CHILD INC.

FINANCIAL STATEMENTS

APRIL 30, 2023 AND 2022

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CHILD INC

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Child Inc. (a nonprofit organization), which comprise the statement of financial position as of April 30, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Child Inc. as of April 30, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Child Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Child Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Child Inc.'s internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Child Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited Child Inc.'s 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 29, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended April 30, 2023, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Supplementary 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 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 January 3, 2024, 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 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 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
January 3, 2024

CHILD INC

FINANCIAL STATEMENTS

CHILD INC

CHILD INC.

STATEMENTS OF FINANCIAL POSITION

April 30, 2023 and 2022

	2023	2022
ASSETS:		
Cash and cash equivalents	$ 45,160	$ 723,871
Investments	152,484	148,062
Promises to give:		
Federal grants	1,265,746	1,277,960
Local grants	114,419	99,288
Other receivables	51,135	8,718
Prepaid expenses	195,438	153,239
Deposits	28,067	28,067
Right of use assets - operating leases	1,134,794	-
Property and equipment, net	3,511,274	2,950,394
TOTAL ASSETS	$ 6,498,517	$ 5,389,599
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable	$ 653,483	$ 402,109
Accrued payroll and payroll taxes	235,602	465,729
Accrued compensated absences	186,628	225,604
Refundable advances	-	511,690
Operating lease liabilities	1,149,624	-
Notes payable, net	670,900	745,623
Total liabilities	2,896,237	2,350,755
Net assets:		
Without donor restrictions	3,602,280	3,038,844
Total net assets	3,602,280	3,038,844
TOTAL LIABILITIES AND NET ASSETS	$ 6,498,517	$ 5,389,599

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

CHILD INC.

STATEMENT OF ACTIVITIES

For the year ended April 30, 2023
(with comparative totals for 2022)

	2023 WITHOUT DONOR RESTRICTIONS	2023 WITH DONOR RESTRICTIONS	2023 TOTAL	2022 TOTAL
REVENUES, SUPPORT AND INVESTMENT ACTIVITY:				
Federal grants	$ 15,523,817	$ -	$ 15,523,817	$ 16,049,980
Local grants	739,357	-	739,357	1,061,522
In-kind contributions	4,112,541	-	4,112,541	3,830,121
Contributions	16,931	-	16,931	16,510
Program income	8,090	-	8,090	15,950
Other income	164,072	-	164,072	546,456
Rental income	33,000	-	33,000	33,000
Investment income, net	4,421	-	4,421	2,991
Total revenues, support and investment activity	20,602,229	-	20,602,229	21,556,530
EXPENSES:				
Program services	17,067,705	-	17,067,705	18,732,473
General and administrative	2,815,737	-	2,815,737	2,787,267
Fundraising	124,365	-	124,365	-
Total expenses	20,007,807	-	20,007,807	21,519,740
CHANGE IN NET ASSETS	594,422	-	594,422	36,790
NET ASSETS, at beginning of year	3,038,844	-	3,038,844	3,002,054
Cumulative effect of accounting change (see note 1)	(30,986)	-	(30,986)	-
NET ASSETS, at end of year	$ 3,602,280	$ -	$ 3,602,280	$ 3,038,844

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

CHILD INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended April 30, 2023
(with comparative totals for 2022)

	PROGRAM SERVICES	GENERAL AND ADMINISTRATIVE	FUNDRAISING	TOTAL	2022 TOTAL
Salaries and related expenses:					
Personnel	$ 6,412,869	$ 920,642	$ 97,457	$ 7,430,968	$ 8,850,406
Personnel fringe	1,674,470	171,047	18,031	1,863,548	2,238,640
Payroll taxes	537,286	74,943	8,167	620,396	676,425
Total salaries and related expenses	8,624,625	1,166,632	123,655	9,914,912	11,765,471
Expenses:					
Contract labor	1,096,990	112,561	-	1,209,551	893,397
Equipment and vehicles	153,661	180,294	-	333,955	364,328
Facilities/maintenance	787,178	349,034	-	1,136,212	1,467,631
Food and kitchen supplies	662,805	-	-	662,805	638,265
In-kind facilities expense	4,112,541	-	-	4,112,541	3,830,121
Insurance	84,448	81,559	-	166,007	169,679
Interest	-	28,173	-	28,173	30,913
Occupancy	421,060	92,241	-	513,301	459,808
Office supplies	232,342	44,111	-	276,453	400,166
Other expenses	14,907	147,432	710	163,049	56,483
Printing and advertising	9,482	-	-	9,482	11,384
Professional services	118,707	450,459	-	569,166	303,434
Program supplies and equipment	218,842	-	-	218,842	459,327
Telecommunications/utilities	280,030	66,949	-	346,979	368,137
Training	167,687	-	-	167,687	186,736
Travel	29,694	41,886	-	71,580	10,396
Total expenses	8,390,374	1,594,699	710	9,985,783	9,650,205
Total expenses before depreciation and amortization	17,014,999	2,761,331	124,365	19,900,695	21,415,676
Depreciation and amortization	52,706	54,406	-	107,112	104,064
Total expenses	$ 17,067,705	$ 2,815,737	$ 124,365	$ 20,007,807	$ 21,519,740

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

CHILD INC.

STATEMENTS OF CASH FLOWS

For the years ended April 30, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 594,422	$ 36,790
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	107,112	104,064
Amortization of debt issuance costs	792	792
Unrealized loss on investments	2,547	10,208
Changes in operating assets and liabilities:		
Promises to give:		
Federal grants	12,214	(837,908)
Local grants	(15,131)	32,595
Other receivables	(42,417)	(3,901)
Prepaid expenses	(42,199)	(127,018)
Right of use assets - operating leases	(1,165,780)	-
Accounts payable	251,374	147,224
Accrued payroll and payroll taxes	(230,127)	102,836
Accrued compensated absences	(38,976)	69,260
Refundable advances	(511,690)	471,347
Operating lease liabilities	1,149,624	-
Net cash provided by (used in) operating activities	71,765	6,289
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(7,144)	(13,199)
Proceeds from sale of investments	175	13,577
Purchases of property and equipment	(667,992)	-
Net cash provided by (used in) investing activities	(674,961)	378
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable	(75,515)	(72,773)
Net cash used in financing activities	(75,515)	(72,773)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(678,711)	(66,106)
CASH AND CASH EQUIVALENTS, at beginning of year	723,871	789,977
CASH AND CASH EQUIVALENTS, at end of year	$ 45,160	$ 723,871

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

CHILD INC.

NOTES TO FINANCIAL STATEMENTS

April 30, 2023 and 2022

(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 in accordance with accounting principles generally accepted in the United States of America (GAAP). Accordingly, the financial statements reflect all significant receivables, payables, and other liabilities.

Basis of presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets that are based upon the existence or absence of restrictions on use that are placed by its donors: net assets without donor restrictions and net assets with donor restrictions.

Net assets with donor restrictions are subject to donor-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, such as those that the donor stipulates that resources be maintained in perpetuity.

Net assets without donor restrictions are resources available to support operations and not subject to donor restrictions. The only limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of the Organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

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

Basis of presentation (continued)

Contributions of property and equipment or cash restricted to acquisition of property and equipment are reported as net assets with donor restrictions if the donor has restricted the use of the property or equipment to a particular program. These restrictions expire when the assets are placed in service.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions.

Comparative financial information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended April 30, 2022, from which the summarized information was derived.

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, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. On an ongoing basis, management evaluates the estimates and assumptions based on new information. Management believes that the estimates and assumptions are reasonable in the circumstances; however, actual results could differ from those estimates.

Cash and cash equivalents

For purposes of the statements of cash flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents, unless the investments are held for meeting restrictions for purchase of property and equipment or payment of long-term debt.

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 provides required 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.

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

Investments (continued)

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.

- 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.

Other receivables

Other receivables are stated at unpaid balances, less an allowance for doubtful accounts. The Organization provides for losses on receivables using the allowance method. The allowance is based on experience and knowledge of circumstances that may affect the Organization's ability to collect. As of April 30, 2023 and 2022, management considered all receivables to be fully collectible; accordingly, no allowance of doubtful accounts has been established.

Promises to give

Unconditional promises to give are recognized as revenues in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are recorded at fair value, which is measured as the present value of their future cash flows. At April 30, 2023 and 2022, management considered all promises to give to be fully collectible and collectible within one year; accordingly, no allowance for doubtful promises to give has been established.

Support and revenue recognition

Contributions are recognized when a donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Revenue is recognized when earned. Program service fees are recognized in the period in which the related services are performed.

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

Grants

The Organization receives grants from federal agencies, local agencies, and private nonprofit organizations. All of the grants are cost reimbursable grants under which the Organization recognizes revenue as eligible expenditures are incurred. Advances received from grantors are recognized as net assets with donor restrictions until eligible expenditures are incurred. Once eligible expenditures are incurred, the funds are reclassified from net assets with donor restrictions to net assets without donor restrictions. Eligible expenditures incurred in excess of grant fund reimbursements are recognized as promises to give.

Any of the grantors 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.

In-kind contributions

The Organization requires the use of classroom and campus facilities to carry out its program services. The facilities utilized by the Organization are provided to it at either no cost or at rates below market rates. The differences between the market rental rates of the facilities used by the Organization and the rates paid by the Organization are recognized as in-kind contributions.

Property and equipment

The Organization capitalizes all expenditures for property and equipment in excess of $5,000. Purchased property and equipment are carried at cost. Donated property and equipment are carried at fair value at the date of donation. Depreciation is computed using the straight-line method based on the following useful lives:

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

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 net assets without donor restrictions 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, 2023 and 2022.

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

Federal income taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. However, income derived from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. No provision for federal income taxes has been made in the accompanying financial statements.

The Organization may recognize the tax benefit from a tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization and various positions related to the potential sources of unrelated business taxable income (UBIT). Management has analyzed its tax positions taken for filings with the Internal Revenue Service and has determined there are no material uncertain income tax positions. The Organization believes that its income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Organization's financial condition, results of operations, or cash flows.

The Organization's policy is to record interest and penalty expense related to income taxes as interest and other expense, respectively. At April 30, 2023 and 2022, 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, 2019.

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 compensated absences at April 30, 2023 and 2022, totaled $186,628 and $225,604, respectively.

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, 2023 and 2022, Child Inc. does not have any loss contingencies.

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

Functional allocation of expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include occupancy, which is allocated on a square footage basis, as well as personnel costs, professional services, office expenses, insurance, and other, which are allocated on the basis of estimates of time and effort.

Refundable advances

Child Inc. is the recipient of grants that require expenditure for specified activities before the Organization is reimbursed by the grantor for the costs incurred. Documentation showing actual costs expended is included when submitting a reimbursement. At times, certain grantors pay in advance of the Organization incurring the specified costs; in those cases, the amount received in excess of amounts spent on reimbursable costs is reported as a refundable advance.

Change in accounting principle – adoption of FASB ASC 842, leases

Effective May 1, 2022, the Organization adopted FASB ASC 842, *Leases*. The new standard establishes a right of use (ROU) model that requires a lessee to record an ROU asset and a lease liability on the statement of financial position for all leases with terms longer than 12 months. Leases are classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. Leases with a term of less than 12 months will not record a ROU asset and lease liability and the payments will be recognized in the change in net assets on a straight-line basis over the lease term.

The Organization elected to adopt FASB ASC 842, *Leases*, using the optional transition method that allows the Organization to initially apply the new leases standard at the adoption date and recognize a cumulative effect adjustment to the opening balance of net assets in the period of adoption. As a result, the Organization reporting for the comparative period presented in the financial statements is in accordance with FASB ASC 840.

The Organization elected to adopt the package of practical expedients available under the transition guidance with the new standard. This package includes the following: relief from determination of lease contracts included in existing or expiring leases at the point of adoption, relief from having to reevaluate the classification of leases in effect at the point of adoption, and relief from reevaluation of existing leases that have initial direct costs associated with the execution of the lease contract. The Organization also elected to adopt the practical expedient to use hindsight to determine the lease term and assess the impairment of the ROU assets.

The adoption of the new standard resulted in the recognition of ROU operating lease assets of $1,567,226, operating lease liabilities of $1,598,212, and a cumulative effect adjustment to net assets of $30,986 as of May 1, 2022.

Printing and advertising

The Organization expenses printing and advertising costs as they are incurred. Printing and advertising expense for the years ended April 30, 2023 and 2022, totaled $9,482 and $11,384, respectively.

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

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

(2) Cash and cash equivalents

Cash and cash equivalents consist of the following:

	April 30, 2023	April 30, 2022
Depository checking	$ (198,779)	$ 469,400
Credit union savings	27,915	38,424
Money market	215,949	215,927
Cash on hand	75	120
Total	$ 45,160	$ 723,871

The Organization maintains its cash accounts in two financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to a maximum of $250,000. At times, balances have exceeded the FDIC limit; however, the Organization has not experienced any losses due to funds exceeding the limit.

(3) Investments

The Organization's investments at April 30, 2023 and 2022 consist of mutual funds recorded at fair value as summarized below:

	April 30, 2023 Fair Value	April 30, 2023 Quoted Prices In Active Markets For Identical Assets (Level 1)
Mutual funds:		
American Funds Europactific Growth Fund	$ 17,793	$ 17,793
American Funds Growth Fund of America	35,348	35,348
American Funds Income Fund of America	22,220	22,220
American Funds Investment Company of America	77,123	77,123
	$ 152,484	$ 152,484

(3) Investments (continued)

	April 30, 2022	
	Fair Value	Quoted Prices In Active Markets For Identical Assets (Level 1)
Mutual funds:		
American Funds Europactific Growth Fund	$ 16,896	$ 16,896
American Funds Growth Fund of America	35,800	35,800
American Funds Income Fund of America	22,083	22,083
American Funds Investment Company of America	73,283	73,283
	$ 148,062	$ 148,062

Investment income consists of the following:

	April 30,	
	2023	2022
Interest and dividend income	$ 7,143	$ 13,199
Unrealized gain/(loss) on investments	(2,547)	(10,208)
Investment fees	(175)	-
	$ 4,421	$ 2,991

(4) Liquidity and availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of the statement of financial positions date, comprise the following:

Cash and cash equivalents	$ 45,160
Investments	152,484
Promises to give:	
Federal grants	1,265,746
Local grants	114,419
Other receivables	51,135
	$ 1,628,944

The Organization regularly monitors liquidity to meets its operating needs and other contractual commitments. The Organization has multiple sources of liquidity at its disposal, including cash and operating investments. In addition, the Organization operates with a balanced budget and anticipates annual earned revenues and support contributions sufficient to cover expenditures.

(5) Promises to give

Promises to give consist of the following as of April 30, 2023 and 2022:

	April 30, 2023		
	Federal	Local	Total
Grants:			
Head Start / Early Head Start	$ 1,213,222	$ -	$ 1,213,222
Child and Adult Care Food Program	43,497	-	43,497
CDBG	9,027	-	9,027
City of Austin	-	30,670	30,670
Travis County	-	39,745	39,745
Other	-	18,194	18,194
	$ 1,265,746	$ 88,609	$ 1,354,355

	April 30, 2022		
	Federal	Local	Total
Grants:			
Head Start / Early Head Start	$ 1,217,770	$ -	$ 1,217,770
Child and Adult Care Food Program	49,589	-	49,589
CDBG	10,601	-	10,601
City of Austin	-	38,727	38,727
Travis County	-	40,571	40,571
Other	-	19,990	19,990
	$ 1,277,960	$ 99,288	$ 1,377,248

<u>(6) Property and equipment</u>

Property and equipment consists of the following as of April 30, 2023 and 2022:

	April 30, 2023		
	Acquired With Grant Funds	Acquired With Non-Grant Funds	Total
Land	$ 209,602	$ 2,087,748	$ 2,297,350
Buildings and improvements	1,504,872	1,995,756	3,500,628
Equipment	140,979	171,127	312,106
Furniture and fixtures	49,773	78,568	128,341
Vehicles	150,933	153,701	304,634
Software	95,401	35,195	130,596
Work-in-progress	139,996	-	139,996
	2,291,556	4,522,095	6,813,651
Less accumulated depreciation and amortization	1,385,912	1,916,465	3,302,377
Net property and equipment	$ 905,644	$ 2,605,630	$ 3,511,274

	April 30, 2022		
	Acquired with Grant Funds	Acquired With Non-Grant Funds	Total
Land	$ 209,602	$ 2,087,748	$ 2,297,350
Buildings and improvements	1,164,384	1,995,756	3,160,140
Equipment	217,973	78,831	296,804
Furniture and fixtures	49,773	78,568	128,341
Vehicles	-	153,701	153,701
Software	95,401	35,195	130,596
	1,737,133	4,429,799	6,166,932
Less accumulated depreciation and amortization	1,354,480	1,862,058	3,216,538
Net property and equipment	$ 382,653	$ 2,567,741	$ 2,950,394

Fixed assets purchased with grantor funds are related to the Head Start grants. These assets represent all nonexpendable property and equipment accounted for by the Organization under its federal grant program funds. 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 general cash account.

(6) Property and equipment (continued)

Depreciation and amortization expense for the years ended April 30, 2023 and 2022, totaled $107,112 and $104,064 respectively. In addition, during the year ended April 30, 2023, the Organization disposed of $21,273 of fully depreciated assets.

(7) Notes payable

Notes payable consists of the following:

	April 30, 2023	April 30, 2022
Note payable to a financial institution in monthly installments of $8,575, including interest at 3.75%; due November 2030	$ 676,908	$ 752,423
Unamortized issuance expense	(6,008)	(6,800)
	$ 670,900	$ 745,623

Interest expense for the years ended April 30, 2023 and 2022 totaled $28,173 and $30,913, respectively.

The future scheduled maturities of notes payable at April 30, 2023 were as follows:

Year Ending April 30,	
2023	$ 78,452
2024	81,552
2025	84,707
2026	87,984
2027	99,145
Thereafter	245,068
	$ 676,908

(8) Operating leases

The Organization has operating leases for several facilities that house its Head Start centers, as well as certain copy machines. At April 30, 2023, the leases have remaining lease terms of less than 1 year to 7 years, some of which include options to extend the leases for up to 20 years, and some of which include options to terminate the leases within 1 year. At April 30, 2023, the Organization had operating lease right-of-use assets of $1,134,794 and operating lease liabilities of $1,149,624. At April 30, 2022, the Organization had no operating lease right-of-use assets or operating lease liabilities, as it was still following the historical accounting treatment for operating leases.

The Organization determined to use the prime rate in effect at the inception of each lease as discount rates.

At April 30, 2023, the weighted average remaining lease term of the Organization's operation leases was 13 years. At April 30, 2023, the weighted average discount rate of the Organization's operating leases was 4.47%.

(8) Operating leases (continued)

The future maturities of leases liabilities as of April 30, 2023 were as follows:

Year Ending April 30,		
2024	$	328,473
2025		221,758
2026		132,463
2027		85,038
2028		85,038
Thereafter		613,980
		1,466,750
Less interest		317,126
Present value of lease liabilities	$	1,149,624

During the year ended April 30, 2023, the Organization incurred $477,870 of operating lease expenses, of which $370,080 are included in occupancy expense and $107,790 are included equipment and vehicles expense in the accompany statement of functional expenses. During the year ended April 30, 2023, the Organization made cash payments totaling $484,541 on its operating leases.

The Organization also has certain short-term leases. During the year ended April 30, 2023, the Organization incurred $36,550 of expenses related to its short-term leases which is included in occupancy expense in the accompanying statement of functional expenses.

(9) In-kind contributions

Donated use of facilities are reported as in-kind contributions at their estimated fair values at the dates of receipt and are expended and reported as unrestricted support in the financial statements. The donated facilities are used by the Organization as part of its program activities. During the years ended April 30, 2023 and 2022, in-kind contributions related to donated use of facilitates amounted to $4,112,541 and 3,830,121, respectively.

The Organization also received significant amounts of donated services from numerous benefactors during 2023 and 2022. The value of these services have not been reported in these financial statements, as they do not meet GAAP criteria for recognition of donated services.

(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.

(10) Retirement plan (continued)

Eligible participants may contribute between 1% and 85% 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 $579,906 and $730,076 to the Plan during the years ended April 30, 2023 and 2022, 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, 2023 and 2022, federal grants accounted for 75% and 74% of total revenues and support, respectively. At April 30, 2023 and 2022, amounts due from federal grants accounted for 92% and 93% of total promises to give, respectively.

(12) Subsequent events

Management has evaluated subsequent events through January 3, 2024, the date the financial statements were available to be issued.

CHILD INC

FEDERAL AWARDS SECTION

CHILD INC

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, 2023, 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 January 3, 2024.

Report on 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 the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, we identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2023-01 to 2023-04 that we consider to be material weaknesses.

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Report on 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*.

Child Inc.'s Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Child Inc.'s response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. Child Inc.'s response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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
January 3, 2024

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE 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

Opinion on the Major Federal Program

We have audited Child Inc.'s compliance with the types of compliance requirements identified as subject to audit 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, 2023. 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.

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, 2023.

Basis for Opinion on the Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Child Inc. and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of Child Inc.'s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Child Inc.'s federal program.

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Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Child Inc.'s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Child Inc.'s compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Child Inc.'s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of Child Inc.'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Child Inc.'s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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
January 3, 2024

CHILD INC

CHILD INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended April 30, 2023

AWARD NUMBER	PROGRAM TITLE AND SOURCE	FEDERAL ASSISTANCE LISTING NUMBER	PASS-THROUGH ENTITY'S IDENTIFYING NUMBER	PROVIDED TO SUBRECIPIENTS	FEDERAL EXPENDITURES
	U.S. Department of Health and Human Services				
	Direct programs:				
06CH01096904	Head Start	93.600	N/A	$ -	$ 9,165,751
06CH01096904	Early Head Start	93.600	N/A	-	3,978,640
06HP00029404	Early Head Start CCP	93.600	N/A	-	322,343
06HP00029403	Early Head Start CCP	93.600	N/A	-	135,422
06CH01096904C3	Covid-19 Head Start/Early Head Start	93.600	N/A	-	133,410
06HE00077801C5	Covid-19 Head Start/Early Head Start	93.600	N/A	-	156,225
06HE00077801C6	Covid-19 Head Start/Early Head Start	93.600	N/A	-	1,192,343
	Total Assistance Listing Number 93.600 Cluster			-	15,084,134
	Total U.S. Department of Health and Human Services			-	15,084,134
	Total Head Start Cluster			-	15,084,134
	U.S. Department of Agriculture				
	Passed through from Texas Department of Agriculture:				
75-G1005	Child and Adult Care Food Program (Head Start)	10.558	02062	-	143,404
75-G1005	Child and Adult Care Food Program (Head Start)	10.558	02062	-	252,991
	Total Assistance Listing Number 10.558 Cluster			-	396,395
	Total U.S. Department of Agriculture			-	396,395
	U.S. Department of Housing and Urban Development				
	Passed through from the City of Austin:				
B20-MC-48-0500	Community Development Block Grants	14.218	776140630000	-	24,356
B20-MC-48-0500	Community Development Block Grants	14.218	776140630000	-	19,418
	Total Assistance Listing Number 14.218 Cluster			-	43,774
	Total U.S. Department of Housing and Urban Development			-	43,774
	TOTAL EXPENDITURES OF FEDERAL AWARDS			$ -	$ 15,524,303

CHILD INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended April 30, 2023

(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, 2023. 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, 2023

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?	X Yes X No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	____ Yes X None Reported
Noncompliance material to the financial statements noted?	____ Yes X No

Federal Awards

Internal control over major federal programs:	
Material weakness(es) identified?	____ Yes X No
Significant deficiency(ies) identified that are not considered to be material weakness(es)?	____ Yes X 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 X No

Identification of Major Federal Programs:

FEDERAL ASSISTANCE LISTING 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?	X Yes ____ No

SECTION II – FINDINGS RELATED TO THE FINANCIAL STATEMENT AUDIT

MATERIAL WEAKNESSES

2023-01 Accounting Processes – Segregation of Duties and Review & Approval

Condition: During the period November 2022 through May 2023, the Organization had very little segregation of duties or review & approval built into its accounting processes. Specifically, we noted almost no segregation of duties or review & approval over processes such as cash receipts, cash disbursements, bank reconciliations, posting of journal entries, and account reconciliations.

Criteria: Implementing internal controls such as segregation of duties and review & approval within accounting processes is essential in preventing and detecting errors and fraud in financial reporting.

Cause: The Organization's former CFO left Child Inc. in November 2022 and he was not replaced during the remainder of the fiscal year, nor did Child Inc. assign another individual within the Organization to perform his functions. This situation resulted in a lack of segregation of duties within the accounting department and minimal review & approval of work performed by the accounting department.

Effect: Numerous transactions were recorded improperly in the accounting system; certain account subledgers did not reconcile to the trial balance; and two disbursements were made during the fiscal year that were paid to incorrect payees, one of which resulted in an approximately $93K loss to the Organization.

Recommendation: The Organization should hire an individual to oversee the accounting department. Hiring such an individual would alleviate many of the segregating duties and review & approval issues within the department.

Responsible Person: Albert Black, Executive Director

View of Responsible Officials: Child Inc. has taken decisive action by engaging an independent fiscal consultant to oversee and enhance the fiscal department's operations. This consultant provides an additional layer of review and approval to strengthen internal controls. Moreover, Child Inc. is actively in the process of hiring a Chief Financial Officer (CFO) to fill the leadership vacuum in the accounting department. This strategic move will provide the necessary segregation of duties and elevate the oversight and governance of financial processes.

2023-02 Cash Disbursements

Condition: A cash disbursement in the amount of $93K was paid to an incorrect payee during fiscal year 2023, resulting in a $93K loss to the Organization.

Criteria: The Organization should have procedures in place to ensure all cash disbursements are paid to the correct payees. Specifically, for electronic payments, bank routing information should be verified with vendors to ensure the information is correct prior to making payments.

Cause: During fiscal year 2023, Child Inc. agreed to make payments to a new vendor via wire transfers. The Organization obtained the vendor's bank routing information via email. After Child Inc. sent the first wire payment of $93K, it was determined that the vendor did not receive the funds, and the that the email sent to the Organization containing the vendor's bank routing information was fraudulent.

Effect: The $93K wire payment was sent to an incorrect payee and the funds were not recovered by the Organization.

SECTION II – FINDINGS RELATED TO THE FINANCIAL STATEMENT AUDIT (CONTINUED)

Recommendation: For all electronic payments, bank routing information provided by vendors through email should be verified either verbally or through other means to ensure the information is correct before making payments.

Responsible Person: Olga Korepova, Controller

View of Responsible Officials: Child Inc. collaborated with its bank and submitted supporting documents and evidence to the Organization's legal counsel, empowering him to continue the investigation into this fraud. To fortify financial protocols, the fiscal department enhanced the bank routing information verification process. This includes confirming accounts and routing numbers through direct phone calls. The Controller instituted a preventive measure by initiating a pre-note penny payment to a vendor, ensuring the accuracy of newly provided bank information before any significant transactions occur. Child Inc. has implemented advanced measures to sustain defenses against potential fraud risks. These include the integration of fraud prevention tools within our banking application, such as Positive Pay.

2023-03 Fixed Asset Additions

Condition: Numerous fixed assets purchases made during fiscal year 2023 were either improperly coded to expense accounts, or incorrectly included in prepaid expenses as of period end.

Criteria: Fixed asset purchases should be coded to the appropriate fixed asset accounts in the general ledger.

Cause: Improper recording of transactions by the accounting department.

Effect: Expenses, fixed assets, and prepaid expenses were all materially misstated due to the improper recording of fixed asset purchases.

Recommendation: The Organization should implement procedures to properly track fixed asset purchases and ensure they are appropriately coded in the general ledger. Procedures such as 1) maintaining a list of fixed assets purchased during the year that is periodically reconciled to the GL, 2) reviewing financial statements for unusual account variances, and 3) periodically reconciling the fixed assets subledger to the general ledger, are effective procedures in identifying miscoded fixed asset purchases. The depreciation subledger report should also be updated each month to reflect each fixed asset purchase.

Responsible Person: Olga Korepova, Controller

View of Responsible Officials: A schedule of fixed assets and depreciation will be maintained, with monthly reviews and updates to ensure accuracy and consistency. The Controller will take a proactive role in reconciling the fixed assets sub-ledger to the general ledger on a monthly basis, identifying and rectifying any miscoded fixed asset purchases promptly. This measure is part of our commitment to transparency and precision in financial reporting. Child Inc. is dedicated to implementing the recommended procedures, including maintaining a comprehensive list of fixed assets purchased during the year, periodic reconciliation to the general ledger, and monthly updating of the depreciation sub-ledger report. These steps will not only address the current issue but also serve as preventive measures to avoid similar challenges in the future.

SECTION II – FINDINGS RELATED TO THE FINANCIAL STATEMENT AUDIT (CONTINUED)

2023-04 Accounts Payable Cut-Off

Condition: The Organization accrued a material amount of expenses at period-end that had yet to be incurred.

Criteria: Expenses should be accrued in the financial statements when goods or services are provided to the Organization.

Cause: The Organization ordered a material amount of office products near period-end and accrued for the purchases as of April 30, 2023. However, as part of audit procedures, we determined that the items were not shipped until May 2023 and, thus, should not have been accrued at period-end.

Effect: Expenses and accrued expenses were both materially overstated.

Recommendation: The Organization should implement procedures to ensure that expenses are not accrued in the accounting system until goods or services are provided.

Responsible Person: Olga Korepova, Controller

View of Responsible Officials: The Controller has implemented enhanced procedures to ensure that expenses are only accrued in the accounting system once goods and/or services are provided. The Controller will consider both shipping terms and dates of invoices when booking accruals (whichever is applied due to the context). This approach will ensure costs are recognized in the books as goods and/or services are provided.

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, 2023

Finding 2022-001: Head Start/Early Head Start Cluster ALN #93.600

Condition/Cause: Child Inc. had $511,690 at April 30, 2022 of Head Start/Early Head Start funds that were drawndown from the federal government but allowable expenses had not been incurred during the fiscal year.

Criteria: Child Inc. should have procedures that ensure that the time lapse between the transfer of funds from the federal government and the disbursement of those funds are minimized.

Context: The $511,690 in federal drawdowns were not associated with allowable expenses incurred during the fiscal year. These funds are recorded as unearned revenue at April 30, 2022.

Effect: Child Inc. was not in compliance with federal requirements to minimize the time between transfers of federal funds and disbursements of those funds for allowable expenses.

Recommendation: Child Inc. should implement procedures to ensure that the Organization has allowable expenses prior to or at the time of the drawdown for federal programs.

View of Responsible Officials and Corrective Actions: William Penny, the CFO and Albert Black, the Executive Director will approve drawdowns based on periodic reports of allowable expenses so that funds drawn down match expenses for the period. Also, the CFO and the Executive Director will review year-to-date PMS payment requests and disbursements under each grant on a continuous basis to ensure our revenue matches expenses.

Responsible person: William Penny, CFO
Implementation date: October 3, 2022

Status: It appears the Organization properly implemented the corrective action and no similar comment was noted in the current year.