

# **Spaulding for Children**

## **Financial Statements**

**September 30, 2020**



## Table of Contents

	Page
Independent Auditors' Report	1
Basic Financial Statements	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to the Financial Statements	7
Supplementary Information	
Adoption Program Expenses	16
Foster Care Program Expenses	17
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	18
Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance Required by Uniform Guidance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	20
Schedule of Expenditures of Federal Awards	22
Notes to the Schedule of Expenditures of Federal Awards	23
Schedule of Findings and Questioned Costs	24
Summary Schedule of Prior Audit Findings	26

## **Independent Auditors' Report**

To the Board of Directors of  
Spaulding for Children  
Southfield, Michigan

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

We have audited the accompanying financial statements of Spaulding for Children which comprise the statement of financial position as of September 30, 2020, and the related statements of activities, cash flows, and functional expenses 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 of material misstatement.

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

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

### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Spaulding for Children as of September 30, 2020 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.

## **Adoption of New Accounting Standards**

As described in Note 1 to the financial statements, Spaulding for Children changed its method of accounting for contributions in 2020 as required by the provisions of FASB Accounting Standards Update 2018-08 *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to that matter.

## **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Adoption and Foster Care Expenses are presented for purposes of additional analysis and are 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 February 5, 2021 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Spaulding for Children's 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.

*Yeo & Yeo, P.C.*

Auburn Hills, Michigan  
February 5, 2021

**Spaulding for Children**  
**Statement of Financial Position**  
**September 30, 2020**

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**Assets**

Current assets

Cash and cash equivalents	\$ 1,501,574
Certificates of deposit	600,000
Accounts receivable	1,267,050
Prepaid expenses	<u>52,369</u>

Total current assets	<u>3,420,993</u>
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Property and equipment, net	<u>23,534</u>
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Other Assets

Donated property	138,000
Funds held for investment	<u>3,301,288</u>

Total other assets	<u>3,439,288</u>
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Restricted Assets

Investment of endowed funds	416,312
Beneficial interests in trusts	<u>125,000</u>

Total restricted assets	<u>541,312</u>
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<b>Total assets</b>	<b><u><u>\$ 7,425,127</u></u></b>
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**Liabilities and net assets**

Current liabilities

Accounts payable	\$ 485,531
Accrued expenses	442,027
Refundable advance - PPP Proceeds	435,602
Other liabilities	<u>87,513</u>

Total current liabilities	<u>1,450,673</u>
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Net assets

Without donor restrictions	5,295,473
With donor restrictions	<u>678,981</u>

Total net assets	<u>5,974,454</u>
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<b>Total liabilities and net assets</b>	<b><u><u>\$ 7,425,127</u></u></b>
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**Spaulding for Children**  
**Statement of Activities**  
**For the Year Ended September 30, 2020**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Revenue, support and gains</b>			
Contributions			
Foundation grants	\$ 181,292	\$ 150,000	\$ 331,292
Individuals	72,825	-	72,825
Government contracts			
Adoption Opportunities program	3,971,562	-	3,971,562
Other contract revenues and grants	210,323	-	210,323
Program services			
Child and family services	1,739,997	-	1,739,997
Foster parent pass through	895,233	-	895,233
Beneficial interest in remainder trust	-	9,261	9,261
Investment gain	602,717	18,699	621,416
Other	97,243	-	97,243
Net assets released from restrictions	<u>167,745</u>	<u>(167,745)</u>	<u>-</u>
 Total revenue, support and gains	 <u>7,938,937</u>	 <u>10,215</u>	 <u>7,949,152</u>
<b>Expenses</b>			
Program services			
Child and family services			
Other	1,939,953	-	1,939,953
Foster parent payments	887,229	-	887,229
Spaulding Institute	3,552,557	-	3,552,557
Supporting services			
Management and general	1,039,152	-	1,039,152
Community relations and development	83,609	-	83,609
Other fundraising costs	<u>5,629</u>	<u>-</u>	<u>5,629</u>
 Total expenses	 <u>7,508,129</u>	 <u>-</u>	 <u>7,508,129</u>
 Change in net assets	 430,808	 10,215	 441,023
 Net assets - beginning of year	 <u>4,864,665</u>	 <u>668,766</u>	 <u>5,533,431</u>
 <b>Net assets - end of year</b>	 <u><u>\$ 5,295,473</u></u>	 <u><u>\$ 678,981</u></u>	 <u><u>\$ 5,974,454</u></u>

See Accompanying Notes to the Financial Statements

**Spaulding for Children**  
**Statement of Functional Expenses**  
**For the Year Ended September 30, 2020**

	Child and Family Services	Academy/ Spaulding Institute	Management and General	Community Relations and Development	Total
Salaries and related costs					
Salaries	\$ 1,253,372	\$ 682,183	\$ 601,315	\$ 38,362	\$ 2,575,232
Employee benefits	233,584	149,162	162,580	15,307	560,633
Payroll taxes	104,949	58,789	59,866	2,967	226,571
Total salaries and related costs	1,591,905	890,134	823,761	56,636	3,362,436
Professional fees	15,852	15,970	4,890	519	37,231
Consultant fees	150	878,097	30,390	8,616	917,253
Consultant travel	-	5,036	-	-	5,036
Partner agencies - pass-through	-	1,394,224	-	-	1,394,224
Computer network	8,683	40,260	13,321	1,217	63,481
Office supplies	5,550	4,374	2,856	370	13,150
Program meeting costs	14,839	72,649	48,931	-	136,419
Equipment rental	12,957	7,394	5,462	267	26,080
Telephone	15,783	17,836	5,540	1,826	40,985
Postage and shipping	2,660	34,646	529	1,442	39,277
Occupancy	130,066	66,285	59,462	4,223	260,036
Printing and publications	416	32,622	517	115	33,670
Advertising	2,453	1,200	425	5,134	9,212
Local transportation costs	34,476	214	234	226	35,150
Travel	-	79,145	603	-	79,748
Conference training	260	825	1,663	165	2,913
Subscriptions	146	263	537	-	946
Family and client assistance	13,673	-	-	-	13,673
Foster parent payments	887,229	-	-	-	887,229
Insurance	23,975	7,755	11,305	488	43,523
Membership	10,096	3,407	9,847	226	23,576
Fundraising costs	-	-	-	5,629	5,629
Employee relations	-	-	6,213	-	6,213
Miscellaneous expense	51,032	221	5,136	2,139	58,528
Depreciation	4,981	-	7,530	-	12,511
Total expenses	\$ 2,827,182	\$ 3,552,557	\$ 1,039,152	\$ 89,238	\$ 7,508,129

See Accompanying Notes to the Financial Statements

**Spaulding for Children**  
**Statement of Cash Flows**  
**For the Year Ended September 30, 2020**

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**Cash flows from operating activities**

Change in net assets	\$ 441,023
Adjustment to reconcile change in net assets to cash from operating activities	
Gain on investment	(609,323)
Depreciation	12,511
Gain on beneficial interest in trusts	(9,261)
Changes in operating assets and liabilities:	
Accounts receivable	1,878,031
Prepaid expenses	11,006
Accounts payable	(1,552,471)
Accrued expenses	101,537
Refundable advance - PPP Proceeds	435,602
Other liabilities	<u>(29,672)</u>
 Net cash provided by operating activities	 <u>678,983</u>

**Cash flows from investing activities**

Proceeds from beneficial interest in trust	8,261
Proceeds from sale of investments	1,100,189
Purchases of investments	<u>(1,093,920)</u>
 Net cash used by investing activities	 <u>14,530</u>

**Net change in cash and cash equivalents**

	693,513
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Cash and cash equivalents - beginning of year

808,061

**Cash and cash equivalents - end of year**

\$ 1,501,574



**Spaulding for Children**  
**Notes to the Financial Statements**  
**September 30, 2020**

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**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, and Spaulding Academy and Institute.

**Basis of Presentation**

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net assets with donor restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

We report contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

**Cash and Cash Equivalent**

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 August 2021. 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, 2020, 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.

**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 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.

**Spaulding for Children**  
**Notes to the Financial Statements**  
**September 30, 2020**

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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 consist 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 totaled \$164,706 at September 30, 2020.

Property and equipment are reviewed on an ongoing basis for impairment based on a comparison of current carrying value against undiscounted future cash flow. 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, 2020.

#### **Investments**

In accordance with professional standards, investments in debt and equity securities are presented at fair value on 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 gain or loss on marketable securities are reflected in the statement of activities as a component of investment income.

#### **Paycheck Protection Program (PPP) Loan**

The Organization accounts for the PPP loan as a conditional contribution under FASB ASC 958-605 Not-for Profit Entities: Revenue Recognition by analogizing FASB 958-605 Not-for-Profit Entities: Revenue Recognition as a conditional contribution. The loan is recorded as a refundable advance until the conditions are met for revenue recognition.

#### **Restricted Assets**

The Agency recognizes endowment funds to be maintained in perpetuity and its beneficial interest in a remainder trust as restricted assets. The endowment funds are deposited in separate investment accounts. The Agency's ability to use these funds are limited by the respective donors.

#### **Revenue and Revenue Recognition**

Revenue is recognized when earned. Program service fees are deferred to the applicable period in which the services are performed. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

#### **Donated Services and Goods**

The Agency from time to time receives in-kind donations of services and goods. 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.

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.

#### **Advertising**

The costs incurred for advertising and community development are expended at the time the promotional activity is first publicized. During the year ended September 30, 2020, advertising and community development expense were \$9,212.

# **Spaulding for Children**

## **Notes to the Financial Statements**

### **September 30, 2020**

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#### **Income Taxes**

The Agency is qualified as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and is classified as an organization other than a private foundation, as described in Section 509(a). The Agency files information returns in the U.S. Federal and Michigan jurisdiction. The statute of limitations is generally three years for federal returns and four years for Michigan returns.

#### **Functional Expenses**

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Those expenses include salaries and benefits, depreciation, and occupancy related costs.

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.

#### **Risks and Uncertainties**

The Agency invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported on the balance sheet.

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### **Subsequent Events**

The Agency has evaluated events and transactions that occurred through February 5, 2021, which is the date the financial statements were available for issue.

#### **Adoption of New Accounting Pronouncement**

As of the beginning of the year ended September 30, 2020, the Agency adopted Accounting Standards Update (ASU) No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal transactions) and (2) determining whether a contribution is conditional. The new guidance was applied on a modified prospective basis. The standard did not have a significant impact on the timing of revenue recognition for the Agency.

#### **Upcoming Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Subsequent to May 2014, the FASB issued six ASUs to clarify certain matters related to Topic 606. Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, *Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The updates address the complexity of revenue recognition and provide sufficient information to enable financial statement users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Implementation of this standard has been delayed by ASU 2020-05, and will be adopted by the Agency for the year ended September 30, 2021. Management is evaluating the impact of the revenue recognition guidance on the Agency's financial statements.

**Spaulding for Children**  
**Notes to the Financial Statements**  
**September 30, 2020**

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The FASB issued ASU No. 2016-02, *Leases*, which will supersede the current lease requirements in ASC 840. The ASU requires lessees to recognize a right-to-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statement of activities. Currently, leases are classified as either capital or operating, with only capital leases recognized on the balance sheet. The reporting of lease-related expenses in the statements of activities and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Agency's year ending September 30, 2023 and will be applied using a modified retrospective transition method to either the beginning of the earliest period presented or the beginning of the year of adoption. The Agency is still evaluating which method it will apply. The new lease standard is expected to have a significant effect on the Agency's financial statements as a result of the Agency's operating leases, as disclosed in Note 11, that will be reported on the statement of financial position at adoption. Upon adoption, the Agency will recognize a lease liability and corresponding right-to-use asset based on the present value of the minimum lease payments. The effects on the changes in net assets are not expected to be significant, as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

**Note 2 - Liquidity and Availability**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following at September 30, 2020:

Cash and cash equivalents	\$ 1,501,574
Certificates of deposit	600,000
Accounts receivable	<u>1,267,050</u>
 Financial assets at year end	 3,368,624
 Less those unavailable for general expenditure within one year:	
Restricted by donor with purpose restrictions	<u>(116,137)</u>
 Financial assets available to meet cash needs for general expenditures within one year	 <u>\$ 3,252,487</u>

The Agency manages its liquid resources by preparing very detailed budgets and is active in monitoring costs to ensure the Agency has adequate revenues to cover the programs that are being conducted. The Agency also invests excess cash in investments that maximize earnings potential balanced with the amount of risk the Agency has decided can be tolerated. The Agency's investment policy is designed to ensure adequate financial assets are available to meet general expenditures, liabilities, and other obligations as they become due. The Agency maintains easily liquidated investments in the long-term portfolio that can be used to meet its financial obligations.

**Spaulding for Children**  
**Notes to the Financial Statements**  
**September 30, 2020**

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**Note 3 - Investments and Fair Value**

The Agency has determined the fair value of certain assets and liabilities through the application of US GAAP. US GAAP establishes 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 measurements involving significant and unobservable inputs (Level 3 measurements).

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Agency has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in the entirety are categorized based on the lowest level input that is significant to the valuation. The Agency's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

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, 2020.

	Balance	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Money market funds	\$ 150,000	\$ 150,000	\$ -	\$ -
Fixed income	1,109,622	509,622	600,000	-
Equity securities	3,057,978	3,057,978	-	-
Beneficial interest in remainder trust	125,000	-	-	125,000
Total assets at fair value	<u>\$ 4,442,600</u>	<u>\$ 3,717,600</u>	<u>\$ 600,000</u>	<u>\$ 125,000</u>

Investment advisory fees for the year ended September 30, 2020 totaled \$22,167. Realized gains from investment accounts for the year ended September 30, 2020 totaled \$107,087. The change in unrealized gains with investment accounts for the year ended September 30, 2020 totaled \$502,236. Interest and dividend income totaled \$34,260.

For further discussions of the fair value measurements for the beneficial interest in remainder trust, refer to Note 5 to the financial statements.

**Spaulding for Children**  
**Notes to the Financial Statements**  
**September 30, 2020**

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**Note 4 - Endowments**

The Agency's endowments consist entirely of donor-restricted endowment funds and is classified based on those donor-imposed restrictions.

**Interpretation of Relevant Law**

The board of directors of the Agency has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At September 30, 2020, there were no such donor stipulations. As a result of this interpretation, the Agency retains in perpetuity (a) the original value of initial and subsequent gift amounts donated to the Endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. 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 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; and (7) The investment policies of the organization.

The endowment net asset composition by type of fund as of September 30, 2020 is as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Original donor restricted amounts to be maintained in perpetuity:			
Lucci Educational Endowment	\$ -	\$ 163,389	\$ 163,389
Hearst Endowment Fund	-	200,000	200,000
Accumulated investment gains:			
Lucci Educational Endowment	-	52,923	52,923
Hearst Endowment Fund	8,325	-	8,325
Total endowment funds	<u>\$ 8,325</u>	<u>\$ 416,312</u>	<u>\$ 424,637</u>

**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 endowment, 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.

**Spaulding for Children**  
**Notes to the Financial Statements**  
**September 30, 2020**

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**Spending Policy and How the Investment Objectives Relate to Spending Policy**

The investment 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 fund:

**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, \$163,389, are to remain in perpetuity. Current income and capital appreciation are to be used to award scholarships to children served by the Agency.

**William Randolph Hearst Endowment Fund**

The original contribution to this endowment fund, \$200,000, remains restricted in perpetuity but all current income and capital appreciation is to be 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 without donor restrictions.

Changes in endowment net assets for the year ended September 30, 2020 are as follows:

	Lucci Educational Endowment	Hearst Endowment Fund	Total
Beginning of year	\$ 199,744	\$ 206,194	\$ 405,938
Investment income	16,568	2,131	18,699
End of year	<u>\$ 216,312</u>	<u>\$ 208,325</u>	<u>\$ 424,637</u>

**Note 5 - 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.

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 payment is calculated using a discount rate of 8% over the fixed terms of each trust. The remaining terms of the trusts expire in four years. Changes in the value of the level 3 asset are as follows:

Beginning balance	\$ 124,000
Investment returns on interest in trusts	9,261
Change in value of contributions	<u>(8,261)</u>
Ending balance	<u>\$ 125,000</u>

**Spaulding for Children**  
**Notes to the Financial Statements**  
**September 30, 2020**

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**Note 6 - Refundable Advance – PPP proceeds**

During the fiscal year, the Agency received a conditional contribution in the form of a Paycheck Protection Program (PPP) Loan of \$435,602 funded by the Federal government through the Small Business Administration. The PPP loan and any accrued interest are forgivable after twenty-four weeks as long as the borrower meets certain criteria. The loan proceeds must be used for eligible purposes, including payroll, health insurance, retirement plans, state and local taxes assessed on employee compensation, mortgage interest, rent, and utilities. The criteria also reduces loan forgiveness for certain reductions in salaries or reductions in FTEs. The conditions also reduce loan forgiveness for certain reductions in salaries or reductions in FTEs. As such, the Agency expects to qualify for complete forgiveness of the amount received.

**Note 7 - Conditional Contributions**

During the fiscal year, the Organization received conditional promises to give related to state and federal grants. Payment of the grants is contingent upon spending the funds for the designated allowable purpose, annual reauthorizations, and various compliance requirements including 2 CFR 200. The conditional contributions consisted of the following as of September 30, 2020:

<u>Condition / Grant Purpose</u>	<u>Total Contracts / Grant Amounts</u>	<u>Spent to Date</u>	<u>Conditional Contributions</u>
Adoption and foster care services	<u>\$ 38,058,204</u>	<u>\$ 32,661,103</u>	<u>\$ 5,397,101</u>

**Note 8 - Net Assets with Donor Restrictions**

At September 30, 2020 net assets with either time or purpose restrictions imposed by donor consist of the following:

Subject to expenditure for specified purpose:	
Scholarship Fund	\$ 21,532
Subject to passage of time:	
Beneficial interests in remainder trusts - see Note 5	125,000
Subject to time and purpose restrictions:	
Wendy's Wonderful Kids Program	116,137
Endowments:	
To be held in perpetuity	363,389
Subject to endowment spending policy and appropriation	<u>52,923</u>
Total net assets with donor restrictions	<u>\$ 678,981</u>

The Dave Thomas Foundation for Adoption provides funding for Wendy's Wonderful Kid 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.



**Spaulding for Children**  
**Notes to the Financial Statements**  
**September 30, 2020**

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Net assets are released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors. Amounts recognized as released from restrictions amounted to \$167,745 for the year ended September 30, 2020.

**Note 9 - Van Dusen Endowment Challenge Program**

The Agency is a participant in the Community Foundation of Southeastern Michigan's (CFSEM) Van Dusen Endowment Challenge Program. All contributions received into this endowment fund are invested and managed by the CFSEM. The CFSEM has explicit variance power over any third-party gifts and earnings thereon. As a result, the income and principal balance related to the third-party gift portion of the fund are not reflected in the Agency's financial statements unless and until distributed. The fair value of these third-party contributions held for the benefit of the Agency, but not recorded on the statement of financial position, was approximately \$1,808,634 as of September 30, 2020. The Agency does receive grants from time to time, based on endowment earnings each year.

**Note 10 - Defined Contribution Plan**

The Agency established a defined contribution 403(b) plan that became active during the year ended September 30, 2019, known as the 403(b) Plan for Employees of Spaulding for Children. Under the terms of the plan the Agency is obligated to contribute 7% of eligible employee wages to the plan. 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 non-profit, 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 72 individuals were participants in or beneficiaries of the plan as of December 31, 2018, the end of the most recent plan year, although not all of these persons had yet earned the right to receive benefits. The 403(b) plan replaced a former defined contribution plan and a voluntary tax deferred annuity deferred compensation plan offered by the Agency. Contributions for the year ending September 30, 2020, to retirement plans were approximately \$173,000.

**Note 11 - Operating Leases**

The Agency has one operating lease for occupancy of its administrative offices, which became effective in September 2019. The lease requires monthly payments of \$21,635 through August 2024. The lease does not include any renewal options. Rental expense was approximately \$260,000 for the year ended September 30, 2020.

The Agency has entered into several other office equipment leases expiring through March 2024.

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

Years Ending	Office Space	Equipment	Total
2021	\$ 259,724	\$ 21,141	\$ 280,865
2022	259,724	21,141	280,865
2023	259,724	13,551	273,275
2024	238,080	1,463	239,543
	<u>\$ 1,017,252</u>	<u>\$ 57,296</u>	<u>\$ 1,074,548</u>

**Spaulding for Children**  
**Michigan Department of Human Services**  
**Adoption Program Expenses**  
**For The Year Ended September 30, 2020**

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	<u>Adoption</u>
Salaries	\$ 203,578
Employee benefits	33,595
Payroll taxes	<u>16,712</u>
 Total salaries and related expenses	 253,885
 Professional fees	 993
Computer network	988
Office supplies	929
Program meeting costs	915
Equipment rental	1,483
Telephone	2,518
Postage and shipping	309
Occupancy	21,820
Travel and local transportation	3,725
Family and client assistance	3,545
Insurance	3,925
Membership	1,424
Miscellaneous expense	<u>2,485</u>
 <b>Total expenses</b>	 <b>\$ <u>298,944</u></b>

**Spaulding for Children**  
**Notes to the Financial Statements**  
**September 30, 2020**

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**Note 12 - Concentrations and Contingencies**

**Bank Deposits**

The Agency deposits cash balances with major banks within the State of Michigan and generally maintains balances that exceed federally insured limits. As of September 30, 2020, \$1,300,835 of cash and cash equivalents was in excess of the amount insured by the FDIC. 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, 2020, approximately 86% of revenue was generated through grant agreements with two funding streams: The State of Michigan and the federal government.

**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 requirements of the Agency to repay the grantor.

**Note 13 - Coronavirus Pandemic**

On March 11, 2020, the World Health Organization declared a pandemic due to the outbreak of a respiratory disease known as COVID-19. In addition, multiple jurisdictions in the U.S., including Michigan, have declared a state of emergency, and issued shelter-in-place orders. It is anticipated that these impacts will continue for some time. The Agency employs many individuals deemed to be front line employees, but when possible has transitioned to a remote work environment for other employees. The Agency continues to monitor the situation and currently, it is not possible to estimate the extent of any potential losses. Due to significant volatility in the financial markets there is uncertainty regarding long-term impacts on the value of the Agency's investments. As described in note 6, the Organization has obtained an SBA Paycheck Protection Program Loan to aid in the cash flow impact of the pandemic.

**Spaulding for Children**  
**Michigan Department of Human Services**  
**Foster Care Program Expenses**  
**For The Year Ended September 30, 2020**

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	<b>Foster Care</b>	
	<b>Social Services</b>	<b>Maintenance</b>
Salaries	\$ 841,091	\$ -
Employee benefits	154,235	-
Payroll taxes	<u>69,929</u>	<u>-</u>
Total salaries and related expenses	1,065,255	-
Professional fees	13,568	-
Consultant fees	150	-
Computer network	7,467	-
Office supplies	4,214	-
Program meeting costs	3,925	-
Equipment rental	10,648	-
Telephone	10,614	-
Postage and shipping	2,220	-
Occupancy	88,802	-
Advertising	198	-
Travel and local transportation	20,637	-
Conference training	260	-
Family and client assistance	10,128	-
Foster parent payments	-	887,229
Insurance	16,540	-
Membership	7,123	-
Other project costs	45,500	-
Miscellaneous expense	2,948	-
Depreciation	<u>4,981</u>	<u>-</u>
<b>Total expenses</b>	<b>\$ <u>1,315,178</u></b>	<b>\$ <u>887,229</u></b>

**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***

**Independent Auditors' Report**

To the Board of Directors of  
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's, which comprise the statement of financial position as of September 30 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 5, 2021.

**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) as a basis for designing 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 Spaulding for Children'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 a 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*.

## 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Yeo & Yeo, P.C.

Auburn Hills, Michigan  
February 5, 2021.

**Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

**Independent Auditors' Report**

To the Board of Directors of  
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, 2020. 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 programs for the year ended September 30, 2020.

## 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.

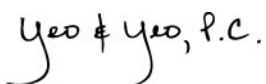
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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 purpose.

## Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of Spaulding for Children as of and for the year ended September 30, 2019, and have issued our report thereon dated February 5, 2021, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



Auburn Hills, Michigan  
February 5, 2021



**Spaulding for Children**  
**Schedule of Expenditures of Federal Awards**  
**For The Year Ended September 30, 2020**

Federal Grantor Pass-Through Grantor Program Title Grant Number	Federal CFDA Number	Pass-Through Contract Number	Current Year Expenditures	Subrecipient Expenditures
<b>U.S. Department of Health and Human Services</b>				
Adoption Opportunities				
Direct awards:				
National QIC Program	93.652		\$ 1,056,895	\$ 186,106
CORE Program	93.652		278,732	84,971
HBASS Program	93.652		249,117	75,742
National Training Development	93.652		2,027,693	705,737
Adoption Exchange Association				
AdoptUSKids Program	93.652	90-C01133-01-00	359,125	62,500
Total Adoption Opportunities			3,971,562	1,115,056
Michigan Department of Health and Human Services				
Maternal, Infant, and Early Childhood Home Visiting Grant Program				
Healthy Families America Expansion Program	93.870	E20192334-00	180,688	-
<b>Total U.S. Department of Health and Human Services</b>			<b>\$ 4,152,250</b>	<b>\$ 1,115,056</b>

**Spaulding for Children**  
**Notes to the Schedule of Expenditures of Federal Awards**  
**September 30, 2020**

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**Note 1 - Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Spaulding for Children under programs of the federal government for the year ended September 30, 2020. The information in this Schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of Spaulding for Children, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Spaulding for Children.

**Note 2 - Summary of Significant Accounting Policies**

**Expenditures**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, the cost principles contained in the Uniform Guidance where certain types of expenditures are not allowable or are limited as to reimbursement.

**Indirect Cost Rate**

Spaulding for Children has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**Note 3 - Relationship to Basic Financial Statements**

The following schedule is a reconciliation between the government contract revenue reported on the statement of activities and the schedule of federal awards:

Government contracts	
Adoption Opportunities program	\$ 3,971,562
Other contract revenues and grants	<u>210,323</u>
Total government contracts per the financial statements	4,181,885
Less: non-federal government awards	<u>(29,635)</u>
Total federal revenues per the schedule of federal awards	<u><u>\$ 4,152,250</u></u>

**Spaulding for Children**  
**Schedule of Findings and Questioned Costs**  
**September 30, 2020**

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**Section I – Summary of Auditors’ Results**

*Financial Statements*

Type of report the auditor issued on whether the financial statements were prepared in accordance with Generally Accepted Accounting Principles: Unmodified

Internal control over financial reporting:

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

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

*Federal Awards*

Internal control over major federal programs:

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

Type of auditors’ report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? \_\_\_\_\_ yes      X   no

Identification of major federal programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
93.652	Adoption Opportunities

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? \_\_\_\_\_ yes      X   no

**Spaulding for Children**  
**Schedule of Findings and Questioned Costs**  
**September 30, 2020**

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**Section II – *Government Auditing Standards* Findings**

There were no findings related to the financial statements which were required to be reported in accordance with generally accepted *Government Auditing Standards* for the year ended September 30, 2020.

**Section III – Federal Awards Findings**

There were no findings or questioned costs for federal awards for the year ended September 30, 2020.

**Spaulding for Children**  
**Summary Schedule of Prior Audit Findings**  
**September 30, 2020**

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***Government Auditing Standards Findings***

There were no findings related to the financial statement which are required to be reported in accordance with generally accepted *Government Auditing Standards* for the year ended September 30, 2019.

**Federal Awards Findings**

There were no findings or questioned costs for Federal Awards for the year ended September 30, 2019.