

**CHILD ADVOCATES, INC. AND
CHILD ADVOCATES ENDOWMENT, INC.**

**COMBINED FINANCIAL STATEMENTS
AND SINGLE AUDIT REPORTS**

DECEMBER 31, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Child Advocates, Inc. and Child Advocates Endowment, Inc.
Houston, Texas

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying combined financial statements of Child Advocates, Inc. and Child Advocates Endowment, Inc. (Texas non-profit corporations), which comprise the combined statements of financial position as of December 31, 2023, and the related combined statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the combined financial statements.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Child Advocates, Inc. and Child Advocates Endowment, Inc. (collectively the "Organization") as of December 31, 2023, and the changes in its nets assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States and *Government Auditing Standards*. 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 the Organization 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.

Responsibilities of Management for the Financial Statements

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined 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, including omissions, 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, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined 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 combined 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 the Organization’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 combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization’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 Other Legal and Regulatory Requirement

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying schedule of expenditures of federal and non-federal awards for the year ended December 31, 2023, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, and the *State of Texas Single Audit Circular*, 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the combined 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 September 27, 2024, on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 the Organization's internal control over financial reporting and compliance.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The supplementary schedule of Texas CASA, Inc. Grant Awards is presented for the purpose of complying with the provisions of the grants with Texas CASA, Inc. and is not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

A handwritten signature in red ink that reads "Harper & Pearson Company, P.C." in a cursive script.

HARPER & PEARSON COMPANY, P.C.

Houston, Texas
September 27, 2024

CHILD ADVOCATES, INC. AND CHILD ADVOCATES ENDOWMENT, INC.
COMBINED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2023

ASSETS	Child Advocates, Inc.	Child Advocates Endowment, Inc.	Total
Cash and cash equivalents	\$ 1,340,254	\$ 189,783	\$ 1,530,037
Contributions and other receivables, net	494,192	-	494,192
Interest receivable	-	14,947	14,947
Certificates of deposit	381,755	-	381,755
Investment securities, at fair value	-	12,247,659	12,247,659
Prepaid expenses	1,431	-	1,431
Due from (to) affiliates	1,529,985	(1,529,985)	-
Other assets	-	35,965	35,965
Property and equipment, at cost			
Furniture and equipment	782,037	-	782,037
Leasehold improvements	<u>625,939</u>	<u>-</u>	<u>625,939</u>
Property and equipment, at cost	1,407,976	-	1,407,976
Accumulated depreciation	<u>(1,158,846)</u>	<u>-</u>	<u>(1,158,846)</u>
Property and equipment, net	<u>249,130</u>	<u>-</u>	<u>249,130</u>
Right of use assets	<u>989,686</u>	<u>-</u>	<u>989,686</u>
TOTAL ASSETS	<u>\$ 4,986,433</u>	<u>\$ 10,958,369</u>	<u>\$ 15,944,802</u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable and other liabilities	\$ 58,025	\$ 3,418	\$ 61,443
Accrued liabilities	193,772	-	193,772
Operating lease liabilities	<u>1,061,630</u>	<u>-</u>	<u>1,061,630</u>
TOTAL LIABILITIES	<u>1,313,427</u>	<u>3,418</u>	<u>1,316,845</u>
COMMITMENTS AND CONTINGENCIES			
NET ASSETS WITHOUT DONOR RESTRICTIONS			
Without donor restrictions	3,040,451	-	3,040,451
Board designated for endowment	<u>-</u>	<u>5,011,606</u>	<u>5,011,606</u>
TOTAL NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>3,040,451</u>	<u>5,011,606</u>	<u>8,052,057</u>
NET ASSETS WITH DONOR RESTRICTIONS			
Time restricted	129,600	-	129,600
Purpose restricted	502,955	-	502,955
Permanent endowment	<u>-</u>	<u>5,943,345</u>	<u>5,943,345</u>
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	<u>632,555</u>	<u>5,943,345</u>	<u>6,575,900</u>
TOTAL NET ASSETS	<u>3,673,006</u>	<u>10,954,951</u>	<u>14,627,957</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,986,433</u>	<u>\$ 10,958,369</u>	<u>\$ 15,944,802</u>

See accompanying notes.

**CHILD ADVOCATES, INC. AND CHILD ADVOCATES ENDOWMENT, INC.
COMBINED STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2023**

	<u>Child Advocates, Inc.</u>	<u>Child Advocates Endowment, Inc.</u>	<u>Total</u>
WITHOUT DONOR RESTRICTIONS			
Public Support and Revenue			
Contributions	\$ 897,440	\$ -	\$ 897,440
Federal and state government grants	2,190,785	-	2,190,785
Special events and other revenue	1,528,740	-	1,528,740
Investment returns, net	27,750	1,766,847	1,794,597
Other income	1,320	-	1,320
Contributions from (to) affiliates	<u>423,360</u>	<u>(423,360)</u>	<u>-</u>
Total Public Support and Revenue	5,069,395	1,343,487	6,412,882
Assets released from restrictions	<u>925,592</u>	<u>-</u>	<u>925,592</u>
Total	<u>5,994,987</u>	<u>1,343,487</u>	<u>7,338,474</u>
Program Expenses			
Advocacy services	3,771,858	-	3,771,858
Advocate education and training	<u>634,198</u>	<u>-</u>	<u>634,198</u>
Total program expenses	4,406,056	-	4,406,056
Supporting Expenses			
General and administrative	794,133	31,764	825,897
Fundraising	512,147	-	512,147
Cost of direct donor benefits	<u>242,232</u>	<u>-</u>	<u>242,232</u>
Total Expenses	<u>5,954,568</u>	<u>31,764</u>	<u>5,986,332</u>
Change in net assets without donor restrictions	<u>40,419</u>	<u>1,311,723</u>	<u>1,352,142</u>
WITH DONOR RESTRICTIONS			
Revenue			
Contributions	703,169	100,110	803,279
In-kind donations	133,340	-	133,340
Assets released from restrictions	<u>(925,592)</u>	<u>-</u>	<u>(925,592)</u>
Total Revenue	<u>(89,083)</u>	<u>100,110</u>	<u>11,027</u>
Change in net assets with donor restrictions	<u>(89,083)</u>	<u>100,110</u>	<u>11,027</u>
TOTAL CHANGE IN NET ASSETS	<u>(48,664)</u>	<u>1,411,833</u>	<u>1,363,169</u>
NET ASSETS, Beginning of year	<u>3,721,670</u>	<u>9,543,118</u>	<u>13,264,788</u>
NET ASSETS, End of year	<u>\$ 3,673,006</u>	<u>\$ 10,954,951</u>	<u>\$ 14,627,957</u>

See accompanying notes.

**CHILD ADVOCATES, INC. AND CHILD ADVOCATES ENDOWMENT, INC.
COMBINED STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2023**

	Advocacy Services	Advocate Education and Training	General and Administrative	Fundraising	Total
Salaries	\$ 2,335,715	\$ 444,723	\$ 267,170	\$ 322,440	\$ 3,370,048
Employee Benefits	301,471	17,831	101,489	36,205	456,996
Payroll Taxes	180,661	15,976	66,537	27,205	290,379
Retirement	<u>54,624</u>	<u>4,452</u>	<u>23,582</u>	<u>9,572</u>	<u>92,230</u>
Total Salaries and Related Benefits	2,872,471	482,982	458,778	395,422	4,209,653
Accounting and Auditing	-	-	90,228	-	90,228
Bad Debt Expense	-	-	21,884	-	21,884
Bank and Other Fees	-	-	27,322	-	27,322
Board Expenses	-	281	8,455	-	8,736
Community Outreach	-	88,744	-	-	88,744
Depreciation	82,305	9,976	20,821	9,750	122,852
Development	-	-	-	1,435	1,435
Dues and Subscriptions	821	-	6,319	7,159	14,299
Events	-	-	-	47,205	47,205
General Operations	10,726	737	23,705	-	35,168
Insurance	28,168	3,414	13,525	3,367	48,474
Legal Fees	-	-	5,726	-	5,726
Maintenance and Repair	66,144	8,018	17,992	7,968	100,122
Occupancy	303,977	36,846	117,375	36,425	494,623
Office Supplies	2,547	309	2,665	298	5,819
Postage	3,912	474	1,427	464	6,277
Program Events	219,769	-	-	-	219,769
Special Needs	30,947	-	-	-	30,947
Staff Training	-	-	355	-	355
Telecommunications	29,291	2,417	6,509	2,603	40,820
Travel	<u>120,780</u>	<u>-</u>	<u>2,811</u>	<u>51</u>	<u>123,642</u>
Total Expenses	<u>\$ 3,771,858</u>	<u>\$ 634,198</u>	<u>\$ 825,897</u>	<u>\$ 512,147</u>	<u>\$ 5,744,100</u>
Direct donor benefit costs					<u>242,232</u>
					<u>\$ 5,986,332</u>

See accompanying notes.

CHILD ADVOCATES, INC. AND CHILD ADVOCATES ENDOWMENT, INC.
COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023

	<u>Child Advocates, Inc.</u>	<u>Child Advocates Endowment, Inc.</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Change in net assets	\$ (48,664)	\$ 1,411,833	\$ 1,363,169
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Gain on sale of investments	-	(323,560)	(323,560)
Unrealized gain on investments	-	(1,147,488)	(1,147,488)
Depreciation	122,852	-	122,852
Noncash operating lease expense	19,682	-	19,682
Change in operating assets and liabilities:			
Contributions and other receivables, net	428,743	-	428,743
Interest receivable	-	5,722	5,722
Prepaid expenses	(1,431)	-	(1,431)
Due from (to) affiliates	(460,623)	460,623	-
Other assets	-	(2,096)	(2,096)
Accounts payable and other liabilities	(10,017)	(3,272)	(13,289)
Accrued liabilities	193,772	-	193,772
Total adjustments	<u>292,978</u>	<u>(1,010,071)</u>	<u>(717,093)</u>
Net cash provided by operating activities	<u>244,314</u>	<u>401,762</u>	<u>646,076</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of certificates of deposit	(381,755)	-	(381,755)
Purchase of investments	-	(19,387,944)	(19,387,944)
Proceeds from sale of marketable securities	-	18,611,422	18,611,422
Purchase of property and equipment	<u>(43,533)</u>	<u>-</u>	<u>(43,533)</u>
Net cash used by investing activities	<u>(425,288)</u>	<u>(776,522)</u>	<u>(1,201,810)</u>
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(180,974)	(374,760)	(555,734)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>1,521,228</u>	<u>564,543</u>	<u>2,085,771</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,340,254</u>	<u>\$ 189,783</u>	<u>\$ 1,530,037</u>

See accompanying notes.

CHILD ADVOCATES, INC. AND CHILD ADVOCATES ENDOWMENT, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE A ORGANIZATION AND PURPOSE

Child Advocates, Inc. ("CAI") was incorporated under the laws of the State of Texas on May 9, 1984 and is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. CAI was organized to mobilize court appointed volunteers to provide advocacy services to abused children to break the vicious cycle of child abuse in Harris County, Texas. CAI speaks up for abused children who are lost in the system and guides them into safe environments where they can thrive. The funds of CAI are used exclusively for the furtherance of its exempt purpose, including training and supporting volunteers to serve as guardian ad litem and work in tandem with CAI staff, juvenile court judges, attorneys, case workers, parents, foster parents, teachers, physicians, and therapists to ensure that the best interests of the child are met.

In 1992, CAI funded the Child Advocates Endowment, Inc. (the "Endowment"). The Endowment was incorporated under the laws of the State of Texas on May 18, 1992 and was granted tax exempt status under Section 501(c)(3) of the Internal Revenue Code in 1994. The Endowment was established to be used as a source of permanent funding for CAI.

NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying combined financial statements include the accounts of CAI and the Endowment as these entities are considered commonly controlled. All intercompany transactions and accounts have been eliminated. For purposes of this report, CAI and the Endowment are collectively referred to as "Child Advocates" or the "Organization." The financial statements of Child Advocates have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America applicable to nonprofit organizations (GAAP).

The classification of a not-for-profit organization's net assets and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the classes of net assets - with donor restrictions and without donor restrictions - be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities. These classes are defined as follows:

Without Donor Restrictions - Net assets without donor restrictions are those net assets of the Organization that are not subject to donor-imposed restrictions. A donor-imposed restriction is a donor stipulation that specifies a use for a contributed asset that is more specific in purpose or time than broad limits resulting from the following: a) the nature of the not-for-profit entity; b) the environment in which it operates; and c) the purposes specified in its articles of incorporation or bylaws or comparable documents.

With Donor Restrictions - Net assets with donor restrictions include contributions restricted by the donor for specific purposes or time periods. When the purpose is accomplished or the time restriction is met, net assets with donor restrictions are released to net assets without donor restrictions.

NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Concentrations of Credit Risk - The Organization is subject to concentrations of credit risk relating primarily to cash and cash equivalents, contributions receivable, and investment securities. The Organization's cash and cash equivalent deposits are held in major financial institutions in excess of the federally insured limit. At December 31, 2023, cash and cash equivalents includes approximately \$486,000 held by brokerage firms. The Organization has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on cash and cash equivalents.

Contributions receivable represents promises to give and are monitored by the Organization for potential losses. Two donors accounted for 24% of contributions receivable at December 31, 2023. Generally, no collateral or other security is required to support receivables. An allowance for doubtful accounts is established and accounts written off as needed based upon factors surrounding the credit risk of specific contributors.

The Endowment allocates investments primarily among marketable debt and equity securities as well as a limited number of alternative investments. The objectives of the asset allocation policy are to provide a balance among different asset classes that will enhance total returns while maintaining the primary investment objective of preserving investment principal. The Endowment has attempted to reduce its risk relating to common stocks and corporate bonds through diversification into a variety of industries.

The Endowment's investments in securities are subject to various levels of risk associated with economic, operating, and political events beyond management's control. Consequently, management's judgement as to the level of losses that currently exist or may develop in the future involves the consideration of current and anticipated conditions and their potential effects on the investments. Due to the level of risk associated with investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near term could materially impact the amounts reflected in the accompanying financial statements.

Cash and Cash Equivalents - For the purposes of the statement of cash flows, cash and cash equivalents includes demand deposits and highly liquid debt investments with maturity dates of less than three months.

Certificates of Deposit - Certificates of deposit on the statement of financial position includes deposits with maturity dates with terms greater than three months at the date of purchase. At December 31, 2023, certificates of deposit are comprised of two certificates, both of which matured in March 2024 and were renewed.

NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment Securities - Investment securities are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investment returns reported in the statement of activities consist of interest and dividend income and realized and unrealized gains and losses from those investments, net of investment expenses. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date.

Realized gains and losses on the sale of investment securities are recognized in the statement of activities based on the specific identification of the investment sold. All investment securities are held for purposes other than trading. Investment returns, net are recorded as increases in net assets without donor restrictions.

Property and Equipment - Property and equipment are recorded at cost, or, if donated, at the approximate fair value at the date of donation. Leasehold improvements are amortized over the lives of the respective leases or the service lives of the improvements, whichever is shorter. Other fixed assets are depreciated using the straight-line method over their estimated useful lives, which range from three to ten years.

Contributions - Contributions are recorded when received or upon an unconditional promise to give from the donor. All contributions are considered to be available for unrestricted use unless restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as contributions with donor restrictions.

All contributions received by the Endowment are considered with donor restrictions to be held in perpetuity unless otherwise specifically directed by the donor. The income earned on these contributions can be used for unrestricted operating purposes of the Organization and are reported as board designated net assets until appropriated for expenditure.

Unconditional promises to give that are expected to be collected within one year are recorded at their realizable value as contributions receivable. Contributions receivable that are to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included as contribution revenue.

The Organization reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted contributions. 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.

Donors provide Christmas gifts to the Organization to distribute to children. The Organization requests that donors provide gifts equivalent to \$125 per child. Gift cards received from donors to purchase additional items are reported at face value. The Organization estimated the total value of these in-kind donations at \$133,340 based on the number of children receiving gifts plus the face value of gift cards. In-kind expenses in the same amount are recorded as advocacy services expense.

CHILD ADVOCATES, INC. AND CHILD ADVOCATES ENDOWMENT, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Conditional Contributions - Conditional contributions represent promises to give whereby the donor has imposed barriers, such as certain performance requirements and/or the incurrence of allowable qualifying expenses, that the Organization must overcome in order to be entitled to the donation. Conditional promises to give are not recognized as income until such time as the Organization has incurred expenditures in compliance with specific contract or grant provisions.

At December 31, 2023, grant awards of approximately \$1,610,000, including cost-reimbursable federal and state contracts and grants, have not been recognized in the accompanying statement of activities because the conditions on which they depend have not been met.

Volunteer Services - Approximately 563 individuals served as trained court-appointed volunteer advocates. The hours spent by these volunteers do not meet the criteria to be recognized in the Organization's statements of activities. Management tracks volunteer hours and estimates the value of these services based on average employee salaries for similar positions. If the estimated value (unaudited) of these services had been recorded, contributions revenue and program expenses during 2023 would have increased as disclosed in the following table, resulting in program expenses approximating 77% of total expenses in 2023:

Volunteer Hours (unaudited)	<u>27,943</u>
Value of Volunteer Hours (unaudited)	<u>\$ 757,485</u>

Advertising Expense - Advertising is expensed as incurred and totaled \$38,769 for 2023. During 2023, advertising expenses incurred by the Organization were primarily related to volunteer recruitment and community awareness.

Functional Expenses - Program and supporting services expenses are summarized on a functional basis in the statement of activities. Certain expenses benefit multiple programs as well as support functions and are allocated to the functional categories as follows:

Salaries and benefits are allocated based on time incurred as reported by employees using average time incurred from monthly time sheets. Rent and other expenses not directly identifiable to a specific function are allocated based on headcount.

Federal Income Tax - The Organization is exempt from federal income taxes under Internal Revenue Code Section 501(c) (3). However, the Organization is subject to taxes on unrelated business income. During 2023, there was no unrelated business income.

The Organization believes that all significant tax positions utilized by the Organization will more likely than not be sustained upon examination. As of December 31, 2023, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the year 2020 forward (with limited exceptions). Tax penalties and interest, if any, would be accrued as incurred and would be classified as management and general expense in the statements of activities.

NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases - The Organization determines if an arrangement is a lease at inception. The Organization recognizes lease expense for short-term leases as payments are made. Long-term operating leases are included in right of use assets (ROU assets) and operating lease liabilities.

ROU assets represent the Organization's right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. The Organization uses the implicit rate when readily determinable. As most of the Organization's leases do not provide an implicit rate, an incremental borrowing rate is used in determining the present value of lease payments based on the information available at the commencement date. The incremental borrowing rate reflects the estimated rate of interest that would be paid to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. The Organization elected the practical expedient to utilize a risk free interest rate (the US Treasury rate) as the incremental borrowing rate. The ROU asset also includes any lease payments made and excludes lease incentives received. The Organization's lease terms may include options to extend or terminate the lease when it is reasonably certain that the option will be exercised. Lease expense is recognized on a straight-line basis over the lease term.

Subsequent Events - The Organization has evaluated subsequent events through September 27, 2024, the date the combined financial statements were available to be issued. No subsequent events occurred, which require adjustment or disclosure to the financial statements December 31, 2023.

NOTE C INVESTMENTS AND FAIR VALUE DISCLOSURES

GAAP provides a framework for measuring fair value using a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value based upon whether the inputs to those valuation techniques are observable or unobservable. This hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical financial instruments and the lowest priority to unobservable inputs. Valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. The financial instrument's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. These inputs are summarized in the three broad levels listed below:

Level 1 – Unadjusted quoted prices for identical financial instruments in active markets that the Endowment has the ability to access.

Level 2 – Other significant observable inputs (including quoted prices in active or inactive markets for similar financial instruments), or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the financial instruments.

CHILD ADVOCATES, INC. AND CHILD ADVOCATES ENDOWMENT, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE C INVESTMENTS AND FAIR VALUE DISCLOSURES (CONTINUED)

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the financial instruments. The fair value of Level 3 financial instruments is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Following is a description of the valuation techniques used for investments measured at fair value. There have been no changes in the techniques used during 2023. There were no transfers in or out of the fair value categories during 2023.

Equity securities, exchange traded funds and mutual funds are valued using quoted bid prices in active markets for identical assets.

Corporate bonds and U.S. Government obligations are valued using quotes from independent pricing vendors based on recent trading activity and other relevant information.

The investment in the Endowment Fund, L.P. is measured by the fund’s manager based on the fair value of the underlying assets. The Endowment Fund, L.P. includes investment vehicles such as private equity funds, real estate funds, venture capital funds, commodity funds and funds of funds, which have no contractual investment period and are used to further diversify the investment portfolio.

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

The fair values of investments are categorized as follows at December 31, 2023:

	Level 1	Level 2	Level 3	Total
Equity securities	\$ 897,604	\$ -	\$ -	\$ 897,604
Exchange Traded Funds	9,493,009	-	-	9,493,009
Corporate bonds	-	876,231	-	876,231
U.S. Government obligations	-	872,599	-	872,599
Mutual funds:				
U.S. Government obligations	9,290	-	-	9,290
The Endowment Fund, L.P.	-	-	98,926	98,926
Total Investments at Fair Value	\$ 10,399,903	\$ 1,748,830	\$ 98,926	\$ 12,247,659

Exchange traded funds are comprised of multiple funds invested in equity or fixed income securities and include two funds comprising 31% of the total portfolio of investments. These funds are invested primarily in S&P 500 securities.

CHILD ADVOCATES, INC. AND CHILD ADVOCATES ENDOWMENT, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE C INVESTMENTS AND FAIR VALUE DISCLOSURES (CONTINUED)

The table below sets forth a summary of changes in the fair value of the Endowment's level 3 investments for the year ended December 31, 2023:

Balance, as of December 31, 2022	\$ 81,809
Purchases	42,879
Sales	(16,537)
Unrealized loss	<u>(9,225)</u>
Balance, as of December 31, 2023	<u>\$ 98,926</u>

NOTE D CONTRIBUTIONS AND OTHER RECEIVABLES

Contributions and other receivables consist of the following at December 31, 2023:

Contributions receivable due in less than 1 year	\$ 186,170
Government grants receivable	311,647
Less allowance for doubtful accounts	<u>(3,625)</u>
	<u>\$ 494,192</u>

NOTE E LIQUIDITY AND AVAILABILITY

The Organization manages its cash flows through the use of an annual budget that is created by management and approved by its Board of Directors. The Organization generally relies on proceeds from its fund-raising events, contributions from different constituencies, distributions from the Endowment and other sources of revenue to fund its ongoing operations. As described in Note G, up to 4% of the Endowment net assets may be used to support the Organization's general operations. Distributions are drawn by the Organization when needed to provide liquidity for operations.

Financial assets available to fund subsequent year operations are as follows at December 31, 2023:

Cash	\$ 1,530,037
Current contributions, interest and other receivables	512,764
Certificates of deposit	381,755
Investment securities	<u>12,247,659</u>
	14,672,215
Less those restricted by donor for perpetual purposes	<u>(5,943,345)</u>
Total	<u>\$ 8,728,870</u>

CHILD ADVOCATES, INC. AND CHILD ADVOCATES ENDOWMENT, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE F NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions include contributions restricted by the donor for specific purposes or time periods and are compromised of the following at December 31, 2023:

Purpose Restricted:	
ChildSpree	\$ 154,277
Dual status	255,381
Holiday party	12,456
Scholarship fund	1,750
Wish list	<u>79,091</u>
 Total Purpose Restricted	 <u>502,955</u>
Time Restricted:	
Future periods	129,600
In perpetuity	<u>5,943,345</u>
 Total Time Restricted	 <u>6,072,945</u>
 Total Net Assets With Donor Restrictions	 <u>\$ 6,575,900</u>

In 2023, net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of events specified by the donors as follows:

Purpose Restricted:	
Collaborative Family Engagement (CFE)	\$ 42,500
ChildSpree	63,843
Dual status	53,208
Holiday party	20,658
Other	6,495
Special needs	5,920
Wish list	<u>135,103</u>
 Total Purpose Restricted	 <u>327,727</u>
Time Restricted:	
Future periods	<u>597,865</u>
 Total Time Restricted	 <u>597,865</u>
 Total Net Assets Released from Restriction	 <u>\$ 925,592</u>

**CHILD ADVOCATES, INC. AND CHILD ADVOCATES ENDOWMENT, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE G ENDOWMENT FUNDS

Endowment funds are intended to support the operations of CAI through earnings. The Endowment has interpreted The Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the value of the original gift absent explicit donor stipulations to the contrary. As a result, the original value of gifts donated to the permanent endowment are to be held in perpetuity.

There are no donor restrictions on the earnings. The net accumulations to the endowment are classified as board designated net assets until appropriated for expenditures.

The Board of Trustees has established a 4% spending policy; the amount to be spent in each coming year is calculated each December 31st by multiplying the spending rate by the lesser of: 1) a rolling 24-month average of value of the total portfolio, or 2) the value at December 31. The endowment portfolio is invested in accordance with an investment policy. The primary goal, as stated in the policy, is to preserve and enhance the real (inflation-adjusted) purchasing power of the portfolio assets, while providing reasonable support to Child Advocates. The investments must be appropriately diversified so as to minimize risk and volatility while maximizing expected returns.

The following table reports the composition of the endowment by net asset class and the reconciliation of the beginning and ending balance of the endowment funds:

	<u>Board Designated</u>	<u>Permanently Restricted by Donor</u>	<u>Total</u>
Endowment net assets, December 31, 2022	\$ 3,699,883	\$ 5,843,235	\$ 9,543,118
Contributions	-	100,110	100,110
Investment returns, net	1,766,847	-	1,766,847
Appropriated for expenditures	<u>(455,124)</u>	<u>-</u>	<u>(455,124)</u>
Endowment net assets, December 31, 2023	<u>\$ 5,011,606</u>	<u>\$ 5,943,345</u>	<u>\$ 10,954,951</u>

CHILD ADVOCATES, INC. AND CHILD ADVOCATES ENDOWMENT, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2023

NOTE H LEASES

The Organization leases office space and equipment under operating leases through 2026. Future payments by fiscal year are as follows:

2024		\$	475,098
2025			477,811
2026			<u>160,175</u>
Total minimum lease payments			1,113,084
Less: Imputed interest			<u>(51,454)</u>
Present value of operating lease liabilities		\$	<u>1,061,630</u>
Weighted-average remaining lease term (years)			2.3
Weighted-average discount rate			3.9%

Total rent expense amounted to \$468,040 for the year ended December 31, 2023 is comprised solely of leases with terms greater than twelve months.

Right of use asset additions are offset by a corresponding increase to operating lease liabilities and do not impact the statement of cash flows at commencement.

NOTE I EMPLOYEE BENEFIT PLAN

The Organization has a defined contribution employee benefit plan which includes substantially all employees. Contributions to the plan by the Organization are discretionary. Contributions to the plan amounted to approximately \$92,000 during 2023.

NOTE J CONTINGENCIES

Amounts received from government and other grants require the fulfillment of certain conditions as set forth in the grant contracts. The Organization intends to fulfill the conditions of all grants, recognizing that failure to fulfill the conditions could result in the return of the funds to grantors. Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies. Any disallowed claims, including amounts already collected, could become a liability of the Organization. In management's opinion, disallowed claims, if any, would not have a material adverse effect on the Organization's financial position or results of operations.

CHILD ADVOCATES, INC.
SUPPLEMENTARY SCHEDULE OF TEXAS CASA, INC. GRANT AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2023

<u>Grantor/Program Title</u>	<u>Grant Number</u>	<u>Program or Award Amount</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Accrued or (Deferred) Revenue</u>
Texas CASA, Inc./CVC/OAG 22-23	CVC-2023-47	\$ 778,939	\$ 500,060	\$ 500,060	\$ -
Texas CASA, Inc./CVC/OAG 23-24	HHSC-2024-47	742,372	108,785	214,125	105,340
Texas CASA, Inc./VOCA 22-23	VOCA-2023-47	1,461,366	1,012,786	1,012,786	-
Texas CASA, Inc./VOCA 23-24	VOCA-2024-47	<u>1,281,281</u>	<u>94,161</u>	<u>279,836</u>	<u>185,675</u>
		<u>\$ 4,263,958</u>	<u>\$ 1,715,792</u>	<u>\$ 2,006,807</u>	<u>\$ 291,015</u>

SINGLE AUDIT REPORTS

CHILD ADVOCATES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AND NON-FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2023

Federal Grantor/Pass-through Grantor/ Program or Cluster Title and Non-Federal Grantor	Federal Assistance Listing Number	Identifying Number	Federal and Non-Federal Expenditures
Federal Awards:			
U.S. Department of Justice, Office of Justice Programs, Office for Victims of Crime			
Passed through Texas Office of the Governor, Criminal Justice Division			
Passed through Texas CASA, Inc.			
Victims of Crime Act (SB30)	16.575	2024-VT-STATE FUNDS	\$ 279,836
U.S. Department of Justice, Office of Justice Programs, Bureau of Justice Assistance			
Passed through Texas Office of the Governor, Criminal Justice Division			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2020-DJ-BX-0034	<u>41,252</u>
Total U.S. Department of Justice			<u>321,088</u>
U.S. Department of Treasury			
Passed through Texas Office of the Governor, Criminal Justice Division			
Passed through Texas CASA, Inc.			
Coronavirus State and Local Fiscal Recovery Funds (Victims of Crime - SB 8)	21.027	2021-CS-21027	<u>1,012,786</u>
U.S. Department of Housing and Urban Development, Housing and Community Development Act,			
Passed through Harris County Community Services Department			
Community Development Block Grant	14.218	B-22-UC-48-0002; 2022-007a	56,911
Community Development Block Grant	14.218	B-23-UC-48-0002; 2023-006A	<u>21,010</u>
Total U.S. Department of Housing and Urban Development			<u>77,921</u>
Total expenditures of federal awards			<u>\$ 1,411,795</u>

See accompanying note to schedule of expenditures of federal and non-federal awards.

CHILD ADVOCATES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AND NON-FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2023

Federal Grantor/Pass-through Grantor/ Program or Cluster Title and Non-Federal Grantor	Federal Assistance Listing Number	Identifying Number	Federal and Non-Federal Expenditures
Non-Federal Awards:			
State of Texas, Office of the Attorney General, Crime Victims' Compensation Program			
Passed through Texas CASA, Inc.			
Crime Victims' Compensation Program	N/A	HHSC-2024-47	\$ 214,125
Crime Victims' Compensation Program	N/A	CVC-2023-47	<u>500,060</u>
Total State of Texas, Office of the Attorney General, Crime Victims' Compensation Program			<u>714,185</u>
State of Texas, Office of the Attorney General, Other Victim Assistance Grant			
Other Victim Assistance Grant	N/A	C-00760	16,500
Other Victim Assistance Grant	N/A	C-00241	<u>30,000</u>
Total State of Texas, Office of the Attorney General, Other Victim Assistance Grant			<u>46,500</u>
Total expenditures of non-federal awards			<u>\$ 760,685</u>

See accompanying note to schedule of expenditures of federal and non-federal awards.

NOTE A BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal and non-federal awards includes the federal and non-federal grant activity of Child Advocates, Inc. and is presented on the accrual basis of accounting. 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 Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, and the State of Texas Single Audit Circular*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Child Advocates, Inc. has elected not to use the 10% de minimis indirect cost rate allowed under the *Uniform Guidance*.

**CHILD ADVOCATES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2023**

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of Child Advocates, Inc.
2. No significant deficiencies or material weakness in internal controls over financial reporting were reported.
3. No instances of noncompliance material to the financial statements of Child Advocates, Inc. were disclosed during the audit.
4. No material weaknesses or significant deficiencies over the internal controls over major programs were reported.
5. The auditor's report issued on compliance for each major federal award program for Child Advocates, Inc. expresses an unmodified opinion.
6. The auditor disclosed no findings relating to major programs that are required to be reported in accordance with 2CFR Section 200.516(a).

7. The programs tested as major programs include:	<u>Federal Assistance Listing Number</u>
Federal Awards:	
U.S. Department of Justice, Office of Justice Programs, Office for Victims of Crime Passed through Texas Office of the Governor, Criminal Justice Division Passed through Texas CASA, Inc.	
Victims of Crime Act	16.575
U.S. Department of Treasury Passed through Texas Office of the Governor, Criminal Justice Division Passed through Texas CASA, Inc.	
Coronavirus State and Local Fiscal Recovery Funds (Victims of Crime - SB 8)	21.027

8. The threshold used for distinguishing between Type A and B programs was \$750,000 for both federal and non-federal awards.
9. Child Advocates, Inc. qualifies as a low-risk auditee.

FINDINGS - FINANCIAL STATEMENT AUDIT

None

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None

See accompanying note to schedule of expenditures of federal and non-federal awards.

**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
Child Advocates, Inc.
Houston, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the *State of Texas Single Audit Circular*, the financial statements of Child Advocates, Inc. (CAI, a nonprofit organization), which comprise the statement of financial position as of December 31, 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 September 27, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered CAI's internal control over financial reporting (internal control) as a basis for designing 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 CAI's internal control. Accordingly, we do not express an opinion on the effectiveness of CAI'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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in red ink that reads "Harper & Pearson Company, P.C." in a cursive script.

HARPER & PEARSON COMPANY, P.C.

Houston, Texas
September 27, 2024

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

To the Board of Directors
Child Advocates, Inc.
Houston, Texas

Report on Compliance for Each Major Program***Opinion on Each Major Federal Program***

We have audited Child Advocates, Inc.'s (CAI) 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 on each of CAI's major federal programs for the year ended December 31, 2023. CAI's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, CAI complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2023.

Basis for Opinion on Each 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 CAI 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 each major federal program. Our audit does not provide a legal determination of CAI'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 CAI's federal programs.

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 CAI'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 CAI's compliance with the requirements of each 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 CAI'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 CAI'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 CAI'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 over compliance 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.

A handwritten signature in dark red ink that reads "Harper & Pearson Company, P.C." in a cursive script.

HARPER & PEARSON COMPANY, P.C.

Houston, Texas
September 27, 2024