ALLIANCE FOR CHILDREN, INC.

AUDITED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

Year Ended September 30, 2021
(with comparative summarized financial information
for the year ended September 30, 2020 – Restated)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Alliance for Children, Inc.

We have audited the accompanying financial statements of Alliance for Children, Inc. (a nonprofit organization), which comprise the statement of financial position as of September 30, 2021 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 accompanying financial statements present fairly, in all material respects, the financial position of Alliance for Children, Inc. as of September 30, 2021 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 (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (GAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Alliance for Children, 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 opinion.

Responsibility of Management 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.

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 Alliance for Children, Inc.'s ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditors' Responsibility 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 auditors' 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 GAAS or GAS 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 GAAS and GAS, 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 Alliance for Children, 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 Alliance for Children, 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.

Other Matters

Schedule of Expenditures of Federal and State Awards

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2022, on our consideration of Alliance for Children, 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 the Alliance for Children, 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 Alliance for Children, Inc.'s internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited the Alliance for Children, Inc.'s 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 5, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2020 (Restated), is consistent in all material respects with the audited financial statements from which it has been derived.

Report on Restatement Adjustments

As discussed in Note N to the financial statements, management has reassessed the recognition of a conditional grant pledge. The pledge relates to the construction of Alliance for Children, Inc.'s new building and should be recognized in conjunction with the construction. The conditional pledge was recorded as of and for the year ended September 30, 2020, before the condition had been satisfied. The financial statements have been restated as described in Note N.

J. Taylor & Associates, LLC

Fort Worth, Texas
April 5, 2022

ALLIANCE FOR CHILDREN, INC.
Statement of Financial Position
September 30, 2021
(with comparative summarized financial information for the year ended September 30, 2020)

	2021	2020 (Restated)
Assets		
Cash and cash equivalents	$ 1,923,716	$ 927,137
Investments	1,060,283	845,478
Grants and contracts receivable	593,092	865,868
Unconditional promises to give	36,668	1,865
Prepaid expenses	52,666	31,544
Property and equipment, net	7,319,034	5,518,761
Deposits	17,767	17,767
Assets restricted for property and equipment	6,436,012	3,030,657
Assets restricted for long-term endowment	452,868	452,868
Total Assets	$ 17,892,106	$ 11,691,945
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 505,158	$ 193,907
Deferred revenue	6,386	44,930
Note payable	-	45,600
Total liabilities	511,544	284,437
Net assets		
Without donor restrictions	9,945,150	7,452,054
With donor restrictions	7,435,412	3,955,454
Total net assets	17,380,562	11,407,508
Total Liabilities and Net Assets	$ 17,892,106	$ 11,691,945

See accompanying notes to the financial statements.

ALLIANCE FOR CHILDREN, INC.
Statement of Activities
Year Ended September 30, 2021
(with comparative summarized financial information for the year ended September 30, 2020)

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	Total Restated
Support and revenues				
Contributions	$ 2,993,787	$ 3,360,519	$ 6,354,306	$ 3,956,182
Fundraising events, net of costs of direct benefit to donors of $67,288 and $107,130, respectively	262,131	-	262,131	137,937
City grants	250,279	-	250,279	226,967
County grants	220,841	-	220,841	220,841
State grants	1,064,708	-	1,064,708	749,378
Federal grants	3,226,832	-	3,226,832	3,704,909
Rental income	100,247	-	100,247	146,326
In-kind rent	502,901	-	502,901	207,549
Other revenue	2,243	84,828	87,071	5,034
Paycheck Protection Program Loan Forgiveness	45,600	-	45,600	-
Investment income	98,755	125,484	224,239	170,056
Net asset released from restrictions	90,873	(90,873)	-	-
Total support and revenue	8,859,197	3,479,958	12,339,155	9,525,179
Expenses				
Program services	4,748,749	-	4,748,749	4,645,018
Management and general	956,739	-	956,739	835,237
Fundraising	660,613	-	660,613	571,654
Total expenses	6,366,101	-	6,366,101	6,051,909
Change in net assets	2,493,096	3,479,958	5,973,054	3,473,270
Net assets at beginning of year	7,452,054	3,955,454	11,407,508	7,934,238
Net assets at end of year	$ 9,945,150	$ 7,435,412	$ 17,380,562	$ 11,407,508

See accompanying notes to the financial statements.

ALLIANCE FOR CHILDREN, INC.
Statement of Functional Expenses
Year Ended September 30, 2021
(with comparative summarized financial information for the year ended September 30, 2020)

	2021				2020 (Restated)
	Program Services	Management and General	Fundraising	Total	Total
Salaries	$ 2,715,598	$ 592,240	$ 352,299	$ 3,660,137	$ 3,612,160
Employee benefits	341,366	47,357	34,752	423,475	385,804
Payroll taxes	192,113	38,396	24,883	255,392	263,317
Total salaries and related expenses	3,249,077	677,993	411,934	4,339,004	4,261,281
Donated goods, services and rent	471,883	60,440	66,383	598,706	272,850
Accounting and Professional fees	85,858	80,888	106,276	273,022	221,616
Rent	180,626	1	-	180,627	163,013
Depreciation and amortization	125,448	14,454	14,454	154,356	156,121
Telephone	116,826	12,132	10,905	139,863	152,970
Utilities	102,145	8,796	7,610	118,551	164,211
Client counseling and support	81,140	24,458	-	105,598	128,444
Office and Postage expense	53,560	39,761	6,115	99,436	105,241
Event Venue	-	850	84,457	85,307	117,146
Repairs and maintenance	56,573	5,865	4,381	66,819	57,255
Janitorial	49,017	10,809	1,019	60,845	60,727
Community education	42,215	1,338	812	44,365	58,669
Training	38,955	2,132	2,281	43,368	53,731
Insurance	31,667	4,178	2,279	38,124	53,641
Miscellaneous	17,238	7,382	493	25,113	35,266
Equipment lease	22,130	609	332	23,071	15,798
Security	18,190	1,839	1,050	21,079	24,829
Printing and advertising	685	80	6,928	7,693	454
Mileage	4,816	2,734	132	7,682	31,790
Partner Agency Training	700	-	-	700	23,986
Total expenses	4,748,749	956,739	727,841	6,433,329	6,159,039
Less cost of direct benefit to donors	-	-	(67,228)	(67,228)	(107,130)
Total expense, net	$ 4,748,749	$ 956,739	$ 660,613	$ 6,366,101	$ 6,051,909

See accompanying notes to the financial statements.

ALLIANCE FOR CHILDREN, INC.
Statement of Cash Flows
Year Ended September 30, 2021
(with comparative summarized financial information for the year ended September 30, 2020)

	2021	2020 (Restated)
Operating Activities		
Change in net assets	$ 5,973,054	$ 3,473,270
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	154,356	156,121
Paycheck Protection Program loan forgiveness	(45,600)	-
Unrealized and realized gain on investments, net	(159,055)	(121,542)
Change in operating assets and liabilities:		
Grants and contracts receivable	272,776	(570,020)
Unconditional promises to give	(34,803)	12,555
Prepaid expenses	(21,122)	(15,525)
Assets restricted for property and equipment	(3,405,355)	(2,860,600)
Accounts payable and accrued expenses	311,251	51,157
Deferred revenue	(38,544)	30,854
Net cash provided by operating activities	3,006,958	156,270
Investing Activities		
Purchases of investments	-	(70,001)
Purchases of property and equipment	(1,954,629)	(152,681)
Net cash used in investing activities	(1,954,629)	(222,682)
Financing Activities		
Proceeds from note payable	-	45,600
Contributions restricted for property and equipment	1,750,212	579,847
Net cash provided by financing activities	1,750,212	625,447
Net increase in cash and cash equivalents	2,802,541	559,035
Cash, cash equivalents, and restricted cash at beginning of year	1,660,098	1,101,063
Cash, cash equivalents, and restricted cash at end of year	$ 4,462,639	$ 1,660,098

See accompanying notes to the financial statements.

A. Nature of Activities

Alliance for Children, Inc. (the "Organization"), a nonprofit organization, is a coordinating agency for evaluation, intervention, evidence gathering, and counseling for the benefit of abused children. The Organization's mission is to protect children of Tarrant County from child abuse through teamed investigations, healing services, and community education. Partner agencies include various police departments in Tarrant County, the District Attorney's Office of Tarrant County, Child Protective Services, and Cook Children's Healthcare System. Some of these agencies' personnel are co-located in the four centers operated by the Organization in Fort Worth, two locations in Arlington, a location in northeast Tarrant County, and a location in northwest Tarrant County. The Organization's corporate offices are located in Fort Worth, Texas.

B. Summary of Significant Accounting Policies

This summary of significant accounting policies of the Organization is presented to assist in the understanding the financial statements. The financial statements and notes are representations of the Organization's management, which is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the presentation of the financial statements.

Basis of Accounting

The Organization maintains its accounts on the accrual basis of accounting in accordance with accounting standards generally accepted in the United States of America (US GAAP).

Financial Statement Presentation

The Organization presents its financial position and activities based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

> *Net Assets Without Donor Restrictions* – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets include amounts designated by the Board of Directors for certain purposes, principally for long-term investment.
>
> *Net Assets With Donor Restrictions* – Net assets subject to donor-imposed stipulations that will be met either by action of the Organization and/or the passage of time or net assets subject to donor-imposed stipulations that will be maintained permanently by the Organization.

Support and revenues are reported as increases in net assets without donor restriction unless their use is limited by donor-imposed restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is received. 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 restrictions on net assets with donor restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time restriction has elapsed) are reported as net assets released from restriction.

B. Summary of Significant Accounting Policies (*continued*)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the financial statements and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from these estimates and assumptions. Management periodically evaluates estimates used in the preparation of the financial statements for continued reasonableness. Appropriate adjustments, if any, to the estimates used are made prospectively based upon such periodic evaluation.

Cash, Cash Equivalents, and Restricted Cash

The Organization considers all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents. The Organization deposits funds with financial institutions which may at times be in excess of the U.S. Federal Deposit Insurance Corporation's ("FDIC") insured limits. The Organization has not experienced any losses related to amounts in excess of FDIC limits.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position that sum to the total of the same such amounts shown in the statement of cash flows.

	2021	2020
Cash and cash equivalents	$ 1,923,716	$ 927,137
Restricted cash included in investments	64,882	9,132
Restricted cash included in assets restricted for property and equipment	2,474,041	723,829
Cash, cash equivalents, and restricted cash	$ 4,462,639	$ 1,660,098

Restricted cash included in investments are amounts held as part of the investment portfolio that are intended for long-term purposes as further described in Note C. Restricted cash included in assets restricted for property and equipment are amounts restricted as further described by Note D.

Grants and Contracts Receivable

Grants and contracts receivable primarily represent amounts due from government agencies for reimbursement of allowable costs according to grant agreements. Revenue is recognized as expenses which are reimbursable under grants or contracts, are incurred. Management uses the allowance method and evaluates the adequacy of the allowance for doubtful accounts based on a periodic review of individual accounts. The primary factors considered in determining the amount of the allowance are past payment history and other specific information known to management that may affect collectability. In management's opinion, no allowance for doubtful accounts is considered necessary at September 30, 2021 and 2020. All grants and contracts receivable are expected to be collected within one year. Substantially, all federal grants revenue is from a single federal agency, and all state grant revenue is from a single state agency. At September 30, 2021, grants and contracts receivable are due from four grants with two grants that represents approximately 96% of the related receivable balance. At September 30, 2020, such receivables are due from four grants including one grant that represents approximately 90% of the related receivable balance.

B. Summary of Significant Accounting Policies (*continued*)

Unconditional Promises to Give

Contributions are recognized as support at their fair value in the period in which unconditional promises to give are received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than monetary assets are recorded at their estimated fair value. The Organization uses the previously described allowance method to determine uncollectible promises receivable, and no allowance for doubtful accounts is considered necessary by management as of September 30, 2021 and 2020. For the years ended September 30, 2021 and 2020, all promises to give are primarily short-term in nature and therefore no valuation allowance has been recorded.

The Organization accounts for its governmental grants as conditional contributions. Future obligations conditioned upon future allowable expenditures are excluded from the accompanying financial statements.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at their fair values based upon quoted or published market values. Realized and unrealized gains and losses are included in the change in net assets.

Property and Equipment

Property and equipment purchased at a cost of $5,000 or more is stated at cost on the date of purchase and depreciated over the estimated useful lives of the assets using the straight-line method. Expenditures for major renewals and betterments that extend the useful lives are capitalized. Expenditures for normal maintenance and repairs are expensed as incurred. Donations of land, buildings, and equipment in excess of $5,000 are similarly capitalized and recorded as support at their fair value. Such donations are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. The cost of assets sold or abandoned, and the related accumulated depreciation are eliminated from the accounts and any resulting gains or losses are charged or credited to the operating results of the respective period.

Depreciable lives are typically the lesser of the life of related leases, or forty years for building, land improvements and leasehold improvements and from three to five years for equipment and furniture and fixtures.

Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash and other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Impairment of Long-Lived Assets

Management evaluates its long-lived assets for financial impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. An impairment loss is recognized when the estimated undiscounted future cash flows from the assets are less than the carrying value of the assets. Assets to be disposed of are reported at the lower of their carrying amount or fair value, less cost to sell. Management is of the opinion that the carrying amount of its long-lived assets does not exceed their estimated recoverable amount.

B. Summary of Significant Accounting Policies (*continued*)

Deferred Revenue

Deferred revenue represents amounts received for fundraising events to be held in the subsequent year. Such amounts would be returned to the donor if the event was cancelled.

Revenue Recognition

Contributions are recognized when unconditional contributions are received or pledged. Grant revenue is recognized when expenses that are reimbursable under grants or contracts are incurred. Special event revenue is recognized when the event occurs.

Donated Services

The Organization only recognizes donated services which create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Many individuals volunteer their time and perform a variety of tasks that assist the Organization, but these services do not meet the criteria for recognition as contributed services. Therefore, no amounts are reflected in the accompanying financial statements for such donated services.

Functional Allocation of Expenses

The statement of functional expenses presents expenses by function and natural classification. Expenses directly attributable to a specific functional area of the Organization are reported as expenses of those functional areas. A portion of costs benefit multiple functional areas have been allocated across functions based on time attributable to program and supporting services recorded on employee time sheets and an analysis of full-time employee equivalent employees by location and the related roles of such employees.

Income Taxes

The Organization is a nonprofit organization as defined in Section 501(c)(3) of the Internal Revenue Code and, accordingly, does not provide for federal income taxes. The Organization files Federal Form 990 in the United States federal jurisdiction within the United States. At September 30, 2021, the Organization’s tax return for the years ended 2018 through 2020 remain open to possible examination by any tax authorities. The Organization has not incurred any penalties or interest related to any examinations for the years ended September 30, 2021 and 2020.

Contingencies

In the usual course of carrying out its mission, the Organization may be party to litigation and other claims. The Organization carries insurance that, generally, covers costs of defending and settling such litigation and claims. Management is not aware of any pending litigation of claims that would have a material adverse effect on the Organization’s financial position.

Prior-Year Comparative Information

The financial statements include certain prior year summarized information for comparative purposes only. Such information does not include sufficient detail to constitute a presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction with the Organization’s financial statements for the year ended September 30, 2020 from which the summarized information was derived. The summarized financial statements for the year ended September 30, 2020 has been restated as further discussed in Note N.

B. Summary of Significant Accounting Policies (*continued*)

Adoption of New Accounting Pronouncements

The following are new accounting pronouncements adopted by the Organization for the year ended September 30, 2021.

<u>2018-13—Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement</u>

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. The ASU modifies the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement.

The changes include removing the following disclosure requirements:

1. The amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy
2. The policy for timing of transfers between levels
3. The valuation processes for Level 3 fair value measurements
4. For nonpublic entities, the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period.

The changes include modifying the following disclosure requirements:

1. In lieu of a rollforward for Level 3 fair value measurements, a nonpublic entity is required to disclose transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities.
2. For investments in certain entities that calculate net asset value, an entity is required to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly.
3. The amendments clarify that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date.

The changes include adding the following disclosure requirements:

1. The changes in unrealized gains and losses for the period included in other comprehensive income (as applicable) for recurring Level 3 fair value measurements held at the end of the reporting period.
2. The range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. For certain unobservable inputs, an entity may disclose other quantitative information (such as the median or arithmetic average) in lieu of the weighted average if the entity determines that other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements.

The amendments in this ASU are effective for all entities for fiscal years beginning after December 15, 2019. There was no impact to previously reported financial statement balances or the beginning net assets related to the adoption of this pronouncement.

B. Summary of Significant Accounting Policies (*continued*

Recent Accounting Pronouncements

Following are ASUs issued by considered potentially significant to future financial reporting.

Leases (Topic 842)

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statement of financial position and disclosing key information about leasing arrangements for lessees and lessors. The new standard applies a right-of-use model that requires, for all leases with a lease term of more than 12 months, an asset representing its right to use the underlying asset for the lease term and a liability to make lease payments to be recorded. The ASU was initially scheduled to be effective for fiscal years beginning after December 15, 2019, with early adoption permitted. This implementation date has been subsequently modified by FASB to be effective for fiscal years beginning after December 15, 2021. Therefore, the ASU will be applied to the Organization's financial statements in fiscal year 2022. Management is currently evaluating the impact of this ASU on its consolidated financial statements.

Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets,* to increase the transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosure. US GAAP has historically required certain disclosures related to contributed services but has not required specific disclosures for other in-kind contributions.

This ASU updates the presentation and disclosure of nonfinancial assets and will result in a significant increase in disclosure requirements for not-for-profit organizations that receive contributions of nonfinancial assets such as fixed assets, use of fixed assets or utilities, materials and supplies, services, or unconditional promises of those assets. The updated requirements include the following:

Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets (*continued*)

(1) Present contributed nonfinancial assets as a separate line item in the statement of activities. This separate line will not include contributions of cash or other financial assets.

(2) Present the disaggregated detail of the amount included as contributed nonfinancial assets in the statement of activities by category that depicts the type of contributed nonfinancial assets.

(3) For each category in (2) above, the not-for-profit organization is required to disclose:
   a. Qualitative information about whether the contributed nonfinancial assets was monetized or utilized during the reporting period and, if utilized, a description of the programs or other activities those assets were used for;
   b. Policy (if any) for monetizing rather than utilizing;
   c. Description of any donor-imposed restriction;
   d. Description of the valuation techniques and inputs used to arrive at the initial fair value;
   e. The principle or most advantageous market used to arrive at fair value if it is a market in which the not-for-profit is prohibited by a donor-imposed restriction from selling or using the contributed nonfinancial assets.

The amendments in this ASU should be applied on a retrospective basis and are effective for annual periods beginning after June 15, 2021. Therefore, the ASU will be applied to the Organization's financial statements in fiscal year 2022. Management is evaluating the future impact of this ASU on the consolidated financial statements.

C. Fair Value Measurements

For assets and liabilities measured at fair value on a recurring basis, FASB ASC Topic 820, *Fair Value Measurement*, defines fair value as 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 and establishes a three-tier hierarchy that is used to identify assets and liabilities measured at fair value. The hierarchy focuses on the inputs used to measure fair value and requires that the lowest level input be used.

The three levels defined in FASB ASC Topic 820 are as follows:

Level 1 Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities as of the reporting date.

Level 2 Observable market based on inputs or unobservable inputs that are corroborated by market data, including quoted prices for similar assets or liabilities in active markets or quoted prices for similar assets or liabilities in inactive markets. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. As of September 30, 2021 and 2020, the Organization had no Level 2 investments.

Level 3: Unobservable inputs that are not corroborated by market data. As of September 30, 2021 and 2020, the Organization had no Level 3 investments.

The asset's or liability's fair value measurement level within the fair value hierarchy is based upon the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Mutual fund share prices/net asset values ("NAV"s) reported are generally obtained from a file feed from the National Securities Clearing Corporation, and/or directly from the fund house, or a secondary pricing source and are classified within Level 1 of the valuation hierarchy. These methodologies were consistently applied to all assets carried as of September 30, 2021 and 2020.

All investments are Level 1 investments in the fair value hierarchy.

Investments

At September 30, 2021 and 2020, investments consist of the following:

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	$ 64,882	$ 64,882	$ 9,132	$ 9,132
Fixed income mutual funds	436,000	438,103	436,000	445,685
Equity mutual funds	621,600	1,010,166	621,600	843,529
	$ 1,122,482	$ 1,513,151	$ 1,066,732	$ 1,298,346

C. Fair Value Measurements (*continued*)

Investments (*continued*)

The above investment total is reported as follows in the accompanying financial statements at fair value:

	2021	2020
Investments	$ 1,060,283	$ 845,478
Assets restricted for long-term endowment	452,868	452,868
	$ 1,513,151	$ 1,298,346

Investment income was as follows for the years ended September 30, 2021 and 2020:

	2021	2020
Interest and dividends	65,184	$ 48,514
Unrealized gain	159,055	121,542
	$ 224,239	$ 170,056

Other Financial Instruments

The carrying amounts of cash and cash equivalents, grants and contracts receivable, unconditional promises to give, assets restricted for property and equipment, and accounts payable approximate fair value due to their short-term nature.

D. Assets Restricted for Property and Equipment

Assets restricted for property and equipment consist of the following amounts at September 30, 2021 and 2020:

	2021	2020
Cash	$ 2,474,041	$ 723,829
Pledges	3,961,971	2,306,828
	$ 6,436,012	$ 3,030,657

The pledges above have payment terms that, in some instances, are linked to the progress of related construction. Management has determined that such terms represent payment terms, not conditions placed on the pledge itself. Approximately $1,383,000 of the pledges as of September 30, 2021, are due upon 100% completion of related construction. Another pledge of approximately $800,000 is to be given over the course of 5 years. All other pledges are expected to be received in 2021.

Approximately 78% of the pledges total as of September 30, 2021, is due from 4 donors, and these pledges represent approximately 49% of contributions for the year. Approximately 98% of the pledges total as of September 30, 2020, is due from 3 donors, and these pledges represent approximately 57% of contributions for the year.

E. Endowment Fund

The Organization’s endowment consists of one donor-restricted fund and one fund designated by the Board of Directors to function as an endowment. The donor-restricted contributions are made to establish a permanent endowment. The earnings from the endowment funds are to be used to support the Organization’s facilities. Net assets associated with endowment funds are classified and reported based upon the existence or absence of donor-imposed restrictions. The endowment fund net asset activity and composition by type of funds for the years ended September 30, 2021 is as follows:

E. Endowment Fund (*continued*)

	2021			
	Without Donor Restrictions	With Donor Restriction - Available for Appropriation	With Donor Restriction - To Be Held in Perpetuity	Total
Balance at beginning of year	$ 539,881	$ 305,597	$ 452,868	$ 1,298,346
Unrealized/realized gain, net	66,139	92,916	-	159,055
Interest and dividends	23,182	32,568	-	55,750
	$ 629,202	$ 431,081	$ 452,868	$ 1,513,151

The endowment fund net asset activity and composition by type of funds for the years ended September 30, 2020 is as follows:

	2020			
	Without Donor Restrictions	With Donor Restriction - Available for Appropriation	With Donor Restriction - To Be Held in Perpetuity	Total
Balance at beginning of year	$ 471,067	$ 208,918	$ 452,868	$ 1,132,853
Unrealized/realized loss, net	50,540	71,002	-	121,542
Interest and dividends	18,274	25,677 `	-	43,951
	$ 539,881	$ 305,597	$ 452,868	$ 1,298,346

Interpretation of Relevant Law

The Board of Directors of the Organization have interpreted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) of the state of Texas to require the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Therefore, the Organization will classify as net assets with donor restrictions – to be held in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restrictions – to be held in perpetuity is classified as net assets with donor restriction – available for appropriation until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

1. The duration and preservation of the fund
2. The purposes of the Organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Organization
7. The investment policies of the Organization

E. Endowment Fund (*continued*)

Return Objectives and Risk Parameters

Endowment funds are prudently invested as permanently restricted funds in a manner consistent with earning superior long-term capital appreciation while minimizing both short and long-term volatility. As a permanent fund, the investment objectives for the endowment require disciplined and consistent management that accommodates all events that are relevant, reasonable, and probable. Extreme positions or frequent variations in management style are not consistent with these objectives. The investments of the endowment are appropriately diversified so as to minimize risk and volatility while maximizing expected returns.

Strategies Employed for Achieving Objectives

In general, the return objective for the endowment is an average annual total real rate of return (adjusted for inflation and fees) as measured over a three to five-year market period. The asset allocation, consistent with these expectations, is within the following ranges: equities 60-80%, fixed income 20-40%, and cash 0-10%.

It is the responsibility of the Chief Executive Officer, working in conjunction with the investment consultant, to monitor asset allocation and to make adjustments, as necessary, to ensure an ongoing asset allocation consistent with return objectives and cash requirements. Variations of up to five percentage points from the stated targets are acceptable. It is also understood that the Investment Committee will review the portfolio's asset allocation ranges no less than twice annually.

Spending Policy and How the Investment Objectives Relate to Spending Policy

At the current time, the spending rate is 0% as the Organization is emphasizing growth of the endowment fund. In the near future, management intends to increase the spending rate up to 5% of the average fair value of its endowment funds for the most recent 4 quarters prior to the beginning of the current fiscal year; the amount to be spent in each coming year shall be approved annually by the Investment Committee. Though changes to the spending rate are expected to be infrequent, the Investment Committee may recommend changes in the spending rate when it is deemed appropriate to do so.

F. Property and Equipment

Property and equipment at September 30, 2021 and 2020 consisted of the following:

	2021	2020
Land	$ 471,102	$ 471,102
Building	5,038,898	5,038,898
Equipment	163,628	163,628
Furniture and fixtures	226,290	226,290
Leasehold improvements	347,433	257,644
Construction in progress	1,864,840	-
Total property and equipment	8,112,191	6,157,562
Less accumulated depreciation	(793,157)	(638,801)
Total property and equipment, net	$ 7,319,034	$ 5,518,761

G. Retirement Plan

The Organization sponsors a 403(b) plan for the benefit of its employees. All employees are eligible to participate in the 403(b) plan upon hire. The Organization has an option to match all eligible employees' contributions to the 403(b) up to 2% of each employee's salary. Employees are considered fully vested after 5 years of employment. The Organization contributed approximately $51,000 and $50,000 to the 403(b) for the years ended September 30, 2021 and 2020, respectively.

H. Net Assets with Donor Restrictions

Net assets with donor restrictions are donor restricted for the following purposes as of September 30, 2021 and 2020:

	2021	2020
Property and equipment	$ 6,436,011	$ 3,030,657
Endowment - to be held in perpetuity	452,868	452,868
Endowment - available for appropriation	431,081	305,597
Other	71,270	139,771
Camp Blue	20,182	25,073
Next steps program	-	981
Emergency support	24,000	507
	$ 7,435,412	$ 3,955,454

I. Rental Income and Donated Rent

One of the Organization's facilities is provided by the City of Arlington, Texas under a long-term lease arrangement which represents an in-kind donation. The estimated fair value of the rental facility is approximately $60,000 and is recognized as a contribution and program service expense during both fiscal years 2021 and 2020 No pledge receivable is recorded for the future use of the facility because the lease arrangement can be cancelled by either party with three-month notice.

A second facility of the Organization is provided by Tarrant County, Texas, under a long-term lease arrangement which represents an in-kind donation. The estimated fair value of the rental facility is approximately $22,000 is recognized as a contribution and program service expense during both fiscal years 2021 and 2020. No pledge receivable is recorded for the future use of the facility because the lease arrangement can be cancelled by either party with three-month notice.

The Organization retained the rights to a sold building under an in-kind lease. Under this lease, the Organization may lease the building for $1 per year until May 6, 2021, at which time it may continue to lease the building for an additional year at fair market value. This lease was extended to December 31, 2021. For 2021 and 2020, the Organization has estimated the fair value of the donated rent to be approximately $423,000 and $128,000, respectively, and is recognized as a contribution and program service expense during both fiscal years 2021 and 2020.

The Organization subleases portions of its facilities to the state of Texas and the City of Fort Worth under cancellable sublease agreements. Income under these agreements is reported as rental income on the statement of activities. Each of the leases is contingent upon funding availability for specific government programs.

J. Commitments and Contingencies

The Organization leases certain office space and equipment under non-cancellable operating leases. Expenses for such leases are reported as rent and equipment lease expense on the statement of functional expenses. The minimum lease commitments at September 30, 2021 consist of the following:

2022	$ 92,918
2023	13,764
2024	8,664
2025	4,776
	$ 120,122

The Organization receives a substantial amount of its support from federal, state, and local government grants. These grants require fulfillment of certain conditions as set forth in the grant agreement. Failure to fulfill the conditions could result in the return of funds to grantors. In the opinion of management, the Organization is in compliance with the terms and conditions of the grants.

K. Line of Credit

The Organization has an unsecured line of credit agreement with a bank in the amount of $150,000, which matures in April 2022. Borrowings under the line of credit bear interest at the bank's prime rate plus 0.75% (4% at September 30, 2021 and 2020). At September 30, 2021 and 2020 there were no amounts outstanding under the line of credit.

L. Liquidity Management

The Organization maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, the Organization has a committed line of credit (see Note K) which it could draw upon. Additionally, the Organization has board designated endowment funds without donor restrictions that, while the Organization does not intend to spend these for purposes other than those identified in Note E, the amounts could be made available for current operations, if necessary.

The Organization's financial assets available within one year of the statement of financial position date for general expenditure are as follows:

	2021	2020
Cash and cash equivalents	$ 1,923,716	$ 927,137
Investments	1,060,283	845,478
Grants and contracts receivable	593,092	865,868
Unconditional promises to give	36,668	1,865
Assets restricted for property and equipment	6,436,012	3,030,657
Assets restricted for long-term endowment	452,868	452,868
Total financial assets	10,502,639	6,123,873
Financial assets which are unavailable for general expenditures within one year due to donor restrictions	(7,435,412)	(3,955,454)
Financial assets which are unavailable for general expenditures within one year without the Board's approval	(629,202)	(539,881)
Total financial assets available for general expenditures within one year	$ 2,438,025	$ 1,628,538

M. Note Payable

At September 30, 2020, the Organization owed $45,600 a note payable with the U.S. Small Business Administration (SBA) as a part of the Paycheck Protection Program from the government. The loan was issued on April 17, 2020 and originally indicated repayment to begin six months from origination date consisting of 18 monthly payments of principal and interest. In accordance with the Paycheck Protection Flexibility Act, this has been automatically extended to either (1) the date that SBA remits the borrower's loan forgiveness amount to the lender or (2) if the borrower does not apply for loan forgiveness, 10 months after the end of the borrower's loan forgiveness covered period. This loan was eligible for forgiveness and was forgiven in full on November 24, 2020. The amount is reported on the statement of activities.

N. Restatement Adjustment

The financial statements for the year ended September 30, 2020, have been restated to reassess the recognition of a conditional grant pledge. The pledge relates to the construction of the Organization's new building and should be recognized in conjunction with the construction. The conditional pledge was recorded as of and for the year ended September 30, 2020 before the condition had been satisfied.

Accordingly, the amounts below indicate the accumulated impact to the prior period balances of the financial statements as of September 30, 2020:

As of September 30, 2020	Restated	Previously Reported	Change
Assets restricted for property and equipment	$ 3,030,657	$ 3,530,657	$ (500,000)
Net assets - with donor restrictions	3,955,454	4,455,454	(500,000)
Contributions	3,956,182	4,456,182	(500,000)

O. Subsequent Events

In preparing the accompanying financial statements, management of the Organization has evaluated all subsequent events and transactions for potential recognition or disclosure through April 5, 2022, the date the accompanying financial statements were available for issuance. Management is not aware of any such subsequent events or transactions that need to be recognized or disclosed as a result of such evaluation.

SUPPLEMENTAL INFORMATION

ALLIANCE FOR CHILDREN, INC.
Schedule of Expenditures of Federal Awards and Schedule of Expenditures of State Awards
Year Ended September 30, 2021

Federal Grantor / Pass-through Grantor / Program Title	Federal CFDA Number	Grant Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Justice / Texas Office of the Governor Criminal Justice Division / Victims of Crime Act Formula Grant Program	16.575	VOCA-FY21-3	$ -	$ 3,226,832
Total Expenditures of Federal Awards			$ -	$ 3,226,832

State Grantor / Pass-through Grantor / Program Title	State CFDA Number	Grant Number	Passed Through to Subrecipients	State Expenditures
Health and Human Services Commissions				
Victims of Crime Fund	NA	HHSC-FY21-3	$ -	$ 980,863
Children's Advocacy Centers of Texas, Inc.				
		HHSC-FY22-3	-	$ 47,472
Office of the Attorney General				
Other Victim Assistance Grant	NA	2107449	-	$ 36,372
Total Expenditures of State Awards			$ -	$ 1,064,708
Total Expenditure of Awards			$ -	$ 4,291,540

See notes to the schedule of expenditures of federal and state awards.

ALLIANCE FOR CHILDREN, INC.
Notes to the Schedule of Expenditures of Federal and State Awards
Year Ended September 30, 2021

A. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of Alliance for Children, Inc. (the “Organization”) and is presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the 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). 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.

B. Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the accrual basis of accounting in accordance with accounting standards generally accepted in the United States of America. 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. No federal financial assistance has been provided to a subrecipient.

C. Non-Cash Assistance

The Organization did not receive any non-cash assistance from federal awards for the year ended September 30, 2021.

D. Loans

At September 30, 2021, the Organization had no loans or loan guarantees outstanding with federal awarding agencies.

E. Indirect Cost Rate

The Organization has not elected to use the 10% de minimis indirect cost rate and continues to use the cost allocation plan negotiated individually with its grantors, as applicable.

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INDEPENDENT AUDITORS' 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
Alliance for Children, Inc.

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 Alliance for Children, Inc. (the "Organization"), a nonprofit organization, which comprise the statement of financial position as of September 30, 2021, 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 April 5, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

J. Taylor & Associates, LLC

Fort Worth, Texas
April 5, 2022

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR THE MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

To the Board of Directors of
Alliance for Children, Inc.

Report on Compliance for the Major Federal Program

We have audited Alliance for Children, Inc.'s (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended September 30, 2021. The Organization's major federal program is identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Organization'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 the Organization'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 the Organization's compliance.

Opinion on the Major Federal Program

In our opinion, the Organization 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 September 30, 2021.

Report on Internal Control over Compliance

Management of the Organization 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 the Organization'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 the Organization'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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identity a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2021-001, that we consider to be a significant deficiency.

The Organization's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

J. Taylor & Associates, LLC

Fort Worth, Texas
April 5, 2022

ALLIANCE FOR CHILDREN, INC.
Schedule of Findings and Questioned Costs
Year Ended September 30, 2021

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified			
Internal control over financial reporting:				
Material weakness(es) identified?		Yes	X	No
Significant deficiency(ies) identified?	X	Yes		None reported
Noncompliance material to financial statements noted?		Yes	X	No

Federal and State Awards

Internal control over major programs:				
Material weakness(es) identified?		Yes	X	No
Significant deficiency(ies) identified?	X	Yes		None reported
Type of auditors' report issued on compliance for major programs:	Unmodified			
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	X	Yes		No

Identification of major program:

CFDA Numbers	Name of Federal Program
16.575	Victims of Crime Act Formula Grant Program
NA	Victims of Crime Fund

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 – Financial Statement Findings

There were no financial statement findings reported for the year ended September 30, 2021.

Section III – Federal Award Findings and Questioned Costs

Finding 2021-001

Federal Program

CFDA 16.575 – Victims of Crime Act Formula Grant Program ("VOCA"), U.S. Department of Justice, passed-through from the Texas Office of the Governor Criminal Justice Division.

State Program

Victims of Crime Fund ("VCF"), Health and Human Services Commissions, passed through from the Texas Office of the Governor Criminal Justice Division.

Criteria

Uniform Guidance requires that costs be charged to federal based on gross salaries of eligible employees.

Condition and Context

For one month during the fiscal year, the Organization's payroll provider included the employees' benefits as part of gross compensation for grant reports. These benefits were also reported separately in the payroll report. This error was isolated to one month.

Cause

Reimbursement of grant expenses were based on employees' overstated compensation.

Questioned Costs: Known and likely questioned costs were greater than $25,000 for VOCA and less than $25,000 for VCF.

Effect

The transactions referenced above resulted in approximately $25,700 charged to the federal program in error and $10,700 charged to the state program in error.

Recommendation

We recommend that management ensure proper compensation is used for reimbursement calculations by reviewing reports provided from third party payroll providers.

Views of Responsible Officials and Planned Corrective Actions

In response to the auditors' recommendation regarding reviewing reports provided from third party payroll providers. Alliance For Children understands its fiscal responsibility as required by grantors to ensure accurate data is being used for reimbursement and reporting purposes. This isolated incident occurred after the agency transitioned to a different HR/Payroll system at the beginning of FY2021. Unfortunately, from inception, Finance, HR, and Payroll identified several errors with reporting, calculations, etc. that were reported back to the payroll processor for correction. Having worked with the payroll processor to make changes and ensure reporting was correct through the first quarter of the fiscal year, the accountant had no reason to assume the report for one month within the year was incorrect. Management worked

Views of Responsible Officials and Planned Corrective Actions *(continued)*

diligently to ensure data was adequately presented, including recalculating W-2s, retirement accounts, leave accruals, and pay rates. These were all identified by agency staff and reported to the payroll processor for correction. After this continued for a year, management made the decision to change to a different servicer. The agency is in the implementation stage of transitioning to a more established HR/Payroll processor to better ensure these type errors will be mitigated.