

CHILDREN'S ADVOCACY CENTERS OF TEXAS, INC.

FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT
AND STATE COMPLIANCE SECTION

YEARS ENDED AUGUST 31, 2013 and 2012

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Children's Advocacy Centers of Texas, Inc.
Austin, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Children's Advocacy Centers of Texas, Inc. (a non-profit corporation), which comprise the statements of financial position as of August 31, 2013 and 2012, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Children's Advocacy Centers of Texas, Inc. as of August 31, 2013 and 2012, 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of state and federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and State of Texas Single Audit Circular, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2013, on our consideration of Children's Advocacy Centers of Texas, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Children's Advocacy Centers of Texas, Inc.'s internal control over financial reporting and compliance.

Dindler, Chappell, Morrison & Co., P.C.

Austin, Texas
December 13, 2013

BASIC FINANCIAL STATEMENTS

CHILDREN'S ADVOCACY CENTERS OF TEXAS, INC.

STATEMENTS OF FINANCIAL POSITION

August 31, 2013 and 2012

	2013	2012
ASSETS		
Current assets		
Cash and cash equivalents	\$ 387,930	\$ 742,815
Accounts receivable		
Grants and contracts	871,356	997,913
Other receivable	4,296	11,203
Inventory	9,468	-
Prepays and other	21,142	18,585
Total current assets	1,294,192	1,770,516
Investments		
Designated	1,082,520	581,687
Restricted	6,147,433	5,601,775
	7,229,953	6,183,462
Fixed assets		
Land	511,200	511,200
Buildings	1,298,963	1,298,963
Furniture and equipment	404,885	140,655
Less accumulated depreciation and amortization	(416,459)	(356,854)
Net fixed assets	1,798,589	1,593,964
Total assets	\$ 10,322,734	\$ 9,547,942
 LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable		
Trade	\$ 40,920	\$ 61,470
Local advocacy centers	615,656	765,842
Accrued expenses	87,438	1,919
Deferred revenue	121,860	117,445
Accrued vacation payable	59,898	33,172
Total current liabilities	925,772	979,848
Commitments - operating leases (note 5)		
Total liabilities	925,772	979,848
Net assets		
Unrestricted net assets		
Available for general operations	240,186	602,899
Board designated	1,082,520	581,687
Investment in fixed assets	1,798,589	1,593,964
Total unrestricted net assets	3,121,295	2,778,550
Temporarily restricted net assets	1,275,667	789,544
Permanently restricted net assets	5,000,000	5,000,000
Total net assets	9,396,962	8,568,094
Total liabilities and net assets	\$ 10,322,734	\$ 9,547,942

See accompanying Notes to Basic Financial Statements.

CHILDREN'S ADVOCACY CENTERS OF TEXAS, INC.

STATEMENTS OF ACTIVITIES

Years Ended August 31, 2013 and 2012

	2013			
	Current Operating Funds			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND OTHER SUPPORT				
Grants and contracts	\$ -	\$ 8,949,332	\$ -	\$ 8,949,332
Membership dues	89,800	-	-	89,800
Contributions	202,734	-	-	202,734
Fund raising events	62,215	-	-	62,215
Program service fees	156,736	-	-	156,736
Other revenues	57,029	-	-	57,029
Investment income	844	758,380	-	759,224
Net assets released from donor restrictions	9,221,589	(9,221,589)	-	-
Total revenues and other support	9,790,947	486,123	-	10,277,070
EXPENSES				
Program services	8,903,362	-	-	8,903,362
Management and general	384,415	-	-	384,415
Fund raising	160,425	-	-	160,425
Total expenses	9,448,202	-	-	9,448,202
CHANGE IN NET ASSETS (decrease)	342,745	486,123	-	828,868
NET ASSETS				
Beginning of year	2,778,550	789,544	5,000,000	8,568,094
End of year	\$ 3,121,295	\$ 1,275,667	\$ 5,000,000	\$ 9,396,962

See accompanying Notes to Basic Financial Statements.

CHILDREN'S ADVOCACY CENTERS OF TEXAS, INC.

STATEMENTS OF ACTIVITIES - continued

Years Ended August 31, 2013 and 2012

	2012			
	Current Operating Funds		Permanently Restricted	Total
	Unrestricted	Temporarily Restricted		
REVENUES AND OTHER SUPPORT				
Grants and contracts	\$ -	\$ 8,723,060	\$ -	\$ 8,723,060
Membership dues	88,350	-	-	88,350
Contributions	2,800	-	-	2,800
Fund raising events	232,719	-	-	232,719
Program service fees	175,630	-	-	175,630
Other revenues	55,620	-	-	55,620
Investment income	3,628	281,513	-	285,141
Net assets released from donor restrictions	8,668,791	(8,668,791)	-	-
Total revenues and other support	9,227,538	335,782	-	9,563,320
EXPENSES				
Program services	8,524,529	-	-	8,524,529
Management and general	445,108	-	-	445,108
Fund raising	128,604	-	-	128,604
Total expenses	9,098,241	-	-	9,098,241
CHANGE IN NET ASSETS (decrease)	129,297	335,782	-	465,079
NET ASSETS				
Beginning of year	2,649,253	453,762	5,000,000	8,103,015
End of year	\$ 2,778,550	\$ 789,544	\$ 5,000,000	\$ 8,568,094

See accompanying Notes to Basic Financial Statements.

CHILDREN'S ADVOCACY CENTERS OF TEXAS, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended August 31, 2013 and 2012

	2013			
	Program Services	Management & General	Fund Raising	Total
EXPENSES				
Salaries	\$ 720,110	\$ 218,449	\$ 38,504	\$ 977,063
Employee Benefits	77,192	23,416	4,127	104,735
Payroll taxes	55,054	16,701	2,944	74,699
Total personnel	852,356	258,566	45,575	1,156,497
Purchases of services - payments to local advocacy centers	7,195,493	-	-	7,195,493
Professional fees	324,237	32,384	81,159	437,780
Travel and site visits	118,812	14,588	2,728	136,128
Occupancy	67,345	20,429	3,601	91,375
Printing	59,806	12,826	10,879	83,511
Training and conferences	62,404	5,959	8,973	77,336
Depreciation	43,930	13,326	2,349	59,605
Case tracking system	51,249	-	-	51,249
Equipment and software	34,186	10,370	1,828	46,384
Other grant funded expenses	34,324	-	-	34,324
Supplies	15,332	9,033	845	25,210
Media outreach	22,840	-	-	22,840
Staff development	11,690	3,340	387	15,417
Postage and delivery	5,297	2,030	260	7,587
Other	4,061	1,564	1,841	7,466
	\$ 8,903,362	\$ 384,415	\$ 160,425	\$ 9,448,202
Total expenses	\$ 8,903,362	\$ 384,415	\$ 160,425	\$ 9,448,202

See accompanying Notes to Basic Financial Statements.

CHILDREN'S ADVOCACY CENTERS OF TEXAS, INC.

STATEMENTS OF FUNCTIONAL EXPENSES - continued

Years Ended August 31, 2013 and 2012

	2012			
	Program Services	Management & General	Fund Raising	Total
EXPENSES				
Salaries	\$ 649,540	\$ 223,816	\$ 13,303	\$ 886,659
Employee Benefits	94,546	32,578	1,937	129,061
Payroll taxes	54,855	18,902	1,123	74,880
Total personnel	798,941	275,296	16,363	1,090,600
Purchases of services - payments to local advocacy centers	7,078,357	-	-	7,078,357
Professional fees	216,096	37,796	75,050	328,942
Travel and site visits	110,343	28,784	743	139,870
Training and conferences	77,472	6,678	20,438	104,588
Occupancy	70,035	24,133	1,435	95,603
Case tracking system	59,505	-	-	59,505
Printing	38,976	10,242	8,883	58,101
Depreciation	37,705	12,993	772	51,470
Equipment and software	18,021	24,418	158	42,597
Supplies	11,678	6,867	2,598	21,143
Staff development	3,159	9,038	354	12,551
Other	1,385	7,141	-	8,526
Postage and delivery	2,856	1,722	1,810	6,388
Total expenses	\$ 8,524,529	\$ 445,108	\$ 128,604	\$ 9,098,241

See accompanying Notes to Basic Financial Statements.

CHILDREN'S ADVOCACY CENTERS OF TEXAS, INC.

STATEMENTS OF CASH FLOWS

Years Ended August 31, 2013 and 2012

	2013	2012
CASH FLOWS PROVIDED BY (USED BY) OPERATING ACTIVITIES		
Change in net assets (decrease)	828,868	\$ 465,079
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	59,605	51,471
Unrealized and realized (gain) loss on investments	(644,695)	(201,370)
(Increase) decrease in operating assets		
Grants and contracts receivable	126,556	129,973
Accounts receivable - other	6,908	(8,151)
Inventory	(9,468)	-
Prepays and other	(2,556)	(11,807)
Increase (decrease) in operating liabilities		
Accounts payable - trade	(20,550)	36,508
Accounts payable - local advocacy centers	(150,187)	(206,075)
Deferred revenue	4,415	(31,580)
Accrued expenses	85,519	1,919
Accrued vacation payable	26,726	(1,265)
	311,141	224,702
CASH FLOWS PROVIDED BY (USED BY) INVESTING ACTIVITIES		
Purchase of fixed assets	(264,230)	(33,997)
Proceeds from sale of investments	2,531,372	1,601,802
Reinvestment of proceeds and income from investments	(2,933,167)	(1,640,567)
	(666,026)	(72,762)
CASH FLOWS PROVIDED BY (USED BY) FINANCING ACTIVITIES	-	-
NET INCREASE (DECREASE) IN CASH	(354,885)	151,940
CASH		
Beginning of year	742,815	590,875
End of year	\$ 387,930	\$ 742,815
Supplemental Information		
Interest paid	\$ -	\$ -
Taxes paid	\$ -	\$ -

See accompanying Notes to Basic Financial Statements.

CHILDREN'S ADVOCACY CENTERS OF TEXAS, INC.
NOTES TO FINANCIAL STATEMENTS
Years Ended August 31, 2013 and 2012

DESCRIPTION OF THE ORGANIZATION

The Children's Advocacy Centers of Texas, Inc. (the Organization) is a statewide association that promotes the efforts of the local children's advocacy centers by coordinating and providing training, technical assistance, resources and funding. Founded as a Texas non-profit corporation in 1994, the mission of the organization is to restore the lives of abused children by supporting children's advocacy centers in partnership with communities and agencies investigating and prosecuting child abuse. The sources of revenue for the Organization's services come primarily from government grants, which support the efforts of the Organization and its member children's advocacy centers.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Method of accounting: The financial statements have been prepared on the accrual basis method of accounting, which includes recognition of revenues and support and related accounts receivable as the revenue is earned. Expenses and related accounts payable are recognized as the cost is incurred. Revenues received before being earned are reported as deferred revenues. Expenses paid before being incurred are reported as prepaid expenses.

Net asset classes: The Organization reports the following net assets classes.

Permanently restricted net assets The part of the net assets of a not-for-profit organization resulting from contributions whose use by the organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organization are considered permanently restricted net assets. An example of a permanently restricted net asset would be the donation of funds (or other assets) to an organization in which the donor imposed a restriction that the funds not be expended, but that the organization would be permitted to use or expend part or all of the income (or other economic benefit) derived from the donation.

Temporarily restricted net assets Not-for-profit organizations receive contributions and other resources whose use is limited by stipulations that are more specific than the broad limits resulting from the nature and purpose of the organization and its programs. Resources (net assets) with such stipulations that either expire by passage of time or can be fulfilled by actions of the organization are reported as temporarily restricted net assets.

Unrestricted net assets Resources not included in the above categories are reported as unrestricted net assets. While these resources are reported as unrestricted, an organization manages them in compliance with its exempt purposes, board designations, legal requirements, and contractual obligations.

Financial Instruments and fair value measurements: 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. The Organization discloses fair value measurements in accordance with the following hierarchy.

1. Market approach (Level 1) - uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sale transactions, market trades, or other sources.
2. Cost approach (Level 2) - based on the amount that currently would be required to replace the service capacity of an asset (replacement cost).

CHILDREN'S ADVOCACY CENTERS OF TEXAS, INC.
NOTES TO FINANCIAL STATEMENTS
Years Ended August 31, 2013 and 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

3. Income approach (Level 3) - uses valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts (includes present value techniques and option-pricing models). Net present value is an income approach where a stream of expected cash flows is discounted at an appropriate market interest rate.

Changes in fair value of financial instruments and unrealized gains or losses on financial instruments are reported in the statement of activities. Investment income and gains and losses on investments are reported as an increase or decrease in unrestricted net assets unless a donor or law temporarily or permanently restricts their use.

Receivables: Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Organization provides for losses on accounts receivable using the allowance method. The allowance is based on experience and other circumstances which may affect the ability of conference and training participants to meet their obligations. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. At year end no allowance is considered necessary. The allowance for uncollectible accounts is considered an accounting estimate. The estimate may be adjusted as more current information becomes available and any adjustment could be significant.

Fixed assets: Fixed assets are capitalized at cost, if the cost exceeds \$5,000 and the estimated useful life of the asset is more than one year. Donations of fixed assets are recorded as support at their estimated fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as temporarily restricted support. In the absence of such stipulations, contributions of fixed assets are recorded as unrestricted support. Depreciation expense is computed over the estimated useful lives of the fixed assets (generally 3-30 years) using the straight-line method of computation. The Organization uses the direct expensing method to account for planned major maintenance activities.

Included in furniture and equipment is mobile forensic interview equipment totaling \$174,875, which had been purchased but not placed into service at year end. The Organization did not depreciate the equipment for the year ended August 31, 2013.

Concentration: The Organization's funding is concentrated in a few funding sources. A reduction or loss of funding from any of these sources could have a negative impact on the operations of the Organization.

Allocation of costs: The Organization allocates common costs between grants and other funding by a study of the Organization's activities at the start of each grant or contract. The resulting allocations are reviewed periodically, and the allocations revised, if necessary, to reflect changes in the activities of the Organization.

Federal income taxes: The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization believes it is no longer subject to examination by the IRS for years prior to 2009.

Subsequent Events: Subsequent events were evaluated through December 13, 2013 which is the date the financial statements were available to be issued.

CHILDREN'S ADVOCACY CENTERS OF TEXAS, INC.
NOTES TO FINANCIAL STATEMENTS
Years Ended August 31, 2013 and 2012

NOTE 2: CHANGE IN ACCOUNTING PRINCIPLES

Effective January 1, 2012, the Organization changed its method of accounting for the revenue of the NCA chapter grant from reporting pass-through income to the net method. The new method of accounting for these arrangements was adopted when the grant agency requested this method be adopted, which requires that all pass-through income be netted out of income and expenses. Previous to this, the Organization was recording pass-through income to other chapters gross in its revenues and expenses.

NOTE 3: CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

Cash and short-term investments held in a bank money market account are reported as investments instead of cash because the Organization holds those funds in brokerage accounts.

NOTE 4: INVESTMENTS AND INVESTMENT INCOME

All investments have been valued using a market approach. Fair values for investments in Level 2 are calculated using quoted market prices for similar assets in markets that are not active. There were no changes in valuation techniques during the current year.

The Board of Directors reviews and approves the Organization's fair value measurement policies and procedures annually. At least annually, the finance committee and the Board determine if the valuation techniques used in fair value measurements are still appropriate.

Fair value of assets measured on a recurring basis at August 31, 2013 reported in the financial statements are the following:

	Fair Value	In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>August 31, 2013</u>				
Equities securities				
Technology	\$ 468,800	\$ 468,800	\$ -	\$ -
Services	451,688	451,688	-	-
Basic materials	418,506	418,506	-	-
Financial	413,790	413,790	-	-
Healthcare	377,670	377,670	-	-
Industrial goods	328,086	328,086	-	-
Consumer goods	325,253	325,253	-	-
Other	356,277	356,277	-	-
Total equity	<u>3,140,070</u>	<u>3,140,070</u>	<u>-</u>	<u>-</u>
Fixed income				
Corporate Bonds	568,909	-	568,909	-
Municipal Bonds	546,212	-	546,212	-
Agency Securities	246,943	-	246,943	-
Mortgage Pools	18,797	-	18,797	-
Total fixed income	<u>1,380,861</u>	<u>-</u>	<u>1,380,861</u>	<u>-</u>
Mutual funds	338,212	338,212	-	-
Other assets - ETFs and Index Funds	831,095	831,095	-	-
Subtotal	5,690,238	<u>\$ 4,309,377</u>	<u>\$ 1,380,861</u>	<u>\$ -</u>
Cash and cash equivalents	558,951			
Certificates of deposit	980,763			
Total investments	<u><u>\$ 7,229,953</u></u>			

CHILDREN'S ADVOCACY CENTERS OF TEXAS, INC.
NOTES TO FINANCIAL STATEMENTS
Years Ended August 31, 2013 and 2012

NOTE 4: INVESTMENTS AND INVESTMENT INCOME - continued

Fair value of assets measured on a recurring basis at August 31, 2012 reported in the financial statements are the following:

	Fair Value	In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>August 31, 2012</u>				
Equities securities				
Services	\$ 771,061	\$ 771,061	\$ -	\$ -
Basic materials	568,020	568,020	-	-
Technology	412,112	412,112	-	-
Financial	306,484	306,484	-	-
Industrial goods	304,110	304,110	-	-
Healthcare	245,819	245,819	-	-
Consumer goods	244,657	244,657	-	-
Other	250,439	250,439	-	-
Total equity	<u>3,102,702</u>	<u>3,102,702</u>	<u>-</u>	<u>-</u>
Fixed income				
Corporate bonds	682,410	-	682,410	-
Municipal bonds	596,963	-	596,963	-
Agency securities	181,670	-	181,670	-
Mortgage pools	32,113	-	32,113	-
Total fixed income	<u>1,493,156</u>	<u>-</u>	<u>1,493,156</u>	<u>-</u>
Other assets - ETFs and Index Funds				
	492,647	492,647	-	-
Subtotal	5,088,505	<u>\$ 3,595,349</u>	<u>\$ 1,493,156</u>	<u>\$ -</u>
Cash and cash equivalents	515,432			
Certificates of deposit	579,525			
Total investments	<u>\$ 6,183,462</u>			

A summary of return on investments consists of the following for the years ended August 31, 2013 and 2012, respectively:

	<u>2013</u>	<u>2012</u>
Interest income	\$ 147,394	\$ 127,066
Net realized gain	181,389	42,022
Net unrealized gain (loss)	463,306	159,347
Investment fees	(32,876)	(43,302)
Income from investment accounts	759,213	285,133
Interest income on savings account	11	8
Total	<u>\$ 759,224</u>	<u>\$ 285,141</u>

NOTE 5: COMMITMENTS

The Organization is obligated on operating leases for office equipment rentals. These obligations are not reported in the accompanying financial statements. The future minimum obligations on the leases are: 2014-\$15,219; 2015-\$15,219; 2016-\$15,219; 2017-\$2,537; and \$-0- thereafter.

Rental payments under operating leases for the years ended 2013 and 2012 were \$15,219 and \$14,751, respectively.

CHILDREN'S ADVOCACY CENTERS OF TEXAS, INC.
NOTES TO FINANCIAL STATEMENTS
Years Ended August 31, 2013 and 2012

NOTE 6: BOARD DESIGNATED NET ASSETS

The Organization's Board of Directors established reserve funds whereby certain funds were set aside for future use. There is no legal restriction by an outside funder to be treated as such. At August 31, 2013 and 2012, the designated Operating Reserve was \$875,328 and \$375,602 respectively. At August 31, 2013 and 2012 the Building Reserve was \$207,192 and \$206,085 respectively.

NOTE 7: TEMPORARILY RESTRICTED NET ASSETS

During the years ended 2013 and 2012 net assets of \$9,221,589 and \$8,668,791, respectively, were released from accompanying stipulations due to the Organization's action and are reported as transfers from temporarily restricted net assets to unrestricted net assets in the statement of activities.

At year end, the Organization had temporarily restricted net assets for the following purpose:

<u>Funding Source</u>	<u>2013</u>	<u>2012</u>	<u>Nature of donor restrictions</u>
Swalm Foundation	\$ 1,147,433	\$ 601,775	Endowment income restricted as to use -to provide grants to local Children's Advocacy Programs and to meet the Organization's current goals
RGK	99,547	-	Restricted as to use for trauma focused cognitive behavioral therapy program
Texas Bar	19,000	-	Restricted as to use for multi-session forensic interviewing training (printing and production costs)
Blue Cross Blue Shield	9,688	150,000	Restricted as to use for trauma focused cognitive behavioral therapy program
Meadows Foundation	-	37,769	Restricted as to use for trauma focused cognitive behavioral therapy program
Total	<u>\$ 1,275,667</u>	<u>\$ 789,544</u>	

NOTE 8: PERMANENTLY RESTRICTED NET ASSETS

The Endowment Fund of Children's Advocacy Centers of Texas consists of one individual fund established by a gift of \$5,000,000 in 2006. The endowment includes donor-restricted endowment funds only and related earnings. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors of the Organization have interpreted the TUPMIFA as requiring the 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. The Organization classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment and the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by TUPMIFA. In accordance with TUPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

CHILDREN'S ADVOCACY CENTERS OF TEXAS, INC.
NOTES TO FINANCIAL STATEMENTS
Years Ended August 31, 2013 and 2012

NOTE 8: PERMANENTLY RESTRICTED NET ASSETS - continued

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

Investment Objectives

The Organization has adopted two investment objectives: 1) the primary objective is to provide a continuing and dependable cash payout, stable and preferably growing in real terms, after giving effect to inflation. Consistent with this objective, the goal will be to achieve a 4% (a premium over the inflation rate) on the Fund's assets over a trailing five-year period, and 2) to appreciate the total value of the Endowment portfolio over time, exclusive of growth derived from donations. The overall investment direction is to maximize the return, consistent with the notion of safety achieved through high quality investment selection and diversification. Emphasis is placed upon total return in order to satisfy the Endowment's spending policy. The importance of maintaining an investment posture that provides an opportunity for growth is recognized, however, as a way to ensure growth of income and protect against the corrosive effect of inflation. Asset mix is the primary determinant of the Endowment's portfolio performance. The asset mix may be changed from time to time based on economic and security market outlook as well as income requirements. The overall risk level of the assets, in terms of potential for price fluctuation, should not be extreme. The primary means for achieving such a risk profile are the following: 1) a balanced diversification between equity and fixed income investments, 2) careful control of the risk level within each asset class, through avoidance of over-concentration and by not taking extreme positions against the market averages, and 3) a degree of emphasis on stable growth, rather than capital gains.

Spending Policy and How the Investment Objectives Related to the Spending Policy

The Organization's spending policy allows income for current obligations in addition to growth of the endowment's investment corpus necessary to meet the projected increasing needs of the future. The Endowment may distribute annually up to 4.5% of a trailing three-year average of the total market value, with the understanding that this spending rate plus the trailing average of inflation (Consumer Price Index) will not normally exceed the total return from the investments. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Endowment net asset classifications by type at year end were the following.

	<u>2013</u>	<u>2012</u>
Donor-restricted endowment funds		
Permanently restricted	\$ 5,000,000	\$ 5,000,000
Temporarily restricted	1,147,433	601,775
	<u>\$ 6,147,433</u>	<u>\$ 5,601,775</u>

CHILDREN'S ADVOCACY CENTERS OF TEXAS, INC.
NOTES TO FINANCIAL STATEMENTS
Years Ended August 31, 2013 and 2012

NOTE 8: PERMANENTLY RESTRICTED NET ASSETS - continued

The Organization had the following endowment net asset related activities.

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment, beginning of year	\$ -	\$ 601,775	\$ 5,000,000	\$ 5,601,775
Interest & Dividends	-	139,322	-	139,322
Brokerage fees	-	(32,877)	-	(32,877)
Withdrawal	-	(212,722)	-	(212,722)
Realized & unrealized gain	-	651,935	-	651,935
Endowment, end of year	\$ -	\$ 1,147,433	\$ 5,000,000	\$ 6,147,433

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment, beginning of year	\$ -	\$ 365,262	\$ 5,000,000	\$ 5,365,262
Interest & Dividends	-	127,121	-	127,121
Brokerage fees	-	(41,968)	-	(41,968)
Withdrawal	-	(45,000)	-	(45,000)
Realized & unrealized gain	-	196,360	-	196,360
Endowment, end of year	\$ -	\$ 601,775	\$ 5,000,000	\$ 5,601,775

NOTE 9: EMPLOYEE BENEFIT PLAN

The Organization has a 401(k) salary deferral plan covering substantially all employees. Under the plan, the Organization matches one-half of each eligible employee's salary deferral, up to 3 percent. Plan expenses incurred by the Organization during 2013 and 2012 were \$19,458 and \$18,644, respectively.

NOTE 10: OFF BALANCE SHEET CREDIT RISK AND CONCENTRATION

Financial instruments that are exposed to concentrations of credit risk consist of cash, investments and accounts receivable. Cash and investments are in high quality institutions and companies with high credit ratings. Investments are based on quoted market prices. Accounts receivable and notes receivable are carried at estimated net realizable values.

Cash balances with a financial institution in excess of Federal Deposit Insurance Corporation (FDIC) insurance coverage are considered an off-balance-sheet credit risk. As of August 31, 2013 and 2012, cash balances in excess of federally insured deposits were approximately \$147,623 for 2013 and \$-0- for 2012. The Organization does not require collateral for any of its excess deposits. The Organization considers its funds to be in high quality financial institutions and constantly monitors its financial position with the financial institutions. The Organization does not anticipate any nonperformance.

CHILDREN'S ADVOCACY CENTERS OF TEXAS, INC.
NOTES TO FINANCIAL STATEMENTS
Years Ended August 31, 2013 and 2012

NOTE 10: OFF BALANCE SHEET CREDIT RISK AND CONCENTRATION - continued

The Organization invests in cash, debt and equity securities for its endowment fund. These investments are exposed to various risks, such as fluctuations in market value and credit risk. Minimizing these risks is achieved through high quality investment selection and diversification. In compliance with the Organization's Investment Policy Statement, the investments are diversified to provide reasonable assurance that investment in a single security, a class of securities, or an industry will not have an excessive impact on the endowment fund's balance. As of August 31, 2013 and 2012, the Organization had no significant concentrations of credit risk relating to its endowment fund.

Accounts receivable are principally with grantors, and are primarily due from the State of Texas' Office of the Attorney General. Realization of these items is dependent on various individual economic conditions. The Organization performs ongoing credit evaluations of the financial condition of the grantors and individuals and, generally, requires no collateral from them.

NOTE 11: CONTRIBUTED SERVICES

The value of contributed services meeting the requirements for recognition in the financial statements amounted to \$22,840 and \$-0- during the years ended August 31, 2013 and 2012, respectively. The contributions were of advertising space that benefited the organization's mission as a whole and are recorded as program services expense.

FEDERAL & STATE COMPLIANCE SECTION

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of
Children's Advocacy Centers of Texas, Inc.
Austin, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Children's Advocacy Centers of Texas, Inc. (a nonprofit organization), which comprise the statement of financial position as of August 31, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 13, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Children's Advocacy Centers of Texas, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Children's Advocacy Centers of Texas, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance

As part of obtaining reasonable assurance about whether Children's Advocacy Centers of Texas, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gindler, Chappell, Morrison & Co., P.C.

Austin, Texas
December 13, 2013

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 AND THE STATE OF
TEXAS SINGLE AUDIT CIRCULAR**

To the Board of Directors of
Children's Advocacy Centers of Texas, Inc.
Austin, Texas

Report on Compliance for Each Major Federal Program

We have audited Children's Advocacy Centers of Texas, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the State of Texas Single Audit Circular that could have a direct and material effect on each of its major state and federal programs for the year ended August 31, 2013. Children's Advocacy Centers of Texas, Inc.'s major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Children's Advocacy Centers of Texas, Inc.'s major programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State of Texas Single Audit Circular. Those standards, OMB Circular A-133, and the State of Texas Single Audit Circular require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about Children's Advocacy Centers of Texas, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of Children's Advocacy Centers of Texas, Inc.'s compliance.

Opinion on Each Major Program

In our opinion, Children's Advocacy Centers of Texas, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended August 31, 2013.

Report on Internal Control Over Compliance

Management of Children's Advocacy Centers of Texas, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Children's Advocacy Centers of Texas, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State of Texas Single Audit Circular, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Children's Advocacy Centers of Texas, Inc.'s internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133 and the State of Texas Single Audit Circular. Accordingly, this report is not suitable for any other purpose.

Kindler, Chappell, Morrison & Co., P.C.

Austin, Texas
December 13, 2013

CHILDREN'S ADVOCACY CENTERS OF TEXAS, INC.

SCHEDULE OF EXPENDITURES OF STATE AND FEDERAL AWARDS

Year ended August 31, 2013

State/Federal Grantor/ Pass through Grantor/ Program Title/ Title of Project	Term	Award #	Federal CFDA Number	Federal Expenditures
Federal:				
Department of Health and Human Services				
<u>Passed through</u>				
Texas Criminal Justice				
Texas Center for Judiciary				
	October 1, 2011 - September 30, 2012	CJA-12-02	93.643	\$ 29,860
	October 1, 2012 - September 30, 2013	CJA-13-04	93.643	103,921
	October 1, 2012 - September 30, 2013	CJA-13-05	93.643	164,406
	October 1, 2012 - September 30, 2013	CJA-13-06	93.643	<u>19,728</u>
Total Department of Health and Human Services				<u>317,915</u>
Department of Justice				
<u>Passed through</u>				
Southern Regional CAC				
Via Memorandum of Understanding (SRCAC)				
	Victims of Child Abuse Act	N/A	16.758	7,500
	Victims of Child Abuse Act	N/A	N/A	<u>1,473</u>
	July 1, 2012 - July 31, 2013			
Total Department of Justice				<u>8,973</u>
Total Federal Awards				<u>\$ 326,887</u>
State:				
Office of the Governor of Texas				
<u>Direct funding</u>				
Criminal Justice Division (CJD)				
	Texas Administrative Code, Title 1, Part 1, Ch 3	SF 1773307	none	47,587
	Texas Administrative Code, Title 1, Part 1, Ch 3			
		VA-11-V30-26403-01	16.540	43,844
	Texas Administrative Code, Title 1, Part 1, Ch 3			
		VA-11-V30-27370-01	16.540	<u>135,981</u>
Total Office of the Governor				<u>227,412</u>
Office of the Attorney General of Texas				
<u>Direct funding</u>				
Grants Administration Division - OAG Program (OAG)				
	Texas Family Code and Genl Appropriations Act	1338086	none	7,999,003
Grants Administration Division - OVAG Program (OVAG)				
	Texas Administration Code, Title 1, Ch 60, A-F	1334697	none	<u>200,000</u>
Total Office of the Attorney General of Texas				<u>8,119,003</u>
Total State Awards				<u>\$8,426,415</u>
Total Federal and State Awards				<u>\$8,755,202</u>

CHILDREN'S ADVOCACY CENTERS OF TEXAS, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF STATE AND FEDERAL AWARDS

Year ended August 31, 2013

Note 1. Basis of Presentation

The accompanying schedule of expenditures of state and federal awards includes the state grant activity of Children's Advocacy Centers of Texas, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State of Texas Single Audit Circular.

Note 2. Subrecipients

Of the federal and state expenditures presented in the schedule, Children's Advocacy Centers of Texas, Inc. provided federal and state awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Office of the Attorney General Texas Family Code and General Appropriations Act #1230382	N/A	\$7,039,123

Note 3. Other Disclosures

During the current year, insurance policies in effect covered \$2,000,000 each for property insurance and commercial general liability insurance and \$1,000,000 each for professional liability, automobile liability, worker's compensation, employer's liability, crime and directors and officers insurance. The total cost of insurance was \$10,851 of which \$368 was paid from federal sources and \$8,905 was paid from state sources.

There were no loans or loan guarantees, including interest subsidies, outstanding at year end.

CHILDREN'S ADVOCACY CENTERS OF TEXAS, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended August 31, 2013

NONE

CHILDREN'S ADVOCACY CENTERS OF TEXAS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended August 31, 2013

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Children's Advocacy Centers of Texas, Inc.
2. No instances of noncompliance material to the financial statements of Children's Advocacy Centers of Texas, Inc., which would be required to be reported in accordance with the *Government Auditing Standards* or *State of Texas Single Audit Circular*, were disclosed during the audit.
3. The auditor's report on compliance for the major state and federal award programs for Children's Advocacy Centers of Texas, Inc. expresses an unqualified opinion on all major state and federal programs.
4. No instances of noncompliance in internal control over major programs or material noncompliance with provisions of laws, regulations, contracts, or grant agreements related to a major program of Children's Advocacy Centers of Texas, Inc. and required to be reported in accordance with the *Government Auditing Standards* or *State of Texas Single Audit Circular* were disclosed during the audit.
5. The program tested as a major program included:
 - a. Office of the Attorney General contract #1338086
6. The threshold used for distinguishing between Type A and Type B programs was \$300,000.
7. Children's Advocacy Centers of Texas, Inc. qualified as a low-risk auditee.

FINDINGS - FINANCIAL STATEMENT AUDIT

NONE

FINDINGS AND QUESTIONED COSTS - MAJOR STATE AWARD PROGRAMS AUDIT

NONE