

CHILDREN AT RISK, INC.

Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2020 and 2019

CHILDREN AT RISK, INC.

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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, 2020 and 2019 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, INC. as of December 31, 2020 and 2019 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.

Blazek & Vetterling

September 29, 2021

CHILDREN AT RISK, INC.

Statements of Financial Position as of December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash	\$ 802,964	\$ 629,375
Prepaid expenses and other receivables	15,255	25,702
Contributions receivable, net (<i>Note 4</i>)	871,125	887,054
Investments	30,696	22,329
Property and equipment, net (<i>Note 5</i>)	82,696	127,651
Cash restricted for endowment	112,667	112,667
Investments restricted for endowment	<u>5,000</u>	<u>5,000</u>
TOTAL ASSETS	<u>\$ 1,920,403</u>	<u>\$ 1,809,778</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 64,662	\$ 86,519
Notes payable (<i>Note 6</i>)		18,000
Deferred revenue	9,695	
Deferred lease expense (<i>Note 7</i>)	<u>97,907</u>	<u>115,734</u>
Total liabilities	<u>172,264</u>	<u>220,253</u>
Commitments (<i>Note 7</i>)		
Net assets:		
Without donor restrictions	509,355	161,335
With donor restrictions (<i>Notes 8 and 9</i>)	<u>1,238,784</u>	<u>1,428,190</u>
Total net assets	<u>1,748,139</u>	<u>1,589,525</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,920,403</u>	<u>\$ 1,809,778</u>

See accompanying notes to financial statements.

CHILDREN AT RISK, INC.

Statement of Activities for the year ended December 31, 2020

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions (<i>Notes 3 and 7</i>)	\$ 438,858	\$ 1,806,170	\$ 2,245,028
Special events	304,269		304,269
Direct donor benefits – special events	(21,250)		(21,250)
Contract and program fees	339,726		339,726
Investment return	<u>8,824</u>		<u>8,824</u>
Total revenue	1,070,427	1,806,170	2,876,597
Net assets released from restrictions:			
Expenditure for program purposes	1,945,576	(1,945,576)	
Time restriction releases	<u>50,000</u>	<u>(50,000)</u>	
Total	<u>3,066,003</u>	<u>(189,406)</u>	<u>2,876,597</u>
EXPENSES:			
Research and advocacy for children	1,807,672		1,807,672
Management and general	327,550		327,550
Fundraising	<u>582,761</u>		<u>582,761</u>
Total expenses	<u>2,717,983</u>		<u>2,717,983</u>
CHANGES IN NET ASSETS	348,020	(189,406)	158,614
Net assets, beginning of year	<u>161,335</u>	<u>1,428,190</u>	<u>1,589,525</u>
Net assets, end of year	<u>\$ 509,355</u>	<u>\$ 1,238,784</u>	<u>\$ 1,748,139</u>

See accompanying notes to financial statements.

CHILDREN AT RISK, INC.

Statement of Activities for the year ended December 31, 2019

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions (<i>Notes 3 and 7</i>)	\$ 629,083	\$ 1,738,131	\$ 2,367,214
Special events	647,485		647,485
Direct donor benefits – special events	(145,839)		(145,839)
Contract and program fees	399,203		399,203
Investment return	<u>6,793</u>	<u>860</u>	<u>7,653</u>
Total revenue	1,536,725	1,738,991	3,275,716
Net assets released from restrictions:			
Expenditure for program purposes	1,530,151	(1,530,151)	
Endowment funds released by donors	<u>25,000</u>	<u>(25,000)</u>	
Total	<u>3,091,876</u>	<u>183,840</u>	<u>3,275,716</u>
EXPENSES:			
Research and advocacy for children	1,960,894		1,960,894
Management and general	353,003		353,003
Fundraising	<u>638,299</u>		<u>638,299</u>
Total expenses	<u>2,952,196</u>		<u>2,952,196</u>
CHANGES IN NET ASSETS	139,680	183,840	323,520
Net assets, beginning of year	<u>21,655</u>	<u>1,244,350</u>	<u>1,266,005</u>
Net assets, end of year	<u>\$ 161,335</u>	<u>\$ 1,428,190</u>	<u>\$ 1,589,525</u>

See accompanying notes to financial statements.

CHILDREN AT RISK, INC.

Statements of Functional Expenses for the years ended December 31, 2020 and 2019

	RESEARCH AND ADVOCACY FOR CHILDREN	MANAGEMENT AND GENERAL	FUNDRAISING	2020 TOTAL
Salaries and benefits	\$ 1,372,497	\$ 30,065	\$ 455,983	\$ 1,858,545
Professional fees and services	115,227	241,264	20,501	376,992
Rent and utilities	220,511	11,313	65,743	297,567
Depreciation and amortization	33,069	1,715	10,171	44,955
Technology costs	24,142	464	14,857	39,463
Travel, meals and entertainment	26,164	7,519	831	34,514
Printing, copying and supplies	5,462	120	9,992	15,574
Other	<u>10,600</u>	<u>35,090</u>	<u>4,683</u>	<u>50,373</u>
Total expenses	<u>\$ 1,807,672</u>	<u>\$ 327,550</u>	<u>\$ 582,761</u>	<u>\$ 2,717,983</u>

	RESEARCH AND ADVOCACY FOR CHILDREN	MANAGEMENT AND GENERAL	FUNDRAISING	2019 TOTAL
Salaries and benefits	\$ 1,368,445	\$ 94,247	\$ 482,594	\$ 1,945,286
Professional fees and services	139,188	173,996	23,482	336,666
Rent and utilities	207,276	16,218	79,146	302,640
Depreciation and amortization	37,850	3,355	13,348	54,553
Technology costs	26,429	3,013	10,220	39,662
Travel, meals and entertainment	113,988	18,656	7,891	140,535
Printing, copying and supplies	55,876	1,527	17,363	74,766
Other	<u>11,842</u>	<u>41,991</u>	<u>4,255</u>	<u>58,088</u>
Total expenses	<u>\$ 1,960,894</u>	<u>\$ 353,003</u>	<u>\$ 638,299</u>	<u>\$ 2,952,196</u>

See accompanying notes to financial statements.

CHILDREN AT RISK, INC.

Statements of Cash Flows for the years ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 158,614	\$ 323,520
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	44,955	54,553
Net realized and unrealized gain on investments	(7,473)	(5,926)
Changes in operating assets and liabilities:		
Prepaid expenses and other receivables	10,447	22,561
Contributions receivable	15,929	38,116
Accounts payable and accrued expenses	(21,857)	38,205
Grants payable		(20,000)
Deferred revenue	9,695	(10,000)
Deferred lease expense (amortization)	<u>(17,827)</u>	<u>(17,334)</u>
Net cash provided by operating activities	<u>192,483</u>	<u>423,695</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment		(19,281)
Purchases of investments	<u>(894)</u>	<u>(647)</u>
Net cash used by investing activities	<u>(894)</u>	<u>(19,928)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Draws made on line of credit	115,000	333,000
Payments made on line of credit	<u>(133,000)</u>	<u>(315,000)</u>
Net cash provided (used) by financing activities	<u>(18,000)</u>	<u>18,000</u>
NET CHANGE IN CASH	173,589	421,767
Cash, beginning of year	<u>742,042</u>	<u>320,275</u>
Cash, end of year	<u>\$ 915,631</u>	<u>\$ 742,042</u>
<i>Reconciliation of cash reported in the statements of financial position to cash reported in the statements of cash flows:</i>		
Cash	\$ 802,964	\$ 629,375
Cash restricted for endowment	<u>112,667</u>	<u>112,667</u>
Total cash	<u>\$ 915,631</u>	<u>\$ 742,042</u>

See accompanying notes to financial statements.

CHILDREN AT RISK, INC.

Notes to Financial Statements for the years ended December 31, 2020 and 2019

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).

Contributions 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.

Investments are recorded at fair value and consist of domestic equity mutual funds. Fair value is based on the net asset value of shares held.

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 – Net assets, revenue, gains and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both. Donor-restricted endowment earnings are released when those earnings are appropriated in accordance with spending policies and are used for the stipulated purpose.

Contributions are recorded as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are recorded as restricted support. Conditional contributions are recognized in the same manner 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 derived primarily from contracts with customers to provide research and administrative services. Revenue is recognized when the services are provided to a customer in an amount that reflects the consideration Children at Risk expects to be entitled to in exchange for those services. All of Children at Risk’s revenues from contracts with customers are from performance obligations satisfied over time.

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.

Reclassifications – Certain reclassifications have been made to the prior year financial statements to conform with the current presentation.

Recent financial accounting pronouncement – In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 lessee have not changed significantly. Qualitative and quantitative disclosures are required by lessees and lessors to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. Children at Risk plans to adopt this ASU for its fiscal year ending December 31, 2021. Management has not yet determined the impact adoption of this ASU will have on the financial statements.

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU will require contributed nonfinancial assets to be presented as a separate line item in the statement of activities, apart from contributions of cash and other financial assets, and will require disclosure about the measurement and use of types of contributed nonfinancial assets. The ASU will be effective for years beginning after June 15, 2021 and requires retrospective application.

NOTE 2 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of December 31 comprise the following:

	<u>2020</u>	<u>2019</u>
Cash	\$ 802,964	\$ 629,375
Contributions receivable	871,125	887,054
Non-endowment investments	<u>30,696</u>	<u>22,329</u>
Less: Contributions receivable due in more than one year	<u>(225,000)</u>	<u>(333,000)</u>
Total financial assets available for general expenditure	<u>\$ 1,479,785</u>	<u>\$ 1,205,758</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, Children at Risk considers all expenditures related to its ongoing activities associated with its mission of serving as a catalyst for change to improve the quality of life for children through strategic research, public policy analysis, education, collaboration and advocacy, as well as the conduct of services undertaken to support those activities, to be general expenditures.

Children at Risk is primarily supported by contributions and special event revenues, and to a lesser extent, revenue received from services provided to other not-for-profit organizations. The goal of the organization is to maintain cash and short-term investments to meet 90 days of normal operating expenses. Cash and contributions receivable which are restricted for program purposes and expected to be used in the next fiscal year are included in the financial assets available for general expenditures. If the need should arise, Children at Risk has a \$500,000 line of credit available to meet short-term cash needs.

During 2020, Children at Risk applied for and received a \$366,700 Paycheck Protection Program loan from the Small Business Administration (SBA). The loan was used to fund qualified operating expenses during the year and was forgiven by the SBA and recognized by Children at Risk as contribution revenue. Subsequent to the year ended December 31, 2020, Children at Risk received a second Paycheck Protection Program loan for \$342,903, which bears interest at a rate of 1%. Children at Risk expects to meet the conditions for forgiveness of this loan. Any amounts not forgiven are due within 2 years.

NOTE 3 – CONCENTRATIONS

At December 31, 2020 and 2019, bank deposits exceed the federally insured limit per depositor per institution.

During the year ended December 31, 2020, approximately 45% of contributions were from five donors and during the year ended December 31, 2019, 60% of total contributions were from four donors.

NOTE 4 – CONTRIBUTIONS RECEIVABLE

Contributions receivable are as follows:

	<u>2020</u>	<u>2019</u>
Total contributions receivable	\$ 879,833	\$ 897,636
Allowance for doubtful contributions receivable	<u>(8,708)</u>	<u>(10,582)</u>
Contributions receivable, net	<u>\$ 871,125</u>	<u>\$ 887,054</u>

Contributions receivable at December 31, 2020 are expected to be collected as follows:

Within one year	\$ 654,833
In one to five years	<u>225,000</u>
Total contributions receivable	<u>\$ 879,833</u>

At December 31, 2020 and 2019, 97% and 92%, respectively, of contributions receivable were due from four donors.

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following:

	<u>2020</u>	<u>2019</u>
Office furniture and equipment	\$ 36,108	\$ 103,954
Website	119,247	172,747
Leasehold improvements	<u>102,205</u>	<u>102,205</u>
Total property and equipment	257,560	378,906
Accumulated depreciation	<u>(174,864)</u>	<u>(251,255)</u>
Property and equipment, net	<u>\$ 82,696</u>	<u>\$ 127,651</u>

NOTE 6 – LINE OF CREDIT

Children at Risk maintains a \$500,000 line of credit with a bank that expires in July 2022. Advances on the line bear interest at 5.25% and are due within one year. The balance outstanding at December 31, 2019 was \$18,000. There was no balance outstanding at December 31, 2020.

NOTE 7 – COMMITMENTS

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

2021	\$ 97,385
2022	94,843
2023	97,792
2024	<u>83,541</u>
Total	<u>\$ 373,561</u>

Lease expense, including donated office space, was approximately \$238,000 in 2020 and \$235,000 in 2019.

Children at Risk recognized donated office space valued at approximately \$135,000 for the years ended December 31, 2020 and 2019.

NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purpose:		
Public education initiatives	\$ 672,320	\$ 1,076,157
Positive Parenting Program	300,000	93,407
Immigrant children’s education initiative	121,478	2,203
Disaster relief	19,876	8,310
Human trafficking initiatives	4,442	45,314
Health and nutrition initiatives		22,580
Other	<u>3,001</u>	<u>12,552</u>
Total subject to expenditure for specified purpose	<u>1,121,117</u>	<u>1,260,523</u>
Subject to the passage of time:		
Contributions restricted for use in the following year	<u> </u>	<u>50,000</u>
Endowment subject to spending policy and appropriation for operations	<u>117,667</u>	<u>117,667</u>
Total net assets with donor restrictions	<u>\$ 1,238,784</u>	<u>\$ 1,428,190</u>

NOTE 9 – ENDOWMENT FUNDS

Children at Risk has a donor-restricted endowment fund to support operations that is maintained in accordance with explicit donor stipulations. The Board of Directors of Children at Risk has interpreted the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund absent explicit donor stipulations to the contrary. As a result of this interpretation, Children at Risk classifies the original value of gifts donated to the perpetual endowment as *net assets with donor restrictions* required to be maintained in perpetuity. The remaining portion of the donor-restricted endowment fund is classified as *net assets with donor restrictions* until those amounts are appropriated for expenditure in a manner consistent with the standards of prudence prescribed by TUPMIFA.

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.

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, 2020 is as follows:

	<u>WITHOUT DONOR RESTRICTIONS</u>	<u>WITH DONOR RESTRICTIONS</u>	<u>TOTAL</u>
Donor-restricted endowment funds	\$ <u>0</u>	\$ <u>117,667</u>	\$ <u>117,667</u>

Endowment net asset composition at December 31, 2019 is as follows:

	<u>WITHOUT DONOR RESTRICTIONS</u>	<u>WITH DONOR RESTRICTIONS</u>	<u>TOTAL</u>
Donor-restricted endowment funds	\$ <u>0</u>	\$ <u>117,667</u>	\$ <u>117,667</u>

Changes in endowment net assets are as follows:

	<u>WITHOUT DONOR RESTRICTIONS</u>	<u>WITH DONOR RESTRICTIONS</u>	
	<u>ACCUMULATED NET INVESTMENT RETURN</u>	<u>REQUIRED TO BE MAINTAINED IN PERPETUITY</u>	<u>TOTAL</u>
Endowment net assets, December 31, 2018	\$ 258	\$ 117,667	\$ 117,925
Investment earnings	860		860
Net assets released by donors	<u>(1,118)</u>		<u>(1,118)</u>
Endowment net assets, December 31, 2019	<u>0</u>	<u>117,667</u>	<u>117,667</u>
Endowment net assets, December 31, 2020	<u>\$ 0</u>	<u>\$ 117,667</u>	<u>\$ 117,667</u>

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 29, 2021, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events, other than as described in Note 2, were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.