

CHILDREN AT RISK, INC.

Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2015 and 2014

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, 2015 and 2014 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, 2015 and 2014 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

August 24, 2016

CHILDREN AT RISK, INC.

Statements of Financial Position as of December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash	\$ 130,909	\$ 583,079
Prepaid expenses and other receivables	71,141	42,381
Pledges receivable <i>(Note 2)</i>	525,833	345,535
Investments	12,781	14,012
Property and equipment, net <i>(Note 3)</i>	139,872	75,925
Cash and investments restricted for endowment	<u>153,130</u>	<u>150,630</u>
TOTAL ASSETS	<u>\$ 1,033,666</u>	<u>\$ 1,211,562</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 112,625	\$ 127,234
Deferred lease expense <i>(Note 4)</i>	<u>38,732</u>	<u>54,696</u>
Total liabilities	<u>151,357</u>	<u>181,930</u>
Commitments <i>(Note 4)</i>		
Net assets:		
Unrestricted	(95,747)	125,122
Temporarily restricted <i>(Note 5)</i>	824,926	753,880
Permanently restricted <i>(Note 6)</i>	<u>153,130</u>	<u>150,630</u>
Total net assets	<u>882,309</u>	<u>1,029,632</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,033,666</u>	<u>\$ 1,211,562</u>

See accompanying notes to financial statements.

CHILDREN AT RISK, INC.

Statement of Activities for the year ended December 31, 2015

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:				
Contributions	\$ 369,163	\$ 1,589,426	\$ 2,500	\$ 1,961,089
Special events	678,592			678,592
Direct donor benefits – special events	(266,283)			(266,283)
Contract and program fees	113,457			113,457
Investment return	<u>(740)</u>	<u> </u>	<u> </u>	<u>(740)</u>
Total revenue	894,189	1,589,426	2,500	2,486,115
Net assets released from restrictions:				
Expenditure for program purposes	<u>1,518,380</u>	<u>(1,518,380)</u>	<u> </u>	<u> </u>
Total	<u>2,412,569</u>	<u>71,046</u>	<u>2,500</u>	<u>2,486,115</u>
EXPENSES:				
Research and advocacy for children	1,865,810			1,865,810
Management and general	213,541			213,541
Fundraising	<u>554,087</u>			<u>554,087</u>
Total expenses	<u>2,633,438</u>			<u>2,633,438</u>
CHANGES IN NET ASSETS	(220,869)	71,046	2,500	(147,323)
Net assets, beginning of year	<u>125,122</u>	<u>753,880</u>	<u>150,630</u>	<u>1,029,632</u>
Net assets, end of year	<u>\$ (95,747)</u>	<u>\$ 824,926</u>	<u>\$ 153,130</u>	<u>\$ 882,309</u>

See accompanying notes to financial statements.

CHILDREN AT RISK, INC.

Statement of Activities for the year ended December 31, 2014

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:				
Contributions	\$ 339,138	\$ 1,484,385	\$ 43,755	\$ 1,867,278
Special events	719,058			719,058
Direct donor benefits – special events	(204,908)			(204,908)
Contract and program fees	121,275			121,275
Other	<u>3,622</u>			<u>3,622</u>
Total revenue	978,185	1,484,385	43,755	2,506,325
Net assets released from restrictions:				
Expenditure for program purposes	<u>1,491,103</u>	<u>(1,491,103)</u>		
Total	<u>2,469,288</u>	<u>(6,718)</u>	<u>43,755</u>	<u>2,506,325</u>
EXPENSES:				
Research and advocacy for children	1,736,772			1,736,772
Management and general	245,961			245,961
Fundraising	<u>461,196</u>			<u>461,196</u>
Total expenses	<u>2,443,929</u>			<u>2,443,929</u>
CHANGES IN NET ASSETS	25,359	(6,718)	43,755	62,396
Net assets, beginning of year	<u>99,763</u>	<u>760,598</u>	<u>106,875</u>	<u>967,236</u>
Net assets, end of year	<u>\$ 125,122</u>	<u>\$ 753,880</u>	<u>\$ 150,630</u>	<u>\$ 1,029,632</u>

See accompanying notes to financial statements.

CHILDREN AT RISK, INC.

Statement of Functional Expenses for the year ended December 31, 2015

	RESEARCH AND ADVOCACY FOR CHILDREN	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries and benefits	\$ 1,181,452	\$ 68,803	\$ 330,910	\$ 1,581,165
Professional fees	269,302	99,025	55,717	424,044
Rent	158,209	4,667	53,223	216,099
Supplies	66,980	10,531	6,982	84,493
Travel	55,702	5,243	20,458	81,403
Printing and copying	10,077	176	27,201	37,454
Telephone and other utilities	25,912	855	9,104	35,871
Book production and printing	33,720			33,720
Computer supplies and software	9,826	263	16,031	26,120
Depreciation	17,923	1,890	4,661	24,474
Memberships and dues	14,147	1,052	3,477	18,676
Marketing and promotion	1,509	62	16,489	18,060
Bank service charges		12,653		12,653
Website design and maintenance	9,600	48	606	10,254
Insurance	4,387	2,022	1,541	7,950
Postage and shipping	2,604	983	3,832	7,419
Other	4,460	5,268	3,855	13,583
Total	<u>\$ 1,865,810</u>	<u>\$ 213,541</u>	<u>\$ 554,087</u>	<u>\$ 2,633,438</u>

See accompanying notes to financial statements.

CHILDREN AT RISK, INC.

Statement of Functional Expenses for the year ended December 31, 2014

	RESEARCH AND ADVOCACY FOR CHILDREN	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries and benefits	\$ 1,080,208	\$ 121,065	\$ 306,872	\$ 1,508,145
Professional fees	159,525	58,439	47,045	265,009
Rent	95,648	14,085	25,798	135,531
Supplies	51,252	13,423	6,590	71,265
Travel	71,254		2,410	73,664
Printing and copying	11,217	1,651	19,882	32,750
Telephone and other utilities	13,067	1,923	3,524	18,514
Book production and printing	182,995			182,995
Computer supplies and software	5,394		13,290	18,684
Depreciation	10,223	1,505	2,757	14,485
Memberships and dues	4,159	3,442	809	8,410
Marketing and promotion	20,051	2,952	6,810	29,813
Bank service charges		14,338		14,338
Website design and maintenance	12,844	1,450		14,294
Insurance	5,798	2,859	1,564	10,221
Postage and shipping	2,274	258	10,087	12,619
Equipment rental and maintenance	1,725	254	465	2,444
Other	9,138	8,317	13,293	30,748
Total	<u>\$ 1,736,772</u>	<u>\$ 245,961</u>	<u>\$ 461,196</u>	<u>\$ 2,443,929</u>

See accompanying notes to financial statements.

CHILDREN AT RISK, INC.

Statements of Cash Flows for the years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (147,323)	\$ 62,396
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation	24,474	14,485
Net realized and unrealized (gain) loss on investments	2,473	(794)
Contributions restricted for endowment	(2,500)	(43,755)
Changes in operating assets and liabilities:		
Prepaid expenses and other receivables	(28,760)	(6,286)
Pledges receivable	(180,298)	(274,939)
Accounts payable and accrued expenses	(14,609)	103,768
Deferred lease expense	<u>(15,964)</u>	<u>(13,020)</u>
Net cash used by operating activities	<u>(362,507)</u>	<u>(158,145)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(1,079)	(1,393)
Purchases of property and equipment	(88,421)	(42,976)
Net change in cash and investments restricted for endowment	<u>(2,663)</u>	<u>(43,755)</u>
Net cash used by investing activities	<u>(92,163)</u>	<u>(88,124)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for endowment	<u>2,500</u>	<u>43,755</u>
NET CHANGE IN CASH	(452,170)	(202,514)
Cash, beginning of year	<u>583,079</u>	<u>785,593</u>
Cash, end of year	<u>\$ 130,909</u>	<u>\$ 583,079</u>

See accompanying notes to financial statements.

CHILDREN AT RISK, INC.

Notes to Financial Statements for the years ended December 31, 2015 and 2014

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.

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.

Investments consist of domestic equity mutual funds. Mutual funds are valued at the reported net asset value of shares held. The fair value of investments was \$17,781 and \$19,175 at December 31, 2015 and 2014, respectively.

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 contributions. 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 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.

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

NOTE 2 – PLEDGES RECEIVABLE

Pledges receivable at December 31, 2015 are expected to be collected as follows:

Receivable in less than one year	\$ 475,833
Receivable in one to five years	<u>50,000</u>
Pledges receivable	<u>\$ 525,833</u>

In 2015, approximately 58% of pledges receivable were from two donors and 31% of total contributions were from one donor. In 2014, approximately 58% of pledges receivable were from one donor and 32% of total contributions were from two donors.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following:

	<u>2015</u>	<u>2014</u>
Office furniture and equipment	\$ 79,869	\$ 87,215
Website	97,747	32,500
Leasehold improvements	<u>31,441</u>	<u>31,441</u>
Total property	209,057	151,156
Accumulated depreciation	<u>(69,185)</u>	<u>(75,231)</u>
Property and equipment, net	<u>\$ 139,872</u>	<u>\$ 75,925</u>

NOTE 4 – COMMITMENTS

Children at Risk has a \$200,000 line of credit with a bank that expires in April 2017. Advances on the line bear interest at 5.25%. There were no amounts outstanding under the line of credit at December 31, 2015.

Children at Risk is party to a noncancelable operating lease agreement for office space that expires November 30, 2017. 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 include a noncancelable copier operating lease and are payable as follows:

2016	\$ 133,941
2017	124,588
2018	4,740
2019	4,740
2020	<u>4,740</u>
Total	<u>\$ 272,749</u>

Lease expense, including donated office space, was approximately \$218,520 in 2015 and \$140,000 in 2014.

Children at Risk received donated office space valued at \$83,000 for one of its locations for a portion of 2015.

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2015</u>	<u>2014</u>
Public education initiatives	\$ 459,853	\$ 71,159
Human trafficking initiatives	185,237	144,040
Positive Parenting Program	112,246	387,319
Health and nutrition initiatives	29,169	113,327
Future periods	20,000	20,000
Juvenile justice initiatives		17,035
Other	<u>18,421</u>	<u>1,000</u>
Total temporarily restricted net assets	<u>\$ 824,926</u>	<u>\$ 753,880</u>

NOTE 6 – 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 are 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 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. 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, 2015 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>\$ 153,130</u>	<u>\$ 153,130</u>

Endowment net asset composition at December 31, 2014 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>\$ 150,630</u>	<u>\$ 150,630</u>

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

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
Endowment net assets, December 31, 2013	\$ 0	\$ 0	\$ 106,875	\$ 106,875
Contributions	<u> </u>	<u> </u>	<u>43,755</u>	<u>43,755</u>
Endowment net assets, December 31, 2014	0	0	150,630	150,630
Contributions	<u> </u>	<u> </u>	<u>2,500</u>	<u>2,500</u>
Endowment net assets, December 31, 2015	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 153,130</u>	<u>\$ 153,130</u>

NOTE 7 – RELATED PARTY TRANSACTION

Catered meals for special events were purchased from a Board member's catering company for 2015 and 2014. The cost of these meals was approximately \$34,000 in 2015 and \$46,000 in 2014.

NOTE 8 – MANAGEMENT'S PLANS

Partly because of an unanticipated result in current-year fundraising results, Children at Risk ended the year ended December 31, 2015 with a negative balance in unrestricted net assets. In order to remedy this situation, personnel and overhead expenses for 2016 have been significantly reduced, and increased

unrestricted donations are being solicited through targeted campaigns, additional fundraising events, and the pursuit of contractual revenue. Further, Children at Risk's Board of Directors has directed management to implement procedures to monitor the extent to which these measures improve the organization's net asset position.

Children at Risk's board and management believe that these measures 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

In August 2016, Children at Risk made a \$40,000 draw against its line of credit.

Management has evaluated subsequent events through August 24, 2016, 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.
