

**MARY AND ALEXANDER LAUGHLIN  
CHILDREN'S CENTER**

**SEWICKLEY, PENNSYLVANIA**

**AUGUST 31, 2014**

**AUDIT REPORT**

**MARY AND ALEXANDER LAUGHLIN CHILDREN'S CENTER**

**TABLE OF CONTENTS**

	<b>Page</b>
Independent Auditor's Report	1 - 2
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Notes to Financial Statements	6 - 16
Supplementary Schedule	17
Schedule of Functional Expenses	18

## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Trustees and the Board of Directors  
Mary and Alexander Laughlin Children's Center  
424 Frederick Avenue  
Sewickley, Pennsylvania 15143

We have audited the accompanying financial statements of Mary and Alexander Laughlin Children's Center (a nonprofit organization) which comprise the statement of financial position as of August 31, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Mary and Alexander Laughlin Children's Center as of August 31, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 18 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

**COTTRILL, ARBUTINA & ASSOCIATES, P.C.**

*Certified Public Accountants*

*Cottrill Arbutina & Associates, P.C.*

Beaver, PA 15009

January 15, 2015

**MARY AND ALEXANDER LAUGHLIN CHILDREN'S CENTER**

**STATEMENT OF FINANCIAL POSITION**

**AUGUST 31, 2014**

	<u>Board of Trustees</u>	<u>Board of Directors</u>	<u>Total</u>
<b>ASSETS</b>			
Current Assets			
Cash and Cash Equivalents	\$ 783,185	\$ 131,391	\$ 914,576
Accounts Receivable	0	32,352	32,352
Contributions Receivable	10,000	0	10,000
Investment Income Receivable	33,676	0	33,676
Prepaid Expense	0	14,502	14,502
Interfund Receivable (Payable)	<u>73,756</u>	<u>(73,756)</u>	<u>0</u>
Total Current Assets	<u>\$ 900,617</u>	<u>\$ 104,489</u>	<u>\$ 1,005,106</u>
Property and Equipment, Net of Accumulated Depreciation	<u>\$ 674,320</u>	<u>\$ 44,547</u>	<u>\$ 718,867</u>
Other Assets			
Cash Restricted for Building Renovations	\$ 94,421	\$ 0	\$ 94,421
Investments	12,112,802	0	12,112,802
Beneficial Interest in Perpetual Trust	<u>0</u>	<u>24,737</u>	<u>24,737</u>
Total Other Assets	<u>\$ 12,207,223</u>	<u>\$ 24,737</u>	<u>\$ 12,231,960</u>
 <b>Total Assets</b>	 <u><b>\$ 13,782,160</b></u>	 <u><b>\$ 173,773</b></u>	 <u><b>\$ 13,955,933</b></u>
<b>LIABILITIES AND NET ASSETS</b>			
Accounts Payable	\$ 0	\$ 10,303	\$ 10,303
Accrued Payroll	0	55,492	55,492
Accrued Payroll Taxes	0	4,041	4,041
Deferred Dyslexia Grant	<u>0</u>	<u>66,627</u>	<u>66,627</u>
Total Current Liabilities	<u>\$ 0</u>	<u>\$ 136,463</u>	<u>\$ 136,463</u>
Net Assets			
Unrestricted Net Assets	\$ 13,687,739	\$ 12,573	\$ 13,700,312
Temporarily Restricted Net Assets	94,421	0	94,421
Permanently Restricted Net Assets	<u>0</u>	<u>24,737</u>	<u>24,737</u>
Total Net Assets	<u>\$ 13,782,160</u>	<u>\$ 37,310</u>	<u>\$ 13,819,470</u>
 <b>Total Liabilities and Net Assets</b>	 <u><b>\$ 13,782,160</b></u>	 <u><b>\$ 173,773</b></u>	 <u><b>\$ 13,955,933</b></u>

See Accompanying Notes to Financial Statements

MARY AND ALEXANDER LAUGHLIN CHILDREN'S CENTER

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED AUGUST 31, 2014

	Board of Trustees		Board of Directors		Total
	Unrestricted	Temporarily Restricted	Unrestricted	Permanently Restricted	
<b>PUBLIC SUPPORT AND REVENUE</b>					
Public Support:					
Contributions & Grants	\$ 0	\$ 88,476	\$ 162,709	\$ 0	\$ 251,185
Special Events	0	0	4,595	0	4,595
Total Public Support	\$ 0	\$ 88,476	\$ 167,304	\$ 0	\$ 255,780
Revenue:					
Program Service Fees	\$ 0	\$ 0	\$ 497,531	\$ 0	\$ 497,531
Investment Return (Note 4)	2,134,170	0	110	0	2,134,280
Change in Value of Beneficial Interest in Perpetual Trust (Note 6)	0	0	0	4,226	4,226
Other	1,396	0	2,015	0	3,411
Net Assets Released From Restrictions	60,666	(60,666)	1,728	(1,728)	0
Restrictions Satisfied by Payments	2,196,232	(60,666)	501,384	2,498	2,639,448
Total Revenue	\$ 2,196,232	\$ 27,810	\$ 668,688	\$ 2,498	\$ 2,895,228
Total Public Support and Revenue	\$ 2,196,232	\$ 27,810	\$ 668,688	\$ 2,498	\$ 2,895,228
<b>EXPENSES</b>					
Program Services	\$ 57,607	\$ 0	\$ 1,011,471	\$ 0	\$ 1,069,078
Supporting Services	42,728	0	261,372	0	304,100
Fund Raising	3,741	0	54,217	0	57,958
Total Expenses	\$ 104,076	\$ 0	\$ 1,327,060	\$ 0	\$ 1,431,136
Transfers Between Trustees and Directors	\$ (612,220)	\$ 0	\$ 612,220	\$ 0	\$ 0
CHANGE IN NET ASSETS	\$ 1,479,936	\$ 27,810	\$ (46,152)	\$ 2,498	\$ 1,464,092
NET ASSETS, BEGINNING OF YEAR	12,207,803	66,611	58,725	22,239	12,355,378
NET ASSETS, END OF YEAR	\$ 13,687,739	\$ 94,421	\$ 12,573	\$ 24,737	\$ 13,819,470

See Accompanying Notes to Financial Statements

**MARY AND ALEXANDER LAUGHLIN CHILDREN'S CENTER**  
**STATEMENT OF CASH FLOWS**  
**FOR THE FISCAL YEAR ENDED AUGUST 31, 2014**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in Net Assets	\$ 1,464,092
Adjustments to Reconcile Change in Net Assets to	
Net Cash Used In Operating Activities:	
Depreciation	76,171
Net Realized and Unrealized Gain on Investments	(1,830,140)
Increase in Value of Beneficial Interest in Perpetual Trust	(4,226)
Donation of Stock	(1,396)
Increase in Operating Assets and Liabilities:	
(Increase) Decrease in Assets:	
Accounts Receivable	3,846
Contributions Receivable	18,552
Investment Income Receivable	(1,690)
Prepaid Expense	(738)
Increase (Decrease) in Liabilities:	
Accounts Payable	(15,327)
Accrued Payroll	7,252
Accrued Payroll Taxes	401
Deferred Dyslexia Grant	66,627
Net Cash Used In Operating Activities	\$ (216,576)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from the Sale of Investments	\$ 571,808
Purchase of Property and Equipment	(12,664)
Distribution from Perpetual Trust	1,728
Purchases of Investments	(378,939)
Net Cash Used in Investing Activities	\$ 181,933

**NET DECREASE IN CASH AND CASH EQUIVALENTS**

	\$ (34,643)
Cash and Cash Equivalents, Beginning of Year	1,043,640
Cash and Cash Equivalents, End of Year	\$ 1,008,997

**SUPPLEMENTAL DISCLOSURES:**

Interest Paid	\$ 0
Income Taxes Paid (Foreign and UBIT - See Note 1)	\$ 11,086

See Accompanying Notes to Financial Statements

# MARY AND ALEXANDER LAUGHLIN CHILDREN'S CENTER

## NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2014

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Nature of Activities

Mary and Alexander Laughlin Children's Center (Laughlin Center) is a nonprofit agency located in Sewickley, Pennsylvania, and incorporated under the laws of the Commonwealth of Pennsylvania, providing learning support services for children from preschool through middle school. Laughlin Center serves more than 1,500 children each year from many areas of Allegheny and Beaver Counties, offering a variety of programs in the fields of early childhood development, academics, psychology and speech-language. Laughlin Center serves children and families regardless of their race, religion, or ability to pay, with financial aid available for families who otherwise could not afford needed services.

#### Basis of Accounting

Laughlin Center prepared its financial statements on the accrual basis of accounting and accordingly reflects all significant receivables, payables and other liabilities.

#### Financial Statement Presentation

Accounting standards require the Organization to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. These classifications of net assets are defined as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations and may be utilized at the discretion of the Boards of Trustees and Directors to support Laughlin Center's purposes and operations.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that will be met either by actions of Laughlin Center satisfying the stated purpose or by the passage of time. When a donor restriction expires, that is, when a stipulated time restriction ends or a stated restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that require that the principal be invested in perpetuity and the income be used to support the Organization's objectives in accordance with the wishes of the donor. During the year ended August 31, 2014, the Organization had \$24,737 in permanently restricted net assets.

#### Beneficial Interest in Perpetual Trust

Beneficial interests in perpetual trusts held by others for the benefit of the Organization are recorded at the Organization's proportionate share of the fair value of the assets held in the trust.

**MARY AND ALEXANDER LAUGHLIN CHILDREN'S CENTER**

**NOTES TO FINANCIAL STATEMENTS**

**AUGUST 31, 2014**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

Financial Instruments

Accounting standards require disclosure of an estimate of the fair value of certain financial instruments. The Laughlin Center's significant financial instruments are cash, accounts receivable and marketable equity securities. For these financial instruments, carrying values approximate fair value.

Investments and Investment Return

Investments in equity and debt securities are carried at fair market value. Investment return includes dividend, interest and other investment income and realized and unrealized gains and losses on investments.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Property and Equipment

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at cost or fair value for donated assets. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets. The cost of maintenance and repairs is charged to expense as incurred. Significant renewals and betterments are capitalized.

Donations of property and equipment are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Accounts Receivable

Accounts receivable are stated at the amount of unpaid balances that are expected to be received. The Organization records a contractual adjustment to reduce the balance of accounts receivable from its standard charges to the amounts due from third-party payors under contractual agreements. The contractual adjustment is an estimate based on management's anticipated collections using past historical trends and contractual agreements in place. The contractual adjustment represents approximately 33% of accounts receivable.

**MARY AND ALEXANDER LAUGHLIN CHILDREN'S CENTER**

**NOTES TO FINANCIAL STATEMENTS**

**AUGUST 31, 2014**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded as contributions revenue and contributions receivable at net realizable value (the value expected to be collected). Unconditional promises to give that are expected to be received in future years are recorded at the present value of their estimated future cash flows. Conditional promises to give are not included in revenue until the conditions are substantially met. The Organization does not provide an allowance for estimated uncollectible contributions at August 31, 2014 because all contributions receivable are expected to be collected.

Cash and Cash Equivalents

Laughlin Center considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Contributions and Grants

In accordance with applicable accounting standards, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Contributions are recorded at fair value. All donor restricted support is reported as an increase in temporarily restricted net assets. When a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Temporarily restricted contributions that are received and expended within the same fiscal year are reported as unrestricted resources.

Donated Services

Laughlin Center generally pays for services requiring specific expertise. However, many individuals volunteer their time and skills to perform a variety of tasks that assist Laughlin Center in carrying out its mission. No amounts have been recognized in the accompanying statement of activities related to these services because the criterion for recognition of such volunteer effort has not been satisfied.

Income Taxes

Laughlin Center is a non-profit entity exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code and a similar provision of state law. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

**MARY AND ALEXANDER LAUGHLIN CHILDREN'S CENTER**

**NOTES TO FINANCIAL STATEMENTS**

**AUGUST 31, 2014**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

In addition, the Organization qualifies for the charitable contribution deduction under IRC Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

The Organization paid \$4,675 in foreign income taxes related to investment income generated from foreign investments during the year ended August 31, 2014. In addition the Organization paid unrelated business income tax (UBIT) of \$6,411 during the year ended August 31, 2014 related to the non-exempt income generated by the limited partnerships in which it invests. (See Note 4)

Functional Allocation of Expenses

Expenses are summarized and categorized based on their functional classification as either program services or supporting services. Specific expenses that are readily identifiable to a single program or activity are charged directly to that function. However, many expenses relate to more than one function and must be allocated based on the estimates of management using a reasonable methodology on the basis of the usage of space and personnel's time.

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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ, either positively or negatively, from those estimates.

Advertising

Laughlin Center uses advertising to promote its programs among the audience it serves. Advertising costs are expensed as incurred. Advertising expense for the year ended August 31, 2014 was \$35,166.

**NOTE 2 – CONCENTRATION OF CREDIT RISK**

Financial instruments that are exposed to concentrations of credit risk consist of cash and investments. The cash and investments in common trust investments are in high quality institutions and companies with high credit ratings. Cash and investment values are based on quoted market prices.

Custodial credit risk is the risk that, in the event of a bank failure, the Organization's deposits may not be returned to it. The Organization is subject to some custodial credit risk through short-term cash investments which are placed with high credit quality financial institutions. The Organization maintains its cash accounts in a financial institution that is insured by the Federal

**MARY AND ALEXANDER LAUGHLIN CHILDREN'S CENTER**

**NOTES TO FINANCIAL STATEMENTS**

**AUGUST 31, 2014**

**NOTE 2 – CONCENTRATION OF CREDIT RISK – CONTINUED**

Deposit Insurance Corporation (FDIC) up to \$250,000. At times, the balances in these accounts may exceed the federally insured limits. At August 31, 2014, bank account balances of \$171,307 were uninsured by the FDIC. However, the Organization has not experienced any losses in such accounts and believes that it is not exposed to any significant custodial credit risk.

**NOTE 3 – CONTRIBUTIONS RECEIVABLE**

Contributions receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Contributions receivable that are expected to be collected within one year are recorded as contribution receivable at net realizable value. For fiscal year ending August 31, 2014 the contribution receivable is \$10,000 and is expected to be collected within one year.

The Organization expects to collect the full amount of the contributions receivable. Accordingly, no allowance for uncollectible contributions is recorded.

**NOTE 4 – INVESTMENTS**

The Organization's investments consist of a portfolio of marketable securities that are to be used at the discretion of the Board of Trustees to support the general operations and capital needs of the Organization. As of August 31, 2014, the investment funds do not include any donor-restricted funds. All investments are designated by the Board of Trustees to function as endowments (board-designated endowment funds). The net assets associated with these board-designated funds are classified as unrestricted net assets due to the lack of donor-imposed restrictions in accordance with generally accepted accounting principles.

The Commonwealth of Pennsylvania has not adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which is used by most other states but, rather, is subject to Pennsylvania Act 141 ("PA Act 141"). PA Act 141 governs the spending of endowment funds and income from such funds. This Act permits an organization's trustees to define income as a stipulated percentage of endowment assets (between 2% and 7% of the fair value of the assets averaged over a period of at least the three preceding years) without regard to actual interest, dividend or realized and unrealized gains.

In handling its investment funds that have been designated to function as endowments, the Organization has interpreted PA Act 141 to permit the Organization to spend the earnings of its endowment based on a "total return" approach, without regard to the fair value of the original donation to the endowment. As long as the amounts are not permanently restricted by the donor, any donor-restricted endowment fund would be classified as temporarily restricted net assets until those amounts would be appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by PA Act 141. Due to the lack of external donor restrictions, all funds functioning as endowments are classified as unrestricted net assets.

**MARY AND ALEXANDER LAUGHLIN CHILDREN'S CENTER**

**NOTES TO FINANCIAL STATEMENTS**

**AUGUST 31, 2014**

**NOTE 4 – INVESTMENTS – CONTINUED**

Unrestricted assets considered to be endowment funds by the Board of Trustee's as of August 31, 2014 consist of the following:

	Cost	Fair Value	Carrying Value
Cash Equivalents	\$ 603,928	\$ 603,928	\$ 603,928
Fixed Income - Corporate and Government Securities	\$ 772,690	\$ 930,932	\$ 930,932
Equities Securities	3,709,972	8,161,267	8,161,267
Mutual Funds - Equity	144,964	182,416	182,416
Other Equity	291,799	1,358,972	1,358,972
Other Alternative Investments	<u>354,881</u>	<u>1,479,215</u>	<u>1,479,215</u>
Total Investments	\$ 5,274,306	\$ 12,112,802	\$ 12,112,802
Total Cash Equivalents & Investments	<u>\$ 5,878,234</u>	<u>\$ 12,716,730</u>	<u>\$ 12,716,730</u>

Other equity consists of investments in publicly traded limited partnerships. These limited partnerships invest primarily in the energy and pipeline industry.

Other alternative investments consist of a limited partner's interest in a privately-held limited partnership. The limited partnership was formed to invest in equity securities of companies in emerging market countries anywhere in the world with the primary investment objective of long-term capital appreciation. As a limited partner, the Organization is entitled to withdraw all or a portion of its investment at the end of each calendar quarter. However, under certain conditions, the general partner may suspend the right of limited partners to withdraw their investment or may limit withdrawals to the lesser of 50% of a limited partner's initial investment in the partnership or \$100,000 on a single occasion. The partnership has not made in the past, nor does it expect to make in the future, any regular, frequent or substantial cash distributions.

The cost basis of the investments in the limited partnerships mentioned above is reported at the amount originally invested by the Organization. Distributions from these limited partnerships are recognized as dividends in the table below at the time that the distributions are made. Income that is earned by the limited partnership and retained within the partnership results in an increase in the net asset value of the partnership. This increase in the net asset value of the limited partnership is reflected as an unrealized gain in the table below. The cost basis of the investment, as reported in the table above, is not adjusted for income earned by the partnership and not distributed to the Organization.

Total investment return is comprised of the following:

	Unrestricted
Interest and Dividends	\$ 304,140
Realized Gain (Loss), net	303,591
Unrealized Gain (Loss), net	<u>1,526,549</u>
Total Investment Return	<u>\$ 2,134,280</u>

MARY AND ALEXANDER LAUGHLIN CHILDREN'S CENTER

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2014

NOTE 4 – INVESTMENTS - CONTINUED

Changes in endowment investments as of August 31, 2014 are as follows:

Balance at August 31, 2013	\$ 10,474,135
Sale of Investments	(571,808)
Purchase of Investments	378,939
Donation of Stock	1,396
Total Gain - Unrealized & Realized	<u>1,830,140</u>
Balance at August 31, 2014	<u>\$ 12,112,802</u>

Return Objectives and Risk Parameters

The Organization has adopted an investment policy for endowment assets that attempts to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include board-designated funds. Under this policy, as approved by the Board of Trustees, the primary objective is the long-term growth of principal with generation of income without an undue exposure to risk. Assets are invested in a manner that is intended to produce results that meet or exceed appropriate market indices, which are monitored by the Board of Trustees. Actual returns in any given year may vary.

Strategies Employed for Achieving Objectives

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 targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Disbursements from Endowment Fund

The amount to be distributed from the endowment accounts, if any, is determined and approved by the Board of Trustees. In establishing the amounts to appropriate for expenditure, the Board considers the long-term expected return on its endowment. Accordingly, over the long term, the Organization expects the current distributions to allow its endowment to grow annually. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held for a specified term as well as to provide additional real growth through new gifts and investment return.

NOTE 5 – FAIR VALUE MEASUREMENTS

Applicable accounting standards define fair value as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. These standards establish a fair market hierarchy that gives the highest priority to quoted

MARY AND ALEXANDER LAUGHLIN CHILDREN'S CENTER

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2014

NOTE 5 – FAIR VALUE MEASUREMENTS – CONTINUED

prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions that market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

Level 1 – Unadjusted quoted prices for identical assets or liabilities in active markets as the measurement date. A common type of instrument included in Level 1 is a listed equity where quoted market prices in active markets are available.

Level 2 – Inputs (other than quoted market prices in active markets) that are observable either directly or indirectly.

Level 3 – Unobservable inputs in which there is little or no market data and which require the reporting entity to develop its own assumptions.

The fair value of an asset or liability is measured based on the lowest level of input that is appropriate. In other words, Level 1 inputs are given the highest priority and Level 3 inputs are given the lowest priority in order to maximize the use of observable inputs and minimize the use of unobservable inputs.

Fair values of assets measured at August 31, 2014 are as follows:

	Fair Value Measurements at the End of the Reporting Period Using:		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Endowment Cash Equivalents	\$ 603,928	\$ 0	\$ 0
Endowment Investments:			
Fixed Income - Corp. & Gov.	930,932	0	0
Equities	8,161,267	0	0
Mutual Funds	182,416	0	0
Other Equity Investments	1,358,972	0	0
Alternative Investments	0	1,479,215	0
Beneficial Interests in Perpetual Trust	0	0	24,737
Total Recurring Fair Value Measurements	\$ 11,237,515	\$ 1,479,215	\$ 24,737

**MARY AND ALEXANDER LAUGHLIN CHILDREN'S CENTER**

**NOTES TO FINANCIAL STATEMENTS**

**AUGUST 31, 2014**

**NOTE 5 – FAIR VALUE MEASUREMENTS – CONTINUED**

The Organization considers the measurement of its beneficial interest in a perpetual trust to be a Level 3 measurement because, even though its measurement is based on unadjusted fair values of the trust assets reported by the trustee, the Organization will never receive those assets or have the ability to direct the trustee to redeem them. This Level 3 classification is based on the terms of the trust agreement and based on the Organization's consideration of the current practice among other nonprofit entities for classifying beneficial interests in perpetual trusts.

The table below presents information about fair value measurements that use significant unobservable inputs (level 3):

Beneficial Interest in Perpetual Trust

Balance at August 31, 2013	\$	22,239
Distribution to Laughlin Center		(1,728)
Change in Value of Perpetual Trust		<u>4,226</u>
Balance at August 31, 2014	\$	<u>24,737</u>

**NOTE 6 – BENEFICIAL INTEREST IN PERPETUAL TRUST**

Under terms of a trust agreement, Laughlin Center is a beneficiary of a perpetual trust held by a third party. As a beneficiary, the Organization has the irrevocable right in perpetuity to receive a proportionate share of the annual distributions made from the trust. The Organization's proportionate share of the annual distributions is 0.5%. The Organization records permanently restricted net assets related to this split-interest agreement at an amount that is calculated based on the fair value of the total trust assets multiplied by 0.5%. The annual distributions from this trust were paid to the Organization of \$1,728 for the year ended August 31, 2014.

**NOTE 7 – RESTRICTIONS ON NET ASSETS**

Temporarily restricted net assets as of August 31, 2014 consist of \$94,421 in donations designated by the donor for building renovations.

Permanently restricted net assets of \$24,737 as of August 31, 2014 consist of the Organization's beneficial interest in perpetual trusts as described in Note 6.

**NOTE 8 – OPERATING LEASES**

In January 2010, Laughlin Center signed a lease for office equipment under a sixty-month operating lease at \$392 per month. Rental expense for the year ended August 31, 2014 was \$4,704.

**MARY AND ALEXANDER LAUGHLIN CHILDREN'S CENTER**

**NOTES TO FINANCIAL STATEMENTS**

**AUGUST 31, 2014**

**NOTE 8 – OPERATING LEASES – CONTINUED**

In January 2013, Laughlin Center entered into an operating lease with St. James Church for their parking lot. This is a 3-year lease for \$400 per month. Rental expense for the year ended August 31, 2014 was \$4,800.

Future annual minimum lease payments for future fiscal years are as follows:

<u>Year</u>	<u>Amount</u>
2015	\$ 6,760
2016	<u>1,600</u>
Total	<u>\$ 8,360</u>

**NOTE 9 – PROPERTY AND EQUIPMENT**

Changes in Property and Equipment for the year ended August 31, 2014 consisted of the following:

	<b>Balance at <u>8/31/2013</u></b>	<b>Net <u>Change</u></b>	<b>Balance at <u>8/31/2014</u></b>
Land	\$ 9,715	\$ 0	\$ 9,715
Building and Improvements	1,431,259	0	1,431,259
Construction-In-Progress	0	12,664	12,664
Furniture and Equipment	<u>336,487</u>	<u>0</u>	<u>336,487</u>
	\$ 1,777,461	\$ 12,664	\$ 1,790,125
Accumulated Depreciation	<u>(995,087)</u>	<u>(76,171)</u>	<u>(1,071,258)</u>
Net Property and Equipment	<u>\$ 782,374</u>	<u>\$ (63,507)</u>	<u>\$ 718,867</u>

**NOTE 10 – RETIREMENT PLAN**

Laughlin Center maintains a defined contribution retirement plan in accordance with Section 401(k) of the Internal Revenue Code for eligible employees who meet certain age and length of service requirements. In each year since the plan was established, the Organization has made a discretionary matching contribution to the Plan on behalf of eligible participants. During the year ended August 31, 2014, Laughlin Center recognized an expense of \$62,152 representing 10% of each participating employee's regular annual compensation earned during the 2013 calendar year and monthly fees. No accrual is recorded as of August 31, 2014 for contributions that may be made related to employee compensation earned between January 1 and August 31, 2014 because employer contributions are considered to be discretionary according to the Summary Plan Description and were not made as of August 31, 2014.

**NOTE 11 – COMMITMENTS AND CONTINGENCIES**

Certain grants require the fulfillment of conditions, as set forth in the instrument of the grant, and failure to fulfill the conditions could result in the return of the funds to the grantor. The grant terms generally coincide with the objectives of Laughlin Center, and therefore, do not place any

**MARY AND ALEXANDER LAUGHLIN CHILDREN'S CENTER**

**NOTES TO FINANCIAL STATEMENTS**

**AUGUST 31, 2014**

**NOTE 11 – COMMITMENTS AND CONTINGENCIES – CONTINUED**

unusual restrictions on its operations. Laughlin Center, by accepting the grants and their terms, intends to fulfill the required terms and provisions of the grants.

**NOTE 12 – SUBSEQUENT EVENTS**

The Organization evaluated its August 31, 2014 financial statements for subsequent events through January 15, 2015, the date the financial statements were available to be issued. The Organization is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

**SUPPLEMENTARY SCHEDULE**

**MARY AND ALEXANDER LAUGHLIN CHILDREN'S CENTER**  
**SCHEDULE OF FUNCTIONAL EXPENSES**  
**FOR THE FISCAL YEAR ENDED AUGUST 31, 2014**

	<u>Program Services</u>	<u>Supporting Services</u>	<u>Fund Raising</u>	<u>Total Expenses</u>
<b>Salaries and Related Expenses</b>				
Salaries and Wages	\$ 688,135	\$ 151,645	\$ 32,809	\$ 872,589
Employee Benefits	147,024	52,056	9,745	208,825
Travel and Training	23,711	1,339	295	25,345
Total Salaries and Related Expenses	<u>\$ 858,870</u>	<u>\$ 205,040</u>	<u>\$ 42,849</u>	<u>\$ 1,106,759</u>
 <b>Other Functional Expenses</b>				
Program Activities	\$ 17,454	\$ 0	\$ 0	\$ 17,454
Professional Services	0	32,959	0	32,959
Investment Fees & Taxes	0	29,261	0	29,261
Supplies	28,782	6,729	1,869	37,380
Repairs and Maintenance	26,406	6,173	1,715	34,294
Insurance	23,032	5,384	1,496	29,912
Advertising and Promotion	35,166	0	0	35,166
Utilities	20,717	4,843	1,345	26,905
Fundraising and Special Events	0	0	4,548	4,548
Development	0	0	327	327
Depreciation	58,651	13,711	3,809	76,171
Total Other Functional Expenses	<u>\$ 210,208</u>	<u>\$ 99,060</u>	<u>\$ 15,109</u>	<u>\$ 324,377</u>
 Total Functional Expenses	 <u>\$ 1,069,078</u>	 <u>\$ 304,100</u>	 <u>\$ 57,958</u>	 <u>\$ 1,431,136</u>