

***Nebraska Children and Families Foundation
Lincoln, Nebraska***

December 31, 2017 and 2016

***Financial Statements
and
Report of Independent Certified Public Accountants***



CPAs & Consultants | Wealth Management

Nebraska Children and Families Foundation

Years ended December 31, 2017 and 2016

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
Nebraska Children and Families Foundation
Lincoln, Nebraska

We have audited the accompanying financial statements of Nebraska Children and Families Foundation, which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Nebraska Children and Families Foundation as of December 31, 2017, 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.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

The financial statements of Nebraska Children and Families Foundation for the year ended December 31, 2016, were audited by another auditor who expressed an unmodified opinion on those statements on May 24, 2017.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2018, on our consideration of Nebraska Children and Families Foundation'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 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 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 Nebraska Children and Families Foundation's internal control over financial reporting and compliance.



June 18, 2018

Nebraska Children and Families Foundation

STATEMENTS OF FINANCIAL POSITION

December 31,

ASSETS

	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash and cash equivalents (note A)	\$ 1,436,552	\$ 6,500,178
Certificates of deposit	2,409,849	902,016
Grants receivable (notes A and B)	6,201,732	3,903,563
Contributions receivable (note A and C)	-	8,449
Prepaid expenses and other assets	<u>47,941</u>	<u>66,515</u>
Total current assets	10,096,074	11,380,721
PROPERTY AND EQUIPMENT, net (notes A and G)	68,016	133,334
RESTRICTED INVESTMENTS (notes A, E, and F)	<u>28,495,717</u>	<u>25,141,801</u>
Total assets	<u>\$ 38,659,807</u>	<u>\$ 36,655,856</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable (note I)	\$ 1,855,696	\$ 2,050,872
Accrued expenses	222,573	178,084
Unearned grant revenue (note A)	<u>30,754</u>	<u>85,843</u>
Total current liabilities	<u>2,109,023</u>	<u>2,314,799</u>
NET ASSETS (notes A, H, and J)		
Unrestricted	(464,515)	180,432
Temporarily restricted	16,014,275	14,159,601
Permanently restricted	<u>21,001,024</u>	<u>20,001,024</u>
Total net assets	<u>36,550,784</u>	<u>34,341,057</u>
Total liabilities and net assets	<u>\$ 38,659,807</u>	<u>\$ 36,655,856</u>

See accompanying notes to financial statements.

Nebraska Children and Families Foundation

STATEMENTS OF ACTIVITIES

Years ended December 31,

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT								
Federal and state grants	\$ 4,740,869	\$ -	\$ -	\$ 4,740,869	\$ 5,090,412	\$ -	\$ -	\$ 5,090,412
Other agency grants	240,995	8,468,272	-	8,709,267	47,656	12,381,734	-	12,429,390
Investment return (note E)	22,962	2,889,118	-	2,912,080	4,392	1,132,058	-	1,136,450
Contributions and donations	234,342	-	1,000,000	1,234,342	175,486	-	2,181	177,667
Other income (expense)	51,544	-	-	51,544	(12,214)	-	-	(12,214)
Net assets released from restrictions	9,502,716	(9,502,716)	-	-	8,833,040	(8,833,040)	-	-
Total revenue and support	14,793,428	1,854,674	1,000,000	17,648,102	14,138,772	4,680,752	2,181	18,821,705
EXPENSES								
Children and family programs	13,720,538	-	-	13,720,538	12,516,074	-	-	12,516,074
Administrative	1,318,068	-	-	1,318,068	1,143,676	-	-	1,143,676
Fundraising	399,769	-	-	399,769	309,348	-	-	309,348
Total expenses	15,438,375	-	-	15,438,375	13,969,098	-	-	13,969,098
INCREASE (DECREASE) IN NET ASSETS	(644,947)	1,854,674	1,000,000	2,209,727	169,674	4,680,752	2,181	4,852,607
Net assets, beginning of year	180,432	14,159,601	20,001,024	34,341,057	10,758	9,478,849	19,998,843	29,488,450
Net assets, end of year	\$ (464,515)	\$ 16,014,275	\$ 21,001,024	\$ 36,550,784	\$ 180,432	\$ 14,159,601	\$ 20,001,024	\$ 34,341,057

See accompanying notes to financial statements.

Nebraska Children and Families Foundation

STATEMENTS OF CASH FLOWS

Years ended December 31,

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from revenue and support	\$ 11,423,341	\$ 16,325,370
Cash paid to employees, suppliers, and contracted agencies	(14,460,260)	(13,229,891)
Interest received	36,420	8,784
Net cash provided (used) by operating activities	<u>(3,000,499)</u>	<u>3,104,263</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturity of certificates of deposit	3,753,638	5,758,822
Purchase of certificates of deposit	(5,251,966)	(4,408,417)
Proceeds from sale of investments	1,787,624	3,396,523
Purchase of investments	(2,252,423)	(3,396,507)
Purchase of property and equipment	-	(14,313)
Net cash provided (used) by investing activities	<u>(1,963,127)</u>	<u>1,336,108</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for investment in endowment	1,000,000	2,181
Distribution to State endowment cash fund	(1,100,000)	-
Payments on contract payable	-	(519)
Net cash provided (used) by financing activities	<u>(100,000)</u>	<u>1,662</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(5,063,626)</u>	<u>4,442,033</u>
Cash and cash equivalents, beginning of year	6,500,178	2,058,145
Cash and cash equivalents, end of year	<u>\$ 1,436,552</u>	<u>\$ 6,500,178</u>
Reconciliation of increase in net assets to net cash provided (used) by operating activities		
Increase in net assets	<u>\$ 2,209,727</u>	<u>\$ 4,852,607</u>
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities		
Depreciation	64,907	88,109
Contributions restricted for investment in endowment	(1,000,000)	(2,181)
Distribution to State endowment cash fund	1,100,000	-
Loss on disposal of assets	411	409
Net realized and unrealized gains on investments	(2,180,863)	(369,978)
Reinvested interest	(717,759)	(762,080)
(Increase) decrease in assets		
Grants receivable	(2,298,169)	(1,942,697)
Contributions and pledges receivable	8,449	589,385
Prepaid and other assets	18,574	19,432
Increase (decrease) in liabilities		
Accounts payable	(195,176)	1,295,337
Accrued expenses	44,489	9,276
Unearned grant revenue	<u>(55,089)</u>	<u>(673,356)</u>
Total adjustments to increase in net assets	<u>(5,210,226)</u>	<u>(1,748,344)</u>
Net cash provided (used) by operating activities	<u>\$ (3,000,499)</u>	<u>\$ 3,104,263</u>

See accompanying notes to financial statements.

Nebraska Children and Families Foundation

NOTES TO FINANCIAL STATEMENTS

Nebraska Children and Families Foundation (the “Foundation”) is a non-profit organization whose mission and principal activities are focused on supporting programs and initiatives that are designed to benefit communities, families and children. The Foundation provides support through an integrated system of grant making, programs, technical assistance, education and advocacy in the State of Nebraska. The Foundation’s programs are designed to support children and their families in the following areas: Early Childhood Care and Education, Prevention of Child Abuse, Prevention of Entry into the Child Welfare System, Promoting School Success/Prevention of Truancy and Transitioning to Adulthood. The Foundation’s operations are funded through federal and state grants, other agency grants, contributions and donations.

The Foundation also administers the Early Childhood Education Private Endowment Fund (the “Endowment Fund”). The Nebraska Early Childhood Education Endowment, consisting of the Endowment Fund and the Early Childhood Endowment Cash Fund (the “Cash Fund”) which is separately maintained by the State of Nebraska, was established as a result of the passage of Neb. Rev. Stat 79-1104 by the Nebraska Legislature. The legislation provides for grants to schools and community partners to provide programs and services for at-risk children, from birth to age three. In 2006, the State of Nebraska Department of Education awarded the contract for administration and development of the private fund of Neb. Rev. Stat. 79-1104 to the Foundation. As a result, the Foundation established the Endowment Fund, also known as Sixpence Early Learning Fund, for fundraising and development purposes. The Foundation’s financial statements include the activities of the Endowment Fund which consist of contributions restricted for private endowment activities, earnings on private endowment fund investments, and expenses including administration and program expenses.

NOTE A - SUMMARY OF ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

Method of Accounting. The accompanying financial statements have been prepared on the accrual basis of accounting.

Cash and Cash Equivalents. For purposes of the statements of cash flows, the Foundation considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

Grants Receivable. Grant receivables are stated at the amount management expects to collect from balances outstanding at year-end. Based on management’s assessment of the credit history of grantors having outstanding balances and current relationships with them, it has concluded that realization losses on balances outstanding at year-end will be immaterial.

Contributions. Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Unconditional promises to give that are expected to be collected or paid in more than one year are recognized at the present value of estimated future cash flows. Based on management’s assessment of the credit history of contributors having outstanding balances and current relationships with them, it has concluded that realization losses on balances outstanding at year-end will be immaterial. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Investments. Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

Investments - Continued. Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Fair Value Measurements. 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 measurement date. The Foundation utilizes a framework to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Transfers between levels shall occur at the actual date of the event or change in circumstances that caused the transfer. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Property and Equipment and Depreciation. Property and equipment are carried at cost, if purchased and at fair market value at the date of contribution, if received by donation, less accumulated depreciation. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated useful lives computed primarily on the straight-line method. It is the Foundation's policy to capitalize property and equipment over \$5,000. Lesser amounts are expensed. The estimated lives by asset class follows:

Furniture and equipment	3 - 10 years
Leasehold improvements	5 - 10 years

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

Net Asset Classification. The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets. Net assets that are not subject to outside restrictions.

Temporarily restricted net assets. Net assets on which grantors or donors have placed restrictions regarding the use of the funds or the time period in which the funds can be used. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as “net assets released from restrictions.”

Permanently restricted net assets. Net assets whose funds must be held indefinitely.

Endowment Fund

Interpretation of State Law

The Endowment Fund’s endowment consists of one individual donor-restricted fund established for the Early Childhood Education Private Endowment Fund of Nebraska Children and Families Foundation. As required by accounting principles generally accepted in the United State of America (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation’s governing body has interpreted the State of Nebraska Prudent Management of Institutional Funds Act (SPMIFA) as requiring 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, the Foundation classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment and accumulations to the permanent endowment made in accordance with the understanding of donor directions. The remaining portion of the donor-restricted endowment fund is classified as temporarily restricted net assets until these amounts are appropriate for expenditure by the Foundation in a manner consistent with the standards of prudence prescribed by SPMIFA.

In accordance with SPMIFA, the Foundation 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 the Foundation 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 the Foundation
- (7) The investment policies of the Foundation

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

Endowment Investment and Spending Policies

The Foundation has 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 funds while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted endowment funds the Foundation must hold in perpetuity. Under the Foundation's policies, endowment assets are invested in a manner that is intended to produce results that maximize both cash and capital gain income while assuming an acceptable level of investment risk.

To satisfy its long-term rate of return objectives, the Foundation 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). The Foundation 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.

The Foundation's endowment spending policy requires distribution of earnings as defined by applicable state law. Earnings consist of interest, dividends and realized appreciation, net of reasonable administration fees. In accordance with state law, distributions of the earnings are to be deposited into the Early Childhood Education Endowment Cash Fund.

Grants. The Foundation is the recipient of federal and state grants to fund its primary programs. Government grants are recorded as revenue when the related approved expenditures are made. Federal and state grant receivables are stated at the amount by which program expenditures are yet to be reimbursed. Unearned grant revenue is recorded to the extent grant receipts exceed approved expenditures or certain grant conditions have not been met. 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.

In-kind Contributions. In-kind donations are recorded as contributions at their estimated fair values at the date of donation. Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would have otherwise been purchased by the Foundation. The fair value of the contribution has been included in the accompanying financial statements as contribution revenue and program expense. In-kind contributions for the year ended December 31, 2017 were \$51,956. There were no in-kind contributions for the year ended December 31, 2016.

Functional Allocation of Expenses. The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement of activities. Certain costs of the Foundation have been allocated among the program, management and general and fund raising categories based on estimates of benefits derived from the expense.

Income Taxes. The Foundation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. As such, income earned in the performance of its exempt purpose is not subject to income tax. Any income earned through activities not related to its exempt purpose is subject to income tax at normal corporate rates.

Nebraska Children and Families Foundation

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

Income Taxes - Continued. For the years ended December 31, 2017 and 2016, the Foundation had no tax liability on unrelated business activity. The Foundation believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Foundation's Federal Exempt Organization Business Income Tax Returns (Form 990) for December 31, 2017 and 2016 and 2015 are subject to examination by the IRS, generally for three years after they were filed.

Use of Estimates. The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE B - GRANTS RECEIVABLE

Grants receivable consist of the following:

	2017	2016
Private grants receivable due in less than one year	\$ 5,114,168	\$ 2,818,095
Private grants receivable due in 2019	151,048	-
Federal and state grant reimbursements	936,516	1,085,468
	<u>\$ 6,201,732</u>	<u>\$ 3,903,563</u>

NOTE C - CONTRIBUTIONS RECEIVABLE

Contributions receivable at December 31, 2017 and 2016 were \$0 and \$8,449, respectively. Balances outstanding at year-end reflect receivables due within one year. There were no new unpaid long-term contributions made during 2017 or 2016.

NOTE D - CONDITIONAL GIFTS

The Foundation entered into a Social Innovation Fund (SIF) grant award agreement with the Corporation for National and Community Service (CNCS) in July 2015. The SIF grant covers a five year period ending on July 31, 2020. In 2015, the Foundation was awarded \$1,000,000 annually for years one and two of the grant period. Additional grant monies are conditional on CNCS's evaluation of the Foundation during the initial two year period.

The Foundation received two conditional grants as of December 31, 2015, to allow the Foundation to meet its 1:1 new cash match stipulation in its SIF grant award agreement. The conditional grants provide funding up to \$1,000,000 per year beginning in 2015 for up to five years ending in 2020. These grants are conditioned upon several factors including compliance with regulations of the federal SIF grant. As of December 31, 2015, the Foundation received and recorded as unearned revenue \$350,000 for year one for one of the conditional five year grants. In 2016, \$1,000,000 (including the \$350,000) was recognized as revenue as the condition for year one had been met.

Nebraska Children and Families Foundation

NOTES TO FINANCIAL STATEMENTS

NOTE D - CONDITIONAL GIFTS - CONTINUED

The Foundation has been notified by CNCS that the 2017 federal budget approved has eliminated SIF funding. As a result, the grant will not be renewed beyond the initial two year period. The Foundation will be allowed to continue to expend the remaining portion of the \$2,000,000 awarded in 2015 and 2016 through July 31, 2020.

NOTE E – RESTRICTED INVESTMENTS

Investments at December 31, 2017 and 2016 consisted of the following:

	2017	
	Cost	Market
Money market fund	\$ 258,282	\$ 258,247
Balanced mutual fund	14,957,497	17,412,617
Equity securities	1,649,155	2,384,002
Exchange traded funds	1,446,502	1,829,184
Mutual funds	<u>6,409,679</u>	<u>6,611,667</u>
	<u>\$ 24,721,115</u>	<u>\$ 28,495,717</u>
	2016	
	Cost	Market
Money market fund	\$ 394,429	\$ 394,429
Balanced mutual fund	14,055,849	15,444,008
Equity securities	1,770,451	2,148,781
Exchange traded funds	1,200,919	1,310,265
Mutual funds	<u>6,037,741</u>	<u>5,844,318</u>
	<u>\$ 23,459,389</u>	<u>\$ 25,141,801</u>

Total investment return is comprised of the following:

	2017	2016
Interest and dividend income	\$ 731,217	\$ 766,472
Net realized and unrealized gains	<u>2,180,863</u>	<u>369,978</u>
	<u>\$ 2,912,080</u>	<u>\$ 1,136,450</u>

Nebraska Children and Families Foundation

NOTES TO FINANCIAL STATEMENTS

NOTE F - FAIR VALUE MEASUREMENTS

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used during the years ended December 31, 2017 and 2016.

Money Market, Exchange Traded and Mutual Funds: Fair values for investments are valued at the net asset value (NAV) of shares held by the Foundation at year-end. The funds are classified within Level 1 of the fair value hierarchy.

Equity Securities: Valued at the closing price reported on the active market on which the individual securities are traded. Equity securities are classified within Level 1 of the fair value hierarchy.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth the balances of assets measured at fair value on a recurring basis as of December 31, 2017 and 2016:

	2017			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market fund	\$ 258,247	\$ 258,247	\$ -	\$ -
Balanced mutual fund	17,412,617	17,412,617	-	-
Equity securities				
Energy	127,432	127,432	-	-
Consumer discretionary	434,839	434,839	-	-
Consumer staples	108,843	108,843	-	-
Healthcare	327,721	327,721	-	-
Financial services	438,717	438,717	-	-
Industrials	241,961	241,961	-	-
Technology	561,046	561,046	-	-
Telecommunications	58,126	58,126	-	-
Real estate	85,317	85,317	-	-
Exchange traded funds				
Small blend	347,330	347,330	-	-
Medium growth	718,680	718,680	-	-
Large blend	763,174	763,174	-	-
Mutual funds				
Fixed income	2,247,590	2,247,590	-	-
Nontraditional	288,069	288,069	-	-
Medium blend	958,294	958,294	-	-
Medium value	667,826	667,826	-	-
Large value	273,815	273,815	-	-
Large blend	1,917,218	1,917,218	-	-
Large growth	258,855	258,855	-	-
Total investments	<u>\$ 28,495,717</u>	<u>\$ 28,495,717</u>	<u>\$ -</u>	<u>\$ -</u>

Nebraska Children and Families Foundation

NOTES TO FINANCIAL STATEMENTS

NOTE F - FAIR VALUE MEASUREMENTS - CONTINUED

	2016			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market fund	\$ 394,429	\$ 394,429	\$ -	\$ -
Balanced mutual fund	15,444,008	15,444,008	-	-
Equity securities				
Energy	178,119	178,119	-	-
Consumer discretionary	251,302	251,302	-	-
Consumer staples	96,474	96,474	-	-
Healthcare	358,527	358,527	-	-
Financial services	275,155	275,155	-	-
Industrials	445,111	445,111	-	-
Technology	417,314	417,314	-	-
Utilities	63,582	63,582	-	-
Real estate	63,197	63,197	-	-
Exchange traded funds				
Small blend	303,056	303,056	-	-
Medium growth	423,314	423,314	-	-
Large blend	582,801	582,801	-	-
Large growth	1,094	1,094	-	-
Mutual funds				
Fixed income	1,222,250	1,222,250	-	-
Small value	119,400	119,400	-	-
Small blend	335,582	335,582	-	-
Medium blend	275,960	275,960	-	-
Medium growth	239,889	239,889	-	-
Medium value	589,452	589,452	-	-
Large value	264,650	264,650	-	-
Large blend	2,585,117	2,585,117	-	-
Large growth	212,018	212,018	-	-
Total investments	<u>\$ 25,141,801</u>	<u>\$ 25,141,801</u>	<u>\$ -</u>	<u>\$ -</u>

Nebraska Children and Families Foundation

NOTES TO FINANCIAL STATEMENTS

NOTE G - PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2017</u>	<u>2016</u>
Equipment, furniture and fixtures	\$ 596,373	\$ 611,547
Leasehold improvements	<u>93,090</u>	<u>93,090</u>
	689,463	704,637
Less accumulated depreciation	<u>(621,447)</u>	<u>(571,303)</u>
	<u>\$ 68,016</u>	<u>\$ 133,334</u>

The financial statements include depreciation expense of \$64,907 and \$88,109 for the years ended December 31, 2017 and 2016, respectively.

NOTE H - NET ASSETS

Unrestricted net assets of \$(464,515) as of December 31, 2017 are the result of a temporary reduction of unrestricted net assets due to the timing of one of the Organization's grant awards totaling \$1,869,236 for its Connected Youth Initiative program. The grant award is reflected in grants receivable in the statement of financial position as of December 31, 2017; however, because the grant funding was not received until January 2018, the Organization was unable to release the funds from the restriction of time during 2017, which resulted in a reduction of unrestricted net assets that will be relieved in 2018.

Temporarily restricted net assets at December 31, 2017 and 2016 are available for the following purposes or periods:

Children and family program expenses	\$ 10,989,591	\$ 11,478,128
For periods after December 31	<u>5,024,684</u>	<u>2,681,473</u>
	<u>\$ 16,014,275</u>	<u>\$ 14,159,601</u>

Permanently restricted net assets consist of donations of which the principal is to be held indefinitely.

NOTE I - DISTRIBUTIONS TO STATE

The Endowment Fund is required by state law to periodically distribute earnings, as defined, into the Cash Fund established by Neb. Rev. State. 79-1104 which is held by the State of Nebraska. Distribution expense to the State during 2017 and 2016 was \$850,000 and \$550,000, respectively. At December 31, 2017 and 2016, cumulative distributions of \$850,000 and \$1,100,000, respectively, were recorded in accounts payable.

Nebraska Children and Families Foundation

NOTES TO FINANCIAL STATEMENTS

NOTE J - ENDOWMENT

The composition of net assets of the Foundation's donor-restricted endowment fund at December 31, 2017 and 2016 were:

	2017	2016
Temporarily restricted	\$ 6,606,114	\$ 4,601,997
Permanently restricted	21,001,024	20,001,024
	<u>\$ 27,607,138</u>	<u>\$ 24,603,021</u>

Changes in endowment net assets for the years ended December 31, 2017 and 2016 were:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance January 1, 2017	\$ -	\$ 4,601,997	\$ 20,001,024	\$ 24,603,021
Interest and dividends	-	708,254	-	708,254
Realized and unrealized gains	-	2,180,863	-	2,180,863
Contributions	-	-	1,000,000	1,000,000
Amounts appropriated for distribution	-	(885,000)	-	(885,000)
Balance December 31, 2017	<u>\$ -</u>	<u>\$ 6,606,114</u>	<u>\$ 21,001,024</u>	<u>\$ 27,607,138</u>

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance January 1, 2016	\$ -	\$ 4,054,939	\$ 19,998,843	\$ 24,053,782
Interest and dividends	-	762,080	-	762,080
Realized and unrealized gains	-	369,978	-	369,978
Contributions	-	-	2,181	2,181
Amounts appropriated for distribution	-	(585,000)	-	(585,000)
Balance December 31, 2016	<u>\$ -</u>	<u>\$ 4,601,997</u>	<u>\$ 20,001,024</u>	<u>\$ 24,603,021</u>

Permanently restricted net assets at December 31, 2017 and 2016 consisted of perpetual endowment funds required to be retained permanently by explicit donor stipulation or SPMIFA. Investment returns on the endowment funds are restricted for use in providing distributions to the State endowment cash fund, as described in Note I, as well as for the payment of administrative costs to the Foundation associated with managing the funds.

Nebraska Children and Families Foundation

NOTES TO FINANCIAL STATEMENTS

NOTE K - OPERATING LEASES

As Lessee

On January 1, 2006, the Foundation entered into a 360 month operating lease for office space. On September 10, 2015, the lease was extended for an additional 60 months. Under the terms of the lease, monthly rent payments are \$8,598 with a 2% increase each year beginning in 2019.

On January 24, 2014, the Foundation entered into a 60 month operating lease for a copier machine. Under the terms of the lease, monthly rent payments are \$356.

On February 28, 2014, the Foundation entered into a 60 month operating lease for a copier machine in the Project Harmony office. Under the terms of the lease, monthly rent payments are \$255.

On February 28, 2014, the Foundation entered into a 60 month operating lease for a copier machine. Under the terms of the lease, monthly rent payments are \$168.

On November 20, 2015, the Foundation entered into a 48 month operating lease for a copier machine. Under the terms of the lease, monthly rent payments are \$1,052.

On June 10, 2016, the Foundation entered into a 72 month operating lease for office space. Under the terms of the lease, monthly rent payments are \$5,036 per month from April 1, 2016 to March 31, 2020 and \$5,116 per month from April 1, 2020 to March 31, 2022.

On July 21, 2016, the Foundation entered into a 60 month operating lease for a copier machine. Under the terms of the lease, monthly rent payments are \$446.

On December 15, 2017, the Foundation entered into a 36 month operating lease for office space to commence on January 2, 2018. Under the terms of the lease, quarterly rent payments are \$3,750.

Future minimum lease payments are as follows:

<u>Year ending December 31,</u>	
2018	\$ 205,916
2019	199,278
2020	189,788
2021	172,798
2022	125,685
Thereafter	<u>326,103</u>
	<u>\$ 1,219,568</u>

The financial statements include rent expense of \$248,283 and \$233,988 for the years ended December 31, 2017 and 2016, respectively.

Nebraska Children and Families Foundation

NOTES TO FINANCIAL STATEMENTS

NOTE L - DEFINED CONTRIBUTION PLAN

The Foundation offers a 403(b) defined contribution pension plan covering substantially all eligible employees. The Board of Directors annually determines the amount of the Foundation's contributions to the plan. For 2017 and 2016, the Foundation matched \$1.56 per \$1 on the first 5% of the compensation deferred. Pension contribution expense was \$189,217 and \$179,562 for the years ended December 31, 2017 and 2016, respectively.

NOTE M - CONCENTRATIONS

Grant Funding

The Foundation receives a significant amount of its revenues from federal and state grants. These grants are obtained on an annual basis, and not receiving one or more of these grants would have a material effect on the Foundation. Federal financial assistance programs are subject to financial and compliance audits. The amount of expenditures, if any, which may be disallowed by the granting agencies is not determinable at this time; however, the Foundation does not believe that such amounts would be significant.

Approximately 83% and 88% of the Foundation's other agency grant revenue was received from three donors for the years ended December 31, 2017 and 2016, respectively, of which approximately 39% and 52%, respectively, was from entities under common influence. Approximately 74% and 77% of grant receivables for the years ended December 31, 2017 and 2016, respectively, were from one and four donors in each year.

Contributions

Substantially all permanently restricted contributions were received from one donor in 2017 and 2016.

Financial Instruments

Financial instruments which potentially subject the Foundation to concentrations of credit risk consist principally of checking accounts at a financial institution. Accounts at each institution are insured by the FDIC up to \$250,000. Additionally, the Foundation has Short Term Federal Investment Trust (STFIT) accounts at a financial institution, which are not federally insured. At December 31, 2017 and 2016, the bank and STFIT accounts exceeded federally insured limits by \$1,408,630 and \$340,000, respectively. The Foundation has not experienced any losses on such accounts.

NOTE N - RECLASSIFICATIONS

Certain amounts in the year ended December 31, 2016 financial statements have been reclassified to conform with current year presentation. These reclassifications had no effect on the 2016 statement of activities.

NOTE O - SUBSEQUENT EVENTS

Subsequent events have been evaluated through the audit report date, the date the financial statements were available to be issued.

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HIBE

HIBE

SUPPLEMENTAL INFORMATION

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Nebraska Children and Families Foundation

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended December 31, 2017

Federal Grantor/Program Title	Federal CFDA Number	Grant Identifying Number	Federal Expenditures	Paid to Subrecipients
U. S. Department of Health and Human Services				
Direct Funding:				
Community - Based Child Abuse Prevention Grants	93.590	0G1602NEFRPG 0G1702NEFRPG	\$ 367,897	\$ -
CCDF Cluster:				
Child Care and Development Block Grant Pass-Through the Nebraska Department of Health and Human Services	93.575	0G1601NECCDF 0G1701NECCDF	57,345	-
Pass-Through the Nebraska Department of Health and Human Services: Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	SM063392	461	-
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	0C14SM61741A	2,576	-
Promoting Safe and Stable Families	93.556	0G1601NEFPSS 0G1701NEFPSS	677,895	-
Community Services Block Grant	93.569	0G15B1NECOSR 0G16B1NECOSR 0G17B1NECOSR	44,833	-
Children's Justice Grants to States	93.643	0G1501NECJA1 0G1601NECJA1	14,520	-
Child Abuse and Neglect Discretionary Activities	93.669	0G1301NECA01 0G1401NECA01 0G1501NECA01 0G1601NECA01 0G1701NECA01	87,404	-
Chafee Foster Care Independence Program	93.674	0G1601NECILP 0G1701NECILP	730,040	-
			1,982,971	-
Corporation for National and Community Service				
Direct Funding:				
Social Innovation Fund	94.019	15SIHNE001	434,372	289,275
Pass-Through the Annie E. Casey Foundation:				
Social Innovation Fund	94.019	15S1HMD001	60,092	-
			494,464	289,275
Pass-Through ServeNebraska:				
AmeriCorps	94.006	16AFHNE001	3,447	-
			497,911	289,275
			\$ 2,480,882	\$ 289,275

Nebraska Children and Families Foundation

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation. The accompanying schedule of federal awards includes federal grant activity of Nebraska Children and Families Foundation and is presented on the accrual basis of accounting. Grant awards are considered expended when the expense transactions associated with the grant occur. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

Subrecipients. The Foundation provided federal awards to subrecipients as detailed on the previous page.

Indirect Costs. The Foundation elected to use the ten percent de minimis indirect cost rate as allowed in the Uniform Guidance, 2 CFR 200.414.





SINGLE AUDIT SECTION

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS 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*

The Board of Directors
Nebraska Children and Families Foundation
Lincoln, Nebraska

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Nebraska Children and Families Foundation, which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 18, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Nebraska Children and Families Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

HBE LLP

June 18, 2018

HBE



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

Board of Directors
Nebraska Children and Families Foundation
Lincoln, Nebraska

Report on Compliance for Each Major Federal Program

We have audited Nebraska Children and Families Foundation's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Nebraska Children and Families Foundation's major federal programs for the year ended December 31, 2017. Nebraska Children and Families Foundation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Nebraska Children and Families Foundation's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Nebraska Children and Families Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Nebraska Children and Families Foundation's compliance.

Opinion on Each Major Federal Program

In our opinion, Nebraska Children and Families Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

Report on Internal Control Over Compliance

Management of Nebraska Children and Families Foundation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Nebraska Children and Families Foundation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purposes of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Nebraska Children and Families Foundation's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Handwritten signature in black ink, appearing to read "HBE LLP".

June 18, 2018

Nebraska Children and Families Foundation

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended December 31, 2017

Summary of Auditors' Results

- a. An unmodified audit report was issued on the financial statements of Nebraska Children and Families Foundation.
- b. No deficiencies in internal control were disclosed by the audit of the financial statements.
- c. The audit did not disclose any noncompliance which would be material to the financial statements.
- d. No control deficiencies in internal control over its major federal award program were disclosed by the audit.
- e. An unmodified audit report was issued on compliance for Nebraska Children and Families Foundation's major federal award programs.
- f. The audit disclosed no findings which were required to be reported relative to the major federal award programs.
- g. The program tested as major was the U.S. Department of Health and Human Services, Promoting Safe and Stable Families, CFDA No. 93.556.
- h. The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
- i. Nebraska Children and Families Foundation qualified as a low-risk auditee as defined by the Uniform Guidance.

Findings - Financial Statements Audit

None

Findings and Questioned Costs – Major Federal Awards Program Audit

None