

Nebraska Children and Families Foundation

Independent Auditor's Report and Financial Statements

December 31, 2015 and 2014



Nebraska Children and Families Foundation

December 31, 2015 and 2014

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Independent Auditor's Report

Board of Directors
Nebraska Children and
Families Foundation
Lincoln, Nebraska

We have audited the accompanying financial statements of Nebraska Children and Families Foundation, which comprise the statements of financial position as of December 31, 2015 and 2014, and the related 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 financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nebraska Children and Families Foundation as of December 31, 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.

BKD, LLP

Lincoln, Nebraska
May 26, 2016

Nebraska Children and Families Foundation

Statements of Financial Position

December 31, 2015 and 2014

	2015	2014
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,058,145	\$ 2,535,362
Certificates of deposit	2,252,421	2,271,248
Grants receivable	1,960,866	2,745,647
Contributions and pledges receivable, net	301,500	703,500
Prepaid expenses and other assets	85,947	113,995
Total current assets	6,658,879	8,369,752
Investments and Other Assets		
Long-term contributions receivable, net	296,334	983,229
Investments	24,009,759	23,188,523
	24,306,093	24,171,752
Property and Equipment, Net	207,539	272,333
Total assets	\$ 31,172,511	\$ 32,813,837
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 755,535	\$ 138,510
Accrued expenses	168,808	128,285
Unearned grant revenue	759,199	832,512
Total current liabilities	1,683,542	1,099,307
Contract Payable	519	5,475
Net Assets		
Unrestricted	10,758	361,301
Temporarily restricted	9,478,849	11,413,501
Permanently restricted	19,998,843	19,934,253
Total net assets	29,488,450	31,709,055
Total liabilities and net assets	\$ 31,172,511	\$ 32,813,837

Nebraska Children and Families Foundation

Statements of Activities

Years Ended December 31, 2015 and 2014

	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support								
Federal and state grants	\$ 4,136,146	\$ -	\$ -	\$ 4,136,146	\$ 3,762,723	\$ -	\$ -	\$ 3,762,723
Other agency grants	150,000	5,527,696	-	5,677,696	348,212	7,146,921	-	7,495,133
Investment return	6,992	(419,001)	-	(412,009)	6,982	909,172	-	916,154
Contributions and donations	254,019	-	64,590	318,609	273,291	-	66,681	339,972
Other income	-	-	-	-	19,456	-	-	19,456
Net assets released from restrictions	7,043,347	(7,043,347)	-	-	7,623,113	(7,623,113)	-	-
Total revenues, gains and other support	11,590,504	(1,934,652)	64,590	9,720,442	12,033,777	432,980	66,681	12,533,438
Expenses								
Children and family programs	10,470,624	-	-	10,470,624	10,816,617	-	-	10,816,617
Administrative	1,003,031	-	-	1,003,031	1,115,838	-	-	1,115,838
Fundraising	467,392	-	-	467,392	353,444	-	-	353,444
Total expenses	11,941,047	-	-	11,941,047	12,285,899	-	-	12,285,899
Change in Net Assets	(350,543)	(1,934,652)	64,590	(2,220,605)	(252,122)	432,980	66,681	247,539
Net Assets, Beginning of Year	361,301	11,413,501	19,934,253	31,709,055	613,423	10,980,521	19,867,572	31,461,516
Net Assets, End of Year	\$ 10,758	\$ 9,478,849	\$ 19,998,843	\$ 29,488,450	\$ 361,301	\$ 11,413,501	\$ 19,934,253	\$ 31,709,055

Nebraska Children and Families Foundation

Statements of Cash Flows

Years Ended December 31, 2015 and 2014

	2015	2014
Operating Activities		
Change in net assets	\$ (2,220,605)	\$ 247,539
Items not requiring (providing) operating activities cash flows		
Depreciation	96,342	68,854
Contributions restricted for investment in endowment	(64,590)	(66,681)
Loss on disposal of property and equipment	-	3,160
Net realized and unrealized losses on investments	1,450,007	21,715
Changes in		
Grants receivable	784,781	1,300,748
Contributions and pledges receivable	1,088,895	883,319
Prepaid expenses and other assets	28,048	(51,924)
Accounts payable and accrued expenses	657,548	(395,582)
Unearned grant and contribution revenue	(73,313)	(838,227)
Net cash provided by operating activities	<u>1,747,113</u>	<u>1,172,921</u>
Investing Activities		
Proceeds from maturity of certificates of deposit	3,524,733	2,619,160
Purchase of certificates of deposit	(3,505,906)	(2,506,395)
Purchase of investments	(3,124,015)	(8,730,703)
Proceeds from sale of investments	852,772	7,000,000
Purchase of property and equipment	(31,548)	(168,461)
Net cash used in investing activities	<u>(2,283,964)</u>	<u>(1,786,399)</u>
Financing Activities		
Contributions restricted for investment in endowment	64,590	66,681
Payments on contract payable	(4,956)	(9,336)
Net cash provided by financing activities	<u>59,634</u>	<u>57,345</u>
Decrease in Cash and Cash Equivalents	<u>(477,217)</u>	<u>(556,133)</u>
Cash and Cash Equivalents, Beginning of Year	<u>2,535,362</u>	<u>3,091,495</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 2,058,145</u></u>	<u><u>\$ 2,535,362</u></u>

Nebraska Children and Families Foundation

Notes to Financial Statements

December 31, 2015 and 2014

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Nebraska Children and Families Foundation (the “Foundation”) is a non-profit organization whose mission and principal activities are focused on supporting programs and initiatives that are designed to benefit communities, families and children. The Foundation provides support through an integrated system of grant making, programs, technical assistance, education and advocacy in the State of Nebraska. The Foundation’s programs are designed to support children and their families in the following areas: Early Childhood Care and Education, Prevention of Child Abuse, Prevention of Entry into the Child Welfare System, Promoting School Success/Prevention of Truancy and Transitioning to Adulthood. The Foundation’s operations are funded through federal and state grants, other agency grants, contributions and donations.

The Foundation also administers the Early Childhood Education Private Endowment Fund (the “Endowment Fund”). The Nebraska Early Childhood Education Endowment, consisting of the Endowment Fund and the Early Childhood Endowment Cash Fund (the “Cash Fund”) which is separately maintained by the State of Nebraska, was established as a result of the passage of Neb. Rev. Stat. 79-1104 by the Nebraska Legislature. In 2006, the State of Nebraska Department of Education awarded the contract for administration and development of the private fund of Neb. Rev. Stat. 79-1104 to the Foundation. As a result, the Foundation established the Endowment Fund, also known as Sixpence Early Learning Fund, for fundraising and development purposes. The Foundation’s financial statements include the activities of the Endowment Fund which consist of contributions restricted for private endowment activities, earnings on private endowment fund investments and expenses including administration and program expenses.

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, expenses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2015 and 2014, cash equivalents consisted primarily of a short term trust account with a bank.

Nebraska Children and Families Foundation

Notes to Financial Statements

December 31, 2015 and 2014

Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other 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

Property and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight line method over the estimated useful life of each asset. Assets under leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Furniture and equipment	3 – 10 Years
Leasehold improvements	5 – 10 Years

Long-lived Asset Impairment

The Foundation evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2015 and 2014.

Nebraska Children and Families Foundation

Notes to Financial Statements

December 31, 2015 and 2014

Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Foundation has been limited by donors or by law to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity.

Grants

The Foundation is the recipient of federal and state grants to fund its primary programs. Government grants are recorded as revenue when the related approved expenditures are made. Federal and state grant receivables are stated at the amount by which program expenditures are yet to be reimbursed. Unearned grant revenue is recorded to the extent grant receipts exceed approved expenditures or certain grant conditions have not been met. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted net assets. When a donor stipulated time restriction ends or 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. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as unrestricted revenue and net assets.

Donations of property and equipment are recorded as unrestricted revenue and net assets at their estimated value, unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations for the time property and equipment must be held, expirations of restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the property and equipment are placed in service.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Conditional promises to give depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

Nebraska Children and Families Foundation

Notes to Financial Statements

December 31, 2015 and 2014

Note 1: Nature of Operations and Summary of Significant Accounting Policies - Continued

In-kind Contributions

In addition to receiving cash contributions, the Foundation receives in-kind contributions of services and rent from various donors. It is the policy of the Foundation to record the estimated fair value of certain in-kind donations as an expense in its financial statements and similarly increase contribution revenue by a like amount. There were no in-kind contributions for the year ended December 31, 2015. For the year ended December 31, 2014, approximately \$128,000 was received as in-kind contributions.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement of activities. Certain costs of the Foundation have been allocated among the program, management and general and fund raising categories based on estimates of benefits derived from the expense.

Income Taxes

The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

The Foundation files tax returns in the U.S. federal jurisdiction. With a few exceptions, the Foundation is no longer subject to U.S. federal examinations by tax authorities for years before 2012.

Note 2: Grants Receivable

Grants receivable at December 31 consisted of the following:

	2015	2014
Private grants receivable due in less than one year	\$ 1,009,659	\$ 2,242,309
Federal and state grant reimbursements	951,207	503,338
	<u>\$ 1,960,866</u>	<u>\$ 2,745,647</u>

Nebraska Children and Families Foundation

Notes to Financial Statements

December 31, 2015 and 2014

Note 3: Contributions and Pledges Receivable

Receivables at December 31 consisted of the following:

	2015	2014
Contributions - permanently restricted		
Due within one year	\$ 300,000	\$ 700,000
Due within one to five years	298,515	1,000,000
	598,515	1,700,000
Less unamortized discount	2,181	16,771
	596,334	1,683,229
Pledges - temporarily restricted	1,500	3,500
	\$ 597,834	\$ 1,686,729

Pledges receivable are expected to be collected within one year.

There were no new unpaid long-term contributions made during 2015 or 2014.

Note 4: Conditional Gifts

The Foundation had received a conditional promise to give of \$50,000 at December 31, 2014, that was not recognized in the financial statements as of December 31, 2014. The promise was in support of the Endowment Fund and was conditioned upon continued private sector representation on the Endowment Fund's Board of Trustees at the time of payment as well as the existence of the Cash Fund maintained by the State of Nebraska. During 2015, the Foundation received and recorded \$50,000 of contribution revenue related to this promise.

The Foundation entered into a Social Innovation Fund (SIF) grant award agreement with the Corporation for National and Community Service (CNCS) in July 2015. The SIF grant covers a five year period ending on July 31, 2020. As of December 31, 2015, the Foundation has been awarded \$1,000,000 annually for years one and two of the grant period. Additional grant monies are conditional on CNCS's evaluation of the Foundation during the initial two year period.

The Foundation has received two conditional grants as of December 31, 2015, to allow the Foundation to meet its 1:1 new cash match stipulation in its SIF grant award agreement. The conditional grants provide funding up to \$1,000,000 per year beginning in 2015 for up to five years ending in 2020. These grants are conditioned upon several factors including compliance with regulations of the federal SIF grant. As of December 31, 2015, the Foundation has received and recorded as unearned revenue \$350,000 for year one for one of the conditional five year grants.

Nebraska Children and Families Foundation

Notes to Financial Statements

December 31, 2015 and 2014

Note 5: Investments and Investment Return

Investments at December 31, 2015 and 2014 consisted of the following:

	2015	2014
Money market fund	\$ 676,759	\$ 59,550
Balanced mutual fund	14,840,092	15,007,201
Equity securities		
Energy	150,965	176,976
Consumer discretionary	227,600	262,070
Consumer staples	95,682	89,704
Healthcare	398,139	421,486
Financial services	239,301	331,856
Industrials	382,571	279,171
Technology	440,037	395,714
Utilities	101,552	48,772
Real estate	57,976	57,531
Exchange traded funds		
Small value	88,892	-
Small blend	409,368	300,633
Medium growth	598,260	573,893
Large blend	456,127	369,299
Large growth	975	-
Mutual funds		
Fixed income	756,994	486,835
Small value	164,983	260,174
Small blend	303,513	316,628
Medium blend	661,230	631,740
Medium growth	231,552	229,486
Large value	725,623	1,433,306
Large blend	1,604,987	859,945
Large growth	396,581	596,553
	<u>\$ 24,009,759</u>	<u>\$ 23,188,523</u>

Nebraska Children and Families Foundation

Notes to Financial Statements

December 31, 2015 and 2014

Note 5: Investments and Investment Return - Continued

Total investment return is comprised of the following:

	2015	2014
Interest and dividend income	\$ 1,037,998	\$ 937,869
Net realized and unrealized losses on investments reported at fair value	(1,450,007)	(21,715)
	<u>\$ (412,009)</u>	<u>\$ 916,154</u>

Fair Value of Investments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Nebraska Children and Families Foundation

Notes to Financial Statements

December 31, 2015 and 2014

Note 5: Investments and Investment Return - Continued

Recurring Measurements

The following table presents the fair value measurements of investments recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2015 and 2014.

	2015		2014	
	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)		Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	
	Fair Value		Fair Value	
Money market fund	\$ 676,759	\$ 676,759	\$ 59,550	\$ 59,550
Balanced mutual fund	14,840,092	14,840,092	15,007,201	15,007,201
Equity securities				
Energy	150,965	150,965	176,976	176,976
Consumer discretionary	227,600	227,600	262,070	262,070
Consumer staples	95,682	95,682	89,704	89,704
Healthcare	398,139	398,139	421,486	421,486
Financial services	239,301	239,301	331,856	331,856
Industrials	382,571	382,571	279,171	279,171
Technology	440,037	440,037	395,714	395,714
Utilities	101,552	101,552	48,772	48,772
Real estate	57,976	57,976	57,531	57,531
Exchange traded funds				
Small value	88,892	88,892	-	-
Small blend	409,368	409,368	300,633	300,633
Medium growth	598,260	598,260	573,893	573,893
Large blend	456,127	456,127	369,299	369,299
Large growth	975	975	-	-
Mutual funds				
Fixed income	756,994	756,994	486,835	486,835
Small value	164,983	164,983	260,174	260,174
Small blend	303,513	303,513	316,628	316,628
Medium blend	661,230	661,230	631,740	631,740
Medium growth	231,552	231,552	229,486	229,486
Large value	725,623	725,623	1,433,306	1,433,306
Large blend	1,604,987	1,604,987	859,945	859,945
Large growth	396,581	396,581	596,553	596,553
Total investments	<u>\$ 24,009,759</u>	<u>\$ 24,009,759</u>	<u>\$ 23,188,523</u>	<u>\$ 23,188,523</u>

Nebraska Children and Families Foundation

Notes to Financial Statements

December 31, 2015 and 2014

Note 5: Investments and Investment Return - Continued

Following is a description of the valuation methodologies and inputs used for investments measured at fair value on a recurring basis and recognized in the accompanying statements of financial position. There have been no significant changes in valuation techniques during the year ended December 31, 2015.

Money Market, Exchange Traded and Mutual Funds

Money market, exchange traded and mutual funds are valued at the net asset value (NAV) of shares held by the Foundation at year-end. The funds are classified within Level 1 of the fair value hierarchy.

Equity Securities

Equity securities consist of common stocks, which are stated at fair value. Securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the year; investments traded in the over-the-counter market and listed securities for which no sale was reported on that date are valued at the average of the last reported bid and ask prices. Equity securities are classified within Level 1 of the fair value hierarchy.

Note 6: Property and Equipment

Property and equipment at December 31 consists of:

	2015	2014
Furniture and equipment	\$ 606,512	\$ 591,782
Leasehold improvements	93,090	93,090
	699,602	684,872
Less accumulated depreciation	492,063	412,539
	<u>\$ 207,539</u>	<u>\$ 272,333</u>

Nebraska Children and Families Foundation

Notes to Financial Statements

December 31, 2015 and 2014

Note 7: Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31 are available for the following purposes or periods:

	2015	2014
Children and family program expenses	\$ 8,644,163	\$ 9,330,301
For periods after December 31	834,686	2,083,200
	<u>\$ 9,478,849</u>	<u>\$ 11,413,501</u>

Permanently Restricted Net Assets

As of December 31, 2015 and 2014, the Foundation had \$19,998,843 and \$19,934,253, respectively, of permanently restricted net assets (of which \$596,334 and \$1,683,229 at December 31, 2015 and 2014, respectively, is reflected in contributions receivable) in its Endowment Fund. Income from the Endowment Fund is expendable to support Nebraska Early Childhood Education Endowment program activities and administration.

Net Assets Released From Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors.

	2015	2014
Children and family program expenses	<u>\$ 7,043,347</u>	<u>\$ 7,623,113</u>

Note 8: Endowment

Interpretations of State Laws

The Foundation's endowment consists of one individual donor-restricted fund established for the Foundation's Early Childhood Education Private Endowment Fund. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Nebraska Children and Families Foundation

Notes to Financial Statements

December 31, 2015 and 2014

Note 8: Endowment - Continued

Interpretations of State Laws - Continued

The Foundation's governing body has interpreted the State of Nebraska Prudent Management of Institutional Funds Act (SPMIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment and accumulations to the permanent endowment made in accordance with the understanding of donor directions. The remaining portion of the donor-restricted endowment fund is classified as temporarily restricted net assets until these amounts are appropriated for expenditure by the Foundation in a manner consistent with the standards of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Foundation and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Foundation
7. Investment policies of the Foundation

Investment and Spending Policies

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the Foundation must hold in perpetuity. Under the Foundation's policies, endowment assets are invested in a manner that is intended to produce results that maximize both cash and capital gain income while assuming an acceptable level of investment risk.

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Foundation 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.

The Foundation's endowment spending policy requires distribution of earnings as defined by applicable state law. Earnings consist of interest, dividends and realized appreciation, net of reasonable administration fees. In accordance with state law, distributions of the earnings are to be deposited into the Early Childhood Education Endowment Cash Fund.

Nebraska Children and Families Foundation

Notes to Financial Statements

December 31, 2015 and 2014

Note 8: Endowment - Continued

Composition of and Changes in Endowment Net Assets

The composition of net assets of the Foundation's donor-restricted endowment fund at December 31, 2015 and 2014 was:

	2015	2014
Temporarily restricted	\$ 4,054,939	\$ 5,058,940
Permanently restricted	19,998,843	19,934,253
	<u>\$ 24,053,782</u>	<u>\$ 24,993,193</u>

Changes in endowment net assets for the years ended December 31, 2015 and 2014 were:

	2015	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year		\$ -	\$ 5,058,940	\$ 19,934,253	\$ 24,993,193
Investment return					
Investment income		-	1,031,006	-	1,031,006
Net depreciation		-	(1,450,007)	-	(1,450,007)
Total investment return		-	(419,001)	-	(419,001)
Contributions		-	-	64,590	64,590
Appropriation of endowment assets for expenditure		-	(585,000)	-	(585,000)
Endowment net assets, end of year		<u>\$ -</u>	<u>\$ 4,054,939</u>	<u>\$ 19,998,843</u>	<u>\$ 24,053,782</u>
	2014				
Endowment net assets, beginning of year		\$ -	\$ 4,184,768	\$ 19,867,572	\$ 24,052,340
Investment return					
Investment income		-	930,887	-	930,887
Net appreciation		-	(21,715)	-	(21,715)
Total investment return		-	909,172	-	909,172
Contributions		-	-	66,681	66,681
Appropriation of endowment assets for expenditure		-	(35,000)	-	(35,000)
Endowment net assets, end of year		<u>\$ -</u>	<u>\$ 5,058,940</u>	<u>\$ 19,934,253</u>	<u>\$ 24,993,193</u>

Nebraska Children and Families Foundation

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Note 8: Endowment - Continued

Composition of and Changes in Endowment Net Assets - Continued

Permanently restricted net assets at December 31, 2015 and 2014 consisted of perpetual endowment funds required to be retained permanently by explicit donor stipulation or SPMIFA.

Note 9: Leases

Operating

Non-cancellable operating leases for office space expire in various years through 2025. Rental expense totaled approximately \$204,000 and \$191,000 for the years ended December 31, 2015 and 2014, respectively.

Future minimum lease payments at December 31, 2015 were:

2016	\$ 201,207
2017	150,594
2018	103,171
2019	103,171
2020	105,224
Thereafter	538,603
	<u>\$ 1,201,970</u>

Note 10: Defined Contribution Plan

The Foundation has a defined contribution pension plan covering substantially all employees. The Board of Directors annually determines the amount of the Foundation's contributions to the plan. Pension expense was approximately \$150,000 and \$176,000 for 2015 and 2014, respectively.

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Note 11: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Grant Funding

The Foundation receives a significant amount of its revenues from federal and state grants. These grants are obtained on an annual basis, and not receiving one or more of these grants would have a material effect on the Foundation. Federal financial assistance programs are subject to financial and compliance audits. The amount of expenditures, if any, which may be disallowed by the granting agencies is not determinable at this time; however, the Foundation does not believe that such amounts would be significant.

Approximately 46% and 61% of the Foundation's other agency grants revenue was received from entities under common influence in 2015 and 2014, respectively. For the years ended December 31, 2015 and 2014, approximately 80% and 86%, respectively, of the Foundation's other agency revenues were from three and four donors (two and three donors at December 31, 2015 and 2014, respectively, were entities under common influence). As of December 31, 2015 and 2014, approximately 69% and 86%, respectively, of the Foundation's grants receivable were from two and four donors.

Investments

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying statements of financial position.

As of December 31, 2015 and 2014, approximately 62% and 65%, respectively, of the Foundation's investments were held in a balanced mutual fund and the remaining Foundation investments were held in various equity and mutual fund securities at one brokerage firm.

Contributions

Contributions receivable were primarily from one and two donors in support of the Endowment Fund (See Notes 7 and 8), as of December 31, 2015 and 2014. Approximately 14% and 56% of contribution revenue in 2015 and 2014, respectively, was from one and two donors. Substantially all permanently restricted contributions were received from one donor in 2015 and 2014.

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Note 12: Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.