ALLIANCE FOR CHILDREN, INC.

AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

Year Ended September 30, 2018
(with comparative summarized financial information
for the year ended September 30, 2017)

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Table of Contents

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Alliance for Children, Inc.

Report on the Financial Statements
We have audited the accompanying financial statements of Alliance for Children, Inc. (a nonprofit organization), which comprise the statement of financial position as of September 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 auditors consider 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 Alliance for Children, Inc. as of September 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

***Other Reporting Required by* Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2019, on our consideration of Alliance for Children, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Alliance for Children, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Alliance for Children, Inc.'s internal control over financial reporting and compliance.

Report on Summarized Comparative Information

The financial statements of Alliance for Children, Inc. as of September 30, 2017 were audited by other auditors whose report dated March 22, 2018 expressed an unmodified opinion on those statements. The comparative information presented herein as of and for the year ended September 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

J. Taylor & Associates, LLC

Fort Worth, Texas
June 25, 2019

ALLIANCE FOR CHILDREN, INC.
Statement of Financial Position
September 30, 2018
(with comparative summarized financial information for the year ended September 30, 2017)

	2018	2017
Assets		
Cash and cash equivalents	$ 630,977	$ 677,224
Investments	644,702	523,687
Grants and contracts receivable	333,090	276,735
Unconditional promises to give	46,310	58,153
Prepaid expenses	31,647	72,482
Property and equipment, net	2,859,296	3,001,285
Deposits	17,767	17,767
License fee, net	736	8,275
Assets restricted for property and equipment	153,322	148,491
Assets permanently restricted for endowment	452,868	452,868
Total Assets	$ 5,170,715	$ 5,236,967
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 91,565	$ 157,869
Deferred revenue	10,000	54,479
Total liabilities	101,565	212,348
Net assets		
Unrestricted	4,167,697	4,234,693
Temporarily restricted	448,585	337,058
Permanently restricted	452,868	452,868
Total net assets	5,069,150	5,024,619
Total Liabilities and Net Assets	$ 5,170,715	$ 5,236,967

See accompanying notes to financial statements.

ALLIANCE FOR CHILDREN, INC.
Statement of Activities
Year Ended September 30, 2018
(with comparative summarized financial information for the year ended September 30, 2017)

	2018				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	2017 Total
Support and revenues					
Contributions	$ 558,690	$ 175,281	$ -	$ 733,971	$ 771,054
Fundraising events, net of costs of direct benefit to donors of $110,819 and $114,944, respectively	351,712	-	-	351,712	373,041
City grants	228,663	-	-	228,663	203,083
County grants	220,841	-	-	220,841	223,191
State grants	559,490	-	-	559,490	496,999
Federal grants	2,857,323	-	-	2,857,323	2,251,818
Rental income	112,633	-	-	112,633	112,633
In-kind rent	58,000	-	-	58,000	58,000
Other revenue	23,462	-	-	23,462	35,208
Investment income	125,420	-	-	125,420	96,416
Net asset released from restrictions	63,754	(63,754)	-	-	-
Total support and revenue	5,159,988	111,527	-	5,271,515	4,621,443
Expenses					
Program services	4,193,171	-	-	4,193,171	3,650,419
Management and general	449,944	-	-	449,944	300,291
Fundraising	583,869	-	-	583,869	583,709
Total expenses	5,226,984	-	-	5,226,984	4,534,419
Change in net assets	(66,996)	111,527	-	44,531	87,024
Net assets at beginning of year	4,234,693	337,058	452,868	5,024,619	4,937,595
Net assets at end of year	$ 4,167,697	$ 448,585	$ 452,868	$5,069,150	$5,024,619

See accompanying notes to financial statements.

ALLIANCE FOR CHILDREN, INC.
Statement of Functional Expenses
Year Ended September 30, 2018
(with comparative summarized financial information for the year ended September 30, 2017)

	2018				2017
	Program Services	Management and General	Fundraising	Total	Total
Salaries	$ 2,574,879	$ 292,090	$ 256,848	$ 3,123,817	$ 2,714,481
Payroll Taxes	192,859	21,468	19,223	233,550	206,796
Employee Benefits	341,260	30,839	27,164	399,263	314,751
Total salaries and related expenses	3,108,998	344,397	303,235	3,756,630	3,236,028
Professional fees	75,653	6,338	152,866	234,857	208,067
Rent	158,579	2,502	-	161,081	108,192
Depreciation and amortization	102,127	34,329	23,199	159,655	141,780
Donated goods and services	131,132	2,875	10,585	144,592	123,637
Venue	-	-	141,600	141,600	138,100
Client counseling and support	118,782	-	165	118,947	111,468
Telephone	91,278	7,854	6,343	105,475	80,218
Office expense	40,097	21,662	25,338	87,097	110,461
Repairs and maintenance	58,850	3,935	6,660	69,445	55,857
Utilities	52,168	2,150	3,638	57,956	54,891
Mileage	35,063	7,382	3,429	45,874	37,158
Community education	43,135	335	2,361	45,831	47,595
Miscellaneous	32,132	5,601	3,171	40,904	36,301
Insurance	31,764	1,864	3,729	37,357	37,123
Training	27,951	4,984	2,073	35,008	35,495
Partner agency training	25,392	-	-	25,392	19,869
Janitorial	21,630	1,172	1,973	24,775	20,827
Security	18,405	1,917	3,245	23,567	26,200
Equipment lease	15,985	637	1,078	17,700	17,536
Printing and advertising	4,050	10	-	4,060	2,560
Total expenses	4,193,171	449,944	694,688	5,337,803	4,649,363
Less cost of direct benefit to donors	-	-	(110,819)	(110,819)	(114,944)
Total expense, net	$ 4,193,171	$ 449,944	$ 583,869	$ 5,226,984	$ 4,534,419

See accompanying notes to financial statements.

ALLIANCE FOR CHILDREN, INC.
Statement of Cash Flows
Year Ended September 30, 2018
(with comparative summarized financial information for the year ended September 30, 2017)

	2018	2017
Operating Activities		
Change in net assets	$ 44,531	$ 87,024
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	159,655	141,780
Unrealized and realized gain on investments, net	(74,749)	(83,560)
Contributions restricted for property and equipment	(31,919)	(148,491)
Change in operating assets and liabilities:		
Grants and contracts receivable	(56,355)	(125,319)
Prepaid expenses	40,835	(45,447)
Unconditional promises to give	11,843	15,215
Other assets	-	(13,567)
Accounts payable and accrued liabilities	(66,304)	86,174
Deferred revenue	(44,479)	3,187
Net cash used in operating activities	(16,942)	(83,004)
Investing Activities		
Purchases of investments	(46,266)	(76,123)
Proceeds from sale of investments	-	65,894
Purchases of property and equipment	(10,127)	(140,131)
Net cash used in investing activities	(56,393)	(150,360)
Financing Activities		
Contributions restricted for property and equipment	27,088	87,968
Net cash provided by financing activities	27,088	87,968
Net decrease in cash and cash equivalents	(46,247)	(145,396)
Cash and cash equivalents at beginning of year	677,224	822,620
Cash and cash equivalents at end of year	$ 630,977	$ 677,224

See accompanying notes to financial statements.

A. Nature of Activities

Alliance for Children, Inc. (the "Organization"), a nonprofit organization, is a coordinating agency for evaluation, intervention, evidence gathering, and counseling for the benefit of abused children. The Organization's mission is to protect children of Tarrant County from child abuse through teamed investigations, healing services, and community education. Partner agencies include various police departments in Tarrant County, the District Attorney's Office of Tarrant County, Child Protective Services, and Cook Children's Healthcare System. Some of these agencies' personnel are co-located in the four centers operated by the Organization in Fort Worth, two locations in Arlington, a location in northeast Tarrant County, and a location in northwest Tarrant County. The Organization's corporate offices are located in Fort Worth, Texas.

B. Summary of Significant Accounting Policies

This summary of significant accounting policies of the Organization is presented to assist in the understanding the financial statements. The financial statements and notes are representations of the Organization's management, which is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the presentation of the financial statements.

Basis of Accounting

The Organization maintains its accounts on the accrual basis of accounting in accordance with accounting standards generally accepted in the United States of America (US GAAP).

Financial Statement Presentation

The Organization presents its financial position and activities based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

> *Unrestricted Net Assets* – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets include amounts designated by the Board of Directors for certain purposes, principally for long-term investment.
>
> *Temporarily Restricted Net Assets* – Net assets subject to donor-imposed stipulations that will be met either by action of the Organization and/or the passage of time.
>
> *Permanently Restricted* – Net assets subject to donor-imposed stipulations that will be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the return on related investments for general or specific purposes.

Support and revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is received. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time restriction has elapsed) are reported as net assets released from restriction.

B. Summary of Significant Accounting Policies (*continued*)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the financial statements and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from these estimates and assumptions. Management periodically evaluates estimates used in the preparation of the financial statements for continued reasonableness. Appropriate adjustments, if any, to the estimates used are made prospectively based upon such periodic evaluation.

Cash and Cash Equivalents

The Organization considers all unrestricted, highly-liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents with the exception of those amounts held as part of the investment portfolio, which are generally intended for long-term purposes. The Organization deposits funds with financial institutions which may at times be in excess of the U.S. Federal Deposit Insurance Corporation's ("FDIC") insured limits. The Organization has not experienced any losses related to amounts in excess of FDIC limits.

Grants and Contracts Receivable

Grants and contracts receivable primarily represent amounts due from government agencies for reimbursement of allowable costs according to grant agreements. Revenue is recognized as expenses which are reimbursable under grants or contracts are incurred. Management uses the "allowance method" and evaluates the adequacy of the allowance for doubtful accounts based on a periodic review of individual accounts. The primary factors considered in determining the amount of the allowance are past payment history and other specific information known to management that may affect collectability. In management's opinion, no allowance for doubtful accounts in considered necessary at September 30, 2018 and 2017. All grants and contracts receivable are expected to be collected within one year.

Unconditional Promises to Give

Contributions are recognized as support at their fair value in the period in which unconditional promises to give are received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than monetary assets are recorded at their estimated fair value. The Organization uses the previously described allowance method to determine uncollectible promises receivable and no allowance for doubtful accounts is considered necessary by management as of September 30, 2018 and 2017. For the years ended September 30, 2018 and 2017, all promises to give are primarily short-term in nature and therefore no valuation allowance has been recorded. Approximately 33% and 32% of the 2018 and 2017 unconditional promises to give balance is due from two and one donors, respectively.

Conditional promises to give which are not yet recorded in the accompanying financial statements include $50,000 from one donor conditionally pledged in equal payments of $25,000 in 2019 and 2020 which are pending the donor's recurring review and approval of program results.

The Organization accounts for its governmental grants as conditional contributions. Future obligations conditioned upon future allowable expenditures are excluded from the accompanying financial statements.

B. Summary of Significant Accounting Policies (*continued*)

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at their fair values based upon quoted or published market values. Realized and unrealized gains and losses are included in the change in net assets.

Property and Equipment

Property and equipment purchased at a cost of $5,000 or more is stated at cost on the date of purchase and depreciated over the estimated useful lives of the assets using the straight-line method. Expenditures for major renewals and betterments that extend the useful lives are capitalized. Expenditures for normal maintenance and repairs are expensed as incurred. Donations of land, buildings, and equipment in excess of $5,000 are similarly capitalized and recorded as support at their fair value. Such donations are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. The cost of assets sold or abandoned and the related accumulated depreciation are eliminated from the accounts and any resulting gains or losses are charged or credited to the operating results of the respective period.

Depreciable lives are typically the lesser of the life of related leases or forty years for building, land improvements and leasehold improvements and from three to five years for equipment and furniture and fixtures.

Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash and other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Impairment of Long-Lived Assets

Management evaluates its long-lived assets for financial impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. An impairment loss is recognized when the estimated undiscounted future cash flows from the assets are less than the carrying value of the assets. Assets to be disposed of are reported at the lower of their carrying amount or fair value, less cost to sell. Management is of the opinion that the carrying amount of its long-lived assets does not exceed their estimated recoverable amount.

Deferred Revenue

Deferred revenue represents amounts received for fundraising events to be held in the subsequent year. Such amounts would be returned to the donor if the event were cancelled.

Revenue Recognition

Contributions are recognized as unconditional contributions are received or pledged. Grant revenue is recognized as expenses that are reimbursable under grants or contracts are incurred. Special event revenue is recognized when the event occurs.

B. Summary of Significant Accounting Policies (*continued*)

Donated Services

The Organization only recognizes donated services which create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Many individuals volunteer their time and perform a variety of tasks that assist the Organization, but these services do not meet the criteria for recognition as contributed services. Therefore, no amounts are reflected in the accompanying financial statements for donated services as no objective basis is available to measure the value of such services.

Functional Allocation of Expenses

The costs of providing the program and activities of the Organization have been summarized on a functional basis in the statement of activities and changes in net assets and the statement of functional expenses. Accordingly, certain costs have been allocated among program services and supporting services.

Income Taxes

The Organization is a nonprofit organization as defined in Section 501(c)(3) of the Internal Revenue Code and, accordingly, does not provide for federal income taxes. The Organization files Federal Form 990 in the United States federal jurisdiction within the United States. At September 30, 2018, the Organization's tax return for the years ended 2015 through 2017 remain open to possible examination by any tax authorities. The Organization has not incurred any penalties or interest related to any examinations for the years ended September 30, 2018 and 2017.

Contingencies

In the usual course of carrying out its mission, the Organization may be party to litigation and other claims. The Organization carries insurance that, generally, covers costs of defending and settling such litigation and claims. Management is not aware of any pending litigation of claims that would have a material adverse effect on the Organization's financial position.

Prior-Year Comparative Information

The financial statements include certain prior year summarized information for comparative purposes only. Such information does not include sufficient detail to constitute a presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended September 30, 2017 from which the summarized information was derived.

Reclassifications

Certain 2017 amounts have been reclassified in the accompanying financial statements to conform to the current year presentation.

Recent Accounting Pronouncements

Following are Accounting Standard Updates ("ASUs") issued by the Financial Accounting Standards board ("FASB") considered potentially significant to current or future financial reporting. This is not intended to be an evaluation of all recent accounting pronouncements.

B. Summary of Significant Accounting Policies (*continued*)

Recent Accounting Pronouncements (*continued*)

In May 2014, the FASB issued a new accounting pronouncement regarding revenue recognition effective for reporting periods beginning after December 15, 2018. Management does not expect the new standard to have a significant impact to its financial position, results of operations and related disclosures.

In February 2016, the FASB issued a new accounting pronouncement regarding lease accounting for reporting periods beginning after December 15, 2019. A lessee will be required to recognize on the balance sheet the assets and liabilities for leases with lease terms of more than 12 months. Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures.

In August 2016, the FASB issued ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities (ASU 2016-14), which will change certain financial statement requirements for not-for-profit (NFP) entities. NFPs will no longer be required to distinguish between resources with temporary and permanent restrictions on the face of their financial statements, meaning they will present two classes of net assets (with donor restrictions and without donor restrictions) instead of three classes. The guidance also will change how NFPs report certain expense and provide information about their available resources and liquidity. In addition, NFPs will be required to present expenses by their natural and functional classification and present investment returns net of internal direct and external investment expenses. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, and interim periods thereafter. The guidance will be applied retrospectively, but NFPs will have the option to omit certain information for comparative periods presented in the year of adoption. Early application is permitted. The Organization is currently evaluating the impact that ASU 2016-14 will have on its 2019 financial statements.

C. Fair Value Measurements

For assets and liabilities measured at fair value on a recurring basis, FASB ASC Topic 820, *Fair Value Measurement*, defines fair value as 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 and establishes a three-tier hierarchy that is used to identify assets and liabilities measured at fair value. The hierarchy focuses on the inputs used to measure fair value and requires that the lowest level input be used.

The three levels defined in FASB ASC Topic 820 are as follows:

Level 1 Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities as of the reporting date.

Level 2 Observable market based on inputs or unobservable inputs that are corroborated by market data, including quoted prices for similar assets or liabilities in active markets or quoted prices for similar assets or liabilities in inactive markets. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. As of September 30, 2018 and 2017, the Organization had no Level 2 investments.

Level 3: Unobservable inputs that are not corroborated by market data. As of September 30, 2018 and 2017, the Organization had no Level 3 investments.

C. Fair Value Measurements (*continued*)

The asset's or liability's fair value measurement level within the fair value hierarchy is based upon the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Mutual fund share prices/net asset values ("NAV"s) reported are generally obtained from a file feed from the National Securities Clearing Corporation, and/or directly from the fund house, or a secondary pricing source and are classified within Level 1 of the valuation hierarchy. These methodologies were consistently applied to all assets carried as of September 30, 2018 and 2017.

All investment are Level 1 investments in the fair value hierarchy.

Investments

At September 30, 2018 and 2017, investments, all of which are classified as Level 1, consist of the following:

	2018		2017	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Cash and cash equivalents	$ 27,479	$ 27,479	$ 41,213	$ 41,213
Fixed income mutual funds	386,000	370,182	326,000	318,248
Equity mutual funds	551,600	699,909	551,600	617,094
	$ 965,079	$ 1,097,570	$ 918,813	$ 976,555

The above investment total is reported as follows in the accompanying financial statements at fair value:

	2018	2017
Investments	$ 644,702	$ 523,687
Assets permanently restricted for endowment	452,868	452,868
	$ 1,097,570	$ 976,555

Investment income was as follows for the years ended September 30, 2018 and 2017:

	2018	2017
Interest and dividends	$ 50,671	$ 12,856
Unrealized gain	74,749	83,560
	$ 125,420	$ 96,416

Other Financial Instruments

The carrying amounts of cash and cash equivalents, grants and contracts receivable, unconditional promises to give, assets restricted for property and equipment, and accounts payable approximate fair value due to their short-term nature.

D. Assets Restricted for Property and Equipment

Assets restricted for property and equipment consist of the following amounts at September 30, 2018 and 2017:

	2018	2017
Cash	$ 115,056	$ 87,968
Pledges	38,266	60,523
	$ 153,322	$ 148,491

Pledges are expected to be received as follows:

2019	$ 35,143
2020	3,123
	$ 38,266

E. Endowment Fund

The Organization's endowment consists of one donor-restricted fund and one fund designated by the Board of Directors to function as an endowment. The donor-restricted contributions are made to establish a permanent endowment. The earnings from the endowment funds are to be used to support the Organization's facilities. Net assets associated with endowment funds are classified and reported based upon the existence or absence of donor-imposed restrictions. The endowment fund net asset activity and composition by type of funds for the years ending September 30, 2018 and 2017 is as follows:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at beginning of year	$ 406,055	$ 117,632	$ 452,868	$ 976,555
Contributions	6	-	-	6
Unrealized/realized gain	31,099	43,650	-	74,749
Interest and dividends	19,235	27,025	-	46,260
	$ 456,395	$ 188,307	$ 452,868	$ 1,097,570

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at beginning of year	$ 367,000	$ 62,898	$ 452,868	$ 882,766
Contributions	108	-	-	108
Unrealized/realized gain	34,739	48,821	-	83,560
Interest and dividends	4,208	5,913	-	10,121
	$ 406,055	$ 117,632	$ 452,868	$ 976,555

E. Endowment Fund (*continued*)

Interpretation of Relevant Law

The Board of Directors of the Organization have interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") of the State of Texas to require the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Therefore, the Organization will classify as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Organization
7. The investment policies of the Organization

Return Objectives and Risk Parameters

Endowment funds are prudently invested as permanently restricted funds, in a manner consistent with earning superior long-term capital appreciation, while minimizing both short and long-term volatility. As a permanent fund, the investment objectives for the endowment require disciplined and consistent management that accommodates all events that are relevant, reasonable, and probable. Extreme positions or frequent variations in management style are not consistent with these objectives. The investments of the endowment shall be appropriately diversified so as to minimize risk and volatility while maximizing expected returns.

Strategies Employed for Achieving Objectives

In general, the return objective for the endowment is an average annual total real rate of return (adjusted for inflation and fees) as measured over a three to five-year market period. The asset allocation, consistent with these expectations, shall be within the following ranges: equities 60-80%, fixed income 20-40%, and cash 0-10%.

It is the responsibility of the Executive Director, working in conjunction with the investment consultant, to monitor asset allocation and to make adjustments, as necessary, to ensure an ongoing asset allocation consistent with return objectives and cash requirements. Variations of up to five percentage points from the stated targets are acceptable. It is also understood that the Investment Committee will review the portfolio's asset allocation ranges no less than twice annually.

E. Endowment Fund (*continued*)

Spending Policy and How the Investment Objectives Relate to Spending Policy

At the current time and until the endowment exceeds $1 million, the spending rate will be 0%. Thereafter, the spending rate is up to 5% of the average fair value of its endowment funds for the most recent 4 quarters prior to the beginning of the current fiscal year; the amount to be spent in each coming year shall be approved annually by the Investment Committee. Though changes to the spending rate are expected to be infrequent, the Investment Committee may recommend changes in the spending rate when it is deemed appropriate to do so.

F. Property and Equipment

Property and equipment at September 30, 2018 and 2017 consisted of the following:

	2018	2017
Land	$ 442,057	$ 442,057
Land improvements	111,071	111,071
Building	3,177,669	3,177,669
Equipment	163,628	163,628
Furniture and fixtures	200,469	200,469
Leasehold improvements	110,083	99,954
	4,204,977	4,194,848
Less accumulated depreciation	(1,345,681)	(1,193,563)
	$ 2,859,296	$ 3,001,285

G. License Fee

The Organization has signed an agreement with Tarrant County, Texas for a twenty-year license to provide children services in a facility owned by the County. The license fee is being amortized using the straight-line method over the life of the license (20 years). The license fee is as follows as of September 30, 2018 and 2017:

	2018	2017
License fee	$ 150,775	$ 150,775
Accumulated amortization	(150,039)	(142,500)
	$ 736	$ 8,275

H. Retirement Plan

The Organization sponsors a Simple IRA plan for the benefit of its employees. Full-time employees are eligible to participate in the Simple IRA plan at the beginning of a calendar year if they have been employed with the Organization for at least one year as of Simple IRA enrollment. Part-time employees are eligible to participate at the beginning of a calendar year if they are expected to earn at least $5,000 in the current calendar year and have earned at least $5,000 during any two prior calendar years. The Organization has an option to match all eligible employees' contributions to the Simple IRA at 2% of each employee's salary. The Organization contributed approximately $41,000 and $28,000 to the Simple IRA for the years ended September 30, 2018 and 2017, respectively.

I. Temporarily Restricted Net Assets

Temporarily restricted net assets are donor restricted for the following purposes as of September 30, 2018 and 2017:

	2018	2017
Endowment	$ 188,307	$ 117,632
Property and equipment	153,322	148,491
Next steps program	49,966	-
Makeover program	24,219	-
Emergency support	13,097	-
Community education	11,575	-
Other	8,099	-
Counseling and therapy	-	51,463
Time restrictions	-	19,472
	$ 448,585	$ 337,058

J. Rental Income and Donated Rent

One of the Organization's Arlington facilities is provided by the City of Arlington, Texas under a long-term lease arrangement which represents an in-kind donation by the City of Arlington. The estimated fair value of the rental facility is approximately $58,000 and is recognized as a contribution and program service expense during both fiscal years 2018 and 2017. No pledge receivable is recorded for the future use of the facility because the lease arrangement can be cancelled by either party with three-month notice.

The Organization subleases portions of its facilities to the State of Texas, City of Fort Worth, and a local charitable organization under cancellable sublease agreements. Income under these agreements is reported as rental income on the statement of activities. Each of the leases is contingent upon funding availability for specific government programs.

K. Commitments and Contingencies

The Organization leases certain office space and equipment under non-cancellable operating leases. Expenses for such leases are reported as rent and equipment lease expense on the statement of functional expenses. The minimum lease commitments at September 30, 2018 consist of the following:

2019	$ 123,368
2020	86,477
2021	74,398
2022	62,339
2023	3,582
	$ 350,164

The Organization receives a substantial amount of its support from federal, state, and local government grants. These grants require fulfillment of certain conditions as set forth in the grant agreement. Failure to fulfill the conditions could result in the return of funds to grantors. In the opinion of management, the Organization is in compliance with the terms and conditions of the grants.

L. Line of Credit

The Alliance has an unsecured line of credit agreement with a bank in the amount of $150,000, which matures in April 2020. Borrowings under the line of credit bear interest at the bank's prime rate plus 0.75% (6.25% at September 30, 2018). At September 30, 2018 and 2017 there were no amounts outstanding under the line of credit.

M. Subsequent Events

In preparing the accompanying financial statements, management of the Organization has evaluated all subsequent events and transactions for potential recognition or disclosure through June 25, 2019, the date the accompanying financial statements were available for issuance.

In February 2019 the Organization entered into an agreement to sell its corporate office facility in Fort Worth, Texas. The sale finalized in May 2019 with a purchase price of approximately $5,700,000. A subsequent amendment also provided for $65,000 to be paid to the Organization to reimburse the Organization for expenditures incurred to replace the HVAC system for the building. The HVAC replacement cost was approximately $126,000.

In April 2019 the Organization purchased a new facility in Fort Worth, Texas. The purchase price was approximately $5,400,000 and included cost of the building, furniture, fixtures, and certain equipment.

SUPPLEMENTAL INFORMATION

ALLIANCE FOR CHILDREN, INC.
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2018

Federal Grantor / Pass-through Grantor / Program Title	Federal CFDA Number	Grant Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Justice / Texas Office of the Governor Criminal Justice Division / Victims of Crime Act Formula Grant Program	16.575	2017/2018-VOCA-3 and 2015 VOCA Reobligation of Funds	$ -	$ 2,857,323
Total Federal Awards			$ -	$ 2,857,323

See notes to schedule of expenditures of federal awards.

ALLIANCE FOR CHILDREN, INC.
Notes to Schedule of Expenditures of Federal Awards
Year Ended September 30, 2018

A. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of Alliance for Children, Inc. (the “Organization”) and is presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.* Therefore, some amounts presented in the Schedule may differ from the amounts presented in, or used in, the preparation of the basic financial statements.

B. Subrecipients

Of the federal expenditures presented in the Schedule, the Organization provided no federal awards to subrecipients.

C. Non-Cash Assistance

The Organization did not receive any non-cash assistance from federal awards for the year ended September 30, 2018.

D. Loans

At September 30, 2018, the Organization had no loans or loan guarantees outstanding with federal awarding agencies.

E. Indirect Cost Rate

The Organization has not elected to use the 10% de minimis indirect cost rate, and continues to use the cost allocation plan negotiated individually with its grantors, as applicable.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
Alliance for Children, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Alliance for Children, Inc. (the "Organization"), a nonprofit organization, which comprise the statement of financial position as of September 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 25, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2018-001 and 2018-002 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Alliance for Children's Response to Findings

The Organization's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

J. Taylor & Associates, LLC

Fort Worth, Texas
June 25, 2019

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors of
Alliance for Children, Inc.

Report on Compliance for the Major Federal Program

We have audited Alliance for Children's (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended September 30, 2018. The Organization's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Organization's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on the Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2018.

Report on Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identity a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2018-003, that we consider to be a significant deficiency.

The Organization's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

J. Taylor & Associates, LLC

Fort Worth, Texas
June 25, 2019

ALLIANCE FOR CHILDREN, INC.
Schedule of Findings and Questioned Costs
Year Ended September 30, 2018

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified			
Internal control over financial reporting:				
Material weakness(es) identified?		Yes	X	No
Significant deficiency(ies) identified?	X	Yes		None reported
Noncompliance material to financial statements noted?		Yes	X	No

Federal Awards

Internal control over major programs:				
Material weakness(es) identified?		Yes	X	No
Significant deficiency(ies) identified?	X	Yes		None reported
Type of auditors' report issued on compliance for major programs:				
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance		Yes	X	No

Identification of major program:

CFDA Numbers	Name of Federal Program
16.575	Victims of Crime Act Formula Grant Program

Dollar threshold used to distinguish between type A and type B programs:	$ 750,000			
Auditee qualified as low-risk auditee?	X	Yes		No

Section II – Financial Statement Findings

2018-001: New Federal Procurement Requirements

Federal Programs

All federal programs are potentially associated with this financial statement finding.

Criteria

Changes to federal procurement compliance rules were enacted with the implementation of Uniform Guidance. However, Uniform Guidance permitted deferral of the procurement standard changes until the Organization's 2019 fiscal year. Beginning with fiscal year 2019, the Organization's policies and procedures should comply with the updated procurement rules specified in Uniform Guidance.

Section II – Financial Statement Findings (*continued*)

2018-001: New Federal Procurement Requirements (*continued*)

Condition

The Organization's current policies and procedures do not reflect the updated requirements of Uniform Guidance. As indicated above, this is not a compliance concern for the 2018 fiscal year. However, as the current audit is occurring more than halfway through the 2019 fiscal year and the policy has not yet been updated, there is a risk the entity is noncompliant with these new rules in 2019.

Cause

The Organization has not updated its written policies to reflect changes in procurement rules enacted under Uniform Guidance which, in turn, may indicate the new rules are not being properly applied or documented for 2019.

Context

This condition was identified in our review of grant compliance policies related to the 2018 audit, which, in part, required determination of whether the Organization had adopted the new Uniform Guidance requirements related to procurement for 2018 or whether the Organization deferred implementation of the new rules until fiscal year 2019, which was permitted. Because the new rules for procurement were not effective for the Organization for 2018, there was no impact on grant compliance for 2018 and, therefore, no compliance finding or questioned costs are reported for the 2018 audit.

Effect

Failure to comply with the updated procurement requirements could result in noncompliance with federal grant requirements. Grantors could request corrective action, including reimbursement of any questioned costs.

Questioned Costs

There were no questioned costs identified for 2018.

Recommendation

We recommend that management update the procurement policies of the Organization to reflect the rules applicable under Uniform Guidance and evaluate whether sufficient procurement effort and documentation exists for activities in fiscal year 2019. Any noncompliance should be reported to the Organization’s grantors.

Section II – Financial Statement Findings (*continued*)

2018-001: New Federal Procurement Requirements (*continued*)

Views of Responsible Officials and Planned Corrective Actions

In conformity to Uniform Guidance ("UG") as recommended by our external auditing firm, management agrees to update the agency's financial procurement policies to reflect the updated requirements of UG.

UG procurement rules focus on process requirements for three levels of purchases:

1. $3,500 and below - Purchases of supplies or services at this level are referred to as micro-purchases. UG requires program operators to distribute micro-purchases equitably among qualified suppliers to the extent practicable but notes that awards may be made without soliciting competitive quotations if the operator considers the price to be reasonable.

2. Greater than $3,500 but less than or equal to $150,000 - Purchases of supplies or services at this level is referred to as small purchase. For these purchases (valued at or below the simplified acquisition threshold of $150,000), price or rate quotations must be obtained from an adequate number of qualified sources.

3. Greater than $150,000 - At this level of purchases, UG provides for three potential processes, depending on the circumstances that best fit the procurement details.
   a. Sealed bids – Purchases subject to sealed bids are publicly solicited and a firm fixed price contract is awarded to the responsible bidder whose bid, conforming with all the material terms and conditions of the invitation for bids, is the lowest in price. The sealed bid method is the preferred method for construction.
   b. Competitive proposals – Purchases may be made through fixed price or cost-reimbursement type contracts after considering proposals from an adequate number of sources. This procurement process will be used when the procurement is not appropriate for sealed bid conditions.
   c. Noncompetitive proposals – This purchase process may be used through solicitation of a proposal from only one source and may be utilized only in the limited circumstances set forth in UG; specifically, when goods are available from only one source, inadequate competition, or in emergency situations. It is important that entities document the basis and justification for using this method.

The Organization will update its written policies to be reviewed and approved by Finance & Facilities Committee with final adoption by the Board of Directors as soon as possible but no later than the September 2019 meeting. Furthermore, the accounting staff will review current year transactions to ensure compliance with the new UG requirements and consult with grantors if noncompliance is determined. Moreover, all staff directly responsible for procurement purchases have been informed of the new guidelines and instructed to adjust their practices accordingly.

Section II – Financial Statement Findings (*continued*)

2018-002: Segregation of Duties

Federal Programs

All federal programs are potentially associated with this financial statement finding.

Criteria

Management is responsible for 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.

Condition

The Organization has a lack of segregation of duties over certain cash receipts and disbursements. Development and accounting department personnel handle checks prior to the checks being deposited. While a separate individual makes a log of incoming checks, this log is not reconciled to the final deposit to ensure that all income cash receipts were deposited. In addition, signed checks are returned to accounts payable personnel for mailing. Proper segregation of duties over cash receipts and cash disbursements requires that roles of recordkeeping (which includes the development and accounting personnel) should not have custody of assets (which includes incoming cash or checks and signed outgoing checks). While significant portions of the Organization's activities, such as grant receipts, are not impacted by this deficiency since payment is received by ACH, other areas of operations could be impacted by this lack of segregation of duties.

Cause

Turnover in certain positions resulted in failure of controls initially designed to provide appropriate segregation of duties.

Context

This condition was identified during the financial statement audit as part of gaining an understanding of internal controls.

Effect

Although no related errors were identified for 2018, lack of segregation of duties creates opportunity for fraud.

Questioned Costs

There were no questioned costs identified for 2018.

Recommendation

We recommend management review the controls to ensure proper segregation of duties or sufficient mitigating controls are in place.

Section II – Financial Statement Findings (*continued*)

2018-002: Segregation of Duties (*continued*)

Views of Responsible Officials and Planned Corrective Actions

In response to the auditors' recommendation regarding segregation of duties over cash receipts and disbursements, management has reviewed the controls to ensure proper segregation of duties and sufficient mitigating controls are in place. Effective June 2019, the executive assistant who currently maintains the log of incoming checks will also reconcile the final deposit to ensure that all income cash receipts have been deposited. Additionally, signed accounts payable checks will be returned to the executive assistant for mailing. This change will ensure proper segregation of duties over cash receipts and cash disbursements.

Section III – Federal Award Findings and Questioned Costs

2018-003: New Federal Procurement Requirements

Federal Programs

All federal programs are potentially associated with this financial statement finding.

Criteria

Changes to federal procurement compliance rules were enacted with the implementation of Uniform Guidance. However, Uniform Guidance permitted deferral of the procurement standard changes until the Organization's 2019 fiscal year. Beginning with fiscal year 2019, the Organization's policies and procedures should comply with the updated procurement rules specified in Uniform Guidance.

Condition

The Organization's current policies and procedures do not reflect the updated requirements of Uniform Guidance. As indicated above, this is not a compliance concern for the 2018 fiscal year. However, as the current audit is occurring more than halfway through the 2019 fiscal year and the policy has not yet been updated, there is a risk the entity is noncompliant with these new rules in 2019.

Cause

The Organization has not updated its written policies to reflect changes in procurement rules enacted under Uniform Guidance which, in turn, may indicate the new rules are not being properly applied or documented for 2019.

Context

This condition was identified in our review of grant compliance policies related to the 2018 audit, which, in part, required determination of whether the Organization had adopted the new Uniform Guidance requirements related to procurement for 2018 or whether the Organization deferred implementation of the new rules until fiscal year 2019, which was permitted. Because the new rules for procurement were not effective for the Organization for 2018, there was no impact on grant compliance for 2018 and, therefore, no compliance finding or questioned costs are reported for the 2018 audit.

Section III – Federal Award Findings and Questioned Costs (continued)

2018-003: New Federal Procurement Requirements (continued)

Effect

Failure to comply with the updated procurement requirements could result in noncompliance with federal grant requirements. Grantors could request corrective action, including reimbursement of any questioned costs.

Questioned Costs

There were no questioned costs identified for 2018.

Recommendation

We recommend that management update the procurement policies of the Organization to reflect the rules applicable under Uniform Guidance and evaluate whether sufficient procurement effort and documentation exists for activities in fiscal year 2019. Any noncompliance should be reported to the Organization's grantors.

Views of Responsible Officials and Planned Corrective Actions

In conformity to Uniform Guidance ("UG") as recommended by our external auditing firm, management agrees to update the agency's financial procurement policies to reflect the updated requirements of UG.

UG procurement rules focus on process requirements for three levels of purchases:

1. $3,500 and below - Purchases of supplies or services at this level are referred to as micro-purchases. UG requires program operators to distribute micro-purchases equitably among qualified suppliers to the extent practicable but notes that awards may be made without soliciting competitive quotations if the operator considers the price to be reasonable.

2. Greater than $3,500 but less than or equal to $150,000 - Purchases of supplies or services at this level is referred to as small purchase. For these purchases (valued at or below the simplified acquisition threshold of $150,000), price or rate quotations must be obtained from an adequate number of qualified sources.

3. Greater than $150,000 - At this level of purchases, UG provides for three potential processes, depending on the circumstances that best fit the procurement details.
   a. Sealed bids – Purchases subject to sealed bids are publicly solicited and a firm fixed price contract is awarded to the responsible bidder whose bid, conforming with all the material terms and conditions of the invitation for bids, is the lowest in price. The sealed bid method is the preferred method for construction.
   b. Competitive proposals – Purchases may be made through fixed price or cost-reimbursement type contracts after considering proposals from an adequate number of sources. This procurement process will be used when the procurement is not appropriate for sealed bid conditions.
   c. Noncompetitive proposals – This purchase process may be used through solicitation of a proposal from only one source and may be utilized only in the limited circumstances set forth in UG; specifically, when goods are available from only one source, inadequate competition, or in emergency situations. It is important that entities document the basis and justification for using this method.

Section III – Federal Award Findings and Questioned Costs (continued)

2018-003: New Federal Procurement Requirements (continued)

Views of Responsible Officials and Planned Corrective Actions (continued)

The Organization will update its written policies to be reviewed and approved by Finance & Facilities Committee with final adoption by the Board of Directors as soon as possible but no later than the September 2019 meeting. Furthermore, the accounting staff will review current year transactions to ensure compliance with the new UG requirements and consult with grantors if noncompliance is determined. Moreover, all staff directly responsible for procurement purchases have been informed of the new guidelines and instructed to adjust their practices accordingly.

ALLIANCE FOR CHILDREN, INC.
Summary Schedule of Prior-Year Audit Findings
Year Ended September 30, 2018

Audit Findings

None

Corrective Action Taken

N/A