

Nebraska Children and Families Foundation
Lincoln, Nebraska

December 31, 2019 and 2018

Financial Statements
and
Independent Auditor's Report



CPAs & Consultants | Wealth Management

Nebraska Children and Families Foundation

Years ended December 31, 2019 and 2018

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Nebraska Children and Families Foundation, which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2019 and 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 discussed in Note P to the financial statements, in 2019, the Foundation adopted new accounting guidance ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, and ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. Our opinion is not modified with respect to this matter.

Other Matters

Our audits were 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 Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2020, 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 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 Nebraska Children and Families Foundation'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 Nebraska Children and Families Foundation's internal control over financial reporting and compliance.



Lincoln, Nebraska
August 28, 2020

Nebraska Children and Families Foundation

STATEMENTS OF FINANCIAL POSITION

December 31,

ASSETS

	<u>2019</u>	<u>2018</u>
CURRENT ASSETS		
Cash and cash equivalents, undesignated (note A)	\$ 2,713,855	\$ 2,201,636
Cash and cash equivalents, restricted	1,392	1,415
Certificates of deposit	900,699	2,157,194
Grants receivable (notes A and B)	9,207,676	10,528,935
Prepaid expenses and other assets	<u>556,734</u>	<u>488,221</u>
 Total current assets	 13,380,356	 15,377,401
 PROPERTY AND EQUIPMENT, net (notes A and G)	 92,456	 37,767
 RESTRICTED INVESTMENTS (notes A, E, and F)	 <u>30,491,195</u>	 <u>26,619,088</u>
 Total assets	 <u>\$ 43,964,007</u>	 <u>\$ 42,034,256</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable (note I)	\$ 2,647,338	\$ 2,200,315
Accrued expenses	308,486	246,612
Unearned grant revenue (note A)	<u>7,163</u>	<u>25,316</u>
 Total current liabilities	 <u>2,962,987</u>	 <u>2,472,243</u>
 NET ASSETS (notes A, H, and J)		
Without donor restrictions	512,644	(78,785)
With donor restrictions	<u>40,488,376</u>	<u>39,640,798</u>
 Total net assets	 <u>41,001,020</u>	 <u>39,562,013</u>
 Total liabilities and net assets	 <u>\$ 43,964,007</u>	 <u>\$ 42,034,256</u>

See accompanying notes to financial statements.

Nebraska Children and Families Foundation

STATEMENTS OF ACTIVITIES

Years ended December 31,

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND SUPPORT						
Federal and state grants	\$ 10,333,702	\$ -	\$ 10,333,702	\$ 5,760,514	\$ -	\$ 5,760,514
Other agency grants	103,154	10,602,268	10,705,422	15,000	16,824,253	16,839,253
Investment return (note E)	79,941	4,769,587	4,849,528	50,886	(986,635)	(935,749)
Contributions and donations	381,487	-	381,487	340,677	-	340,677
Other income	838,211	-	838,211	72,223	-	72,223
Net assets released from restrictions	14,524,277	(14,524,277)	-	13,212,119	(13,212,119)	-
Total revenue and support	26,260,772	847,578	27,108,350	19,451,419	2,625,499	22,076,918
EXPENSES (notes A and C)						
Program services	24,188,259	-	24,188,259	17,672,330	-	17,672,330
Management and general	1,101,508	-	1,101,508	1,109,602	-	1,109,602
Fundraising	379,576	-	379,576	283,757	-	283,757
Total expenses	25,669,343	-	25,669,343	19,065,689	-	19,065,689
INCREASE IN NET ASSETS						
Net assets, beginning of year	591,429	847,578	1,439,007	385,730	2,625,499	3,011,229
	(78,785)	39,640,798	39,562,013	(464,515)	37,015,299	36,550,784
Net assets, end of year	\$ 512,644	\$ 40,488,376	\$ 41,001,020	\$ (78,785)	\$ 39,640,798	\$ 39,562,013

See accompanying notes to financial statements.

Nebraska Children and Families Foundation

STATEMENTS OF CASH FLOWS

Years ended December 31,

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from revenue and support	\$ 23,500,140	\$ 18,634,578
Cash paid to employees, suppliers, and contracted agencies	(24,366,983)	(18,262,499)
Interest received	<u>150,244</u>	<u>92,403</u>
Net cash provided (used) by operating activities	<u>(716,599)</u>	<u>464,482</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturity of certificates of deposit	5,034,066	7,766,611
Purchase of certificates of deposit	(3,767,933)	(7,504,588)
Proceeds from sale of investments	2,280,652	4,064,890
Purchase of investments	(1,383,172)	(3,174,896)
Purchase of property and equipment	<u>(72,818)</u>	<u>-</u>
Net cash provided by investing activities	<u>2,090,795</u>	<u>1,152,017</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Distribution to State Early Childhood Education Private Endowment Cash Fund	<u>(862,000)</u>	<u>(850,000)</u>
Net increase in cash and cash equivalents	512,196	766,499
Cash and cash equivalents, undesignated, beginning of year	2,201,636	1,422,631
Cash and cash equivalents, restricted, beginning of year	<u>1,415</u>	<u>13,921</u>
Cash and cash equivalents, undesignated, end of year	<u>\$ 2,713,855</u>	<u>\$ 2,201,636</u>
Cash and cash equivalents, restricted, end of year	<u>\$ 1,392</u>	<u>\$ 1,415</u>
Reconciliation of increase in net assets to net cash provided (used) by operating activities		
Increase in net assets	<u>\$ 1,439,007</u>	<u>\$ 3,011,229</u>
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities		
Depreciation	18,129	30,250
Distribution to State Early Childhood Education Private Endowment Cash Fund	862,000	850,000
Net realized and unrealized (gains) losses on investments	(4,184,351)	2,795,704
Reinvested interest	(594,874)	(1,818,438)
(Increase) decrease in assets		
Grants receivable	1,321,259	(4,327,203)
Prepaid and other assets	(68,513)	(440,280)
Increase (decrease) in liabilities		
Accounts payable	447,023	344,619
Accrued expenses	61,874	24,039
Unearned grant revenue	<u>(18,153)</u>	<u>(5,438)</u>
Total adjustments to increase in net assets	<u>(2,155,606)</u>	<u>(2,546,747)</u>
Net cash provided (used) by operating activities	<u>\$ (716,599)</u>	<u>\$ 464,482</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 funding, 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. Grants receivable 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 grantors having outstanding balances and current relationships with them, it has concluded that realization losses on balances outstanding at year-end will be immaterial.

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.

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 statements of activities as net assets with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

NOTE A - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

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. 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

Nebraska Children and Families Foundation

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

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

Without donor restrictions. Net assets available for use in general operations and not subject to donor or grantor restrictions.

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

Revenue Recognition. The Foundation is primarily funded through contributions and governmental and other grants. Recognition policies are as follows:

Federal and State Grants.

The Foundation is the recipient of federal and state grants to fund its primary programs. Grants consist primarily of conditional grants, that is, those with a measurable performance or other barrier, and a right of return. Grants are not recognized until the conditions on which they depend have been substantially met. The federal and state government grants are conditioned upon the incurrence of allowable qualifying expenses. Grants are recorded as revenue when the related approved expenditures are made. Unearned grant revenue represents advances of grant funds received prior to the incurrence of related costs by the Foundation. At December 31, 2019, conditional reimbursement-basis grants of \$8,820,420 were awarded to the Foundation, for which the Foundation has not yet incurred related expenditures.

Contributions and Other Grants.

Contributions are recognized when a donor makes a promise to give that is, in substance, unconditional. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. At December 31, 2019, conditional contributions from private grants totaling \$680,000 were awarded to the Foundation, for which no amounts had been received in advance. These conditional contributions have not been recognized in the accompanying financial statements.

Endowment Fund.

Interpretation of State Law

The Endowment Fund's endowment consists of an 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 (U.S.GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

NOTE A - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

Endowment Fund - Continued.

Interpretation of State Law - Continued

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 net assets with donor restrictions 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 net assets with donor restrictions until these amounts are appropriated 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

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 net unrealized 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.

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 years ended December 31, 2019 and 2018 were \$745,044 and \$17,474, respectively.

Nebraska Children and Families Foundation

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF ACCOUNTING POLICIES - CONTINUED

Functional Allocation of Expenses. The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy, which is allocated on a square footage basis, as well as salaries, payroll taxes and benefits, which are allocated on the basis of estimates of time and effort.

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. For the year ended December 31, 2018, the Foundation had qualified transportation fringe benefits which were subject to tax on unrelated business income. On December 20, 2019, H.R. 1865 Further Consolidated Appropriations Act 2020 was signed, repealing the unrelated business income tax on qualified transportation fringe benefits retroactively. 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 and 990T) for December 31, 2019, 2018 and 2017 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:

	<u>2019</u>	<u>2018</u>
Private grants receivable due in less than one year	\$ 4,665,702	\$ 6,535,216
Private grants receivable due in one to five years	800,971	1,752,425
Federal and state grant reimbursements	<u>3,741,003</u>	<u>2,241,294</u>
	<u>\$ 9,207,676</u>	<u>\$ 10,528,935</u>

Nebraska Children and Families Foundation

NOTES TO FINANCIAL STATEMENTS

NOTE C - FUNCTIONAL EXPENSE CLASSIFICATION

Expenses by functional classification for the years ended December 31, 2019 and 2018 consist of the following:

	2019			
	Program Services	Management and General	Fundraising	Total Expenses
Salaries	\$ 3,622,162	\$ 584,994	\$ 245,507	\$ 4,452,663
Payroll taxes and benefits	961,206	101,861	43,509	1,106,576
Professional fees	2,352,319	43,508	13,365	2,409,192
Occupancy	63,118	152,533	7,675	223,326
Travel and meeting expenses	502,242	3,012	33,076	538,330
Insurance	-	14,080	213	14,293
Advertising	114,190	1,881	1,823	117,894
Information technology	33,787	52,611	7,224	93,622
Office expense	51,670	106,195	11,683	169,548
Depreciation	-	18,129	-	18,129
Grants and other assistance	14,938,058	-	-	14,938,058
Sixpense Endowment Fund	985,000	-	-	985,000
Consulting fees	37,700	725	-	38,425
Miscellaneous	111,433	4,549	5,437	121,419
Supplies	415,374	17,430	10,064	442,868
Total expenses	\$ 24,188,259	\$ 1,101,508	\$ 379,576	\$ 25,669,343

	2018			
	Program Services	Management and General	Fundraising	Total Expenses
Salaries	\$ 3,040,133	\$ 545,840	\$ 162,527	\$ 3,748,500
Payroll taxes and benefits	675,150	142,258	37,261	854,669
Professional fees	1,186,546	36,626	-	1,223,172
Occupancy	64,676	157,456	4,605	226,737
Travel and meeting expenses	450,100	2,610	24,806	477,516
Insurance	164	10,571	841	11,576
Advertising	119,602	1,068	1,525	122,195
Information technology	82,370	48,739	7,547	138,656
Office expense	51,939	94,752	21,103	167,794
Depreciation	-	30,250	-	30,250
Grants and other assistance	10,856,910	-	-	10,856,910
Sixpense Endowment Fund	862,000	-	-	862,000
Consulting fees	47,024	15,925	16,500	79,449
Miscellaneous	70,982	13,384	2,657	87,023
Supplies	164,734	10,123	4,385	179,242
Total expenses	\$ 17,672,330	\$ 1,109,602	\$ 283,757	\$ 19,065,689

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 covered 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 were conditional on CNCS's evaluation of the Foundation during the initial two year period.

Nebraska Children and Families Foundation

NOTES TO FINANCIAL STATEMENTS

NOTE D - CONDITIONAL GIFTS - CONTINUED

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.

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. As of December 31, 2019 and 2018, the Foundation had \$153,573 and \$637,891, respectively, of remaining funds to be spent.

See Note Q for the forfeiture of unspent funds upon expiration of the grant period.

NOTE E - RESTRICTED INVESTMENTS

Investments at December 31, 2019 and 2018 consisted of the following:

	2019	
	Cost	Market
Money market fund	\$ 147,900	\$ 147,900
Balanced mutual fund	15,927,969	18,849,294
Equity securities	1,441,971	2,803,577
Exchange traded funds	1,835,408	2,437,062
Mutual funds	5,903,864	6,253,362
	<u>\$ 25,257,112</u>	<u>\$ 30,491,195</u>
	2018	
	Cost	Market
Money market fund	\$ 169,719	\$ 169,719
Balanced mutual fund	16,033,425	16,532,181
Equity securities	1,635,916	2,259,823
Exchange traded funds	1,445,505	1,626,222
Mutual funds	6,187,756	6,031,143
	<u>\$ 25,472,321</u>	<u>\$ 26,619,088</u>

Total investment return is comprised of the following:

	2019	2018
Interest and dividend income	\$ 665,177	\$ 1,859,955
Net realized and unrealized gains (losses)	4,184,351	(2,795,704)
	<u>\$ 4,849,528</u>	<u>\$ (935,749)</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, 2019 and 2018.

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, 2019 and 2018:

	2019			
	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	\$ 147,900	\$ 147,900	\$ -	\$ -
Balanced mutual fund	18,849,294	18,849,294	-	-
Equity securities				
Energy	50,855	50,855	-	-
Communication services	526,820	526,820	-	-
Consumer discretionary	266,218	266,218	-	-
Consumer staples	127,276	127,276	-	-
Healthcare	412,105	412,105	-	-
Financial services	449,589	449,589	-	-
Industrials	239,938	239,938	-	-
Information technology	593,344	593,344	-	-
Real estate	137,432	137,432	-	-
Exchange traded funds				
Small blend	627,610	627,610	-	-
Medium growth	789,296	789,296	-	-
Large blend	1,020,156	1,020,156	-	-
Mutual funds				
Fixed income	3,357,598	3,357,598	-	-
Medium blend	1,176,910	1,176,910	-	-
Large blend	1,414,915	1,414,915	-	-
Large growth	303,939	303,939	-	-
Total investments	<u>\$ 30,491,195</u>	<u>\$ 30,491,195</u>	<u>\$ -</u>	<u>\$ -</u>

Nebraska Children and Families Foundation

NOTES TO FINANCIAL STATEMENTS

NOTE F - FAIR VALUE MEASUREMENTS - CONTINUED

	2018			
	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	\$ 169,719	\$ 169,719	\$ -	\$ -
Balanced mutual fund	16,532,181	16,532,181	-	-
Equity securities				
Energy	98,116	98,116	-	-
Communication services	391,724	391,724	-	-
Consumer discretionary	260,129	260,129	-	-
Consumer staples	105,636	105,636	-	-
Healthcare	336,390	336,390	-	-
Financial services	358,606	358,606	-	-
Industrials	208,155	208,155	-	-
Information Technology	406,468	406,468	-	-
Real estate	94,599	94,599	-	-
Exchange traded funds				
Small blend	310,177	310,177	-	-
Medium growth	673,496	673,496	-	-
Large blend	642,549	642,549	-	-
Mutual funds				
Fixed income	2,482,930	2,482,930	-	-
Medium blend	1,353,959	1,353,959	-	-
Large value	268,946	268,946	-	-
Large blend	1,671,766	1,671,766	-	-
Large growth	253,542	253,542	-	-
Total investments	\$ 26,619,088	\$ 26,619,088	\$ -	\$ -

NOTE G - PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	2019	2018
Equipment, furniture and fixtures	\$ 458,480	\$ 585,008
Leasehold improvements	101,286	93,090
Construction in progress	53,425	-
	613,191	678,098
Less accumulated depreciation	(520,735)	(640,331)
	<u>\$ 92,456</u>	<u>\$ 37,767</u>

The financial statements include depreciation expense of \$18,129 and \$30,250 for the years ended December 31, 2019 and 2018, respectively.

Nebraska Children and Families Foundation

NOTES TO FINANCIAL STATEMENTS

NOTE H - NET ASSETS

Unrestricted net assets of \$(78,785) as of December 31, 2018, is the result of a temporary reduction of net assets without donor restrictions due to the timing of one of the Foundation's grant awards totaling \$1,868,000 for the year ending December 31, 2018, for its Connected Youth Initiative program. The grant award is reflected in grants receivable in the statement of financial position as of December 31, 2018; however, because the grant funding was not received until after year end, the Foundation was unable to release the funds from the restriction of time during the respective year, which resulted in a reduction of net assets without donor restrictions that was relieved in the subsequent year.

Net assets at December 31, 2019 and 2018 are available for the following purposes or periods:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Nonendowed funds:			
Operating	\$ 512,644	\$ -	\$ 512,644
Subject to expenditure for specified purpose:			
Community programs	-	11,015,789	11,015,789
Endowments:			
Subject to endowment spending policy and appropriation:			
Nebraska Early Childhood Education Private			
Endowment program activities and administration	-	8,471,563	8,471,563
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	21,001,024	21,001,024
	\$ 512,644	\$ 40,488,376	\$ 41,001,020
	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Nonendowed funds:			
Operating	\$ (78,785)	\$ -	\$ (78,785)
Subject to expenditure for specified purpose:			
Community programs	-	13,917,295	13,917,295
Endowments:			
Subject to endowment spending policy and appropriation:			
Nebraska Early Childhood Education Private			
Endowment program activities and administration	-	4,722,479	4,722,479
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	21,001,024	21,001,024
	\$ (78,785)	\$ 39,640,798	\$ 39,562,013

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or other events specified by the donors as follows for the years ended December 31, 2019 and 2018:

	2019	2018
Satisfaction of purpose restrictions		
Community programs	\$ 14,524,277	\$ 13,212,119

Nebraska Children and Families Foundation

NOTES TO FINANCIAL STATEMENTS

NOTE I - DISTRIBUTIONS TO STATE

The Early Childhood Education Private 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 2019 and 2018 was \$985,000 and \$862,000, respectively and is included in Note C, Grants and other assistance. At December 31, 2019 and 2018, cumulative distributions of \$985,000 and \$862,000, respectively, were recorded in accounts payable.

NOTE J - ENDOWMENT

The composition of the Foundation's donor-restricted endowment fund at December 31, 2019 and 2018 were:

	<u>2019</u>	<u>2018</u>
With donor restrictions		
Purpose restricted	\$ 8,471,563	\$ 4,722,479
Perpetual in nature	<u>21,001,024</u>	<u>21,001,024</u>
	<u>\$ 29,472,587</u>	<u>\$ 25,723,503</u>

Changes in endowment net assets for the years ended December 31, 2019 and 2018 were:

	<u>2019</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance January 1, 2019	\$ -	\$ 25,723,503	\$ 25,723,503
Interest and dividends	-	585,236	585,236
Realized and unrealized gains	-	4,184,351	4,184,351
Amounts appropriated for expenditure	-	<u>(1,020,503)</u>	<u>(1,020,503)</u>
Balance December 31, 2019	<u>\$ -</u>	<u>\$ 29,472,587</u>	<u>\$ 29,472,587</u>
	<u>2018</u>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance January 1, 2018	\$ -	\$ 27,607,138	\$ 27,607,138
Interest and dividends	-	1,809,069	1,809,069
Realized and unrealized losses	-	(2,795,704)	(2,795,704)
Amounts appropriated for expenditure	-	<u>(897,000)</u>	<u>(897,000)</u>
Balance December 31, 2018	<u>\$ -</u>	<u>\$ 25,723,503</u>	<u>\$ 25,723,503</u>

Nebraska Children and Families Foundation

NOTES TO FINANCIAL STATEMENTS

NOTE J - ENDOWMENT - CONTINUED

Perpetual in nature funds at December 31, 2019 and 2018 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.

NOTE K - OPERATING LEASES

As Lessee

On January 1, 2006, the Foundation entered into a 120 month operating lease for office space. On September 10, 2015, the lease was extended for an additional 120 months ending December 31, 2025. Under the terms of the lease, monthly rent payments are \$8,598 with a 2% increase each year beginning in 2019.

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 September 30, 2019. On October 1, 2019, the Foundation, extended the lease term to December 31, 2024 and expanded the amount of space being leased. Monthly rent payments under the extension are \$9,601 per month from October 1, 2019 to March 31, 2021, \$9,753 per month from April 1, 2020 to March 31, 2022, \$9,906 per month from April 1, 2022 to December 31, 2023, and \$10,058 per month from January 1, 2024 to December 31, 2024.

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.

On December 19, 2017, 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 July 23, 2018, the Foundation entered into a 60 month operating lease for a copier machine. Under the terms of the lease, monthly rent payments are \$349.

On December 20, 2018, the Foundation entered into a 12 month operating lease for office space. Under the terms of the lease, monthly rent payments are \$2,913 per month. On September 11, 2019, this lease was renewed for an additional 12 months with the same terms ending December 31, 2020.

On July 10, 2019, the Foundation entered into a 60 month operating lease for a copier machine. Under the terms of the lease, monthly rent payments are \$482.

On November 11, 2019, the Foundation entered into a 60 month operating lease for office space. Under the terms of the lease monthly rent payments are \$0 until June 30, 2020, \$6,071 from July 1, 2020 to June 30, 2021, \$6,192 from July 1, 2021 to June 30, 2022, \$6,316 from July 1, 2022 to June 30, 2023, \$6,442 from July 1, 2023 to June 30, 2024, and \$6,571 from July 1, 2024 to June 30, 2025.

On December 16, 2019, the Foundation entered into a 60 month operating lease for a copier machine. Under the terms of the lease, monthly rent payments are \$820.

Nebraska Children and Families Foundation

NOTES TO FINANCIAL STATEMENTS

NOTE K - OPERATING LEASES - CONTINUED

Future minimum lease payments are as follows:

<u>Year ending December 31,</u>	
2020	\$ 325,277
2021	312,930
2022	317,827
2023	314,980
2024	317,213
Thereafter	<u>148,841</u>
	<u>\$ 1,737,068</u>

The financial statements include rent expense of \$260,346 and \$263,341 for the years ended December 31, 2019 and 2018, respectively.

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 2019 and 2018, the Foundation matched \$1.56 per \$1 on the first 5% of the compensation deferred. Pension contribution expense was \$260,346 and \$205,607 for the years ended December 31, 2019 and 2018, 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 73% and 91% of the Foundation's other agency grant revenue was received from three donors for the years ended December 31, 2019 and 2018, respectively, of which approximately 45% and 76%, respectively, was from entities under common influence. Approximately 87% and 93% of grant receivables for the years ended December 31, 2019 and 2018, respectively, were from three donors in each year.

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, 2019 and 2018, the bank and STFIT accounts exceeded federally insured limits by \$2,886,621 and \$2,682,184, respectively. The Foundation has not experienced any losses on such accounts.

Nebraska Children and Families Foundation

NOTES TO FINANCIAL STATEMENTS

NOTE N - LIQUIDITY

The Foundation receives significant contributions with donor restrictions to be used in accordance with the associated purpose restrictions. It also has received gifts to establish the Nebraska Early Childhood Education Private Endowment that will exist in perpetuity; the income generated from such endowment is used to fund distributions to the Early Childhood Endowment Cash Fund (Cash Fund) maintained by the State of Nebraska's Department of Education. In addition, the Foundation receives support without donor restrictions; however, such support has historically represented less than 5% of annual program funding needs, with the remainder of needs funded from gifts with donor restrictions.

The Foundation considers contributions without donor restrictions and contributions with donor restrictions for use in current programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. General expenditures include administrative and general expenses, fundraising expenses and grant commitments expected to be paid in the subsequent year. Annual operations are defined as activities occurring during the Foundation's fiscal year.

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

1. Operating within a prudent range of financial soundness and stability;
2. Maintaining adequate liquid assets, and;
3. Maintaining sufficient reserves to provide reasonable assurance that long term grant commitments and obligations under donor restrictions that support mission fulfillment will continue to be met, ensuring the sustainability of the Foundation.

As part of the Foundation's liquidity management, it invests cash in excess of daily requirements in short-term assets. The Foundation's financial assets available within one year of the statement of financial position date for general expenditures and without donor or other restrictions limiting their use are as follows:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 2,713,855	\$ 2,201,636
Certificates of deposit	900,699	2,157,194
Federal and state grant reimbursement receivables	<u>3,741,003</u>	<u>2,241,294</u>
	<u>\$ 7,355,557</u>	<u>\$ 6,600,124</u>

The Foundation's Early Childhood Education Private Endowment fund is a donor restricted endowment. Income from the Endowment is restricted for specific purposes and therefore, not available for general expenditure.

NOTES TO FINANCIAL STATEMENTS

NOTE O - RECLASSIFICATIONS

Certain amounts in the year ended December 31, 2018 financial statements have been reclassified to conform with current year presentation. These reclassifications had no effect on the 2018 statement of activities.

NOTE P - NEW ACCOUNTING STANDARDS

Contributions

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounting for as contributions or exchange transactions and determining whether a contribution is conditional. For nonexchange transactions, the contribution guidance in ASC 958 is typically applied, whereas for exchange transactions, an entity should apply ASC 606 or other appropriate guidance. The Foundation has implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with the implementation of ASU 2018-08.

Fair Value Measurement

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. The ASU removed some disclosures; modified others, and added some new disclosure requirements. The ASU is effective for all entities for fiscal years beginning after December 15, 2019; however, the Foundation early adopted the standard, effective for the year ended December 31, 2019, as permitted by the standard. See Note F for disclosure of the Foundation's assets measured at fair value.

Restricted Cash

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The ASU intended to reduce diversity by clarifying how entities should present restricted cash and restricted cash equivalents in the statement of cash flows. As a result of the guidance, entities are required to include in its cash and cash equivalent balances in the statement of cash flows those amounts that are deemed to be restricted cash and restricted cash equivalents. The ASU also requires reconciliation between the statement of financial position and the statement of cash flows when the statement of financial position includes more than one line item for cash, cash equivalents, restricted cash, and restricted cash equivalents. Additionally, entities will no longer present transfers between cash and restricted cash components in the statement. The guidance requires retrospective application and is effective for fiscal years beginning after December 15, 2018.

The Foundation adopted the ASU on January 1, 2019 and has modified the presentation and disclosure of restricted cash and cash equivalents accordingly.

NOTES TO FINANCIAL STATEMENTS

NOTE Q - SUBSEQUENT EVENTS

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

The COVID-19 (coronavirus) outbreak has prompted global health concerns. An estimate of the financial effect of the COVID-19 pandemic cannot be made at this time.

The grant period for the conditional SIF grant and related conditional matching grants disclosed in Note D expired on July 31, 2020. Upon expiration, the Foundation underspent and forfeited \$93,468 of the original \$2,000,000 SIF grant and underspent \$93,468 of the matching grants. The Foundation intends to request reallocation of the underspent matching grants from the grantor.

On April 14, 2020, the Foundation obtained a loan for \$1,127,100 under the Payroll Protection Program available through the Small Business Administration to cover payroll costs as a result of impacts caused by the COVID-19 pandemic. The loan may be eligible for partial or complete forgiveness when spent on qualified expenditures. Any unforgiven balance will be repaid beginning November 14, 2020 with interest accruing at 1%. An amount expected to be forgiven or repaid has not yet been determined by the Foundation.

In June 2020, the Foundation was awarded a \$10,962,250 CARES Act grant available through the U.S. Department of Health and Human Services in response to the COVID-19 pandemic to be used for assistance and relief for childcare providers. The Foundation is required to comply with allowable cost principles, required reporting, and other compliance requirements of the grant.

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SUPPLEMENTAL INFORMATION

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Nebraska Children and Families Foundation

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended December 31, 2019

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Identifying Number</u>	<u>Federal Expenditures</u>	<u>Paid to Subrecipients</u>
U. S. Department of Health and Human Services				
Direct Funding:				
Community - Based Child Abuse Prevention Grants	93.590	G-1801NEBCAP G-1901NEBCAP	\$ 412,803	\$ -
Child Abuse and Neglect Discretionary Activities	93.670	90CA1857	283,911	-
Pass-Through the Nebraska Department of Health and Human Services:				
CCDF Cluster: Child Care and Development Block Grant	93.575	G1701NECCDF G1801NECCDF G1901NECCDD	2,357,426	-
Pass-Through the Nebraska Department of Education:				
CCDF Cluster: Child Care and Development Block Grant	93.575	G1701NECCDF G1801NECCDF	189,887	-
CCDF Cluster Total			2,547,313	-
Pass-Through the Nebraska Department of Health and Human Services:				
Comprehensive Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	H79SM063392	39,977	-
Pregnancy Assistance Fund Program	93.500	SP1AH000056	837,785	-
Promoting Safe and Stable Families	93.556	G-1801NEFPSS G-1901NEFPSS	719,569	-
Every Student Succeeds Act/Preschool Development Grants	93.434	90TP0040	2,132,532	-
Chafee Education and Training Vouchers Program (ETV)	93.599	G-1801NECETV G-1901NECETV	475,683	-
Children's Justice Grants to States	93.643	G-1701NECJA1 G-1801NECJA1	25,594	-
Foster Care - Title IV-E	93.658	0G1801NEFOST	314,171	-
Child Abuse and Neglect State Grants	93.669	G-1701NECA01 G-1801NENCAN G-1901NENCAN	89,770	-
John H. Chafee Foster Care Program for Successful Transition to Adulthood	93.674	G-1801NECILP G-1901NECILP	760,973	-
			8,640,081	-
Corporation for National and Community Service				
Direct Funding:				
Social Innovation Fund	94.019	15SIHNE001	468,293	458,293
Pass-Through The Annie E. Casey Foundation:				
Social Innovation Fund	94.019	15SIHMD001	16,025	-
			484,318	458,293
Pass-Through ServeNebraska:				
AmeriCorps	94.006	16AFHNE001 19TAHNE002	14,938	-
			499,256	458,293
U.S. Department of Education				
Pass-Through National Center for Families Learning:				
Statewide Family Engagement Centers	84.310A	U310A180061	12,046	-
			\$ 9,151,383	\$ 458,293

Nebraska Children and Families Foundation

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended December 31, 2019

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 above.

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.



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SINGLE AUDIT SECTION

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INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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, 2019, 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 August 28, 2020.

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 over financial reporting 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

Lincoln, Nebraska
August 28, 2020

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INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT 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, 2019. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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, 2019.

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 have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2019-001, that we consider to be a significant deficiency.

Nebraska Children and Families Foundation's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. Nebraska Children and Families Foundation's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.



Lincoln, Nebraska
August 28, 2020

Nebraska Children and Families Foundation

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended December 31, 2019

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. One control deficiency (2019-001) in internal control over its major federal award programs was 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 one finding (2019-001) which was required to be reported relative to the major federal award programs.
- g. The programs tested as major were:
 - Pregnancy Assistance Fund Program, CFDA No. 93.500
 - Every Student Succeeds Act/Preschool Development Grants, CFDA No. 93.434
 - Foster Care – Title IV-E, CFDA No. 93.658
 - John H. Chafee Foster Care Program for Successful Transition to Adulthood, CFDA No. 93.674
- 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

2019 - 001 *Identification data:* U.S. Department of Health and Human Services, Pregnancy Assistance Fund Program, CFDA No. 93.500, Passed through the Nebraska Department of Health and Human Services, Grant Agreement No. SP1AH000056, Award Periods August 1, 2018 through June 30, 2019 and July 1, 2019 through June 30, 2020 and John H. Chafee Foster Care Program for Successful Transition to Adulthood, CFDA No. 93.674, Passed through the Nebraska Department of Health and Human Services, Grant Agreement No. G-1801NECILP, Award Period October 1, 2018 through September 30, 2019 and G-1901NECILP, Award Period October 1, 2019 through September 30, 2020.

Criteria: 45 CFR §75.213 restricts awards, subawards and contracts with certain parties that are debarred, suspended, or otherwise excluded from or ineligible for participation in Federal assistance programs or activities. Nebraska Children and Families Foundation's system of internal control over suspension and debarment includes verifying the status of contractors, community providers, consultants, and other lower-tier agencies upon contract execution and payment.

Nebraska Children and Families Foundation

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended December 31, 2019

Findings and Questioned Costs – Major Federal Awards Program Audit

2019 - 001 (Continued)

Condition: The Organization did not maintain documentation to support the verification that contractors, community providers, consultants, and other lower-tier agencies were not excluded from participation in the Federal grant programs.

Cause: A breakdown in the Organization's internal controls over suspension and debarment did not allow the Organization to maintain adequate documentation to support suspension and debarment verifications.

Effect or potential Effect: The Organization may have awarded a contract and/or made payments to a contractor, community provider, consultant, or other lower-tier agency who was excluded from participation in the Federal grant programs.

Recommendation: The Organization should review its system of internal controls over suspension and debarment to determine improvements that can be made to ensure adequate documentation is maintained to evidence the Organization's verifications that contractors, community providers, consultants, and other lower-tier agencies participating in the Federal grant programs are not on the excluded parties list.

Responsible Official's Response: Management of Nebraska Children and Families Foundation understands the need to maintain adequate documentation supporting verifications of suspension and debarment status of contractors, community providers, consultants, and other lower-tier agencies performing services under the Federal grant programs. Management has implemented a process to maintain the verification documentation upon payment or contract execution or renewal with applicable organizations.



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AND FAMILIES FOUNDATION

CORRECTIVE ACTION PLAN

Year ended December 31, 2019

The corrective action plan for the finding included in the schedule of findings and questioned costs is summarized as follows:

Finding 2019 - 001 Internal Controls over Suspension and Debarment

Corrective Action Planned: Management of Nebraska Children and Families Foundation understands the need to maintain adequate documentation supporting verifications of suspension and debarment status of contractors, community providers, consultants, and other lower-tier agencies performing services under the Federal grant programs. Management has implemented a process to maintain the verification documentation upon payment or contract execution or renewal with applicable organizations.

Anticipated Completion Date: December 31, 2020.

Responsible Parties: Management and the Board of Directors.

If there are any questions regarding this plan, please call Mary Jo Pankoke, Executive Director for Nebraska Children and Families Foundation, at (402) 476-9401.


Mary Jo Pankoke, Executive Director