FIRST STEPS, INC.

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

June 30, 2015 and 2014

FIRST STEPS, INC.

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INDEPENDENT AUDITOR'S REPORT

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

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, 2015 and 2014, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of First Steps, Inc. as of June 30, 2015 and 2014, 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.

Frasier, Dean & Howard, PLLC

Nashville, Tennessee
October 5, 2015

FIRST STEPS, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2015 and 2014

	2015	2014
Assets		
Current assets:		
Cash and cash equivalents	$ 88,248	$ 291,656
Investments, net of donor restricted endowment funds	329,153	274,225
Accounts and grants receivable	303,906	259,097
Contributions receivable	10,061	23,163
Total current assets	731,368	848,141
Land, buildings and equipment:		
Land	200,000	200,000
Buildings and improvements	2,265,685	2,265,685
Furniture and equipment	30,240	30,535
	2,495,925	2,496,220
Less: accumulated depreciation	(336,033)	(267,940)
Land, buildings and equipment, net	2,159,892	2,228,280
Beneficial interest in assets at Community Foundation of Middle Tennessee	19,277	18,831
Donor restricted endowment funds	567,925	576,094
Total assets	$ 3,478,462	$ 3,671,346
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$ 28,895	$ 25,364
Accrued salaries and benefits	78,305	76,586
Note payable, current portion	36,950	35,236
Total current liabilities	144,150	137,186
Note payable, net of current portion	551,467	588,260
Total liabilities	695,617	725,446
Net assets:		
Unrestricted:		
Undesignated	2,135,932	2,322,812
Board designated	19,277	18,831
Total unrestricted net assets	2,155,209	2,341,643
Temporarily restricted	127,636	104,257
Permanently restricted	500,000	500,000
Total net assets	2,782,845	2,945,900
Total liabilities and net assets	$ 3,478,462	$ 3,671,346

See accompanying notes.

FIRST STEPS, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support and revenue:				
Department of Education contracts and grants	$ 897,758	$ -	$ -	$ 897,758
Program service fees	666,621	-	-	666,621
Therapy service fees	299,567	-	-	299,567
Contributions	134,937	41,750	-	176,687
United Way	127,531	-	-	127,531
Other	49,762	-	-	49,762
Special events	25,710	7,900	-	33,610
Department of Human Services contracts and grants	21,587	-	-	21,587
Change in beneficial interest in assets held by others	446	-	-	446
Investment loss, net	(3,189)	(8,169)	-	(11,358)
Net assets released from restrictions	18,102	(18,102)	-	-
Total public support and revenue	2,238,832	23,379	-	2,262,211
Expenses:				
Program services	2,160,476	-	-	2,160,476
Supporting services	168,953	-	-	168,953
Fundraising	95,837	-	-	95,837
Total expenses	2,425,266	-	-	2,425,266
Change in net assets	(186,434)	23,379	-	(163,055)
Net assets - beginning of year	2,341,643	104,257	500,000	2,945,900
Net assets - end of year	$ 2,155,209	$ 127,636	$ 500,000	$ 2,782,845

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
Department of Human Services contracts and grants	26,693	-	-	26,693
Special events	33,785	-	-	33,785
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 FUNCTIONAL EXPENSES
For the Year Ended June 30, 2015

	Program Services	Supporting Services	Fundraising	Total
Salaries	$1,427,981	$ 95,945	$ 72,657	$1,596,583
Employee benefits	217,460	10,668	10,509	238,637
Total salaries and employee benefits	1,645,441	106,613	83,166	1,835,220
Professional services	107,419	1,916	-	109,335
Travel	61,843	21	-	61,864
Occupancy	50,761	5,443	-	56,204
Utilities	49,721	4,918	-	54,639
Supplies	49,077	1,273	-	50,350
Maintenance	32,700	7,181	-	39,881
Interest	27,530	2,723	-	30,253
Conferences	24,166	2,215	-	26,381
Miscellaneous	159	20,410	-	20,569
Communications	14,742	2,772	-	17,514
Insurance	15,659	1,503	-	17,162
Special events expenses (rental, postage)	-	-	12,671	12,671
Food	7,447	-	-	7,447
Bad debts	7,216	-	-	7,216
Dues	2,585	3,629	-	6,214
Licenses	1,995	332	-	2,327
Advertising	50	1,876	-	1,926
Total expenses before depreciation	2,098,511	162,825	95,837	2,357,173
Depreciation	61,965	6,128	-	68,093
Total expenses	$2,160,476	$ 168,953	$ 95,837	$ 2,425,266

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
Travel	61,195	-	-	61,195
Occupancy	58,456	6,406	-	64,862
Utilities	47,577	4,705	-	52,282
Supplies	48,101	7,314	-	55,415
Maintenance	27,240	3,721	-	30,961
Interest	29,071	2,876	-	31,947
Conferences	13,321	2,089	-	15,410
Miscellaneous	9,819	11,041	-	20,860
Communications	16,378	6,110	-	22,488
Insurance	20,378	2,012	-	22,390
Special events expenses (rental, postage)	-	-	11,085	11,085
Food	8,346	-	-	8,346
Bad debts	4,585	-	-	4,585
Dues	1,895	5,315	-	7,210
Licenses	1,030	350	-	1,380
Advertising	729	2,189	-	2,918
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

FIRST STEPS, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Change in net assets	$ (163,055)	$ (41,157)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	68,093	67,964
Loss on disposal of assets	295	-
Contribution of stock	(6,251)	-
Realized and unrealized loss (gain) on investments, net	17,696	(65,363)
Changes in operating assets and liabilities:		
Accounts and grants receivable	(44,809)	(7,593)
Contributions receivable	13,102	39,253
Beneficial interest in assets held at Community Foundation of Middle Tennessee	(446)	(2,630)
Accounts payable	3,531	8,493
Accrued salaries and benefits	1,719	(2,724)
Net cash used in operating activities	(110,125)	(3,757)
Cash flows from investing activities:		
Proceeds from sale of investments	542,605	276,758
Purchase of investments	(600,809)	(530,424)
Purchase of property and equipment	-	(60,469)
Net cash used in investing activities	(58,204)	(314,135)
Cash flows from financing activities:		
Payments on note payable	(35,079)	(33,386)
Net cash used in financing activities	(35,079)	(33,386)
Net decrease in cash and cash equivalents	(203,408)	(351,278)
Cash and cash equivalents - beginning of year	291,656	642,934
Cash and cash equivalents - end of year	$ 88,248	$ 291,656
Supplemental cash flow information:		
Cash paid during the year for interest	$ 30,253	$ 31,947
Supplemental schedule of noncash investing and financing activities:		
Contribution of stock	$ 6,251	$ -

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)

<u>Fair Value Measurements</u>

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, 2013 through June 30, 2015.

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, 2015 and 2014.

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, 2015 and 2014. 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, 2012 through June 30, 2015.

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.

Advertising

Advertising costs are expensed as incurred.

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 October 5, 2015 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, 2015:

	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Investments in securities:				
Money market funds	$ 11,896	$ 11,896	$ -	$ -
Fixed income investments-domestic	266,713	47,038	219,675	-
Equity investments:				
Small/Mid Cap U.S. Equity fund	27,175	27,175	-	-
Large Cap U.S. Equity fund	134,111	134,111	-	-
International Equity fund	158,059	-	158,059	-
Opportunistic Equity fund	49,417	-	49,417	-
Master Ltd Partnership funds	30,125	30,125	-	-
Multi-Strategy Alternative funds	219,582	-	219,582	-
Total investment in securities	$ 897,078	$ 250,345	$ 646,733	$ -

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, 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	$ -

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

	2015	2014
Interest and dividends, net of investment fees	$ 6,338	$ 11,084
Realized and unrealized (losses) gains, net	(17,696)	65,363
Investment (loss) gain	$ (11,358)	$ 76,447

NOTE 3 – CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following at June 30:

	2015	2014
Capital campaign pledges	$ 10,061	$ 23,163
Less allowance for doubtful accounts	-	-
	$ 10,061	$ 23,163
Receivable in less than one year	$ 10,061	$ 23,163
Receivable in one to five years	-	-
	$ 10,061	$ 23,163

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. 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 $588,417 and $623,496 at June 30, 2015 and 2014, respectively. The note is collateralized by land and building.

Interest expense for the years ended June 30, 2015 and 2014 was $30,253 and $31,947, respectively.

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

Years ending June 30,	
2016	$ 36,950
2017	38,905
2018	40,883
2019	42,960
2020	45,089
Thereafter	383,630
Total principal maturities	588,417
Less current portion	(36,950)
Long-term obligations	$ 551,467

NOTE 6 – LINE OF CREDIT

At June 30, 2015, the Organization had available a $175,000 revolving line-of-credit with a bank. Payments of interest only at minimum interest rate of 5.50% are due monthly. The line of credit matures November 30, 2015. No borrowings were outstanding at June 30, 2015 and 2014.

FIRST STEPS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2015 and 2014

NOTE 7 – NET ASSETS

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

	2015	2014
Capital campaign	$ 10,061	$ 23,163
Programs in the coming year	47,900	5,000
Therapy program	1,750	-
Investment earnings on endowment	67,925	76,094
	$ 127,636	$ 104,257

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

	2015	2014
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, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated endowment fund	$ 19,277	$ -	$ -	$ 19,277
Donor restricted endowment funds	-	67,925	500,000	567,925
Total endowment	$ 19,277	$ 67,925	$ 500,000	$ 587,202

Changes in Endowment Net Assets for the fiscal year ended June 30, 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 18,831	$ 76,094	$ 500,000	$ 594,925
Investment return:				
Net depreciation (realized and unrealized)	446	(8,169)	-	(7,723)
Endowment net assets, end of year	$ 19,277	$ 67,925	$ 500,000	$ 587,202

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

NOTE 7 – NET ASSETS (Continued)

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

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 is capped at 70% of total investments and fixed income investments are 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 years ended June 30, 2015 and 2014 was $16,121 and $13,336, respectively.

NOTE 9 – CONCENTRATIONS

The Organization receives a significant amount of its support through grants from the Tennessee Department of Education ("DOE"). In 2015 and 2014, the DOE funding accounted for approximately 40% 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 $147,916 and $186,184 at June 30, 2015 and 2014, 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 2015 and 2014, the Organization had cash deposits in excess of federally insured limits.

NOTE 10 – OPERATING LEASE COMMITMENTS

During fiscal years 2015 and 2014, the Organization maintained lease agreements accounted for as operating leases. Rent expense for the years ended June 30, 2015 and 2014 was $39,881 and $30,961, 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, 2015 are as follows:

Year ended June 30,	
2016	$ 22,720
2017	868
2018	868
2019	217
	$ 24,673

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 incurred expenditures of $332,010 of the contribution that was received in 2012. The remaining funds were spent during fiscal 2014.