ALLIANCE FOR CHILDREN, INC.

AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

Year Ended September 30, 2020
(with comparative summarized financial information
for the year ended September 30, 2019)

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INDEPENDENT AUDITORS' REPORT

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

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, 2020, 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, 2020, 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.

Emphasis of Matter

As discussed in Note P to the financial statements, Alliance for Children, Inc. is providing information regarding the potential uncertainty surrounding the world-wide coronavirus pandemic and related funding under the Paycheck Protection Act. Our opinion is not modified with respect to these matters.

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 is presented for purposes of additional analysis as required by 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* 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 April 26, 2021, 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 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 13, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2019 is consistent in all material respects with the audited financial statements from which it has been derived.

J. Taylor & Associates, LLC

Fort Worth, Texas
April 26, 2021

ALLIANCE FOR CHILDREN, INC.
Statement of Financial Position
September 30, 2020
(with comparative summarized financial information for the year ended September 30, 2019)

	2020	2019
Assets		
Cash and cash equivalents	$ 927,137	$ 921,899
Investments	845,478	679,985
Grants and contracts receivable	865,868	295,848
Unconditional promises to give	1,865	14,420
Prepaid expenses	31,544	16,019
Property and equipment, net	5,518,761	5,522,201
Deposits	17,767	17,767
Assets restricted for property and equipment	3,530,657	170,057
Assets restricted for long-term endowment	452,868	452,868
Total Assets	$ 12,191,945	$ 8,091,064
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 193,907	$ 142,750
Deferred revenue	44,930	14,076
Note payable	45,600	-
Total liabilities	284,437	156,826
Net assets		
Without donor restrictions	7,452,054	7,023,970
With donor restrictions	4,455,454	910,268
Total net assets	11,907,508	7,934,238
Total Liabilities and Net Assets	$ 12,191,945	$ 8,091,064

See accompanying notes to the financial statements.

ALLIANCE FOR CHILDREN, INC.
Statement of Activities
Year Ended September 30, 2020
(with comparative summarized financial information for the year ended September 30, 2019)

	2020			
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	**2019 Total**
Support and revenues				
Contributions	$ 956,829	$ 3,499,353	$ 4,456,182	$ 893,073
Fundraising events, net of costs of direct benefit to donors of $107,130 and $99,098, respectively	137,937	-	137,937	406,414
City grants	226,967	-	226,967	237,453
County grants	220,841	-	220,841	220,841
State grants	749,378	-	749,378	547,054
Federal grants	3,704,909	-	3,704,909	2,890,554
Rental income	146,326	-	146,326	163,175
In-kind rent	207,549	-	207,549	133,040
Other revenue	5,034	-	5,034	2,963,107
Investment income	73,379	96,677	170,056	40,360
Net asset released from restrictions	50,844	(50,844)	-	-
Total support and revenue	6,479,993	3,545,186	10,025,179	8,495,071
Expenses				
Program services	4,645,018	-	4,645,018	4,461,778
Management and general	835,237	-	835,237	717,748
Fundraising	571,654	-	571,654	450,457
Total expenses	6,051,909	-	6,051,909	5,629,983
Change in net assets	428,084	3,545,186	3,973,270	2,865,088
Net assets at beginning of year	7,023,970	910,268	7,934,238	5,069,150
Net assets at end of year	$ 7,452,054	$ 4,455,454	$ 11,907,508	$ 7,934,238

See accompanying notes to the financial statements.

ALLIANCE FOR CHILDREN, INC.
Statement of Functional Expenses
Year Ended September 30, 2020
(with comparative summarized financial information for the year ended September 30, 2019)

	2020				2019
	Program Services	Management and General	Fundraising	Total	Total
Salaries	$ 2,877,233	$ 417,631	$ 317,296	$ 3,612,160	$ 3,289,117
Payroll taxes	209,728	29,915	23,674	263,317	242,401
Employee benefits	312,162	41,706	31,936	385,804	372,768
Total salaries and related expenses	3,399,123	489,252	372,906	4,261,281	3,904,286
Professional fees	74,652	25,343	121,621	221,616	298,700
Donated goods, services and rent	121,516	149,549	1,785	272,850	207,114
Client counseling and support	118,850	9,594	-	128,444	165,152
Rent	163,013	-	-	163,013	162,355
Office expense	30,803	60,715	13,723	105,241	128,025
Depreciation and amortization	127,434	14,517	14,170	156,121	123,109
Repairs and maintenance	50,254	4,639	2,362	57,255	118,917
Venue and other special event costs	-	-	117,146	117,146	115,044
Telephone	131,086	11,987	9,897	152,970	98,630
Utilities	138,964	14,073	11,174	164,211	74,718
Training	50,292	1,185	2,254	53,731	65,682
Mileage	23,532	6,098	2,160	31,790	48,289
Community education	55,320	2,072	1,277	58,669	47,605
Insurance	43,449	4,828	5,364	53,641	38,656
Miscellaneous	11,898	22,971	397	35,266	38,392
Security	21,303	2,559	967	24,829	26,909
Equipment lease	15,187	458	153	15,798	23,981
Janitorial	44,186	15,157	1,384	60,727	23,431
Partner agency training	23,986	-	-	23,986	13,661
Printing and advertising	170	240	44	454	6,425
Total expenses	4,645,018	835,237	678,784	6,159,039	5,729,081
Less cost of direct benefit to donors	-	-	(107,130)	(107,130)	(99,098)
Total expense, net	$ 4,645,018	$ 835,237	$ 571,654	$ 6,051,909	$ 5,629,983

See accompanying notes to the financial statements.

ALLIANCE FOR CHILDREN, INC.
Statement of Cash Flows
Year Ended September 30, 2020
(with comparative summarized financial information for the year ended September 30, 2019)

	2020	2019
Operating Activities		
Change in net assets	$ 3,973,270	$ 2,865,088
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	156,121	123,109
Unrealized and realized (gain) / loss on investments, net	(121,542)	22,420
Realized gain on sale of property and equipment	-	(2,949,457)
Contributions restricted for property and equipment	-	12,191
Change in operating assets and liabilities:		
Grants and contracts receivable	(570,020)	37,242
Unconditional promises to give	12,555	31,890
Prepaid expenses	(15,525)	15,628
Assets restricted for property and equipment	(3,360,600)	-
Accounts payable and accrued expenses	51,157	51,185
Deferred revenue	30,854	4,076
Net cash provided by operating activities	156,270	213,372
Investing Activities		
Purchases of investments	(70,001)	(50,000)
Purchases of property and equipment	(152,681)	(5,535,821)
Proceeds from sale of property and equipment	-	5,700,000
Net cash (used in) / provided by investing activities	(222,682)	114,179
Financing Activities		
Proceeds from note payable	45,600	-
Contributions restricted for property and equipment	579,847	-
Net cash provided by financing activities	625,447	-
Net increase in cash and cash equivalents	559,035	327,551
Cash, cash equivalents, and restricted cash at beginning of year	1,101,063	773,512
Cash, cash equivalents, and restricted cash at end of year	$ 1,660,098	$ 1,101,063

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, Cash Equivalents, and Restricted Cash

The Organization considers all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents. 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.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position that sum to the total of the same such amounts shown in the statement of cash flows.

	2020	2019
Cash and cash equivalents	$ 927,137	$ 921,899
Restricted cash included in investments	9,132	35,182
Restricted cash included in assets restricted for property and equipment	723,829	143,982
Cash, cash equivalents, and restricted cash	$ 1,660,098	$ 1,101,063

Restricted cash included in investments are amounts held as part of the investment portfolio that are intended for long-term purposes as further described in Note C. Restricted cash included in assets restricted for property and equipment are amounts restricted as further described by Note D.

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 is considered necessary at September 30, 2020 and 2019. All grants and contracts receivable are expected to be collected within one year. Substantially all federal grants revenue is from a single federal agency. At September 30, 2020, grants and contracts receivable are due from four grants including one grant that represents approximately 90% of the related receivable balance. At September 30, 2019, such receivables are due from five grants including one grant that represents approximately 75% of the related receivable balance.

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

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, 2020 and 2019. For the years ended September 30, 2020 and 2019, 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 $500,000 from a foundation conditioned upon the Organization raising a specified total through the capital campaign.

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

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.

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

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 was 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.

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, 2020, the Organization's tax return for the years ended 2017 through 2019 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, 2020 and 2019.

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

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, 2019 from which the summarized information was derived.

Adoption of New Accounting Pronouncements

The following are new accounting pronouncements adopted by the Organization for the year ended September 30, 2020.

<u>Revenue from Contracts with Customers (Topic 606)</u>

In May 2014, the Financial Accounting Standards Board (FASB) issued a new accounting pronouncement regarding revenue recognition effective for reporting periods beginning after December 15, 2018. The Organization adopted this standard, Accounting Standards Update (ASU) 2014-09 *Revenue from Contracts with Customers* and all subsequent amendment to the ASU (collectively ASC 606), in fiscal year 2020. ASC 606 creates a single framework for recognizing revenue from contracts with customers that fall within its scope. Portions of other revenue and fundraising event revenue of the Organization fall within the scope of ASC 606 and are recognized as revenue as the Organization satisfies its obligation to the customer at a point in time. ASC 606 was applied retrospectively to all contracts impactful to the accompanying financial statements for both fiscal year 2020 and 2019. There was no impact to previously reported financial statement balances or the beginning net assets related to the adoption of this pronouncement.

<u>Not-For-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made</u>

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958) - Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU clarified and improved previous guidance by providing criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the Organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. There was no impact to previously reported financial statement balances or the beginning net assets related to the adoption of this pronouncement.

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

Adoption of New Accounting Pronouncements (*continued*)

Statement of Cash Flows (Topic 230), Restricted Cash

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230) – Restricted Cash*. The ASU requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this ASU do not provide a definition of restricted cash or restricted cash equivalents. ASU 2016-18 was applied retrospectively to both fiscal year 2020 and 2019. The ASU's impact to current and prior financial statements was the inclusion of restricted cash, as disclosed above in the disclosure above titled Cash, Cash Equivalents, and Restricted Cash, as part of the beginning and ending balances of cash, cash equivalents, and restricted cash, on the statement of cash flows.

Recent Accounting Pronouncements

Following are ASUs issued by considered potentially significant to future financial reporting.

2018-13—Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. The ASU modifies the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement.

The changes include removing the following disclosure requirements:

1. The amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy
2. The policy for timing of transfers between levels
3. The valuation processes for Level 3 fair value measurements
4. For nonpublic entities, the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period.

The changes include modifying the following disclosure requirements:

1. In lieu of a rollforward for Level 3 fair value measurements, a nonpublic entity is required to disclose transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities.
2. For investments in certain entities that calculate net asset value, an entity is required to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly.
3. The amendments clarify that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date.

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

Recent Accounting Pronouncements (*continued*)

The changes include adding the following disclosure requirements:

1. The changes in unrealized gains and losses for the period included in other comprehensive income (as applicable) for recurring Level 3 fair value measurements held at the end of the reporting period.
2. The range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. For certain unobservable inputs, an entity may disclose other quantitative information (such as the median or arithmetic average) in lieu of the weighted average if the entity determines that other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements.

The amendments in this ASU are effective for all entities for fiscal years beginning after December 15, 2019. Therefore, the ASU will be applied to the Organization's financial statements in fiscal year 2021. Management is currently evaluating the impact of this ASU on it financial statements.

<u>2020-07—Not-for-Profit Entities (Topic 958): Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets</u>

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*. US GAAP has historically required certain disclosures related to contributed services but has not required specific disclosures for other in-kind contributions. This ASU updates the presentation and disclosure of nonfinancial assets and will result in a significant increase in disclosure requirements for not-for-profit entities that receive contributions of nonfinancial assets such as fixed assets, use of fixed assets or utilities, materials and supplies, services, or unconditional promises of those assets. Updated requirements include the following:

1. Present contributed nonfinancial assets as a separate line item in the statement of activities. This separate line will not include contributions of cash or other financial assets.
2. Present the disaggregated detail of the amount included as contributed nonfinancial assets in the statement of activities by category that depicts the type of contributed nonfinancial assets.
3. For each category in 2. above, the entity is required to disclose:
   a. Qualitative information about whether the contributed nonfinancial assets was monetized or utilized during the reporting period and, if utilized, a description of the programs or other activities those assets were used for;
   b. Policy (if any) for monetizing rather than utilizing;
   c. Description of any donor-imposed restriction;
   d. Description of the valuation techniques and inputs used to arrive at the initial fair value;
   e. The principle or most advantageous market used to arrive at fair value if it is a market in which the entity is prohibited by a donor-imposed restriction from selling or using the contributed nonfinancial assets.

This ASU is effective for annual periods beginning after June 15, 2021. Therefore, the ASU will be applied to the Organization's financial statements in fiscal year 2022. Management is currently evaluating the impact of this ASU on it financial statements.

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

Recent Accounting Pronouncements (*continued*)

<u>Leases (Topic 842)</u>

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements for lessees and lessors. The new standard applies a right-of-use model that requires, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments to be recorded. The ASU was initially scheduled to be effective for fiscal years beginning after December 15, 2019, with early adoption permitted. This implementation date has been subsequently modified by the FASB to be effective for fiscal years beginning after December 15, 2021. Therefore, the ASU will be applied to the Organization's financial statements in fiscal year 2023. Management is currently evaluating the impact of this ASU on it 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, 2020 and 2019, the Organization had no Level 2 investments.

Level 3: Unobservable inputs that are not corroborated by market data. As of September 30, 2020 and 2019, 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, 2020 and 2019.

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

C. Fair Value Measurements (*continued*)

Investments

At September 30, 2020 and 2019, investments consist of the following:

	2020		2019	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	$ 9,132	$ 9,132	$ 35,182	$ 35,182
Fixed income mutual funds	436,000	445,684	386,000	385,724
Equity mutual funds	621,601	843,530	601,600	711,947
	$ 1,066,733	$ 1,298,346	$ 1,022,782	$ 1,132,853

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

	2020	2019
Investments	$ 845,478	$ 679,985
Assets restricted for long-term endowment	452,868	452,868
	$ 1,298,346	$ 1,132,853

Investment income was as follows for the years ended September 30, 2020 and 2019:

	2020	2019
Interest and dividends	48,514	$ 62,780
Unrealized gain / (loss)	121,542	(22,420)
	$ 170,056	$ 40,360

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, 2020 and 2019:

	2020	2019
Cash	$ 723,829	$ 143,982
Pledges	2,806,828	26,075
	$ 3,530,657	$ 170,057

D. Assets Restricted for Property and Equipment (*continued*)

The pledges above have payment terms that, in some instances, are linked to the progress of related construction. Management has determined that such terms represent payment terms, not conditions placed on the pledge itself. Approximately $333,000 and $583,000 of the pledges as of September 30, 2020 are due upon 50% and 100% completion of related construction, respectively. All other pledges are expected to be received in 2021.

Approximately 98% of the pledges total as of September 30, 2020 is due from 3 donors, and these pledges represent approximately 57% of contributions for the year.

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, 2020 and 2019 is as follows:

	2020			
	Without Donor Restrictions	With Donor Restriction - Available for Appropriation	With Donor Restriction - To Be Held in Perpetuity	Total
Balance at beginning of year	$ 471,067	$ 208,918	$ 452,868	$ 1,132,853
Unrealized/realized gain, net	50,540	71,002	-	121,542
Interest and dividends	18,274	25,677	-	43,951
	$ 539,881	$ 305,597	$ 452,868	$ 1,298,346

	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

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 are 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, 2020 and 2019 consisted of the following:

	2020	2019
Land	$ 471,102	$ 471,102
Building	5,038,898	5,038,898
Equipment	163,628	163,628
Furniture and fixtures	226,290	226,290
Leasehold improvements	257,644	104,963
	6,157,562	6,004,881
Less accumulated depreciation	(638,801)	(482,680)
	$ 5,518,761	$ 5,522,201

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, 2020 and 2019:

	2020	2019
License fee	$ 150,775	$ 150,775
Accumulated amortization	(150,775)	(150,775)
	$ -	$ -

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 $50,000 and $45,000 to the Simple IRA for the years ended September 30, 2020 and 2019, respectively.

I. Net Assets with Donor Restrictions

Net assets with donor restrictions are donor restricted for the following purposes as of September 30, 2020 and 2019:

	2020	2019
Property and equipment	$ 3,530,657	$ 170,057
Endowment - to be held in perpetuity	452,868	452,868
Endowment - available for appropriation	305,597	208,918
Other	139,771	6,516
Camp Blue	25,073	34,912
Next steps program	981	-
Emergency support	507	8,713
Training	-	15,441
Makeover program	-	12,843
	$ 4,455,454	$ 910,268

J. Rental Income and Donated Rent

One of the Organization's facilities is provided by the City of Arlington, Texas under a long-term lease arrangement which represents an in-kind donation. 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 2020 and 2019. 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.

A second facility of the Organization is provided by Tarrant County, Texas, under a long-term lease arrangement which represents an in-kind donation. The estimated fair value of the rental facility is approximately $22,000 is recognized as a contribution and program service expense during both fiscal years 2020 and 2019. 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.

As part of the transaction described in Note N, 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 2020 and 2019, the Organization has estimated the fair value of the donated rent to be approximately $128,000 and $53,000, respectively, which is reported as in-kind rent on the statement of activities.

J. Rental Income and Donated Rent (*continued*)

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, 2020 consist of the following:

2021	$ 181,465
2022	79,409
2023	9,552
2024	-
	$ 270,426

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 2022. Borrowings under the line of credit bear interest at the bank's prime rate plus 0.75% (4% at September 30, 2020). At September 30, 2020 and 2019 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.

M. Liquidity Management (*continued*)

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

	2020	2019
Cash and cash equivalents	$ 927,137	$ 921,899
Investments	845,478	679,985
Grants and contracts receivable	865,868	295,848
Unconditional promises to give	1,865	14,420
Assets restricted for property and equipment	3,530,657	170,057
Assets restricted for long-term endowment	452,868	452,868
Total financial assets	6,623,873	2,535,077
Financial assets which are unavailable for general expenditures within one year due to donor restrictions	(4,455,454)	(910,268)
Financial assets which are unavailable for general expenditures within one year without the Board's approval	(539,881)	(471,067)
Total financial assets available for general expenditures within one year	$ 1,628,538	$ 1,153,742

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 comparative summarized financial information for the 2019 statement of activities. In a separate transaction in 2019, the Organization purchased a building and land in Fort Worth for approximately $5,536,000.

O. Note Payable

At September 30, 2020, the Organization owed $45,600 a note payable with the U.S. Small Business Administration (SBA) as a part of the Paycheck Protection Program from the government. The loan was issued on April 17, 2020 and originally indicated repayment to begin six months from origination date consisting of 18 monthly payments of principal and interest. In accordance with the Paycheck Protection Flexibility Act, this has been automatically extended to either (1) the date that SBA remits the borrower's loan forgiveness amount to the lender or (2) if the borrower does not apply for loan forgiveness, 10 months after the end of the borrower's loan forgiveness covered period. This loan may be eligible for loan forgiveness, and, accordingly, no payments of principal or interest have been made nor have they been included below as potential repayment values.

P. 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 April 26, 2021, 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, except as follows.

After year-end, the Organization could continue to be negatively impacted by the effects of the world-wide coronavirus pandemic. The Organization is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, management believes the impact to the Organization will be minimal; however, the full impact to the Organization's financial position is not known.

The Organization changed from offering a Simple IRA plan to a 403B Plan as the retirement plan offered to employees.

In November 2020, the Organization's loan described in Note O was forgiven in full.

SUPPLEMENTAL INFORMATION

ALLIANCE FOR CHILDREN, INC.
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2020

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	VOCA-FY19-20-3, VOCA CST-FY-19-20-3	$ -	$ 3,688,230
National Children's Alliance /				
Domestic Trafficking Victim Program	16.834	Fort-TX-MI19	-	16,679
Total Federal Awards			$ -	$ 3,704,909

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, 2020

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* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

B. Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the accrual basis of accounting in accordance with accounting standards generally accepted in the United States of America. Expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

C. Non-Cash Assistance

The Organization did not receive any non-cash assistance from federal awards for the year ended September 30, 2020.

D. Loans

At September 30, 2020, 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, 2020, 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 April 26, 2021.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control over financial reporting that we consider to be material weaknesses or significant deficiencies.

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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2020-001 and 2020-002 to be material weaknesses.

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*.

Organization'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
April 26, 2021

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH 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, 2020. 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, 2020.

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 2020-003, 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
April 26, 2021

ALLIANCE FOR CHILDREN, INC.
Schedule of Findings and Questioned Costs
Year Ended September 30, 2020

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified			
Internal control over financial reporting:				
Material weakness(es) identified?	X	Yes		No
Significant deficiency(ies) identified?		Yes	X	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

Finding 2020-001

Criteria

Accounting standards generally accepted in the United States of America (US GAAP) establishes criteria for when income and expense should be recorded in the financial statements.

Condition and Context

One non-payroll transaction was recorded in the wrong fiscal year. In addition, a donation that was restricted as to timing was improperly recorded as deferred revenue rather than as a time-restricted donation. Finally, one pledge was reported as restricted support in the year, but the gift was conditioned upon future approval. This pledge should not have been recorded until the related condition was met. The expense transaction was identified as part of our test of a sample of 42 non-payroll transactions. The two support transactions were identified as individually significant transactions tested as part of audit procedures applied to pledges receivable and deferred revenue.

Cause

The expense transaction was recorded as a year-end accrual, and internal controls over financial reporting failed to identify that the expense was not incurred as of September 30, 2020. The two support transactions were recorded without applying the donation recognition criteria found in US GAAP.

Effect

The transactions referenced above resulted in an overstatement of the Organization's unadjusted fiscal year 2020 support and expense of approximately $456,000 and $9,000, respectively.

Recommendation

We recommend that management ensure transactions are recorded in the proper year. This should include scrutiny of year-end adjustments and application of US GAAP rules regarding recognition of contributions.

Views of Responsible Officials and Planned Corrective Actions

In response to the auditors' recommendation relating to application of US GAAP rules regarding recognition of contributions, Alliance for Children's accountants, under the direction of the Chief Financial Officer, will review all notifications of grant awards upon receipt to ensure proper reporting and revenue recognition as required by US GAAP. To mitigate this issue, internal processes have been implemented that allows accounting access to full grant award notifications maintained by the Development / Advancement Department.

Section II – Financial Statement Findings (*continued*)

Finding 2020-002

Criteria

US GAAP requires that certain expenditures be capitalized if they have a useful life more than one year and a cost more than an established threshold. The Organization has established a capitalization threshold of $5,000.

Condition and Context

Two expenditures in the year met the criteria for capitalization but were improperly expensed. One item was identified by management and was included on the Organization's depreciation schedule, but the corresponding adjustment to move the item from expense to property and equipment was not made. The second item was recorded as expense and was not identified on the depreciation schedule. These transactions were identified based on our comparison of the depreciation schedule to the trial balance and as part of testing individually significant expenses.

Cause

The expenditure that was captured on the depreciation schedule but not properly recorded on the trial balance was the result of failure to record an entry that had been identified. The second expenditure was improperly expensed because no process or control identified it as meeting the criteria for capitalization.

Effect

The transactions referenced above resulted in an overstatement of the Organization's unadjusted fiscal year 2020 expense of approximately $153,000 and a corresponding understatement to property and equipment.

Recommendation

We recommend that management ensure a control is in place to review significant expenses as part of year-end close to identify transactions that should be capitalized. Once identified, controls should be in place to ensure such items are corrected and that the final depreciation schedule reconciles to the related balances on the trial balance.

Views of Responsible Officials and Planned Corrective Actions

In response to the auditors' recommendation regarding fixed assets and capitalization of expenditures, Alliance for Children recognizes the importance of properly recording fixed assets and capitalizing expenditures. To mitigate this issue, the Chief Financial Officer has instituted a process requiring the accountant tasked with tracking and recording fixed assets and depreciation to reconcile and tie out the related balances to the trial balance on a monthly balance. As part of month end close, this task has been added to the monthly closing schedule checklist. The accountant will query all operating expenses for the corresponding month to ensure any that meet the capitalization reporting requirements and threshold are reclassified from expense to fixed assets and subsequently included on the depreciation schedule. Additionally, the Chief Financial Officer will perform quarterly reviews of the report and schedule to ensure all transactions that should be capitalized have been identified.

Section III – Federal Award Findings and Questioned Costs

Finding 2020-003

Federal Program

CFDA 16.575 – Victims of Crime Act Formula Grant Program, U.S. Department of Justice, passed-through from the Texas Office of the Governor Criminal Justice Division

Criteria

Uniform Guidance requires that costs be charged to federal awards within the period of performance and that costs should not be charged prior to when the related expense was incurred.

Condition and Context

One transaction in a sample of 42 non-payroll transactions charged to the federal program was recorded in the wrong fiscal year. It was accrued in fiscal year 2020 but related to fiscal year 2021. As a result, it was then charged to the federal program in an improper period. While the audit concluded this error was isolated to manually adjustments near year-end and was not potentially material to the fiscal year 2020 financial schedules or schedule of federal awards, similar errors in the future could potentially be material.

Cause

The expense transaction was recorded as a year-end accrual through a manual adjustment which failed to identify that the transaction was not related to fiscal year 2020.

Questioned Costs: Known and likely questioned costs were less than $25,000.

Effect

The transactions referenced above resulted in approximately $7,000 charged to the federal program in error.

Recommendation

We recommend that management ensure transactions are recorded in the proper year and that particular attention be made near periods when grant agreements begin or end.

Views of Responsible Officials and Planned Corrective Actions

In response to the auditors' recommendation regarding accrual processes and recording expenses within the correct accounting period. As this was an isolated incident, in order to mitigate any further infractions, the Chief Financial Officer will review all invoices slated for accrual prior to being posted. The dual review should ensure transactions are recorded in the proper year and that particular attention be made near periods when grant agreements begin or end.