SPAULDING FOR CHILDREN

Financial Report Including
Federal Awards
Supplementary Information
For the Year Ended
September 30, 2018

GORDON
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SPAULDING FOR CHILDREN
Southfield, Michigan

I N D E X

SUPPLEMENTARY INFORMATION

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Spaulding for Children
Southfield, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of Spaulding for Children (a non-profit corporation) which comprise the statement of financial position as of September 30, 2018, and the related 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 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Spaulding for Children as of September 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedules of specific program expenses presented on Pages 17 and 18 are presented for the purpose of additional analysis and is not a required part of the financial statements. Additionally, the accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2019, on our consideration of Spaulding for Children's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Spaulding for Children's internal control over financial reporting and compliance.

Gordon Advisors, P.C.

Troy, Michigan
January 22, 2019

SPAULDING FOR CHILDREN

Statement of Financial Position

September 30, 2018

ASSETS

Current Assets		
Cash and cash equivalents	$	561,204
Certificates of deposit		402,476
Accounts receivable		2,369,742
Prepaid expenses		60,956
Total Current Assets		3,394,378
Property and Equipment, Net		47,924
Other Assets		
Certificates of deposit		200,162
Donated property		138,000
Funds held for investment		2,623,786
Total Other Assets		2,961,948
Restricted Assets		
Investment of endowed funds		416,509
Beneficial interests in trusts		120,000
Total Restricted Assets		536,509
Total Assets	$	6,940,759

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable	$	1,187,226
Accrued expenses		331,647
Deferred revenue		13,876
Total Current Liabilities		1,532,749
Net Assets		
Unrestricted		4,766,501
Temporarily restricted		278,120
Permanently restricted		363,389
Total Net Assets		5,408,010
Total Liabilities and Net Assets	$	6,940,759

See Independent Auditors' Report and Accompanying Footnotes.

SPAULDING FOR CHILDREN
Statement of Activities
Year Ended September 30, 2018

	Unrestricted	Temporarily	Permanently	Total
Support and Revenue				
Contributions				
Foundation grants	$ 146,424	$ 105,000	$ -	$ 251,424
Individuals	70,429	-	-	70,429
Event revenue - net	13,940	-	-	13,940
Government contracts				-
Adoption Opportunities program	7,533,377	-	-	7,533,377
Other contract revenues and grants	244,984	-	-	244,984
Program service fees				
Child and family services	1,574,058	-	-	1,574,058
Foster parent pass through	720,718	-	-	720,718
Beneficial interest in remainder trust	-	8,901	-	8,901
Investment income	226,748	3,861	-	230,609
Other	41,781	-	-	41,781
Total Support	10,572,459	117,762	-	10,690,221
Net Assets Released From Restrictions	119,900	(119,900)		0
Total Revenues	10,692,359	(2,138)	-	10,690,221
Expenses				
Program services				
Child and family services				
Other	1,757,875	-	-	1,757,875
Foster parent payments	746,573	-	-	746,573
Spaulding Institute	6,599,177	-	-	6,599,177
Supporting services				
Management and general	1,003,513	-	-	1,003,513
Community relations and development	88,161	-	-	88,161
Other fundraising costs	25,444	-	-	25,444
Total Expenses	10,220,743	-	-	10,220,743
Increase (Decrease) in Net Assets	471,616	(2,138)	-	469,478
Net Assets - Beginning of Year	4,294,885	280,258	363,389	4,938,532
Net Assets - End of Year	$ 4,766,501	$ 278,120	$ 363,389	$ 5,408,010

See Independent Auditors' Report and Accompanying Footnotes.

SPAULDING FOR CHILDREN
Statement of Functional Expenses
For The Year Ended September 30, 2018

	Child and Family Services	Academy/ Spaulding Institute	Management and General	Community Relations and Development	Total Expenses
Salaries	$ 1,039,571	$ 658,552	$ 619,288	$ 31,371	$ 2,348,782
Employee benefits	238,384	153,996	130,288	15,446	538,114
Payroll taxes	87,673	53,109	50,089	2,474	193,345
Total salaries and related expenses	1,365,628	865,657	799,665	49,291	3,080,241
Professional fees	10,749	25,418	5,140	263	41,570
Consultant fees	8,994	640,645	56,106	2,000	707,745
Consultant travel	0	38,630	0	0	38,630
Partner agencies	0	4,577,523	0	0	4,577,523
Computer network	18,732	23,303	6,370	6,658	55,063
Office supplies	6,519	4,111	3,501	271	14,402
Program meeting costs	26,951	37,310	5,175	12,170	81,606
Equipment rental and maintenance	14,714	6,606	5,822	652	27,794
Telephone	13,754	27,086	4,974	1,084	46,898
Postage and shipping	3,543	9,295	637	786	14,261
Occupancy	126,360	71,707	56,712	2,973	257,752
Printing and agency publications	6,267	79,441	2,483	1,074	89,265
Local transportation costs	51,414	392	1,782	257	53,845
Travel	2,727	86,703	10,250	0	99,680
Subsciptions and publications	148	3,645	652	0	4,445
Family and client assistance	19,844	0	0	0	19,844
Foster parent payments	746,573	0	0	0	746,573
Insurance	23,539	8,774	15,287	432	48,032
Memberships	12,003	4,971	6,545	7,990	31,509
Fundraising costs	0	0	0	25,444	25,444
Board expense	0	83,321	7,086	0	90,407
Other project costs	0	0	0	0	0
In-kind expense	0	4,289	0	0	4,289
Community relations	0	0	0	1,600	1,600
Employee relations	0	0	6,395	0	6,395
Miscellaneous expense	45,989	350	930	660	47,929
Depreciation	0	0	8,001	0	8,001
Total expenses	$ 2,504,448	$ 6,599,177	$ 1,003,513	$ 113,605	$ 10,220,743

SPAULDING FOR CHILDREN
Statement of Cash Flows
For The Year Ended September 30, 2018

Operating Activities	
Increase in net assets	$ 469,478
Adjustments to reconcile change in net assets to cash from operating activities:	
Gain on investments	(221,126)
Depreciation	8,001
Gain on beneficial interests in trusts	(8,901)
Increase (decrease) in operating assets:	
Accounts receivable	(297,317)
Prepaid expenses	54,430
Increase in operating liabilities:	
Accounts payable and accrued expenses	83,581
Deferred revenue	5,376
Net Cash Provided By Operating Activities	93,522
Investing Activities	
Proceeds from beneficial interest in trust	14,901
Purchase of property and equipment	(28,978)
Purchase of certificates of deposit	(101,633)
Net Cash Used In Investing Activities	(115,710)
Net Decrease In Cash and Cash Equivalents	(22,188)
Cash and Cash Equivalents	
Beginning of Year	583,392
End of Year	$ 561,204

See Independent Auditors' Report and Accompanying Footnotes.

SPAULDING FOR CHILDREN
Notes to the Financial Statements
Year Ended September 30, 2018

NOTE:

1. Organization and Summary of Significant Accounting Policies

Nature of Organization – Spaulding for Children (the Agency) is a nonprofit organization established to place children in permanent homes in Michigan with a focus on youth that are not well served by other agencies. In addition, the Agency also develops and administers training programs to demonstrate, teach, and advocate innovative approaches to child placement on national, state and local levels. The Agency is comprised of two service divisions: Child and Family Services, Spaulding Academy and Institute.

Financial Statement Presentation – The Agency reports information regarding its financial position and activities utilizing three classes of net assets, based upon the absence or existence of donor-imposed restrictions. The three classes of net assets are unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted Net Assets – Unrestricted net assets represent expendable funds currently available at the discretion of the Board of Directors for support of Agency operations. Unrestricted net assets include board designated net assets in which the Agency board has set aside amounts for a specific purpose.

Temporarily Restricted Net Assets – Temporarily restricted net assets consist of contribution revenue received from donors in which the use of such resources are restricted to be used for a specific purpose or are restricted to be used after the passage of time or upon the occurrence of a future event. When a donor-imposed restriction expires, the stipulated time has passed or the necessary event has occurred temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

In the event a contribution that would otherwise be classified as temporarily restricted because of a restriction imposed has the restriction met in the same period that the contribution revenue is received, the contribution revenue and related net assets are classified as unrestricted.

Permanently Restricted Net Assets – Permanently restricted net assets consist of contribution revenue received from donors which are required to be held by the Agency in perpetuity. Income and capital appreciation from the assets is released from permanently restricted net assets and is available for either general operations or specific purposes, in accordance with donor stipulations.

Cash and Cash Equivalents – The Agency considers only cash in checking and savings accounts to be cash equivalents, for purposes of the statement of cash flows and the statement of financial position.

Certificates of Deposit – The Agency invests in bank certificates of deposit that mature at various dates through November 2019. The certificates are recorded using purchase price and that approximates fair value. For determination purposes, the Agency utilizes Level 2 inputs to assess the fair value of certificates of deposit.

Accounts Receivable – Accounts receivable consist primarily of amounts due from government agencies. Accounts receivable, other than unconditional promises to give, consist of amounts management expects to collect from outstanding balances. The Agency has determined that at September 30, 2018, a reserve for uncollected amounts is not deemed necessary. This determination was based on a specific assessment of all amounts that remain unpaid following normal payment periods and historical loss experience.

SPAULDING FOR CHILDREN
Notes to the Financial Statements (Continued)
Year Ended September 30, 2018

NOTE:

1. Organization and Summary of Significant Accounting Policies (Continued)

Property and Equipment – The Agency capitalizes all property and equipment expenditures with a cost of $5,000 or more if the item purchased has an estimated useful life of greater than one year. Property and equipment are recorded at cost or, in the case of donated items, at fair value as of the date received. Expenditures for major additions and improvements to property and equipment are capitalized and minor replacements, maintenance and repairs are charged to expense when incurred.

When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the statement of activities for the respective period.

Property and equipment consists predominantly of office equipment. Depreciation is computed using the straight-line method over the estimated lives of the related assets with consideration given to salvage value if applicable. The estimated useful lives of property and equipment held by the Agency ranged from three to five years. Accumulated depreciation totals $159,409 at September 30, 2018.

Property and equipment are reviewed on an ongoing basis for impairment based on a comparison of current carrying value against undiscounted future cash flows. If impairment is identified, the impaired asset's value is adjusted to fair value. There were no such adjustments during the year ended September 30, 2018.

Investments – In accordance with professional standards, investments in debt and equity securities are presented at fair value on a recurring basis and are all classified as Level 1, 2 or 3 investments based upon how the underlying securities are valued. The net realized and unrealized gains or loss on marketable securities are reflected in the statement of activities as a component of investment income.

Deferred Revenues – Deferred revenues consist of payments received for services to be provided subsequent to September 30, 2018.

Contributions – Contributions are recognized as revenues when received or unconditionally pledged. All contributions are available for unrestricted use unless specifically restricted by the donor. Contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the contribution revenue is recognized. All other donor restricted contributions are reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction.

At times, donors unconditionally promise to make future contributions to the Agency. Such unconditional promises to give are recorded in full as contribution revenue in the period the promise is made. Any amounts to be collected in future years are recorded on the statement of financial position at their net realizable value. The Agency uses the allowance method to account for uncollectable unconditional promises to give. As of September 30, 2018, there were no uncollected unconditional promises to give.

The Agency from time to time receives in-kind donations of services, property and supplies. In-kind contributions of property, that are material in amount and meet the other requirements of professional standards, are recorded as revenue in the period received for an amount that approximates the fair value of the property or supplies received.

SPAULDING FOR CHILDREN
Notes to the Financial Statements (Continued)
Year Ended September 30, 2018

NOTE:

1. Organization and Summary of Significant Accounting Policies (Continued)

In-kind contributions of services are recognized as contribution revenue in the period such services were rendered if either the services create or enhance a nonfinancial asset or require specialized skills, are provided by entities or persons possessing those skills, and would need to be purchased if they were not donated. In-kind services that meet the preceding conditions are recorded in the financial statements at fair value. In-kind services received by the Agency that do not meet the preceding conditions are not recognized as contribution revenue in the financial statements.

Revenue Recognition Other Than Contributions – In addition to contribution revenues from public and private sources the Agency also provides fee-based services. Revenues earned in the performance of services are recognized in the period the services are rendered and the earnings process is substantially complete.

Advertising – The costs incurred for advertising and community development efforts are expensed at the time the promotional activity is first publicized. During the year ended September 30, 2018, advertising and community development expenses were $15,603.

Income Taxes – The Agency has been granted tax exempt status under the section 501(c)(3) of the Internal Revenue Code of the United States and is classified as an organization other than a private foundation. Contributions and service fee revenue are not generally subject to income taxes in the United States.

From time to time the Agency may be subject to income taxes on income received that is unrelated to its exempt purpose. This income is commonly known as unrelated business income or UBI and is subject to taxation. The Agency does not believe that it earned any UBI during the year ended September 30, 2018. Therefore, no provision for income taxes is recorded in these financial statements.

Uncertain Tax Positions – Management evaluates whether tax positions reported on returns are more likely than not to be sustained if challenged. This assessment occurs at least annually and includes, most significantly, the exemption from income tax that the Agency operates under. Management believes no such positions exist that would have a significant impact on the Agency's financial position. As of September 30, 2018, no liability for uncertain tax benefits was recorded.

Expense Allocation – The costs of providing the Agency programs and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of time and expense analysis. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support of the Agency.

Subsequent Events – The Agency has evaluated events and transactions that occurred through January 22, 2019, which is the date the financial statements were available for issue.

SPAULDING FOR CHILDREN
Notes to the Financial Statements (Continued)
Year Ended September 30, 2018

NOTE:

2. Concentrations, Risks and Uncertainty

Estimates and Significant Estimates – Management uses estimates and assumptions to prepare Agency financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from those estimates.

Bank Deposits – The Agency deposits cash balances with major banks within the State of Michigan and generally maintains balances that exceed federally insured limits. The Agency has not experienced any losses in such accounts, and management believes the Agency is not exposed to any unusual credit risk on cash and cash equivalents.

Other Concentrations – During the year ended September 30, 2018, approximately 94% of revenue was generated through grant agreements with two funding streams; the State of Michigan and the federal government.

Marketable Securities – The Agency's maintains investments that are adjusted to fair value, determined using published exchange market quotations where applicable or estimated fair values or net asset value provided by external investment managers or other sources. The Agency maintains a Finance Committee, that along with the Board of Directors has established an investment policy statement for the Agency's investments. The investment policy addresses the preservation of capital, risk aversion, and adherence to investment discipline.

Grant Activities – Substantially all grants received by the Agency are subject to financial and compliance audits by the grantors or their designated agents. Failure to comply with the terms of a grant may result in the requirement of the Agency to repay the grantor.

3. Funds Held for Investment

The Agency follows topic 820 Fair Value Measurement of the ASC. ASC 820 establishes a three-level hierarchy for fair value measurements based upon the observability of inputs to the valuation of the asset or liability as of the measurement date. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

> Level I – Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Agency has an ability to access.
>
> Level 2 – Financial assets and liabilities whose values are based on pricing inputs that are either directly observable or that can be derived or supported from observable data as of the reporting date. Level 2 inputs may include quoted prices for similar assets or liabilities in non-active markets or pricing models whose inputs are observable for substantially the full term of the asset or liability. Instruments in this category can include institutional pooled fund(s), unit trust funds, offshore funds, mutual funds, and remainder interest trusts.
>
> Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both significant to the fair value of the financial asset or financial liability and are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. Instruments in this category can include investments in limited partnerships and remainder interest trusts.

SPAULDING FOR CHILDREN
Notes to the Financial Statements (Continued)
Year Ended September 30, 2018

NOTE:

3. Funds Held for Investment (Continued)

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following table presents financial instruments that are measured at fair value on a recurring basis as of September 30, 2018.

	Total	Level 1	Level 2	Level 3
Money market funds	$ 212,086	$ 212,086	$ 0	$ 0
Fixed income	1,200,589	597,951	602,638	0
Equity securities	2,230,258	2,230,258	0	0
Beneficial interest in remainder trust	120,000	0	0	120,000
	$ 3,762,933	$ 3,040,295	$ 602,638	$ 120,000

Investment advisory fees for the year ended September 30, 2018 totaled $20,417. Activity among investment accounts for the year ended September 30, 2018 included a transfer of $9,154 from the permanently restricted Hearst endowment fund to unrestricted investment accounts. Investment account withdrawals during the year included a $6,000 withdrawal from Welch account and a $35,000 withdrawal from Hearst account. Realized gains from investment accounts for the year ended September 30, 2018 totaled $125,007. Unrealized gains with investment accounts for the year ended September 30, 2018 totaled $640,023. Interest income from certificates of deposit totaled $1,428.

4. Permanently Restricted Net Assets - Endowments

Permanently restricted net assets at September 30, 2018 consists of donor-restricted endowments. From time to time, the fair value associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA (State of Michigan Prudent Management of Institutional Funds Act) requires the Agency to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, there were no such deficiencies on these endowments reported at September 30, 2018.

Interpretation of Relevant Law

The Board of Trustees of the Agency has interpreted the SPMIFA 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 Agency classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts 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. Any donor-restricted endowment fund that would not be classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts would be appropriated for expenditure by the Agency in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with SPMIFA, the Agency 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 Agency and the donor-restricted endowment funds, (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 Agency, and (7) the Agency's investment policies.

SPAULDING FOR CHILDREN
Notes to the Financial Statements (Continued)
Year Ended September 30, 2018

NOTE:

4. Permanently Restricted Net Assets – Endowments (Continued)

Return Objectives and Risk Parameters

The Agency has adopted an investment policy for donor-restricted endowment assets to achieve a consistent total rate of return (income and reinvested funds) within reasonable and prudent levels of risk that will generate a sufficient income stream while preserving and enhancing the original principal of funds invested.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives of the donor-restricted endowments, the Agency maintains a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to annually generate distributions that can eventually be released from restriction. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The investments held for donor-restricted endowments have a spending policy of utilizing all of the net investment income for either unrestricted or temporarily restricted purposes, as the cash flows and other financial requirements dictate.

The endowment funds previously discussed in general terms consist of the following specific funds:

Michael Lucci Education Endowment Fund – This Fund was established by the Friends of Mike Lucci to honor him on the occasion of his 25th Annual Golf Tournament benefiting Spaulding for Children. The original contributions to this fund are permanently restricted. Current income and capital appreciation are to be used to award scholarships to children served by the Agency. Each year that income and appreciation is reclassified to temporarily restricted net assets, allowing the permanently restricted net asset balance to remain in perpetuity.

William Randolph Hearst Endowment Fund – The original contribution to this endowment fund remains permanently restricted but all current income and capital appreciation is used to provide additional resources to existing agency programs. Therefore, each year any increases in the investment fund associated with these endowed net assets are reclassified to unrestricted net assets.

Permanently restricted endowments throughout the year ended September 30, 2018 consist of the following:

Lucci Educational Endowment	$ 163,389
Hearst Endowment Fund	200,000
Total permanently restricted net assets	$ 363,389

SPAULDING FOR CHILDREN
Notes to the Financial Statements (Continued)
Year Ended September 30, 2018

NOTE:

5. Temporarily Restricted Net Assets

At September 30, 2018 net assets with either time or purpose restrictions imposed by donors consist of the following:

Wendy's Wonderful Kids Program	$ 105,000
Lucci Educational Endowment	33,294
Scholarship Fund	19,826
Beneficial interests in remainder trusts – see Note 8	120,000
Total temporarily restricted net assets	$ 278,120

The Dave Thomas Foundation for Adoption provides funding for the Wendy's Wonderful Kids Program that is restricted to cover costs of certain defined adoptions. The Scholarship Fund was established by a donor to subsidize the cost of secondary education for children that have been served by the Agency. Similarly, income and appreciation released from the permanently restricted Lucci Educational Endowment is also restricted for scholarship purposes. These amounts are maintained in specified investment accounts and any related income and capital appreciation is also restricted for the same purpose. An Agency committee awards the scholarships from time to time. During the year ended September 30, 2018, $119,900 was released from temporarily restricted net assets.

6. Pension and Deferred Compensation Plans

Defined Contribution Pension - The Agency has established a defined contribution pension plan known as the Employee Benefits Plan of Spaulding for Children. Under the terms of the plan the Agency is obligated to contribute 7% of eligible employee wages to the plan trust. Contributions for the year ending September 30, 2018, were approximately $166,000.

Eligible employees are employees of the Agency that have reached the age of twenty-one and have completed six months of service. Previous employment in a nonprofit, health, hospital or social services field within the three years of the date of employment with the Agency will qualify as service for the purpose of eligibility.

Benefits for employees are fully vested when a plan participant has completed two years of service. In total 101 individuals were participants in or beneficiaries of the plan as of December 31, 2017, the end of the most recent plan year, although not all of these persons had yet earned the right to receive benefits.

Tax Deferred Annuity Deferred Compensation Plan – The Agency also has created a tax deferred annuity plan to receive voluntary contributions from employees. The plan allows employees to defer salary and wage income of up to $18,000 per year, plus an additional $6,000 per year for participants over 50 years of age. The Agency has no obligation to make contributions in excess of amounts voluntarily contributed by employees through payroll withholdings. Substantially all employees are eligible to participate in this plan and employees are immediately vested in all their own voluntary contributions.

SPAULDING FOR CHILDREN
Notes to the Financial Statements (Continued)
Year Ended September 30, 2018

NOTE:

7. Operating Leases

The Agency has one operating lease for occupancy of its administrative offices. The lease in force requires monthly payments of $21,435 through August 2019. The lease does not include any renewal options. Rental expense for that lease was approximately $257,000 for the year ended September 30, 2018.

The organization has entered several other office equipment leases expiring through September 2020.

Approximate future minimum lease payments under these agreements as of September 30, 2018 are as follows:

2019	$ 285,000
2020	263,000
2021	7,000
	$ 555,000

8. Beneficial Interest in Remainder Trusts

The Agency is one of several remainder beneficiaries of two charitable remainder unitrusts. Charitable remainder trusts provide for the payment of distributions to other designated beneficiaries over the trust term. At the end of the trust term, the remaining assets are available to the named charitable organizations for use. The Agency received a distribution from seven charitable remainder annuity trusts during the year ended September 30, 2018.

On an annual basis, the Agency revalues its beneficial interest in each remainder trust. Changes to the value of each beneficial interest are reported in the statement of activities as they occur. The present value of the estimated future payments is calculated using a discount rate of 8% over the fixed terms of each trust. The remaining terms of the trusts expire in five years.

9. Van Dusen Endowment Challenge Program

The Agency is a participant in the Community Foundation of Southeastern Michigan's (CFSM) Van Dusen Endowment Challenge Program. All contributions received into this endowment fund are invested and managed by the CFSM and as a result are not included in the Agency's financial statements. The Agency does receive from time to time grants, based on endowment earnings each year in perpetuity.

10. Related Party Transactions

During the year ended September 30, 2018, the Agency paid approximately $17,000 for consulting services to a former director of the Agency.

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

Board of Directors
Spaulding for Children
Southfield, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Spaulding for Children (a non-profit corporation), which comprise the statement of financial position as of September 30, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 22, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Spaulding for Children's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Spaulding for Children's internal control. Accordingly, we do not express an opinion on the effectiveness of the organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (CONTINUED)

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gordon Advisors, P.C.

Troy, Michigan
January 22, 2019

SPAULDING FOR CHILDREN

Supplementary Information

For The Year Ended

September 30, 2018

SPAULDING FOR CHILDREN

Michigan Department of Human Services
Adoption Program Expenses
For The Year Ended September 30, 2018

	Adoption
Salaries	$ 217,017
Employee benefits	56,946
Payroll taxes	17,484
Total salaries and related expenses	291,447
Professional fees	845
Consultant fees	2,664
Computer network	2,243
Office supplies	1,823
Program (meeting) supplies	159
Rental and maintenance of equipment	2,124
Telephone	2,182
Postage and shipping	290
Occupancy	18,276
Travel and local transportation	5,792
Out-state travel	534
Conference training	1,075
Family and client assistance	54
Insurance	2,959
Memberships	1,742
Miscellaneous expense	10,689
Total Expenses	$ 344,898

SPAULDING FOR CHILDREN

Michigan Department of Human Services
Foster Care Program Expenses
For The Year Ended September 30, 2018

	Foster Care Program	
	Social Services	Maintenance
Salaries	$ 644,703	$ 0
Employee benefits	135,908	0
Payroll taxes	55,592	0
Total salaries and related expenses	836,203	0
Professional fees	8,695	0
Consultant fees	6,329	0
Computer network	15,012	0
Office supplies	8,584	0
Program (meeting) supplies	18,863	0
Rental and maintenance of equipment	9,949	0
Telephone	10,172	0
Postage and shipping	2,862	0
Occupancy	85,486	0
Advertising and recruitment	165	0
Travel and local transportation	27,187	0
Out of state travel	415	
Conference training	1,975	0
Family and client assistance	13,581	0
Foster parent payments	0	746,573
Insurance	16,947	0
Memberships	8,146	0
Other project costs	100	0
Miscellaneous expense	26,336	
Depreciation	403	0
Total Expenses	$ 1,097,410	$ 746,573

SPAULDING FOR CHILDREN

Schedule of Expenditures of Federal Awards
Year Ended September 30, 2018

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Total 2018 Expenditures
U.S. Department of Health and Human Services		
Adoption Opportunities		
National QIC Program	93.652	$ 5,487,741
CORE Program	93.652	760,663
Hospital-based Adoption Support Services (HBASS)	93.652	339,638
National Training Development	93.652	839,889
Pass-Through Adoption Exchange Association		
AdoptUSKids Program	93.652	105,446
* **Total Adoption Opportunities**		7,533,377
Maternal, Infant, and Early Childhood Home Visiting Grant Program		
Pass-Through State of Michigan Department of Community Health		
Healthy Families America Expansion Program	93.870	190,984
Total Maternal, Infant, and Early Childhood Home Visiting Program		190,984
Total U.S. Department of Health and Human Services		7,724,361
Total Expenditures of Federal Awards		$ 7,724,361

* Designates Major Program as defined by Uniform Guidance - Section 200.510(b)

Note 1 - The Schedule of Expenditures of Federal Awards utilizes the same basis of accounting as the general purpose financial statements and is presented in accordance with the requirements of the Uniform Guidance.

Note 2 - Spaulding for Children did not receive any awards in the form of non-cash assistance, insurance, loans, or other guarantees.

Note 3 - The expenditures of federal awards for the Adoption Opportunities program shown above includes $2,420,195 of awards that were passed through to subrecipients of Spaulding for Children.

See Independent Auditors' Report.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
Spaulding for Children
Southfield, Michigan

Report on Compliance for Each Major Federal Program

We have audited Spaulding for Children's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Spaulding for Children's major federal programs for the year ended September 30, 2018. Spaulding for Children's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Spaulding for Children's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Spaulding for Children's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Spaulding for Children's compliance.

Opinion on Each Major Federal Program

In our opinion, Spaulding for Children complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended September 30, 2018.

Report on Internal Control over Compliance

Management of Spaulding for Children is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Spaulding for Children's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Spaulding for Children's internal control over compliance.

Report on Internal Control over Compliance (Continued)

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purposes.

Gordon Advisors, P.C.

Troy, Michigan
January 22, 2019

SPAULDING FOR CHILDREN
Summary of Auditors' Results
Year Ended September 30, 2018

Financial Statements

I.	Type of auditors' report issued	Unmodified Opinion
II.	Internal control over financial reporting:	
	• Material weaknesses identified?	No
	• Significant deficiencies identified?	None Noted
III.	Noncompliance material to the financial statements noted	No

Federal Awards

IV.	Internal control over major programs:	
	• Material weaknesses identified?	No
	• Significant deficiencies identified?	None Noted
V.	Type of auditors' report issued on compliance for major programs	Unmodified Opinion
VI.	Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	No
VII.	Identification of major programs:	
	U.S. Department of Health and Human Services	CFDA #
	Adoption Opportunities	93.652
VIII.	Dollar threshold used to distinguish between type A and type B programs:	$750,000
IX.	Auditee qualified as low-risk auditee?	Yes

SPAULDING FOR CHILDREN

Schedule of Findings, Questioned Costs, and Prior Year Findings

Year Ended September 30, 2018

There were no findings relating to the financial statements that are required to be reported in accordance with Government Auditing Standards.

There were no findings relating to federal award programs that are required to be reported in accordance with the Uniform Guidance.

There were no findings pertaining to the year ended September 30, 2017 and as such, a schedule of prior year findings and corrective action plan has not been prepared.