

Spaulding for Children

Financial Statements

September 30, 2023



YEO & YEO

**BUSINESS SUCCESS
PARTNERS**

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Independent Auditors' Report

Management and the Board of Directors
Spaulding for Children
Southfield, Michigan

Opinion

We have audited the accompanying financial statements of Spaulding for Children, which comprise the statement of financial position as of September 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2023, 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.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Spaulding for Children and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Adoption of New Accounting Standards

As described in Note 1 to the financial statements, Spaulding for Children changed its method of accounting for leases in 2023 as required by the provisions of FASB Accounting Standards Updates relating to FASB ASC 842, *Leases*. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Spaulding for Children's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Spaulding for Children's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregated, that raise substantial doubt about Spaulding for Children's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 and schedule of expenditures of federal awards as required by the Uniform guidance 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 22, 2024 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 22, 2024

Spaulding for Children
Statement of Financial Position
September 30, 2023

Assets

Current assets

Cash and cash equivalents	\$ 1,040,004
Certificates of deposit	850,000
Accounts receivable	1,726,763
Prepaid expenses	<u>67,977</u>
Total current assets	<u>3,684,744</u>

Property and equipment, net	<u>30,088</u>
Right of use asset - operating leases, net	<u>268,739</u>

Other Assets

Certificates of deposit	200,000
Donated property	138,000
Funds held for investment	<u>3,859,928</u>
Total other assets	<u>4,197,928</u>

Restricted Assets

Investment of endowed funds	<u>435,901</u>
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Total assets	<u>\$ 8,617,400</u>
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Liabilities and net assets

Current liabilities

Accounts payable	\$ 851,044
Accrued expenses	412,726
Operating lease obligation, current portion	248,310
Other liabilities	<u>11,295</u>
Total current liabilities	<u>1,523,375</u>

Non-current liabilities

Operating lease obligation, net of current portion	<u>26,511</u>
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Total liabilities	<u>1,549,886</u>
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Net assets

Without donor restrictions	6,531,802
With donor restrictions	<u>535,712</u>
Total net assets	<u>7,067,514</u>

Total liabilities and net assets	<u>\$ 8,617,400</u>
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See Accompanying Notes to the Financial Statements

Spaulding for Children
Statement of Activities
For the Year Ended September 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, support and gains			
Foundation grants	\$ 224,678	\$ 52,639	\$ 277,317
Contributions	17,950	-	17,950
Contributions of nonfinancial assets	36,924	-	36,924
Event revenue	67,444	-	67,444
Child and family services	1,975,308	-	1,975,308
Foster parent pass through	1,773,442	-	1,773,442
Government contracts			
Adoption Opportunities program	6,896,134	-	6,896,134
Other contract revenues and grants	25,500	-	25,500
Beneficial interest in remainder trust	-	39,454	39,454
Investment gain	710,107	45,615	755,722
Other	49,589	-	49,589
Net assets released from restrictions	<u>168,454</u>	<u>(168,454)</u>	<u>-</u>
 Total revenue, support and gains	 <u>11,945,530</u>	 <u>(30,746)</u>	 <u>11,914,784</u>
Expenses			
Program services			
Child and family services			
Other	1,843,015	-	1,843,015
Foster parent payments	1,791,150	-	1,791,150
Academy/ Spaulding Institute	6,195,115	-	6,195,115
Supporting services			
Management and general	1,118,030	-	1,118,030
Community relations and development	84,446	-	84,446
Other fundraising costs	<u>2,795</u>	<u>-</u>	<u>2,795</u>
 Total expenses	 <u>11,034,551</u>	 <u>-</u>	 <u>11,034,551</u>
 Change in net assets	 910,979	 (30,746)	 880,233
 Net assets - beginning of year	 <u>5,620,823</u>	 <u>566,458</u>	 <u>6,187,281</u>
 Net assets - end of year	 <u><u>\$ 6,531,802</u></u>	 <u><u>\$ 535,712</u></u>	 <u><u>\$ 7,067,514</u></u>

See Accompanying Notes to the Financial Statements

Spaulding for Children
Statement of Functional Expenses
For the Year Ended September 30, 2023

	Child and Family Services	Academy/ Spaulding Institute	Management and General	Community Relations and Development	Total
Salaries and related costs					
Salaries	\$ 1,188,519	\$ 1,074,995	\$ 654,871	\$ 35,504	\$ 2,953,889
Employee benefits	213,878	219,688	141,420	16,220	591,206
Payroll taxes	<u>95,261</u>	<u>86,032</u>	<u>51,995</u>	<u>2,768</u>	<u>236,056</u>
Total salaries and related costs	1,497,658	1,380,715	848,286	54,492	3,781,151
Professional fees	24,039	10,331	6,101	273	40,744
Consultant fees	1,900	1,783,448	121,615	944	1,907,907
Partner agencies - pass-through	-	2,512,173	-	-	2,512,173
Computer network	15,974	53,123	14,505	891	84,493
Conference training	1,086	80	1,343	-	2,509
Office supplies	2,818	2,938	2,678	44	8,478
Program meeting costs	20,542	185,854	1,143	20,363	227,902
Equipment rental	12,252	7,781	5,599	473	26,105
Telephone	21,016	16,574	7,649	657	45,896
Postage and shipping	2,134	7,196	440	15	9,785
Occupancy	130,699	83,703	48,753	3,110	266,265
Printing and publications	336	3,614	43	19	4,012
Advertising	3,040	1,900	2,750	2,034	9,724
Local transportation costs	23,019	1,934	1,131	45	26,129
Travel	1,222	127,914	6,386	-	135,522
Family and client assistance	14,836	-	-	-	14,836
Foster parent payments	1,791,150	-	-	-	1,791,150
Insurance	22,513	11,819	14,108	437	48,877
Membership	-	-	24,054	-	24,054
Fundraising costs	34,129	-	-	2,795	36,924
Employee relations	-	-	4,568	-	4,568
Miscellaneous expense	5,812	180	5,196	574	11,762
Depreciation	<u>7,990</u>	<u>3,838</u>	<u>1,682</u>	<u>75</u>	<u>13,585</u>
Total expenses	<u>\$ 3,634,165</u>	<u>\$ 6,195,115</u>	<u>\$ 1,118,030</u>	<u>\$ 87,241</u>	<u>\$ 11,034,551</u>

See Accompanying Notes to the Financial Statements

Spaulding for Children
Statement of Cash Flows
For the Year Ended September 30, 2023

Cash flows from operating activities

Change in net assets	\$ 880,233
Items not requiring cash	
Depreciation	13,585
Unrealized gain on investments	(661,440)
Gain on beneficial interest in trusts	(39,454)
Changes in operating assets and liabilities	
Accounts receivable	175,040
Prepaid expenses	(33,641)
Accounts payable	(176,586)
Accrued expenses	39,646
Other liabilities	(24,085)
Lease obligation	<u>6,082</u>
Net cash provided by operating activities	<u>179,380</u>

Cash flows from investing activities

Proceeds from beneficial interest in trust	168,454
Proceeds from sale of investments	826,398
Purchases of investments	(934,858)
Purchases of certificates of deposit	<u>(451,000)</u>
Net cash used by investing activities	<u>(391,006)</u>

Net change in cash and cash equivalents (211,626)

Cash and cash equivalents - beginning of year 1,251,630

Cash and cash equivalents - end of year \$ 1,040,004

Spaulding for Children
Notes to the Financial Statements
September 30, 2023

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 November 2024. 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, 2023, 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, 2023

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 \$182,176 at September 30, 2023.

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, 2023.

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.

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. 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.

In general, the Agency's revenue is generated from contribution revenue streams. There are times when immaterial amounts of exchange revenue are generated, such as for special events and curriculum sales. In such cases, fees are deferred to the applicable period in which the event is held and/or related performance obligations are 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, 2023, advertising and community development expense were \$6,757.

Spaulding for Children

Notes to the Financial Statements

September 30, 2023

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 22, 2024, which is the date the financial statements were available for issue.

Adoption of New Accounting Pronouncement

The Agency adopted FASB Topic 842, *Leases*, as of the beginning of the year ended September 30, 2023. This has been adopted using the modified retrospective approach, which restates the balances as of the date of adoption. Since lease liabilities equal the related right to use assets, no change to beginning net assets was necessary.

The Agency elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed the Association to carry forward the historical lease classification. In addition, the Agency elected the practical expedient to use hindsight in determining the lease term for existing leases, which resulted in shortening the lease terms for certain existing leases and the useful lives of corresponding leasehold improvements as certain options to renew were not reasonably certain.

Spaulding for Children
Notes to the Financial Statements
September 30, 2023

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, 2023:

Cash and cash equivalents	\$ 1,040,004
Certificates of deposit	850,000
Accounts receivable	<u>1,726,763</u>
 Financial assets at year end	 3,616,767
 Less those unavailable for general expenditure within one year:	
Restricted by donor with purpose restrictions	<u>(93,051)</u>
 Financial assets available to meet cash needs for general expenditures within one year	 <u>\$ 3,523,716</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.

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.

Spaulding for Children
Notes to the Financial Statements
September 30, 2023

The following table presents financial instruments that are measured at fair value on a recurring basis as of September 30, 2023.

	Balance	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Money market funds	\$ 73,181	\$ 73,181	\$ -	\$ -
Fixed income	1,309,346	259,346	1,050,000	-
Equity securities	3,963,302	3,963,302	-	-
Total assets at fair value	<u>\$ 5,345,829</u>	<u>\$ 4,295,829</u>	<u>\$ 1,050,000</u>	<u>\$ -</u>

For the year ended September 30, 2023, Investment advisory fees totaled \$41,134; realized gains from investment accounts totaled \$4,272; the change in unrealized gains with investment accounts totaled \$661,440 and interest and dividend income totaled \$131,144.

Note 4 - Endowments

The Agency's endowments includes donor-restricted endowment funds and is classified based on those donor-imposed restrictions. The endowment net asset composition by type of fund as of September 30, 2023 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	-	67,427	67,427
Hearst Endowment Fund	5,085	-	5,085
Total endowment funds	<u>\$ 5,085</u>	<u>\$ 430,816</u>	<u>\$ 435,901</u>

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, 2023, 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.

Spaulding for Children
Notes to the Financial Statements
September 30, 2023

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.

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.

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). We have interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law.

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, \$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, 2023 are as follows:

	Lucci Educational Endowment	Hearst Endowment Fund	Total
Beginning of year	\$ 199,029	\$ 186,055	\$ 385,084
Investment income	31,787	19,030	50,817
End of year	<u>\$ 230,816</u>	<u>\$ 205,085</u>	<u>\$ 435,901</u>

Spaulding for Children
Notes to the Financial Statements
September 30, 2023

Note 5 - Beneficial Interest in Remainder Trusts

The Agency was 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. During the year ended September 30, 2023 the charitable remainder trusts terminated and the assets were distributed. A summary of the Agency's beneficial interest in trusts is as follows:

Beginning balance	\$ 129,000
Investment returns on interest in trusts	39,454
Final distribution received	<u>(168,454)</u>
Ending balance	<u>\$ -</u>

Note 6 - Conditional Contributions

During the fiscal year, the Agency 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, 2023:

<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>\$ 26,300,145</u>	<u>\$ 19,246,529</u>	<u>\$ 7,053,616</u>

Note 7 - Net Assets with Donor Restrictions

At September 30, 2023 net assets with either time or purpose restrictions imposed by donor consist of the following:

Subject to expenditure for specified purpose:	
Scholarship Fund	\$ 11,845
Wendy's Wonderful Kids Program	93,051
Endowments:	
To be held in perpetuity	363,389
Subject to endowment spending policy and appropriation	<u>67,427</u>
Total net assets with donor restrictions	<u>\$ 535,712</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. 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 \$271,815 for the year ended September 30, 2023.

Spaulding for Children
Notes to the Financial Statements
September 30, 2023

Note 8 - 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 \$1,850,000 as of September 30, 2023. The Agency does receive grants from time to time, based on endowment earnings each year.

Note 9 - Defined Contribution Plan

The Agency maintains a defined contribution 403(b) plan 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. Approximately 45 individuals were participants in or beneficiaries of the plan, although not all of these persons had yet earned the right to receive benefits. Contributions for the year ending September 30, 2023, to retirement plans were approximately \$190,000.

Note 10 - Contributed Nonfinancial Assets

Contributed nonfinancial assets for the year ended September 30, 2023 were as follows:

<u>Category</u>	<u>Revenue Recognized</u>	<u>Utilization in Programs/Activities</u>	<u>Donor Restrictions</u>	<u>Valuation Techniques and Inputs</u>
Other supplies	\$ 10,212	Child and family services	No associated donor restrictions	Spaulding for Children estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.
Holiday wishlist gifts	26,712	Child and family services	No associated donor restrictions	Spaulding for Children estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States.
Volunteer services	-	Child and family services	No associated donor restrictions	Criteria for recording revenue are not met; approximately 200 hours were contributed.
	<u>\$ 36,924</u>			

Spaulding for Children
Notes to the Financial Statements
September 30, 2023

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. The Agency has entered into several other office equipment leases expiring through March 2024. The Agency includes in the determination of the right-of-use assets and lease liabilities any renewal options when the options are reasonably certain to be exercised.

The Agency has elected the short-term lease exemption for all leases with a term of 12 months or less for both existing and ongoing operating leases to not recognize the asset and liability for these leases. The Agency elected the practical expedient to not separate lease and non-lease components for equipment leases.

Total operating lease costs included in occupancy on the statement of functional expenses for the year ended September 30, 2023 amounted to approximately \$ 280,000.

The weighted average remaining lease term is 1.2 years and the weighted average discount rate is 5.479%. The future minimum lease payments under the noncancelable operating leases with a term greater than one year are listed below as of September 30, 2023:

<u>Years Ending</u>	<u>Total Lease Payments</u>
2024	\$ 259,724
2025	20,501
2026	<u>3,417</u>
Total lease payments	283,642
Less: interest	<u>(8,821)</u>
Present value of lease liability	<u><u>\$ 283,642</u></u>

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, 2023, \$655,896 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, 2023, approximately 90% 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.

Spaulding for Children
Michigan Department of Human Services
Adoption Program Expenses
For the Year Ended September 30, 2023

	<u>Adoption</u>
Salaries	\$ 138,127
Employee benefits	25,690
Payroll taxes	<u>10,936</u>
Total salaries and related expenses	174,753
Professional fees	1,373
Consultants	750
Computer network	2,347
Office supplies	352
Program meeting costs	710
Equipment rental	1,494
Telephone	2,227
Postage and shipping	242
Occupancy	14,100
Travel and local transportation	1,361
Conference training	20
Insurance	2,184
Depreciation	425
Miscellaneous expense	<u>6,121</u>
Total expenses	<u>\$ 208,459</u>

Spaulding for Children
Michigan Department of Human Services
Foster Care Program Expenses
For the Year Ended September 30, 2023

	Foster Care	
	Social Services	Maintenance
Salaries	\$ 930,771	\$ -
Employee benefits	160,406	-
Payroll taxes	<u>74,709</u>	<u>-</u>
Total salaries and related expenses	1,165,886	-
Professional fees	21,202	-
Consultant fees	1,150	-
Computer network	13,363	-
Office supplies	2,524	-
Program meeting costs	3,016	-
Equipment rental	10,399	-
Telephone	16,954	-
Postage and shipping	1,869	-
Occupancy	100,079	-
Advertising	1,703	-
Travel and local transportation	8,609	-
Conference training	1,066	-
Family and client assistance	14,836	-
Foster parent payments	-	1,791,150
Insurance	18,587	-
Special events	16,816	-
Other project costs	34,129	-
Depreciation	<u>6,883</u>	<u>-</u>
Total expenses	<u>\$ 1,439,071</u>	<u>\$ 1,791,150</u>

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

Management and the 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, as of and for the year ended September 30, 2023 and the related notes to the financial statements, which collectively comprise Spaulding for Children's basic financial statements, and have issued our report thereon dated February 22, 2024.

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 financial statements. 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 22, 2024

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

Independent Auditors' Report

Management and the Board of Directors
Spaulding for Children
Southfield, Michigan

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Spaulding for Children's compliance with the types of compliance requirements identified as subject to audit 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, 2023. Spaulding for Children's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Spaulding for Children's complied, in all material respects, with the 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, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Spaulding for Children and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Spaulding for Children's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or agreements applicable to Spaulding for Children's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Spaulding for Children's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Spaulding for Children's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Spaulding for Children's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Spaulding for Children's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Spaulding for Children's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

Yeo & Yeo, P.C.

Auburn Hills, Michigan
February 22, 2024

Spaulding for Children
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2023

Federal Grantor Pass-Through Grantor Program Title Grant Number	Federal AL Number	Pass-Through Contract Number	Current Year Expenditures	Subrecipient Expenditures
U.S. Department of Health and Human Services				
Direct awards:				
Adoption Opportunities				
National Training Development	93.652	90CO1134-05	\$ 1,217,665	\$ 286,510
QIC Engaging Youth	93.652	90CO1142-02	4,570,229	1,228,109
Adoption Exchange Association				
AdoptUSKids Program	93.652	90-CO1133-04	567,261	-
Total Adoption Opportunities			6,355,155	1,514,619
MaryLee Allen Promoting Safe and Stable Families Program				
	93.556	90CW1148-02	540,979	75,512
Total U.S. Department of Health and Human Services			\$ 6,896,134	\$ 1,590,131

Spaulding for Children
Notes to the Schedule of Expenditures of Federal Awards
September 30, 2023

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, 2023. 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	\$ 6,896,134
Other contract revenues and grants	<u>25,500</u>
Total government contracts per the financial statements	6,921,634
Less: non-federal government awards	<u>(25,500)</u>
Total federal revenues per the schedule of federal awards	<u><u>\$ 6,896,134</u></u>

Spaulding for Children
Schedule of Findings and Questioned Costs
September 30, 2023

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>AL 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? X yes _____ no

Spaulding for Children
Schedule of Findings and Questioned Costs
September 30, 2023

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, 2023.

Section III – Federal Awards Findings

There were no findings or questioned costs for Federal Awards for the year ended September 30, 2023.

Spaulding for Children
Summary Schedule of Prior Audit Findings
September 30, 2023

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, 2022.

Federal Awards Findings

There were no findings or questioned costs for Federal Awards for the year ended September 30, 2022.