

**THE COLORADO SPRINGS CHILD NURSERY CENTERS, INC.
dba EARLY CONNECTIONS LEARNING CENTERS
AND AFFILIATES**

Consolidated Financial Statements

For The Year Ended December 31, 2014

And

Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

Board of Directors
The Colorado Springs Child Nursery Centers, Inc.
dba Early Connections Learning Centers

We have audited the accompanying consolidated financial statements of Child Nursery Centers, Inc. dba Early Connections Learning Centers and Affiliates (collectively the Organization), which comprise the consolidated balance sheet as of December 31, 2014 and the related consolidated statements of activities, functional expenses and cash flows for the year 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Child Nursery Centers, Inc. dba Early Connections Learning Centers and Affiliates as of December 31, 2014 and the change in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Child Nursery Centers, Inc. dba Early Connections Learning Centers and Affiliates' 2013 consolidated financial statements and we expressed an unmodified opinion on those audited financial statements in our report dated May 22, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Stockman Kast Ryan & Co., LLP

May 28, 2015

THE COLORADO SPRINGS CHILD NURSERY CENTERS, INC.
dba EARLY CONNECTIONS LEARNING CENTERS
AND AFFILIATES

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2014 (with comparative totals for 2013)

	2014					2013 Total	
	Operating	Unrestricted Designated	Total	Temporarily Restricted	Permanently Restricted		Total
ASSETS							
CURRENT ASSETS							
Cash	\$ 144,990	\$ 16,717	\$ 161,707			\$ 161,707	\$ 97,786
Accounts receivable	236,425		236,425	\$ 2,305		238,730	215,166
Pledges receivable				180,674		180,674	179,899
Investments		3,932,991	3,932,991		\$ 1,167,051	5,100,042	5,156,102
Prepaid expenses	36,891		36,891			36,891	35,023
Total	418,306	3,949,708	4,368,014	182,979	1,167,051	5,718,044	5,683,976
BENEFICIAL INTEREST IN TRUSTS					728,240	728,240	736,494
PROPERTY AND EQUIPMENT, NET	932,666		932,666			932,666	1,011,798
TOTAL	\$ 1,350,972	\$ 3,949,708	\$ 5,300,680	\$ 182,979	\$ 1,895,291	\$ 7,378,950	\$ 7,432,268
LIABILITIES AND NET ASSETS							
CURRENT LIABILITIES							
Accounts payable	\$ 69,861	\$ 20,729	\$ 90,590			\$ 90,590	\$ 74,459
Accrued expenses	195,753		195,753			195,753	183,503
Line of credit	25,000		25,000			25,000	
Current portion of capital lease obligations	3,046		3,046			3,046	2,897
Total	293,660	20,729	314,389	\$ -	\$ -	314,389	260,859
CAPITAL LEASE OBLIGATIONS	8,019		8,019			8,019	11,066
Total liabilities	301,679	20,729	322,408	-	-	322,408	271,925
NET ASSETS	1,049,293	3,928,979	4,978,272	182,979	1,895,291	7,056,542	7,160,343
TOTAL	\$ 1,350,972	\$ 3,949,708	\$ 5,300,680	\$ 182,979	\$ 1,895,291	\$ 7,378,950	\$ 7,432,268

See notes to consolidated financial statements.

**THE COLORADO SPRINGS CHILD NURSERY CENTERS, INC.
dba EARLY CONNECTIONS LEARNING CENTERS
AND AFFILIATES**

**CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014 (with comparative totals for 2013)**

	2014					2013 Total	
	Operating	Unrestricted Designated	Total	Temporarily Restricted	Permanently Restricted		Total
REVENUES							
Program service fees	\$ 2,696,622		\$ 2,696,622	\$ 182,979		\$ 2,696,622	\$ 2,760,229
Contributions	797,520	\$ 1,551	799,071			982,050	760,928
Investment income	17	254,092	254,109			254,109	761,702
Gain (loss) on beneficial interest in perpetual trusts					\$ (8,254)	(8,254)	32,445
Net assets released from restrictions - Satisfaction of time and purpose restrictions	181,694		181,694	(181,694)			
Transfers	307,518	(307,518)					
Total	3,983,371	(51,875)	3,931,496	1,285	(8,254)	3,924,527	4,315,304
EXPENSES AND LOSSES							
Program	3,403,209		3,403,209			3,403,209	3,267,473
Management and general	460,193		460,193			460,193	458,132
Fundraising	125,462		125,462			125,462	152,945
Total expenses	3,988,864	-	3,988,864	-	-	3,988,864	3,878,550
Loss on disposal of property and equipment							93,617
Loss from bad debts	39,464		39,464			39,464	21,928
Total	4,028,328	-	4,028,328	-	-	4,028,328	3,994,095
CHANGE IN NET ASSETS	(44,957)	(51,875)	(96,832)	1,285	(8,254)	(103,801)	321,209
NET ASSETS, Beginning of year	1,094,250	3,980,854	5,075,104	181,694	1,903,545	7,160,343	6,839,134
NET ASSETS, End of year	\$ 1,049,293	\$ 3,928,979	\$ 4,978,272	\$ 182,979	\$ 1,895,291	\$ 7,056,542	\$ 7,160,343

See notes to consolidated financial statements.

**THE COLORADO SPRINGS CHILD NURSERY CENTERS, INC.
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AND AFFILIATES**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2014 (with comparative totals for 2013)**

	2014				2013 Total
	Program	Management and General	Fund Raising	Total	
Salaries, taxes and benefits	\$ 2,350,539	\$ 379,756	\$ 93,813	\$ 2,824,108	\$ 2,825,928
Food	310,988			310,988	250,964
Repairs and maintenance	223,374	11,757		235,131	184,802
Home Network expenses	111,684			111,684	107,185
Supplies	100,025	3,992	1,050	105,067	101,495
Depreciation	58,431	8,059	672	67,162	67,704
Professional fees	55,818	8,179	2,618	66,615	68,026
Telephone and utilities	58,374	3,766	628	62,768	80,502
Insurance	36,305	5,008	417	41,730	43,106
Advertising and recruitment		26,662		26,662	22,966
Fundraising expenses			25,028	25,028	25,432
Printing	14,906	4,373	596	19,875	15,242
Dues and subscriptions	15,916	856	342	17,114	5,625
Rental expense	16,410			16,410	33,363
Conferences, meetings and travel	10,809	3,459	144	14,412	8,509
Postage	3,592	1,385	154	5,131	4,622
Interest expense		1,007		1,007	881
Miscellaneous	<u>36,038</u>	<u>1,934</u>		<u>37,972</u>	<u>32,198</u>
Total	<u>\$ 3,403,209</u>	<u>\$ 460,193</u>	<u>\$ 125,462</u>	<u>\$ 3,988,864</u>	
Percent of total	<u>85%</u>	<u>12%</u>	<u>3%</u>	<u>100%</u>	
Comparative totals — 2013	<u>\$ 3,267,473</u>	<u>\$ 458,132</u>	<u>\$ 152,945</u>		<u>\$ 3,878,550</u>
Percent of total — 2013	<u>84%</u>	<u>12%</u>	<u>4%</u>	<u>100%</u>	

See notes to consolidated financial statements.

**THE COLORADO SPRINGS CHILD NURSERY CENTERS, INC.
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**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014 (with comparative totals for 2013)**

	2014	2013
OPERATING ACTIVITIES		
Change in net assets	\$ (103,801)	\$ 321,209
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	67,162	67,704
Amortization of promise to give		11,640
Provision for bad debts	39,464	21,928
Unrealized and realized gains on investments	(83,854)	(671,428)
Loss (gain) on beneficial interest in perpetual trust	8,254	(32,445)
Loss on disposal of property and equipment		93,617
Changes in operating assets and liabilities:		
Accounts receivable	(63,028)	(39,700)
Grants and pledges receivable	(775)	500
Prepaid expenses	(1,868)	(9,250)
Accounts payable and accrued expenses	<u>28,381</u>	<u>36,366</u>
Net cash used in operating activities	<u>(110,065)</u>	<u>(199,859)</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	(46,015)	(16,599)
Purchases of investments	(3,531,589)	(946,512)
Sales of investments	3,671,503	1,161,998
Proceeds from insurance claim	<u>57,985</u>	<u> </u>
Net cash provided by investing activities	<u>151,884</u>	<u>198,887</u>
FINANCING ACTIVITIES		
Principal payments on capital lease obligations	(2,898)	(3,482)
Advances on line of credit	110,000	105,000
Payments on line of credit	<u>(85,000)</u>	<u>(105,000)</u>
Net cash provided by (used in) financing activities	<u>22,102</u>	<u>(3,482)</u>
NET INCREASE (DECREASE) IN CASH	63,921	(4,454)
CASH, Beginning of year	<u>97,786</u>	<u>102,240</u>
CASH, End of year	<u>\$ 161,707</u>	<u>\$ 97,786</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	<u>\$ 1,007</u>	<u>\$ 881</u>
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Equipment acquired under capital lease obligations	<u>\$ —</u>	<u>\$ 15,652</u>

See notes to consolidated financial statements.

**THE COLORADO SPRINGS CHILD NURSERY CENTERS, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Colorado Springs Child Nursery Centers, Inc. dba Early Connections Learning Centers (the Center) offers a comprehensive program of social, emotional and cognitive development for children in the Pikes Peak Region. This includes education with an emphasis on literacy and language development, nutrition and health, all in partnership with families. The Center's goal is to help each child grow physically, mentally and cognitively in an atmosphere of acceptance that helps build feelings of confidence and independence. Every effort is made to consider the whole child in all environmental experiences.

The Colorado Springs Child Nursery Centers, Inc. Foundation (the Foundation) was organized for the purpose of raising and investing funds for the mission of the Center. The Foundation's Board of Directors is made up of members from the Center's Board as well as individuals from the community. Foundation income may be distributed to the Center to meet operating and non-operating expenses upon resolution of the Foundation Board.

Home Network of the Pikes Peak Region, LLC (the Home Network) is an affiliated program providing professional development, coaching and business support to improve quality of the early childhood education programs of its members.

Day Nursery Building Corp. and CNC-Chelton Building Corp. are real estate holding companies established for the benefit of the Center.

Principles of Consolidation — The consolidated financial statements include the accounts of the Center, the Foundation, Home Network, Day Nursery Building Corp. and CNC-Chelton Building Corp. (collectively, the Organization). All significant intercompany accounts and transactions have been eliminated in consolidation.

Basis of Presentation —The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets — which represents the expendable resources that are available for operations at management's discretion; temporarily restricted net assets — which represents resources restricted by donors as to purpose or by the passage of time; and permanently restricted net assets — which represents resources whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organization.

The accompanying financial statements include certain prior-year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2013, from which the summarized information was derived.

Contributions — Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor-stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as unrestricted revenue and net assets.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are reported at the present value of estimated future cash flows. The resulting discount is amortized and is reported as contribution revenue.

Donated Services and Materials — Donated services and materials are recorded as both a revenue and expenditure in the accompanying statements of activities and changes in net assets at their estimated values. Contributions of services are recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donations.

Accounts Receivable — Accounts receivable are stated at the invoiced amount. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance. Changes in the valuation allowance have not been material to the financial statements. Accounts receivable are considered by management to be fully collectible and accordingly, no allowance for doubtful accounts is deemed necessary.

Pledges Receivable — Management believes that all pledges receivable recorded at December 31, 2014 and 2013 are collectible and no allowance for doubtful contributions is deemed necessary. All pledges are expected to be collected in less than one year.

Investments — Investments are recorded at fair value. Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met in the reporting period in which the income and gains are recognized. Donated investments are recorded at fair value on the date of donation. Fair values for mutual funds are determined principally through quoted market prices.

Property and Equipment — Property and equipment are recorded at cost or at fair value at date of receipt if donated. Depreciation is provided for on a straight-line basis over the estimated useful lives of the assets, which range from three to fifty years. All acquisitions in excess of \$5,000 and expenditures for repairs, maintenance and improvements that materially extend the useful lives of assets are capitalized.

Compensated Absences — Employees of the Organization earn a vested right to compensation for unused vacation time. Accordingly, the Organization has made an accrual for vacation compensation that employees have earned but not taken.

Tax Status — The Center, the Foundation and Home Network are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Day Nursery Building Corp and CNC-Chelton Building Corp are exempt from federal income taxes under Section 501(c)(2) of the Internal Revenue Code.

The Organization believes that it does not have any uncertain tax positions that are material to the financial statements. The Organization's income tax returns for 2011 through the current period remain open to examination by the Internal Revenue Service and relevant state authorities.

Functional Allocation of Expenses — The Organization maintains its accounting records on the basis of natural expense classifications and, accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates — Preparation of the Organization's financial statements in conformity with accounting principles generally accepted in the United States of America requires management 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 income and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events — The Organization has evaluated subsequent events for recognition or disclosure through the date of the Independent Auditors' Report, which is the date the financial statements were available for issuance.

2. BENEFICIAL INTEREST IN PERPETUAL TRUSTS

The Organization is an income beneficiary of three separate trusts whose principal is held at various financial institutions in perpetuity. The Organization's share of the fair value of the trusts totaled \$728,240 and \$736,494 at December 31, 2014 and 2013, respectively. The fair value of the Organization's interest in the trusts is determined primarily based on the Organization's proportionate share of the fair value of the underlying assets of the trusts. Fair value of the underlying assets is determined using quoted market prices and pricing services. The Organization received \$23,489 and \$23,078 in distributions from the trusts during the years ended December 31, 2014 and 2013, respectively. The Organization's share of gains (losses) from these trusts were \$(8,254) and \$32,445 in 2014 and 2013, respectively.

3. INVESTMENTS AND FAIR VALUE MEASUREMENTS

The Organization is required to use a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2: Prices determined using significant other observable inputs. Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Prices determined using significant unobservable inputs.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following tables set forth by level, within the fair value hierarchy, the Organization's assets measured on a recurring basis stated at fair value as of December 31:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2014:				
Investments:				
Money market funds	\$ 855	\$ 855		
Equity mutual funds:				
Mid-cap blend funds	244,439	244,439		
Large-cap value funds	885,064	885,064		
Large-cap growth funds	933,552	933,552		
International funds	1,196,396	1,196,396		
Fixed income mutual fund	<u>1,839,736</u>	<u>1,839,736</u>		
Total investments	5,100,042	5,100,042	\$ —	\$ —
Beneficial interest in perpetual trust	<u>728,240</u>		<u>728,240</u>	
Total	<u>\$ 5,828,282</u>	<u>\$ 5,100,042</u>	<u>\$ 728,240</u>	<u>\$ —</u>

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
2013:				
Investments:				
Money market funds	\$ 60,949	\$ 60,949		
Equity mutual funds:				
Mid-cap blend funds	227,239	227,239		
Large-cap value funds	920,486	920,486		
Large-cap growth funds	927,829	927,829		
International funds	1,290,923	1,290,923		
Fixed income mutual fund	<u>1,728,676</u>	<u>1,728,676</u>		
Total investments	5,156,102	5,156,102	\$ —	\$ —
Beneficial interest in perpetual trust	<u>736,494</u>		<u>736,494</u>	
Total	<u>\$ 5,892,596</u>	<u>\$ 5,156,102</u>	<u>\$ 736,494</u>	<u>\$ —</u>

Investment income consists of the following for the years ended December 31:

	2014	2013
Interest and dividends (net of investment expenses of \$48,119 and \$45,905, respectively)	\$ 170,255	\$ 90,274
Net realized and unrealized gains	<u>83,854</u>	<u>671,428</u>
Total	<u>\$ 254,109</u>	<u>\$ 761,702</u>

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of December 31:

	2014	2013
Land	\$ 107,894	\$ 107,894
Buildings and improvements	1,857,422	1,879,894
Furniture and equipment	<u>722,756</u>	<u>712,253</u>
Total	2,688,072	2,700,041
Less accumulated depreciation	<u>1,755,406</u>	<u>1,688,243</u>
Property and equipment, net	<u>\$ 932,666</u>	<u>\$ 1,011,798</u>

5. RESTRICTED NET ASSETS

Temporarily restricted net assets as of December 31, 2014 and 2013 consists primarily of amounts restricted for use in future periods.

Permanently restricted net assets consist of endowment funds to be held in perpetuity. The income from the assets can be used for operations.

The Board of Directors has also designated the Foundation assets, excluding the permanently restricted endowment funds, for the purpose of generating additional income to be used for the Organization's operations.

6. ENDOWMENT FUNDS

The Organization's endowment consists of five donor restricted endowment funds established and restricted for the purpose of supporting the operations of the Organization. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The State of Colorado has adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The act provides statutory guidance for management investment and expenditure of endowment funds held by not-for-profit organizations. The Organization has interpreted UPMIFA 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, and (b) 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 UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund
- 2) The purposes of the Organization and the donor-restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of the Organization
- 7) The investment policies of the Organization

Changes in endowment fund net assets and the endowment net asset composition by type of fund as of December 31, 2014 and 2013 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment balance, January 1, 2013	\$ —	\$ —	\$ 1,871,100	\$ 1,871,100
Investment return:				
Investment income		20,200		20,200
Net appreciation, realized and unrealized		152,269	32,445	184,714
Total investment return	—	172,469	32,445	204,914
Appropriations for expenditures		(71,695)		(71,695)
Endowment balance, December 31, 2013	—	100,774	1,903,545	2,004,319
Investment return:				
Investment income		39,032		39,032
Net appreciation, realized and unrealized		19,226	(8,254)	10,972
Total investment return	—	58,258	(8,254)	50,004
Appropriations for expenditures		(70,508)		(70,508)
Endowment balance, December 31, 2014	<u>\$ —</u>	<u>\$ 88,524</u>	<u>\$ 1,895,291</u>	<u>\$ 1,983,815</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2014 and 2013.

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs 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 that is intended to produce maximum results with stated risk tolerances. The Organization expects its endowment funds, over time, to provide an average rate of return of approximately the sum of 6% plus the consumer price in (CPI) annually. Actual returns in any given year may vary from this amount. Included in endowments are perpetual trusts held by third parties, these trusts are controlled by the third party and the investment policies of the Organization does not apply to them. The balance of perpetual trusts held by third parties was \$728,240 and \$736,494 at December 31, 2014 and 2013, respectively.

To satisfy its long-term rate-of-return 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 a diversified asset allocation that places a great emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints. Equity based investments include large-cap, mid-cap, small-cap and international equities. The Organization also uses fixed income securities to achieve its objectives.

7. LINE OF CREDIT

As of December 31, 2014, the Organization had a \$300,000 line of credit with a bank that expires September 1, 2015. The line of credit bears interest at the bank's prime rate and is secured by all accounts, instruments, and investments. There was an outstanding balance on the line at December 31, 2014 of \$25,000 and no outstanding balance on the line at December 31, 2013.

8. CAPITAL LEASE OBLIGATIONS

The Organization leases office equipment under the terms of a lease that is accounted for as a capital lease. Assets under the capital lease at December 31, 2014 and 2013 are recorded at a cost of \$15,652 and accumulated depreciation of \$8,989 and \$7,424, respectively.

The following is a schedule by year of future minimum lease payments under the capital leases as of December 31, 2014:

2015	\$	3,530
2016		3,530
2017		3,528
2018		<u>1,471</u>
Total minimum lease payments		12,059
Less amount representing interest		<u>994</u>
Present value of net minimum lease payments		11,065
Less current portion		<u>3,046</u>
Long-term portion	\$	<u>8,019</u>

9. CONTRIBUTED SUPPLIES AND SERVICES

The value of donated supplies and services included in the financial statements as contributions and the corresponding expenses, and capital assets are as follows for the years ended December 31:

	2014	2013
Expenses:		
Rental expense	\$ 9,000	\$ 9,000
Services	3,531	3,054
Supplies	<u>2,473</u>	<u>6,140</u>
Total expenses	<u>\$ 15,004</u>	<u>\$ 18,194</u>