

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
COMBINED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEARS ENDED DECEMBER 31, 2018 AND 2017



INDEPENDENT AUDITORS' REPORT	1
COMBINED FINANCIAL STATEMENTS	
COMBINED STATEMENTS OF FINANCIAL POSITION	4
COMBINED STATEMENTS OF ACTIVITIES	5
COMBINED STATEMENTS OF FUNCTIONAL EXPENSES	7
COMBINED STATEMENTS OF CASH FLOWS	9
NOTES TO COMBINED FINANCIAL STATEMENTS	10
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS AND THE UNIFORM GRANT MANAGEMENT STANDARDS OF THE STATE OF TEXAS SINGLE AUDIT CIRCULAR	29
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE AND THE UNIFORM GRANT MANAGEMENT STANDARDS OF THE STATE OF TEXAS SINGLE AUDIT CIRCULAR	31
SCHEDULE OF FINDINGS AND QUESTIONED COSTS ON FEDERAL AWARDS	34
SCHEDULE OF FINDINGS AND QUESTIONED COSTS ON FEDERAL AND STATE AWARDS	36
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS	39
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS	41
INDEPENDENT AUDITORS' REPORT ON COMBINING INFORMATION	42
SUPPLEMENTARY INFORMATION	
COMBINING STATEMENT OF FINANCIAL POSITION	43
COMBINING STATEMENT OF ACTIVITIES	44



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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, 2018 and 2017, 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, 2018 and 2017, 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 September 25, 2019 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

Fort Worth, Texas
September 25, 2019

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
COMBINED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
Cash and Cash Equivalents	\$ 1,804,382	\$ 4,357,873
Restricted Cash	534,193	2,342,142
Cash Restricted for Capital Improvements	860,009	20,000
Grants and Program Receivable, Net of Allowance for Doubtful Accounts of \$225,065 and \$285,813, respectively	7,915,470	9,375,558
Other Receivables	45,085	32,500
Prepaid Expenses	314,827	179,459
Promises to Give, Net of Discount \$73,901 and \$84,009, Respectively	902,099	894,491
Investments - Publicly Traded/Listed Securities	46,711,284	47,806,936
Investments - Nonpublicly Traded	16,988,793	17,171,227
Mineral Interests and Real Estate, Net	18,532,656	19,993,619
Beneficial Interest in Trust	9,592,645	10,937,144
Note Receivable	9,771,940	9,771,940
Property and Equipment, Net	33,141,255	29,999,737
Total Assets	<u>\$ 147,114,638</u>	<u>\$ 152,882,626</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Liabilities	\$ 6,803,136	\$ 7,496,779
Line of Credit	1,321,436	4,813,652
Notes Payable	13,940,000	13,940,000
Debt Issuance Costs, Unamortized Portion	(473,117)	(560,462)
Total Liabilities	<u>21,591,455</u>	<u>25,689,969</u>
NET ASSETS		
Without Donor Restrictions		
Undesignated	36,685,591	39,485,448
Board Designated Endowment	82,193,951	84,288,079
With Donor Restrictions		
Purpose	5,694,774	2,470,263
Endowment	948,867	948,867
Total Net Assets	<u>125,523,183</u>	<u>127,192,657</u>
Total Liabilities and Net Assets	<u>\$ 147,114,638</u>	<u>\$ 152,882,626</u>

See accompanying Notes to Combined Financial Statements.

**ACH CHILD AND FAMILY SERVICES AND AFFILIATES
COMBINED STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2018 AND 2017**

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
PUBLIC SUPPORT			
Contributions	\$ 1,740,665	\$ 2,843,729	\$ 4,584,394
Capital Campaign Contributions	-	1,953,346	1,953,346
Estates and Trusts	125,000	-	125,000
Special Events, Net of Direct Costs of \$126,481 and \$125,035 Respectively	193,233	-	193,233
Total Public Support	2,058,898	4,797,075	6,855,973
REVENUE AND INVESTMENT RETURNS			
Program Service Fees	55,895,103	-	55,895,103
Government Grant Income	561,250	-	561,250
Rental and Other Income	441,809	-	441,809
Interest and Other Income	216,987	-	216,987
Mineral and Real Estate Properties, Net	7,575,924	42,946	7,618,870
Investment Income, Net	343,122	3,895	347,017
Realized and Unrealized Gains(Losses) on Investments, Net	(4,633,388)	101,748	(4,531,640)
Realized Gain on Sale of Assets	-	-	-
Gain on Forgiveness of Debt - See Note 12	-	-	-
Realized Gain(Loss) on Disposition, Net	(81,579)	-	(81,579)
Forgiveness of Receivable Due From BOA Investment Fund III - See Note 8	-	-	-
Forgiveness of Payable Due To BOA CDE 3 - See Note 12	-	-	-
Change in Value of Beneficial Interest in Trust Assets	(894,323)	-	(894,323)
Total Revenues and Investment Returns	59,424,905	148,589	59,573,494
NET ASSETS RELEASED FROM RESTRICTIONS			
Release of Program Restrictions	1,572,564	(1,572,564)	-
Release of Capital Expenditure Restrictions	148,589	(148,589)	-
Total Released from Restrictions	1,721,153	(1,721,153)	-
Total Public Support, Revenue and Investment Returns	63,204,956	3,224,511	66,429,467
EXPENSES			
Program Services	59,935,436	-	59,935,436
General and Administrative	6,677,851	-	6,677,851
Fundraising	1,485,654	-	1,485,654
Total Expenses	68,098,941	-	68,098,941
CHANGE IN NET ASSETS	(4,893,985)	3,224,511	(1,669,474)
Net Assets - Beginning of Year	123,773,527	3,419,130	127,192,657
NET ASSETS - END OF YEAR	<u>\$ 118,879,542</u>	<u>\$ 6,643,641</u>	<u>\$ 125,523,183</u>

See accompanying Notes to Combined Financial Statements.

2017		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 1,187,053	\$ 2,777,914	\$ 3,964,967
-	1,168,313	1,168,313
125,000	-	125,000
194,030	-	194,030
<u>1,506,083</u>	<u>3,946,227</u>	<u>5,452,310</u>
52,850,636	-	52,850,636
450,095	-	450,095
377,158	-	377,158
197,073	-	197,073
3,853,108	47,504	3,900,612
345,541	4,308	349,849
7,040,604	112,546	7,153,150
2,002,445	-	2,002,445
3,889,957	-	3,889,957
26,577	-	26,577
(9,157,108)	-	(9,157,108)
9,157,108	-	9,157,108
<u>1,652,976</u>	<u>-</u>	<u>1,652,976</u>
<u>72,686,170</u>	<u>164,358</u>	<u>72,850,528</u>
612,500	(612,500)	-
3,418,313	(3,418,313)	-
<u>4,030,813</u>	<u>(4,030,813)</u>	<u>-</u>
<u>78,223,066</u>	<u>79,772</u>	<u>78,302,838</u>
58,117,110	-	58,117,110
4,124,843	-	4,124,843
1,470,745	-	1,470,745
<u>63,712,698</u>	<u>-</u>	<u>63,712,698</u>
14,510,368	79,772	14,590,140
<u>109,263,159</u>	<u>3,339,358</u>	<u>112,602,517</u>
<u>\$ 123,773,527</u>	<u>\$ 3,419,130</u>	<u>\$ 127,192,657</u>

**ACH CHILD AND FAMILY SERVICES AND AFFILIATES
COMBINED STATEMENTS OF FUNCTIONAL EXPENSES
YEARS 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 Administrative	Fundraising	Total
ACH Child and Family Services										
OCOK Provider Payments	\$	-	\$	-	\$	\$	\$	\$	-	\$
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	-	45,333,933
Occupancy and Maintenance	136,118	165,073	72,994	111,623	208,686	95,151	789,645	318,657	729,638	14,351,921
Transportation	44,533	22,329	19,704	14,892	47,339	174,841	323,638	72,797	90,631	1,198,933
Insurance and Taxes	25,916	22,603	16,391	14,688	43,226	14,828	137,652	87,644	2,055	398,490
Food, Clothing and Supplies	35,024	46,084	65,949	24,085	149,880	45,347	366,369	99,855	16,365	241,661
Medical	-	482	9,439	-	2,942	386	13,249	346	25,896	492,120
Youth Activities	930	3,007	8,579	32	27,810	278	40,636	-	-	13,595
Education	1,747	1,469	603	698	2,988	-	7,505	-	589	41,225
Family Assistance	1,533	6,185	1,142	1,576	1,147	-	11,583	-	-	7,505
Foster Care Expenses	1,419,841	-	-	-	-	-	1,419,841	-	-	11,583
LIFE Project Expenses	-	505,120	-	-	-	-	505,120	-	-	1,419,841
Other Program Expenses	72,640	40,650	41,562	27,048	108,605	6,228	296,733	-	-	505,120
Development and Promotion	-	-	-	-	-	-	-	-	102	296,835
Outreach and Awareness	2,822	3,697	1,226	17,104	734	12,957	38,540	87,882	24,613	24,613
Contract Services	85,511	36,225	36,080	46,340	81,562	371,627	657,345	234,177	139,400	265,822
Audit and Legal Services	56	24	19	22	42	37	200	-	85,658	977,180
Staff Development and Travel	63,548	20,348	27,409	28,474	44,972	15,988	200,739	107,042	-	132,249
Board Development	-	-	-	-	-	-	-	14,975	20,204	327,985
Miscellaneous Expenses	-	7,093	-	-	15	-	7,108	2,050	-	14,975
Project Fundraising	-	-	-	-	-	-	-	1,281	14	9,172
Other Expenses	74,144	31,951	25,572	29,602	55,850	51,441	268,560	187,201	299,940	301,221
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	12,302	468,063
								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

See accompanying Notes to Combined Financial Statements.

**ACH CHILD AND FAMILY SERVICES AND AFFILIATES
COMBINED STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2017**

	Program Services	General and Administrative	Fundraising	Total
ACH Child and Family Services				
Salaries and Wages	\$ 7,980,103	\$ 1,626,532	\$ 767,218	\$ 10,373,853
Payroll Taxes and Employee Benefits	2,004,078	629,067	130,113	2,763,258
Total Personnel Expense	9,984,181	2,255,599	897,331	13,137,111
Occupancy and Maintenance	936,189	371,351	22,328	1,329,868
Vehicles	310,171	60,323	1,246	371,740
Insurance and Taxes	130,445	44,699	3,103	178,247
Food, Clothing and Supplies	378,704	64,775	10,590	454,069
Medical	15,621	117	-	15,738
Youth Activities	45,195	-	9,008	54,203
Education	7,298	-	-	7,298
Family Assistance	11,267	105	-	11,372
Foster Care Expenses	1,532,635	-	-	1,532,635
Other Program and Training Expense	760,465	-	-	760,465
Development and Promotion	10,041	99	8,824	18,964
Outreach and Awareness	88,543	93,540	93,350	275,433
Contract Services	711,280	269,597	34,288	1,015,165
Audit and Legal Services	165	113,068	-	113,233
Staff Development and Travel	212,926	84,959	13,690	311,575
Board Development	-	12,743	-	12,743
Miscellaneous Expenses	104,326	25,896	1,141	131,363
Capital Project Expenses	47,578	14,182	373,724	435,484
Interest Expense	-	74,695	-	74,695
OCOK Provider Payments	42,009,816	-	-	42,009,816
Total Expenses Before Depreciation and Pass Through	57,296,846	3,485,748	1,468,623	62,251,217
Depreciation and Amortization	350,024	43,505	2,122	395,651
Total Expenses - ACH	57,646,870	3,529,253	1,470,745	62,646,868
All Church Home for Children Foundation				
Legal and Professional Services	-	42,171	-	42,171
Total Expenses - Foundation	-	42,171	-	42,171
ACH Landowner				
Legal and Professional Services	-	24,337	-	24,337
Interest Expense	-	73,360	-	73,360
Bank Fees	-	4,300	-	4,300
Depreciation and Amortization	363,270	300,779	-	664,049
Total Expenses - ACH Landowner	363,270	402,776	-	766,046
ACH Landowner II				
Legal and Professional Services	-	53,354	-	53,354
Interest Expense	-	46,338	-	46,338
Bank Fees	-	-	-	-
Depreciation and Amortization	106,970	50,951	-	157,921
Total Expenses - ACH Landowner II	106,970	150,643	-	257,613
Total Expenses - Combined	\$ 58,117,110	\$ 4,124,843	\$ 1,470,745	\$ 63,712,698

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets	\$ (1,669,474)	\$ 14,590,140
Adjustments to Reconcile Change in Net Assets to		
Net Cash Provided (Used) by Operating Activities:		
Net Realized and Unrealized Loss (Gain) on Investments	4,531,640	(7,153,150)
Realized Loss (Gain) on Sale of Property and Equipment	81,579	(26,577)
Realized Gain on Property Held for Sale	-	(2,002,445)
Gain on Forgiveness of Notes Payable	-	(13,047,065)
Loss on Forgiveness of Notes Receivable	-	9,157,108
Noncash Change in Value of Beneficial Interest in Trust Assets	1,344,499	(1,208,049)
Bad Debt Expense (Recoveries)	(5,693)	120,303
Depreciation Expense	1,385,872	1,159,550
Amortization Expense	87,345	58,071
Depletion Expense	1,460,963	735,441
Donations of Property and Equipment	(1,000,000)	-
(Increase) Decrease in Operating Assets:		
Grants and Program Receivable	1,465,781	(2,199,006)
Other Receivables	(12,585)	163,936
Prepaid Expenses	(135,368)	(45,764)
Accrued Interest Receivable	-	52,188
Promises to Give	(7,608)	387,473
Increase (Decrease) in Operating Liabilities:		
Accounts Payable and Accrued Liabilities	(693,643)	2,435,494
Contributions Restricted for Long-Term Purposes	(1,953,346)	(1,168,313)
Net Cash Provided by Operating Activities	4,879,962	2,009,335
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(3,608,971)	(3,417,347)
Proceeds from Disposal	-	33,214
Proceeds from Sale of Investments	6,971,403	23,101,820
Issuance of Notes Receivable to CDE	-	(9,771,940)
Purchase of Investments	(10,224,955)	(23,040,077)
Change in Cash Restricted for Property and Equipment	(840,009)	1,150,000
Net Cash Used by Investing Activities	(7,702,532)	(11,944,330)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (Payments) Draws on Line of Credit	(3,492,216)	2,363,528
Increase in Restricted Cash	1,807,949	(2,127,060)
Proceeds from Issuance of New Market Tax Credit Notes	-	11,297,054
Debt Issuance Costs Paid	-	(611,413)
Proceeds from Contributions Restricted for:		
Investment in Property and Equipment	1,953,346	1,168,313
Net Cash Provided by Financing Activities	269,079	12,090,422
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,553,491)	2,155,427
Cash and Cash Equivalents - Beginning of Year	4,357,873	2,202,446
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,804,382</u>	<u>\$ 4,357,873</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest Paid	\$ 165,973	\$ 148,055
Property and Equipment Purchased Through Issuance of Debt	<u>\$ -</u>	<u>\$ 2,642,946</u>

See accompanying Notes to Combined Financial Statements.

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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, and cottages 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, 2018 AND 2017

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, 2018 AND 2017

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 \$225,065 and \$285,813 was deemed necessary as of December 31, 2018 and 2017, respectively. Bad debt expense (recoveries) was (\$5,693) and \$120,303 for the years ended December 31, 2018 and 2017, respectively.

Contributions Received and Promises to Give

Contributions are recognized when unconditional commitments are received and recorded as net assets without donor restrictions or net assets with donor restrictions support, depending on the existence and/or nature of any donor restrictions. Unconditional commitments which have been promised, but not yet received, are recorded as promises to give in the combined statement of financial position.

When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the combined statement of activities as net assets released from restrictions.

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 2018 and 2017 amounted to \$1,385,872 and \$1,159,550, respectively.

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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. Net income (loss) from unrelated business for the years ended December 31, 2018 and 2017 was estimated at approximately (\$52,319) and (\$88,000), respectively. Unrelated business income taxes of \$7,000 are accrued in the financials.

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% and 98% of total program receivables is due from one government agency as of December 31, 2018 and 2017.

One donor commitment comprised 81% and 91% of the total balance of promises to give as of December 31, 2018 and 2017, 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
DECEMBER 31, 2018 AND 2017

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 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, 2018 and 2017, deferred financing costs were \$611,413 and \$611,413. At December 31, 2018 and 2017, accumulated amortization of deferred financing costs was \$138,296 and \$50,951, respectively. Amortization expense related to the deferred financing costs was \$87,345 and \$58,071, 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. 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. There were no gifts of property and equipment received during the year ended December 31, 2017.

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. ACH has implemented ASU 2016-14 and have adjusted the presentation in these combined financial statements accordingly. The ASU has been applied retrospectively to all periods presented with the exception of liquidity and the statement of functional expenses, which had no impact on net assets, and presentation of the breakdown of individual programs in the Statement of Functional Expense.

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 \$1,394,202 and \$2,362,142 as of December 31, 2018 and 2017, respectively. Approximately \$534,000 and \$629,000 of these funds were held by JP Morgan Chase for the years ended December 31, 2018 and 2017, 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, 2018 and 2017. At December 31, 2018 and 2017, 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, 2018 AND 2017

NOTE 5 PROMISES TO GIVE (CONTINUED)

At December 31, 2018, promises to give are expected to be received as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2019	\$ 166,000
2020	160,000
2021	150,000
2022	100,000
2023	100,000
Thereafter	300,000
Total	976,000
Less: Present Value Discount	(73,901)
Promises to Give, Net of Present Value Discount	<u>\$ 902,099</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, 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>\$ 46,711,284</u>	<u>\$ 47,753,110</u>	<u>\$ (1,041,826)</u>

December 31, 2017

<u>Investment Description</u>	<u>Fair Market Value</u>	<u>Cost</u>	<u>Cumulative Unrealized Appreciation (Depreciation)</u>
Short-Term Investment Funds	\$ 2,159,144	\$ 2,159,144	\$ -
Fixed Income Mutual Funds-Domestic	11,508,891	11,589,619	(80,728)
Equity Mutual Funds-Domestic	10,442,614	8,614,399	1,828,215
Equity Mutual Funds-International	19,124,624	16,621,176	2,503,448
Stocks-Domestic	4,571,663	3,801,076	770,587
Total Publicly Traded/Listed Securities	<u>\$ 47,806,936</u>	<u>\$ 42,785,414</u>	<u>\$ 5,021,522</u>

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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, 2018

Hedge Fund Description		Fair Value	Cost	Cumulative Unrealized Appreciation (Depreciation)
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>

December 31, 2017

Hedge Fund Description		Fair Value	Cost	Cumulative Unrealized Appreciation (Depreciation)
Blackstone Tactical Opportunities Fund	(d)	\$ 1,398,696	\$ 1,794,754	\$ (396,058)
Golden Tree Offshore Fund, Ltd.	(b)	2,839,531	1,904,739	934,792
Pointer Offshore Ltd.	(c)	2,381,308	1,050,000	1,331,308
Skybridge Multi-Advisor Hedge Fund	(a)	1,233,331	1,276,212	(42,881)
The Weatherlow Offshore Fund	(a)	1,105,683	1,109,142	(3,459)
Third Point Offshore Fund	(e)	2,974,942	1,528,515	1,446,427
Canyon Value Realization Fund	(g)	2,785,195	2,425,000	360,195
HPC Millennium Int'l Ltd.	(f)	1,737,400	1,500,000	237,400
MS Hamilton Lane	(h)	715,141	696,281	18,860
Total Nonpublicly Traded Securities		<u>\$ 17,171,227</u>	<u>\$ 13,284,643</u>	<u>\$ 3,886,584</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 with written notice by March 15th and September 15th.
- (d) Unfunded capital commitments totaled \$2,000,000 and \$313,659 for 2018 and 2017, 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 \$1,923,938 and \$2,301,699 for 2018 and 2017, 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
DECEMBER 31, 2018 AND 2017

NOTE 6 INVESTMENTS (CONTINUED)

Fair Value Hierarchy Measurements

The above investments were classified as follows at December 31:

2018				
	Level 1	Level 2	Level 3	Total
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>

2017				
	Level 1	Level 2	Level 3	Total
Short-Term Investment Funds	\$ 2,159,144	\$ -	\$ -	\$ 2,159,144
Fixed Income Mutual Funds-Domestic	11,508,891	-	-	11,508,891
Equity Mutual Funds-Domestic	10,442,614	-	-	10,442,614
Equity Mutual Funds-International	19,124,624	-	-	19,124,624
Stocks-Domestic	4,571,663	-	-	4,571,663
Subtotal	47,806,936	-	-	47,806,936
Investments Measured at Net Asset Value	-	-	-	17,171,227
Total	<u>\$ 47,806,936</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 64,978,163</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 condition of \$18,532,656 and \$19,993,619 represents amortized cost since historical cost is considered a stronger indicator of fair value due to availability of fair value information and discrepancies in bank trustee calculations due to the timing of transfers of mineral rights between bank trustees. During the years ended December 31, 2018 and 2017, there were no purchases of mineral interests or real estate. However, sales of \$3,660,711 of real estate held during 2017 occurred with a resulting gain on sale of \$2,002,445 during that year.

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 6 INVESTMENTS (CONTINUED)

Investment Returns

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

	2018	2017
Mineral Income	\$ 9,749,534	\$ 5,211,440
Real Estate Income		
Less: Depletion	(1,460,963)	(735,441)
Less: Mineral Expense	(667,829)	(574,854)
Less: Real Estate Expense	(1,872)	(533)
Net Mineral and Real Estate Income	<u>\$ 7,618,870</u>	<u>\$ 3,900,612</u>
Dividends and Interest	\$ 994,560	\$ 829,748
Less: Investment Advisory and Bank Fees	(647,543)	(479,899)
Net Investment Income	<u>\$ 347,017</u>	<u>\$ 349,849</u>
Net Realized Gains on Investment Securities	\$ 2,059,673	\$ 2,725,180
Net Realized Gains on Sale of Other Assets Held for Investment	-	2,002,445
Net Unrealized Gains (Losses) on Investment Securities	(6,591,313)	4,427,970
Net Realized and Unrealized Gains (Losses) on Investments	<u>\$ (4,531,640)</u>	<u>\$ 9,155,595</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, 2018 and 2017 is as follows:

<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>
<u>December 31, 2017</u>	Level 1	Level 2	Level 3	Total
Short-Term Investment Funds	\$ 419,302	\$ -	\$ -	\$ 419,302
Equities	7,941,207	-	-	7,941,207
Fixed Income Securities	-	1,331,847	-	1,331,847
Hedge Funds	-	-	1,134,354	1,134,354
Real Estate	-	-	1,406	1,406
Commodities	-	-	109,028	109,028
Totals	<u>\$ 8,360,509</u>	<u>\$ 1,331,847</u>	<u>\$ 1,244,788</u>	<u>\$ 10,937,144</u>

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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, 2017	\$ 10,937,144
Unrealized Gains and Losses	(894,323)
Sales and Distributions of Capital and Reinvested Earnings	(450,176)
Ending Balance, December 31, 2018	<u>\$ 9,592,645</u>

ACH received cash distributions of \$450,176 and \$444,928 and recognized an unrealized increase (decrease) in the value of the trust of (\$894,323) and \$1,652,976 during the years ended December 31, 2018 and 2017 resulting in a net increase (decrease) in value of beneficial interest in trust assets of (\$1,344,499) and \$1,208,048.

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%. Principal and interest payments of the note are to commence in June 2018 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.

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 9 PROPERTY AND EQUIPMENT

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

	2018	2017
Land	\$ 4,101,000	\$ 2,380,199
Buildings and Improvements	33,431,997	27,791,390
Furniture, Fixtures and Equipment	2,176,131	1,688,212
Automobiles	618,502	648,427
Construction in Progress	1,836,101	5,328,941
Total Property and Equipment	42,163,731	37,837,169
Less: Accumulated Depreciation	(9,022,476)	(7,837,432)
Net Property and Equipment	<u>\$ 33,141,255</u>	<u>\$ 29,999,737</u>

NOTE 10 LINE OF CREDIT

ACH maintains a line of credit with a financial institution which has a maximum amount of \$16,996,511 and an open-ended maturity. Interest is payable monthly at the LIBOR rate plus 1.25%. The interest rate was 3.63% at December 31, 2018 and 3.19% at June 30, 2018. The line of credit is currently secured by ten of ACH's sub-investment accounts with a fair value at December 31, 2018 of \$24,036,546 (the financial institution calculates a borrowing base of 70% to 100% on this amount based upon the type of underlying investments). There was \$1,321,436 and \$4,813,652 outstanding on the line of credit as of December 31, 2018 and 2017, respectively.

NOTE 11 NEW MARKET TAX CREDIT ARRANGEMENT

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 CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 12 NOTES PAYABLE

After the seven-year NMTC period expired on June 5, 2017, ACH exercised its option for early repayment of certain notes payable and unwound its New Market Tax Credit arrangement from 2010 with Bank of America CDE III, LLC and BOA Investment Fund, LLC. In settlement of this arrangement notes payable in the amount of \$13,000,000 were redeemed with a cash payment of \$124,146 (of which \$39,293 represented principal and the remainder represented interest and fees), settlement of a note receivable held by ACH Child and Family Services of \$9,070,750, and forgiveness of the remaining \$3,889,957 in accordance with the terms of the original agreement. A gain in the amount of, \$3,889,957 was recorded on the transaction as a result of the loan forgiveness. As a result, ACH was not obligated for any notes payable regarding this arrangement as of December 31, 2017.

ACH and an unrelated third party lender entered into the new market tax credit transaction, where in 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 CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 12 NOTES PAYABLE (CONTINUED)

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

<u>Payable to and Terms</u>	<u>2018</u>	<u>2017</u>
CNMC Sub-CDE CDE Loan A, interest accrued monthly, paid annually, at 0.705% until June 4, 2018, 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 June 4, 2018, 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 June 4, 2018, 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 June 4, 2018, principal and interest is due annually until maturity at then December 1, 2046.	<u>3,760,900</u>	<u>3,760,900</u>
Total Notes Payable	<u>\$ 13,940,000</u>	<u>\$ 13,940,000</u>

The notes payable are due in the following installments as of December 31, 2018:

<u>Due in Year Ending</u>	<u>Amount</u>
2019	\$ -
2020	-
2021	-
2022	-
2023	-
Thereafter	<u>13,940,000</u>
Total Notes Payable	<u>\$ 13,940,000</u>

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

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 13 NET ASSETS WITH DONOR RESTRICTIONS

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

	2018	2017
Subject to Expenditure for Specified Purpose:		
Capital Campaign - Basketball Court and Playground Equipment	\$ -	\$ 20,000
Innovations Plan	3,664,498	2,300,000
Morris Home	125,000	125,000
Playground Equipment	23,065	-
Wellness Program	20,103	15,740
OCOK Therapeutic Foster Care	100,000	-
Capital Campaign - Residential Treatment Center	1,762,108	
Wedgwood Sensory Station Project	-	2,980
Foster Care First Night Bags	-	4,026
LIFE Connections Mentoring Program	-	2,517
Total	5,694,774	2,470,263
Not Subject to Spending Policy or Appropriation:		
Endowment	948,867	948,867
Total	948,867	948,867
Total Net Assets with Donor Restrictions	\$ 6,643,641	\$ 3,419,130

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.

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 14 ENDOWMENT (CONTINUED)

Board-Designated Endowments

The board of directors had designated \$82,193,952 and \$84,288,079 at December 31, 2018 and 2017, 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.

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.

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 14 ENDOWMENT (CONTINUED)

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

	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 Gains 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>

	2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets - Beginning of Year	\$ 76,110,297	\$ 948,867	\$ 77,059,164
Investment from ACH Designated by Board to Endowment	45,654	-	45,654
Investment Income, Net of Fees	345,541	4,308	349,849
Mineral and Real Estate Properties, Net of Expenses	3,853,108	47,504	3,900,612
Net Realized and Unrealized Gains on Investments	9,043,049	112,546	9,155,595
Legal Expenses on Real Estate	(41,653)	(518)	(42,171)
Amounts Transferred for Expenditure	(5,067,917)	(163,840)	(5,231,757)
Endowment Net Assets, End of Year	<u>\$ 84,288,079</u>	<u>\$ 948,867</u>	<u>\$ 85,236,946</u>

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 \$243,356 and \$213,900 during the years ended December 31, 2018 and 2017, respectively.

NOTE 16 RELATED PARTY TRANSACTIONS

ACH received \$131,234 and \$137,210 in contributions from board members for the years ended December 31, 2018 and 2017, respectively.

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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 unrestricted donor income, 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, 2018:

Financial assets at year end:

Cash and cash equivalents	\$ 1,804,382
Grants and Program Receivables (net)	7,915,470
Other receivables	45,085
Investments - Publicly Traded/Listed Securities	46,711,284
Investments - Nonpublicly Traded	16,988,793
Mineral Interests and Real Estate, Net	18,532,656
Add: Estimated Distribution from Endowment	7,892,293
Add: Estimated Distributions from Interest in Beneficial Trust	125,000
Add: Contributions receivable due after one year (net)	166,000
Less: Contributions for restricted gifts (net)	(5,694,774)
Less: Investments held for permanently restricted endowment	(948,867)
Less: Board Designated Endowment	(82,193,951)
Financial assets available to meet general expenditures within one year	<u>\$ 11,343,371</u>

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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, and amortization, which are allocated on based on full time equivalents, as well as salaries and wages, benefits, payroll taxes, professional services, office expenses, information technology, interest, insurance, and other, which are allocated on the basis of estimates of time and effort.

NOTE 19 SUBSEQUENT EVENTS

In March 2019, ACH closed on a new agreement to form a New Market Tax Credit arrangement with several investors and is to be held by Landowner III which was a new entity established by ACH in 2018. As part of this arrangement, the combined entity received approximately \$8,400,000 in new funding, and funded two notes receivable in the amount of \$5,841,600 as part of its equity investment in the arrangement. The agreement allows for forgiveness of approximately \$2,558,400 at the unwinding of the arrangement.

In April 2019, ACH entered into a Demand Line of Credit with a credit limit of \$20,000,000 and a variable interest rate equal to the Prime Rate plus the Margin of .75% per annum. As part of this agreement, ACH has designated 16 investment securities to serve as collateral for this Line of Credit. The Line of Credit detailed in Note 10 was closed upon the opening of this demand Line of Credit.

In the last quarter of 2018, ACH entered into an agreement with DFPS to receive funding for certain case management services and operations at an amount which is currently being negotiated but that is expected to be significant and material to the combined financial statements. The start date is subject to approval and readiness of both parties and has not been determined as of September 25, 2019.

ACH has evaluated subsequent events through September 25, 2019, which is the date that combined financial statements were available to be issued.



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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, 2018 and have issued our report thereon date September 25, 2019, 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
September 25, 2019

**ACH CHILD AND FAMILY SERVICES AND AFFILIATES
COMBINING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018**

	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	\$ 621,518	\$ 910,086	\$ 134,467	\$ 138,311	\$ -	\$ -	\$ 1,804,382
Restricted Cash	-	-	-	534,193	-	-	534,193
Cash Restricted for Capital Improvements	860,009	-	-	-	-	-	860,009
Grants Receivable, Net of Allowance for Doubtful Accounts of \$225,065	7,915,470	-	-	-	-	-	7,915,470
Accrued Interest Receivable	-	-	-	-	-	-	-
Other Receivables	69,085	-	-	-	-	(24,000)	45,085
Prepaid Expenses and Other Assets	204,827	-	-	-	110,000	-	314,827
Easement Asset	-	-	-	525,991	-	(525,991)	-
Deferred Rent Asset	-	-	-	670,467	-	(670,467)	-
Promises to Give, Net of Discount of \$73,901	902,099	-	-	-	-	-	902,099
Investments - Publicly Traded/Listed Securities	-	46,711,284	-	-	-	-	46,711,284
Investments - Nonpublicly Traded	-	16,988,793	-	-	-	-	16,988,793
Mineral Interest and Real Estate, Net	-	18,532,656	-	-	-	-	18,532,656
Economic Interests in Affiliates	97,757,662	-	-	114,000	-	(97,871,662)	-
Beneficial Interests in Trust	9,592,645	-	-	-	-	-	9,592,645
Note Receivable	9,771,940	-	-	-	-	-	9,771,940
Property and Equipment, Net	6,371,466	-	11,749,751	11,211,635	3,556,902	251,501	33,141,255
Total Assets	<u>\$ 134,066,721</u>	<u>\$ 83,142,819</u>	<u>\$ 11,884,218</u>	<u>\$ 13,194,597</u>	<u>\$ 3,666,902</u>	<u>\$ (98,840,619)</u>	<u>\$ 147,114,638</u>
LIABILITIES AND NET ASSETS							
LIABILITIES							
Accounts Payable and Accrued Liabilities	\$ 6,803,136	\$ -	\$ 24,000	\$ -	\$ -	\$ (24,000)	\$ 6,803,136
Line of Credit	1,321,436	-	-	-	-	-	1,321,436
Easement Liability	-	-	525,991	-	-	(525,991)	-
Deferred Rent Liability	670,467	-	-	-	-	(670,467)	-
Notes Payable	-	-	-	13,940,000	-	-	13,940,000
Debt Issuance Costs, Unamortized Portion	-	-	-	(473,117)	-	-	(473,117)
Total Liabilities	<u>8,795,039</u>	<u>-</u>	<u>549,991</u>	<u>13,466,883</u>	<u>-</u>	<u>(1,220,458)</u>	<u>21,591,455</u>
NET ASSETS							
Without Donor Restrictions							
Undesignated	36,434,090	-	11,334,227	(272,286)	3,666,902	(14,477,342)	36,685,591
Board Designated Endowment	82,193,951	82,193,952	-	-	-	(82,193,952)	82,193,951
With Donor Restrictions							
Purpose	5,694,774	-	-	-	-	-	5,694,774
Endowment	948,867	948,867	-	-	-	(948,867)	948,867
Total Net Assets	<u>125,271,682</u>	<u>83,142,819</u>	<u>11,334,227</u>	<u>(272,286)</u>	<u>3,666,902</u>	<u>(97,620,161)</u>	<u>125,523,183</u>
Total Liabilities and Net Assets	<u>\$ 134,066,721</u>	<u>\$ 83,142,819</u>	<u>\$ 11,884,218</u>	<u>\$ 13,194,597</u>	<u>\$ 3,666,902</u>	<u>\$ (98,840,619)</u>	<u>\$ 147,114,638</u>

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
COMBINING STATEMENT OF ACTIVITIES
DECEMBER 31, 2018

	ACH Child and Family Services	All Church Home for Children Foundation	ACH Landowner	ACH Landowner II	ACH Landowner III	Eliminations	Total
PUBLIC SUPPORT							
Contributions	\$ 4,584,394	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,584,394
Capital Campaign Contributions	1,953,346	-	-	-	-	-	1,953,346
Estates and Trusts	125,000	-	-	-	-	-	125,000
Special Events, Net of Direct Costs of \$126,481	193,233	-	-	-	-	-	193,233
Total Public Support	6,855,973	-	-	-	-	-	6,855,973
REVENUE AND INVESTMENT RETURNS							
Program Service Fee	55,895,103	-	-	-	-	-	55,895,103
Government Grant Income	561,250	-	-	-	-	-	561,250
Rental and Other Income	327,557	-	185,000	898,719	-	(969,467)	441,809
Interest and Other Income	214,305	-	22,869	2,682	-	(22,869)	216,987
Net Income from Affiliates	3,255,775	-	-	-	-	(3,255,775)	-
Mineral and Real Estate Properties, Net	-	7,618,870	-	-	-	-	7,618,870
Investment Income, Net	30	346,987	-	-	-	-	347,017
Realized and Unrealized Gains(Losses) on Investments, Net	(56)	(4,531,584)	-	-	-	-	(4,531,640)
Realized Gain on Sale of Assets	-	-	-	-	-	-	-
Gain on Forgiveness of Debt	-	-	-	-	-	-	-
Realized Gain(Loss) on Disposition, Net	(81,579)	-	-	-	-	-	(81,579)
Loss on Forgiveness of Receivable Due From BOA	-	-	-	-	-	-	-
Investment Fund III - See Note 8	-	-	-	-	-	-	-
Gain on Forgiveness of Payable Due To BOA CDE 3 - See Note 12	-	-	-	-	-	-	-
Changes in Value of Beneficial Interest in Trust Assets	(894,323)	-	-	-	-	-	(894,323)
Total Revenue and Investment Returns	59,278,062	3,434,273	207,869	901,401	-	(4,248,111)	59,573,494
Total Public Support, Revenue and Investment Returns	66,134,035	3,434,273	207,869	901,401	-	(4,248,111)	66,429,467
EXPENSES							
Program Services	60,487,585	-	283,017	134,301	-	(969,467)	59,935,436
General and Administrative	5,868,517	-	299,776	532,427	-	(22,869)	6,677,851
Fundraising	1,447,407	-	38,247	-	-	-	1,485,654
Total Expenses	67,803,509	-	621,040	666,728	-	(992,336)	68,098,941
CHANGE IN NET ASSETS	(1,669,474)	3,434,273	(413,171)	234,673	-	(3,255,775)	(1,669,474)
Net Assets - Beginning of Year	126,941,156	85,236,946	11,917,398	(71,105)	-	(96,831,738)	127,192,657
Increase in Investment in Affiliates	-	-	-	-	3,666,902	(3,666,902)	-
Distributions Between ACH and Affiliates	-	(5,528,400)	(170,000)	(435,854)	-	6,134,254	-
NET ASSETS - END OF YEAR	<u>\$ 125,271,682</u>	<u>\$ 83,142,819</u>	<u>\$ 11,334,227</u>	<u>\$ (272,286)</u>	<u>\$ 3,666,902</u>	<u>\$ (97,620,161)</u>	<u>\$ 125,523,183</u>