

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

**Consolidated Financial Statements**

**For The Year Ended December 31, 2015**

**And**

**Independent Auditors' Report**

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

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## 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, 2015 and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated 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, 2015 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' 2014 consolidated financial statements and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated May 28, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014 is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

*Stockman Kast Ryan & Co., LLP*

May 26, 2016

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

**CONSOLIDATED BALANCE SHEET  
DECEMBER 31, 2015 (with comparative totals for 2014)**

	2015						2014 Total
	Operating	Unrestricted Designated	Total	Temporarily Restricted	Permanently Restricted	Total	
<b>ASSETS</b>							
<b>CURRENT ASSETS</b>							
Cash and cash equivalents	\$ 118,195	\$ 5,365	\$ 123,560	\$ 121,298		\$ 244,858	\$ 161,707
Accounts receivable	183,675		183,675			183,675	238,730
Pledges receivable				158,279		158,279	180,674
Investments		3,557,927	3,557,927		\$ 1,167,051	4,724,978	5,100,042
Prepaid expenses	48,609		48,609			48,609	36,891
Total	350,479	3,563,292	3,913,771	279,577	1,167,051	5,360,399	5,718,044
<b>BENEFICIAL INTEREST IN PERPETUAL TRUSTS</b>							
					680,147	680,147	728,240
PROPERTY AND EQUIPMENT, NET	927,671		927,671			927,671	932,666
<b>TOTAL</b>	<b>\$ 1,278,150</b>	<b>\$ 3,563,292</b>	<b>\$ 4,841,442</b>	<b>\$ 279,577</b>	<b>\$ 1,847,198</b>	<b>\$ 6,968,217</b>	<b>\$ 7,378,950</b>
<b>LIABILITIES AND NET ASSETS</b>							
<b>CURRENT LIABILITIES</b>							
Accounts payable	\$ 77,512	\$ 19,656	\$ 97,168			\$ 97,168	\$ 90,590
Accrued expenses	172,958		172,958			172,958	195,753
Line of credit	80,000		80,000			80,000	25,000
Current portion of capital lease obligations	3,202		3,202			3,202	3,046
Total	333,672	19,656	353,328	\$ -	\$ -	353,328	314,389
CAPITAL LEASE OBLIGATIONS	4,817		4,817			4,817	8,019
Total liabilities	338,489	19,656	358,145	-	-	358,145	322,408
NET ASSETS	939,661	3,543,636	4,483,297	279,577	1,847,198	6,610,072	7,056,542
<b>TOTAL</b>	<b>\$ 1,278,150</b>	<b>\$ 3,563,292</b>	<b>\$ 4,841,442</b>	<b>\$ 279,577</b>	<b>\$ 1,847,198</b>	<b>\$ 6,968,217</b>	<b>\$ 7,378,950</b>

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, 2015 (with comparative totals for 2014)**

	2015					2014 Total
	Operating	Unrestricted Designated	Total	Temporarily Restricted	Permanently Restricted	
<b>REVENUES</b>						
Program service fees	\$ 2,870,089		\$ 2,870,089			\$ 2,870,089
Contributions	585,881	\$ 1,090	586,971	\$ 279,577		866,548
Investment income (loss)	49	(84,041)	(83,992)			(83,992)
Loss on beneficial interest in perpetual trusts					\$ (48,093)	(48,093)
Net assets released from restrictions - Satisfaction of time and purpose restrictions	182,979	88,524	271,503	(271,503)		
Transfers	302,392	(302,392)				
<b>Total</b>	<b>3,941,390</b>	<b>(296,819)</b>	<b>3,644,571</b>	<b>8,074</b>	<b>(48,093)</b>	<b>3,604,552</b>
<b>EXPENSES</b>						
Program	3,428,185		3,428,185			3,428,185
Management and general	492,046		492,046			492,046
Fundraising	130,791		130,791			130,791
<b>Total</b>	<b>4,051,022</b>	<b>-</b>	<b>4,051,022</b>	<b>-</b>	<b>-</b>	<b>4,051,022</b>
<b>CHANGE IN NET ASSETS</b>	<b>(109,632)</b>	<b>(296,819)</b>	<b>(406,451)</b>	<b>8,074</b>	<b>(48,093)</b>	<b>(446,470)</b>
<b>NET ASSETS, Beginning of year</b>	<b>1,049,293</b>	<b>3,840,455</b>	<b>4,889,748</b>	<b>271,503</b>	<b>1,895,291</b>	<b>7,056,542</b>
<b>NET ASSETS, End of year</b>	<b>\$ 939,661</b>	<b>\$ 3,543,636</b>	<b>\$ 4,483,297</b>	<b>\$ 279,577</b>	<b>\$ 1,847,198</b>	<b>\$ 6,610,072</b>

See notes to consolidated financial statements.

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

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2015 (with comparative totals for 2014)**

	<b>2015</b>				<b>2014 Total</b>
	<b>Program</b>	<b>Management and General</b>	<b>Fund Raising</b>	<b>Total</b>	
Salaries, taxes and benefits	\$ 2,434,833	\$ 393,375	\$ 97,177	\$ 2,925,385	\$ 2,824,108
Food	298,434			298,434	310,988
Repairs and maintenance	164,216	8,643		172,859	235,131
Supplies	101,601	4,056	1,067	106,724	105,067
Home Network expenses	99,984			99,984	111,684
Professional fees	68,383	10,020	3,207	81,610	66,615
Depreciation	60,969	8,409	700	70,078	67,162
Telephone and utilities	55,302	3,568	594	59,464	62,768
Insurance	40,444	5,578	465	46,487	41,730
Conferences, meetings and travel	22,114	7,076	295	29,485	14,412
Fundraising expenses			26,259	26,259	25,028
Advertising and recruitment		22,435		22,435	26,662
Printing	14,847	4,355	594	19,796	19,875
Bad debt expense		19,487		19,487	39,464
Dues and subscriptions	16,000	860	344	17,204	17,114
Rental expense	16,410			16,410	16,410
Postage	2,086	804	89	2,979	5,131
Interest expense		1,643		1,643	1,007
Miscellaneous	<u>32,562</u>	<u>1,737</u>		<u>34,299</u>	<u>37,972</u>
<b>Total</b>	<b><u>\$ 3,428,185</u></b>	<b><u>\$ 492,046</u></b>	<b><u>\$ 130,791</u></b>	<b><u>\$ 4,051,022</u></b>	
Percent of total	<u>85%</u>	<u>12%</u>	<u>3%</u>	<u>100%</u>	
Comparative totals — 2014	<u>\$ 3,403,209</u>	<u>\$ 499,657</u>	<u>\$ 125,462</u>		<u>\$ 4,028,328</u>
Percent of total — 2014	<u>85%</u>	<u>12%</u>	<u>3%</u>	<u>100%</u>	

See notes to consolidated financial statements.

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

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2015 (with comparative totals for 2014)**

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	<b>2015</b>	<b>2014</b>
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ (446,470)	\$ (103,801)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	70,078	67,162
Provision for bad debts	19,487	39,464
Unrealized and realized (gain) loss on investments	317,352	(83,854)
Loss on beneficial interest in perpetual trusts	48,093	8,254
Changes in operating assets and liabilities:		
Accounts receivable	35,568	(63,028)
Pledges receivable	22,395	(775)
Prepaid expenses	(11,718)	(1,868)
Accounts payable and accrued expenses	<u>(16,217)</u>	<u>28,381</u>
Net cash provided by (used in) operating activities	<u>38,568</u>	<u>(110,065)</u>
<b>INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(65,083)	(46,015)
Purchases of investments	(370,009)	(3,531,589)
Sales of investments	427,721	3,671,503
Proceeds from insurance claim	<u>                    </u>	<u>57,985</u>
Net cash provided by (used in) investing activities	<u>(7,371)</u>	<u>151,884</u>
<b>FINANCING ACTIVITIES</b>		
Principal payments on capital lease obligations	(3,046)	(2,898)
Advances on line of credit	410,000	110,000
Payments on line of credit	<u>(355,000)</u>	<u>(85,000)</u>
Net cash provided by financing activities	<u>51,954</u>	<u>22,102</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	83,151	63,921
CASH AND CASH EQUIVALENTS, Beginning of year	<u>161,707</u>	<u>97,786</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 244,858</u>	<u>\$ 161,707</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Interest paid	<u>\$ 1,643</u>	<u>\$ 1,007</u>

See notes to consolidated financial statements.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**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 of Directors 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 (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, 2014, from which the summarized information was derived.

**Cash and Cash Equivalents** — For the purposes of the financial statements, cash and cash equivalents are defined as cash on hand, demand deposits at banks, and money market funds.

**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, 2015 and 2014 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 many market funds and mutual funds are determined 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 2012 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.

**Reclassifications** — Certain prior year amounts have been reclassified to conform with the current year presentation.

**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 \$680,147 and \$728,240 at December 31, 2015 and 2014, 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 \$22,196 and \$23,489 in distributions from the trusts during the years ended December 31, 2015 and 2014, respectively. The Organization's share of losses from these trusts were \$48,093 and \$8,254 in 2015 and 2014, 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:

	<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>2015:</b>				
Investments:				
Money market funds	\$ 342	\$ 342		
Equity mutual funds:				
Mid-cap blend funds	231,613	231,613		
Large-cap value funds	814,625	814,625		
Large-cap growth funds	836,886	836,886		
International funds	1,085,615	1,085,615		
Fixed income mutual fund	<u>1,755,897</u>	<u>1,755,897</u>		
Total investments	4,724,978	4,724,978	\$ —	\$ —
Beneficial interest in perpetual trusts	<u>680,147</u>		<u>680,147</u>	
Total	<u>\$ 5,405,125</u>	<u>\$ 4,724,978</u>	<u>\$ 680,147</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)
<b>2014:</b>				
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 trusts	<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>

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

	2015	2014
Interest and dividends (net of investment expenses of \$43,695 and \$48,119, respectively)	\$ 233,360	\$ 170,255
Net realized and unrealized gain (loss)	<u>(317,352)</u>	<u>83,854</u>
Total	<u>\$ (83,992)</u>	<u>\$ 254,109</u>

#### 4. PROPERTY AND EQUIPMENT

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

	2015	2014
Land	\$ 107,894	\$ 107,894
Buildings and improvements	1,922,504	1,857,422
Furniture and equipment	<u>722,756</u>	<u>722,756</u>
Total	2,753,154	2,688,072
Less accumulated depreciation	<u>1,825,483</u>	<u>1,755,406</u>
Property and equipment, net	<u>\$ 927,671</u>	<u>\$ 932,666</u>

## 5. RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following as of December 31:

	<b>2015</b>	<b>2014</b>
Time restrictions	\$ 158,279	\$ 180,674
Program restrictions	121,298	2,305
Donor restricted endowment funds	<u>                    </u>	<u>88,524</u>
Total	<u>\$ 279,577</u>	<u>\$ 271,503</u>

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, 2015 and 2014 are as follows:

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment balance, January 1, 2014	\$ —	\$ 100,774	\$ 1,903,545	\$ 2,004,319
Investment return:				
Investment income		39,032		39,032
Net appreciation (depreciation), realized and unrealized	<u>          </u>	<u>19,226</u>	<u>(8,254)</u>	<u>10,972</u>
Total investment return (loss)	<u>          </u>	<u>58,258</u>	<u>(8,254)</u>	<u>50,004</u>
Appropriations for expenditures	<u>          </u>	<u>(70,508)</u>	<u>          </u>	<u>(70,508)</u>
Endowment balance, December 31, 2014	<u>          </u>	<u>88,524</u>	<u>1,895,291</u>	<u>1,983,815</u>
Investment return:				
Investment income		57,749		57,749
Net depreciation, realized and unrealized	<u>(7,129)</u>	<u>(71,422)</u>	<u>(48,093)</u>	<u>(126,644)</u>
Total investment loss	<u>(7,129)</u>	<u>(13,673)</u>	<u>(48,093)</u>	<u>(68,895)</u>
Appropriations for expenditures	<u>          </u>	<u>(74,851)</u>	<u>          </u>	<u>(74,851)</u>
Endowment balance, December 31, 2015	<u>\$ (7,129)</u>	<u>\$ —</u>	<u>\$ 1,847,198</u>	<u>\$ 1,840,069</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. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets were \$7,129 as of December 31, 2015. There were no such deficiencies as of December 31, 2014.

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 \$680,147 and \$728,240 at December 31, 2015 and 2014, 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, 2015, the Organization had a \$300,000 line of credit with a bank that expires September 1, 2016. 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, 2015 and 2014 of \$80,000 and \$25,000, respectively.

**8. OPERATING LEASE COMMITMENTS**

The Organization leases equipment under a non-cancellable operating lease expiring in 2019. As of December 31, 2015, future minimum lease payments under the operating lease are as follows:

2016	\$ 22,344
2017	22,344
2018	22,344
2019	<u>22,344</u>
Total	<u>\$ 89,376</u>

Rent expense for the operating lease for each of the years ended December 31, 2015 and 2014 totaled \$25,704.

**9. 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, 2015 and 2014 are recorded at a cost of \$15,652 and accumulated depreciation of \$10,554 and \$8,989, respectively.

The following is a schedule by year of future minimum lease payments under the capital leases as of December 31, 2015:

2016	\$ 3,530
2017	3,528
2018	<u>1,471</u>
Total minimum lease payments	8,529
Less amount representing interest	<u>510</u>
Present value of net minimum lease payments	8,019
Less current portion	<u>3,202</u>
Long-term portion	<u>\$ 4,817</u>

**10. 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:

	<b>2015</b>	<b>2014</b>
EXPENSES		
Rental expense	\$ 9,000	\$ 9,000
Services	1,440	3,531
Supplies	<u>1,460</u>	<u>2,473</u>
Total expenses	<u>\$ 11,900</u>	<u>\$ 15,004</u>