealized gains on investments	(13,740)	(4,680)
Donated property and equipment	-	(35,622)
Depreciation	11,800	11,806
Loss on disposal of property and equipment	-	20,123
Changes in operating assets and liabilities		
Accounts receivable -Texas Department of Family and Protective Services	66,295	(63,946)
Accounts receivable - other	(13,660)	(7,279)
Pledges receivable	74,703	(37,955)
Prepaid expenses	152	9,991
Accounts payable and accrued liabilities	(17,380)	61,324
Deferred rent liability	12,733	21,151
Deferred revenue	8,000	(13,283)
Net cash provided by operating activities	58,184	161,984
<b>Investing activities</b>		
Net (purchases) proceeds of investments	(5,568)	8,061
Purchases of property and equipment	(1,936)	(7,996)
Net cash (used in) provided by investing activities	(7,504)	65
<b>Financing activities</b>		
Repayments on long-term debt	(5,587)	(4,656)
Net change in cash and cash equivalents	45,093	157,393
Cash and cash equivalents, beginning of year	406,161	248,768
Cash and cash equivalents, end of year	\$ 451,254	\$ 406,161

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

## Spaulding for Children Notes to Financial Statements

### NOTE 1: ORGANIZATION

Since 1977, Spaulding for Children (the “Organization”), has been expertly and compassionately transforming the lives of children in foster care by finding them safe and nurturing adoptive families. Taking the time to understand the needs of the individual child, find the right family and provide attentive guidance and support through placement and beyond has allowed the Organization to successfully place more than 2,100 children in permanent homes. Spaulding for Children’s warm, personal and honest approach strives to guide children and families in Houston and South Texas through the complex journey of adoption to the celebration of a family fulfilled.

Effective May 1, 2017, Spaulding for Children filed with the State of Texas to assume the name Arms Wide Adoption Services. Additional information on the Organization may be found at [www.armswide.org](http://www.armswide.org).

### 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.

## Spaulding for Children Notes to Financial Statements

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

#### ***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.

#### ***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 for 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.



## Spaulding for Children Notes to Financial Statements

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

#### ***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.

#### ***Deferred Revenue***

Deferred revenue represents funds received in advance for special events that will take place in 2017.

#### ***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, 2016 and 2015, management believes there were no uncertain tax positions.

## Spaulding for Children Notes to Financial Statements

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

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

At various times during the years, 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.

#### ***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 expenses 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 18, 2017. No matters were identified affecting the accompanying financial statements or related disclosures that have not been disclosed elsewhere.

#### ***Recent Financial Accounting Pronouncement***

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Under this ASU, net assets will be presented in two classes: net assets with donor restrictions and net assets without donor restrictions. Underwater endowments will be included in net assets with donor restrictions and new or enhanced disclosures regarding the composition of net assets will be required. Disclosures regarding liquidity and availability of resources for general operating expenditures within one year of the date of the statement of financial position must also be presented. The ASU requires expenses to be presented by both nature and function, and investment return will be presented net of investment expenses. Absent specific donor stipulations, the Organization will use the placed-in-service approach for reporting expirations of restrictions on long-lived assets. The ASU is effective for fiscal periods beginning after December 15, 2017, but early adoption is permitted. Adoption of this ASU will impact the presentation and disclosures of the Organization's financial statements.

## Spaulding for Children Notes to Financial Statements

### NOTE 3: PLEDGES RECEIVABLE

Pledges receivables consisted of the following:

<i>December 31,</i>	<b>2016</b>	2015
Less than one year		
United Way	\$ 50,188	\$ 52,258
Other pledges	<b>148,052</b>	194,685
One to five years		
Other pledges	-	26,000
<b>Total pledges receivable</b>	<b>\$ 198,240</b>	<b>\$ 272,943</b>

### NOTE 4: PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

<i>December 31,</i>	<b>2016</b>	2015
Furniture and equipment	\$ 90,021	\$ 88,085
Less: accumulated depreciation	<b>(47,104)</b>	(35,304)
<b>Property and equipment, net</b>	<b>\$ 42,917</b>	<b>\$ 52,781</b>

Depreciation expense for the years ended December 31, 2016 and 2015 was \$11,800 and \$11,806, 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.

## Spaulding for Children Notes to Financial Statements

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

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.

The Organization utilizes the market approach to measure fair value for its financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Investments in mutual funds are carried at fair value based on quoted market values in active markets (Level 1).

Fair value of financial assets measured on a recurring basis at December 31, 2016 and 2015 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)
2016 Mutual funds	\$ 340,326	\$ 340,326	\$ -	\$ -
2015 Mutual funds	\$ 321,018	\$ 321,018	\$ -	\$ -

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

<i>For the years ended December 31,</i>	2016	2015
Interest and dividend income	\$ 5,568	\$ 3,425
Net realized and unrealized gains	13,740	4,680
Total investment return	\$ 19,308	\$ 8,105



## Spaulding for Children Notes to Financial Statements

### 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, 2016 and 2015, 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 13, 2018 and is unsecured. Borrowings under the credit agreement bear interest at prime rate plus 1.00% but no less than 4.25% (4.75% at December 31, 2016). As of December 31, 2016 and 2015, the Organization did not have an outstanding balance.

### 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, 2016 are as follows:

*For the year ending December 31,*

2017	\$	5,588
2018		931
Total	\$	6,519

### NOTE 9: RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes:

<i>December 31,</i>	2016	2015
Core adoption program	\$ 137,625	\$ 224,792
Post adoption program	58,739	58,206
Foster care program	10,328	10,654
Other	25,000	9,744
Scholarships for adopted children, accumulated undistributed earnings	79,239	65,516
Total temporarily restricted net assets	\$ 310,931	\$ 368,912

**Spaulding for Children  
Notes to Financial Statements**

**NOTE 9: RESTRICTIONS ON NET ASSETS (Continued)**

Permanently restricted net assets are available for the following purposes:

<i>December 31,</i>	<b>2016</b>	<b>2015</b>
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>

**NOTE 10: NET ASSETS RELEASED FROM RESTRICTIONS**

During the years ended December 31, 2016 and 2015, temporarily restricted net assets of \$692,206 and \$668,392, 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.

## Spaulding for Children Notes to Financial Statements

### NOTE 11: ENDOWMENTS (Continued)

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.

#### ***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 a percentage 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 set 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.

**Spaulding for Children  
Notes to Financial Statements**

**NOTE 11: ENDOWMENTS (Continued)**

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, 2016 and 2015:

Endowment net asset composition by type of fund:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
December 31, 2016				
Donor-restricted endowment funds	\$ 30,208	\$ 79,239	\$ 230,879	\$ 340,326
December 31, 2015				
Donor-restricted endowment funds	\$ 24,623	\$ 65,516	\$ 230,879	\$ 321,018

Changes in the Endowment net assets for the years ended December 31, 2016 and 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets,				
January 1, 2015	\$ 23,453	\$ 71,436	\$ 230,879	\$ 325,768
Investment income	1,170	6,935	-	8,105
Contributions	-	-	-	-
Appropriation of endowment assets for expenditure	-	(12,855)	-	(12,855)
Other Changes – fees paid	-	-	-	-
Endowment net assets,				
December 31, 2015	<b>24,623</b>	<b>65,516</b>	<b>230,879</b>	<b>321,018</b>
Investment income	<b>5,585</b>	<b>13,723</b>	-	<b>19,308</b>
Contributions	-	-	-	-
Appropriation of endowment assets for expenditure	-	-	-	-
Other changes – fees paid	-	-	-	-
Endowment net assets,				
December 31, 2016	<b>\$ 30,208</b>	<b>\$ 79,239</b>	<b>\$ 230,879</b>	<b>\$ 340,326</b>

**Spaulding for Children**  
**Notes to Financial Statements**

**NOTE 12: COMMITMENTS**

The Organization leases office space and equipment under noncancellable operating leases expiring through October 2020. Additionally, the Organization incurs monthly operating expenses associated with the office space, which are recorded as part of lease expense. During the years ended December 31, 2016 and 2015, lease expense amounted to approximately \$218,000.

Future minimum lease commitments are as follows:

*For the year ending December 31,*

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2017	\$ 204,590
2018	213,890
2019	223,200
2020	192,500

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Total	\$ 834,180
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