

ChildBuilders

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2017 and 2016

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Independent Auditors' Report

To the Board of Directors of
ChildBuilders:

We have audited the accompanying financial statements of ChildBuilders, which comprise the statements of financial position as of June 30, 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 ChildBuilders as of June 30, 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.

November 16, 2017

ChildBuildersStatements of Financial Position as of June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents <i>(Note 2)</i>	\$ 223,071	\$ 239,251
Pledges receivable	16,200	237,700
Prepaid expenses and other assets	16,225	23,149
Property and equipment, net <i>(Note 3)</i>	<u>17,435</u>	<u>20,605</u>
TOTAL ASSETS	<u>\$ 272,931</u>	<u>\$ 520,705</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 9,056	\$ 28,206
Note payable <i>(Note 4)</i>	<u>40,348</u>	<u>70,000</u>
Total liabilities	<u>49,404</u>	<u>98,206</u>
Net assets:		
Unrestricted	103,081	109,145
Temporarily restricted <i>(Note 5)</i>	<u>120,446</u>	<u>313,354</u>
Total net assets	<u>223,527</u>	<u>422,499</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 272,931</u>	<u>\$ 520,705</u>

See accompanying notes to financial statements.

ChildBuildersStatement of Activities for the year ended June 30, 2017

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions	\$ 157,760	\$ 30,000	\$ 187,760
Special events	106,989		106,989
Direct donor benefit costs	(18,946)		(18,946)
Program service fees	<u>53,912</u>	<u> </u>	<u>53,912</u>
Total revenue	299,715	30,000	329,715
Net assets released from restrictions:			
Satisfaction of program restrictions	147,908	(147,908)	
Expiration of time restrictions	<u>75,000</u>	<u>(75,000)</u>	<u> </u>
Total	<u>522,623</u>	<u>(192,908)</u>	<u>329,715</u>
EXPENSES:			
Program services	356,229		356,229
Management and general	84,740		84,740
Fundraising	<u>87,718</u>		<u>87,718</u>
Total expenses	<u>528,687</u>		<u>528,687</u>
CHANGES IN NET ASSETS	(6,064)	(192,908)	(198,972)
Net assets, beginning of year	<u>109,145</u>	<u>313,354</u>	<u>422,499</u>
Net assets, end of year	<u>\$ 103,081</u>	<u>\$ 120,446</u>	<u>\$ 223,527</u>

See accompanying notes to financial statements.

ChildBuildersStatement of Activities for the year ended June 30, 2016

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions	\$ 159,441	\$ 562,526	\$ 721,967
Special events	142,987		142,987
Direct donor benefit costs	(28,819)		(28,819)
Program service fees	<u>33,137</u>	<u> </u>	<u>33,137</u>
Total revenue	306,746	562,526	869,272
Net assets released from restrictions:			
Satisfaction of program restrictions	306,098	(306,098)	
Expiration of time restrictions	<u>80,000</u>	<u>(80,000)</u>	<u> </u>
Total	<u>692,844</u>	<u>176,428</u>	<u>869,272</u>
EXPENSES:			
Program services	404,617		404,617
Management and general	107,955		107,955
Fundraising	<u>73,593</u>		<u>73,593</u>
Total expenses	<u>586,165</u>		<u>586,165</u>
CHANGES IN NET ASSETS	106,679	176,428	283,107
Net assets, beginning of year	<u>2,466</u>	<u>136,926</u>	<u>139,392</u>
Net assets, end of year	<u>\$ 109,145</u>	<u>\$ 313,354</u>	<u>\$ 422,499</u>

See accompanying notes to financial statements.

ChildBuildersStatement of Functional Expenses for the year ended June 30, 2017

	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Salaries and wages	\$ 192,618	\$ 14,003	\$ 13,813	\$ 220,434
Contract labor	71,826	3,208	34,675	109,709
Payroll taxes and benefits	28,210	7,359	5,315	40,884
Occupancy	26,347	8,676	8,783	43,806
Professional fees		33,453		33,453
Equipment rental and maintenance	10,096	3,018	6,957	20,071
Printing and publications	11,495	825	6,051	18,371
Supplies	2,077	1,350	8,202	11,629
Travel	3,934	1,139	296	5,369
Telephone	2,231	971	925	4,127
Interest		3,586		3,586
Depreciation		3,170		3,170
Stipends	2,117			2,117
Postage and shipping	402	127	1,369	1,898
Conferences and meetings		564		564
Insurance	284	90	85	459
Other	<u>4,592</u>	<u>3,201</u>	<u>1,247</u>	<u>9,040</u>
Total expenses	<u>\$ 356,229</u>	<u>\$ 84,740</u>	<u>\$ 87,718</u>	528,687
Direct donor benefit costs				<u>18,946</u>
Total				<u>\$ 547,633</u>

See accompanying notes to financial statements.

ChildBuildersStatement of Functional Expenses for the year ended June 30, 2016

	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Salaries and wages	\$ 211,043	\$ 35,481	\$ 35,262	\$ 281,786
Contract labor	60,717	1,326	13,175	75,218
Payroll taxes and benefits	44,441	8,705	3,172	56,318
Occupancy	23,769	7,923	7,923	39,615
Professional fees		29,842		29,842
Equipment rental and maintenance	13,566	4,324	3,712	21,602
Printing and publications	32,662	410	1,997	35,069
Supplies	3,086	2,194	1,121	6,401
Travel	2,660	88	19	2,767
Telephone	4,130	1,327	1,318	6,775
Interest		7,654		7,654
Depreciation		3,170		3,170
Stipends	334	48		382
Postage and shipping	879	208	3,823	4,910
Conferences and meetings	3,083	1,001	1,869	5,953
Insurance	2,154	2,968		5,122
Other	<u>2,093</u>	<u>1,286</u>	<u>202</u>	<u>3,581</u>
Total expenses	<u>\$ 404,617</u>	<u>\$ 107,955</u>	<u>\$ 73,593</u>	586,165
Direct donor benefit costs				<u>28,819</u>
Total				<u>\$ 614,984</u>

See accompanying notes to financial statements.

ChildBuildersStatements of Cash Flows for the years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (198,972)	\$ 283,107
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	3,170	3,170
Changes in operating assets and liabilities:		
Pledges receivable	221,500	(102,700)
Prepaid expenses and other assets	6,924	(6,466)
Accounts payable and accrued expenses	<u>(19,150)</u>	<u>(13,524)</u>
Net cash provided by operating activities	<u>13,472</u>	<u>163,587</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on note payable	<u>(29,652)</u>	<u>(30,000)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(16,180)	133,587
Cash and cash equivalents, beginning of year	<u>239,251</u>	<u>105,664</u>
Cash and cash equivalents, end of year	<u>\$ 223,071</u>	<u>\$ 239,251</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid on note payable	\$3,586	\$7,654

See accompanying notes to financial statements.

ChildBuilders

Notes to Financial Statements for the years ended June 30, 2017 and 2016

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – ChildBuilders is a Texas nonprofit corporation that believes every child deserves an emotionally healthy life and is committed to making a positive impact on children and their families in our community. ChildBuilders provides prevention, early intervention, and education to build awareness and support for children and families in the Houston area.

Federal income tax status – ChildBuilders 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) and §170(b)(1)(A)(vi).

Cash equivalents include highly liquid financial instruments with a maturity of three months or less at the date of purchase.

Pledges receivable due 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. At June 30, 2017, all pledges are due within one year. Pledges receivable due from one donor represent 62% and 82% of total pledges for the years ended June 30, 2017 and 2016, respectively. In 2017 and 2016, 24% and 58%, respectively, of contributions are from two donors.

Property and equipment are reported at cost if purchased and at fair value at the date of gift if donated. ChildBuilders capitalizes items with a value of \$1,000 or more and a useful life of more than 1 year. Depreciation is calculated using the straight-line method over estimated useful lives of 3 to 5 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.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit the use of the donated assets are classified as restricted support. Conditional contributions are recognized when the conditions are substantially met.

In-kind contributions – Donated assets and materials 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. A significant number of individuals volunteer to present ChildBuilders' programs in schools. During the year ended June 30,

2017, ChildBuilders received approximately 2,715 volunteer hours from 279 volunteers with an estimated value of \$68,282. These services were not recognized in these financial statements because they do not meet the criteria for recognition under generally accepted accounting principles. The estimated value of volunteer time per hour was obtained from Independent Sector, a leadership network for nonprofit organizations, foundations, and corporate giving programs.

Program service fees are recognized when 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 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. 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. ChildBuilders plans to adopt this ASU for the fiscal year ending June 30, 2021. 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 the first phase of changes 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. The ASU is effective for fiscal periods beginning after December 15, 2017, but early adoption is permitted. Adoption of this ASU will impact the presentation and disclosures of the financial statements.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>2017</u>	<u>2016</u>
Demand deposits	\$ 104,909	\$ 67,453
Money market mutual funds	<u>118,162</u>	<u>171,798</u>
Total cash and cash equivalents	<u>\$ 223,071</u>	<u>\$ 239,251</u>

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2017</u>	<u>2016</u>
Office furniture and equipment	\$ 61,820	\$ 61,820
Accumulated depreciation	<u>(44,385)</u>	<u>(41,215)</u>
Property and equipment, net	<u>\$ 17,435</u>	<u>\$ 20,605</u>

NOTE 4 – NOTE PAYABLE

The note payable represents the outstanding balance on a \$100,000 unsecured line of credit with a bank that bears interest at prime plus 3.0% (6% at June 30, 2017). The line of credit expires on November 1, 2017.

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2017</u>	<u>2016</u>
Stay strong stay safe program	\$ 109,326	\$ 192,239
Time restricted	10,000	85,000
Personal safety education curriculum		22,500
Other	<u>1,120</u>	<u>13,615</u>
Total temporarily restricted net assets	<u>\$ 120,446</u>	<u>\$ 313,354</u>

NOTE 6 – IN-KIND CONTRIBUTIONS

A substantial number of volunteers, including the Board of Directors, have contributed significant amounts of time to develop ChildBuilders' programs and conduct its affairs. These services do not meet the criteria for recognition under generally accepted accounting principles and, therefore, are not reported in the accompanying financial statements.

NOTE 7 – LEASE COMMITMENTS

ChildBuilders leases office space and office equipment under noncancellable operating lease agreements. Future minimum lease payments are due as follows:

2018	\$ 46,588
2019	<u>15,664</u>
Total	<u>\$ 62,252</u>

Lease expense totaled \$43,805 and \$44,553 for the years ended June 30, 2017 and 2016, respectively.

NOTE 8 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 16, 2017, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.
