FIRST STEPS, INC.

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

June 30, 2014 and 2013

FIRST STEPS, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
First Steps, Inc.
Nashville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of First Steps, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities, functional expenses, and cash flows for the years 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Frasier, Dean & Howard, PLLC • 3310 West End Avenue, Suite 550 • Nashville, Tennessee 37203-1089 • 615.383.6592 • *fax* 615.383.7094 • www.fdhcpa.com

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of First Steps, Inc. as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Fraser, Dean & Howard, PLLC

Nashville, Tennessee
September 26, 2014

FIRST STEPS, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2014 and 2013

	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	$ 291,656	$ 642,934
Investments, net of donor restricted endowment funds	274,225	15,737
Accounts and grants receivable	259,097	251,504
Contributions receivable, current portion	23,163	59,499
Total current assets	848,141	969,674
Land, buildings and equipment:		
Land	200,000	200,000
Buildings and improvements	2,265,685	2,205,216
Furniture and equipment	30,535	30,535
	2,496,220	2,435,751
Less: accumulated depreciation	(267,940)	(199,976)
Land, buildings and equipment, net	2,228,280	2,235,775
Contributions receivable, net of current portion	-	2,917
Beneficial interest in assets at Community Foundation of Middle Tennessee	18,831	16,201
Donor restricted endowment funds	576,094	515,553
Total assets	$ 3,671,346	$ 3,740,120
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$ 25,364	$ 16,871
Accrued salaries and benefits	76,586	79,310
Note payable, current portion	35,236	33,532
Total current liabilities	137,186	129,713
Note payable, net of current portion	588,260	623,350
Total liabilities	725,446	753,063
Net assets:		
Unrestricted:		
Undesignated	2,322,812	2,258,382
Board designated	18,831	16,201
Total unrestricted net assets	2,341,643	2,274,583
Temporarily restricted	104,257	212,474
Permanently restricted	500,000	500,000
Total net assets	2,945,900	2,987,057
Total liabilities and net assets	$ 3,671,346	$ 3,740,120

See accompanying notes.

FIRST STEPS, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support and revenue:				
Department of Education contracts and grants	$ 919,453	$ -	$ -	$ 919,453
Program service fees	616,679	-	-	616,679
Contributions	285,170	5,000	-	290,170
Therapy service fees	144,956	-	-	144,956
United Way	130,124	-	-	130,124
Investment gain, net	15,906	60,541	-	76,447
Other	39,487	-	-	39,487
Special events	33,785	-	-	33,785
Department of Human Services contracts and grants	26,693	-	-	26,693
Change in beneficial interest in assets held by others	2,630	-	-	2,630
Net assets released from restrictions	173,758	(173,758)	-	-
Total public support and revenue	2,388,641	(108,217)	-	2,280,424
Expenses:				
Program services	2,062,370	-	-	2,062,370
Supporting services	172,727	-	-	172,727
Fundraising	86,484	-	-	86,484
Total expenses	2,321,581	-	-	2,321,581
Change in net assets	67,060	(108,217)	-	(41,157)
Net assets - beginning of year	2,274,583	212,474	500,000	2,987,057
Net assets - end of year	$ 2,341,643	$ 104,257	$ 500,000	$ 2,945,900

See accompanying notes.

FIRST STEPS, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support and revenue:				
Department of Education contracts and grants	$ 955,247	$ -	$ -	$ 955,247
Program service fees	543,178	-	-	543,178
Contributions	241,411	-	-	241,411
United Way	128,871	-	-	128,871
Therapy service fees	55,932	-	-	55,932
Investment gain, net	30,611	15,553	-	46,164
Other	40,494	-	-	40,494
Department of Human Services contracts and grants	34,994	-	-	34,994
Special events	29,284	-	-	29,284
Change in beneficial interest in assets held by others	2,025	-	-	2,025
Net assets released from restrictions	368,255	(368,255)	-	-
Total public support and revenue	2,430,302	(352,702)	-	2,077,600
Expenses:				
Program services	2,032,597	-	-	2,032,597
Supporting services	169,039	-	-	169,039
Fundraising	82,539	-	-	82,539
Total expenses	2,284,175	-	-	2,284,175
Change in net assets	146,127	(352,702)	-	(206,575)
Net assets - beginning of year	2,128,456	565,176	500,000	3,193,632
Net assets - end of year	$ 2,274,583	$ 212,474	$ 500,000	$ 2,987,057

See accompanying notes.

FIRST STEPS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2014

	Program Services	Supporting Services	Fundraising	Total
Salaries	$1,380,714	$ 99,144	$ 65,196	$1,545,054
Employee benefits	207,742	10,514	10,203	228,459
Total salaries and employee benefits	1,588,456	109,658	75,399	1,773,513
Professional services	63,946	2,824	-	66,770
Occupancy	58,456	6,406	-	64,862
Travel	61,195	-	-	61,195
Supplies	48,101	7,314	-	55,415
Utilities	47,577	4,705	-	52,282
Interest	29,071	2,876	-	31,947
Maintenance	27,240	3,721	-	30,961
Communications	16,378	6,110	-	22,488
Insurance	20,378	2,012	-	22,390
Miscellaneous	9,819	11,041	-	20,860
Conferences	13,321	2,089	-	15,410
Special events expenses (rental, postage)	-	-	11,085	11,085
Food	8,346	-	-	8,346
Dues	1,895	5,315	-	7,210
Bad debts	4,585	-	-	4,585
Advertising	729	2,189	-	2,918
Licenses	1,030	350	-	1,380
Total expenses before depreciation	2,000,523	166,610	86,484	2,253,617
Depreciation	61,847	6,117	-	67,964
Total expenses	$2,062,370	$ 172,727	$ 86,484	$ 2,321,581

See accompanying notes.

FIRST STEPS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2013

	Program Services	Supporting Services	Fundraising	Total
Salaries	$1,250,449	$ 96,274	$ 65,134	$1,411,857
Employee benefits	219,880	9,542	9,488	238,910
Total salaries and employee benefits	1,470,329	105,816	74,622	1,650,767
Professional services	126,221	6,685	-	132,906
Occupancy	44,623	5,288	-	49,911
Travel	66,721	8	-	66,729
Supplies	71,864	2,813	-	74,677
Utilities	38,715	3,910	-	42,625
Interest	31,100	2,456	-	33,556
Maintenance	35,795	1,858	-	37,653
Communications	22,575	6,413	-	28,988
Insurance	19,385	1,967	-	21,352
Miscellaneous	1,190	17,029	-	18,219
Conferences	30,642	1,723	-	32,365
Special events expenses (rental, postage)	-	-	7,917	7,917
Food	5,961	-	-	5,961
Dues	1,990	1,398	-	3,388
Bad debts	768	-	-	768
Advertising	4,182	5,210	-	9,392
Licenses	810	350	-	1,160
Total expenses before depreciation	1,972,871	162,924	82,539	2,218,334
Depreciation	59,726	6,115	-	65,841
Total expenses	$2,032,597	$ 169,039	$ 82,539	$ 2,284,175

See accompanying notes.

FIRST STEPS, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	$ (41,157)	$ (206,575)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	67,964	65,841
Contribution of stock	-	(36,044)
Realized and unrealized (gain) loss on investments, net	(65,363)	(39,059)
Changes in operating assets and liabilities:		
Accounts and grants receivable	(7,593)	(48,127)
Contributions receivable	39,253	36,245
Beneficial interest in assets held at Community Foundation of Middle Tennessee	(2,630)	(2,025)
Accounts payable	8,493	(20,688)
Accrued salaries and benefits	(2,724)	8,440
Net cash used in operating activities	(3,757)	(241,992)
Cash flows from investing activities:		
Proceeds from sale of investments	276,758	51,253
Purchase of investments	(530,424)	(10,500)
Purchase of property and equipment	(60,469)	(8,241)
Net cash (used in) provided by investing activities	(314,135)	32,512
Cash flows from financing activities:		
Payments on note payable	(33,386)	(31,775)
Net cash used in financing activities	(33,386)	(31,775)
Net decrease in cash and cash equivalents	(351,278)	(241,255)
Cash and cash equivalents - beginning of year	642,934	884,189
Cash and cash equivalents - end of year	$ 291,656	$ 642,934
Supplemental cash flow information:		
Cash paid during the year for interest	$ 31,947	$ 33,556
Supplemental schedule of noncash investing and financing activities:		
Contribution of stock	$ -	$ 36,044

See accompanying notes.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

First Steps, Inc. (the "Organization") is a nonprofit corporation located in Nashville, Tennessee, that provides education and care for children with special needs and medical conditions alongside their typically developing peers in an inclusive environment, and supports their families.

Financial Statement Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

> Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.
>
> Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.
>
> Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally the donors of these assets permit the Organization to use all or part of the income on related investments for general or specific purposes.

Cash Equivalents

The Organization considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Investments

In accordance with accounting principles generally accepted in the United States of America, investments in marketable securities and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the statements of activities.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

Financial accounting standards relating to fair value measurements establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

> *Level 1* – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
>
> *Level 2* – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the financial instrument.
>
> *Level 3* – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

An asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques should maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis:

> *Investments* - Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid government securities and certain other products, such as mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows and are classified within Level 2 of the valuation hierarchy. In certain cases where there is limited activity, or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy.

No changes in the valuation methodologies have been made during the period from July 1, 2012 through June 30, 2014.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with that of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements at the reporting date. (See Note 2.)

Receivables

Accounts, grants and contributions receivable are reviewed periodically as to their collectability. Management provides for losses on receivables using the allowance method. Based on collection experience and management's review, no allowance for doubtful accounts is considered necessary at June 30, 2014 and 2013.

Land, Buildings and Equipment

Land, buildings and equipment are recorded at cost or, if donated, at the estimated fair market value as of the date of donation. The Organization generally capitalizes an asset if its life is estimated to be one year or greater and the cost is $1,000 or greater. Depreciation is provided using the straight-line basis over the estimated useful lives of the respective assets, which range from 5 - 39 years. Expenditures for repairs and maintenance are charged to expense as incurred.

Income Tax Status

The Organization is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and the Organization is classified as an organization that is not a private foundation as defined in Section 509(a) of the Internal Revenue Code. Therefore, no provision for federal income taxes is included in the accompanying financial statements.

The Organization follows Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") guidance concerning the accounting for income taxes recognized in an entity's financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Organization does not believe there are any uncertain tax positions at June 30, 2014 and 2013. Additionally, the Organization has not recognized any tax related interest and penalties in the accompanying financial statements. Federal tax years that remain open for examination include the years ended June 30, 2011 through June 30, 2014.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unconditional Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor restrictions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

In-Kind Contributions

The Organization records various types of in-kind support. Contributions of tangible assets are recognized at fair market value when received. The amounts reflected in the accompanying financial statements as in-kind contributions are typically offset by like amounts included in expenses.

Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The Organization receives contributed time from volunteers which does not meet this recognition criteria. Accordingly, the value of this contributed time has not been determined and is not reflected in the accompanying financial statements.

Permanently Restricted Endowment Funds

The Uniform Prudent Management Institutional Funds Act ("UPMIFA") was enacted in Tennessee effective July 1, 2007. The FASB ASC provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of UPMIFA. It also requires disclosure of a description of the governing board's interpretation of the law that underlies the organization's net asset classification of donor-restricted endowment funds, a description of the organization's policies for the appropriation of endowment assets for expenditures (its endowment spending policies), a description of the organization's endowment investment policies, and additional disclosures not previously required. (See Note 7.)

Functional Allocation of Expenses

The costs of providing program services and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based upon estimates by management.

FIRST STEPS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2014 and 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The Organization evaluated subsequent events through September 26, 2014 when these financial statements were available to be issued. The Organization is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the financial statements.

NOTE 2 – INVESTMENTS

The following table sets forth the Organization's major categories of assets measured at fair value on a recurring basis, by level within the fair value hierarchy, as of June 30, 2014:

	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments in securities:				
Money market funds	$ 8,889	$ 8,889	$ -	$ -
Fixed income investments-domestic	256,868	96,990	159,878	-
Equity investments:				
Small/Mid Cap U.S. Equity fund	24,406	-	24,406	-
Large Cap U.S. Equity fund	102,637	-	102,637	-
International Equity fund	140,848	-	140,848	-
Opportunistic Equity fund	49,228	-	49,228	-
Master Ltd Partnership funds	63,611	63,611	-	-
Multi-Strategy Alternative funds	203,832	203,832	-	-
Total investment in securities	$ 850,319	$ 373,322	$ 476,997	$ -

NOTE 2 – INVESTMENTS (Continued)

The following table sets forth the Organization's major categories of assets measured at fair value on a recurring basis, by level within the fair value hierarchy, as of June 30, 2013:

	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments in securities:				
Money market funds	$ 3,223	$ 3,223	$ -	$ -
Fixed income investments-domestic	213,112	15,737	197,375	-
Equity investments:				
Small/Mid Cap U.S. Equity fund	67,400	-	67,400	-
Large Cap U.S. Equity fund	129,442	-	129,442	-
International Equity fund	118,113	-	118,113	-
Total investment in securities	$ 531,290	$ 18,960	$ 512,330	$ -

The following schedule summarizes the investment returns for the years ended June 30:

	2014	**2013**
Interest and dividends, net of investment fees	$ 11,084	$ 7,105
Realized and unrealized gains, net	65,363	39,059
Investment gain	$ 76,447	$ 46,164

NOTE 3 – CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following at June 30:

	2014	**2013**
Capital campaign pledges	$ 23,163	$ 62,416
Less allowance for doubtful accounts	-	-
	$ 23,163	$ 62,416
Receivable in less than one year	$ 23,163	$ 59,499
Receivable in one to five years	-	2,917
	$ 23,163	$ 62,416

NOTE 4 – ENDOWMENT FUND AT COMMUNITY FOUNDATION OF MIDDLE TENNESSEE

The Community Foundation of Middle Tennessee (the "Foundation") maintains investments on behalf of the Organization. The Foundation has ultimate authority and control over the investments. However, the Organization is the beneficiary of these funds and receives distributions of income, subject to the Community Foundation's spending policy. The investments result from unrestricted amounts transferred by the Organization to the Foundation in prior years. The Organization has recorded the related asset "Beneficial interest in assets at Community Foundation of Middle Tennessee" in the accompanying statements of financial position.

NOTE 5 – NOTE PAYABLE

On July 13, 2010, the Organization acquired a building to serve as its principal facility for programs and administration at a cost of $2,225,000. The purchase was financed through the issuance of a $1,050,000 promissory note payable to a financial institution that required interest at 5.38%, with monthly principal and interest payments of $6,423 through July 2015, at which time all remaining principal and interest was due. During 2012, the Organization executed a change in terms agreement effective May 16, 2012, which extended the maturity date to May 13, 2027 and reduced the interest rate to 4.90%. Amounts outstanding under this debt arrangement were $623,496 and $656,882 at June 30, 2014 and 2013, respectively. The note is collateralized by land and building.

Interest expense for the years ended June 30, 2014 and 2013 was $31,947 and $33,556, respectively.

Following is a summary of future principal maturities under the note payable agreement:

Years ending June 30,	
2015	$ 35,236
2016	36,950
2017	38,905
2018	40,883
2019	42,960
Thereafter	428,562
Total principal maturities	623,496
Less current portion	(35,236)
Long-term obligations	$ 588,260

NOTE 6 – LINE OF CREDIT

At June 30, 2014 and 2013, the Organization had available a $100,000 revolving line-of-credit with a bank. Payments of interest only at minimum interest rate of 5.50%, will be due monthly through November 1, 2014. No borrowings were outstanding at June 30, 2014 and 2013.

NOTE 7 – NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30:

	2014	2013
Capital campaign	$ 23,163	$ 62,416
Music program to begin in fiscal 2015	5,000	-
Therapy program	-	134,505
Investment earnings on endowment	76,094	15,553
	$ 104,257	$ 212,474

Permanently restricted net assets consist of the following endowment funds at June 30:

	2014	2013
Investments to be held for production of income:		
General endowment	$ 500,000	$ 500,000

The interest earned on permanently restricted net assets is available to the Organization on an unrestricted basis.

The Organization's endowment consists of a gift from Massey Foundation of $500,000 which was received in 1991. The donor stipulated that only the income from this endowment gift should be available directly or indirectly for operations of the Organization. The initial gift and earnings thereon are maintained in the Organization's brokerage account. As required by accounting principles generally accepted in the United States, net assets associated with endowment funds are classified and reported based upon the existence or absence of donor-imposed restrictions. Additional endowment funds consist of assets designated by the Board of Directors which are held in investment accounts. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based upon the existence or absence of donor-imposed restrictions.

The Board of Directors has interpreted UPMIFA as requiring that the Organization classify as permanently restricted net assets a) the original value of donor-restricted gifts to the permanent endowment, b) the original value of subsequent donor-restricted gifts to the permanent endowment, and c) accumulations (interest, dividends, capital gain/loss) to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are approved for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

NOTE 7 – NET ASSETS (Continued)

Endowment Net Asset Composition by Type of Fund as of June 30, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated endowment fund	$ 18,831	$ -	$ -	$ 18,831
Donor restricted endowment funds	-	76,094	500,000	576,094
Total endowment	$ 18,831	$ 76,094	$ 500,000	$ 594,925

Changes in Endowment Net Assets for the fiscal year ended June 30, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 16,201	$ 15,553	$ 500,000	$ 531,754
Investment return:				
Net appreciation (realized and unrealized)	2,630	60,541	-	63,171
Endowment net assets, end of year	$ 18,831	$ 76,094	$ 500,000	$ 594,925

Endowment Net Asset Composition by Type of Fund as of June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated endowment fund	$ 16,201	$ -	$ -	$ 16,201
Donor restricted endowment funds	-	15,553	500,000	515,553
Total endowment	$ 16,201	$ 15,553	$ 500,000	$ 531,754

NOTE 7 – NET ASSETS (Continued)

Changes in Endowment Net Assets for the fiscal year ended June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (4,823)	$ -	$ 500,000	$ 495,177
Investment return:				
Net appreciation (realized and unrealized)	21,024	15,553	-	36,577
Endowment net assets, end of year	$ 16,201	$ 15,553	$ 500,000	$ 531,754

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration.

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are to be invested in cash and cash equivalents, fixed income, equities and publicly traded real estate. In order to ensure proper levels of diversification of investments, equity and fixed income investments are each capped at 50% of total investments. To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

The Organization has a policy of distributing annually 0%-5% of a three-year moving average from the endowment fund. This distribution is made with the understanding that the spending rate plus inflation will not normally exceed the total return from the investment. Any spending will be approved by the Finance Committee and the Board of Directors. Specific agreements with donors for income taken relative to their specific endowment gifts are exempted.

NOTE 8 – PENSION PLAN

Effective July 1, 2011, the Organization instituted a 401(k) profit sharing plan covering all personnel who are at least 21 years old and performed services for the Organization for at least three months. The Organization makes matching contributions equal to 100% of the salary reduction contributions made by employees up to 2% of employees' compensation. Retirement expense for the year ended June 30, 2014 and 2013 was $13,336 and $12,501, respectively.

NOTE 9 – CONCENTRATIONS

The Organization receives a significant amount of its support through grants from the Tennessee Department of Education ("DOE"). In 2014 and 2013, the DOE funding accounted for approximately 40% and 46%, respectively, of the Organization's total public support and revenues. A significant reduction in the level of this support, if this were to occur, could have an adverse effect on the Organization's programs and services. The Organization had grants receivable due from DOE of $186,184 and $204,810 at June 30, 2014 and 2013, respectively.

Financial instruments that potentially subject the Organization to credit risk consist principally of cash and cash equivalents, unconditional promises to give, and investments. At times during 2014 and 2013, the Organization had cash deposits in excess of federally insured limits.

NOTE 10 – OPERATING LEASE COMMITMENTS

During fiscal years 2014 and 2013, the Organization maintained lease agreements accounted for as operating leases. Rent expense for the years ended June 30, 2014 and 2013 was $30,961 and $38,551, respectively. Future minimum lease payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2014 are as follows:

Year ended June 30,	
2015	$ 25,380
2016	22,069
2017	-
	$ 47,449

NOTE 11 – THERAPY PROGRAM

During fiscal year 2012, the Organization received a $505,000 contribution to assist in the start up of its therapy program. The contribution was recognized during 2012; however, only $38,485 in expenses were incurred for the therapy program prior to June 30, 2012. During fiscal 2013; the therapy program was fully launched and the statement of activities includes expenditures of $332,010 of the contribution that was received in 2012. The remaining funds were spent during fiscal 2014.