

**SPAULDING FOR CHILDREN**  
(A Texas Non-Profit Organization)

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FINANCIAL STATEMENTS AND SINGLE AUDIT REPORTS  
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

GAINER DONNELLY & DESROCHES

SPAULDING FOR CHILDREN  
(A Texas Non-Profit Organization)

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT.....	1
FINANCIAL STATEMENTS	
Statements of Financial Position.....	2
Statements of Activities and Changes in Net Assets.....	3
Statements of Functional Expenses.....	4
Statements of Cash Flows.....	6
Notes to the Financial Statements.....	7
SINGLE AUDIT	
Schedule of Expenditures of Federal and State of Texas Awards .....	16
Report on Internal Control Over Financial Reporting and on Compliance And Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	17
Independent Auditor's Report on Compliance with Requirements That Could Have A Direct and Material Effect on Each Major Program And on Internal Control Over Compliance In Accordance With OMB Circular A-133 .....	19
Schedule of Findings and Questioned Costs.....	21

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Spaulding for Children  
Houston, Texas

We have audited the accompanying statements of financial position of Spaulding for Children (a Texas Non-Profit Organization) (the Organization) as of December 31, 2011 and 2010, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of Spaulding for Children's management. 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 *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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2012, on our consideration of Spaulding for Children's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our 2011 audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal and state of Texas awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the 2011 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 2011 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 2011 financial statements as a whole.

Gainer Donnelly & Desroches LLP

May 16, 2012

SPAULDING FOR CHILDREN  
(A Texas Non-Profit Organization)  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2011 AND 2010

ASSETS	<u>2011</u>	<u>2010</u>
<b>CURRENT ASSETS:</b>		
Cash and Cash Equivalents	\$ 132,533	\$ 163,215
Accounts Receivable - Texas Department of Family and Protective Services	431,033	242,213
Accounts Receivable - Other	19,250	11,915
Pledges Receivable	271,732	200,458
Prepaid Expenses	17,811	18,836
Investments	<u>307,292</u>	<u>335,197</u>
Total Current Assets	1,179,651	971,834
<b>PROPERTY AND EQUIPMENT, NET</b>	<u>33,177</u>	<u>35,703</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,212,828</u>	<u>\$ 1,007,537</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES:</b>		
Accounts Payable and Accrued Liabilities	\$ 257,530	\$ 149,665
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>NET ASSETS:</b>		
Unrestricted	408,693	354,996
Temporarily Restricted	315,726	271,997
Permanently Restricted	<u>230,879</u>	<u>230,879</u>
<b>TOTAL NET ASSETS</b>	<u>955,298</u>	<u>857,872</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 1,212,828</u>	<u>\$ 1,007,537</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, 2011 AND 2010

	2011				2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUE AND SUPPORT:</b>								
Fees from Texas Department of Family and Protective Services	\$ 1,221,866	\$ -	\$ -	\$ 1,221,866	\$ 1,283,964	\$ -	\$ -	\$ 1,283,964
Federal and State Awards	1,079,520	-	-	1,079,520	721,157	-	-	721,157
United Way Allocation	-	255,877	-	255,877	-	255,898	-	255,898
Contributions and Grants	123,650	547,314	-	670,964	95,114	307,954	-	403,068
Special Events, Net of Direct Donor Benefit Costs of \$33,255 and \$8,711, respectively	97,783	-	-	97,783	49,544	-	-	49,544
Program Service Fees	34,588	-	-	34,588	39,796	-	-	39,796
Investment Income	(3,420)	(10,187)	-	(13,607)	8,369	20,183	-	28,552
Net Assets Released from Restrictions	749,275	(749,275)	-	-	547,285	(547,285)	-	-
<b>Total Revenue and Support</b>	<b>3,303,262</b>	<b>43,729</b>	<b>-</b>	<b>3,346,991</b>	<b>2,745,229</b>	<b>36,750</b>	<b>-</b>	<b>2,781,979</b>
<b>EXPENSES:</b>								
Program Services:								
Core Adoption Program	747,865	-	-	747,865	804,664	-	-	804,664
Post Adoption Program	1,349,853	-	-	1,349,853	884,364	-	-	884,364
Foster Care Program	948,293	-	-	948,293	1,029,913	-	-	1,029,913
<b>Total Program Services</b>	<b>3,046,011</b>	<b>-</b>	<b>-</b>	<b>3,046,011</b>	<b>2,718,941</b>	<b>-</b>	<b>-</b>	<b>2,718,941</b>
Management and General	124,981	-	-	124,981	103,555	-	-	103,555
Fundraising	78,573	-	-	78,573	83,493	-	-	83,493
<b>Total Expenses</b>	<b>3,249,565</b>	<b>-</b>	<b>-</b>	<b>3,249,565</b>	<b>2,905,989</b>	<b>-</b>	<b>-</b>	<b>2,905,989</b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>53,697</b>	<b>43,729</b>	<b>-</b>	<b>97,426</b>	<b>(160,760)</b>	<b>36,750</b>	<b>-</b>	<b>(124,010)</b>
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<b>354,996</b>	<b>271,997</b>	<b>230,879</b>	<b>857,872</b>	<b>515,756</b>	<b>235,247</b>	<b>230,879</b>	<b>981,882</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 408,693</b>	<b>\$ 315,726</b>	<b>\$ 230,879</b>	<b>\$ 955,298</b>	<b>\$ 354,996</b>	<b>\$ 271,997</b>	<b>\$ 230,879</b>	<b>\$ 857,872</b>

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)  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2010

	Core Adoption Program	Post Adoption Program	Foster Care Program	Management and General	Fundraising	Total Expenses
Conferences and Meetings	\$ 1,373	\$ 52	\$ 20	\$ 687	\$ 186	\$ 2,318
Depreciation	1,476	628	426	66	90	2,686
Equipment	8,382	5,538	3,001	2,199	1,129	20,249
Foster Care and Respite Assistance	-	53,484	556,634	-	-	610,118
Insurance	18,195	11,686	8,299	3,989	1,601	43,770
Membership Dues	4,397	1,423	1,248	275	214	7,557
Occupancy Costs	55,264	52,274	40,488	30,367	18,557	196,950
Other	1,142	923	387	2,878	3,317	8,647
Postage	1,887	2,738	790	1,298	1,695	8,408
Printing and Publications	-	-	-	3,255	300	3,555
Professional Fees	44,470	260,632	24,386	6,947	9,407	345,842
Salaries and Related Expenses	580,904	427,070	363,172	46,664	43,770	1,461,580
Scholarships and Awards	-	7,099	-	-	-	7,099
Supplies	18,554	28,724	4,374	2,265	2,138	56,055
Telephone	17,158	11,332	5,986	1,627	935	37,038
Travel	51,462	20,761	20,702	1,038	154	94,117
Total	<u>\$ 804,664</u>	<u>\$ 884,364</u>	<u>\$ 1,029,913</u>	<u>\$ 103,555</u>	<u>\$ 83,493</u>	<u>\$ 2,905,989</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, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 97,426	\$ (124,010)
Adjustments to Reconcile Change in Net Assets to Net Cash Used in Operating Activities:		
Unrealized Losses (Gains) on Investments	25,869	(22,657)
Depreciation	2,526	2,686
Changes in Operating Assets and Liabilities:		
Accounts Receivable -Texas Department of Family and Protective Services	(188,820)	7,672
Accounts Receivable - Other	(7,335)	5,948
Pledges Receivable	(71,274)	35,433
Prepaid Expenses	1,025	(6,008)
Accounts Payable and Accrued Liabilities	107,865	10,078
Net Cash Used in Operating Activities	(32,718)	(90,858)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from Sales of Investments	2,036	12,814
NET DECREASE IN CASH AND CASH EQUIVALENTS	(30,682)	(78,044)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	163,215	241,259
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 132,533	\$ 163,215

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

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; active parent support groups; 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, McAllen, Texas, Dallas, Texas and East 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 or permanently 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, 2011 and 2010, 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, 2012. 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:

	2011	2010
Less than One Year:		
United Way	\$ 63,728	\$ 62,768
Other Pledges	208,004	137,690
Total Pledges Receivable	\$ 271,732	\$ 200,458

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	2011	2010
Furniture and Equipment	\$ 133,973	\$ 133,973
Less: Accumulated Depreciation	(100,796)	(98,270)
Property and Equipment, Net	\$ 33,177	\$ 35,703

Depreciation expense for the years ended December 31, 2011 and 2010 totaled \$2,526 and \$2,686, 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  
(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, 2011 and 2010 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, 2011:				
Mutual Funds (1)	\$ <u>307,292</u>	\$ <u>307,292</u>	\$ <u>          -</u>	\$ <u>          -</u>
December 31, 2010:				
Mutual Funds (1)	\$ <u>335,197</u>	\$ <u>335,197</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>2011</u>	<u>2010</u>
Interest and Dividend Income	\$ 7,357	\$ 2,206
Net Realized and Unrealized Gains (Losses)	<u>(21,233)</u>	<u>26,346</u>
Total Investment Gains (Losses)	\$ <u>(13,607)</u>	\$ <u>28,552</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, 2011 and 2010, 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>2011</u>	<u>2010</u>
Core Adoption Program	\$ 213,691	\$ 147,910
Post Adoption Program	26,198	29,683
Foster Care Program	14,343	15,461
Scholarships for Adopted Children	<u>61,494</u>	<u>78,943</u>
Total Temporarily Restricted Net Assets	\$ <u>315,726</u>	\$ <u>271,997</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:

	2011	2010
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, 2011 and 2010, temporarily restricted net assets of \$749,275 and \$547,285, 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, 2011 and 2010:

Endowment Net Asset Composition by Type of Fund

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
December 31, 2011:				
Donor-Restricted Endowment Funds	\$ <u>15,756</u>	\$ <u>61,494</u>	\$ <u>230,879</u>	\$ <u>308,129</u>
December 31, 2010:				
Donor-Restricted Endowment Funds	\$ <u>26,307</u>	\$ <u>78,943</u>	\$ <u>230,879</u>	\$ <u>336,129</u>

Changes in Endowment Net Assets for the Year Ended December 31, 2011 and 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets, January 1, 2010	\$ 32,486	\$ 68,588	\$ 230,879	\$ 331,953
Investment Income	8,065	20,183	-	28,248
Contributions	-	-	-	-
Appropriation of Endowment Assets for Expenditure	(14,107)	(9,675)	-	(23,782)
Other Changes – Fees Paid	<u>(137)</u>	<u>(153)</u>	-	<u>(290)</u>
Endowment Net Assets, December 31, 2010	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	<u>(146)</u>	<u>(163)</u>	-	<u>(309)</u>
Endowment Net Assets, December 31, 2011	\$ <u>15,756</u>	\$ <u>61,494</u>	\$ <u>230,879</u>	\$ <u>308,129</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 February 2015. During the years ended December 31, 2011 and 2010, lease expense amounted to approximately \$223,000 and \$195,000, respectively.

Future minimum lease commitments are as follows:

Year Ending December 31,

2012	\$ 203,766
2013	190,470
2014	190,470
2015	<u>31,745</u>
Total	\$ <u>616,451</u>



SINGLE AUDIT

SPAULDING FOR CHILDREN  
(A Texas Non-Profit Organization)  
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE OF TEXAS AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2011

Federal or State Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-through Grantor's I.D. Number	Award Period	Program or Award Amount	Federal and State Expenditures	Total Expenditures
U.S. Department of Health and Human Services						
Pass-Through From:						
Texas Department of Family and Protective Services						
Promoting Safe and Stable Families	93.556	23368115	09/01/09 to 08/31/10	\$ 318,104	\$ 741	\$ 741
Promoting Safe and Stable Families	93.556	23848014	12/01/10 to 08/31/11	324,738	264,140	277,049
Promoting Safe and Stable Families	93.556	23867021	02/01/10 to 08/31/11	81,585	75,140	76,290
Promoting Safe and Stable Families	93.556	23802101	09/01/10 to 08/31/11	193,829	99,943	133,257
Promoting Safe and Stable Families	93.556	23939347	09/01/11 to 08/31/12	1,100,394	336,654	465,266
Total Promoting Safe and Stable and Families				2,018,650	776,618	952,603
Pass-Through From:						
Administration of Children, Youth and Families:						
Adoption Opportunities-Marriage Education Family Enrichment Program	93.652	90C01027/05	09/30/10 to 09/29/11	250,000	195,527	225,896
Total Expenditures of Federal Awards				2,268,650	972,145	1,178,499
Texas Department of Family and Protective Services						
Promoting Safe and Stable Families	n/a	23368115	09/01/09 to 08/31/10	100,454	234	234
Promoting Safe and Stable Families	n/a	23848014	12/01/10 to 08/31/11	102,548	83,412	87,489
Promoting Safe and Stable Families	n/a	23867021	02/01/11 to 08/31/11	25,764	23,729	24,091
Total Expenditures of State of Texas Awards				228,766	107,375	111,814
Total Expenditures of Federal and State of Texas Awards				\$ 2,497,416	\$ 1,079,520	\$ 1,290,313

Note to Schedule of Expenditures of Federal and State of Texas Awards

The schedule of expenditures of Federal and State of Texas awards is prepared on the accrual basis of accounting. Total expenditures include amounts paid with Federal and State of Texas funds plus those expenses paid from other cash sources considered to be matching funds.

Federal and State of Texas Awards Reconciliation

Federal and State of Texas Awards per Statement of Activities and Changes in Net Assets	\$ 1,079,520
Matching Funds	<u>210,793</u>
Total Per Schedule of Expenditures of Federal and State of Texas Awards	<u>\$ 1,290,313</u>

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors  
Spaulding for Children  
Houston, Texas

We have audited the financial statements of Spaulding for Children, a Texas non-profit Organization, (the "Organization") as of and for the year ended December 31, 2011, and have issued our report thereon dated May 16, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of management, the audit committee, others within the Organization, the Board of Directors, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Gainer Donnelly & Desroches LLP*

May 16, 2012

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors  
Spaulding for Children  
Houston, Texas

Compliance

We have audited the compliance of Spaulding for Children's, a Texas non-profit Organization, (the "Organization") compliance with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended December 31, 2011. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Organization's compliance with those requirements.

In our opinion, Spaulding for Children complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2011.

Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express opinion on the effectiveness of the Organization's internal control over compliance.

Internal Control Over Compliance – Continued

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the audit committee, others within the Organizations, the Board of Directors, federal and the State of Texas awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Gainer Donnelly & Desroches LLP

May 16, 2012

SPAULDING FOR CHILDREN  
(A Texas Non-Profit Organization)  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED DECEMBER 31, 2011

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditors’ report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ yes        X   no
- Significant deficiencies identified? \_\_\_\_\_ yes        X   none reported

Noncompliance material to financial statements noted? \_\_\_\_\_ yes        X   no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_ yes        X   no
- Significant deficiencies identified? \_\_\_\_\_ yes        X   none reported

Type of auditor’s report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? \_\_\_\_\_ yes        X   no

Identification of major programs:

CFDA Number

93.556

Name of Federal Programs

Promoting Safe and Stable Families

Dollar threshold used to distinguish between Type A and type B programs:

\$300,000

Auditee qualified as low-risk federal auditee?

  X   yes      \_\_\_\_\_ no

SECTION II – FINANCIAL STATEMENT FINDINGS

None reported

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported

SECTION IV – SCHEDULE OF PRIOR YEAR FINDINGS

None reported