# ALLIANCE FOR CHILDREN, INC.

## AUDITED FINANCIAL STATEMENTS
## AND SUPPLEMENTAL INFORMATION

**Year Ended September 30, 2019**
**(with comparative summarized financial information**
**for the year ended September 30, 2018)**

**ALLIANCE FOR CHILDREN, INC.**

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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, 2019, 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, 2019, 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 February 13, 2020, 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***

We have previously audited the Alliance for Children, Inc.'s 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 25, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2018 is consistent in all material respects with the audited financial statements from which it has been derived.

J. Taylor & Associates, LLC

Fort Worth, Texas
February 13, 2020

**ALLIANCE FOR CHILDREN, INC.**
**Statement of Financial Position**
**September 30, 2019**
**(with comparative summarized financial information for the year ended September 30, 2018)**

| | 2019 | 2018 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 921,899 | $ 630,977 |
| Investments | 679,985 | 644,702 |
| Grants and contracts receivable | 295,848 | 333,090 |
| Unconditional promises to give | 14,420 | 46,310 |
| Prepaid expenses | 16,019 | 31,647 |
| Property and equipment, net | 5,522,201 | 2,859,296 |
| Deposits | 17,767 | 17,767 |
| License fee, net | - | 736 |
| Assets restricted for property and equipment | 170,057 | 153,322 |
| Assets restricted for long-term endowment | 452,868 | 452,868 |
| **Total Assets** | $ 8,091,064 | $ 5,170,715 |
| **Liabilities and Net Assets** | | |
| Liabilities | | |
| Accounts payable and accrued expenses | $ 142,750 | $ 91,565 |
| Deferred revenue | 14,076 | 10,000 |
| Total liabilities | 156,826 | 101,565 |
| Net assets | | |
| Without donor restrictions | 7,023,970 | 4,167,697 |
| With donor restrictions | 910,268 | 901,453 |
| Total net assets | 7,934,238 | 5,069,150 |
| **Total Liabilities and Net Assets** | $ 8,091,064 | $ 5,170,715 |

See accompanying notes to the financial statements.

**ALLIANCE FOR CHILDREN, INC.**
**Statement of Activities**
**Year Ended September 30, 2019**
**(with comparative summarized financial information for the year ended September 30, 2018)**

| | 2019 | | | |
|---|---|---|---|---|
| | **Without Donor Restrictions** | **With Donor Restrictions** | **Total** | **2018 Total** |
| Support and revenues | | | | |
| Contributions | $ 819,485 | $ 73,588 | $ 893,073 | $ 733,971 |
| Fundraising events, net of costs of direct benefit to donors of $99,098 and $110,819, respectively | 406,414 | - | 406,414 | 351,712 |
| City grants | 237,453 | - | 237,453 | 228,663 |
| County grants | 220,841 | - | 220,841 | 220,841 |
| State grants | 547,054 | - | 547,054 | 559,490 |
| Federal grants | 2,890,554 | - | 2,890,554 | 2,857,323 |
| Rental income | 163,175 | - | 163,175 | 112,633 |
| In-kind rent | 133,040 | - | 133,040 | 58,000 |
| Other revenue | 2,963,107 | - | 2,963,107 | 23,462 |
| Investment income | 19,749 | 20,611 | 40,360 | 125,420 |
| Net asset released from restrictions | 85,384 | (85,384) | - | - |
| Total support and revenue | 8,486,256 | 8,815 | 8,495,071 | 5,271,515 |
| Expenses | | | | |
| Program services | 4,461,778 | - | 4,461,778 | 4,193,171 |
| Management and general | 717,748 | - | 717,748 | 449,944 |
| Fundraising | 450,457 | - | 450,457 | 583,869 |
| Total expenses | 5,629,983 | - | 5,629,983 | 5,226,984 |
| Change in net assets | 2,856,273 | 8,815 | 2,865,088 | 44,531 |
| Net assets at beginning of year | 4,167,697 | 901,453 | 5,069,150 | 5,024,619 |
| Net assets at end of year | $ 7,023,970 | $ 910,268 | $ 7,934,238 | $ 5,069,150 |

See accompanying notes to the financial statements.

# ALLIANCE FOR CHILDREN, INC.
## Statement of Functional Expenses
## Year Ended September 30, 2019
## (with comparative summarized financial information for the year ended September 30, 2018)

| | 2019 | | | | 2018 |
|---|---|---|---|---|---|
| | Program Services | Management and General | Fundraising | Total | Total |
| Salaries | $ 2,733,300 | $ 352,750 | $ 203,067 | $ 3,289,117 | $ 3,123,817 |
| Payroll taxes | 202,822 | 24,106 | 15,473 | 242,401 | 233,550 |
| Employee benefits | 322,841 | 28,611 | 21,316 | 372,768 | 399,263 |
| Total salaries and related expenses | 3,258,963 | 405,467 | 239,856 | 3,904,286 | 3,756,630 |
| Professional fees | 46,195 | 144,316 | 108,189 | 298,700 | 234,857 |
| Donated goods, services and rent | 104,925 | 75,040 | 27,149 | 207,114 | 144,592 |
| Client counseling and support | 165,152 | - | - | 165,152 | 118,947 |
| Rent | 162,354 | 1 | - | 162,355 | 161,081 |
| Office expense | 74,806 | 23,563 | 29,656 | 128,025 | 87,097 |
| Depreciation and amortization | 98,161 | 20,226 | 4,722 | 123,109 | 159,655 |
| Repairs and maintenance | 102,404 | 12,385 | 4,128 | 118,917 | 69,445 |
| Venue and other special event costs | - | 227 | 114,817 | 115,044 | 141,600 |
| Telephone | 83,162 | 9,020 | 6,448 | 98,630 | 105,475 |
| Utilities | 71,172 | 1,825 | 1,721 | 74,718 | 57,956 |
| Training | 65,038 | 644 | - | 65,682 | 35,008 |
| Mileage | 38,854 | 7,279 | 2,156 | 48,289 | 45,874 |
| Community education | 43,468 | 2,078 | 2,059 | 47,605 | 45,831 |
| Insurance | 31,311 | 3,479 | 3,866 | 38,656 | 37,357 |
| Miscellaneous | 27,684 | 7,490 | 3,218 | 38,392 | 40,904 |
| Security | 23,834 | 2,306 | 769 | 26,909 | 23,567 |
| Equipment lease | 22,589 | 1,044 | 348 | 23,981 | 17,700 |
| Janitorial | 21,620 | 1,358 | 453 | 23,431 | 24,775 |
| Partner agency training | 13,661 | - | - | 13,661 | 25,392 |
| Printing and advertising | 6,425 | - | - | 6,425 | 4,060 |
| Total expenses | 4,461,778 | 717,748 | 549,555 | 5,729,081 | 5,337,803 |
| Less cost of direct benefit to donors | - | - | (99,098) | (99,098) | (110,819) |
| Total expense, net | $ 4,461,778 | $ 717,748 | $ 450,457 | $ 5,629,983 | $ 5,226,984 |

See accompanying notes to the financial statements.

**ALLIANCE FOR CHILDREN, INC.**
**Statement of Cash Flows**
**Year Ended September 30, 2019**
**(with comparative summarized financial information for the year ended September 30, 2018)**

| | 2019 | 2018 |
|---|---|---|
| **Operating Activities** | | |
| Change in net assets | $ 2,865,088 | $ 44,531 |
| Adjustments to reconcile change in net assets to net cash provided by / (used in) operating activities: | | |
| Depreciation and amortization | 123,109 | 159,655 |
| Unrealized and realized loss / (gain) on investments, net | 22,420 | (74,749) |
| Realized gain on sale of property and equipment | (2,949,457) | - |
| Contributions restricted for property and equipment | (16,735) | (31,919) |
| Change in operating assets and liabilities: | | |
| Grants and contracts receivable | 37,242 | (56,355) |
| Unconditional promises to give | 31,890 | 11,843 |
| Prepaid expenses | 15,628 | 40,835 |
| Accounts payable and accrued expenses | 51,185 | (66,304) |
| Deferred revenue | 4,076 | (44,479) |
| Net cash provided by (used in) operating activities | 184,446 | (16,942) |
| **Investing Activities** | | |
| Purchases of investments | (57,703) | (46,266) |
| Purchases of property and equipment | (5,535,821) | (10,127) |
| Proceeds from sale of property and equipment | 5,700,000 | - |
| Net cash provided by (used in) investing activities | 106,476 | (56,393) |
| **Financing Activities** | | |
| Contributions restricted for property and equipment | - | 27,088 |
| Net cash provided by financing activities | - | 27,088 |
| Net increase (decrease) in cash and cash equivalents | 290,922 | (46,247) |
| Cash and cash equivalents at beginning of year | 630,977 | 677,224 |
| Cash and cash equivalents at end of year | $ 921,899 | $ 630,977 |

See accompanying notes to the 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:

> *Net Assets Without Donor Restrictions* – 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.
>
> *Net Assets With Donor Restrictions* – Net assets subject to donor-imposed stipulations that will be met either by action of the Organization and/or the passage of time or net assets subject to donor-imposed stipulations that will be maintained permanently by the Organization.

Support and revenues are reported as increases in net assets without donor restriction unless their use is limited by donor-imposed restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is received. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of restrictions on net assets with donor restrictions (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 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, 2019 and 2018. All grants and contracts receivable are expected to be collected within one year. Substantially all federal grants revenue is from a single federal agency.

### 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, 2019 and 2018. For the years ended September 30, 2019 and 2018, all promises to give are primarily short-term in nature and therefore no valuation allowance has been recorded.

Conditional promises to give which are not yet recorded in the accompanying financial statements include $25,000 from one donor conditionally pledged for 2020 which is 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 when unconditional contributions are received or pledged. Grant revenue is recognized when 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 such donated services.

### Functional Allocation of Expenses

The statement of functional expenses presents expenses by function and natural classification. Expenses directly attributable to a specific functional area of the Organization are reported as expenses of those functional areas. A portion of costs benefit multiple functional areas have been allocated across functions based on time attributable to program and supporting services recorded on employee time sheets and an analysis of full-time employee equivalent employees by location and the related roles of such employees.

### 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, 2019, the Organization’s tax return for the years ended 2016 through 2018 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, 2019 and 2018.

### 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, 2018 from which the summarized information was derived.

### Reclassifications

Certain 2018 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, 2020. 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 June 2018, the FASB issued ASU 2018-08 Not-for-Profit Entities (Topic 958-605) clarifying the accounting guidance for contributions received and contributions made to further improve the scope and the accounting guidance on revenue recognition, to assist entities in distinguishing between contributions (non-reciprocal) and exchange (reciprocal) transactions and to determine whether a contribution is conditional. The effective date of the amendment is fiscal years beginning after December 15, 2018. The Organization is currently evaluating the potential impact on the financial statements and does not expect it to have a material impact to its financial results.

### Adoption of New Accounting Pronouncements

In August 2016, the FASB issued ASU 2016-14—Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*, which makes several improvements to current financial reporting for not-for-profits. The guidance is effective for the year ended September 30, 2019, and the Organization adopted the standard and applied it to the accompanying financial statements. The most significant impact of this standard is to present two classes of net assets, as well as disclosures about how liquidity is managed.

## 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, 2019 and 2018, the Organization had no Level 2 investments.

## C. Fair Value Measurements (*continued*)

Level 3: Unobservable inputs that are not corroborated by market data. As of September 30, 2019 and 2018, the Organization had no Level 3 investments.

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, 2019 and 2018.

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

### Investments

At September 30, 2019 and 2018, investments consist of the following:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Cost | Fair Value | Cost | Fair Value |
| Cash and cash equivalents | $ 35,182 | $ 35,182 | $ 27,479 | $ 27,479 |
| Fixed income mutual funds | 386,000 | 385,724 | 386,000 | 370,182 |
| Equity mutual funds | 601,600 | 711,947 | 551,600 | 699,909 |
| | $ 1,022,782 | $ 1,132,853 | $ 965,079 | $ 1,097,570 |

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

| | 2019 | 2018 |
|---|---|---|
| Investments | $ 679,985 | $ 644,702 |
| Assets restricted for long-term endowment | 452,868 | 452,868 |
| | $ 1,132,853 | $ 1,097,570 |

Investment income was as follows for the years ended September 30, 2019 and 2018:

| | 2019 | 2018 |
|---|---|---|
| Interest and dividends | $ 62,780 | $ 50,671 |
| Unrealized gain / (loss) | (22,420) | 74,749 |
| | $ 40,360 | $ 125,420 |

### 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, 2019 and 2018:

| | 2019 | 2018 |
|---|---|---|
| Cash | $ 143,982 | $ 115,056 |
| Pledges | 26,075 | 38,266 |
| | $ 170,057 | $ 153,322 |

Pledges are expected to be received in 2020.

## 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 ended September 30, 2019 and 2018 is as follows:

| | 2019 | | | |
|---|---|---|---|---|
| | Without Donor Restrictions | With Donor Restriction - Available for Appropriation | With Donor Restriction - To Be Held in Perpetuity | Total |
| Balance at beginning of year | $ 456,395 | $ 188,307 | $ 452,868 | $ 1,097,570 |
| Unrealized/realized loss, net | (9,328) | (13,092) | - | (22,420) |
| Interest and dividends | 24,000 | 33,703 | - | 57,703 |
| | $ 471,067 | $ 208,918 | $ 452,868 | $ 1,132,853 |

| | 2018 | | | |
|---|---|---|---|---|
| | Without Donor Restrictions | With Donor Restriction - Available for Appropriation | With Donor Restriction - To Be Held in Perpetuity | Total |
| Balance at beginning of year | $ 406,055 | $ 117,632 | $ 452,868 | $ 976,555 |
| Contributions | 6 | - | - | 6 |
| Unrealized/realized gain, net | 31,099 | 43,650 | - | 74,749 |
| Interest and dividends | 19,235 | 27,025 | - | 46,260 |
| | $ 456,395 | $ 188,307 | $ 452,868 | $ 1,097,570 |

## 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 net assets with donor restrictions – to be held in perpetuity (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 net assets with donor restrictions – to be held in perpetuity is classified as net assets with donor restriction – available for appropriation 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 is 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, is 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, the spending rate is 0% as the Organization is emphasizing growth of the endowment fund. In the near future, management intends to increase the spending rate 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, 2019 and 2018 consisted of the following:

| | 2019 | 2018 |
|---|---|---|
| Land | $ 471,102 | $ 442,057 |
| Land improvements | - | 111,071 |
| Building | 5,038,898 | 3,177,669 |
| Equipment | 163,628 | 163,628 |
| Furniture and fixtures | 226,290 | 200,469 |
| Leasehold improvements | 104,963 | 110,083 |
| | 6,004,881 | 4,204,977 |
| Less accumulated depreciation | (482,680) | (1,345,681) |
| | $ 5,522,201 | $ 2,859,296 |

## G. License Fee

The Organization 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, 2019 and 2018:

| | 2019 | 2018 |
|---|---|---|
| License fee | $ 150,775 | $ 150,775 |
| Accumulated amortization | (150,775) | (150,039) |
| | $ - | $ 736 |

Tarrant County, Texas required no renewal of this lease beyond 2019.

## 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 $45,000 and $41,000 to the Simple IRA for the years ended September 30, 2019 and 2018, respectively.

## I. Net Assets with Donor Restrictions

Net assets with donor restrictions are donor restricted for the following purposes as of September 30, 2019 and 2018:

| | 2019 | 2018 |
|---|---|---|
| Endowment - to be held in perpetuity | $ 452,868 | $ 452,868 |
| Endowment - available for appropriation | 208,918 | 188,307 |
| Property and equipment | 170,057 | 153,322 |
| Camp Blue | 34,912 | - |
| Training | 15,441 | - |
| Makeover program | 12,843 | 24,219 |
| Emergency support | 8,713 | 13,097 |
| Other | 6,516 | 8,099 |
| Next steps program | - | 49,966 |
| Community education | - | 11,575 |
| | $ 910,268 | $ 901,453 |

## 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 2019 and 2018. 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, 2019 consist of the following:

### K. Commitments and Contingencies (*continued*)

| | |
|---|---|
| 2020 | $ 86,477 |
| 2021 | 74,398 |
| 2022 | 62,339 |
| 2023 | 3,582 |
| | $ 226,796 |

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 Organization 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, 2019). At September 30, 2019 and 2018 there were no amounts outstanding under the line of credit.

### M. Liquidity Management

The Organization maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, the Organization has a committed line of credit (see Note L) which it could draw upon. Additionally, the Organization has board designated endowment funds without donor restrictions that, while the Organization does not intend to spend these for purposes other than those identified in Note E, the amounts could be made available for current operations, if necessary.

The Organization's financial assets available within one year of the statement of financial position date for general expenditure are as follows:

| | 2019 | 2018 |
|---|---|---|
| Cash and cash equivalents | $ 921,899 | $ 630,977 |
| Investments | 679,985 | 644,702 |
| Grants and contracts receivable | 295,848 | 333,090 |
| Unconditional promises to give | 14,420 | 46,310 |
| Assets restricted for property and equipment | 170,057 | 153,322 |
| Assets restricted for long-term endowment | 452,868 | 452,868 |
| Total financial assets | 2,535,077 | 2,261,269 |
| Financial assets which are unavailable for general expenditures within one year due to donor restrictions | (910,268) | (901,453) |
| Financial assets which are unavailable for general expenditures within one year without the Board's approval | (471,067) | (456,395) |
| Total financial assets available for general expenditures within one year | $ 1,153,742 | $ 903,421 |

## N. Significant Transactions

During 2019, the Organization sold its corporate office facility for $5,700,000. As a result of this sale, the Organization disposed of property and equipment with a net book value of approximately $2,755,000, resulting in a realized gain on sale of approximately $2,949,000 that is included in other revenue in the accompanying statement of activities.

As part of this sale, the Organization retained the rights to the sold building under an in-kind lease. Under this lease, the Organization may lease the building for $1 per year until May 6, 2021, at which time it may continue to lease the building for an additional year at fair market value. For 2019, the Organization has estimated the fair value of the donated rent applicable to fiscal year 2019 to be approximately $53,000 which is reported as in-kind rent on the statement of activities and which is reported as part of donated goods, services and rent in on the statement of functional expenses.

In a separate transaction in 2019, the Organization purchased a building and land in Fort Worth for approximately $5,536,000.

## O. 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 February 13, 2020, the date the accompanying financial statements were available for issuance. Management is not aware of any such subsequent events or transactions that need to be recognized or disclosed as a result of such evaluation.

## SUPPLEMENTAL INFORMATION

**ALLIANCE FOR CHILDREN, INC.**
**Schedule of Expenditures of Federal Awards**
**Year Ended September 30, 2019**

| 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, VOCA-FY19-20-3, VOCA CST-FY19-20-3, and VOCA Extension-FY17-18-3 | $ - | $ 2,881,876 |
| National Children's Alliance / | | | | |
| Domestic Trafficking Victim Program | 16.834 | Fort-TX-MI19 | - | 8,678 |
| **Total Federal Awards** | | | $ - | $ 2,890,554 |

See notes to the schedule of expenditures of federal awards.

**ALLIANCE FOR CHILDREN, INC.**
**Notes to Schedule of Expenditures of Federal Awards**
**Year Ended September 30, 2019**

## 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, 2019.

## D. Loans

At September 30, 2019, 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, 2019, 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 February 13, 2020.

## 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 2019-001 through 2019-003 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
February 13, 2020

JTaylor

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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, Inc.'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, 2019. 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, 2019.

***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2019-004. Our opinion on each major federal program is not modified with respect to these matters. The Organization's response to the noncompliance 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.

**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 2019-004 and 2019-005, 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
February 13, 2020

**ALLIANCE FOR CHILDREN, INC.**
**Schedule of Findings and Questioned Costs**
**Year Ended September 30, 2019**

## 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: | Unmodified | | | |
| Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | X | Yes | | 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

### 2019-001: 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

In conjunction with our audit of the Organization’s financial statements for 2018, we reported that the Organization’s policies and procedures did not reflect updated requirements of Uniform Guidance regarding procurement standards for grant compliance. These changes were required to be implemented by the Organization for fiscal year 2019 but were not adopted and applied until approximately July 2019.

### Cause

The Organization did not identify the required change to procurement policy in a timely manner.

### Context

This condition was identified in the findings reported for the prior fiscal year. Although management of the Organization acted immediately to update the Organization’s procurement policy, the timing of implementation occurred during the 2019 fiscal year.

### 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. We identified costs of approximately $87,000 reported as federal expenditures during the year ended September 30, 2019 to which the new “small purchase” procurement requirements were not applied.

### Recommendation

We recommend that management ensure the policy updates made in 2019 are consistently applied, and management should discuss the fiscal year 2019 noncompliance with the Organization’s grantors to determine any corrective action requirements.

## Section II – Financial Statement Findings (*continued*)

### 2019-001: Federal Procurement Requirements (*continued*)

### Views of Responsible Officials and Planned Corrective Actions

In conformity to Uniform Guidance (UG) as recommended by JTaylor, external auditing firm, management updated the agency's financial procurement policies in September 2019 to reflect the updated requirements. The Organization's updated written policies were reviewed and approved by Finance & Facilities Committee with final adoption by the Board of Directors in September 2019.

Consequently, the accounting staff reviewed current year transactions to ensure consistent compliance with the new UG requirements from the point of adoption of the updated policy. Moreover, all staff directly responsible for procurement purchases have been informed of the new guidelines and instructed to adjust their practices accordingly. Specifically, as relates to purchases of supplies or services greater than $3,500 but less than or equal to $150,000, price or rate quotations must be obtained from an adequate number of qualified sources. When goods and services are available from only one source, inadequate competition, or in emergency situations, the agency will document the basis and justification for using the noncompetitive proposal method.

### 2019-002: Payroll Allocation

### Federal Programs

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

### Criteria

Charges to federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must: (i) be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated; (ii) be incorporated into the official records of the non-federal entity; (iii) reasonably reflect the total activity for which the employee is compensated by the non-federal entity, not exceeding 100% of compensated activities.

### Condition

We identified two instances where salaries were charged to federal awards at a rate higher than indicated by the related employee's time report.

### Cause

Internal controls failed to identify and account for certain administrative time performed by an individual who usually works solely on the Organization's federal award grant.

### Context

This condition was identified during our test of compliance with the Organization's major program. The two errors were identified in a sample population of 40 haphazardly selected payroll transactions charged to the grant. Each transaction included two pay periods, so 80 separate payroll transactions were considered in the sample. Both errors were identified in separate transactions for the same individual.

## Section II – Financial Statement Findings (*continued*)

### 2019-002: Payroll Allocation (*continued*)

#### Effect

Charging a federal award for salaries, wages and fringe benefits based on allocation rates other than those reflective of the portion of time worked on the federal award results in noncompliance, and grantors may request that such amounts be returned. The known error from our test was $809 which projects to a total known and likely error of approximately $11,500.

#### Recommendation

We recommend management ensure procedures are in place to review payroll allocations to verify only the portion of salaries, wages, and fringe benefits associated with federal awards are charged to the federal award.

#### Views of Responsible Officials and Planned Corrective Actions

In response to the auditors' recommendation regarding payroll allocations, management has mitigated this deficiency with the hiring of additional staff whose primary duties include maintaining the reporting templates and reports used for tracking hours, wages, and benefits and addressing any discrepancies prior to posting to a grant. Furthermore, accounting has adopted the practice of internally auditing the grant submissions quarterly to ensure any discrepancies are addressed and corrected immediately.

### 2019-003: Accounts Receivable

#### Federal Programs

No 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

An adjustment was required as part of the audit to remove a grant receivable that was recorded in error.

#### Cause

The receivable was recorded based on management's incorrect belief that a certain grant was an unconditional pledge rather than a cost reimbursement grant.

#### Context

This condition was identified during the financial statement audit as part of our testing of receivables and revenue recognition. The financial statement audit concluded only one such error existed in the population of all receivables.

## Section II – Financial Statement Findings (*continued*)

### 2019-003: Accounts Receivable (*continued*)

#### Effect

Failure to properly apply proper revenue recognition rules could result in overstating the financial results of the Organization.

#### Recommendation

We recommend management ensure procedures are in place to review outstanding receivables to verify such items are properly recorded.

#### Views of Responsible Officials and Planned Corrective Actions

In response to the auditors' recommendation regarding revenue recognition and recording of Accounts Receivable, management has mitigated this deficiency with the hiring of additional staff responsible for grant correspondence and notifications. Additionally, management has implemented procedures to ensure outstanding receivables are properly recorded and tracked. Finally, accounting will perform monthly account reconciliations to ensure outstanding balances are due and collectible.

## Section III – Federal Award Findings and Questioned Costs

### 2019-004: 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

In conjunction with our audit of the Organization's financial statements for 2018, we reported that the Organization's policies and procedures did not reflect updated requirements of Uniform Guidance regarding procurement standards for grant compliance. These changes were required to be implemented by the Organization for fiscal year 2019 but were not adopted and applied until approximately July 2019.

#### Cause

The Organization did not identify the required change to procurement policy in a timely manner.

#### Context

This condition was identified in the findings reported for the prior fiscal year. Although management of the Organization acted immediately to update the Organization's procurement policy, the timing of implementation occurred during the 2019 fiscal year.

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

**2019-004: 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**

We identified costs of approximately $87,000 reported as federal expenditures during the year ended September 30, 2019 to which the new “small purchase” procurement requirements were not applied.

**Recommendation**

We recommend that management ensure the policy updates made in 2019 are consistently applied, and management should discuss the fiscal year 2019 noncompliance with the Organization’s grantors to determine any corrective action requirements.

**Views of Responsible Officials and Planned Corrective Actions**

In conformity to Uniform Guidance (UG) as recommended by JTaylor, external auditing firm, management updated the agency’s financial procurement policies in September 2019 to reflect the updated requirements. The Organization’s updated written policies were reviewed and approved by Finance & Facilities Committee with final adoption by the Board of Directors in September 2019.

Consequently, the accounting staff reviewed current year transactions to ensure consistent compliance with the new UG requirements from the point of adoption of the updated policy. Moreover, all staff directly responsible for procurement purchases have been informed of the new guidelines and instructed to adjust their practices accordingly. Specifically, as relates to purchases of supplies or services greater than $3,500 but less than or equal to $150,000, price or rate quotations must be obtained from an adequate number of qualified sources. When goods and services are available from only one source, inadequate competition, or in emergency situations, the agency will document the basis and justification for using the noncompetitive proposal method.

**2019-005: Payroll Allocation**

**Federal Programs**

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

**Criteria**

Charges to federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must: (i) be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated; (ii) be incorporated into the official records of the non-federal entity; (iii) reasonably reflect the total activity for which the employee is compensated by the non-federal entity, not exceeding 100% of compensated activities.

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

### 2019-005: Payroll Allocation (*continued*)

#### Condition

We identified two instances where salaries were charged to federal awards at a rate higher than indicated by the related employee's time report.

#### Cause

Internal controls failed to identify and account for certain administrative time performed by an individual who usually works solely on the Organization's federal award grant.

#### Context

This condition was identified during our test of compliance with the Organization's major program. The two errors were identified in a sample population of 40 haphazardly selected payroll transactions charged to the grant. Each transaction included two pay periods, so 80 separate payroll transactions were considered in the sample. Both errors were identified in separate transactions for the same individual.

#### Effect

Charging a federal award for salaries, wages and fringe benefits based on allocation rates other than those reflective of the portion of time worked on the federal award results in noncompliance, and grantors may request that such amounts be returned. The known error from our test was $809 which projects to a total known and likely error of approximately $11,500.

#### Questioned Costs

None

#### Recommendation

We recommend management ensure procedures are in place to review payroll allocations to verify only the portion of salaries, wages, and fringe benefits associated with federal awards are charged to the federal award.

#### Views of Responsible Officials and Planned Corrective Actions

In response to the auditors' recommendation regarding payroll allocations, management has mitigated this deficiency with the hiring of additional staff whose primary duties include maintaining the reporting templates and reports used for tracking hours, wages, and benefits and addressing any discrepancies prior to posting to a grant. Furthermore, accounting has adopted the practice of internally auditing the grant submissions quarterly to ensure any discrepancies are addressed and corrected immediately.

**ALLIANCE FOR CHILDREN, INC.**
**Summary Schedule of Prior-Year Audit Findings**
**Year Ended September 30, 2019**

**Audit Finding Reference:** 2018-001 and 2018-003 *New Federal Procurement Requirements*

**Status of Prior Finding:** The corrective action outlined in the prior-year as the views of responsible officials and planned corrective actions was completed except for resolution of the potential impact of transactions occurring in 2019 prior to the adoption of the updated procurement policies.

**Audit Finding Reference:** 2018-002 *Segregation of Duties*

**Status of Prior Finding:** The corrective action outlined in the prior-year as the views of responsible officials and planned corrective actions was completed.