

Dallas CASA

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2018



Dallas CASA
December 31, 2018

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Independent Auditor's Report

Board of Directors
Dallas CASA
Dallas, Texas

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Dallas CASA, which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Dallas CASA as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in *Note 1* to the consolidated financial statements, in 2018, Dallas CASA adopted Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2019, on our consideration of Dallas CASA'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 Dallas CASA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Dallas CASA's internal control over financial reporting and compliance.

BKD, LLP

Dallas, Texas
May 21, 2019

Dallas CASA
Consolidated Statement of Financial Position
December 31, 2018

Assets

Cash and cash equivalents	\$ 6,390,950
Grants receivable	800,555
Pledges receivable, net	572,315
Other receivables	168,720
Prepaid expenses	129,266
Investments	17,411,084
Investments - endowment	10,534,427
Beneficial interest in agency endowment	157,659
Property and equipment, net	<u>8,744,136</u>
Total assets	<u>\$ 44,909,112</u>

Liabilities and Net Assets

Liabilities

Accounts payable	\$ 69,087
Accrued liabilities	139,582
Deferred revenue	<u>83,675</u>
Total liabilities	<u>292,344</u>

Net Assets

Without donor restrictions	
Undesignated	5,416,940
Designated by the Board for operating reserve	4,059,621
Designated by the Board for strategic growth reserve	14,600,000
Designated by the Board for quasi-endowment	7,000,000
Invested in property and equipment, net	<u>8,744,136</u>
	<u>39,820,697</u>
With donor restrictions	
Perpetual in nature	3,373,392
Purpose restrictions	850,364
Time-restricted for future periods	<u>572,315</u>
	<u>4,796,071</u>
Total net assets	<u>44,616,768</u>
Total liabilities and net assets	<u>\$ 44,909,112</u>

Dallas CASA
Consolidated Statement of Activities
Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Contributions	\$ 3,020,589	\$ 153,000	\$ 3,173,589
In-kind contributions	76,406	-	76,406
Special events, net of direct event costs of \$751,635	2,424,423	-	2,424,423
Government grants	3,701,937	-	3,701,937
Investment income	504,440	160,709	665,149
Net realized and unrealized gains (losses) on investments	(652,337)	(303,390)	(955,727)
Miscellaneous income	11,213	-	11,213
Net assets released from restrictions	1,253,182	(1,253,182)	-
Total revenues, gains and other support	<u>10,339,853</u>	<u>(1,242,863)</u>	<u>9,096,990</u>
Expenses and Losses			
Child advocacy	<u>6,416,049</u>	<u>-</u>	<u>6,416,049</u>
Total program services	<u>6,416,049</u>	<u>-</u>	<u>6,416,049</u>
Management and general	637,380	-	637,380
Fundraising	556,699	-	556,699
Total support services	<u>1,194,079</u>	<u>-</u>	<u>1,194,079</u>
Total expenses and losses	<u>7,610,128</u>	<u>-</u>	<u>7,610,128</u>
Change in Net Assets	2,729,725	(1,242,863)	1,486,862
Net Assets, Beginning of Year	<u>37,090,972</u>	<u>6,038,934</u>	<u>43,129,906</u>
Net Assets, End of Year	<u>\$ 39,820,697</u>	<u>\$ 4,796,071</u>	<u>\$ 44,616,768</u>

Dallas CASA
Consolidated Statement of Functional Expenses
Year Ended December 31, 2018

	Services	Support Services			Total
	Advocacy	Management and General	Fundraising	Total Support Services	
Salaries	\$ 3,984,397	\$ 444,465	\$ 296,394	\$ 740,859	\$ 4,725,256
Payroll taxes	284,425	31,728	21,158	52,886	337,311
Employee benefits	783,888	87,444	58,312	145,756	929,644
Occupancy	111,223	8,358	9,001	17,359	128,582
Office	61,874	4,650	5,007	9,657	71,531
Travel	198,732	3,620	2,471	6,091	204,823
Training	22,498	2,510	1,674	4,184	26,682
Telephone	51,925	3,042	2,468	5,510	57,435
Insurance	70,307	5,283	5,690	10,973	81,280
Professional services	68,458	7,637	5,093	12,730	81,188
Equipment	94,628	10,556	7,039	17,595	112,223
Children's sustenance	95,756	-	-	-	95,756
Volunteer training and conferences	41,057	4,580	3,054	7,634	48,691
Recruitment	235,530	-	-	-	235,530
Development	-	-	51,957	51,957	51,957
Event costs	15,927	-	63,708	63,708	79,635
Other	35,903	4,005	2,671	6,676	42,579
Depreciation	259,521	19,502	21,002	40,504	300,025
	<u>\$ 6,416,049</u>	<u>\$ 637,380</u>	<u>\$ 556,699</u>	<u>\$ 1,194,079</u>	<u>\$ 7,610,128</u>
Total expenses included in the expense section on the statement of activities	<u>\$ 6,416,049</u>	<u>\$ 637,380</u>	<u>\$ 556,699</u>	<u>\$ 1,194,079</u>	<u>\$ 7,610,128</u>

Dallas CASA
Consolidated Statement of Cash Flows
Year Ended December 31, 2018

Operating Activities	
Change in net assets	\$ 1,486,862
Items not requiring (providing) cash	
Depreciation	300,025
Net realized and unrealized losses on investments	955,727
Investment income received restricted for long-term investment	(160,709)
Changes in	
Grants receivable	(137,068)
Pledges receivable, net	1,106,804
Other receivables	17,125
Prepaid expenses	(26,807)
Accounts payable	(8,696)
Accrued liabilities	23,054
Deferred revenue	(22,850)
	<hr/>
Net cash provided by operating activities	3,533,467
	<hr/>
Investing Activities	
Purchase of property and equipment	(41,784)
Proceeds from disposition of investments	1,938,947
Purchases of investments	(4,239,281)
	<hr/>
Net cash used in investing activities	(2,342,118)
	<hr/>
Financing Activities	
Proceeds from investment income restricted for long-term investment	160,709
	<hr/>
Net cash provided by financing activities	160,709
	<hr/>
Increase in Cash and Cash Equivalents	1,352,058
Cash and Cash Equivalents, Beginning of Year	5,038,892
	<hr/>
Cash and Cash Equivalents, End of Year	\$ 6,390,950
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Dallas CASA
Notes to Consolidated Financial Statements
December 31, 2018

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Dallas CASA (Court Appointed Special Advocates) is a corporation organized under the *Texas Non-Profit Corporation Act* and was formed in January 1980 to provide independent volunteer advocacy services for child victims of abuse or neglect who are in the legal custody of the state under the supervision of juvenile and family courts. It may accept only those cases assigned by the courts. Its primary goal is to make recommendations to the court for a permanent and nurturing home where each child can grow up and thrive when reunification is not a safe option.

Dallas CASA solicits and receives its funding from a variety of sources including contributions from individuals, corporations, foundations and associations, government grants and contracts, and proceeds from sponsored events (such as the annual golf tournament).

Principles of Consolidation

The consolidated financial statements include the accounts of Dallas CASA and its affiliate, Dallas CASA Endowment Fund (DCEF). DCEF manages endowment funds established and funded by donors, as well as quasi-endowment funds, for the benefit of Dallas CASA. DCEF is a support organization of which Dallas CASA has control by virtue of having the ability to elect the majority of the directors. All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated 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 consolidated financial statements, and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

Dallas CASA considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2018, cash equivalents consisted primarily of money market accounts with brokers.

Accounts Receivable

Grants receivable consist of amounts due from government agencies and represent amounts due to Dallas CASA in accordance with cost-reimbursement contracts. Other receivables consist of miscellaneous reimbursements and accrued investment income. Pledges receivable are primarily from foundations, corporations, organizations or individuals. Receivables are stated at the amount that management expects to collect.

Dallas CASA
Notes to Consolidated Financial Statements
December 31, 2018

Grant receivables are considered fully collectible by management. Dallas CASA determines its allowance for doubtful accounts based on past due amounts and other available information regarding the current status of individual accounts and current economic conditions.

Dallas CASA writes off receivables when they become uncollectible. Recoveries of receivables previously written off are recorded when received. In the event of complete nonperformance, the maximum exposure to Dallas CASA is the outstanding receivable balance at the date of nonperformance.

Investments and Net Investment Return

Investments are carried at fair value.

Investment income includes dividend, interest and other investment income; and realized and unrealized gains and losses on investments carried at fair value; less external and direct internal investment expenses.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the consolidated statement of activities with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

Beneficial Interest in Agency Endowment

During 2015, Dallas CASA established an agency endowment at a community foundation, The Dallas Foundation. The value of the beneficial interest is based upon the fair value of the assets held by the community foundation. Dallas CASA has a beneficial interest in the agency endowment valued at \$157,659 as of December 31, 2018. Changes in the value of the underlying assets are recorded in the consolidated statement of activities as a component of net realized and unrealized gains (losses) on investments and investment income.

Property and Equipment

Property and equipment acquisitions are stated at cost, less accumulated depreciation and amortization. Depreciation and amortization is charged to expense on the straight-line basis over the estimated useful life of each asset. The estimated useful lives for each major depreciable classification of property and equipment range from 3 to 39 years.

Long-Lived Asset Impairment

Dallas CASA evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

Dallas CASA
Notes to Consolidated Financial Statements
December 31, 2018

No asset impairment was recognized during the year ended December 31, 2018.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor restrictions.

Net assets without donor restrictions are 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 or certain grantor restrictions, net assets for an operating reserve, a strategic growth reserve and board-designated quasi-endowment.

Net assets with donor restrictions are subject to donor or certain grantor restrictions. Some 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 restrictions are perpetual in nature, where the donor or grantor stipulates that resources be maintained in perpetuity.

Contributions

Contributions are provided to Dallas CASA either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on Dallas CASA overcoming a donor imposed barrier to be entitled to the funds	<ul style="list-style-type: none"> • Not recognized until the gift becomes unconditional, <i>i.e.</i> the donor imposed barrier is met
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	<ul style="list-style-type: none"> • Fair value
Received at date of gift – property, equipment and long-lived assets	<ul style="list-style-type: none"> • Estimated fair value
Expected to be collected within one year	<ul style="list-style-type: none"> • Net realizable value
Collected in future years	<ul style="list-style-type: none"> • Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

Dallas CASA
Notes to Consolidated Financial Statements
December 31, 2018

When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Gifts having donor stipulations which are satisfied in the period the gift is received are reported as revenue and net assets without donor restrictions.

Government Grants

Support funded by grants is recognized as Dallas CASA meets the conditions prescribed by the grant agreement, performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required. No adjustments have been required during 2018.

Contributed Services

Contributed services are recognized in the accompanying financial statements if the services received: (a) create or enhance non-financial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Any services that meet the criteria for recognition are recorded in the accompanying statement of activities and changes in net assets at the estimated fair value of the services received.

In addition, a substantial number of volunteers have donated significant amounts of time to advocate services and in fundraising campaigns. Approximately 74,000 hours were donated during 2018. However, no amounts have been reflected in the financial statements since the fair market value of these services is not readily determinable, and these services do not meet the criteria for revenue recognition.

Income Taxes

Dallas CASA is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, Dallas CASA may be subject to federal income tax on any unrelated business taxable income.

Dallas CASA files tax returns in the U.S. federal jurisdiction.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the consolidated statement of activities. The consolidated statement of functional expenses presents the natural classification detail of expenses by function. Certain costs have been allocated among the program, management and general and fundraising categories based on the specific identification of costs or approximate percentage of time and other methods.

Dallas CASA
Notes to Consolidated Financial Statements
December 31, 2018

Change in Accounting Principle

In 2018, Dallas CASA adopted Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. A summary of the changes is as follows:

Statement of Financial Position

- The statement of financial position distinguishes between two new classes of net assets – those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets – unrestricted, temporarily restricted and permanently restricted.

Statement of Activities

- Investment income is shown net of external and direct internal investment expenses. Disclosure of the expenses netted against investment income is no longer required.

Notes to the Financial Statements

- Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one year from the date of the statement of financial position.

As of the date of this report, none of the endowment funds were underwater.

Note 2: Endowment

The governing bodies of DCEF and Dallas CASA are subject to the *State of Texas Prudent Management of Institutional Funds Act* (UPMIFA). As a result, DCEF and Dallas CASA classify amounts in donor-restricted endowment funds as net assets with donor restrictions because those net assets are required to be held in perpetuity or are time restricted until the governing body appropriates such amounts for expenditures. Some net assets also are subject to purpose restrictions that must be met before being reclassified as net assets without donor restrictions.

Additionally, in accordance with UPMIFA, Dallas CASA considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of Dallas CASA and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Organization
7. Investment policies of the Organization

Dallas CASA
Notes to Consolidated Financial Statements
December 31, 2018

Endowment net assets consist of five individual funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Dallas CASA governing body to function as endowments (board-designated endowment funds). As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including board-designated endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The composition of net assets by type of endowment fund at December 31, 2018, was:

	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 7,000,000	\$ -	\$ 7,000,000
Donor-restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	3,466,581	3,466,581
Accumulated investment gains	-	696,964	696,964
Underwater endowment fund	-	(93,189)	(93,189)
	<u> </u>	<u> </u>	<u> </u>
Total endowment funds	<u>\$ 7,000,000</u>	<u>\$ 4,070,356</u>	<u>\$ 11,070,356</u>

Changes in endowment net assets for the year ended December 31, 2018, were:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 3,000,000	\$ 4,359,416	\$ 7,359,416
Investment return (loss), net	-	(142,681)	(142,681)
Appropriation of endowment assets for expenditures	-	(146,379)	(146,379)
Other changes			
Transfer to increase board-designated endowment	4,000,000	-	4,000,000
	<u> </u>	<u> </u>	<u> </u>
Endowment net assets, end of year	<u>\$ 7,000,000</u>	<u>\$ 4,070,356</u>	<u>\$ 11,070,356</u>

Dallas CASA
Notes to Consolidated Financial Statements
December 31, 2018

Investment and Spending Policies

DCEF and Dallas CASA have adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds that must be held in perpetuity or for donor-specified periods, as well as those of board-designated endowment funds. Under DCEF and Dallas CASA's policies, endowment assets are invested in a manner that is intended to both preserve the corpus and to grow the net asset value of the portfolio while assuming a moderate level of investment risk.

To satisfy its long-term rate of return objectives, DCEF relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). DCEF targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Absent a different donor instruction, DCEF has a spending policy of appropriating for expenditure each year 4.5 percent of endowment fund's average net assets at the year-end preceding the year in which expenditure is planned for endowments with donor restrictions and 3.5 percent of the endowment fund's average year-end balance of the last three years for the board-designated endowment. In establishing this policy, DCEF and Dallas CASA considered the long-term expected return on its endowment.

Investment return (loss), net, related to the board designated endowment funds are available for the operations of Dallas CASA and are included as a component of undesignated net assets in the accompanying consolidated statement of financial position.

Underwater Endowment

The governing bodies of DCEF and Dallas CASA have interpreted UPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the DCEF and Dallas CASA consider a fund to be underwater if the fair value of the fund is less than the sum of

- a) the original value of initial and subsequent gift amounts donated to the fund and
- b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument.

Dallas CASA
Notes to Consolidated Financial Statements
December 31, 2018

At December 31, 2018, a fund with original gift values of \$2,000,000; fair values of \$1,906,811; and deficiencies of \$93,189 was reported in net assets with donor restrictions. This deficiency resulted from unfavorable market fluctuations.

In January 2018, DCEF appropriated for expenditure the amount of \$47,518 from the endowment fund with original gift value of \$2,000,000, at which time the endowment fund was not underwater. As of the date of this report, none of the endowment funds were underwater.

Note 3: Property and Equipment

Property and equipment at December 31, 2018, consists of:

Furniture and equipment	\$ 796,710
Computer and software	139,857
Land and building	<u>9,351,988</u>
	10,288,555
Less accumulated depreciation and amortization	<u>(1,544,419)</u>
	<u><u>\$ 8,744,136</u></u>

Note 4: Employee Benefit Plan

Dallas CASA has a SIMPLE IRA Plan (Savings Incentive Match Plan for Employees) covering eligible employees who elect to participate. Under the Plan, Dallas CASA matched employee contributions up to three percent of each eligible employee's salary. Employer matching contributions in 2018 were \$117,948.

Dallas CASA
Notes to Consolidated Financial Statements
December 31, 2018

Note 5: Net Assets With Donor Restrictions

Net Assets With Donor Restrictions

Net assets with donor restrictions at December 31, 2018, are restricted for the following purposes or periods:

Subject to expenditure for specified purpose		
Training	\$	53,400
Equipment		100,000
		<u>153,400</u>
Subject to the passage of time		
Promises to give that are not restricted by donors but which are unavailable for expenditure until due		572,315
		<u>572,315</u>
Endowments with donor restrictions		
Subject to appropriation and expenditure when a specified event occurs		
Restricted by donors for		
Available for general use		190,055
Dallas CASA's charitable purpose		413,720
		<u>603,775</u>
Subject to Dallas CASA endowment spending policy and appropriation		
General use		2,000,000
Child advocacy		1,466,581
		<u>3,466,581</u>
Total endowments with donor restrictions		<u>4,070,356</u>
	\$	<u><u>4,796,071</u></u>

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Expiration of time restrictions	\$	1,106,803
Restricted purpose spending-rate distributions and appropriations		
Child advocacy		146,379
		<u>146,379</u>
	\$	<u><u>1,253,182</u></u>

Dallas CASA
Notes to Consolidated Financial Statements
December 31, 2018

Note 6: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2018, comprise the following:

Financial assets at year-end	
Cash and cash equivalents	\$ 6,390,950
Grants receivable	800,555
Pledges receivable, net	572,315
Other receivables	168,720
Investments	17,411,084
Investments - endowment	10,534,427
Beneficial interest in agency endowment	157,659
Total financial assets at year-end	36,035,710
Donor imposed restrictions	
Restricted funds	341,650
Endowments	4,163,545
	4,505,195
Net financial assets after donor imposed restrictions	31,530,515
Internal designations	
Board designated funds	18,659,621
Quasi-endowments	7,000,000
	25,659,621
Financial assets available (after internal designations) to meet cash needs for general expenditures within one year	\$ 5,870,894

Dallas CASA receives significant contributions restricted by donors and considers contributions restricted for programs which are ongoing, major and central to its annual operations to be available to meet cash needs for general expenditures.

Dallas CASA's endowment funds consist of donor-restricted endowments and funds designated by the board as endowments. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

The board-designated endowment of \$7,000,000 (value of \$6,621,730 at December 31, 2018) is subject to an annual spending rate of 3.5 percent as described in *Note 2*. The governing board has also designated, from net assets without donor or certain grantor restrictions, net assets for an operating reserve and a strategic growth reserve. Although Dallas CASA does not intend to spend from the board-designated endowment, operating reserve or strategic growth reserve (other than amounts appropriated for general expenditure as part of the Board's annual budget approval and appropriation), these amounts could be made available if necessary.

Dallas CASA
Notes to Consolidated Financial Statements
December 31, 2018

Dallas CASA manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. Dallas CASA has an Operating Reserve Policy which states that that Dallas CASA will maintain six months of budgeted operating expenses, therefore maintaining an operating reserve ratio of 50% of the operational budget. To meet these targets, Dallas CASA forecasts its future cash flows and monitors its liquidity monthly and monitors its reserves annually. During the year ended December 31, 2018, the level of liquidity and reserves was managed within the policy requirements.

Note 7: Related Party Transactions

Pledge receivables from current and former board members, employees and other related parties were approximately \$304,866 at December 31, 2018. In addition, for the year ended December 31, 2018, contributions from current and former board members, employees and other related parties were approximately \$660,004 which includes \$576,447 in revenues from special events.

Note 8: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. The hierarchy comprises three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and that are significant to the fair value of the assets or liabilities

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Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying consolidated statement of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2018:

	Fair Value Measurements Using			
	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobserv- able Inputs (Level 3)
Investments				
Cash and cash equivalents	\$ 338	\$ 338	\$ -	\$ -
Fixed income securities				
Corporate bonds	17,411,084	-	17,411,084	-
Mutual funds				
Total bond market index fund	837,516	837,516		
Total stock market index fund	4,622,883	4,622,883	-	-
Total international stock market index fund	1,456,505	1,456,505		
Intermediate term corporate bond index fund	3,617,185	3,617,185	-	-
Total investments	27,945,511	10,534,427	17,411,084	-
Beneficial interest in agency endowment	157,659	-	-	157,659
Total assets	<u>\$ 28,103,170</u>	<u>\$ 10,534,427</u>	<u>\$ 17,411,084</u>	<u>\$ 157,659</u>

The following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying consolidated statement of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2018.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

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Level 3 Valuation Process

Fair value determinations for Level 3 measurements of securities are the responsibility of Dallas CASA. Dallas CASA contracts with investment managers for individual investments to generate fair value estimates on a monthly or quarterly basis. Dallas CASA reviews the reasonableness of the assumptions used to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

Beneficial Interest in Agency Endowment

Fair value for the beneficial interest in agency endowment is estimated based on estimates of the NAV of the investment pool as provided by the custodian. Because Dallas CASA owns an undivided interest in the agency endowment, its unit of account for fair value measurement purposes is its interest in agency endowment's assets. As no observable inputs exist for interest in net assets at the Foundation, the interest is classified within Level 3 of the hierarchy.

Note 9: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Contributions and Government Grants

Approximately 48 percent of all contributions were received from one donor in 2018.

For the year ended December 31, 2018, grants and contributions were raised from the following sources:

Grants	
Texas CASA - Federal	\$ 1,513,098
State of Texas	42,000
Texas CASA - State of Texas	861,151
County of Dallas	1,249,992
Other	35,696
	<u>\$ 3,701,937</u>
Contributions	
Foundations	\$ 1,932,849
Corporations	112,602
Organizations	221,839
Individuals	736,333
Board of directors and other related parties	23,638
Other	146,328
	<u>\$ 3,173,589</u>

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Pledges Receivable

Approximately 45 percent of all pledges receivable were due from three donors at December 31, 2018.

Note 10: Subsequent Events

Subsequent events have been evaluated through May 21, 2019, which is the date the consolidated financial statements were available to be issued.

Note 11: Future Change in Accounting Principle

Revenue Recognition

The Financial Accounting Standards Board amended its standards related to revenue recognition. This amendment replaces all existing revenue recognition guidance and provides a single, comprehensive revenue recognition model for all contracts with customers. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The amendment also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments and assets recognized from costs incurred to fulfill a contract. The standard allows either full or modified retrospective adoption effective for nonpublic entities for annual periods beginning after December 15, 2018, and any interim periods within annual reporting periods that begin after December 15, 2019. Dallas CASA is in the process of evaluating the effect the amendment will have on the consolidated financial statements.