

CHILD INC.

FINANCIAL STATEMENTS

APRIL 30, 2021 AND 2020



CPAs | ADVISORS

CLIENT **FOCUSED.** RELATIONSHIP **DRIVEN.**



CHILD INC.

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April 30, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Child Inc.
Austin, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Child Inc. (a nonprofit organization), which comprise the statements of financial position as of April 30, 2021 and 2020, and the related statements of activities, functional expenses, 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 Child Inc. as of April 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

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, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis 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 audits 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2021, on our consideration of Child Inc.'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 solely 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 Child Inc.'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 Child Inc.'s internal control over financial reporting and compliance.

ABIP, PC

San Antonio, Texas
October 26, 2021

FINANCIAL STATEMENTS



CHILD INC.**STATEMENTS OF FINANCIAL POSITION****April 30,**

	2021	2020
ASSETS:		
Cash and cash equivalents	\$ 789,977	\$ 495,131
Investments	158,620	110,837
Receivables:		
Federal grants	489,880	550,537
Local grants	78,986	738,409
Other	7,886	40,526
Prepaid expenses	26,221	41,111
Property and equipment, net	3,054,486	3,233,997
Other assets - security deposits	<u>28,067</u>	<u>28,067</u>
 TOTAL ASSETS	 <u>\$ 4,634,123</u>	 <u>\$ 5,238,615</u>
 LIABILITIES AND NET ASSETS:		
Liabilities:		
Notes payable	\$ 817,604	\$ 1,063,686
Accounts payable	254,885	505,803
Unearned revenue	40,343	-
Accrued compensated absences	156,344	235,600
Accrued payroll and payroll taxes	<u>362,893</u>	<u>841,853</u>
Total liabilities	<u>1,632,069</u>	<u>2,646,942</u>
 Net assets:		
Without donor restrictions	<u>3,002,054</u>	<u>2,591,673</u>
Total net assets	<u>3,002,054</u>	<u>2,591,673</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 4,634,123</u>	 <u>\$ 5,238,615</u>

The accompanying notes are an integral part of these financial statements.

CHILD INC.

STATEMENT OF ACTIVITIES

For the year ended April 30, 2021

	WITHOUT DONOR RESTRICTIONS	TOTAL
REVENUES, SUPPORT AND INVESTMENT ACTIVITY:		
Contributions:		
Federal grant revenue	\$ 16,431,931	\$ 16,431,931
Local grant revenue	972,793	972,793
In-kind contributions	3,719,217	3,719,217
Contribution income	31,956	31,956
Program income	5,065	5,065
Other income	121,533	121,533
Rental income	33,000	33,000
Investment income	48,328	48,328
Total revenues, support and investment activity	<u>21,363,823</u>	<u>21,363,823</u>
EXPENSES:		
Program services	18,843,952	18,843,952
Support services - general and administrative	<u>2,109,490</u>	<u>2,109,490</u>
Total expenses	<u>20,953,442</u>	<u>20,953,442</u>
CHANGE IN NET ASSETS	410,381	410,381
NET ASSETS, at beginning of year	<u>2,591,673</u>	<u>2,591,673</u>
NET ASSETS, at end of year	<u>\$ 3,002,054</u>	<u>\$ 3,002,054</u>

The accompanying notes are an integral part of these financial statements.

CHILD INC.

STATEMENT OF ACTIVITIES

For the year ended April 30, 2020

	WITHOUT DONOR RESTRICTIONS	TOTAL
REVENUES, SUPPORT AND INVESTMENT ACTIVITY:		
Contributions:		
Federal grant revenue	\$ 16,515,049	\$ 16,515,049
Local grant revenue	1,900,263	1,900,263
In-kind contributions	4,039,520	4,039,520
Contribution income	13,444	13,444
Program income	36,874	36,874
Other income	109,381	109,381
Rental income	33,100	33,100
Investment income	8,927	8,927
Total revenues, support and investment activity	<u>22,656,558</u>	<u>22,656,558</u>
EXPENSES:		
Program services	19,108,338	19,108,338
Support services - general and administrative	<u>2,206,490</u>	<u>2,206,490</u>
Total expenses	<u>21,314,828</u>	<u>21,314,828</u>
CHANGE IN NET ASSETS	1,341,730	1,341,730
NET ASSETS, at beginning of year	<u>1,241,323</u>	<u>1,241,323</u>
NET ASSETS, at end of year	<u>\$ 2,583,053</u>	<u>\$ 2,583,053</u>

The accompanying notes are an integral part of these financial statements.

CHILD INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended April 30, 2021

	<u>Program Services</u>	<u>Support Services</u>	
	<u>Early Childhood Education</u>	<u>General and Administrative</u>	<u>Total</u>
Salaries and related expenses:			
Personnel	\$ 8,970,725	\$ 995,739	\$ 9,966,464
Personnel fringe	2,416,435	161,445	2,577,880
Payroll taxes	<u>685,435</u>	<u>38,950</u>	<u>724,385</u>
Total salaries and related expenses	<u>12,072,595</u>	<u>1,196,134</u>	<u>13,268,729</u>
Expenses:			
Contract labor	930,411	317,864	1,248,275
Equipment purchases and repairs	298,601	2,665	301,266
Facilities/maintenance	285,140	15,299	300,439
Food and supplies	435,818	49,324	485,142
Insurance	146,892	-	146,892
Occupancy	1,121,296	238	1,121,534
Other expenses	28,629	99,654	128,283
Printing and advertising	22,073	-	22,073
Professional services	3,055,330	78,077	3,133,407
Telecommunications/utilities	309,285	202,564	511,849
Training	13,759	86,991	100,750
Travel	<u>2,743</u>	<u>2,548</u>	<u>5,291</u>
Total expenses	<u>6,649,977</u>	<u>855,224</u>	<u>7,505,201</u>
 Total expenses before depreciation and amortization	 18,722,572	 2,051,358	 20,773,930
 Depreciation and amortization	 <u>121,380</u>	 <u>58,132</u>	 <u>179,512</u>
 Total expenses	 <u><u>\$ 18,843,952</u></u>	 <u><u>\$ 2,109,490</u></u>	 <u><u>\$ 20,953,442</u></u>

The accompanying notes are an integral part of these financial statements.

CHILD INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended April 30, 2020

	<u>Program Services</u>	<u>Support Services</u>	
	Early Childhood Education	General and Administrative	<u>Total</u>
Salaries and related expenses:			
Personnel	\$ 8,201,488	\$ 910,264	\$ 9,111,752
Personnel fringe	2,364,210	157,883	2,522,093
Payroll taxes	<u>640,832</u>	<u>36,437</u>	<u>677,269</u>
Total salaries and related expenses	<u>11,206,530</u>	<u>1,104,584</u>	<u>12,311,114</u>
Expenses:			
Contract labor	1,313,262	448,560	1,761,822
Equipment purchases and repairs	352,706	3,131	355,837
Facilities/maintenance	227,951	12,225	240,176
Food and supplies	835,287	94,566	929,853
Insurance	142,468	-	142,468
Occupancy	1,125,711	225	1,125,936
Other expenses	50,880	177,079	227,959
Printing and advertising	21,474	-	21,474
Professional services	3,408,208	87,031	3,495,239
Telecommunications/utilities	267,597	58,215	325,812
Training	20,724	130,992	151,716
Travel	<u>55,484</u>	<u>51,546</u>	<u>107,030</u>
Total expenses	<u>7,821,752</u>	<u>1,063,570</u>	<u>8,885,322</u>
 Total expenses before depreciation and amortization	 19,028,282	 2,168,154	 21,196,436
 Depreciation and amortization	 <u>80,057</u>	 <u>38,335</u>	 <u>118,392</u>
 Total expenses	 <u>\$ 19,108,338</u>	 <u>\$ 2,206,490</u>	 <u>\$ 21,314,828</u>

The accompanying notes are an integral part of these financial statements.

CHILD INC.

STATEMENTS OF CASH FLOWS

For the years ended April 30,

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 410,381	\$ 1,341,730
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	179,511	118,393
Unrealized gain on investments	-	2,768
Changes in operating assets and liabilities:		
Receivables:		
Grant	720,080	(405,186)
Other	32,640	(595,954)
Prepaid expenses	14,890	(27,450)
Other assets-security deposits	-	25,713
Accounts payable	(250,918)	(438,074)
Unearned revenue	40,343	-
Accrued compensated absences	(79,256)	(5,803)
Accrued payroll and payroll taxes	(478,960)	348,221
Net cash provided by (used in) operating activities	<u>588,711</u>	<u>364,358</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	8,061	10,653
Purchase of investments	(55,844)	(11,695)
Net cash provided by (used in) investing activities	<u>(47,783)</u>	<u>(1,042)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds of notes payable	854,809	-
Payments on notes payable	(1,093,299)	(300,713)
Payments for issuance expense	(7,592)	-
Net cash used in financing activities	<u>(246,082)</u>	<u>(300,713)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	294,846	62,603
CASH AND CASH EQUIVALENTS, at beginning of year	<u>495,131</u>	<u>432,528</u>
CASH AND CASH EQUIVALENTS, at end of year	<u>\$ 789,977</u>	<u>\$ 495,131</u>
SUPPLEMENTAL DISCLOSURES AND CASH FLOW INFORMATION:		
Cash paid for interest	<u>\$ 32,551</u>	<u>\$ 49,645</u>

The accompanying notes are an integral part of these financial statements.

CHILD INC.

NOTES TO FINANCIAL STATEMENTS

April 30, 2021 and 2020

(1) Organization and summary of significant accounting policies

Organization

Child Inc. (the Organization) is a private nonprofit corporation incorporated on July 20, 1972 under the State of Texas Nonprofit Corporation Act. The Organization has been granted exemption from income tax under Internal Revenue Code Section 501(c)(3).

The operations of the Organization are financed by grants from federal and state agencies and local contributions of volunteer time, space and supplies. The Organization's major federal funding is used to operate both Head Start and Early Head Start child development programs serving children 0-5 years of age who live in Travis County, Texas. The children receive comprehensive Head Start/Early Head Start services, including education, health, dental, nutrition, mental health and special education for children with disabilities. The children are served with several delivery options, including full-day center classrooms, in-home services in a home-based program or in collaborations with area independent school districts' Pre-K classrooms.

The Organization also receives federal funding from the United States Department of Agriculture for food reimbursements. Texas state agencies provide a cost-reimbursement contract for child care services, as well as a contract to provide child abuse prevention services in the Organization's facilities and other related programs.

In addition, the Organization also owns a 500-acre property, Flat Creek Crossing Ranch (the Ranch), from which rental income proceeds are used to support the Organization in its mission to serve at-risk children and their families. The Ranch is located in the rolling Texas Hill Country, adjacent to Pedernales Falls State Park and features two main lodges and eight cabins with accommodations for approximately 90 guests and over 700 campers.

Basis of accounting

The accompanying financial statements have been prepared on the accrual basis of accounting applicable to not-for-profit organizations in accordance with accounting principles generally accepted in the United States of America (GAAP).

Support and revenue are reported as an increase in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of net assets with donor restrictions (e.g., the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported in the financial statements by reclassifying the net assets with donor restrictions to net assets without donor restrictions.

Use of estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CHILD INC.

NOTES TO FINANCIAL STATEMENTS

April 30, 2021 and 2020

(1) Organization and summary of significant accounting policies (continued)

Basis of presentation

Not-for-profit entities under FASB *Accounting Standards Codification* (ASC) requires the Organization to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions: Net assets without donor restrictions consist of net assets that are not subject to donor-imposed restrictions. Net assets without donor restrictions result from operating revenues, unrestricted contributions and unrestricted dividend and interest income. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors (the Board).

Net assets with donor restrictions: Net assets with donor restrictions consist of assets that are subject to donor-imposed stipulations that require the passage of time or the occurrence of a specified event. When the donor restriction expires, the net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Cash and cash equivalents

For financial statement purposes, the Organization considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Investments

Investments in mutual funds are presented in the accompanying financial statements at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

Child Inc. follows the provisions of FASB ASC 820, *Fair Value Measurements and Disclosures* (ASC 820), which defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosures about fair value measurements. Under ASC 820, fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. ASC 820 describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value:

- Level 1 – quoted prices in active markets for identical assets or liabilities.
- Level 2 – inputs other than level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

CHILD INC.

NOTES TO FINANCIAL STATEMENTS

April 30, 2021 and 2020

(1) Organization and summary of significant accounting policies (continued)

- Level 3 – unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Receivables

An allowance for doubtful accounts is established as losses are estimated to have occurred through a provision for bad debts charged to earnings. Losses are charged against the allowance when management believes the uncollectibility of a receivable is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance for doubtful accounts is evaluated on a regular basis by management and is based on historical experience and specifically identified questionable receivables. The evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. No allowance was deemed necessary for the years ended April 30, 2021 and 2020.

Depreciation and amortization

Donated assets are recorded at fair value at the date of acquisition. Purchased property and equipment are recorded at cost at the date of acquisition. Depreciation and amortization are calculated on the straight-line method based on the following estimated useful lives:

Buildings and improvements	15-39 years
Equipment	5-15 years
Furniture and fixtures	5-10 years
Vehicles	5 years
Software	3 years

Amortization of leasehold improvements is computed using the straight-line method over the shorter of the remaining lease term or the estimated useful lives of the improvements. The Organization has adopted a capitalization policy for property and equipment of \$5,000.

Certain assets were purchased with federal dollars and, if they were to be disposed of, are subject to approval of the funding agency. These assets are included in unrestricted net assets on the statements of financial position.

Impairment of long-lived assets

The Organization reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results; trends and prospects; and the effects of obsolescence, demand, competition and other economic factors. The Organization did not recognize an impairment loss during the years ended April 30, 2021 and 2020.

CHILD INC.

NOTES TO FINANCIAL STATEMENTS

April 30, 2021 and 2020

(1) Organization and summary of significant accounting policies (continued)

Federal income taxes

The Organization is a not-for-profit organization and is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code, except to the extent it has unrelated business activities. As such, no provision for federal income taxes has been made in the accompanying financial statements.

The Financial Accounting Standards Board (FASB) provides guidance for how uncertain tax positions should be recognized, measured, disclosed and presented in the financial statements. This requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Organization's tax return to determine whether the tax positions are "more likely than not" of being sustained "when challenged" or "when examined" by the applicable tax authority. Tax positions not deemed to meet the more likely than not threshold would be recorded as a tax benefit or expense and liability in the current year. Management has determined there are no material uncertain income tax positions.

The Organization's policy is to record interest and penalty expense related to income taxes as interest and other expense, respectively. At April 30, 2021 and 2020, no interest or penalties have been or are required to be accrued. The Organization, generally, is no longer subject to income tax examinations by federal authorities for the years prior to April 30, 2017.

Compensated absences

The Organization provides its employees with a paid time off (PTO) benefit to manage time away from work for sick, vacation and personal leave. Under the policy, employees are allowed a maximum of 240 hours of unused PTO annually and the amount to be paid to employees who terminate employment with the Organization is based on the employee's length of service and accrued PTO balance at the time of departure. Accrued PTO at April 30, 2021 and 2020, totaled \$156,344 and \$235,600, respectively.

Grant contracts

The Organization's grant contract with federal, state, local governments and private grants are conditional contributions in accordance with ASU 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU clarifies and improves guidance for contributions received and contributions made and provides guidance to organizations on how to account for certain exchange transactions. The ASU clarifies whether to account for transactions as contributions or as exchange transactions. In addition, it clarifies whether a contribution is conditional. As a result, it enhances comparability of financial information among not-for-profit entities.

The Organization recognizes revenue as eligible expenditures are incurred. Advances from government agencies are recorded as unearned revenue until eligible expenditures are incurred. Eligible expenditures incurred in excess of grant fund reimbursements are recorded as receivables.

Any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds, or both, as a result of any noncompliance with the terms of the grant contract.

CHILD INC.

NOTES TO FINANCIAL STATEMENTS

April 30, 2021 and 2020

(1) Organization and summary of significant accounting policies (continued)

Support and revenue

Contributions are recorded at fair value when the Organization is in possession of or receives an unconditional promise to give. Contributions are recorded as without donor restrictions or with donor restrictions support based on the existence or nature of any donor restrictions. As donor or time restrictions are satisfied, net assets are reclassified to net assets without donor restrictions. The Organization's policy is to report restricted support that is satisfied in the year of receipt as restricted and then fully released in the same year.

Contributed services that create or enhance nonfinancial assets or that require specialized skills that are provided by individuals possessing those skills, and which would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. Contributed goods are recorded at their fair value in the period received.

Functional allocation of expenses

The costs of providing programs and various activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting activities benefited.

Contingencies

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Organization, but which will only be resolved when one or more future events occur or fail to occur. The Organization's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Organization or unasserted claims that may result in such proceedings, the Organization's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims, as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Organization's financial statements. If the assessment indicates a potentially material loss contingency is not probable, but is reasonably possible, or is probable, but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss, if determinable and material, would be disclosed. Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the guarantees would be disclosed. At April 30, 2021 and 2020, Child Inc. does not have any loss contingencies.

Printing and advertising

The Organization expenses printing and advertising costs as they are incurred. Printing and advertising expense for the years ended April 30, 2021 and 2020, totaled \$22,073 and \$21,474, respectively.

CHILD INC.

NOTES TO FINANCIAL STATEMENTS

April 30, 2021 and 2020

(1) Organization and summary of significant accounting policies (continued)

Change in accounting policy

During fiscal year 2021, Child Inc. changed accounting policies by adopting FASB Accounting Standards Update No. 2020-05 (Topic 606), *Revenue from Contracts with Customers*. Accordingly, the financial statements have been presented in accordance with the standard.

(2) Cash and cash equivalents

The following types of accounts make up the balance of Child Inc.'s cash and cash equivalents:

	April 30,	
	2021	2020
Depository checking	\$ 615,564	\$ 456,345
Credit union savings	38,386	38,328
Money Market	135,907	-
Cash on hand	<u>120</u>	<u>458</u>
Total	<u>\$ 789,977</u>	<u>\$ 495,131</u>

The Organization maintains its cash accounts at several financial institutions. All accounts at the financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to a maximum of \$250,000. At April 30, 2021 and 2020, the Organization's cash balance was uninsured by \$626,741 and \$127,248, respectively.

The Organization maintains investments in a brokerage account. The account is insured by the Securities Investor Protection Corporation (SIPC) up to a maximum of \$500,000, in the event of theft by a broker or failure of the brokerage firm. The Organization did not have investments in excess of SIPC coverage at April 30, 2021 and 2020.

CHILD INC.

NOTES TO FINANCIAL STATEMENTS

April 30, 2021 and 2020

(3) Investments

Child Inc.'s investments are reported at fair value in the statements of financial position. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future values. Furthermore, although Child Inc. 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.

	April 30, 2021	
	Fair Value	Quoted Prices In Active Markets For Identical Assets (Level 1)
Reoccurring fair value measurement		
<u>Mutual funds:</u>		
American Funds Europacific Growth Fund ¹	\$ 20,959	\$ 20,959
American Funds Growth Fund of America ²	41,261	41,261
American Funds Income Fund of America ³	21,493	21,493
American Funds Investment Company of America ⁴	74,907	74,907
	<u>\$ 158,620</u>	<u>\$ 158,620</u>

	April 30, 2020	
	Fair Value	Quoted Prices In Active Markets For Identical Assets (Level 1)
Reoccurring fair value measurement		
<u>Mutual funds:</u>		
American Funds Europacific Growth Fund ¹	\$ 13,770	\$ 13,770
American Funds Growth Fund of America ²	26,881	26,881
American Funds Income Fund of America ³	16,796	16,796
American Funds Investment Company of America ⁴	53,390	53,390
	<u>\$ 110,837</u>	<u>\$ 110,837</u>

CHILD INC.

NOTES TO FINANCIAL STATEMENTS

April 30, 2021 and 2020

(3) Investments (continued)

- (1) The investment seeks long-term growth of capital. The fund invests primarily in common stocks of issuers in Europe and the Pacific Basin that the investment advisor believes have the potential for growth. Growth stocks are stocks that the investment advisor believes have the potential for above-average capital appreciation. It normally will invest at least 80 percent of its net assets in securities of issuers in Europe and the Pacific Basin. The fund may invest a portion of its assets in common stocks and other securities of companies in emerging markets.
- (2) The investment seeks growth of capital. The fund invests primarily in common stocks and seeks to invest in companies that appear to offer superior opportunities for growth of capital. It may invest up to 25 percent of its assets in securities of issuers domiciled outside the United States. The investment advisor uses a system of multiple portfolio managers in managing the fund's assets. Under this approach, the portfolio of the fund is divided into segments managed by individual managers who decide how their respective segments will be invested.
- (3) The investment seeks to provide investors with current income while secondarily striving for capital growth. Normally the fund invests primarily in income-producing securities. These include equity securities, such as dividend-paying common stocks and debt securities, such as interest-paying bonds. Generally, at least 60 percent of the fund's assets will be invested in common stocks and other equity-type securities. The fund may also invest up to 25 percent of its assets in equity securities of issuers domiciled outside the United States including issuers in developing countries.
- (4) The investment seeks long-term growth of capital and income. The fund invests primarily in common stocks, most of which have a history of paying dividends. It may invest up to 15 percent of its assets, at the time of purchase, in securities of issuers domiciled outside the United States. Although the fund focuses on investments in medium to larger capitalization companies, the fund's investments are not limited to a particular capitalization size.

Investment income consists of the following:

	April 30,	
	2021	2020
Interest and dividend income	\$ 945	\$ 11,695
Unrealized gain on investments	47,383	(2,768)
	<u>\$ 48,328</u>	<u>\$ 8,927</u>

(4) Liquidity and availability

As of April 30, 2021 and 2020, Child Inc.'s financial assets exceed current liabilities by \$3,002,054 and \$2,591,673 respectively, and were available to meet general expenditures for the next year. There were no restrictions on any funds of Child Inc.

CHILD INC.

NOTES TO FINANCIAL STATEMENTS

April 30, 2021 and 2020

(5) Receivables

Receivables consist of the following:

	April 30, 2021			
	Grant		Other	Total
	Federal	Local		
Head Start / Early Head Start - contract	\$ 405,855	\$ -	\$ -	\$ 405,855
Child and Adult Care Food Program	23,596	-	-	23,596
CDBG - contract	60,429	-	-	60,429
Travis County - contract	-	38,450	-	38,450
United Way - contract	-	40,536	-	40,536
Other	-	-	7,886	7,886
	<u>\$ 489,880</u>	<u>\$ 78,986</u>	<u>\$ 7,886</u>	<u>\$ 576,752</u>

	April 30, 2020			
	Grant		Other	Total
	Federal	Local		
Head Start / Early Head Start - contract	\$ 503,924	\$ -	\$ -	\$ 503,924
CDBG - contract	46,613	-	-	46,613
City of Austin - contract	-	59,743	-	59,743
Travis County - contract	-	33,763	-	33,763
United Way - contract	-	644,903	-	644,903
Other	-	-	40,526	40,526
	<u>\$ 550,537</u>	<u>\$ 738,409</u>	<u>\$ 40,526</u>	<u>\$ 1,329,472</u>

(6) Property and equipment

Property and equipment consist of the following:

	April 30, 2021		
	Acquired with Grant Funds	Without Donor Restrictions	Total
Land	\$ 209,602	\$ 2,225,857	\$ 2,435,459
Buildings and improvements	1,104,185	1,822,202	2,926,387
Equipment	244,226	234,786	479,012
Furniture and fixtures	-	138,814	138,814
Vehicles	53,900	56,835	110,735
Software	-	76,554	76,554
	<u>1,611,913</u>	<u>4,555,048</u>	<u>6,166,961</u>
Less accumulated depreciation and amortization	<u>1,316,577</u>	<u>1,795,898</u>	<u>3,112,475</u>
Net property and equipment	<u>\$ 295,336</u>	<u>\$ 2,759,150</u>	<u>\$ 3,054,486</u>

CHILD INC.

NOTES TO FINANCIAL STATEMENTS

April 30, 2021 and 2020

(6) Property and equipment (continued)

Property and equipment consist of the following:

	April 30, 2020		
	Acquired with Grant Funds	Without Donor Restrictions	Total
Land	\$ 209,602	\$ 2,225,857	\$ 2,435,459
Buildings and improvements	1,104,185	1,822,202	2,926,387
Equipment	244,226	234,786	479,012
Furniture and fixtures	-	138,814	138,814
Vehicles	53,900	56,835	110,735
Software	-	76,554	76,554
	<u>1,611,913</u>	<u>4,555,048</u>	<u>6,166,961</u>
Less accumulated depreciation and amortization	<u>1,240,541</u>	<u>1,692,423</u>	<u>2,932,964</u>
Net property and equipment	<u>\$ 371,372</u>	<u>\$ 2,862,625</u>	<u>\$ 3,233,997</u>

Fixed asset purchases with grantor funds are related to the Head Start grants. These assets represent all nonexpendable furniture and equipment accounted for by the Organization under its federal grant program funds. These assets are considered restricted, in that all of these assets would revert back to the funding source if the Organization no longer existed as a nonprofit entity. The Organization has maintained detailed subsidiary records of real property, furniture and equipment showing the value of each fixed asset and its location. Fixed assets purchased with nonfederal funds are recorded in the Corporate Core account.

Depreciation and amortization expense for the years ended April 30, 2021 and 2020, totaled \$179,512 and \$118,392, respectively.

(7) Notes payable

Notes payable consist of the following:

	April 30,	
	2021	2020
Note payable to a financial institution in monthly installments of \$5,074, including interest at 3.990%; due May 2027.	\$ -	\$ 374,388
An unsecured, interest-free note payable to Austin Independent School District (AISD) in monthly installments of \$25,000; due August 2020.	-	689,298
Note payable to a financial institution in monthly installments of \$8,575, including interest at 3.75%; due November 2030.	825,196	-
Unamortized issuance expense	<u>(7,592)</u>	<u>-</u>
	817,604	1,063,686
Less current maturities	<u>71,983</u>	<u>735,895</u>
Total	<u>\$ 745,621</u>	<u>\$ 327,791</u>

CHILD INC.

NOTES TO FINANCIAL STATEMENTS

April 30, 2021 and 2020

(7) Notes payable (continued)

Aggregate maturities required on notes payable at April 30, 2021, were as follows:

Years ending April 30,	
2022	\$ 71,983
2023	74,798
2024	77,660
2025	80,759
2026	83,915
Thereafter	428,489
	<u>\$ 817,604</u>

Aggregate maturities required on notes payable at April 30, 2020, were as follows:

Years ending April 30,	
2021	\$ 735,895
2022	48,517
2023	50,517
2024	52,578
2025	54,727
Thereafter	121,452
	<u>\$ 1,063,686</u>

Interest expense for the years ended April 30, 2021 and 2020, totaled \$32,551 and \$49,645, respectively.

(8) Operating leases

The Organization has operating leases on several facilities in Austin that house its Head Start centers; however, most of the centers maintained by the Organization are in contributed spaces. Future minimum lease payments on facilities with noncancelable leases are as follows:

Years ending April 30,	
2022	\$ 307,274
2023	293,167
2024	276,976
2025	83,672
2026	26,958
Thereafter	119,063
	<u>\$ 1,107,110</u>

CHILD INC.

NOTES TO FINANCIAL STATEMENTS

April 30, 2021 and 2020

(8) Operating leases (continued)

Years ending April 30,	
2021	\$ 330,780
2022	277,765
2023	227,237
2024	212,834
2025	144,581
Thereafter	25,580
	<u>\$ 1,218,777</u>

Rent expense for the years ended April 30, 2021 and 2020, totaled \$468,580 and \$523,452, respectively.

(9) In-kind contributions

Donated services and materials are reflected as non-conditional contribution revenue at their estimated fair value at the date of receipt and are expended and reported as unrestricted support in the financial statements. Such services and materials are used by the Organization's programs and administration. Contributed goods and services had an estimated value as follows:

	April 30,	
	2021	2020
Contributed goods:		
Office space	\$ 634,628	\$ 601,260
Supplies	150	12,101
Contributed services	<u>3,084,439</u>	<u>3,426,159</u>
	<u>\$ 3,719,217</u>	<u>\$ 4,039,520</u>

The Organization has also received approximately 530 and 3,667 hours of donated services from numerous benefactors in 2021 and 2020, respectively. These items have not been recorded in these financial statements, as they do not meet the requirements of the Accounting for Contributions Received and Contributions Made topic of the ASC.

(10) Retirement plan

The Organization has a 401(k) retirement plan. The following description of the Child Inc. 401(k) Retirement Plan (the Plan) provides only general information. The Plan is a defined contribution plan covering all employees who have completed at least six months of service and are at least 21 ½ years of age, except for leased employees. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, the Internal Revenue Code and other federal and state laws, which may affect employee rights.

CHILD INC.

NOTES TO FINANCIAL STATEMENTS

April 30, 2021 and 2020

(10) Retirement plan (continued)

Eligible participants may contribute between 1 percent and 5 percent of eligible compensation, not to exceed the federal maximum limits, including catch-up provisions. The Organization may match the contributions in a percentage set by the employer prior to the end of each Plan year. The Organization may also make discretionary profit sharing contributions. Participant accounts are fully vested in all benefits and cannot be forfeited for any reason. The full value of the retirement benefits is payable as of the later of the employee's normal retirement age or the actual retirement date. There are other accommodations for death, disability, and for other terminations of service at an amount other than the full normal retirement benefits, as described in the Plan agreement. The Organization contributed \$887,376 and \$756,747 to the Plan during the years ended April 30, 2021 and 2020, respectively.

(11) Significant estimates and concentrations

The Organization is the recipient of federal, state and local assistance monies to operate its programs. Grants are subject to review and audit by grantor agencies. Such audits could result in noncompliance findings and disallowance of expenditures resulting in requests for reimbursement by the grantor agency. In the opinion of the Organization's management, such disallowance, if any, will not be significant.

For the years ended April 30, 2021 and 2020, federal and local government agencies and other local agencies accounted for 81 percent of the Organization's revenues. Federal and local government agencies and other local agencies accounted for 99 percent and 96 percent of the Organization's receivables for the years ended April 30, 2021 and 2020, respectively.

(12) Subsequent events

The Organization has evaluated subsequent events through October 26, 2021, the date the financial statements were available to be issued. There are no subsequent events for disclosure.



FEDERAL AWARDS SECTION



**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**

To the Board of Directors of
Child Inc.
Austin, Texas

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 Child Inc. (a nonprofit organization), which comprise the statement of financial position as of April 30, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 26, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Child Inc.'s internal control over financial reporting (internal control) as a basis for designing 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 Child Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Child Inc.'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 Child Inc.'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 financial statements. 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 Child Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Child Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

ABIP, PC

San Antonio, Texas
October 26, 2021

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors of
Child Inc.
Austin, Texas

Report on Compliance for The Major Federal Program

We have audited Child Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect Child Inc.'s major federal program for the year ended April 30, 2021. Child Inc.'s major federal program is 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Child Inc.'s major federal program 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 Child Inc.'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 the major federal program. However, our audit does not provide a legal determination of Child Inc.'s compliance.

Opinion on The Major Federal Program

In our opinion, Child Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended April 30, 2021.

Report on Internal Control Over Compliance

Management of Child Inc. 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 Child Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 Child Inc.'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 a 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. 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.

ABIP, PC

San Antonio, Texas
October 26, 2021

CHILD INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended April 30, 2021

AWARD NUMBER	PROGRAM TITLE AND SOURCE	FEDERAL CFDA NUMBER	PASS-THROUGH	PROVIDED TO SUBRECIPIENTS	FEDERAL EXPENDITURES
			ENTITY'S IDENTIFYING NUMBER		
<u>U.S. Department of Health and Human Services</u>					
	Direct programs:				
06CH010969/02	Head Start	93.600	N/A	\$ -	\$ 9,874,603
06CH010969/02	Early Head Start	93.600	N/A	-	4,714,340
06HP000294	Early Head Start CCP	93.600	N/A	-	696,177
06CH01096902C3	Covid-19 Head Start/Early Head Start	93.600	N/A	-	943,169
06HP0002402C3	Covid-19 Early Head Start CCP	93.600	N/A	-	21,378
	Total U.S. Department of Health and Human Services			-	16,249,667
	Total CFDA 93.600 Cluster			-	16,249,667
<u>U.S. Department of Agriculture</u>					
	Passed through from Texas Department of Agriculture:				
75-G1005	Child and Adult Care Food Program(Head Start)	10.558	02062	-	121,835
	Total U.S. Department of Agriculture			-	121,835
<u>U.S. Department of Housing and Urban Development</u>					
	Passed through from the City of Austin:				
B20-MC-48-0500	Community Development Block Grants	14.218	776140630000	-	60,429
	Total U.S. Department of Housing and Urban Development			-	60,429
	Total expenditures of federal awards			\$ -	\$ 16,431,931

CHILD INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended April 30, 2021

(1) Basis of presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity of the Organization under programs of the federal government for the year ended April 30, 2021. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Guidance Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

(2) Summary of significant accounting policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(3) Indirect cost rate

The Organization has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

CHILD INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended April 30, 2021

SECTION I: SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued on whether the
Financial statements audited were prepared in
Accordance with GAAP:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiencies identified that are not
considered to be material weakness(es)? ☐ Yes ☒ None Reported

Noncompliance material to the financial statements noted?

☐ Yes ☒ No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiencies identified that are not
considered to be material weakness(es)? ☐ Yes ☒ None Reported

Type of auditor's report issued on compliance for
major federal programs:

Unmodified

Any audit findings disclosed that are required to
be reported in accordance with the Uniform
Guidance 2 CFR Section 200.516(a)?

☐ Yes ☒ No

Identification of major federal programs:

CFDA NUMBER(S)

NAME OF FEDERAL PROGRAM OR CLUSTER

93.600

Head Start/Early Head Start Cluster

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

\$750,000

Auditee qualified as low-risk auditee?

☒ Yes ☐ No

SECTION II – FINDINGS RELATED TO THE FINANCIAL STATEMENT AUDIT

No matters reported.

SECTION III – FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

No matters reported.

CHILD INC.

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

For the year ended April 30, 2021

No prior year audit findings.