ARMS OF HOPE

CONSOLIDATED FINANCIAL STATEMENTS

Years ended June 30, 2015 and 2014
with Report of Independent Auditors

ARMS OF HOPE

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2015 and 2014

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of
Arms of Hope

We have audited the accompanying consolidated financial statements of Arms of Hope which comprise the consolidated statements of financial position as of June 30, 2015 and 2014, and the related consolidated statements of activities 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Arms of Hope as of June 30, 2015 and 2014, and the results of their activities and their cash flows for the years then ended in conformity with GAAP.

Whitley Penn LLP

Dallas, Texas
December 23, 2015

ARMS OF HOPE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	June 30, 2015	June 30, 2014
Assets		
Cash and cash equivalents	$ 853,226	$ 470,759
Contributed assets	144,349	144,349
Other assets	424,603	380,714
Beneficial interests in charitable remainder annuity trusts	858,839	902,239
Investments, at fair value	18,164,687	18,579,134
Investments, other	31,935	31,935
Property and equipment, net of accumulated depreciation	11,386,316	11,780,408
Total assets	$ 31,863,955	$ 32,289,538
Liabilities and Net Assets		
Liabilities:		
Accounts payable	$ 339,448	$ 188,801
Accrued expenses	278,705	275,567
Notes payable	75,940	121,493
Deferred compensation	214,743	232,963
Liability under charitable remainder annuity trusts	404,722	394,453
Charitable gift annuities	976,378	1,015,486
Total liabilities	2,289,936	2,228,763
Commitments and contingencies		
Net assets:		
Unrestricted	27,858,409	28,536,136
Temporarily restricted	578,859	387,888
Permanently restricted	1,136,751	1,136,751
Total net assets	29,574,019	30,060,775
Total liabilities and net assets	$ 31,863,955	$ 32,289,538

See accompanying notes to consolidated financial statements.

ARMS OF HOPE

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue				
Public support:				
Contributions - individuals	$ 1,555,703	$ 147,626	$ -	$ 1,703,329
Contributions - congregations	791,699	450	-	792,149
Contributions - special gifts	1,037,458	141,903	-	1,179,361
Special events	642,377	-	-	642,377
Non-cash contributions	973,417	51,375	-	1,024,792
Total public support	5,000,654	341,354	-	5,342,008
Revenue:				
Grocery revenue	40,942	-	-	40,942
Thrift store, net	2,587,865	-	-	2,587,865
Resident support fees assistance	315,760	-	-	315,760
Oil and gas income	289,738	-	-	289,738
Interest and dividend investment income	382,791	-	-	382,791
Unrealized loss on investments	(109,736)	-	-	(109,736)
Realized gain on investments	315,004	-	-	315,004
Change in value of split-interest agreements	18,663	-	-	18,663
Loss on sale of assets	(5,463)	-	-	(5,463)
Miscellaneous income	12,427	-	-	12,427
Total revenue	3,847,991	-	-	3,847,991
Total support and revenue	8,848,645	341,354	-	9,189,999
Expenses:				
Program services	7,902,516	-	-	7,902,516
Supporting services:				
General and administrative	573,337	-	-	573,337
Public relations and development	1,200,902	-	-	1,200,902
Total supporting services	1,774,239	-	-	1,774,239
Total expenses	9,676,755	-	-	9,676,755
Change in net assets from activities	(828,110)	341,354	-	(486,756)
Other changes in net assets:				
Net assets released from restrictions	150,383	(150,383)	-	-
Changes in net assets	(677,727)	190,971	-	(486,756)
Net assets beginning of year	28,536,136	387,888	1,136,751	30,060,775
Net assets end of year	$ 27,858,409	$ 578,859	$ 1,136,751	$ 29,574,019

See accompanying notes to consolidated financial statements.

ARMS OF HOPE

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue				
Public support:				
Contributions - individuals	$ 1,800,411	$ 299,262	$ -	$ 2,099,673
Contributions - congregations	878,929	-	-	878,929
Contributions - special gifts	1,316,256	118,457	-	1,434,713
Special events	812,536	-	-	812,536
Non-cash contributions	315,373	-	-	315,373
Agency support	1,514	-	-	1,514
Total public support	5,125,019	417,719	-	5,542,738
Revenue:				
Grocery revenue	1,894	-	-	1,894
Thrift store, net	2,458,821	-	-	2,458,821
Resident support fees assistance	288,210	-	-	288,210
Oil and gas income	196,364	-	-	196,364
Interest and dividend investment income	457,179	-	-	457,179
Unrealized gain on investments	844,441	-	-	844,441
Realized gain on investments	1,445,952	-	-	1,445,952
Change in value of split-interest agreements	199,380	-	-	199,380
Loss on sale of assets	7,713	-	-	7,713
Miscellaneous income	24,335	-	-	24,335
Total revenue	5,924,289	-	-	5,924,289
Total support and revenue	11,049,308	417,719	-	11,467,027
Expenses:				
Program services	7,652,110	-	-	7,652,110
Supporting services:				
General and administrative	540,178	-	-	540,178
Public relations and development	1,340,120	-	-	1,340,120
Total supporting services	1,880,298	-	-	1,880,298
Total expenses	9,532,408	-	-	9,532,408
Change in net assets from activities	1,516,900	417,719	-	1,934,619
Other changes in net assets:				
Net assets released from restrictions	980,287	(980,287)	-	-
Changes in net assets	2,497,187	(562,568)	-	1,934,619
Net assets beginning of year	26,038,949	950,456	1,136,751	28,126,156
Net assets end of year	$ 28,536,136	$ 387,888	$ 1,136,751	$ 30,060,775

See accompanying notes to consolidated financial statements.

ARMS OF HOPE

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended June 30, 2015	Years Ended June 30, 2014
Cash flows from operating activities:		
Change in net assets	$ (486,756)	$ 1,934,619
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	735,909	690,219
(Gain) loss on sale of assets	5,463	(7,713)
Net realized gain on investments	(315,004)	(1,445,952)
Unrealized loss (gain) on investments	109,736	(844,441)
Charitable remainder annuity trust	41,400	(49,636)
Change in liability under split-interest agreements	(28,839)	(201,235)
Changes in net assets and liabilities:		
Other assets	(43,889)	31,878
Accounts payable	150,647	647
Accrued expenses	3,138	(4,940)
Deferred compensation	(18,220)	(25,187)
Net cash provided by operating activities	153,585	78,259
Cash flows from investing activities:		
Purchases of investments	(919,077)	(4,808,626)
Proceeds from sale of investments	1,736,342	5,878,246
Payments on charitable gift annuities	(147,550)	(149,550)
Payments on charitable remainder annuity trusts	(48,000)	(48,000)
Proceeds from sale of property and equipment	38,000	11,300
Purchases of property and equipment	(385,280)	(845,275)
Net cash provided by investing activities	274,435	38,095
Cash flows from financing activities:		
Proceeds from notes payable	-	125,777
Payments on notes payable	(45,553)	(4,284)
Net cash provided by (used in) financing activities	(45,553)	121,493
Net increase in cash and cash equivalents	382,467	237,847
Cash and cash equivalents at beginning of year	470,759	232,912
Cash and cash equivalents at end year	$ 853,226	$ 470,759

See accompanying notes to consolidated financial statements.

A. Nature of Activities

Arms of Hope (the "Organization") is a not-for-profit organization which was formed for the purpose of establishing, maintaining, and operating Christian homes for the care of children. The Organization has two wholly owned subsidiaries: Medina Children's Home ("Medina"), which was established in 1958 and operates a campus near Medina, Texas, and Boles Children's Home, Inc. ("Boles") which was established in 1924 and operates a campus in Quinlan, Texas. Boles Children's Home Realty Corporation is consolidated with Boles. Both campuses are supported principally by public contributions and supplemented with some agency support and investment income. The Organization's administrative offices are located in Medina, Texas.

B. Summary of Significant Accounting Policies

A summary of the Organization's significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows:

Basis of Accounting

The accompanying consolidated financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The Organization is required to report information regarding its consolidated financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements include the accounts of the Organization and its subsidiaries, all of which are wholly owned. Significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Organization maintains deposits in financial institutions, which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation ("FDIC"). The Organization has not experienced any losses related to amounts in excess of FDIC limits.

B. Summary of Significant Accounting Policies – continued

Investments

Investments with readily determinable fair values are stated at fair value with realized and unrealized gains and losses included in the statements of activities of the respective period. Investments in equity securities and debt securities with readily determinable fair values are recorded at fair value. Investments, other is an oil and gas interest which is recorded at the lower of cost or fair value. Fluctuations in fair value are recorded in the year in which they occur by adjusting the carrying value of such investments each month and recognizing net unrealized and realized gains and losses in the accompanying consolidated statements of activities.

Fair Value Measurements

GAAP establishes 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 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 unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Observable inputs other than Level 1 which include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

  If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurements.

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

B. Summary of Significant Accounting Policies – continued

Split-Interest Agreements

The Organization is the beneficiary of, or holds a beneficial interest in various split-interest agreements which consist of charitable remainder annuity trusts and charitable gift annuities.

Trusts, Legacies, and Bequests

The Organization is the beneficiary under various wills and trust agreements, the total realizable amount of which cannot presently be determined. Such amounts are excluded from the accompanying consolidated financial statements until clear title is established and the ultimate realizable amount is reasonably determinable.

Property and Equipment

Property and equipment are stated at cost and depreciated over the estimated useful lives of the various assets using the straight-line method. Major renewals and improvements are capitalized while expenditures for maintenance and repairs are expensed as incurred. Assets retired or otherwise disposed of and the related accumulated depreciation are eliminated from the respective accounts and any resulting gain or loss is reflected in the unrestricted revenues and gains (losses) in the accompanying consolidated statement of activities of the respective period. Assets which are donated and used by the Organization are recorded at their fair market value on the date received by the Organization. The estimated useful lives are as follows:

Buildings and improvements	4-50 years
Furniture and fixtures	5-10 years
Automotive equipment	3-7 years
Other equipment	5-10 years

Donated Assets and Services

Donated marketable securities and other non-cash donations are recorded at their estimated fair values, as determined by management, at the date of donation.

Donated services are recognized as contributions if the services, (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. The Organization pays for most services requiring specialized services. However, a number of individuals volunteer their time and perform a variety of tasks that assist the Organization with specific program functions and various other activities that are not recognized as contributions in the consolidated financial statements, because the recognition criteria under GAAP were not met.

B. Summary of Significant Accounting Policies – continued

Thrift Shop Revenue

The Organization gathers and delivers donated items to a network of thrift stores and is reimbursed for the cost of collecting and delivering these items and receives a percentage of gross sales from a retail contract partnership and is earned upon sale.

Net Assets

Unrestricted net assets are available for general use by the Organization.

Temporarily restricted net assets are restricted as to use and, where applicable, are transferred from temporarily restricted net assets to unrestricted net assets when expended.

Permanently restricted net assets require that the principal be invested in perpetuity. Income and appreciation in the value of these funds are restricted for specified purposes and reported in the accompanying consolidated statement of activities as temporarily restricted investment income as earned.

As part of the Organization's prior agreements with certain donors, certain permanently restricted contributions are matched by the Organization with unrestricted or certain temporarily restricted net assets.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or the purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities of the respective period as net assets released from restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Endowment Funds

The Organization operates under an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) since the Texas State Legislature enacted UPMIFA on September 1, 2007 (TUPMIFA). Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

B. Summary of Significant Accounting Policies – continued

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC"), except to the extent that they have unrelated business income. There was no material unrelated business income reflected in the accompanying consolidated financial statements for the years ended June 30, 2015 and 2014. Accordingly, no provision for income taxes has been provided in the accompanying consolidated financial statements.

GAAP prescribes a comprehensive model for the financial statement recognition, measurement, presentation, and disclosure of uncertain income tax positions taken or expected to be taken in income tax returns. Management believes that it has not taken a tax position that, if challenged, would have a material effect on the Organization's consolidated financial statements. The Organization files Form 990 in the United States federal jurisdiction within the United States and no tax returns are currently under examination by any tax authorities. Management believes the Organization is no longer subject to income tax examinations for years prior to 2012.

Fair Value of Financial Instruments

The financial instruments recorded in the consolidated statements of financial position include other assets and accrued expenses. Due to their short-term maturities, the carrying amounts of these items are believed to approximate fair market values. The carrying value of the notes payable approximates fair value since these instruments bear a market rate of interest.

Management evaluates credit risk for all financial instruments based on the nature of the transaction. The Organization has credit exposure within the investment portfolio; however, management believes they have mitigated this risk by diversifying the investments in which the Organization invests based on such criteria as industry, geographic region, length of maturity, and credit ratings.

C. Investments

Investments at fair value refer to those amounts held at third party financial institutions and are reported at fair value. Unrealized gains or losses are recorded each year to adjust to fair value. Realized and unrealized gains or losses are determined by comparison of cost to proceeds or market, respectively.

A summary of investments, at fair value, at June 30, 2015, is as follows:

	Cost	Fair Value	Unrealized Appreciation
Cash equivalents	$ 595,768	$ 595,768	$ -
Fixed income securities	4,654,608	5,197,071	542,463
Mutual funds	4,429,076	4,812,340	383,264
Equities	5,979,302	6,264,223	284,921
Government securities	1,289,976	1,295,285	5,309
Total investments	$16,948,730	$18,164,687	$ 1,215,957

A summary of investments, at fair value, at June 30, 2014, is as follows:

	Cost	Fair Value	Unrealized Appreciation
Cash equivalents	$ 690,330	$ 690,330	$ -
Fixed income securities	4,654,608	4,872,128	217,520
Mutual funds	4,558,962	4,937,265	378,303
Equities	5,118,770	5,817,393	698,623
Government securities	2,230,771	2,262,018	31,247
Total investments	$17,253,441	$18,579,134	$ 1,325,693

Investment, other, represents an oil and gas interest which is recorded at cost of $31,935 at both June 30, 2015 and 2014.

D. Fair Value of Investments

The following is a summary of the estimated fair value of the Organization's Level 1 investments at June 30:

	2015	2014
Cash equivalents	$ 595,768	$ 688,394
Fixed income securities	5,197,071	4,863,779
Mutual funds	4,812,340	4,939,265
Equities	6,264,223	5,825,678
Government securities	1,295,285	2,262,018
Total investments	$18,164,687	$18,579,134

There were no Level 2 or 3 investments as of June 30, 2015 or 2014.

E. Contributed Assets

Contributed assets consist of contributed real estate, which is real property interests not used in the activities of the Organization. For some items, a value of $1 is recorded since a value was not available. Contributed real estate was approximately $144,000 for both June 30, 2015 and 2014.

F. Charitable Remainder Annuity Trusts

The Organization is the remainder beneficiary of irrevocable charitable trusts. Under charitable remainder annuity trusts, donors establish and fund a trust with specific distributions to be made to beneficiaries over the trust's terms. At the end of the trust's term, the remaining assets are available for the Organization's use. The Organization is the trustee for the charitable remainder annuity trusts and records the assets at fair value and the related liabilities at the discounted present value of the estimated future cash flows. The discount rate used by the Organization to calculate the present value of the estimated future payments at June 30, 2015 and 2014, was 2.0% and 2.2%, the IRC Section 7520 charitable federal midterm rates respectively. The actuarial assumptions used in calculating the present value include the life expectancy of the beneficiaries, the weighted average of which was 8.3 and 8.1 years, respectively, at June 30, 2015 and 2014. These trusts are included in beneficial interests in charitable remainder annuity trusts in the accompanying consolidated statements of financial position at June 30, 2015 and 2014, in amounts of $858,839 and $902,239, respectively. The present value of the estimated future payments to beneficiaries at June 30, 2015 and 2014, is $404,722 and $394,453, respectively, included in liabilities on the accompanying consolidated statements of financial position.

F. Charitable Remainder Annuity Trusts – continued

On an annual basis, the Organization revalues the liabilities to make distributions to the designated beneficiaries based on life expectancy and the discount rate based on the IRC Section 7520. These revaluations are reflected in the consolidated statement of activities as change in the value of split-interest agreements.

G. Charitable Gift Annuities

The Organization receives charitable gift annuities from time to time. Under charitable gift annuities donors transfer assets to beneficiaries in exchange for a promise to pay an annuity to the donor. The Organization records the assets at fair value and the related liabilities at the discounted present value of the estimated future cash flows. The discount rate used by the Organization to calculate the present value of the estimated future payments at June 30, 2015 and 2014, was 2.0% and 2.2%, the IRC Section 7520 charitable federal midterm rates respectively. The actuarial assumptions used in calculating the present value include the life expectancy of the beneficiaries, the weighted average of which was 8.5 and 8.8 years at June 30, 2015 and 2014, respectively. Charitable gift annuity assets are held as general assets and are available for unrestricted use. The related liabilities at June 30, 2015 and 2014, were $976,378 and $1,015,486, respectively.

H. Property and Equipment

Property and equipment consisted of the following at June 30:

	2015	2014
Land	$ 1,275,524	$ 1,275,524
Buildings and improvements	17,603,711	17,607,329
Furniture and fixtures	232,371	232,371
Automotive equipment	1,311,384	1,324,379
Construction in progress	304,456	-
Other equipment	2,547,705	2,541,660
	23,275,151	22,981,263
Less accumulated depreciation	11,888,835	11,200,855
	$ 11,386,316	$ 11,780,408

I. Temporarily Restricted Net Assets

Temporarily restricted net assets are gifts which are received for the donor specified purpose of funding specific projects, such as construction, major repairs, equipment purchases, and unexpected needs. Earnings from these funds may be used to supplement the specific project authorized by the board of directors. Activity in temporarily restricted net assets is reflected in the temporarily restricted net assets column of the statement of changes in net assets for the years ended June 30, 2015 and 2014.

All temporarily restricted net assets as of June 30, 2014 and 2013, are for capital projects.

J. Notes Payable

On March 21, 2014, the Company entered into two loan agreements with Texas Heritage Bank, each for approximately $46,000. Each loan bears interest at 6% and specifies monthly principal and interest payments beginning April 20, 2014. Unpaid principal and interest are due upon maturity on March 20, 2017. The balance outstanding as of June 30, 2015 and 2014, was approximately $28,000 each and $45,000 each, respectively.

On April 29, 2014, the Company entered into a third loan agreement with Texas Heritage Bank, for approximately $33,000. The loan bears interest at 6% and specifies monthly principal and interest payments beginning May 29, 2014. Unpaid principal and interest are due upon maturity on April 29, 2017. The balance outstanding as of June 30, 2015 and 2014, was approximately $21,000 and $31,000, respectively.

As of June 30, 2015, future maturities of the remaining notes payable are approximately as follows:

2016	$ 45,630
2017	30,310
Thereafter	-
	$ 75,940

K. Commitments and Contingencies

The Organization leases equipment under non-cancelable operating leases that expire in various years through 2018. Rent expense for each of the years ended June 30, 2015 and 2014, was approximately $120,000.

K. Commitments and Contingencies – continued

Future minimum lease payments consist of the following at June 30, 2015:

2016	$ 114,824
2017	114,824
2018	33,574
2019	9,576
Thereafter	-
	$ 272,798

From time to time, the Organization is involved in various lawsuits and claims arising in the normal course of business. In management's opinion, the ultimate outcome of these items will not have a material adverse effect on the Organization's consolidated financial position and results of activities.

L. Endowment Fund

As of June 30, 2015 and 2014, the Organization has a donor-restricted endowment fund which provides for operations of the Organization. This endowment fund is classified within permanently restricted net assets on the accompanying statements of financial position. The Organization does not have any board-designated endowments.

The Organization's management has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment fund absent explicit donor stipulations to the contrary. Accordingly, the Organization classifies the original value of all endowment gifts as permanently restricted net assets. Accumulated net earnings on endowment funds are classified as temporarily restricted net assets until those amounts are appropriated for expenditure in accordance with any applicable donor designations and in a manner consistent with the standard of prudence prescribed by the UPMIFA. The Organization had no accumulated earnings on the endowment fund for the years ended June 30, 2015 and 2014, as all earnings had been appropriated for operations.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund,
- The purposes of the organization and the donor-restricted endowment fund,
- General economic conditions,
- The possible effect of inflation and deflation,

L. Endowment Fund – continued

- The expected total return from income and the appreciation of investments,
- Other resources of the Organization, and
- The investment policies of the Organization.

The Organization's primary investment objectives are growth with income and preservation of capital. Management defines risk as the probability of not meeting these objectives. Accordingly, endowment assets are invested in a manner that is intended to minimize risk.

The Organization has a policy of appropriating for distribution each year a maximum of 5% on its average balance on endowment fund principal at the end of the previous three fiscal years. Any deficiencies in the actual rate above 5% will be advanced by the Organization's unrestricted net assets. Future earnings on endowments will be used to repay the advances from the unrestricted funds.

Changes in endowment net assets for the years ended June 30, 2014 and 2013, are as follows:

Endowment net assets at June 30, 2013	$ 1,136,751
Investment income, net	22,628
Net appreciation	153,248
Amount appropriated for expenditure	(175,876)
Endowment net assets at June 30, 2014	1,136,751
Investment income, net	15,665
Net appreciation	17,434
Amount appropriated for expenditure	(33,099)
Endowment net assets, end of year	$ 1,136,751

M. Retirement Plans

The Organization adopted a 401(k) plan effective December 15, 2007, which covers substantially all of its employees. Once eligibility requirements are met, employees may voluntarily contribute a percentage of their gross salaries into the plan. The Organization may make a discretionary matching contribution of up to 7% of gross salary. Employees are vested in matching funds after five years of service. Retirement plan expense for the years ended June 30, 2015 and 2014, totaled approximately $157,000 and $115,000, respectively.

M. Retirement Plans – continued

During the year ended June 30, 1997, a deferred compensation plan under Section 457 of the IRC was adopted for another key employee, which allows for monthly payments of $2,644 commencing February 2009. This plan was subsequently adjusted as of January 1, 2006. The present value of this liability, calculated to be approximately $215,000 and $233,000 at June 30, 2015 and 2014, respectively, is reported in the consolidated statements of financial position as part of the deferred compensation liability.

N. Related Party Transactions

A member of the Board of Directors administers the health plan and life insurance for all of the Organization's employees and dependents.

The spouse of a board member is employed by the Organization in a marketing and development function and reports to the Chief Executive Officer.

The Organization has and may continue to purchase vehicles from an auto dealership of a Director.

The Organization has and may continue to use the legal services of a Director's legal firm.

O. Subsequent Events

In preparing the consolidated financial statements, the Organization has evaluated all subsequent events and transactions for potential recognition or disclosure through December 23, 2015, the date the consolidated financial statements were available for issuance.