

**CHILD ADVOCATES, INC.**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Child Advocates, Inc.  
Houston, Texas

We have audited the accompanying financial statements of Child Advocates, Inc. (a Texas non-profit corporation), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; 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.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Child Advocates, Inc. as of December 31, 2017 and 2016, and the changes in its nets assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

## Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedule of Texas CASA, Inc. Grant Awards is presented for the purpose of complying with the provisions of the grants with Texas CASA, Inc. 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. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Harper & Pearson Company, P.C.*

Houston, Texas  
April 24, 2018

**CHILD ADVOCATES, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2017 AND 2016**

<b>ASSETS</b>	<u><b>2017</b></u>	<u><b>2016</b></u>
Cash and cash equivalents	\$ 320,063	\$ 650,863
Pledges and other receivables	905,262	896,446
Prepaid expenses	37,531	32,346
Property and equipment, at cost		
Furniture and equipment	646,605	610,999
Leasehold improvements	<u>625,939</u>	<u>625,939</u>
Property and equipment, gross	1,272,544	1,236,938
Accumulated depreciation	<u>(424,102)</u>	<u>(287,832)</u>
Property and equipment, net	848,442	949,106
Beneficial interest in Child Advocates Endowment, Inc.	<u>8,441,243</u>	<u>7,758,174</u>
<b>TOTAL ASSETS</b>	<u><b>\$ 10,552,541</b></u>	<u><b>\$ 10,286,935</b></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	<u>\$ 283,671</u>	<u>\$ 215,175</u>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>NET ASSETS</b>		
Unrestricted - Child Advocates	<u>1,417,315</u>	<u>1,721,882</u>
Temporarily restricted - Child Advocates	410,312	591,704
Temporarily restricted - Child Advocates Endowment, Inc.	<u>4,211,697</u>	<u>3,538,628</u>
Total temporarily restricted net assets	<u>4,622,009</u>	<u>4,130,332</u>
Permanently restricted - Child Advocates Endowment, Inc.	<u>4,229,546</u>	<u>4,219,546</u>
<b>TOTAL NET ASSETS</b>	<u><b>10,268,870</b></u>	<u><b>10,071,760</b></u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><b>\$ 10,552,541</b></u>	<u><b>\$ 10,286,935</b></u>

See accompanying notes.

**CHILD ADVOCATES, INC.**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<b>2017</b>				<b>2016</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>REVENUES</b>								
Contributions	\$ 1,272,236	\$ 508,890	\$ -	\$ 1,781,126	\$ 1,264,175	\$ 611,773	\$ -	\$ 1,875,948
Federal and state government grants	1,273,361	-	-	1,273,361	1,137,258	-	-	1,137,258
Special events and other revenue	1,582,752	-	-	1,582,752	1,556,099	-	-	1,556,099
Less direct donor benefits	<u>(248,225)</u>	<u>-</u>	<u>-</u>	<u>(248,225)</u>	<u>(212,778)</u>	<u>-</u>	<u>-</u>	<u>(212,778)</u>
Special events and other revenue, net	1,334,527	-	-	1,334,527	1,343,321	-	-	1,343,321
In-kind donations	173,385	-	-	173,385	394,849	-	-	394,849
Net change in beneficial interest in Child Advocates Endowment, Inc.	-	983,389	10,000	993,389	-	142,008	15,000	157,008
Assets released from restrictions	<u>1,000,602</u>	<u>(1,000,602)</u>	<u>-</u>	<u>-</u>	<u>1,221,145</u>	<u>(1,221,145)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>5,054,111</u>	<u>491,677</u>	<u>10,000</u>	<u>5,555,788</u>	<u>5,360,748</u>	<u>(467,364)</u>	<u>15,000</u>	<u>4,908,384</u>
<b>EXPENSES</b>								
Community services	3,511,531	-	-	3,511,531	3,348,944	-	-	3,348,944
Professional education and training	774,389	-	-	774,389	740,426	-	-	740,426
Management and general	469,776	-	-	469,776	491,348	-	-	491,348
Fund raising	<u>602,982</u>	<u>-</u>	<u>-</u>	<u>602,982</u>	<u>506,151</u>	<u>-</u>	<u>-</u>	<u>506,151</u>
Total expenses	<u>5,358,678</u>	<u>-</u>	<u>-</u>	<u>5,358,678</u>	<u>5,086,869</u>	<u>-</u>	<u>-</u>	<u>5,086,869</u>
CHANGE IN NET ASSETS	(304,567)	491,677	10,000	197,110	273,879	(467,364)	15,000	(178,485)
NET ASSETS, Beginning of year	<u>1,721,882</u>	<u>4,130,332</u>	<u>4,219,546</u>	<u>10,071,760</u>	<u>1,448,003</u>	<u>4,597,696</u>	<u>4,204,546</u>	<u>10,250,245</u>
NET ASSETS, End of year	<u>\$ 1,417,315</u>	<u>\$ 4,622,009</u>	<u>\$ 4,229,546</u>	<u>\$ 10,268,870</u>	<u>\$ 1,721,882</u>	<u>\$ 4,130,332</u>	<u>\$ 4,219,546</u>	<u>\$ 10,071,760</u>

See accompanying notes.

**CHILD ADVOCATES, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

	Community Services	Professional Education and Training	Management and General	Fund Raising	Total
Salaries	\$ 2,040,556	\$ 392,233	\$ 223,752	\$ 320,874	\$ 2,977,415
Employee Benefits	289,857	55,716	31,784	45,580	422,937
Payroll Taxes	151,176	29,059	16,577	23,772	220,584
Retirement	<u>60,304</u>	<u>11,726</u>	<u>6,675</u>	<u>9,589</u>	<u>88,294</u>
Total Salaries and Related Benefits	2,541,893	488,734	278,788	399,815	3,709,230
Accounting and Auditing	-	-	61,432	-	61,432
Awards and Gifts	2,109	-	-	-	2,109
Bad Debt Expense	-	-	4,674	-	4,674
Board Expenses	-	-	15,035	-	15,035
Community Awareness	-	113,762	-	20,076	133,838
Community Awareness In-Kind Gift	-	25,510	-	-	25,510
Contract Services	604	-	903	-	1,507
Delivery Service	175	34	19	28	256
Depreciation	93,386	17,955	10,242	14,689	136,272
Development	-	-	-	18,184	18,184
Direct Mail	-	-	-	85,807	85,807
Dues and Subscriptions	7,804	1,500	856	1,227	11,387
General Operations	-	-	3,016	-	3,016
Human Resources	2,326	447	255	366	3,394
In-Kind Christmas Gifts	147,875	-	-	-	147,875
Insurance	17,443	3,354	1,913	2,744	25,454
Interest	-	-	292	-	292
Local Travel	101,513	554	9,597	1,257	112,921
Maintenance and Repair	34,181	6,572	3,749	5,376	49,878
Miscellaneous	4,840	930	531	759	7,060
Newsletter	-	18,739	3,748	2,499	24,986
Occupancy	268,834	77,461	68,348	41,009	455,652
Office Supplies	7,338	1,411	805	1,154	10,708
Postage	11,523	2,216	1,264	1,812	16,815
Program Events	155,340	-	-	-	155,340
Special Needs	75,058	-	-	-	75,058
Staff Training	16,842	3,238	1,847	2,649	24,576
Telephone	22,447	4,316	2,462	3,531	32,756
Young Professionals	<u>-</u>	<u>7,656</u>	<u>-</u>	<u>-</u>	<u>7,656</u>
Total Expenses	<u>\$ 3,511,531</u>	<u>\$ 774,389</u>	<u>\$ 469,776</u>	<u>\$ 602,982</u>	<u>\$ 5,358,678</u>

See accompanying notes.

**CHILD ADVOCATES, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	Community Services	Professional Education and Training	Management and General	Fund Raising	Total
Salaries	\$ 1,904,954	\$ 365,762	\$ 218,637	\$ 295,739	\$ 2,785,092
Employee Benefits	295,882	56,811	33,959	45,935	432,587
Payroll Taxes	142,288	27,320	16,331	22,090	208,029
Retirement	<u>56,684</u>	<u>10,855</u>	<u>6,535</u>	<u>8,800</u>	<u>82,874</u>
Total Salaries and Related Benefits	2,399,808	460,748	275,462	372,564	3,508,582
Accounting and Auditing	-	-	67,299	-	67,299
Awards and Gifts	3,654	-	-	-	3,654
Bad Debt Expense	-	-	9,099	-	9,099
Board Expenses	-	-	14,359	-	14,359
Community Awareness	-	125,469	-	22,142	147,611
Community Awareness In-Kind Gift	-	19,320	-	-	19,320
Contract Services	4,140	-	4,230	-	8,370
Delivery Service	256	49	29	40	374
Depreciation	88,620	17,086	10,215	13,816	129,737
Development	-	-	-	18,131	18,131
Direct Mail	-	-	-	18,425	18,425
Dues and Subscriptions	5,833	1,120	670	905	8,528
General Operations	-	-	22,356	-	22,356
Human Resources	15,258	2,929	1,751	2,369	22,307
In-Kind Christmas Gifts	152,625	-	-	-	152,625
Insurance	22,651	4,350	2,600	3,516	33,117
Interest	-	-	-	-	-
Local Travel	101,676	450	9,698	1,285	113,109
Maintenance and Repair	29,839	5,730	3,425	4,632	43,626
Miscellaneous	1,092	210	125	170	1,597
Newsletter	-	18,767	3,753	2,502	25,022
Occupancy	229,910	66,245	58,452	35,070	389,677
Office Supplies	24,440	4,692	2,805	3,794	35,731
Postage	10,216	1,961	1,173	1,586	14,936
Program Events	175,152	-	-	-	175,152
Special Needs	50,254	-	-	-	50,254
Staff Training	4,497	863	516	698	6,574
Telephone	29,023	5,572	3,331	4,506	42,432
Young Professionals	<u>-</u>	<u>4,865</u>	<u>-</u>	<u>-</u>	<u>4,865</u>
Total Expenses	<u>\$ 3,348,944</u>	<u>\$ 740,426</u>	<u>\$ 491,348</u>	<u>\$ 506,151</u>	<u>\$ 5,086,869</u>

See accompanying notes.



**CHILD ADVOCATES, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 197,110	\$ (178,485)
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	136,272	129,737
Contributions restricted for Capacity Building Campaign	(135,025)	(215,220)
Change in beneficial interest in Child Advocates Endowment, Inc.	(993,389)	(157,008)
Contribution from Child Advocates Endowment, Inc.	310,320	316,680
Contribution of property and equipment	-	(222,904)
Change in operating assets and liabilities:		
Pledges and other receivables	(139,791)	535,920
Prepaid expenses	(5,185)	3,019
Accounts payable and accrued liabilities	<u>68,496</u>	<u>(25,712)</u>
 Total adjustments	 <u>(758,302)</u>	 <u>364,512</u>
 Net cash (used) provided by operating activities	 <u>(561,192)</u>	 <u>186,027</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	<u>(35,608)</u>	<u>(461,711)</u>
 Net cash used by investing activities	 <u>(35,608)</u>	 <u>(461,711)</u>
 <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Borrowings on line of credit	100,000	-
Repayments on line of credit	(100,000)	-
Proceeds from contributions restricted for Capacity Building Campaign	<u>266,000</u>	<u>494,845</u>
 Net cash provided by financing activities	 <u>266,000</u>	 <u>494,845</u>
 NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	 (330,800)	 219,161
 CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	 <u>650,863</u>	 <u>431,702</u>
 CASH AND CASH EQUIVALENTS AT END OF YEAR	 <u>\$ 320,063</u>	 <u>\$ 650,863</u>
 <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid during the year for interest	<u>\$ 292</u>	<u>\$ -</u>

See accompanying notes.

NOTE A BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Child Advocates, Inc. (the Organization), a Texas not-for-profit corporation, provides educational resources and information regarding mental health, physical health and well-being of children and family units in Harris County, Texas. The Organization mobilizes court appointed volunteers to break the vicious cycle of child abuse. The Organization speaks up for abused children who are lost in the system and guides them into safe environments where they can thrive. Trained volunteers serve as guardian ad litem and work in tandem with juvenile court judges, attorneys, case workers, parents, foster parents, teachers, physicians, and therapists to ensure that the best interests of the child are met.

The Organization serves the community in the following major areas:

Education and Training - Programs to educate and train volunteers and employees about the services provided by the Organization and how to provide them.

Community Services - Programs which provide child advocate services for the community through the court system, including diligent search, educational advocacy, family reunification, Life Book Project and volunteer services.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles in the United States (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of Credit Risk - Financial instruments, which subject the Organization to concentrations of credit risk, consist principally of cash and cash equivalents, pledges and other receivables and the beneficial interest in the Endowment (See Note B). The Organization places its cash and cash equivalents with high credit quality financial institutions in the United States. At times, deposits with these financial institutions may exceed insured limits; however, these amounts typically may be redeemed upon demand and, therefore, bear minimal risk. In monitoring this credit risk, the Organization periodically evaluates the stability of these financial institutions.

Two donors accounted for 79% and 50% of pledge receivables at December 31, 2017 and 2016, respectively. Generally, no collateral or other security is required to support receivables. An allowance for doubtful accounts is established and accounts written off as needed based upon factors surrounding the credit risk of specific contributors. At December 31, 2017 and 2016, allowance for doubtful accounts amounted to \$3,625 and \$2,500, respectively.

Investment Risk - Investments held by the Endowment for the benefit of the Organization are subject to various levels of risk associated with economic, operating, and political events beyond management's control. Due to the level of risk associated with investments and the level of uncertainty related to changes in the value of investments, it is possible that changes in risks in the near term could materially impact the value of the beneficial interest in the Endowment.

NOTE A           BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

Cash and Cash Equivalents - For the purposes of the statement of cash flows, cash and cash equivalents includes demand deposits and highly liquid debt investments with maturity dates of less than three months.

Property and Equipment - Property and equipment items in excess of \$500 are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over estimated useful lives of the assets ranging from three to ten years. Leasehold improvements are amortized over the lives of the respective leases or the service lives of the improvements, whichever is shorter.

Financial Statement Presentation - Information regarding the financial position and activities of the Organization is reported in three categories as follows:

Unrestricted Net Assets - represent expendable funds available for operations which are not otherwise limited by donor restrictions.

Temporarily Restricted Net Assets - consist of contributed funds subject to donor imposed restrictions related to a specific purpose or requiring a specific passage of time before the funds can be spent.

Permanently Restricted Net Assets - are subject to irrevocable donor restrictions requiring the assets be maintained in perpetuity for the purpose of generating investment income to fund current operations. Permanently restricted net assets result from Child Advocates Endowment, Inc.

Contributions - Contributions are recorded when received or upon an unconditional promise to give from the donor. All contributions are considered to be available for unrestricted use unless restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support and an increase to the respective net asset class.

Unconditional promises to give that are expected to be collected within one year are recorded at their realizable value as pledges receivable. Pledges receivable that are to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included as contribution revenue. Conditional promises to give are not recorded until such time as the conditions are substantially met. There were no conditional promises to give at December 31, 2017 or 2016.

The Organization reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or 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.

NOTE A BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donors provided Christmas gifts to the Organization to distribute to children, with estimated values of \$147,875 and \$152,625 in 2017 and 2016, respectively. In-kind expenses in the same amounts are recorded as community services expense.

Volunteer Services - Many individuals served as trained court-appointed volunteer advocates. The hours spent by these volunteers do not meet the criteria to be recognized in the Organization's statement of activities. If the estimated value of these services had been recorded, contributions revenue and program expenses during 2017 and 2016 would have increased as disclosed in the following table, resulting in program expenses approximating 84% of total expenses in both 2017 and 2016.

	2017	2016
Volunteer Hours (unaudited)	<u>56,234</u>	<u>55,028</u>
Value of Volunteer Hours (unaudited)	<u>\$ 1,357,489</u>	<u>\$ 1,296,460</u>

Donated Services - The Organization recognizes as revenues and expenses donated services that 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. Donated services consist primarily of counseling and public relations services.

Advertising Expense - Advertising is expensed as incurred. Advertising expense for 2017 and 2016 totaled \$154,324 and \$165,284, respectively of which \$25,510 and \$19,320 were received as an in-kind gift in 2017 and 2016, respectively. During 2017 and 2016, advertising expenses incurred by the Organization were primarily related to volunteer recruitment and community awareness.

Functional Expenses - The costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of activities. Functional expenses which cannot readily be related to a specific program or supporting service are allocated among the various programs and supporting services benefited based upon salaries, hours worked, square footage, number of program staff or other appropriate allocation method.

Federal Income Tax - The Organization is exempt from federal income taxes under Internal Revenue Code Section 501(c) (3). However, the Organization is subject to taxes on unrelated business income. During 2017 and 2016, there was no unrelated business income.

The Organization believes that all significant tax positions utilized by the Organization will more likely than not be sustained upon examination. As of December 31, 2017, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the year 2014 forward (with limited exceptions). Tax penalties and interest, if any, would be accrued as incurred and would be classified as management and general expense in the statements of activities.

NOTE A           BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

Recent Accounting Pronouncements - In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, "*Leases (Topic 842)*". Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statements of activities. The new standard is effective for the Organization for the year beginning January 1, 2020. The Organization is currently evaluating the effect the provisions of ASU 2016-02 will have on the financial statements.

In August 2016, the FASB issued ASU No. 2016-14, "*Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*". The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct internal investment expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. This ASU will become effective for the Organization beginning January 1, 2018, and it not expected to significantly impact net assets or changes in net assets.

Subsequent Events - The Organization has evaluated subsequent events through April 24, 2018, the date the financial statements were available to be issued. No subsequent events occurred, which require adjustment or disclosure to the financial statements December 31, 2017.

NOTE B           BENEFICIAL INTEREST IN CHILD ADVOCATES ENDOWMENT, INC.

During 1992, Child Advocates Endowment, Inc. (the Endowment) was formed primarily for the benefit of and to provide financial support to the Organization. The Endowment has a separate board of directors and the Organization does not exercise control over the Endowment, therefore consolidated financial statements are not required. The Organization records its beneficial interest in the Endowment equal to the book value of the net assets of the Endowment. The assets of the Endowment are comprised primarily of cash and marketable securities which are reported at fair value.

The Endowment has a distribution policy whereby it awards to the Organization 4% of the lesser of 1) a rolling 24-month average of the total investment portfolio, or 2) the value of the investment portfolio at December 31.

**CHILD ADVOCATES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

NOTE B BENEFICIAL INTEREST IN CHILD ADVOCATES ENDOWMENT, INC. (CONTINUED)

Unrestricted activity of the Endowment is reported as temporarily restricted in the statement of activities of the Organization until amounts are appropriated for expenditure by the Endowment. The Endowment contributed \$310,320 and \$316,680 to the Organization during 2017 and 2016, respectively. At December 31, 2017 and 2016, these amounts to be distributed are included in net change in beneficial interest in Child Advocates Endowment, Inc. and released from restrictions on the statement of activities. Any undistributed amounts are recorded as a receivable. (See Note C)

The activity of temporarily restricted net assets of the Endowment is as follows for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 3,538,628	\$ 3,713,300
Investment return	1,107,785	222,613
Contribution to Child Advocates, Inc.	(310,320)	(316,680)
Management and general expenses	<u>(124,396)</u>	<u>(80,605)</u>
Ending balance	<u>\$ 4,211,697</u>	<u>\$ 3,538,628</u>

Certain contributions to the Endowment are permanently restricted. The income earned on these contributions can be used for unrestricted operating purposes of the Endowment and for contributions to the Organization. The activity of permanently restricted net assets of the Endowment is as follows for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 4,219,546	\$ 4,204,546
Contributions	<u>10,000</u>	<u>15,000</u>
Ending balance	<u>\$ 4,229,546</u>	<u>\$ 4,219,546</u>

NOTE C PLEDGES AND OTHER RECEIVABLES

Pledges and other receivables consist of the following:

	<u>2017</u>	<u>2016</u>
Pledges receivable in less than 1 year	\$ 204,540	\$ 315,294
Pledges receivable in one to five years	2,916	24,250
Receivable from Child Advocates Endowment, Inc.	397,020	386,700
Government grants receivable	304,411	172,702
Less allowance for doubtful accounts	<u>(3,625)</u>	<u>(2,500)</u>
	<u>\$ 905,262</u>	<u>\$ 896,446</u>

The receivable from Child Advocates Endowment, Inc. is due upon demand.

**CHILD ADVOCATES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 AND 2016**

NOTE D CAPACITY BUILDING CAMPAIGN

The Organization began its Capacity Building Campaign in 2015 to fund the relocation of its office, acquisition of leasehold improvements, furniture and equipment, increased occupancy costs, and increased capacity. The campaign cumulatively has raised \$974,845 as of December 31, 2017 of which \$55,900 is included in pledges receivables.

NOTE E TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets, excluding the Endowment, are available for the following purposes:

	2017	2016
Future periods	\$ 158,875	\$ 151,918
Capacity Building Campaign	248,437	425,886
Special events to be held in the future	3,000	13,900
	\$ 410,312	\$ 591,704

NOTE F EMPLOYEE BENEFIT PLAN

The Organization has a defined contribution employee benefit plan which includes substantially all employees. Contributions to the plan by the Organization are discretionary. Contributions to the plan amounted to \$88,294 and \$82,874 during 2017 and 2016, respectively.

NOTE G OPERATING LEASE

The Organization leases office space under an operating lease. In 2016, operations were relocated to a new office space with the same lessor. The Organization reached an agreement with the lessor to pay the previous lease rate while operating at the new location until the commencement date of the new lease in May 2016. The new lease term runs through April 2026. Total rent expense amounted to \$443,674 and \$370,085 for 2017 and 2016, respectively. Future annual payments are as follows:

2018	\$ 420,799
2019	428,944
2020	437,088
2021	445,227
2022	453,374
Thereafter	1,569,174
	\$ 3,754,606

NOTE H            LINE OF CREDIT

During April 2017, the Organization entered into a line of credit agreement with a financial institution to borrow up to a maximum amount of \$200,000 with interest due monthly at 1% above the greater of the bank's prime rate or the adjusted one month LIBOR rate. The line of credit is due on June 30, 2018 and is secured by essentially all assets of the Organization. There were no outstanding borrowings at December 31, 2017.

NOTE I            CONTINGENCIES

Amounts received from government and other grants require the fulfillment of certain conditions as set forth in the grant contracts. The Organization intends to fulfill the conditions of all grants, recognizing that failure to fulfill the conditions could result in the return of the funds to grantors. Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies. Any disallowed claims, including amounts already collected, could become a liability of the Organization. In management's opinion, disallowed claims, if any, would not have a material adverse effect on the Organization's financial position or results of operations.

NOTE J            SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING AND INVESTING ACTIVITIES

	2017	2016
Cost of fully depreciated property and equipment retired	\$ -	\$ 123,216



**CHILD ADVOCATES, INC.**  
**SUPPLEMENTARY SCHEDULE OF TEXAS CASA, INC. GRANT AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

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<u>Grantor/Program Title</u>	<u>Grant Number</u>	<u>Program or Award Amount</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Accrued or (Deferred) Revenue</u>
Texas CASA, Inc./CVC/OAG 16-17	CVC-17-35	\$ 592,095	\$ 394,734	\$ 394,734	\$ -
Texas CASA, Inc./CVC/OAG 17-18	CVC-2018-47	662,490	109,224	234,986	125,762
Texas CASA, Inc./VOCA 16-17	13576-17	397,523	297,825	297,825	-
Texas CASA, Inc./VOCA 17-18	VOCA-2018-47	<u>1,078,545</u>	<u>66,674</u>	<u>237,613</u>	<u>170,939</u>
		<u>\$ 2,730,653</u>	<u>\$ 868,457</u>	<u>\$ 1,165,158</u>	<u>\$ 296,701</u>