

CHILD ADVOCATES, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of financial position of Child Advocates, Inc. (a non-profit corporation) as of December 31, 2010 and 2009, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of Child Advocates, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles in the United States.

Our audits were performed for the purpose of forming an opinion on the basic financial statements of Child Advocates, Inc. as of December 31, 2010 and 2009. The accompanying 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Harper & Pearson Company, P.C.

Houston, Texas
April 26, 2011

CHILD ADVOCATES, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2010 AND 2009

ASSETS	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 508,287	\$ 469,859
Pledges and other receivables	1,149,315	1,081,234
Prepaid expenses	61,058	13,374
Property and equipment, at cost		
Furniture and equipment	454,276	448,569
Leasehold improvements	<u>5,746</u>	<u>5,746</u>
Property and equipment, gross	460,022	454,315
Accumulated depreciation	<u>(446,362)</u>	<u>(436,188)</u>
Property and equipment, net	13,660	18,127
Beneficial interest in Child Advocates Endowment, Inc.	<u>6,799,312</u>	<u>6,174,040</u>
TOTAL ASSETS	<u>\$ 8,531,632</u>	<u>\$ 7,756,634</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	<u>\$ 174,409</u>	<u>\$ 117,289</u>
TOTAL LIABILITIES	<u>174,409</u>	<u>117,289</u>
COMMITMENTS AND CONTINGENCIES		
NET ASSETS		
Unrestricted - Child Advocates	1,289,201	1,253,677
Unrestricted - Child Advocates Endowment, Inc.	<u>2,647,466</u>	<u>2,124,315</u>
Total unrestricted net assets	3,936,667	3,377,992
Temporarily restricted - Child Advocates	268,710	211,628
Permanently restricted - Child Advocates Endowment, Inc.	<u>4,151,846</u>	<u>4,049,725</u>
TOTAL NET ASSETS	<u>8,357,223</u>	<u>7,639,345</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,531,632</u>	<u>\$ 7,756,634</u>

**CHILD ADVOCATES, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	2010			2009				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES								
Contributions	\$ 781,318	\$ 416,138	\$ -	\$ 1,197,456	\$ 950,142	\$ 390,247	\$ -	\$ 1,340,389
Federal and state government grants	975,972	-	-	975,972	679,742	-	-	679,742
Special events and other revenue, net	1,411,205	-	-	1,411,205	1,496,669	-	-	1,496,669
Less direct donor benefits	(276,606)	-	-	(276,606)	(246,019)	-	-	(246,019)
Special events and other revenue, net	1,134,599	-	-	1,134,599	1,250,650	-	-	1,250,650
In-kind donations	1,238,828	-	-	1,238,828	4,217,000	-	-	4,217,000
Net change in beneficial interest in Child Advocates Endowment, Inc.	753,190	-	102,121	855,311	1,220,210	-	-	1,220,210
Interest and dividends	15	-	-	15	376	-	-	376
Assets released from restrictions	359,056	(359,056)	-	-	288,389	(288,389)	-	-
Total revenues	5,242,978	57,082	102,121	5,402,181	8,606,509	101,858	-	8,708,367
EXPENSES								
Community services	2,470,643	-	-	2,470,643	2,289,749	-	-	2,289,749
Professional education and training	1,613,637	-	-	1,613,637	4,578,616	-	-	4,578,616
Management and general	308,987	-	-	308,987	306,345	-	-	306,345
Fund raising	291,036	-	-	291,036	324,312	-	-	324,312
Total expenses	4,684,303	-	-	4,684,303	7,499,022	-	-	7,499,022
CHANGE IN NET ASSETS	558,675	57,082	102,121	717,878	1,107,487	101,858	-	1,209,345
NET ASSETS, Beginning of year	3,377,992	211,628	4,049,725	7,639,345	2,270,505	109,770	4,049,725	6,430,000
NET ASSETS, End of year	\$ 3,936,667	\$ 268,710	\$ 4,151,846	\$ 8,357,223	\$ 3,377,992	\$ 211,628	\$ 4,049,725	\$ 7,639,345

See accompanying notes.

CHILD ADVOCATES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2010

	Community Services	Professional Education and Training	Management and General	Fund Raising	Total
Salaries	\$ 1,466,043	\$ 293,034	\$ 146,465	\$ 183,070	\$ 2,088,612
Employee Benefits	153,592	30,700	15,344	19,180	218,816
Payroll Taxes	115,409	23,068	11,530	14,411	164,418
Retirement	48,756	9,831	5,467	5,946	70,000
Total Salaries and Related Benefits	1,783,800	356,633	178,806	222,607	2,541,846
Accounting and Auditing	-	-	60,989	-	60,989
Awards and Gifts	4,598	-	-	-	4,598
Bad Debt Expense	-	-	1,548	-	1,548
Board Expenses	-	-	8,898	-	8,898
Community Awareness Project	-	72,529	-	-	72,529
Contract Services	7,594	-	7,687	-	15,281
Delivery Service	455	91	46	57	649
Depreciation	7,139	1,427	716	891	10,173
Development	-	-	-	11,012	11,012
Direct Mail	-	-	-	14,484	14,484
Dues and Subscriptions	6,495	1,299	650	811	9,255
General Operations	-	-	1,897	-	1,897
Human Resources	17,076	3,414	1,712	2,131	24,333
In-Kind Public Service	-	-	-	-	-
Announcements/Volunteer Recruitment	-	1,068,328	-	-	1,068,328
In-Kind Christmas Gifts	170,500	-	-	-	170,500
Insurance	18,761	3,751	1,880	2,341	26,733
Local Travel	72,025	208	8,767	2,337	83,337
Maintenance and Repair	20,679	4,134	2,073	2,581	29,467
Miscellaneous	7,100	1,419	703	886	10,108
Newsletter	-	15,682	3,136	2,091	20,909
Occupancy	117,967	54,771	23,172	14,746	210,656
Office Supplies	12,731	2,545	1,276	1,589	18,141
Postage	8,838	1,767	886	1,103	12,594
Program Events	140,526	-	-	-	140,526
Special Needs	33,014	-	-	6,210	39,224
Staff Training	14,354	2,870	1,439	1,791	20,454
Telephone	26,991	5,396	2,706	3,368	38,461
Young Professionals	-	17,373	-	-	17,373
Total Expenses	\$ 2,470,643	\$ 1,613,637	\$ 308,987	\$ 291,036	\$ 4,684,303

See accompanying notes.

CHILD ADVOCATES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2009

	Community Services	Professional Education and Training	Management and General	Fund Raising	Total
Salaries	\$ 1,365,364	\$ 288,317	\$ 135,197	\$ 205,383	\$ 1,994,261
Employee Benefits	130,557	27,569	12,928	19,639	190,693
Payroll Taxes	102,407	21,625	10,140	15,404	149,576
Retirement	<u>41,147</u>	<u>8,581</u>	<u>4,060</u>	<u>6,212</u>	<u>60,000</u>
Total Salaries and Related Benefits	1,639,475	346,092	162,325	246,638	2,394,530
Accounting and Auditing	-	-	53,924	-	53,924
Awards and Gifts	5,620	-	-	-	5,620
Bad Debt Expense	-	-	4,612	-	4,612
Board Expenses	-	-	16,637	-	16,637
Community Awareness Project	-	53,301	-	-	53,301
Contract Services	11,178	-	1,941	-	13,119
Delivery Service	270	57	27	40	394
Depreciation	12,194	2,574	1,207	1,835	17,810
Development	-	-	-	21,377	21,377
Direct Mail	-	-	-	19,978	19,978
Dues and Subscriptions	2,417	510	239	364	3,530
General Operations	-	-	23,095	-	23,095
Human Resources	2,359	498	234	355	3,446
In-Kind Public Service					
Announcements/Volunteer Recruitment	-	4,073,625	-	-	4,073,625
In-Kind Christmas Gifts	143,375	-	-	-	143,375
Insurance	18,147	3,831	1,797	2,730	26,505
Local Travel	66,441	86	5,486	1,639	73,652
Maintenance and Repair	19,831	4,186	1,963	2,983	28,963
Miscellaneous	4,065	1,610	402	611	6,688
Newsletter	-	14,515	2,903	1,935	19,353
Occupancy	121,517	56,419	23,869	15,190	216,995
Office Supplies	12,571	2,655	1,245	1,891	18,362
Postage	10,748	2,269	1,064	1,617	15,698
Program Events	116,748	-	-	-	116,748
Special Needs	68,701	-	-	-	68,701
Staff Training	8,747	1,847	866	1,316	12,776
Telephone	25,345	5,350	2,509	3,813	37,017
Young Professionals	<u>-</u>	<u>9,191</u>	<u>-</u>	<u>-</u>	<u>9,191</u>
Total Expenses	<u>\$ 2,289,749</u>	<u>\$ 4,578,616</u>	<u>\$ 306,345</u>	<u>\$ 324,312</u>	<u>\$ 7,499,022</u>

See accompanying notes.

CHILD ADVOCATES, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 717,878	\$ 1,209,345
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	10,173	17,810
Change in beneficial interest in Child Advocates Endowment, Inc.	(855,311)	(1,220,210)
Change in operating assets and liabilities:		
Pledges and other receivables	161,958	(81,115)
Prepaid expenses	(47,684)	27,435
Book inventory	-	36,247
Accounts payable and accrued liabilities	<u>57,120</u>	<u>(7,474)</u>
 Total adjustments	 <u>(673,744)</u>	 <u>(1,227,307)</u>
 Net cash provided (used) by operating activities	 <u>44,134</u>	 <u>(17,962)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	<u>(5,706)</u>	<u>(8,466)</u>
 Net cash used by investing activities	 <u>(5,706)</u>	 <u>(8,466)</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 38,428	 (26,428)
 CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	 <u>469,859</u>	 <u>496,287</u>
 CASH AND CASH EQUIVALENTS AT END OF YEAR	 <u>\$ 508,287</u>	 <u>\$ 469,859</u>

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.

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. Instead, the Organization records as an asset, 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.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles 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. 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.

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, 2010 and 2009, all receivables are deemed to be collectible; therefore no allowance account has been established.

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 thirty 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, 2010 or 2009.

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

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.

Donors provided Christmas gifts to children in the amounts of \$170,500 and \$143,375 in 2010 and 2009, 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 2010 and 2009 would have increased as disclosed in the following table, resulting in program expenses approximating 90% and 93% in 2010 and 2009, respectively, (unaudited) of total expenses each year.

	2010	2009
Volunteer hours (unaudited)	<u>65,507</u>	<u>55,580</u>
Value of volunteer hours (unaudited)	<u>\$ 1,365,819</u>	<u>\$ 1,125,475</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 expense is recorded as incurred. Advertising expense for 2010 and 2009 totaled \$1,139,728 and \$4,126,467 including donated advertising amounting to \$1,068,328 and \$4,073,625 in 2010 and 2009, respectively. During 2010 and 2009, advertising incurred by the Organization and in-kind public service announcements on behalf of the Organization were related to volunteer recruitment.

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.

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

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 2010 and 2009, there was no unrelated business income.

Generally accepted accounting principles (GAAP) provide detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements. GAAP requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. 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, 2010, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the year 2007 forward (with limited exceptions). Tax penalties and interest, if any, would be accrued as incurred and would be classified as tax expense in the statements of activities.

Subsequent Events - The Organization has evaluated subsequent events through April 26, 2011, the date the financial statements were available to be issued. No subsequent events occurred, which require adjustment or disclosure to the financial statements at December 31, 2010.

NOTE B PLEDGES AND OTHER RECEIVABLES

Pledges and other receivables consist of the following:

	2010	2009
Pledges receivable in less than 1 year	\$ 157,139	\$ 118,877
Pledges receivable in one to five years	1,250	750
Receivable from Child Advocates Endowment, Inc.	834,711	804,671
Government grants receivable	156,215	156,936
	\$ 1,149,315	\$ 1,081,234

The receivable from Child Advocates Endowment, Inc. is due upon demand. However, management does not anticipate requesting the funds in the next twelve months.

CHILD ADVOCATES, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE C TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2010	2009
Future periods	\$ 158,388	\$ 119,628
Permanent foster care study	20,000	50,000
Advocacy University	60,000	24,000
Miscellaneous	3,822	-
Special events to be held in the future	26,500	18,000
	\$ 268,710	\$ 211,628

NOTE D PERMANENTLY RESTRICTED NET ASSETS

Certain contributions to the Endowment are permanently restricted. The income earned on these contributions can be used for unrestricted operating purposes. The distribution policy is to distribute 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. The Endowment awarded \$230,040 and \$206,400 to the Organization during 2010 and 2009, respectively. At December 31, 2010 and 2009, these amounts to be distributed are included in pledges and other receivables on the statement of financial position and in net change in beneficial interest in Child Advocates Endowment, Inc. on the statement of activities.

NOTE E 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 \$70,000 and \$60,000 during 2010 and 2009, respectively.

NOTE F OPERATING LEASE

The Organization leases office space under an operating lease. Total rent expense amounted to \$210,656 and \$216,995 for 2010 and 2009, respectively. Future annual payments are as follows:

2011		\$ 213,810
2012		71,270
		\$ 285,080

NOTE G 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.

During the normal course of business, the Organization is potentially subject to claims arising from providing its services for the community. During 2009, the Organization was named in a lawsuit with several codefendants. The case was dismissed in 2011, but is currently under appeal. Management believes that the claim is without merit and the likelihood of an unfavorable outcome is remote.

CHILD ADVOCATES, INC.
SUPPLEMENTARY SCHEDULE OF TEXAS CASA, INC. GRANT AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2010

Grantor/Program Title	Grant Number	Program or Award Amount	Receipts	Disbursements	Accrued or (Deferred) Revenue
Texas CASA, Inc./CVC/OAG 09-10	CVC-10-34	\$ 487,261	\$ 324,580	\$ 324,580	\$ -
Texas CASA, Inc./CVC/OAG 10-11	CVC-10-34	597,815	100,334	201,085	100,751
Texas CASA, Inc./VOCA 09-10	13576-10	237,949	158,778	158,778	-
Texas CASA, Inc./VOCA 10-11	13576-11	<u>273,228</u>	<u>45,605</u>	<u>89,822</u>	<u>44,217</u>
		<u>\$ 1,596,253</u>	<u>\$ 629,297</u>	<u>\$ 774,265</u>	<u>\$ 144,968</u>

See independent auditor's report.