

CHILDREN AT RISK, INC.

Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2009 and 2008

Independent Auditors' Report

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

We have audited the accompanying statements of financial position of CHILDREN AT RISK, INC. as of December 31, 2009 and 2008 and the related statements of activities and of cash flows for the years then ended. These financial statements are the responsibility of the management of CHILDREN AT RISK, INC. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2009 and 2008 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Blazek & Vetterling

October 13, 2010

CHILDREN AT RISK, INC.

Statements of Financial Position as of December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
Cash	\$ 131,518	\$ 147,399
Prepaid expenses	12,288	36,518
Pledges receivable, net (<i>Note 2</i>)	27,181	16,950
Office furniture and equipment, net (<i>Note 3</i>)	17,502	20,060
Cash restricted for capital assets	340,959	219,475
Investments (<i>Notes 4 and 5</i>)	<u>18,085</u>	<u>14,270</u>
 TOTAL ASSETS	 <u>\$ 547,533</u>	 <u>\$ 454,672</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 10,848	\$ 27,223
Deferred revenue from special events	<u> </u>	<u>13,080</u>
Total liabilities	<u>10,848</u>	<u>40,303</u>
Net assets:		
Unrestricted	120,692	127,310
Temporarily restricted (<i>Note 6</i>)	410,993	282,059
Permanently restricted	<u>5,000</u>	<u>5,000</u>
Total net assets	<u>536,685</u>	<u>414,369</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 547,533</u>	 <u>\$ 454,672</u>

See accompanying notes to financial statements.

CHILDREN AT RISK, INC.

Statement of Activities for the year ended December 31, 2009

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:				
Contributions	\$ 305,231	\$ 378,915		\$ 684,146
Special events	486,402			486,402
Direct donor benefit costs	(159,991)			(159,991)
Program initiative fees	21,065			21,065
Investment return, net (<i>Note 4</i>)	<u>6,861</u>	<u> </u>		<u>6,861</u>
Total revenue	659,568	378,915		1,038,483
Net assets released from restrictions:				
Expenditure for program purposes	233,031	(233,031)		
Expiration of time restrictions	<u>16,950</u>	<u>(16,950)</u>		<u> </u>
Total	<u>909,549</u>	<u>128,934</u>		<u>1,038,483</u>
EXPENSES:				
Research and advocacy for children	662,230			662,230
Management and general	93,937			93,937
Fundraising	<u>160,000</u>			<u>160,000</u>
Total expenses	<u>916,167</u>			<u>916,167</u>
CHANGES IN NET ASSETS	(6,618)	128,934		122,316
Net assets, beginning of year	<u>127,310</u>	<u>282,059</u>	<u>\$ 5,000</u>	<u>414,369</u>
Net assets, end of year	<u>\$ 120,692</u>	<u>\$ 410,993</u>	<u>\$ 5,000</u>	<u>\$ 536,685</u>

See accompanying notes to financial statements.

CHILDREN AT RISK, INC.

Statement of Activities for the year ended December 31, 2008

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:				
Contributions	\$ 311,785	\$ 314,243		\$ 626,028
Special events	352,797			352,797
Direct donor benefit costs	(54,060)			(54,060)
Program initiative fees	23,567			23,567
Investment return, net (<i>Note 4</i>)	<u>(4,690)</u>	<u> </u>		<u>(4,690)</u>
Total revenue	629,399	314,243		943,642
Net assets released from restrictions:				
Expenditure for program purposes	219,627	(219,627)		
Expiration of time restrictions	<u>55,000</u>	<u>(55,000)</u>		<u> </u>
Total	<u>904,026</u>	<u>39,616</u>		<u>943,642</u>
EXPENSES:				
Research and advocacy for children	607,173			607,173
Management and general	81,136			81,136
Fundraising	<u>161,202</u>			<u>161,202</u>
Total expenses	<u>849,511</u>			<u>849,511</u>
CHANGES IN NET ASSETS	54,515	39,616		94,131
Net assets, beginning of year	<u>72,795</u>	<u>242,443</u>	<u>\$ 5,000</u>	<u>320,238</u>
Net assets, end of year	<u>\$ 127,310</u>	<u>\$ 282,059</u>	<u>\$ 5,000</u>	<u>\$ 414,369</u>

See accompanying notes to financial statements.

CHILDREN AT RISK, INC.

Statements of Cash Flows for the years ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 122,316	\$ 94,131
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Contributions restricted for acquisitions of capital assets	(121,484)	(152,293)
Depreciation	7,506	7,193
Net realized and unrealized (gain) loss on investments	(2,729)	6,345
Changes in operating assets and liabilities:		
Prepaid expenses	24,230	(15,988)
Pledges receivable	(10,231)	38,050
Accounts payable and accrued expenses	(16,375)	(662)
Deferred revenue from special events	<u>(13,080)</u>	<u>(4,570)</u>
Net cash used by operating activities	<u>(9,847)</u>	<u>(27,794)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(50,077)	(45,327)
Proceeds from sale of investments	45,119	45,279
Net change in money market mutual funds held as investments	3,872	
Purchases of office furniture and equipment	(4,948)	(3,053)
Net change in cash held for capital assets	<u>(121,484)</u>	<u>(114,378)</u>
Net cash used by investing activities	<u>(127,518)</u>	<u>(117,479)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for acquisitions of capital assets	<u>121,484</u>	<u>152,293</u>
Net cash provided by financing activities	<u>121,484</u>	<u>152,293</u>
NET CHANGE IN CASH	(15,881)	7,020
Cash, beginning of year	<u>147,399</u>	<u>140,379</u>
Cash, end of year	<u>\$ 131,518</u>	<u>\$ 147,399</u>

See accompanying notes to financial statements.

CHILDREN AT RISK, INC.

Notes to Financial Statements for the years ended December 31, 2009 and 2008

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. Children at Risk, through leadership and action, works to assure that children have the highest priority in our community. Its focus is to change policies, laws and programs to respond more effectively to the needs of children. Children at Risk, using the tools of advocacy, works on a broad range of children's issues, including child welfare, education, juvenile justice, mental health and physical health. It has become a leading source of accurate information through its publication of statistics and indicators to measure the quality of life for children.

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).

Cash concentrations – Bank deposits exceed the federally insured limit per depositor per institution.

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

Office furniture and equipment is recorded 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.

Investments are recorded at fair value. Investment return is reported in the statement of activities as an increase in unrestricted net assets unless its use is limited by donor-imposed restrictions. Investment return whose use is restricted by the donor is reported as an increase in temporarily restricted net assets until expended in accordance with donor-imposed restrictions.

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 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 contributions. Conditional contributions are recognized in the same manner when the conditions are substantially met.

Non-cash contributions – Donated materials, facilities, and services are recorded at fair value as contributions when an unconditional commitment is received from the donor. The related expense is recorded 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.

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.

NOTE 2 – PLEDGES RECEIVABLE

Pledges receivable are comprised of the following:

	<u>2009</u>	<u>2008</u>
Pledges receivable	\$ 34,681	\$ 16,950
Allowance for uncollectible pledges	<u>(7,500)</u>	<u> </u>
Pledges receivable, net	<u>\$ 27,181</u>	<u>\$ 16,950</u>

Pledges receivable at December 31, 2009 are expected to be collected within one year.

NOTE 3 – OFFICE FURNITURE AND EQUIPMENT

Office furniture and equipment is comprised of the following:

	<u>2009</u>	<u>2008</u>
Office furniture and equipment	\$ 42,776	\$ 53,438
Accumulated depreciation	<u>(25,274)</u>	<u>(33,378)</u>
Office furniture and equipment, net	<u>\$ 17,502</u>	<u>\$ 20,060</u>

NOTE 4 – INVESTMENTS

Investments consist of the following:

	<u>2009</u>	<u>2008</u>
Equity mutual funds	\$ 18,085	\$ 10,398
Money market mutual funds	<u> </u>	<u>3,872</u>
Total investments	<u>\$ 18,085</u>	<u>\$ 14,270</u>

Investments are exposed to various risks such as interest rate, market, and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

Investment return includes earnings on bank deposits and consists of the following:

	<u>2009</u>	<u>2008</u>
Interest and dividends	\$ 4,243	\$ 1,934
Realized and unrealized gain (loss) on investments	2,729	(6,345)
Investment fees	<u>(111)</u>	<u>(279)</u>
Investment return, net	<u>\$ 6,861</u>	<u>\$ (4,690)</u>

NOTE 5 – FAIR VALUE MEASUREMENTS

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. 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 three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity's assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at December 31, 2009 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Equity mutual funds	\$ 18,085	<u> </u>	<u> </u>	\$ 18,085
Total assets measured at fair value	<u>\$ 18,085</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 18,085</u>

Assets measured at fair value at December 31, 2008 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Equity mutual funds	\$ 10,398			\$ 10,398
Money market mutual funds	<u>3,872</u>			<u>3,872</u>
Total assets measured at fair value	<u>\$ 14,270</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 14,270</u>

Mutual funds are valued at the reported net asset value of shares held. This valuation method may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Children at Risk believes its valuation method is appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2009</u>	<u>2008</u>
NOW capital campaign	\$ 340,959	\$ 219,475
Latino Children's Health Program	31,990	6,665
Use in future periods	27,181	16,950
Human trafficking		25,000
Other	<u>10,863</u>	<u>13,969</u>
Total temporarily restricted net assets	<u>\$ 410,993</u>	<u>\$ 282,059</u>

NOTE 7 – COMMITMENTS

Leases – Children at Risk leases office space under a noncancellable operating lease. Future minimum lease payments are as follows:

2010	\$ 85,205
2011	90,494
2012	<u>50,568</u>
Total	<u>\$ 226,267</u>

Total lease expense was approximately \$71,300 in 2009 and \$60,000 in 2008.

Line of credit – Children at Risk has a \$50,000 line of credit with a bank that expires in April 2011. Advances on the line bear interest at prime rate at the time draws are made plus 1%. There were no amounts outstanding under the line of credit at December 31, 2009.

NOTE 8 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 13, 2010, 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.
