

ACH CHILD AND FAMILY SERVICES AND AFFILIATES

**COMBINED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED DECEMBER 31, 2019 AND 2018

**ACH CHILD AND FAMILY SERVICES AND AFFILIATES
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INDEPENDENT AUDITORS' REPORT

Board of Directors
ACH Child and Family Services and Affiliates
Fort Worth, Texas

Report on the Financial Statements

We have audited the accompanying combined financial statements of ACH Child and Family Services and Affiliates (ACH) which comprise the combined statements of financial position as of December 31, 2019 and 2018, and the related combined statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined financial statements based on our audits. We conducted our audits 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of ACH Child and Family Services and Affiliates as of December 31, 2019 and 2018, and the combined changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying schedule of expenditures of federal awards and the schedule of expenditures of state awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the *Uniform Grant Management Standards of the State of Texas Single Audit Circular*, respectively, are presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or the combined 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 combined financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards* and the *Uniform Grant Management Standards*, we have also issued our report dated August 27, 2020 on our consideration of the Organization'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 Organization'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* and the *Uniform Grant Management Standards* in considering ACH Child and Family Services and Affiliates internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Fort Worth, Texas
August 27, 2020

**ACH CHILD AND FAMILY SERVICES AND AFFILIATES
COMBINED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018**

ASSETS	<u>2019</u>	<u>2018</u>
Cash and Cash Equivalents	\$ 3,767,985	\$ 1,804,382
Restricted Cash	643,116	534,193
Cash Restricted for Capital Improvements	-	860,009
Grants and Program Receivable, Net of Allowance for Doubtful Accounts of \$245,929 and \$225,065, Respectively	7,609,370	7,915,470
Other Receivables	61,533	45,085
Prepaid Expenses	357,188	314,827
Promises to Give, Net of Discount \$84,258 and \$73,901, Respectively	2,012,815	902,099
Investments - Publicly Traded/Listed Securities	58,679,574	46,711,284
Investments - Nonpublicly Traded	19,127,897	16,988,793
Mineral Interests and Real Estate, Net	17,047,484	18,532,656
Beneficial Interest in Trust	11,211,318	9,592,645
Note Receivable	15,613,540	9,771,940
Property and Equipment, Net	<u>35,840,611</u>	<u>33,141,255</u>
Total Assets	<u>\$ 171,972,431</u>	<u>\$ 147,114,638</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Liabilities	\$ 8,936,375	\$ 6,803,136
Line of Credit	3,175,911	1,321,436
Notes Payable	21,780,000	13,940,000
Debt Issuance Costs, Unamortized Portion	<u>(831,296)</u>	<u>(473,117)</u>
Total Liabilities	33,060,990	21,591,455
NET ASSETS		
Without Donor Restrictions		
Undesignated	40,584,056	36,685,591
Board Designated Endowment	94,813,571	82,193,951
With Donor Restrictions		
Purpose	2,564,947	5,694,774
Endowment	<u>948,867</u>	<u>948,867</u>
Total Net Assets	<u>138,911,441</u>	<u>125,523,183</u>
Total Liabilities and Net Assets	<u>\$ 171,972,431</u>	<u>\$ 147,114,638</u>

See accompanying Notes to Combined Financial Statements.

**ACH CHILD AND FAMILY SERVICES AND AFFILIATES
COMBINED STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
PUBLIC SUPPORT			
Contributions	\$ 963,122	\$ 1,012,435	\$ 1,975,557
Capital Campaign Contributions	-	3,389,478	3,389,478
Estates and Trusts	125,000	-	125,000
Special Events, Net of Direct Costs of \$63,780 and \$126,481 Respectively	203,841	-	203,841
Total Public Support	<u>1,291,963</u>	<u>4,401,913</u>	<u>5,693,876</u>
REVENUE AND INVESTMENT RETURNS			
Program Service Fees	59,781,067	-	59,781,067
Government Grant Income	510,801	-	510,801
Rental and Other Income	447,852	-	447,852
Interest and Other Income	333,338	-	333,338
Mineral and Real Estate Properties, Net	8,042,708	92,847	8,135,555
Investment Income, Net	505,049	5,829	510,878
Realized and Unrealized Gains(Losses) on Investments, Net	9,858,545	113,813	9,972,358
Realized Loss on Disposition	(34,527)	-	(34,527)
Change in Value of Beneficial Interest in Trust Assets	2,073,025	-	2,073,025
Total Revenues and Investment Returns	<u>81,517,858</u>	<u>212,489</u>	<u>81,730,347</u>
NET ASSETS RELEASED FROM RESTRICTIONS			
Release of Program Restrictions	4,142,262	(4,142,262)	-
Release of Capital Expenditure Restrictions	3,601,967	(3,601,967)	-
Total Released from Restrictions	<u>7,744,229</u>	<u>(7,744,229)</u>	<u>-</u>
Total Public Support, Revenue and Investment Returns	<u>90,554,050</u>	<u>(3,129,827)</u>	<u>87,424,223</u>
EXPENSES			
Program Services	63,919,852	-	63,919,852
General and Administrative	8,824,624	-	8,824,624
Fundraising	1,291,489	-	1,291,489
Total Expenses	<u>74,035,965</u>	<u>-</u>	<u>74,035,965</u>
CHANGE IN NET ASSETS	16,518,085	(3,129,827)	13,388,258
Net Assets - Beginning of Year	<u>118,879,542</u>	<u>6,643,641</u>	<u>125,523,183</u>
NET ASSETS - END OF YEAR	<u>\$ 135,397,627</u>	<u>\$ 3,513,814</u>	<u>\$ 138,911,441</u>

See accompanying Notes to Combined Financial Statements.

2018		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 1,740,665	\$ 2,843,729	\$ 4,584,394
-	1,953,346	1,953,346
125,000	-	125,000
<u>193,233</u>	<u>-</u>	<u>193,233</u>
<u>2,058,898</u>	<u>4,797,075</u>	<u>6,855,973</u>
55,895,103	-	55,895,103
561,250	-	561,250
441,809	-	441,809
216,987	-	216,987
7,575,924	42,946	7,618,870
343,122	3,895	347,017
(4,633,388)	101,748	(4,531,640)
(81,579)	-	(81,579)
<u>(894,323)</u>	<u>-</u>	<u>(894,323)</u>
<u>59,424,905</u>	<u>148,589</u>	<u>59,573,494</u>
1,572,564	(1,572,564)	-
<u>148,589</u>	<u>(148,589)</u>	<u>-</u>
<u>1,721,153</u>	<u>(1,721,153)</u>	<u>-</u>
<u>63,204,956</u>	<u>3,224,511</u>	<u>66,429,467</u>
59,935,436	-	59,935,436
6,677,851	-	6,677,851
<u>1,485,654</u>	<u>-</u>	<u>1,485,654</u>
<u>68,098,941</u>	<u>-</u>	<u>68,098,941</u>
(4,893,985)	3,224,511	(1,669,474)
<u>123,773,527</u>	<u>3,419,130</u>	<u>127,192,657</u>
<u>\$ 118,879,542</u>	<u>\$ 6,643,641</u>	<u>\$ 125,523,183</u>

**ACH CHILD AND FAMILY SERVICES AND AFFILIATES
COMBINED STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2019**

	Program Services						Supporting Services			
	Foster Care/ Adoption/Kinship Connections	Transitions	Youth Emergency Shelter	Youth and Family Services	Wedgwood Residential Care	OCOK Intake and Care Coordination	Total Program Services	General and Administrative	Fundraising	Total
	ACH Child and Family Services									
OCOK Provider Payments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 46,858,082	\$ 46,858,082	\$ -	\$ -	\$ 46,858,082
Salaries, Taxes and Benefits	1,928,402	819,864	1,106,252	1,342,094	3,174,216	2,113,342	10,484,170	6,051,545	942,164	17,477,879
Occupancy and Maintenance	147,132	155,348	88,332	130,959	278,516	214,098	1,014,385	386,014	43,438	1,443,837
Transportation	60,009	18,047	22,287	14,409	49,027	207,313	371,092	88,240	1,776	461,108
Insurance and Taxes	25,666	21,369	17,909	16,471	60,001	17,871	159,287	91,323	8,212	258,822
Food, Clothing and Supplies	29,613	39,621	63,409	26,181	463,801	224,101	846,726	118,586	20,771	986,083
Medical	3	375	8,998	1	2,961	290	12,628	-	-	12,628
Youth Activities	571	2,697	10,397	226	26,274	-	40,165	-	-	40,165
Education	962	2,923	352	411	6,371	-	11,019	-	82	11,101
Family Assistance	3,529	10,173	2,175	9,078	1,124	-	26,079	-	-	26,079
Foster Care Expenses	1,476,657	-	-	-	-	-	1,476,657	-	-	1,476,657
LIFE Project Expenses	-	421,469	-	-	-	-	421,469	-	-	421,469
Other Program Expenses	64,610	27,915	23,615	27,615	89,620	-	233,375	-	-	233,375
Development and Promotion	-	-	-	-	-	-	-	8,854	19,369	28,223
Outreach and Awareness	1,922	9,984	2,842	6,113	1,460	3,146	25,467	320,988	62,483	408,938
Contract Services	54,119	22,939	34,735	33,741	108,714	407,949	662,197	227,990	29,080	919,267
Audit and Legal Services	132	56	573	311	157	-	1,229	101,849	-	103,078
Staff Development and Travel	66,676	22,049	22,985	38,074	62,629	16,809	229,222	126,182	15,963	371,367
Board Development	-	-	-	-	-	-	-	14,167	-	14,167
Miscellaneous Expenses	1,266	37,845	1,181	541	2,006	125,265	168,104	13,651	-	181,755
Interest Expense	-	-	-	-	-	-	-	154,475	-	154,475
Depreciation and Amortization	12,800	15,513	9,946	9,605	288,942	92,508	429,314	102,749	12,539	544,602
Total Expenses - ACH	3,874,069	1,628,187	1,415,988	1,655,830	4,615,819	50,280,774	63,470,667	7,806,613	1,155,877	72,433,157
ACH Foundation										
Professional Fees	-	-	-	-	-	-	-	24,874	-	24,874
Total Expenses - Foundation	-	-	-	-	-	-	-	24,874	-	24,874
ACH Landowner										
Depreciation and Amortization	88,147	116,745	19,963	-	-	-	224,855	349,865	49,156	623,876
Total Expenses - ACH Landowner	88,147	116,745	19,963	-	-	-	224,855	349,865	49,156	623,876
ACH Landowner II										
Interest Expense	-	-	-	-	-	-	-	109,214	-	109,214
Depreciation	-	-	69,856	37,105	-	21,452	128,413	146,691	86,456	361,560
Amortization	-	-	-	-	-	-	-	87,347	-	87,347
Bank Fees	-	-	-	-	-	-	-	97,500	-	97,500
Total Expenses - ACH Landowner II	-	-	69,856	37,105	-	21,452	128,413	440,752	86,456	655,621
ACH Landowner III										
Professional Fees	-	-	-	-	-	-	-	22,496	-	22,496
Audit Fees	-	-	-	-	-	-	-	18,000	-	18,000
Legal Fees	-	-	-	-	-	-	-	828	-	828
Depreciation	-	-	-	-	95,917	-	95,917	-	-	95,917
Bank Fees	-	-	-	-	-	-	-	28,881	-	28,881
Interest Expense	-	-	-	-	-	-	-	78,852	-	78,852
Amortization	-	-	-	-	-	-	-	53,463	-	53,463
Total Expenses - ACH Landowner III	-	-	-	-	95,917	-	95,917	202,520	-	298,437
Total Expenses - Combined	\$ 3,962,216	\$ 1,744,932	\$ 1,505,807	\$ 1,692,935	\$ 4,615,819	\$ 50,302,226	\$ 63,919,852	\$ 8,824,624	\$ 1,291,489	\$ 74,035,965

See accompanying Notes to Combined Financial Statements.

**ACH CHILD AND FAMILY SERVICES AND AFFILIATES
COMBINED STATEMENTS OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018**

	Program Services						Supporting Services			
	Foster Care/ Adoption/Kinship Connections	Transitions	Youth Emergency Shelter and Street Outreach	Youth and Family Services	Wedgwood Residential Care	OCOK Intake and Care Coordination	Total Program Services	General and		Total
								Administrative	Fundraising	
ACH Child and Family Services										
OCOK Provider Payments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 45,333,933	\$ 45,333,933	\$ -	\$ -	\$ 45,333,933
Salaries, Taxes and Benefits	1,983,923	789,124	1,035,104	1,260,195	2,198,343	1,833,033	9,099,722	4,522,561	729,638	14,351,921
Occupancy and Maintenance	136,118	165,073	72,994	111,623	208,686	95,151	789,645	318,657	90,631	1,198,933
Transportation	44,533	22,329	19,704	14,892	47,339	174,841	323,638	72,797	2,055	398,490
Insurance and Taxes	25,916	22,603	16,391	14,688	43,226	14,828	137,652	87,644	16,365	241,661
Food, Clothing and Supplies	35,024	46,084	65,949	24,085	149,880	45,347	366,369	99,855	25,896	492,120
Medical	-	482	9,439	-	2,942	386	13,249	346	-	13,595
Youth Activities	930	3,007	8,579	32	27,810	278	40,636	-	589	41,225
Education	1,747	1,469	603	698	2,988	-	7,505	-	-	7,505
Family Assistance	1,533	6,185	1,142	1,576	1,147	-	11,583	-	-	11,583
Foster Care Expenses	1,419,841	-	-	-	-	-	1,419,841	-	-	1,419,841
LIFE Project Expenses	-	505,120	-	-	-	-	505,120	-	-	505,120
Other Program Expenses	72,640	40,650	41,562	27,048	108,605	6,228	296,733	-	102	296,835
Development and Promotion	-	-	-	-	-	-	-	-	24,613	24,613
Outreach and Awareness	2,822	3,697	1,226	17,104	734	12,957	38,540	87,882	139,400	265,822
Contract Services	85,511	36,225	36,080	46,340	81,562	371,627	657,345	234,177	85,658	977,180
Audit and Legal Services	56	24	19	22	42	37	200	132,049	-	132,249
Staff Development and Travel	63,548	20,348	27,409	28,474	44,972	15,988	200,739	107,042	20,204	327,985
Board Development	-	-	-	-	-	-	-	14,975	-	14,975
Miscellaneous Expenses	-	7,093	-	-	15	-	7,108	2,050	14	9,172
Project Fundraising	-	-	-	-	-	-	-	1,281	299,940	301,221
Other Expenses	74,144	31,951	25,572	29,602	55,850	51,441	268,560	187,201	12,302	468,063
Total Expenses - ACH	3,948,286	1,701,464	1,361,773	1,576,379	2,974,141	47,956,075	59,518,118	5,868,517	1,447,407	66,834,042
ACH Landowner										
Depreciation and Amortization	85,251	119,641	19,887	58,238	-	-	283,017	299,776	38,247	621,040
Total Expenses - ACH Landowner	85,251	119,641	19,887	58,238	-	-	283,017	299,776	38,247	621,040
ACH Landowner II										
Interest Expense	-	-	-	-	-	-	-	97,529	-	97,529
Depreciation	-	-	69,857	43,034	-	21,410	134,301	227,184	-	361,485
Amortization	-	-	-	-	-	-	-	87,345	-	87,345
Bank Fees	-	-	-	-	-	-	-	97,500	-	97,500
Total Expenses - ACH Landowner II	-	-	69,857	43,034	-	21,410	134,301	509,558	-	643,859
Total Expenses - Combined	\$ 4,033,537	\$ 1,821,105	\$ 1,451,517	\$ 1,677,651	\$ 2,974,141	\$ 47,977,485	\$ 59,935,436	\$ 6,677,851	\$ 1,485,654	\$ 68,098,941

**ACH CHILD AND FAMILY SERVICES AND AFFILIATES
COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets	\$ 13,388,258	\$ (1,669,474)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Net Realized and Unrealized Loss (Gain) on Investments	(9,972,358)	4,531,640
Realized Loss on Sale of Property and Equipment	34,527	81,579
Noncash Change in Value of Beneficial Interest in Trust Assets	(1,618,673)	1,344,499
Bad Debt Expense (Recoveries)	162,584	(5,693)
Depreciation Expense	1,625,955	1,385,872
Amortization Expense	140,810	87,345
Depletion Expense	1,485,172	1,460,963
Donations of Property and Equipment	-	(1,000,000)
(Increase) Decrease in Operating Assets:		
Grants and Program Receivable	143,516	1,465,781
Other Receivables	(16,448)	(12,585)
Prepaid Expenses	(42,361)	(135,368)
Promises to Give	(1,110,716)	(7,608)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable and Accrued Liabilities	2,133,239	(693,643)
Contributions Restricted for Long-Term Purposes	(3,389,478)	(1,953,346)
Net Cash Provided by Operating Activities	2,964,027	4,879,962
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(4,359,838)	(3,608,971)
Proceeds from Sale of Investments	18,732,386	6,971,403
Issuance of Notes Receivable to Community Development Entity	(5,841,600)	-
Purchase of Investments	(22,867,425)	(10,224,955)
Net Cash Used by Investing Activities	(14,336,477)	(6,862,523)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (Payments) Draws on Line of Credit	1,854,475	(3,492,216)
Proceeds from Issuance of New Market Tax Credit Notes	8,396,496	-
Payment on New Market Credit Note	(556,496)	-
Debt Issuance Costs Paid	(498,986)	-
Proceeds from Contributions Restricted for:		
Investment in Property and Equipment	3,389,478	1,953,346
Net Cash Provided (Used) by Financing Activities	12,584,967	(1,538,870)
NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS	1,212,517	(3,521,431)
Cash and Cash Equivalents - Beginning of Year	3,198,584	6,720,015
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 4,411,101	\$ 3,198,584
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest Paid	\$ 263,689	\$ 165,973
Property and Equipment Purchased Through Issuance of Debt	\$ 3,918,942	\$ -
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Donations of Property and Equipment	\$ -	\$ 1,000,000
RECONCILIATION TO STATEMENT OF FINANCIAL POSITION		
Cash and Cash Equivalents	\$ 3,767,985	\$ 1,804,382
Restricted Cash	643,116	534,193
Cash Restricted for Capital Improvements	-	860,009
Total Cash and Cash Equivalents	\$ 4,411,101	\$ 3,198,584

See accompanying Notes to Combined Financial Statements.

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 ORGANIZATION AND OPERATIONS

ACH Child and Family Services (ACH) was established in 1915 by the Women's Federation of Churches to receive and manage donations of cash and property, and to distribute resources exclusively for the purpose of caring for dependent and neglected children. ACH is a Texas nonprofit corporation dedicated to the prevention, intervention, and treatment of child abuse, neglect, and family separation.

The All Church Home for Children Foundation is a Texas nonprofit corporation, organized to hold, manage, solicit, receive, administer, and invest assets for the exclusive use, benefit, and support of ACH Child and Family Services (ACH) in a manner that is responsive to the needs and demands of ACH.

ACH Landowner is a Texas nonprofit corporation, organized to support its sole member, ACH Child and Family Services (ACH) by providing financial and other resources to assist ACH in achieving the fulfillment of its mission. Specifically, ACH Landowner will hold, develop, and lease certain real property to ACH to be used for administration and programs.

ACH Landowner II is a Texas nonprofit corporation, organized to support its sole member, ACH Child and Family Services (ACH) by providing financial and other resources to assist ACH in achieving the fulfillment of its mission. Specifically, ACH Landowner II will hold, develop, and lease the shelter, modular buildings, cottages, and the Jo and Holt Hickman Center on the Wichita Campus to ACH to be used for administration and programs.

ACH Landowner III is a Texas nonprofit corporation, organized to support its sole member, ACH Child and Family Services (ACH) by providing financial and other resources to assist ACH in achieving the fulfillment of its mission. Specifically, ACH Landowner III will hold, develop, and lease the Residential Treatment Center on the Wichita Campus to be used to help certain residents with special needs.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of ACH is presented to assist in understanding ACH's combined financial statements. The combined financial statements and notes are representations of ACH's management who are responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and have been consistently applied in the preparation of the combined financial statements.

Combined Financial Statements

The accompanying combined financial statements include the accounts of ACH Child and Family Services, All Church Home for Children Foundation, ACH Landowner, ACH Landowner II, and ACH Landowner III (collectively, ACH), since they are financially interrelated organizations. Significant intercompany transactions and balances have been eliminated in the combination.

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation

ACH presents the combined financial statements in accordance with U.S. GAAP. As such, ACH is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. The fund groups are reported in the two classes of net assets as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as donor restricted revenue when received and released from restrictions when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the combined statements of activities as Net Assets Released from Restrictions.

Use of Estimates

The preparation of combined 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 of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

ACH considers only cash in banks and cash on hand as cash and cash equivalents. These cash equivalents are financial instruments that potentially subject ACH to concentrations of credit risk. ACH places its cash with high credit-quality financial institutions and periodically maintains deposits in amounts that exceed FDIC insurance coverage. Management believes the risk of incurring material losses related to this credit risk is remote.

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grants, Program Service Fees, and Accounts Receivable

ACH's receivables consist principally of program service fees and grants from governmental agencies. ACH utilizes the allowance method for recognition of bad debts. Based on management's assessment of the credit history of grantors, an allowance for doubtful accounts of \$245,929 and \$225,065 was deemed necessary as of December 31, 2019 and 2018, respectively. Bad debt expense (recoveries) was \$162,584 and (\$5,693) for the years ended December 31, 2019 and 2018, respectively.

Contributions Received and Promises to Give

Unconditional promises-to-give are recognized in the period the promises are made. Conditional promises-to-give are recognized when the conditions on which they depend are substantially met, that is, when the conditional promise becomes unconditional. Pledges receivable at December 31, 2019 are expected to be received through 2025.

A portion of the Organization's revenue is derived from cost-reimbursable contracts and grants. Amounts received are recognized as earned and are reported as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received but not yet earned are reported as a refundable advance in the statement of financial position.

As of December 31, 2019 and 2018, there were no conditional grants or contributions received for which the conditions had not been met.

Property and Equipment

Expenditures for property and equipment in excess of \$2,500 and having a useful life of one year or more are capitalized and recorded on ACH's books at cost. Donations of significant property and equipment are recorded as support at their estimated fair value. Such donations are reported as net assets without donor restrictions support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, ACH reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. ACH reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Maintenance, repairs, and minor renewals are expensed as incurred. When assets are retired or otherwise disposed of, their cost and related accumulated depreciation are removed from the accounts. Resulting gains or losses are included in income.

Depreciation of property and equipment is computed on the straight-line basis over their estimated useful lives. The estimated useful lives range from five to thirty years. Depreciation expense for 2019 and 2018 amounted to \$1,625,955 and \$1,385,872, respectively.

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO FINANCIAL STATEMENTS
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NOTE 2 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.

Income Taxes

ACH is organized as a nonprofit corporation under Section 501(c)(3) of the Internal Revenue Code. This section exempts ACH from taxes on income. Accordingly, no provision for income taxes has been made in the combined financial statements. The Internal Revenue Service had previously classified ACH as a private foundation; however, ACH was approved for public charity status beginning in year 2011. The All Church Home for Children Foundation, ACH Landowner, ACH Landowner II, and Landowner III are classified as public charities. Taxes are paid on net income earned from sources unrelated to the exempt purposes.

Concentration of Credit Risk

Financial instruments which potentially subject ACH to concentrations of credit risk consist primarily of receivables from program services and amounts deposited in banks in excess of the Federal Deposit Insurance Corporation's insured limit.

Approximately 99% of total program receivables is due from one government agency as of December 31, 2019 and 2018.

Three donor commitments comprised 76% and one donor commitment comprised 81% of the total balance of promises to give as of December 31, 2019 and 2018, respectively.

ACH currently invests in a variety of fixed income, equities, open and closed-end mutual funds and investment holding companies. Management believes diversity within the portfolio avoids significant concentration of credit risk with respect to these investments.

Investments and Fair Value

ACH follows FASB ASC No. 958-320. Under this section, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the combined statement of financial position. Investments in nonpublicly traded investment entities are recorded at fair value based on independent audits of these investment entities and their underlying investment securities. Investment income includes interest and dividends, net of investment expenses and is included in the combined statement of activities as increases in net assets without donor restrictions, unless the donor or law restricts the income or loss. Unrealized gains and losses are included in the change in net assets.

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO FINANCIAL STATEMENTS
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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FASB ASC No. 820-10, *Fair Value Measurements*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of other observable inputs (including quoted prices for similar securities, interest rates, prepayment spreads, credit risk, etc.) and Level 3 inputs have the lowest priority. ACH uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, ACH measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

Level 2 inputs are obtained on debt securities held which are not traded on a daily basis, and Level 3 inputs are used in determining the value of the investment partnership/hedge funds and the mineral interests and real estate owned by ACH that are not actively traded and significant other observable inputs are not available. Thus, the fair value of the mineral interests and real estate is equal to the lower of cost or estimated fair value of accumulated cost recovery. Investments in partnerships/hedge funds are carried at the audited net asset value of the investment. For certain investments in partnership/hedge funds which qualify as investment companies, ACH has elected to the use of NAV as a practical expedient for measurement of FMV.

Mineral Interests and Real Estate

ACH's investments in real estate and mineral interests were acquired primarily by contribution and recorded at the estimated fair market value (cost) at the date of receipt. Market value is calculated by discounting future cash flows from estimated production and expected future market prices for the related minerals. These investments are carried at the lower of amortized cost or market value. Accordingly, the mineral interests have been amortized using an annual basis of 15% of the non-bonus gross income generated by the interests.

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method, a method which approximates the effective interest rate method. At December 31, 2019 and 2018, deferred financing costs were \$1,110,399 and \$611,413. At December 31, 2019 and 2018, accumulated amortization of deferred financing costs was \$279,103 and \$138,296, respectively. Amortization expense related to the deferred financing costs was \$140,807 and \$87,345, respectively.

Donated Goods and Services

From time to time, ACH will receive donated goods, property, or other assets. These assets are recorded in the combined statement of financial position at their estimated fair value at the time of the gift. Revenue from such gifts is recognized as contributions in the combined statement of activities for the value of the asset. There were no material gifts of property and equipment received during the year ended December 31, 2019. For the year ended December 31, 2018, ACH received \$810,000 in the form of donated land and \$190,000 in the form of donated equipment for the installation of a kitchen.

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Goods and Services (Continued)

No amounts have been reflected in the combined financial statements for donated services since the services did not meet the criteria for recognition. However, a number of volunteers donate significant amounts of their time to ACH.

NOTE 3 NEW ACCOUNTING PRONOUNCEMENTS

In June 2018, FASB issued Accounting Standards Update (ASU) 2018-08, *Accounting Guidance for Contributions Received and Made*. This ASU was issued to clarify accounting guidance for contributions received and contributions made. The amendments to this ASU assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as an exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The combined financial statements reflect the application of ASU 2018-08 beginning January 1, 2018. The new guidance does not require prior period results to be restated. The implementation of this standard did not result in any changes to the opening balances of the combined financial statements.

NOTE 4 RESTRICTED CASH

Restricted cash consists of funds held in trust for various purposes, including transactional and management fees, capital improvements, and certain programmatic startup costs. The cash balances held in trust were \$643,116 and \$1,394,202 as of December 31, 2019 and 2018, respectively. Approximately \$643,000 and \$534,000 of these funds were held by JP Morgan Chase for the years ended December 31, 2019 and 2018, in accordance with certain debt instruments reflected in Notes 11 and 12 to the combined financial statements. The remainder consists of cash held for programmatic startup costs associated with a significant gift and related new program, as well as funds to be used for renovation of the basketball court and playground equipment.

NOTE 5 PROMISES TO GIVE

ACH recognizes unconditional promises to give as support in the period the promise to give is made and reports them as contributions in the combined statement of activities. Contributions that are expected to be collected in future years are recorded at the present value of the amount expected to be collected. The discount rate has been imputed at 2.0% which approximates the Organization's risk free borrowing rate at December 31, 2019 and 2018. At December 31, 2019 and 2018, all promises to give are considered fully collectible and no allowance for doubtful accounts has been estimated. Bad debt expense is reflected in the combined statement of functional expenses in miscellaneous expense and is reflected separately in the combined statement of cash flows.

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 5 PROMISES TO GIVE (CONTINUED)

At December 31, 2019, promises to give are expected to be received as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2020	\$ 1,016,288
2021	371,785
2022	205,000
2023	204,000
2024	100,000
Thereafter	<u>200,000</u>
Total	2,097,073
Less: Present Value Discount	(84,258)
Promises to Give, Net of Present Value Discount	<u><u>\$ 2,012,815</u></u>

NOTE 6 INVESTMENTS

Publicly Traded/Listed Securities

Investments in publicly traded debt and equity securities as well as open and closed-end listed mutual funds are carried at fair market value and are comprised of the following as of:

December 31, 2019

<u>Investment Description</u>	<u>Fair Market Value</u>	<u>Cost</u>	<u>Cumulative Unrealized Appreciation (Depreciation)</u>
Short-Term Investment Funds	\$ 3,200,535	\$ 3,198,919	\$ 1,616
Fixed Income Mutual Funds-Domestic	14,695,237	14,567,368	127,869
Equity Mutual Funds-Domestic	14,042,529	11,155,623	2,886,906
Equity Mutual Funds-International	20,921,718	19,005,622	1,916,096
Stocks-Domestic	3,814,459	2,993,525	820,934
Stocks-International	2,005,096	1,900,943	104,153
Total Publicly Traded/Listed Securities	<u><u>\$ 58,679,574</u></u>	<u><u>\$ 52,822,000</u></u>	<u><u>\$ 5,857,574</u></u>

December 31, 2018

<u>Investment Description</u>	<u>Fair Market Value</u>	<u>Cost</u>	<u>Cumulative Unrealized Appreciation (Depreciation)</u>
Short-Term Investment Funds	\$ 2,312,139	\$ 2,316,094	\$ (3,955)
Fixed Income Mutual Funds-Domestic	11,470,404	11,903,008	(432,604)
Equity Mutual Funds-Domestic	10,829,304	10,131,635	697,669
Equity Mutual Funds-International	18,744,288	20,036,594	(1,292,306)
Stocks-Domestic	3,355,149	3,365,779	(10,630)
Total Publicly Traded/Listed Securities	<u><u>\$ 46,711,284</u></u>	<u><u>\$ 47,753,110</u></u>	<u><u>\$ (1,041,826)</u></u>

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 6 INVESTMENTS (CONTINUED)

Nonpublicly Traded Securities

Investments in nonpublicly traded investment holding company entities are carried at fair value which is based on the net asset value calculated as a practical expedient from an independent audit of the entities and their underlying investment securities. Following are these nonpublicly traded investments as of:

December 31, 2019

<u>Hedge Fund Description</u>		<u>Fair Value</u>	<u>Cost</u>	<u>Cumulative Unrealized Appreciation (Depreciation)</u>
Blackstone Tactical Opportunities Fund (d)	\$	1,128,847	\$ 2,148,653	\$ (1,019,806)
Golden Tree Offshore Fund, Ltd. (b)		3,127,243	1,900,418	1,226,825
Pointer Offshore Ltd. (c)		2,659,862	1,050,000	1,609,862
Skybridge Multi-Advisor Hedge Fund (a)		1,359,875	1,368,938	(9,063)
The Weatherlow Offshore Fund (a)		1,213,502	1,109,142	104,360
Third Point Offshore Fund (e)		3,091,039	1,527,630	1,563,409
Canyon Value Realization Fund (g)		2,961,187	2,425,000	536,187
HPC Millennium Int'l Ltd. (f)		1,875,400	1,440,755	434,645
MS Hamilton Lane (h)		1,710,942	1,575,015	135,927
Total Nonpublicly Traded Securities		<u>\$ 19,127,897</u>	<u>\$ 14,545,551</u>	<u>\$ 4,582,346</u>

December 31, 2018

<u>Hedge Fund Description</u>		<u>Fair Value</u>	<u>Cost</u>	<u>Cumulative Unrealized Appreciation (Depreciation)</u>
Blackstone Tactical Opportunities Fund (d)	\$	1,301,381	\$ 1,829,416	\$ (528,035)
Golden Tree Offshore Fund, Ltd. (b)		2,852,918	1,900,418	952,500
Pointer Offshore Ltd. (c)		2,244,264	1,050,000	1,194,264
Skybridge Multi-Advisor Hedge Fund (a)		1,274,028	1,322,759	(48,731)
The Weatherlow Offshore Fund (a)		1,070,591	1,109,142	(38,551)
Third Point Offshore Fund (e)		2,642,229	1,528,515	1,113,714
Canyon Value Realization Fund (g)		2,714,486	2,425,000	289,486
HPC Millennium Int'l Ltd. (f)		1,807,021	1,500,000	307,021
MS Hamilton Lane (h)		1,081,875	1,076,064	5,811
Total Nonpublicly Traded Securities		<u>\$ 16,988,793</u>	<u>\$ 13,741,314</u>	<u>\$ 3,247,479</u>

- (a) These funds have no lock-up restrictions, nor any liquidity restrictions greater than 65 days, if any.
- (b) It has a 12-month initial lockup (purchased during 2012) and quarterly liquidity with a 90-day notice.
- (c) It has a 24-month initial lockup (purchased during 2012) and semi-annual liquidity of up to 50% capital with written notice by March 15th and September 15th.
- (d) Unfunded capital commitments totaled \$1,959,945 and \$2,000,000 for 2019 and 2018, respectively. Quarterly liquidity with 90 day notice.
- (e) The lock up restriction has expired and quarterly liquidity with a 65 day notice.
- (f) Quarterly withdrawals with 95 day notice. Withdrawals are limited to 25% of partners' capital.
- (g) Quarterly withdrawals with notice being required to be given by the 20th calendar day of the first month of the applicable fiscal quarter. Withdrawals are limited to 25% of partners' capital.
- (h) Subject to certain lock-up and liquidity restrictions greater than 65 days. Unfunded capital commitment is \$1,424,985 and \$1,923,938 for 2019 and 2018, respectively. It has a 12-month initial lockup (purchased during 2017) and quarterly liquidity with 90 day notice.

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO FINANCIAL STATEMENTS
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NOTE 6 INVESTMENTS (CONTINUED)

Fair Value Hierarchy Measurements

The above investments were classified as follows at December 31:

	2019			Total
	Level 1	Level 2	Level 3	
Short-Term Investment Funds	\$ 3,200,535	\$ -	\$ -	\$ 3,200,535
Fixed Income Mutual Funds-Domestic	14,695,237	-	-	14,695,237
Equity Mutual Funds-Domestic	14,042,529	-	-	14,042,529
Equity Mutual Funds-International	20,921,718	-	-	20,921,718
Stocks-Domestic	3,814,459	-	-	3,814,459
Stocks-International	2,005,096	-	-	2,005,096
Subtotal	58,679,574	-	-	58,679,574
Investments Measured at Net Asset Value	-	-	-	19,127,897
Total	<u>\$ 58,679,574</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 77,807,471</u>

	2018			Total
	Level 1	Level 2	Level 3	
Short-Term Investment Funds	\$ 2,312,139	\$ -	\$ -	\$ 2,312,139
Fixed Income Mutual Funds-Domestic	11,470,404	-	-	11,470,404
Equity Mutual Funds-Domestic	10,829,304	-	-	10,829,304
Equity Mutual Funds-International	18,744,288	-	-	18,744,288
Stocks-Domestic	3,355,149	-	-	3,355,149
Subtotal	46,711,284	-	-	46,711,284
Investments Measured at Net Asset Value	-	-	-	16,988,793
Total	<u>\$ 46,711,284</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 63,700,077</u>

Mineral Interests and Real Estate

Investments in mineral interests and real estate are carried at the lower of cost or estimated fair value. The balance reflected on the combined statement of financial position of \$17,047,484 and \$18,532,656 at December 31, 2019 and 2018, respectively, represents amortized cost since historical cost is considered a stronger indicator of fair value due to availability of fair value information. During the years ended December 31, 2019 and 2018, there were no purchases of mineral interests or real estate.

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 6 INVESTMENTS (CONTINUED)

Investment Returns

The following schedules summarize the investment returns, on all investments, for the years ended December 31:

	2019	2018
Mineral Income	\$ 10,415,404	\$ 9,749,534
Real Estate Income	-	-
Less: Depletion Amortized	(1,485,172)	(1,460,963)
Less: Mineral Expense	(794,025)	(667,829)
Less: Real Estate Expense	(652)	(1,872)
Net Mineral and Real Estate Income	<u>\$ 8,135,555</u>	<u>\$ 7,618,870</u>
Dividends and Interest	\$ 1,135,879	994,560
Less: Investment Advisory and Bank Fees	(625,001)	(647,543)
Net Investment Income	<u>\$ 510,878</u>	<u>\$ 347,017</u>
Net Realized Gains on Investment Securities	\$ 1,738,090	\$ 2,059,673
Net Realized Gains on Sale of Other Assets Held for Investment	-	-
Net Unrealized Gains (Losses) on Investment Securities	<u>8,234,268</u>	<u>(6,591,313)</u>
Net Realized and Unrealized Gains (Losses) on Investments	<u>\$ 9,972,358</u>	<u>\$ (4,531,640)</u>

NOTE 7 BENEFICIAL INTEREST IN TRUST

ACH has a beneficial interest in the trust. ACH's share of the net assets of the Trust is reflected at estimated fair value. The composition of investments underlying ACH's share of the net assets of the Trust as of December 31, 2019 and 2018 is as follows:

<u>December 31, 2019</u>	Level 1	Level 2	Level 3	Total
Short-Term Investment Funds	\$ 656,743	\$ -	\$ -	\$ 656,743
Equities	8,345,238	-	-	8,345,238
Fixed Income Securities	-	2,208,634	-	2,208,634
Hedge Funds	-	-	-	-
Real Estate	-	-	703	703
Commodities	-	-	-	-
Totals	<u>\$ 9,001,981</u>	<u>\$ 2,208,634</u>	<u>\$ 703</u>	<u>\$ 11,211,318</u>
<u>December 31, 2018</u>	Level 1	Level 2	Level 3	Total
Short-Term Investment Funds	\$ 570,534	\$ -	\$ -	\$ 570,534
Equities	6,393,568	-	-	6,393,568
Fixed Income Securities	-	828,087	-	828,087
Hedge Funds	-	-	1,372,645	1,372,645
Real Estate	-	-	703	703
Commodities	-	-	427,108	427,108
Totals	<u>\$ 6,964,102</u>	<u>\$ 828,087</u>	<u>\$ 1,800,456</u>	<u>\$ 9,592,645</u>

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 7 BENEFICIAL INTEREST IN TRUST (CONTINUED)

ACH's net share of investment in the Trust is considered a level 3 investment as a whole. A reconciliation of the change in the fair values of Level 3 investments is as follows:

	Changes in Level 3 Fair Values
Beginning Balance, December 31, 2018	\$ 9,592,645
Unrealized Gains and Losses	2,073,025
Sales and Distributions of Capital and Reinvested Earnings	(454,352)
Ending Balance, December 31, 2019	\$ 11,211,318

ACH received cash distributions of \$454,352 and \$450,176 and recognized an unrealized increase (decrease) in the value of the trust of \$2,073,025 and (\$894,323) during the years ended December 31, 2019 and 2018 resulting in a net increase (decrease) in value of beneficial interest in trust assets of \$1,618,673 and (\$1,344,499).

During the final quarter of 2014, the trust elected to distribute all of its underlying mineral rights to its two beneficiaries. Accordingly, ACH received its proportion of the minerals holdings and related income streams directly from the Trust into its own custodianship during 2015 after applicable transfers of title and changes in purchasers of record were completed. Such minerals were recorded at their fair value as of the date of transfer of \$21,222,881, and are presented in the combined statement of financial position in Mineral Interests and Real Estate.

NOTE 8 NOTE RECEIVABLE

During 2017, ACH closed on a new market tax credit arrangement resulting in a note receivable from Chase NMTC ACH Investment Fund in the amount of \$9,771,940 with interest payable annually at 1%. Interest payments of the note began in December 2017. Principal and interest payments are to commence in December 2025 with final payment due December 2044. As part of the arrangement, the notes may be paid off early at a set time in the arrangement, wherein a significant portion of the debt may be forgiven through the utilization of the new market tax credits. The note is unsecured. This note receivable originated with the issuance of certain debt instruments reflected in Note 11 to the combined financial statements. However, there is not a right of offset with these debt instruments.

During 2019, ACH closed on a new market tax credit arrangement resulting in a note receivable from Chase NMTC ACH Investment Fund in the amount of \$5,841,600 with interest payable annually at 1%. Interest payments of the note began in December 2019. Principal and interest payments are to commence in December 2027 with final payment due December 2056. As part of the arrangement, the notes may be paid off early at a set time in the arrangement, wherein a significant portion of the debt may be forgiven through the utilization of the new market tax credits. The note is unsecured. This note receivable originated with the issuance of certain debt instruments reflected in Note 11 to the combined financial statements. However, there is not a right of offset with these debt instruments.

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 9 PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following as of December 31:

	2019	2018
Land	\$ 4,101,000	\$ 4,101,000
Buildings and Improvements	39,178,209	33,431,997
Furniture, Fixtures and Equipment	2,447,634	2,176,131
Automobiles	761,510	618,502
Construction in Progress	-	1,836,101
Total Property and Equipment	<u>46,488,353</u>	<u>42,163,731</u>
Less: Accumulated Depreciation	<u>(10,647,742)</u>	<u>(9,022,476)</u>
Net Property and Equipment	<u>\$ 35,840,611</u>	<u>\$ 33,141,255</u>

NOTE 10 LINE OF CREDIT

ACH maintains a line of credit with a financial institution which has a maximum amount of \$20,000,000 and an open-ended maturity. Interest is payable monthly at the 1-month LIBOR plus .75% per annum. The average LIBO rate for 2019 was 2.22%. The line of credit is currently secured by sixteen of ACH's sub-investment accounts with a fair value at December 31, 2019 of \$53,315,357 (the financial institution calculates a borrowing base of 70% to 100% on this amount based upon the type of underlying investments). There was \$3,175,911 and \$1,321,436 outstanding on the line of credit as of December 31, 2019 and 2018, respectively.

NOTE 11 NEW MARKET TAX CREDIT ARRANGEMENTS

ACH entered into new market tax credit transactions during the year ended December 31, 2017 and created a new entity, Landowner II, as a result. The NMTC program was designed to make investment capital available to businesses in qualifying low-income communities, to create jobs and spur additional economic development. Privately managed investment institutions, or Community Development Entities (CDEs), make loans and capital investments in businesses in underserved areas. Further detail of the transactions are described in Notes 8 and 12.

ACH entered into new market tax credit transactions during the year ended December 31, 2019. A new entity, Landowner III, was created in 2018 in anticipation of this arrangement. The NMTC program was designed to make investment capital available to businesses in qualifying low-income communities, to create jobs and spur additional economic development. Privately managed investment institutions, or Community Development Entities (CDEs), make loans and capital investments in businesses in underserved areas. Further detail of the transactions are described in Notes 8 and 12.

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 12 NOTES PAYABLE

ACH and an unrelated third party lender entered into a new market tax credit transaction, wherein ACH loaned \$9,771,940 and the third party lender loaned \$4,818,060 to Chase NMTC ACH Investment Fund LLC during the year ended December 31, 2017. Chase NMTC then lent the funds to two different CDEs (CNMC Sub-CDE LLC and Business Loan Conduit No. 27 LLC), who separately loaned funds to ACH's subsidiary, Landowner II in the amount of \$13,940,000. This was accomplished through four different QLICI loans as noted below. The loans have subjected ACH and Landowner II to certain restrictive covenants. Management believes they are in compliance with all covenants.

After the seven year NMTC period expires, it is anticipated that the CDEs will liquidate and distribute their assets to the Chase NMTC ACH Investment Fund LLC. It is also anticipated that ACH will acquire the interests in the Chase NMTC ACH Investment Fund LLC, and that the investment fund will be liquidated. After the exit transactions are completed, ACH will be the holder of a portion of the NMTC Loan, and such loan will be eliminated for reporting purposes because such loan will be owed by the subsidiary to ACH.

ACH and an unrelated third party lender entered into a second new market tax credit transaction, wherein ACH loaned \$5,841,600 and the third party lender loaned \$2,558,400, net, to Chase NMTC Family Services Investment Fund LLC during the year ended December 31, 2019. Chase NMTC then lent the funds to a CDE (PeopleFund NMTCC 11, LLC), who separately loaned funds to ACH's subsidiary, Landowner III in the amount of \$7,840,000. This was accomplished through two different QLICI loans as noted below. The loans have subjected ACH and Landowner III to certain restrictive covenants. Management believes they are in compliance with all covenants. Additionally, as part of this arrangement, Landowner III also received a loan from Greenworks Lending, LLC in the amount of \$556,496. This amount carried a 7% interest rate and was paid in full by Landowner III during 2019 and carries a balance of zero as of December 31, 2019.

After the seven year NMTC period expires, it is anticipated that the CDEs will liquidate and distribute their assets to the Chase NMTC Family Services Investment Fund LLC. It is also anticipated that ACH will acquire the interests in the Chase NMTC Family Services Investment Fund LLC, and that the investment fund will be liquidated. After the exit transactions are completed, ACH will be the holder of a portion of the NMTC Loan, and such loan will be eliminated for reporting purposes because such loan will be owed by the subsidiary to ACH.

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 12 NOTES PAYABLE (CONTINUED)

ACH, specifically ACH Landowner II and ACH Landowner III, was obligated on the following notes payable as of December 31:

<u>Payable to and Terms</u>	<u>2019</u>	<u>2018</u>
<u>Landowner II</u>		
CNMC Sub-CDE CDE Loan A, interest accrued monthly, paid annually, at 0.705% until December 5, 2025, then principal and interest is due annually until maturity at December 1, 2046.	\$ 792,840	\$ 792,840
CNMC Sub-CDE CDE Loan B, interest accrued monthly, paid annually, at 0.705% until December 25, 2025, then principal and interest is due annually until maturity at December 1, 2046.	407,160	407,160
Business Loan Conduit 27, CDE Loan A, interest accrued monthly, paid annually, at 0.705% until December 5, 2025, principal and interest is due annually until maturity at then December 1, 2046.	8,979,100	8,979,100
Business Loan Conduit 27, CDE Loan B, interest accrued monthly, paid annually, at 0.705% until December 25, 2025, principal and interest is due annually until maturity at then December 1, 2046.	3,760,900	3,760,900
<u>Landowner III</u>		
PeopleFund NMTC 11 Loan A, interest accrued monthly, paid annually, at 1.007% until December 1, 2027, then principal and interest is due annually until maturity at December 1, 2058.	5,841,600	-
PeopleFund NMTC 11 Loan B, interest accrued monthly, paid annually, at 1.007% until December 1, 2027, then principal and interest is due annually until maturity at December 1, 2058.	<u>1,998,400</u>	<u>-</u>
Total Notes Payable	<u>\$ 21,780,000</u>	<u>\$ 13,940,000</u>

**ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 12 NOTES PAYABLE (CONTINUED)

The notes payable are due in the following installments as of December 31, 2019:

<u>Due in Year Ending</u>	<u>Amount</u>
2020	\$ -
2021	-
2022	-
2023	-
2024	-
Thereafter	21,780,000
Total Notes Payable	<u><u>\$ 21,780,000</u></u>

All of the above notes are secured by the deed of trust on certain buildings of the Wichita property.

NOTE 13 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were restricted for the following purposes as of December 31:

	<u>2019</u>	<u>2018</u>
Subject to Expenditure for Specified Purpose:		
Innovations Plan	\$ 2,517,341	\$ 3,664,498
Morris Home	-	125,000
Playground Equipment	23,065	23,065
Wellness Program	11,604	20,103
OCOK Therapeutic Foster Care	-	100,000
Capital Campaign - Residential Treatment Center	-	1,762,108
AIMS Testing	6,025	-
LIFE Connections Mentoring Program	6,912	-
Total	<u>2,564,947</u>	<u>5,694,774</u>
Not Subject to Spending Policy or Appropriation:		
Endowment	<u>948,867</u>	<u>948,867</u>
Total	<u>948,867</u>	<u>948,867</u>
Total Net Assets with Donor Restrictions	<u><u>\$ 3,513,814</u></u>	<u><u>\$ 6,643,641</u></u>

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 14 ENDOWMENT

The board of directors of ACH has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring 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.

As a result of this interpretation, ACH classifies as net assets restricted in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument as the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in net assets restricted in perpetuity is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by ACH in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, ACH 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 ACH 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 ACH.
- 7) The investment policies of ACH.

Board-Designated Endowments

The board of directors had designated \$94,813,571 and \$82,193,952 at December 31, 2019 and 2018, respectively, of net assets without donor restrictions as a general endowment to support the mission of ACH. Since that amount resulted from an internal designation and is not donor-restricted, it is classified and reported as net assets without donor restrictions.

Donor-Designated Endowments

ACH's endowment consists of three funds totaling \$948,867 established to assist in funding residential activities.

Return Objectives and Risk Parameters

ACH has a spending policy of appropriating for distribution each year 5% of the rolling average of the previous three audited calendar years' investment corpus. In establishing this policy, ACH considered the long-term expected investment return on its endowment. Accordingly, over the long-term, ACH expects the current spending policy to allow its general endowment fund to grow at an average of 4% annually. This is consistent with ACH's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 14 ENDOWMENT (CONTINUED)

Strategies Employed for Achieving Objectives

To achieve that objective, ACH has adopted an investment policy that attempts to maximize total return consistent with an acceptable level of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the fund if possible.

Accordingly, ACH expects its endowment assets, over time, to produce an average rate of return of approximately 9% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Composition of and changes in endowment net assets for the years ended December 31 were as follows:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets - Beginning of Year	\$ 82,193,952	\$ 948,867	\$ 83,142,819
Investment from ACH Designated by Board to Endowment	-	-	-
Investment Income, Net of Fees	504,932	5,829	510,761
Mineral and Real Estate Properties, Net of Expenses	8,042,708	92,847	8,135,555
Net Realized and Unrealized Gains on Investments	9,858,816	113,813	9,972,629
Legal Expenses on Real Estate	(24,874)	-	(24,874)
Amounts Transferred for Expenditure	(5,761,963)	(212,489)	(5,974,452)
Endowment Net Assets, End of Year	<u>\$ 94,813,571</u>	<u>\$ 948,867</u>	<u>\$ 95,762,438</u>
	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets - Beginning of Year	\$ 84,288,079	\$ 948,867	\$ 85,236,946
Investment from ACH Designated by Board to Endowment	-	-	-
Investment Income, Net of Fees	343,092	3,895	346,987
Mineral and Real Estate Properties, Net of Expenses	7,575,924	42,946	7,618,870
Net Realized and Unrealized Gain(Loss) on Investments	(4,633,332)	101,748	(4,531,584)
Legal Expenses on Real Estate	(948)	-	(948)
Amounts Transferred for Expenditure	(5,378,863)	(148,589)	(5,527,452)
Endowment Net Assets, End of Year	<u>\$ 82,193,952</u>	<u>\$ 948,867</u>	<u>\$ 83,142,819</u>

From time to time, certain endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). At December 31, 2019, there are no underwater endowments noted.

NOTE 15 EMPLOYEE BENEFIT PLAN

ACH sponsors a 401(k) plan for all qualified employees. ACH matches employee contributions at a rate of \$1.00 for each employee dollar up to 3% of the employee's salary and then an additional \$0.50 for each employee dollar up to an additional 2% of the employee's salary. Employer contributions to the Plan amounted to \$261,443 and \$243,356 during the years ended December 31, 2019 and 2018, respectively.

**ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 16 RELATED PARTY TRANSACTIONS

ACH received \$148,951 and \$131,234 in contributions from board members for the years ended December 31, 2019 and 2018, respectively.

NOTE 17 LIQUIDITY AND AVAILABILITY

ACH receives significant contributions with donor restrictions to be used in accordance with the associated purpose restrictions. In addition, ACH received support without donor restrictions. The income without donor restrictions, revenue from certain trusts, program revenue, unrelated business income, and distributions from the All Church Home for Children Foundation are used to fund operations. ACH considers these sources to be available to meet cash needs for general expenditures. General expenditures include administrative and general expenses, fundraising expenses and program operations. Annual operations are defined as activities occurring during the agency's fiscal year.

ACH has access to a line of credit which is used to bridge cash flow needs in order to reduce or eliminate the need to liquidate invested assets.

The All Church Home for Children Foundation receives board-designated endowment gifts as well as restricted donor gifts that will exist in perpetuity. The investment and mineral income generated by the endowment assets supports the distributions to ACH for operations, as noted above. See Note 7 and Note 14 for spending policy of beneficial interest in trust and endowment funds, respectively.

ACH manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets, and
- Maintaining sufficient reserves to provide reasonable assurance that long term commitments and obligations will continue to be met, ensuring the sustainability of all the related entities.

The table below presents financial assets available for general operating expenditures within one year at December 31, 2019:

Financial assets at year end:	2019	2018
Cash and cash equivalents	\$ 3,767,985	\$ 1,804,382
Grants and Program Receivables (net)	7,609,370	7,915,470.00
Other receivables	61,533	45,085.00
Investments - Publicly Traded/Listed Securities	58,679,574	46,711,284.00
Investments - Nonpublicly Traded	19,127,897	16,988,793.00
Mineral Interests and Real Estate, Net	17,047,484	18,532,656.00
Add: Estimated Distribution from Endowment	7,892,293	7,892,293.00
Add: Estimated Distributions from Interest in Beneficial Trust	125,000	125,000.00
Add: Contributions receivable due after one year (net)	996,527	166,000.00
Less: Contributions for restricted gifts (net)	(2,564,947)	(5,694,774.00)
Less: Investments held for permanently restricted endowment	(948,867)	(948,867.00)
Less: Board Designated Endowment	(94,813,571)	(82,193,951.00)
Financial assets available to meet general expenditures within one year	\$ 16,980,278	\$ 11,343,371

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 18 FUNCTIONAL EXPENSE ALLOCATIONS

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of ACH. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, depreciation, amortization, salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, interest, insurance, and other, which are allocated based on full time equivalents or square footage.

NOTE 19 LEASES

ACH is obligated under certain leases for its rental of office spaces for their services throughout the DFW area. Additionally, ACH is liable to both Landowner II and Landowner III under certain leases related to its new market tax credit arrangements described in Note 11. In the event that the new market tax credit arrangements successfully unwind, ACH will have the option to cease intercompany lease payments.

The future minimum rental payments required under the above operating leases are as follows:

<u>Year</u>	<u>Non-Related Party</u>	<u>ACH to Landowner II</u>	<u>ACH to Landowner III</u>
2020	\$ 1,014,823	\$ 113,000	\$ 130,000
2021	1,080,168	113,000	130,000
2022	978,947	113,000	130,000
2023	308,966	113,000	130,000
2024	-	169,000	130,000
Thereafter	-	12,280,000	6,356,768
Total Minimum Lease Payment	<u>\$ 3,382,904</u>	<u>\$ 12,901,000</u>	<u>\$ 7,006,768</u>

NOTE 20 COMMITMENTS AND CONTINGENCIES

From time to time, ACH may be involved in claims and legal actions arising in the ordinary course of business. Management does not believe that there are any claims or assessments currently outstanding which are more likely than not to be sustained by the claimant upon litigation or mediation.

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 21 SUBSEQUENT EVENTS

In 2019, ACH renewed a contract with the Texas Department of Family Protective Services for managing Community Based Care (CBC) in a seven-county area of North Texas. Our Community Our Kids, the division of ACH that has managed the CBC contract since 2014, agreed in this Stage II renewal to be responsible for the case management for all foster children in substitute care, including foster care and kinship care in the designated catchment area. The responsibility includes establishing permanency goals and coordinating care for the families of children in DFPS conservatorship, face-to-face visits with children and families, permanency and case planning, court activities, and kinship services. A start-up and readiness period began in 2019, and in March of 2020 ACH began performing the Stage II activities. This included the addition of approximately 250 staff and increased the overall value of the CBC contract by approximately \$24 million annually.

Subsequent to December 31, 2019, ACH agreed to terms for 5 different operating leases with total payments of \$1,092,987. These leases end anywhere from August to September 2023.

Subsequent to year-end, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to ACH, COVID-19 may impact various parts of its 2020 operations and financial results, including ability of donors to give. Management believes ACH is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events occurred subsequent to year-end and are still developing.

As part of COVID-19 relief efforts, ACH received an SBA loan in the amount \$3,118,507 on 4/17/2020. This loan carries an interest of 1% per annum based on a year of 365 days and matures on 4/17/2022. ACH has the ability to apply for this loan to be forgiven if used within the spending parameters of the agreement.

ACH has evaluated subsequent events through August 27, 2020, which is the date that combined financial statements were available to be issued.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENT PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*
AND THE STATE OF TEXAS UNIFORM GRANT MANAGEMENT STANDARDS**

Board of Directors
ACH Child and Family Services and Affiliates

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, and the *Uniform Grant Management Standards* of the *State of Texas Single Audit Circular*, the combined financial statements of ACH Child and Family Services and Affiliates (ACH), which comprise the combined statement of financial position as of December 31, 2019 and the related combined statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated August 27, 2020.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ACH's combined financial statements are free of material misstatements, we performed tests of the 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 combined 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* or the *Uniform Grant Management Standards*.

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 ACH's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and the *Uniform Grant Management Standards* in considering ACH's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Fort Worth, Texas
August 27, 2020



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE AND THE STATE OF TEXAS UNIFORM
GRANT MANAGEMENT STANDARDS**

Board of Directors
ACH Child and Family Services and Affiliates

Report on Compliance for Each Major Federal and State Program

We have audited ACH Child and Family Services and Affiliates, ACH's, compliance with the types of compliance requirements described in the OMB Compliance Supplement and the *Uniform Grant Management Standards* of the *State of Texas Single Audit Circular* that could have a direct and material effect on each of ACH's major federal and state programs for the year ended December 31, 2019. ACH's major federal and state programs are 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 the federal and state statutes, regulations, and terms and conditions of its federal and state awards applicable to its federal and state programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of ACH's major federal and state programs 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; audit requirements of Title 2 U.S. *Code of Federal Regulators Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards* (Uniform Guidance), and the *Uniform Grant Management Standards* of the *State of Texas Single Audit Circular*. Those standards, the Uniform Guidance and the Uniform Grant Management Standards 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 or state program occurred. An audit includes examining, on a test basis, evidence about ACH'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 each major federal and state program. However, our audit does not provide a legal determination of ACH's compliance with those requirements.

Opinion on Each Major Federal and State Program

In our opinion, ACH Child and Family Services and Affiliates complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended December 31, 2019.

Report on Internal Control over Compliance

Management of ACH 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 ACH's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal or state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major program and to test and report on internal control over compliance in accordance with the Uniform Guidance and the *Uniform Grant Management Standards of the State of Texas Single Audit Circular*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion of the effectiveness on ACH'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 or state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or 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 or state 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 combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or state 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 and the Uniform Grant Management Standards of the State of Texas Single Audit Circular. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Fort Worth, Texas
August 27, 2020

**ACH CHILD AND FAMILY SERVICES AND AFFILIATES
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS ON
 FEDERAL AWARDS
 YEAR ENDED DECEMBER 31, 2019**

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

Noncompliance material to combined financial statements noted?

yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? 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 section 200.516?

yes no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.658	Foster Care Title IV-E
93.558	Temporary Assistance for Needy Families
93.556	Promoting Safe and Stable Families

Dollar threshold used to distinguish between type A and type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

yes no

**ACH CHILD AND FAMILY SERVICES AND AFFILIATES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS ON
FEDERAL AWARDS (CONTINUED)
YEAR ENDED DECEMBER 31, 2019**

SECTION II – FINANCIAL STATEMENT FINDINGS

Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards*.

SECTION III – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL PROGRAMS

Our audit did not disclose any matters required to be reported in accordance with 2 CFR 200.516(a).

**ACH CHILD AND FAMILY SERVICES AND AFFILIATES
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS ON
 STATE AWARDS
 YEAR ENDED DECEMBER 31, 2019**

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

Noncompliance material to combined financial statements noted?

yes no

State Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? 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 the Uniform Grant Management Standards?

yes no

Identification of major programs:

Contract Number(s)

Name of State Program or Cluster

24128869

Texas Department of Family and Protective Services Single Source Continuum Contract

Dollar threshold used to distinguish between type A and type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

yes no

**ACH CHILD AND FAMILY SERVICES AND AFFILIATES
SCHEDULE OF FINDINGS AND QUESTIONED COSTS ON
STATE AWARDS (CONTINUED)
YEARS ENDED DECEMBER 31, 2019**

SECTION II – FINANCIAL STATEMENT FINDINGS

Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards*.

SECTION III – FINDINGS AND QUESTIONED COSTS – MAJOR STATE PROGRAMS

Our audit did not disclose any matters required to be reported in accordance with *Uniform Grant Standards*.

**ACH CHILD AND FAMILY SERVICES AND AFFILIATES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEARS ENDED DECEMBER 31, 2019**

	Federal CFDA Number	Grant Number	Expenditures Passed through to Subrecipients	Federal Expenditures
U.S. Department of Health and Human Services				
Direct Programs:				
HOPE Street Outreach	93.557	90YO2246/03	\$ -	\$ 113,650
Total HOPE Street Outreach			-	113,650
Basic Center Programs for Runaway and Homeless Youth/Shelter				
	93.623	90CY6906/02	-	150,855
	93.623	90CY6906/03	-	37,996
Total Basic Center Programs			-	188,851
Total Direct Programs			-	302,501
Pass-through Programs from:				
Texas Department of Family and Protective Services -				
Foster Care Title IV-E	93.658	24128869	12,778,691	12,778,691
Temporary Assistance for Needy Families (Cluster)	93.558	24128869	14,679,546	14,679,546
Promoting Safe and Stable Families	93.556	24128869	1,119,509	1,119,509
Chafee Foster Care Independence Program	93.674	24128869	83,280	83,280
Adoption Assistance	93.659	24128869	38,365	38,365
Medical Assistance Program	93.778	24128869	30,492	30,492
Stephanie Tubbs Jones Child Welfare Services Program	93.645	24128869	171,282	171,282
Social Services Block Grant	93.667	24128869	64,934	64,934
Guardianship Assistance	93.090	24128869	210	210
Total Texas Department of Family and Protective Services			28,966,309	28,966,309
Total Pass-through Programs			28,966,309	28,966,309
Total U.S. Department of Health and Human Services			28,966,309	29,268,810
U.S. Department of Housing and Urban Development				
Direct Programs				
Continuum of Care/Families Together - Supportive Housing	14.235	3252202	-	132,757
Total Direct Programs			-	132,757
Pass-through Programs from:				
Tarrant County Community Development Division -				
Emergency Shelter Grants Program	14.231	E-18-UC-48-0001	-	12,732
	14.231	E-19-UC-48-0001	-	23,582
Total Pass-through Programs			-	36,314
Total U.S. Department of Housing and Urban Development			-	169,071
Department of Homeland Security				
Pass-through Programs from:				
Emergency Food and Shelter National Board Program	97.024	Phase 36	-	30,000
Total Pass-through Programs - Department of Homeland Security			-	30,000
Texas Department of Family and Protective Services				
Direct Programs				
Promoting Safe and Stable Families	93.556	24555133	-	46,444
Total Direct Programs - Texas Department of Family and Protective Services			-	46,444
Total Federal Awards			\$ 28,966,309	\$ 29,514,325

**ACH CHILD AND FAMILY SERVICES AND AFFILIATES
SCHEDULE OF EXPENDITURES OF STATE AWARDS
DECEMBER 31, 2019**

	Grant Number	State Expenditures
State Awards		
Direct Programs:		
Texas Department of Family and Protective Services Services to At-Risk Youth (STAR) Program	24555133	\$ 1,261,846
Total Direct Programs		1,261,846
Pass-through Programs:		
Texas Department of Family and Protective Services Single Source Continuum Contract	24128869	\$ 27,909,333
Total Pass-through Programs		27,909,333
Total State Awards		\$ 29,171,179

**ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS
DECEMBER 31, 2019**

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of ACH Child and Family Services and Affiliates and is presented on the accrual basis of accounting. The information in this 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) and the UGMS of the State of Texas Single Audit Circular. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic combined financial statements.

NOTE 2 SUBRECIPIENTS AND CONTRACTORS

During the year, ACH operated as the monitoring and administrative agent of a large contract for the Texas Department of Family and Protective Services. Responsibilities under this contract included the monitoring of contracting agencies with which its program placed foster children. Of the federal and state expenditures in the attached schedules, \$46,962,182 was provided to these contracting foster agencies for the year ended December 31, 2019.

NOTE 3 NONCASH ASSISTANCE

ACH did not receive any noncash assistance from federal or state awards for the year ended December 31, 2019.

NOTE 4 LOANS

At year-end, ACH had no loans or loan guarantees outstanding with federal or state awarding agencies.

NOTE 5 STATE AWARDS

State awards received by ACH during the year consisted of federal pass through funds commingled with state general revenue funds from the State of Texas or state funds only. ACH did not receive any state awards during the year that consisted of federal pass through funds only.

NOTE 6 INDIRECT COST RATES

ACH has elected to use the 10 percent de minimus indirect cost rate on selected contracts as agreed upon with those grantors. For its remaining federal and state contracts, it continues to use the rates negotiated individually with its grantors for that specific contract.



INDEPENDENT AUDITORS' REPORT ON COMBINING INFORMATION

The Board of Directors
ACH Child and Family Services and Affiliates
Fort Worth, Texas

We have audited the combined financial statements of ACH Child and Family Services and Affiliates (ACH) as of and for the year ended December 31, 2019 and have issued our report thereon date August 27, 2020, which contained an unmodified opinion on those combined financial statements. Our audit was performed for the purpose of forming an opinion on the combined financial statements as a whole. The combining statement of financial position and combining statement of activities are presented for the purpose of additional analysis and are not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and 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 combined financial statements as a whole.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Fort Worth, Texas
August 27, 2020

**ACH CHILD AND FAMILY SERVICES AND AFFILIATES
COMBINING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019**

	ACH Child and Family Services	All Church Home for Children Foundation	ACH Landowner	ACH Landowner II	ACH Landowner III	Eliminations	Total
ASSETS							
Cash and Cash Equivalents	\$ 1,602,321	\$ 907,483	\$ 72,067	\$ 154,034	\$ 1,032,080	\$ -	\$ 3,767,985
Restricted Cash	-	-	-	439,069	204,047	-	643,116
Grants Receivable, Net of Allowance for Doubtful Accounts of \$245,929	7,609,370	-	-	-	-	-	7,609,370
Other Receivables	102,423	-	-	1,000	667	(42,557)	61,533
Prepaid Expenses and Other Assets	357,188	-	-	-	-	-	357,188
Easement Asset	-	-	-	503,123	-	(503,123)	-
Deferred Rent Asset	-	-	-	1,071,781	148,670	(1,220,451)	-
Promises to Give, Net of Discount of \$84,258	2,012,815	-	-	-	-	-	2,012,815
Investments - Publicly Traded/Listed Securities	-	58,679,574	-	-	-	-	58,679,574
Investments - Nonpublicly Traded	-	19,127,897	-	-	-	-	19,127,897
Mineral Interest and Real Estate, Net	-	17,047,484	-	-	-	-	17,047,484
Economic Interests in Affiliates	107,241,194	-	-	114,000	-	(107,355,194)	-
Beneficial Interest in Trust	11,211,318	-	-	-	-	-	11,211,318
Note Receivable	15,613,540	-	-	-	-	-	15,613,540
Property and Equipment, Net	6,233,238	-	11,125,873	10,850,072	7,379,927	251,501	35,840,611
Total Assets	\$ 151,983,407	\$ 95,762,438	\$ 11,197,940	\$ 13,133,079	\$ 8,765,391	\$ (108,869,824)	\$ 171,972,431
LIABILITIES AND NET ASSETS							
LIABILITIES							
Accounts Payable and Accrued Liabilities	\$ 8,925,438	\$ -	\$ -	10,937	\$ 40,891	\$ (40,891)	\$ 8,936,375
Line of Credit	3,175,911	-	-	-	-	-	3,175,911
Easement Liability	-	-	503,122	-	-	(503,122)	-
Deferred Rent Liability	1,222,118	-	-	-	-	(1,222,118)	-
Notes Payable	-	-	-	13,940,000	7,840,000	-	21,780,000
Debt Issuance Costs, Unamortized Portion	-	-	-	(385,773)	(445,523)	-	(831,296)
Total Liabilities	13,323,467	-	503,122	13,565,164	7,435,368	(1,766,131)	33,060,990
NET ASSETS							
Without Donor Restrictions							
Undesignated	40,332,555	-	10,694,818	(432,085)	1,330,023	(11,341,255)	40,584,056
Board Designated Endowment	94,813,571	94,813,571	-	-	-	(94,813,571)	94,813,571
With Donor Restrictions							
Purpose	2,564,947	-	-	-	-	-	2,564,947
Endowment	948,867	948,867	-	-	-	(948,867)	948,867
Total Net Assets	138,659,940	95,762,438	10,694,818	(432,085)	1,330,023	(107,103,693)	138,911,441
Total Liabilities and Net Assets	\$ 151,983,407	\$ 95,762,438	\$ 11,197,940	\$ 13,133,079	\$ 8,765,391	\$ (108,869,824)	\$ 171,972,431

**ACH CHILD AND FAMILY SERVICES AND AFFILIATES
COMBINING STATEMENT OF ACTIVITIES
DECEMBER 31, 2019**

	ACH Child and Family Services	All Church Home for Children Foundation	ACH Landowner	ACH Landowner II	ACH Landowner III	Eliminations	Total
PUBLIC SUPPORT							
Contributions	\$ 1,975,557	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,975,557
Capital Campaign Contributions	3,389,478	-	-	-	-	-	3,389,478
Estates and Trusts	125,000	-	-	-	-	-	125,000
Special Events, Net of Direct Costs of \$63,780	203,841	-	-	-	-	-	203,841
Total Public Support	5,693,876	-	-	-	-	-	5,693,876
REVENUE AND INVESTMENT RETURNS							
Program Service Fee	59,781,067	-	-	-	-	-	59,781,067
Government Grant Income	510,801	-	-	-	-	-	510,801
Rental and Other Income	333,600	-	185,000	630,566	213,004	(914,318)	447,852
Interest and Other Income	293,944	-	50,469	2,377	9,417	(22,869)	333,338
Net Income from Affiliates	18,084,101	-	-	-	-	(18,084,101)	-
Mineral and Real Estate Properties, Net	-	8,135,555	-	-	-	-	8,135,555
Investment Income, Net	117	510,761	-	-	-	-	510,878
Realized and Unrealized Gains(Losses) on Investments, Net	(271)	9,972,629	-	-	-	-	9,972,358
Realized Gain(Loss) on Disposition, Net	(34,527)	-	-	-	-	-	(34,527)
Changes in Value of Beneficial Interest in Trust Assets	2,073,025	-	-	-	-	-	2,073,025
Total Revenue and Investment Returns	81,041,857	18,618,945	235,469	632,943	222,421	(19,021,288)	81,730,347
Total Public Support, Revenue and Investment Returns	86,735,733	18,618,945	235,469	632,943	222,421	(19,021,288)	87,424,223
EXPENSES							
Program Services	64,384,985	-	224,855	128,413	95,917	(914,318)	63,919,852
General and Administrative	7,806,613	24,874	349,865	463,621	202,520	(22,869)	8,824,624
Fundraising	1,155,877	-	49,156	86,456	-	-	1,291,489
Total Expenses	73,347,475	24,874	623,876	678,490	298,437	(937,187)	74,035,965
CHANGE IN NET ASSETS	13,388,258	18,594,071	(388,407)	(45,547)	(76,016)	(18,084,101)	13,388,258
Net Assets - Beginning of Year	125,271,682	83,142,819	11,334,227	(272,286)	3,666,902	(97,620,161)	125,523,183
Increase in Investment in Affiliates	-	-	-	-	-	-	-
Property Transfers Between ACH and Affiliates	-	-	-	-	1,342,582	(1,342,582)	-
Distributions Between ACH and Affiliates	-	(5,974,452)	(251,002)	(114,252)	(3,603,445)	9,943,151	-
NET ASSETS - END OF YEAR	\$ 138,659,940	\$ 95,762,438	\$ 10,694,818	\$ (432,085)	\$ 1,330,023	\$ (107,103,693)	\$ 138,911,441