

CHILDREN AT RISK, INC.

Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2017 and 2016

CHILDREN AT RISK, INC.

Table of Contents

	Page
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position as of December 31, 2017 and 2016	2
Statement of Activities for the year ended December 31, 2017	3
Statement of Activities for the year ended December 31, 2016	4
Statement of Functional Expenses for the year ended December 31, 2017	5
Statement of Functional Expenses for the year ended December 31, 2016	6
Statements of Cash Flows for the years ended December 31, 2017 and 2016	7
Notes to Financial Statements for the years ended December 31, 2017 and 2016	8

Independent Auditors' Report

To the Board of Directors of
CHILDREN AT RISK, INC.:

We have audited the accompanying financial statements of CHILDREN AT RISK, INC., which comprise the statements of financial position as of December 31, 2017 and 2016 and the related statements of activities, of functional expenses, and of 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.

Auditors' 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 our audits 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 auditors' 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 CHILDREN AT RISK as of December 31, 2017 and 2016 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.

Emphasis of Matter – As discussed in Note 8 to the financial statements, CHILDREN AT RISK has experienced deficits in unrestricted funds, which has required the use of their line of credit and certain restricted funds. Management's plans regarding this matter are described in Note 8. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Blazek & Vetterling

October 30, 2018

CHILDREN AT RISK, INC.

Statements of Financial Position as of December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash	\$ 130,009	\$ 179,224
Prepaid expenses and other receivables	47,893	76,583
Pledges receivable <i>(Note 2)</i>	358,312	113,790
Investments	17,829	14,779
Property and equipment, net <i>(Note 3)</i>	146,491	111,293
Cash and investments restricted for endowment	<u>153,230</u>	<u>153,230</u>
TOTAL ASSETS	<u>\$ 853,764</u>	<u>\$ 648,899</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 88,607	\$ 72,371
Note payable <i>(Note 4)</i>	23,000	
Deferred lease expense <i>(Note 5)</i>	<u>6,769</u>	<u>19,817</u>
Total liabilities	<u>118,376</u>	<u>92,188</u>
Commitments <i>(Note 5)</i>		
Net assets:		
Unrestricted	(51,596)	(95)
Temporarily restricted <i>(Note 6)</i>	633,754	403,576
Permanently restricted <i>(Note 7)</i>	<u>153,230</u>	<u>153,230</u>
Total net assets	<u>735,388</u>	<u>556,711</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 853,764</u>	<u>\$ 648,899</u>

See accompanying notes to financial statements.

CHILDREN AT RISK, INC.

Statement of Activities for the year ended December 31, 2017

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:				
Contributions (<i>Note 2</i>)	\$ 449,527	\$ 1,684,737		\$ 2,134,264
Special events	568,880			568,880
Direct donor benefits – special events	(113,110)			(113,110)
Contract and program fees	216,013			216,013
Investment return	<u>3,568</u>	<u> </u>		<u>3,568</u>
Total revenue	1,124,878	1,684,737		2,809,615
Net assets released from restrictions:				
Expenditure for program purposes	1,434,559	(1,434,559)		
Expiration of time restrictions	<u>20,000</u>	<u>(20,000)</u>		<u> </u>
Total	<u>2,579,437</u>	<u>230,178</u>		<u>2,809,615</u>
EXPENSES:				
Research and advocacy for children	1,894,103			1,894,103
Management and general	240,435			240,435
Fundraising	<u>496,400</u>			<u>496,400</u>
Total expenses	<u>2,630,938</u>			<u>2,630,938</u>
CHANGES IN NET ASSETS	(51,501)	230,178		178,677
Net assets, beginning of year	<u>(95)</u>	<u>403,576</u>	<u>\$ 153,230</u>	<u>556,711</u>
Net assets, end of year	<u>\$ (51,596)</u>	<u>\$ 633,754</u>	<u>\$ 153,230</u>	<u>\$ 735,388</u>

See accompanying notes to financial statements.

CHILDREN AT RISK, INC.

Statement of Activities for the year ended December 31, 2016

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:				
Contributions (<i>Note 2</i>)	\$ 525,876	\$ 918,921	\$ 100	\$ 1,444,897
Special events	728,573			728,573
Direct donor benefits – special events	(234,022)			(234,022)
Contract and program fees	153,264			153,264
Investment return	<u>2,517</u>	<u> </u>	<u> </u>	<u>2,517</u>
Total revenue	1,176,208	918,921	100	2,095,229
Net assets released from restrictions:				
Expenditure for program purposes	<u>1,340,271</u>	<u>(1,340,271)</u>	<u> </u>	<u> </u>
Total	<u>2,516,479</u>	<u>(421,350)</u>	<u>100</u>	<u>2,095,229</u>
EXPENSES:				
Research and advocacy for children	1,738,940			1,738,940
Management and general	196,781			196,781
Fundraising	<u>485,106</u>			<u>485,106</u>
Total expenses	<u>2,420,827</u>			<u>2,420,827</u>
CHANGES IN NET ASSETS	95,652	(421,350)	100	(325,598)
Net assets, beginning of year	<u>(95,747)</u>	<u>824,926</u>	<u>153,130</u>	<u>882,309</u>
Net assets, end of year	<u>\$ (95)</u>	<u>\$ 403,576</u>	<u>\$ 153,230</u>	<u>\$ 556,711</u>

See accompanying notes to financial statements.

CHILDREN AT RISK, INC.

Statement of Functional Expenses for the year ended December 31, 2017

	RESEARCH AND ADVOCACY FOR CHILDREN	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries and benefits	\$ 1,255,362	\$ 92,298	\$ 338,385	\$ 1,686,045
Professional fees	161,148	87,440	13,768	262,356
Rent	180,117	20,576	50,413	251,106
Book production and printing	86,483			86,483
Travel	55,582	4,804	9,853	70,239
Depreciation	35,795	1,356	4,152	41,303
Telephone and other utilities	26,892	3,653	8,523	39,068
Printing and copying	6,999	1,443	27,584	36,026
Supplies	17,624	334	4,077	22,035
Meals and entertainment	12,204	6,259	3,313	21,776
Computer supplies and software	10,550	744	7,908	19,202
Memberships and dues	13,317		3,076	16,393
Bank service charges	513	9,576	5,035	15,124
Bad debt			13,350	13,350
Insurance	6,259	3,814	447	10,520
Website design and maintenance	6,865	1,211	1,502	9,578
Grants and contributions	6,000	2,000		8,000
Equipment rental and maintenance	4,783	396	1,267	6,446
Postage and shipping	789	855	2,611	4,255
Marketing and promotion	2,771		35	2,806
Other	4,050	3,676	1,101	8,827
Total	<u>\$ 1,894,103</u>	<u>\$ 240,435</u>	<u>\$ 496,400</u>	<u>\$ 2,630,938</u>

See accompanying notes to financial statements.

CHILDREN AT RISK, INC.

Statement of Functional Expenses for the year ended December 31, 2016

	RESEARCH AND ADVOCACY FOR CHILDREN	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries and benefits	\$ 1,041,985	\$ 69,633	\$ 303,462	\$ 1,415,080
Professional fees	161,023	64,622	55,381	281,026
Rent	179,210	12,244	58,854	250,308
Book production and printing	147,604			147,604
Travel	57,313	5,139	4,549	67,001
Depreciation	26,125	4,797	960	31,882
Telephone and other utilities	27,011	1,955	9,462	38,428
Printing and copying	4,233	240	17,488	21,961
Supplies	23,110	204	4,743	28,057
Meals and entertainment	19,103	5,676	2,859	27,638
Computer supplies and software	4,317	5,641	15,531	25,489
Memberships and dues	8,049	44	1,640	9,733
Bank service charges		20,084		20,084
Insurance	6,249	3,767	446	10,462
Website design and maintenance	17,041	994		18,035
Equipment rental and maintenance	9,828	335	1,623	11,786
Postage and shipping	1,922	753	4,637	7,312
Marketing and promotion	60		2,562	2,622
Other	4,757	653	909	6,319
Total	<u>\$ 1,738,940</u>	<u>\$ 196,781</u>	<u>\$ 485,106</u>	<u>\$ 2,420,827</u>

See accompanying notes to financial statements.

CHILDREN AT RISK, INC.

Statements of Cash Flows for the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 178,677	\$ (325,598)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	41,303	31,882
Net realized and unrealized gain on investments	(1,898)	(1,481)
Contributions restricted for endowment		(100)
Changes in operating assets and liabilities:		
Prepaid expenses and other receivables	28,690	(5,442)
Pledges receivable	(244,522)	412,043
Accounts payable and accrued expenses	16,236	(40,254)
Deferred lease expense	<u>(13,048)</u>	<u>(18,915)</u>
Net cash provided by operating activities	<u>5,438</u>	<u>52,135</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(1,152)	(517)
Purchases of property and equipment	(76,501)	(3,303)
Net change in cash and investments restricted for endowment	<u> </u>	<u>(100)</u>
Net cash used by investing activities	<u>(77,653)</u>	<u>(3,920)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Draws made on line of credit	93,000	450,000
Payments made on line of credit	(70,000)	(450,000)
Proceeds from contributions restricted for endowment	<u> </u>	<u>100</u>
Net cash provided by financing activities	<u>23,000</u>	<u>100</u>
NET CHANGE IN CASH	(49,215)	48,315
Cash, beginning of year	<u>179,224</u>	<u>130,909</u>
Cash, end of year	<u>\$ 130,009</u>	<u>\$ 179,224</u>

See accompanying notes to financial statements.

CHILDREN AT RISK, INC.

Notes to Financial Statements for the years ended December 31, 2017 and 2016

NOTE 1 – ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

Organization – CHILDREN AT RISK, INC. (Children at Risk) is a Texas nonprofit organization incorporated in October 1991. Through leadership and action, Children at Risk works to assure that children have the highest priority in the community by serving as a catalyst for change to improve children's quality of life. Children at Risk, using the tools of strategic research, public policy analysis, education, collaboration and advocacy, works on a broad range of children's issues, including public education, human trafficking, health and nutrition, parenting and family well-being, juvenile justice and mental health. Through publication of statistics and indicators, Children at Risk is a leading source of accurate information to measure the quality of life for children and to use that information to advocate for change.

Federal income tax status – Children at Risk is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(1).

Pledges receivable that are expected to be collected within one year are reported at net realizable value. Amounts due in more than one year are discounted, if material, to estimate the present value of future cash flows. Pledges receivable at December 31, 2017 are expected to be collected within one year.

Investments are recorded at fair value and consist of domestic equity mutual funds. Fair value is based on net asset value of shares held. The fair value of investments was \$22,829 and \$19,779 at December 31, 2017 and 2016, respectively.

Property and equipment is reported at cost, if purchased, or at fair value at the date of gift, if donated. Expenditures greater than \$500 are capitalized. Depreciation is recognized on a straight-line basis over estimated useful lives of 5 to 7 years.

Net asset classification – Contributions and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations even though their use may be limited in other respects such as by contract or board designation.
- *Temporarily restricted net assets* include contributions restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.
- *Permanently restricted net assets* include contributions that donors have restricted in perpetuity. Investment return may be expended to support the activities of Children at Risk.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted revenue. Conditional promises to give are included in contribution revenue when the conditions are substantially met.

Non-cash contributions – Donated materials, facilities, and services are recognized at fair value as contributions when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Contract and program fees are recognized as the related services are provided.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Recent financial accounting pronouncements – In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. The ASU supersedes the revenue recognition requirements for most exchange transactions not specifically covered by other guidance. It does not apply to contributions. The core principle of the new guidance is that an entity should recognize revenue in an amount that reflects the consideration to which it expects to be entitled in exchange for transferred goods or services and establishes a 5-step process to determine when revenue is recognized. The ASU is effective for fiscal periods that begin after December 15, 2017 and must be applied retrospectively. Management has not yet determined the impact adoption of this ASU will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. Under this ASU, a lessee should recognize in the statement of financial position a lease liability and a lease asset representing its right to use the underlying asset for the term of the lease for both finance and operating leases. An entity may make an accounting policy election not to recognize lease assets and lease liabilities for leases with a term of 12 months or less. Recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessor have not changed significantly. Qualitative and quantitative disclosures are required to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The ASU is effective for fiscal years beginning after December 15, 2019. Management has not yet determined the impact adoption of this ASU will have on the financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU are aimed at providing more useful information to users of not-for-profit financial statements. Under this ASU, net assets will be presented in two classes: *net assets with donor restrictions* and *net assets without donor restrictions* and underwater endowments will be grouped with *net assets with donor restrictions*. New or enhanced disclosures will be required about the nature and composition of net assets, and the liquidity and availability of resources for general operating expenditures within one year of the balance sheet date. Expenses will be required to be presented by both nature and function and investment return will be presented net of external and direct internal investment expenses. Absent explicit donor stipulations, restrictions on long-lived assets will expire when assets are placed in service. Children at Risk is required to adopt this ASU for the 2018 fiscal year. Adoption of this ASU will impact the presentation and disclosures of the financial statements.

NOTE 2 – CONCENTRATIONS

In 2017, approximately 84% of pledges receivable were from one donor and 61% of total contributions were from three donors. In 2016, approximately 62% of pledges receivable were from two donors and 14% of total contributions were from one donor.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following:

	<u>2017</u>	<u>2016</u>
Office furniture and equipment	\$ 84,673	\$ 83,172
Website	172,747	97,747
Leasehold improvements	<u>31,441</u>	<u>31,441</u>
Total property and equipment	288,861	212,360
Accumulated depreciation	<u>(142,370)</u>	<u>(101,067)</u>
Property and equipment, net	<u>\$ 146,491</u>	<u>\$ 111,293</u>

NOTE 4 – NOTE PAYABLE

Note payable at December 31, 2017, represent draws on a \$200,000 line of credit with a bank that expired in April 2018. Advances on the line bore interest at 5.25% and are due within one year.

NOTE 5 – COMMITMENTS

Children at Risk is party to a noncancelable operating lease agreement for office space that expires November 30, 2024. Deferred rental payments related to this agreement are amortized over the life of the lease and reported as deferred lease expense. Future minimum lease payments for the office space and a noncancelable copier operating lease are payable as follows:

2018	\$ 20,431
2019	93,195
2020	89,934
2021	91,895
Thereafter	<u>284,530</u>
Total	<u>\$ 579,985</u>

Lease expense, including donated office space, was approximately \$249,000 in 2017 and \$248,000 in 2016.

Children at Risk recognized donated office space valued at approximately \$135,000 and \$125,000 for the years ended December 31, 2017 and 2016, respectively.

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2017</u>	<u>2016</u>
Public education initiatives	\$ 521,708	\$ 226,220
Positive Parenting Program	72,067	50,902
Future periods		20,000
Growing Up in Houston publication	25,000	
Human trafficking initiatives	6,112	36,501
Health and nutrition initiatives	869	59,102
Other	<u>7,998</u>	<u>10,851</u>
Total temporarily restricted net assets	<u>\$ 633,754</u>	<u>\$ 403,576</u>

NOTE 7 – ENDOWMENT FUNDS

Children at Risk’s endowment funds represent donor-restricted general endowment funds. Children at Risk classifies the original value of gifts donated to the permanent endowment as permanently restricted net assets. The remaining portion of the donor-restricted endowment funds that are not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Children at Risk in a manner consistent with the standard of prudence prescribed by the Texas Uniform Prudent Management of Institutional Funds Act.

Endowment Spending Policy

Children at Risk’s endowment spending policy allows distributions which are made in accordance with endowment restrictions. The distribution percentage is determined annually by the Board of Directors. Currently, the focus is on growing the endowment and therefore, no distributions have been made.

Endowment Investment Policy

Children at Risk’s investment policy objective is the preservation of the long-term real purchasing power of the fund’s assets while realizing appropriate investment income. Endowment fund asset allocation shall be determined from time to time by the Board of Directors, in consultation with any managers or advisors, if desired, and the allocation shall reflect a proper balance of such fund’s investment objective, any risk tolerance standard and the need for liquidity. Investments of each fund will be diversified to limit the risk of loss resulting from the concentration of assets in a specific type of investment, specific maturity, specific issuer or sector unless the Board of Directors prudently determines that because of special circumstances the purposes of the fund are better served without diversification. The Board of Directors shall review the diversification strategy periodically, provided however, that it shall review any decision to not diversify as frequently as circumstances require, but at a minimum, annually.

Endowment net asset composition at December 31, 2017 is as follows:

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
Donor-restricted endowment funds	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 153,230</u>	<u>\$ 153,230</u>

Endowment net asset composition at December 31, 2016 is as follows:

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	PERMANENTLY <u>RESTRICTED</u>	<u>TOTAL</u>
Donor-restricted endowment funds	\$ 0	\$ 0	\$ 153,230	\$ 153,230

Changes in net assets of the endowment funds are as follows:

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	PERMANENTLY <u>RESTRICTED</u>	<u>TOTAL</u>
Endowment net assets, December 31, 2015	\$ 0	\$ 0	\$ 153,130	\$ 153,130
Contributions	<u> </u>	<u> </u>	<u>100</u>	<u>100</u>
Endowment net assets, December 31, 2016	<u>0</u>	<u>0</u>	<u>153,230</u>	<u>153,230</u>
Endowment net assets, December 31, 2017	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 153,230</u>	<u>\$ 153,230</u>

NOTE 8 – MANAGEMENT’S PLANS

Children at Risk finished the year ended December 31, 2017 with a negative balance in unrestricted net assets due in part to a shortfall in individual giving and unexpected bad debt expense. The shortfall in individual giving is largely attributed to the impact of Hurricane Harvey. Work was also modified as a result of Hurricane Harvey increasing the amount of unrestricted dollars being allocated to program work that is not explicitly funded, based on the needs of the community. In order to remedy this situation, the Finance Committee of the Board of Directors, in collaboration with the Children at Risk staff, have completed a gap analysis of income sources, both forecasted and received. Based on the current fundraising targets and the identified real-time gaps, the Chief Development Officer, in conjunction with organizational leadership, has created and begun the implementation of the following plans: focused attention on prospects that would close funding gaps, implementation of a monthly giving campaign, and creation of an additional fundraising event to generate additional unrestricted revenue and net assets. In the meantime, cash flows will continue to be supplemented using draws on the line of credit. Children at Risk’s Board of Directors and management believe that these measures, along with careful management of expenses, will curtail further deficit operations, restore negative unrestricted net assets, and lead to fiscal operations that will enable the continued accomplishment of the organization’s mission.

NOTE 9 – SUBSEQUENT EVENTS

Subsequent to year end, Children at Risk increased its line of credit to \$400,000 and extended the expiration date to October 2019.

Management has evaluated subsequent events through October 30, 2018, which is the date that the financial statements were available for issuance. As a result of this evaluation, no other events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.