

**Spaulding for Children  
dba Arms Wide Adoption Services**

**FINANCIAL STATEMENTS**


**December 31, 2018 and 2017**



**CRI** CARR  
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**Spaulding for Children  
dba Arms Wide Adoption Services  
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December 31, 2018 and 2017**

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**Carr, Riggs & Ingram, LLC**  
Two Riverway, 15th Floor  
Houston, TX 77056

(713) 621-8090  
(713) 621-6907 (fax)  
[www.cricpa.com](http://www.cricpa.com)

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Spaulding for Children  
dba Arms Wide Adoption Services  
Houston, Texas

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

We have audited the accompanying financial statements of Spaulding for Children, dba Arms Wide Adoption Services (a nonprofit organization) (the "Organization"), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, 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.

### **Auditors' 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 auditors' 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, dba Arms Wide Adoption Services, as of December 31, 2018 and 2017, 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.

### **Emphasis of Matter**

As discussed in Note 2 to the financial statements, management has adopted Financial Accounting Standards Board ASU 2016-14, Not-for-Profit Entities (Topic 958); this new standard requires changes to be made in how net assets are classified based on donor restrictions and has added multiple new disclosures. Our opinion is not modified with respect to that matter.

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

Houston, Texas

May 23, 2019

**Spaulding for Children  
dba Arms Wide Adoption Services  
Statements of Financial Position**

<i>December 31,</i>	<b>2018</b>	<b>2017</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 377,866	\$ 319,524
Accounts receivable - Texas Department of Family and Protective Services	205,301	266,020
Accounts receivable - other	23,518	13,251
Pledges receivable	206,413	154,136
Prepaid expenses	22,605	20,045
Total current assets	<b>835,703</b>	772,976
Investments	<b>338,892</b>	381,288
Property and equipment, net	<b>33,495</b>	34,224
Total assets	<b>\$ 1,208,090</b>	<b>\$ 1,188,488</b>
<b>Liabilities and net assets</b>		
Current liabilities		
Accounts payable	\$ 83,858	\$ 79,559
Accrued liabilities	40,210	45,728
Current portion of long-term debt	-	931
Total current liabilities	<b>124,068</b>	126,218
Long-term liabilities		
Deferred rent liability	<b>32,949</b>	38,067
Total liabilities	<b>157,017</b>	164,285
<b>Commitments and contingencies</b>		
Net assets		
Without donor restrictions	<b>496,170</b>	494,748
With donor restrictions	<b>554,903</b>	529,455
Total net assets	<b>1,051,073</b>	1,024,203
Total liabilities and net assets	<b>\$ 1,208,090</b>	<b>\$ 1,188,488</b>

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

**Spaulding for Children  
dba Arms Wide Adoption Services  
Statement of Activities**

*For the year ended December 31,*

**2018**

	Without donor restrictions	With donor restrictions	Total
<b>Revenue and support</b>			
Fees from Texas Department of Family and Protective Services	\$ 1,495,033	\$ -	\$ 1,495,033
United Way allocation	-	189,023	189,023
Contributions and grants	106,093	525,370	631,463
Special events, net of direct donor benefit cost of \$38,355	370,691	-	370,691
In kind contributions	6,957	-	6,957
Program service fees	9,240	-	9,240
Investment return	(3,202)	(10,332)	(13,534)
Net assets released from restrictions	678,613	(678,613)	-
<b>Total revenue and support</b>	<b>2,663,425</b>	<b>25,448</b>	<b>2,688,873</b>
<b>Expenses</b>			
Program services			
Core adoption program	596,568	-	596,568
Post adoption program	636,893	-	636,893
Post permanency program	289,665	-	289,665
Foster care program	846,764	-	846,764
<b>Total program services</b>	<b>2,369,890</b>	<b>-</b>	<b>2,369,890</b>
Management and general	158,153	-	158,153
Fundraising	133,960	-	133,960
<b>Total expenses</b>	<b>2,662,003</b>	<b>-</b>	<b>2,662,003</b>
<b>Increase in net assets</b>	<b>1,422</b>	<b>25,448</b>	<b>26,870</b>
<b>Net assets, beginning of year</b>	<b>494,748</b>	<b>529,455</b>	<b>1,024,203</b>
<b>Net assets, end of year</b>	<b>\$ 496,170</b>	<b>\$ 554,903</b>	<b>\$ 1,051,073</b>

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

**Spaulding for Children  
dba Arms Wide Adoption Services  
Statement of Activities**

*For the year ended December 31,*

2017

	Without donor restrictions	With donor restrictions	Total
<b>Revenue and support</b>			
Fees from Texas Department of Family and Protective Services	\$ 1,375,893	\$ -	\$ 1,375,893
United Way allocation	-	195,233	195,233
Contributions and grants	129,004	405,813	534,817
Special events, net of direct donor benefit cost of \$31,762	253,377	-	253,377
In kind contributions	3,690	-	3,690
Program service fees	9,055	-	9,055
Investment return	16,612	41,696	58,308
Net assets released from restrictions	655,097	(655,097)	-
<b>Total revenue and support</b>	<b>2,442,728</b>	<b>(12,355)</b>	<b>2,430,373</b>
<b>Expenses</b>			
Program services			
Core adoption program	479,225	-	479,225
Post adoption program	648,684	-	648,684
Post permanency program	216,448	-	216,448
Foster care program	824,241	-	824,241
<b>Total program services</b>	<b>2,168,598</b>	<b>-</b>	<b>2,168,598</b>
Management and general	212,433	-	212,433
Fundraising	126,640	-	126,640
<b>Total expenses</b>	<b>2,507,671</b>	<b>-</b>	<b>2,507,671</b>
<b>Decrease in net assets</b>	<b>(64,943)</b>	<b>(12,355)</b>	<b>(77,298)</b>
<b>Net assets, beginning of year</b>	<b>559,691</b>	<b>541,810</b>	<b>1,101,501</b>
<b>Net assets, end of year</b>	<b>\$ 494,748</b>	<b>\$ 529,455</b>	<b>\$ 1,024,203</b>

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

**Spaulding for Children  
dba Arms Wide Adoption Services  
Statement of Functional Expenses**

*For the year ended December 31,*

								2018
	Core Adoption Program	Post Adoption Program	Post Permanency Program	Foster Care Program	Management and General	Fundraising	Total Expenses	
Conference and meetings	\$ 700	\$ 33	\$ -	\$ 45	\$ 843	\$ 19	\$ 1,640	
Depreciation	1,580	879	515	1,105	97	73	4,249	
Equipment	2,178	1,377	287	1,020	297	5,473	10,632	
Foster care and respite assistance	-	44,731	32,632	325,026	-	-	402,389	
Insurance	10,146	8,455	3,382	9,470	4,953	1,015	37,421	
Membership dues	1,736	925	350	980	390	595	4,976	
Occupancy costs	43,414	41,271	20,951	77,163	12,690	11,871	207,360	
Other	3,235	993	1,315	5,422	991	5,950	17,906	
Postage	525	731	447	278	1,728	2,528	6,237	
Printing and publications	-	-	-	-	4,362	3,901	8,263	
Professional fees	31,517	190,547	29,708	22,321	17,376	9,452	300,921	
Salaries and related expenses	432,217	315,419	156,640	367,127	106,019	79,734	1,457,156	
Supplies	11,833	14,100	28,564	8,607	4,871	11,807	79,782	
Telephone	15,240	11,809	5,018	12,159	2,539	1,379	48,144	
Travel	42,247	5,623	9,856	16,041	997	163	74,927	
<b>Total</b>	<b>\$ 596,568</b>	<b>\$ 636,893</b>	<b>\$ 289,665</b>	<b>\$ 846,764</b>	<b>\$ 158,153</b>	<b>\$ 133,960</b>	<b>\$ 2,662,003</b>	

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



**Spaulding for Children  
dba Arms Wide Adoption Services  
Statement of Functional Expenses**

*For the year ended December 31,*

2017

	Core Adoption Program	Post Adoption Program	Post Permanency Program	Foster Care Program	Management and General	Fundraising	Total Expenses
Conference and meetings	\$ 825	\$ 49	\$ 150	\$ -	\$ 1,373	\$ 16	\$ 2,413
Depreciation	2,124	2,805	1,124	2,850	442	2,190	11,535
Equipment	2,321	1,053	214	2,171	484	5,185	11,428
Foster care and respite assistance	323	32,910	5,405	269,578	-	-	308,216
Insurance	8,667	10,473	3,611	10,473	5,397	1,083	39,704
Membership dues	2,533	1,262	435	1,262	467	961	6,920
Occupancy costs	44,215	43,205	20,085	78,979	22,409	12,151	221,044
Other	3,337	553	835	3,616	1,741	5,365	15,447
Postage	367	1,403	174	227	1,217	2,309	5,697
Printing and publications	575	200	400	200	6,582	5,197	13,154
Professional fees	34,060	174,456	14,517	24,740	61,871	9,466	319,110
Salaries and related expenses	320,794	322,220	138,622	392,354	98,493	74,032	1,346,515
Scholarships and awards	-	12,263	-	-	-	-	12,263
Supplies	10,579	21,925	22,942	10,510	8,002	7,107	81,065
Telephone	10,929	13,158	4,839	12,394	2,840	1,428	45,588
Travel	37,576	10,749	3,095	14,887	1,115	150	67,572
<b>Total</b>	<b>\$ 479,225</b>	<b>\$ 648,684</b>	<b>\$ 216,448</b>	<b>\$ 824,241</b>	<b>\$ 212,433</b>	<b>\$ 126,640</b>	<b>\$ 2,507,671</b>

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

**Spaulding for Children  
dba Arms Wide Adoption Services  
Statements of Cash Flows**

<i>For the years ended December 31,</i>	<b>2018</b>	<b>2017</b>
<b>Operating activities</b>		
Change in net assets	\$ 26,870	\$ (77,298)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Realized and unrealized losses (gains) on investments	19,321	(52,955)
Depreciation	4,249	11,535
Changes in operating assets and liabilities		
Accounts receivable -Texas Department of Family and Protective Services	60,719	(53,048)
Accounts receivable - other	(10,267)	12,767
Pledges receivable	(52,277)	44,104
Prepaid expenses	(2,560)	(5,545)
Accounts payable and accrued liabilities	(1,219)	(11,036)
Deferred rent liability	(5,118)	4,183
Deferred revenue	-	(8,000)
Net cash provided by (used in) operating activities	<b>39,718</b>	<b>(135,293)</b>
<b>Investing activities</b>		
Reinvestment of dividends	(5,788)	(5,353)
Proceeds from sale of investments	28,863	17,346
Purchases of property and equipment	(3,520)	(2,842)
Net cash provided by investing activities	<b>19,555</b>	<b>9,151</b>
<b>Financing activities</b>		
Repayments on long-term debt	(931)	(5,588)
Net change in cash and cash equivalents	<b>58,342</b>	<b>(131,730)</b>
Cash and cash equivalents, beginning of year	<b>319,524</b>	<b>451,254</b>
Cash and cash equivalents, end of year	<b>\$ 377,866</b>	<b>\$ 319,524</b>

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

**Spaulding for Children  
dba Arms Wide Adoption Services  
Notes to Financial Statements**

**NOTE 1: ORGANIZATION**

Since 1977, Spaulding for Children, dba Arms Wide Adoption Services (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 guides 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**

***Change in Accounting Principle***

On August 18, 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities. The Organization has adjusted the presentation of its financial statements accordingly, applying the changes retrospectively to the comparative period presented. The new standards change the following aspects of the Organization's financial statements:

- The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The financial statements include a new disclosure about liquidity and availability of resources (Note 3).

The changes have the following effect on net assets at December 31, 2017:

<b>Net Asset Class</b>	<b>As Originally Presented</b>	<b>After Adoption of ASU 2016-14</b>
Unrestricted net assets	\$ 494,748	\$ -
Temporarily restricted net assets	298,576	-
Permanently restricted net assets	230,879	-
Net assets without donor restrictions	-	494,748
Net assets with donor restrictions	-	529,455
<b>Total net assets</b>	<b>\$ 1,024,203</b>	<b>\$ 1,024,203</b>



**Spaulding for Children  
dba Arms Wide Adoption Services  
Notes to Financial Statements**

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

In addition, certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

***Basis of Presentation***

The financial statements are maintained on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets with Donor Restrictions — Net assets subject to donor-imposed stipulations that they be maintained in perpetuity by the Organization. The donors of these assets permit the Organization to use all of the income earned on related investments for general or specific purposes.

Net assets with donor restrictions also includes net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or the passage of time.

Net Assets without Donor Restrictions—Net assets not subject to donor-imposed stipulations.

***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.

***Accounts and Pledges Receivable***

The Organization considers all accounts receivable to be fully collectible and collected within one year; accordingly, no allowance for doubtful accounts has been established. If amounts become uncollectible, they will be charged to operations when that determination has been made.

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  
dba Arms Wide Adoption Services  
Notes to 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 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 liabilities) 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 return in net assets without donor restrictions in the statements of activities unless the use of the return is limited by donor-imposed restrictions. Investment return whose use is restricted by the donor is reported as an increase (decrease) in net assets with donor restrictions.

***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 agencies and program services are recognized when the related services are provided.

**Spaulding for Children  
dba Arms Wide Adoption Services  
Notes to Financial Statements**

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

***Contributions***

The Organization records contributions and grants when they are received. Contributions received are recorded as increases in net assets with donor restrictions or without donor restrictions depending on the existence and/or nature of any donor restrictions. When restrictions expire (that is, when a stipulated time restriction ends or purposes restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

***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 Allocation of Expenses***

The costs of providing the various programs and supporting activities have been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Costs identifiable with a specific program or supporting services are charged directly to that particular cost center. Shared costs are allocated amongst the various programs and supporting services. Direct care employees working across multiple cost centers are allocated based upon that employee's actual time and effort. Indirect employees working across multiple cost centers are also allocated based upon actual time and effort. At least annually, the Organization's staffing plan is reviewed and updated to determine the number of full-time equivalent staff allocated to the various cost centers. The shared costs are allocated based upon the percentage of full-time equivalents within each cost center. The typical shared costs using this functional method include supplies, insurance and telephone. Occupancy shared cost, such as rent, is allocated directly to each cost center based upon the actual cost center's percentage of the Organization's total square footage.

***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, 2018 and 2017, management believes there were no uncertain tax positions.

**Spaulding for Children  
dba Arms Wide Adoption Services  
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.

***Subsequent Events***

The Organization has evaluated subsequent events through the time the financial statements are available for issuance on May 23, 2019. No matters were identified affecting the accompanying financial statements or related disclosures that have not been disclosed elsewhere.

***Recent Financial Accounting Pronouncement***

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. This new guidance is effective for transactions in which an organization serves as a resource recipient for fiscal years beginning after December 15, 2018. The Organization is currently evaluating the impact of the guidance on its financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU and its amendments supersedes the leasing guidance in Topic 840, entitled Leases. Under the guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. For nonpublic entities, the standard is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Organization is currently evaluating the impact of the guidance on its financial statements.

**Spaulding for Children  
dba Arms Wide Adoption Services  
Notes to Financial Statements**

**NOTE 3: LIQUIDITY**

The Organization has \$813,098 of financial assets available within one year of the balance sheet date consisting of cash of \$377,866, accounts receivable of \$228,819, and pledges receivable of \$206,413. Except for \$180,697 of pledges receivable restricted for specific purposes, none of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The Organization has a goal to maintain financial assets to meet 60 to 90 days of normal operating expenses, which are on average \$210,000 per month. As more fully described in Note 8, the Organization has a committed line of credit in the amount of \$100,000, which could be drawn upon in the event of an unanticipated liquidity need.

The Organization's endowment funds consist of donor-restricted endowments as well as income from those funds. Income from donor-restricted endowments is restricted for specific purposes until appropriated and, therefore, is not available for general expenditure.

**NOTE 4: PLEDGES RECEIVABLE**

Pledges receivable consists of the following:

<i>December 31,</i>	<b>2018</b>	2017
Less than one year		
United Way	\$ 45,697	\$ 49,084
Other pledges	160,716	105,052
<b>Total pledges receivable</b>	<b>\$ 206,413</b>	<b>\$ 154,136</b>

**NOTE 5: PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

<i>December 31,</i>	<b>2018</b>	2017
Furniture and equipment	\$ 96,383	\$ 92,863
Less: accumulated depreciation	(62,888)	(58,639)
<b>Property and equipment, net</b>	<b>\$ 33,495</b>	<b>\$ 34,224</b>



**Spaulding for Children  
dba Arms Wide Adoption Services  
Notes to Financial Statements**

**NOTE 5: PROPERTY AND EQUIPMENT (Continued)**

Depreciation expense for the years ended December 31, 2018 and 2017 was \$4,249 and \$11,535, respectively.

**NOTE 6: 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.

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, 2018 and 2017 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)
2018 Mutual funds	\$ 338,892	\$ 338,892	\$ -	\$ -
2017 Mutual funds	\$ 381,288	\$ 381,288	\$ -	\$ -

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**NOTE 7: 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, 2018 and 2017, related to accumulated earned vacation.

**NOTE 8: LINE OF CREDIT**

The Organization has a line of credit with a bank totaling \$100,000. The line has a maturity date of May 13, 2019 and is unsecured. Borrowings under the credit agreement bear interest at prime rate plus 1.00% but no less than 4.25% (6.50% and 5.50% at December 31, 2018 and 2017, respectively). As of December 31, 2018 and 2017, the Organization did not have an outstanding balance.

Subsequent to year end, the line of credit was extended to mature on May 13, 2020.

**NOTE 9: LONG TERM DEBT**

During 2014, the Organization purchased software licenses and maintenance services through a software finance agreement with a financial institution. The agreement requires monthly installment payments of \$466, bears no interest and is unsecured. At December 31, 2017, the outstanding balance totaled \$931, which was paid off in February 2018.

**NOTE 10: NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions are available for the following purposes:

<i>December 31,</i>	<b>2018</b>	2017
<b>Purpose restricted</b>		
Core adoption program	\$ 103,473	\$ 103,308
Post adoption program	57,510	74,307
Foster care program	8,511	9,677
Other	65,840	-
Scholarships for adopted children, accumulated undistributed earnings	88,690	111,284
<b>Total purpose restricted</b>	<b>324,024</b>	298,576
<b>Perpetual in nature</b>		
Holland Endowment - scholarships for adopted children	162,632	162,632
Fondren Endowment - core adoption program	68,247	68,247
<b>Total perpetual in nature</b>	<b>230,879</b>	230,879
<b>Total with donor restrictions</b>	<b>\$ 554,903</b>	<b>\$ 529,455</b>

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**NOTE 11: NET ASSETS RELEASED FROM RESTRICTIONS**

During the years ended December 31, 2018 and 2017, net assets with donor restrictions of \$678,613 and \$655,097, respectively, were released from donor restrictions by satisfying purpose restrictions.

**NOTE 12: 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 net assets with donor restriction – perpetual in nature (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 as perpetual in nature is classified as with donor restrictions 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 as perpetual in nature is classified as without donor restrictions.

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.

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**NOTE 12: 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 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.

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, 2018 and 2017:

Endowment net asset composition by type of fund:

	Without donor restrictions	With donor restrictions	Total
<b>December 31, 2018</b>			
<b>Donor-restricted endowment funds</b>			
Original donor-restricted gift amount and amounts required to be retained in perpetuity	\$ -	\$ 230,879	\$ 230,879
Accumulated investment gains	19,323	88,690	108,013
<b>Donor-restricted endowment funds</b>	<b>\$ 19,323</b>	<b>\$ 319,569</b>	<b>\$ 338,892</b>
<b>December 31, 2017</b>			
<b>Donor-restricted endowment funds</b>			
Original donor-restricted gift amount and amounts required to be retained in perpetuity	\$ -	\$ 230,879	\$ 230,879
Accumulated investment gains	39,125	111,284	150,409
<b>Donor-restricted endowment funds</b>	<b>\$ 39,125</b>	<b>\$ 342,163</b>	<b>\$ 381,288</b>

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**NOTE 12: ENDOWMENTS (Continued)**

Changes in the Endowment net assets for the years ended December 31, 2018 and 2017:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, January 1, 2017	\$ 30,208	\$ 310,118	\$ 340,326
Investment return	16,612	41,696	58,308
Contributions	-	-	-
Appropriation of endowment assets for expenditure	(7,695)	(9,651)	(17,346)
Other Changes – fees paid	-	-	-
Endowment net assets, December 31, 2017	<b>39,125</b>	<b>342,163</b>	<b>381,288</b>
Investment return	<b>(3,202)</b>	<b>(10,332)</b>	<b>(13,534)</b>
Contributions	-	-	-
Appropriation of endowment assets for expenditure	<b>(16,600)</b>	<b>(12,262)</b>	<b>(28,862)</b>
Other changes – fees paid	-	-	-
Endowment net assets, December 31, 2018	<b>\$ 19,323</b>	<b>\$ 319,569</b>	<b>\$ 338,892</b>

**NOTE 13: COMMITMENTS**

The Organization leases office space and equipment under noncancellable operating leases expiring through April 2021. 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, 2018 and 2017, lease expense amounted to approximately \$213,000 and \$223,000, respectively. Future minimum lease commitments are as follows:

*For the years ending December 31,*

2019	\$ 228,071
2020	197,147
2021	1,504
<b>Total</b>	<b>\$ 426,722</b>