

The Warren Center, Inc.

**Financial Statements
with Supplementary Information and Compliance
Reports August 31, 2023 (with summarized comparative
totals for 2022)**



The Warren Center, Inc.

Contents

Independent Auditors' Report	1
Financial Statements:	
Statement of Financial Position	5
Statement of Activities	6
Statement of Functional Expenses	7
Statement of Cash Flows	8
Notes to Financial Statements	9
Supplementary Information and Compliance Reports:	
Schedule of Expenditures of Federal and State Awards	19
Notes to Schedule of Expenditures of Federal and State Awards	20
Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	21
Report of Independent Auditors on Compliance for Each Major Federal and State Program and on Internal Control over Compliance Required by the Uniform Guidance and the <i>Texas Grant Management Standards</i>	23
Schedule of Findings and Questioned Costs	27
Corrective Action Plan	30



Independent Auditors' Report

To the Board of Directors of
The Warren Center, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of The Warren Center (Organization) (a nonprofit organization) which comprise the statement of financial position as of August 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of August 31, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

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. 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 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 opinions.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, the Organization changed its method of accounting for its leases effective September 1, 2022 as required by the provisions of Financial Accounting Standards Board Accounting Standards Update 2016-02, *Leases*. Our opinion is not modified with respect to that matter.

Report on Summarized Comparative Information

We have previously audited the Organization's 2022 financial statements, and we have expressed an unmodified opinion on those audited financial statements in our report dated March 22, 2023. In our opinion comparative information presented herein as of and for the year ended August 31, 2022 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal and state awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the *Texas Grant Management Standards*, is presented for the purpose of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the supplemental 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 July 2, 2024 on our consideration of the Organization'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 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.

A handwritten signature in cursive script that reads "Sutton Frost Lang".

A Limited Liability Partnership

Arlington, Texas
July 2, 2024

The Warren Center, Inc.
Statement of Financial Position
August 31, 2023
(with summarized comparative totals for 2022)

	2023	2022
Assets		
Current assets:		
Cash	\$ 543,352	\$ 964,533
Certificate of deposit	50,177	50,177
Accounts receivable, net	530,679	414,239
Unconditional promises to give	329,164	56,779
Prepaid expenses	75,326	78,727
Total current assets	1,528,698	1,564,455
Non-current assets:		
Right-of-use asset, operating lease, net	1,451,223	-
Unconditional promises to give, net	-	108,958
Property and equipment, net	1,101,913	1,155,926
Total non-current assets	2,553,136	1,264,884
Total assets	<u>\$ 4,081,834</u>	<u>\$ 2,829,339</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 122,799	\$ 94,246
Accrued expenses	521,972	505,013
Right-of-use liability - operating lease, current	132,006	-
Total current liabilities	776,777	599,259
Right-of-use liability - operating lease, net	1,508,049	-
Total liabilities	2,284,826	599,259
Net assets:		
Without donor restrictions	1,413,049	2,010,335
With donor restrictions	383,959	219,745
Total net assets	1,797,008	2,230,080
Total liabilities and net assets	<u>\$ 4,081,834</u>	<u>\$ 2,829,339</u>

See notes to financial statements.

The Warren Center, Inc.
Statement of Activities
Year Ended August 31, 2023
(with summarized comparative totals for 2022)

	2023			2022
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenue and support:				
Program service fees, net	\$ 4,876,709	\$ -	\$ 4,876,709	\$ 4,110,982
Government grants	3,278,722	-	3,278,722	2,794,930
Contributions	926,891	347,000	1,273,891	679,790
Contributed nonfinancial assets	3,451	-	3,451	5,090
Special events (net of direct costs of \$125,053)	343,087	-	343,087	279,829
Other revenue	10,012	-	10,012	3,992
Net assets released from restrictions	182,786	(182,786)	-	-
Total revenue and support	9,621,658	164,214	9,785,872	7,874,613
Expenses:				
Program services:				
Early Childhood Intervention	7,428,388	-	7,428,388	5,915,716
Family Outreach Support	109,230	-	109,230	77,768
Clinic Based Services	1,791,786	-	1,791,786	1,328,363
Total program services	9,329,404	-	9,329,404	7,321,847
Supporting services:				
Management and general	477,212	-	477,212	389,802
Fundraising	412,328	-	412,328	398,719
Total supporting services	889,540	-	889,540	788,521
Total expenses	10,218,944	-	10,218,944	8,110,368
Increase (decrease) in net assets	(597,286)	164,214	(433,072)	(235,755)
Net assets at beginning of year	2,010,335	219,745	2,230,080	2,465,835
Net assets at end of year	\$ 1,413,049	\$ 383,959	\$ 1,797,008	\$ 2,230,080

See notes to financial statements.

The Warren Center, Inc.
Statement of Functional Expenses
Year Ended August 31, 2023
(with summarized comparative totals for 2022)

	2023							2022	
	Program Services				Supporting Services				
	Early Childhood Intervention	Family Outreach Support	Clinic Based Services	Total	Management and General	Fundraising	Total	Total	Total
Salaries and other payroll costs	\$ 5,941,260	\$ 87,100	\$ 1,546,262	\$ 7,574,622	\$ 136,120	\$ 311,128	\$ 447,248	\$ 8,021,870	\$ 6,493,592
Advertising and promotions	9,031	937	1,836	11,804	108,618	1,417	110,035	121,839	125,090
Occupancy	266,722	2,918	52,426	322,066	40,108	7,370	47,478	369,544	205,109
Contracted services	170,567	3	11,240	181,810	15	1,226	1,241	183,051	181,275
Insurance	22,494	178	4,737	27,409	356	641	997	28,406	21,270
Supplies and equipment	84,868	7,424	28,603	120,895	25,296	5,359	30,655	151,550	101,373
Travel	166,427	283	2,752	169,462	2,639	814	3,453	172,915	137,235
Professional fees	273,036	4,876	59,575	337,487	59,801	32,001	91,802	429,289	309,006
Special events	-	-	-	-	-	145,569	145,569	145,569	114,294
Office	393,824	3,682	61,425	458,931	25,992	16,100	42,092	501,023	312,419
Telephone	67,390	820	13,176	81,386	5,236	1,381	6,617	88,003	67,777
In-kind goods and services	47	2	25	74	1,532	1,845	3,377	3,451	5,090
Training and development	16,020	924	2,938	19,882	17,695	9,694	27,389	47,271	35,178
Depreciation	-	-	3,234	3,234	50,779	-	50,779	54,013	54,292
Other	16,702	83	3,557	20,342	3,025	2,836	5,861	26,203	33,047
Total expenses	7,428,388	109,230	1,791,786	9,329,404	477,212	537,381	1,014,593	10,343,997	8,196,047
Less expenses included with revenues on the statement of activities:									
Direct costs of special events	-	-	-	-	-	(125,053)	(125,053)	(125,053)	(85,679)
Total expenses included in the expense section on the statement of activities	\$ 7,428,388	\$ 109,230	\$ 1,791,786	\$ 9,329,404	\$ 477,212	\$ 412,328	\$ 889,540	\$ 10,218,944	\$ 8,110,368

See notes to financial statements.

The Warren Center, Inc.
Statement of Cash Flows
Year Ended August 31, 2023
(with summarized comparative totals for 2022)

	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ (433,072)	\$ (235,755)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	54,013	54,292
Allowance for doubtful accounts	703,337	339,871
Change in discount on unconditional promises to give	(1,042)	(11,065)
Donated stock	(19,360)	-
Realized and unrealized gains on investments	(63)	-
Amortization of right-of-use asset, operating lease	128,313	-
Changes in assets and liabilities:		
Accounts receivable	(819,777)	(285,395)
Unconditional promises to give	(162,385)	230,756
Prepaid expenses	3,401	(21,620)
Accounts payable	28,553	(5,766)
Accrued expenses	16,959	51,326
Right-of-use liability - operating lease	60,519	-
Net cash provided (used) by operating activities	(440,604)	116,644
Cash flows from investing activities:		
Proceeds from the sale of donated stock	19,423	-
Purchases of property and equipment	-	(20,407)
Net cash provided (used) by investing activities	19,423	(20,407)
Net increase (decrease) in cash	(421,181)	96,237
Cash at beginning of year	964,533	868,296
Cash at end of year	\$ 543,352	\$ 964,533
Noncash investing activity:		
Donated stock	\$ 19,360	\$ -
Supplemental disclosure of cash flow information:		
Right-of-use asset obtained in exchange for new operating lease liability	\$ 1,579,536	\$ -

See notes to financial statements.

The Warren Center, Inc.

Notes to Financial Statements

1. Organization

The Warren Center, Inc. (Organization) was formed in 1968 as a Texas not-for-profit organization. The Organization was formed to assure that children with developmental differences or disabilities, and their families, receive the resources and support they need to reach their full potential. The Organization offers three types of services: early childhood intervention for newborns to three-year olds, clinic based services for children three to five years of age, and family outreach support. The Warren Center operates out of three locations: Richardson, Carrollton, and Garland.

The Organization is primarily supported by program service fees, government grants, and contributions from individuals and other organizations.

2. Summary of Significant Accounting Policies

Basis of Accounting

The Organization prepares the financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Summarized Comparative Totals

The accompanying financial statements include certain prior year summarized comparative information that does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's audited financial statements for the year ended August 31, 2022, from which the summarized information was derived.

Basis of Accounting and Financial Statement Presentation

The accompanying financial statements are presented on the accrual basis of accounting in accordance GAAP.

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Net assets without donor restrictions - Net assets not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the board of directors.

Net assets with donor restrictions - Net assets subject to donor stipulations that will be met by actions of the Organization and/or the passage of time.

The Warren Center, Inc.

Notes to Financial Statements

Some net assets with donor restrictions include a stipulation that assets provided be maintained permanently (perpetual in nature) while permitting the Organization to expend the income generated by the assets in accordance with the provisions of additional donor-imposed stipulations or a board of directors approved spending policy. As of August 31, 2023, no such net asset restrictions existed.

Revenues are reported as increases in net assets without donor restrictions, unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses 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 donor restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Contributions with donor-imposed restrictions that are met in the same year as the contributions were received are reported as net assets without donor restrictions.

Financial Instruments and Credit Risk Concentrations

Financial instruments that potentially expose the Organization to concentrations of credit and market risk consist primarily of cash, a certificate of deposit, accounts receivable and unconditional promises to give.

The Organization places cash and the certificate of deposit, which at times may exceed the federally insured limits, with high quality financial institutions to minimize risk. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Organization had uninsured bank balances totaling \$360,779 at August 31, 2023. The Organization has not experienced any losses on such assets.

Accounts receivable are unsecured and are due from government agencies and third-party payers. Unconditional promises to give are unsecured and are due from various donors. The Organization continually evaluates the collectability of accounts receivable and unconditional promises to give and maintains allowances for potential losses, if considered necessary. No allowance for unconditional promises to give was deemed necessary as of August 31, 2023.

A significant portion of revenue is received from Medicaid and the Texas Department of Health and Human Services Commission (HHSC). For the year ended August 31, 2023, revenue from Medicaid and HHSC comprised 39% and 34%, respectively, of total revenue. Continuation of such funding in future periods is subject to various factors such as economic conditions, compliance with laws and regulations and changes in legislation regarding health care and Medicaid.

Of the total unconditional promises to give at August 31, 2023, 76% was due from two donors.

Certificate of Deposit

The Organization has a certificate of deposit with initial maturity of no more than one year. The certificate of deposit is reported at cost which approximates estimated fair value.

The Warren Center, Inc.

Notes to Financial Statements

Accounts Receivable

The Organization maintains receivables due from government agencies and third-party payers for services performed. The Organization carries its accounts receivable due from third-party payers at standard charges, less an allowance for doubtful accounts and contractual adjustments. The allowance is determined by management based on the Organization's historical net collection percentages, specific patient circumstances and general economic conditions. For government grants and contracts, the excess of reimbursable expenditures over cash receipts is included in accounts receivable.

Unconditional Promises to Give

Unconditional promises to give which are expected to be collected within one year are recorded as support at net realizable value when the unconditional promise to give is made. Unconditional promises to give that are expected to be collected in future years are recorded as support at an amount that approximates the present value of their estimated future cash flows. Risk-free rates are used to discount long-term unconditional promises to give. At August 31, 2023, unconditional promises to give in their entirety are expected to be collected within the next year.

Property and Equipment

Property and equipment purchased by the Organization are recorded at cost or if acquired by gift, at fair market value at the date of the gift. The Organization follows the practice of capitalizing all expenditures for property and equipment in excess of \$5,000; the fair value of donated fixed assets is similarly capitalized. Depreciation is calculated using the straight-line method based upon the estimated useful lives of 3 to 40 years.

Impairment of Long Lived Assets

The Organization's long-lived assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable based on expected undiscounted cash flows attributable to that asset. This review requires significant judgments both in assessing events and circumstances as well estimating future cash flows. Should events indicate that any of the assets are impaired, the amount of such impairment will be measured as the difference between the carrying value and the fair value of the impaired asset and the impairment will be recorded in earnings during the period of such impairment. Management believes no impairment has occurred with respect to the long-lived assets as of August 31, 2023.

The Warren Center, Inc.

Notes to Financial Statements

Revenue Recognition

Program service fees are reported at net realizable amounts from patients, third-party payers, and others for services rendered. Accounts receivable and revenues are recorded when patient services are performed. Amounts received from third-party payers are different from established billing rates of the Organization, and these differences are accounted for as contractual allowances.

Revenue from government grants and contracts consist of cost reimbursable federal and state contracts and grants, which are generally conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Revenue is recognized when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances.

The Organization recognizes contributions when cash, securities or other assets; or an unconditional promise to give is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met. At August 31, 2023, no such conditional promises to give existed.

Donated goods and marketable securities are reflected as contributions at their estimated fair values at date of receipt. Contributions of services are recorded at estimated fair value if the services received create or enhance nonfinancial assets or require specialized skills and would typically need to be purchased if not provided by donation. Volunteers contribute significant amounts of time to the Organization; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by GAAP.

Allocation of Functional Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statements of activities and functional expenses. Costs are allocated between program services and support services based on space used, time and effort, or direct relation to the program and support service benefited.

Federal Income Tax

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and has not been classified as a private foundation as defined in the IRC. Income generated from activities unrelated to the Organization's exempt purposes is subject to tax under IRC Section 511. The Organization had no unrelated business income for the year ended August 31, 2023. Accordingly, no provision has been made for federal income tax in the accompanying financial statements.

The Warren Center, Inc.

Notes to Financial Statements

GAAP requires the evaluation of tax positions taken in the course of preparing the Organization's tax returns and recognition of a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Organization, and has concluded that as of August 31, 2023, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

Estimates and Assumptions

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

Advertising and Promotion Costs

Advertising and promotion costs are expensed as incurred and totaled \$121,839 for the year ended August 31, 2023.

Accounting Pronouncements Adopted

The Organization adopted ASU No. 2016-02, Leases (Topic 842). The guidance in the ASU supersedes the current leasing guidance. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases are classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The ASU also required expanded disclosures related to the amount, timing and uncertainty of cash flows arising from leases. The Organization adopted the provisions from ASU 2016-02 and recorded the impact of adoption as of September 1, 2022, using the modified retrospective method resulting in the recording of ROU asset and operating lease liability totaling \$1,579,536 and \$1,690,273, respectively.

The Warren Center, Inc.
Notes to Financial Statements

3. Accounts Receivable

Accounts receivable consist of the following at August 31, 2023:

Federal and state grants	\$	1,203
Commercial insurance		1,311,080
Medicaid/CHIP		1,475,327
Clinic based services		83,909
Family cost share		79,051
Tricare		32,106
Selfpay		5,382
		<u>2,988,058</u>
Less: allowance		<u>(2,457,379)</u>
	\$	<u>530,679</u>

4. Property and Equipment

Property and equipment consist of the following at August 31, 2023:

Building and improvements	\$	1,662,513
Land		133,856
Furniture and equipment		352,192
		<u>(1,046,648)</u>
Less: accumulated depreciation		<u>(1,046,648)</u>
	\$	<u>1,101,913</u>

Depreciation expense totaled \$54,013 for the year ended August 31, 2023.

5. Accrued Expenses

Accrued expenses consist of the following at August 31, 2023:

Accrued wages	\$	350,078
Accrued paid time off		157,748
Other		14,146
	\$	<u>521,972</u>

The Warren Center, Inc.
Notes to Financial Statements

6. Line of Credit

The Organization has a \$300,000 line of credit with a bank with interest at the bank's prime rate plus .75% (8.5% at August 31, 2023) maturing April 2024 and collateralized by accounts receivable and other assets. No amounts were borrowed against the line at August 31, 2023. Upon expiring in 2024, the Organization renewed the line of credit for an additional year with the option to borrow up to \$600,000.

7. Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes at August 31, 2023:

Early childhood intervention	\$	98,792
Clinic services		29,458
Family education and support		18,750
Time restricted pledges		236,959
	\$	<u>383,959</u>

Net assets released from restrictions during the year ended August 31, 2023 were as follows:

Early childhood intervention	\$	79,167
Family education and support		12,500
Time restricted pledges		91,119
	\$	<u>182,786</u>

8. Contributed Nonfinancial Assets

The Organization received the following contributions of nonfinancial assets during the year ended August 31, 2023:

	Program	Management and General	Fundraising	Total
Goods	\$ 74	\$ 60	\$ 1,845	\$ 1,979
Services	-	1,472	-	1,472
	<u>\$ 74</u>	<u>\$ 1,532</u>	<u>\$ 1,845</u>	<u>\$ 3,451</u>

Goods

Goods are valued based on the actual sale price of the items.

The Warren Center, Inc.
Notes to Financial Statements

Services

Contributed services consist of printing services donated to the Organization and are reported at the fair market value of the retail price of the printing services.

No donations of non-financial assets were received with donor restrictions during the year ended August 31, 2023.

9. Retirement Plan

The Organization sponsors a 401(k) plan that covers all full-time employees with more than one year of service. Employees may contribute a portion of their salary to the plan. Employees who have attained the age of 50 are eligible to make additional catch-up contributions. Employer contributions to the plan are at the discretion of the board of directors. For the year ended August 31, 2023, no employer contributions were made to the plan.

10. Leases

In evaluating its contracts, the Organization separately identifies lease and nonlease components, such as common area and other maintenance costs, in calculating the ROU asset and lease liability for its office spaces. The Organization has elected the practical expedient to not separate lease and nonlease components and classifies the contract as a lease if consideration in the contract allocated to the lease component is greater than the consideration allocated to the nonlease component.

Leases result in the recognition of ROU assets and lease liabilities on the statement of financial position. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The Organization determines lease classification as operating or finance at the lease commencement date.

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. The Organization uses the implicit rate when readily determinable. As the lease do not provide an implicit rate, the Organization uses the risk-free rate based on the information available at the commencement date to determine the present value of lease payments. Risk-free rates used to determine the present value of lease payments was derived by reference to the interest paid on short-term government debt.

The lease term may include options to extend or to terminate the lease that the Organization is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term. The Organization has elected not to record leases with an initial term of 12 months or less on the statement of financial position. Lease expense on such leases is recognized on a straight-line basis over the lease term.

The Warren Center, Inc.

Notes to Financial Statements

Nature of Lease

The Organization has a non-cancelable operating lease agreement that expires in February 2033. Future minimum lease payments and reconciliations to the statement of the financial position as of August 31, 2023 are as follows for the years ended August 31:

2024	\$ 183,830
2025	188,595
2026	193,359
2027	198,124
2028	202,888
Thereafter	<u>952,503</u>
Total future undiscounted lease payments	1,919,299
Less present value discount	<u>(279,244)</u>
Lease liability	<u><u>\$ 1,640,055</u></u>

The following represents lease cost and required information for the year ended August 31, 2023:

Total lease cost	<u><u>\$ 183,708</u></u>
Other information:	
Cash paid for amounts included in the measurement of lease liability:	
Operating cash flows from lease	<u><u>\$ 60,519</u></u>
Right-of-use asset obtained in exchange for new lease liability	<u><u>\$ 1,579,536</u></u>
Weighted-average remaining lease term	<u><u>9.42 years</u></u>
Weight-average discount rate	<u><u>3.28%</u></u>

11. Contract Compliance

The Organization is responsible for compliance with provisions of contracts and grant agreements. Noncompliance could result in the disallowance of expenditures and a request for reimbursement. In the opinion of the Organization's management, such disallowance, if any, would not be significant to the Organization's financial statements.

12. Related Party Transactions

The Organization received contributions totaling \$207,120 during the year ended August 31, 2023 from members of the board of directors. At August 31, 2023, amounts due from board members accounted for \$36,959 of unconditional promises to give.

The Warren Center, Inc.
Notes to Financial Statements

13. Provider Relief Funding

The Organization received \$223,945 from the U.S. Department of Health and Human Services (HHS) through the Provider Relief Fund (PRF) program (Federal Financial Assistance Listing #93.498) during the year ended August 31, 2021. The Organization met the PRF program requirements during the year ended August 31, 2022 and, therefore, recognized revenue totaling \$223,945 in the accompanying statement of activities. In accordance with the compliance supplement addendum, the PRF expenditures recognized on the schedule of expenditures of federal and state awards are based on the reporting to HHS for the fiscal year ending August 31, 2023, as required under the PRF program. During the year ended August 31, 2023, \$223,945 of PRF expenditures are recognized on the schedule of expenditures of federal and state awards.

14. Liquidity and Availability of Resources

Financial assets available for general expenditures within one year from August 31, 2023 are as follows:

Cash	\$ 543,352
Certificate of deposit	50,177
Accounts receivable, net	530,679
Unconditional promises to give, net	<u>329,164</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,453,372</u>

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To achieve this, the Organization forecasts its future cash flows and monitors its liquidity monthly. Also, in the subsequent year, the Organization has available a committed line of credit in the amount of \$600,000, which it could draw upon in the event of an unanticipated liquidity need. Donor restrictions for major, ongoing programs are considered available for general expenditure. During the year ended August 31, 2023, the level of liquidity was managed within the Organization's expectations.

15. Subsequent Events

The Organization has evaluated subsequent events through July 2, 2024, the date the financial statements were available to be issued and concluded that no additional disclosures are required.

The Warren Center, Inc.
Schedule of Expenditures of Federal and State Awards
Year Ended August 31, 2023

Federal or State Grantor/Pass-Through Grantor/Program Title	Assistance Listing Number	Pass-through Grantor Number	Total Expenditures
Federal awards:			
U.S. Department of Education:			
Texas Health and Human Services Commission			
Special Education - Grants for Infants and Families	84.181	HHS000640200014	\$ 1,389,292
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	84.325	HHS000640200014	<u>8,937</u>
			1,398,229
Special Education Cluster			
Special Education - Grants to States	84.027	HHS000640200014	<u>218,880</u>
Total expenditures of special education cluster			218,880
U.S. Department of Health and Human Services:			
Texas Health and Human Services Commission			
Every Student Succeeds Act/Preschool Development Grants	93.434	HHS000640200014	167,362
Temporary Assistance for Needy Families (TANF)	93.558	HHS000640200014	214,101
COVID-19 Provider Relief Fund (PRF)	93.498	-	<u>223,945</u>
Total expenditures of federal awards			2,222,517
State awards:			
Texas Health and Human Services Commission			
Early Childhood Intervention Services	N/A	HHS000640200014	<u>1,280,150</u>
Total expenditures of state awards			<u>1,280,150</u>
Total expenditures of federal and state awards			<u><u>\$ 3,502,667</u></u>

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

The Warren Center, Inc.
Notes to Schedule of Expenditures of Federal and State Awards
Year Ended August 31, 2023

1. Basis of Presentation

The accompanying schedule of expenditures of federal and state awards (Schedule) includes the federal and state grant activity of The Warren Center (Organization) under programs of the federal and state governments for the year ended August 31, 2023. 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) and the *Texas Grant Management Standards* (TxGMS). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance or the TxGMS, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Organization has not elected to use the 10 percent de minimis indirect cost rate, and continues to use the cost allocation plan negotiated individually with its grantors, as applicable.

Report of Independent Auditors 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
The Warren Center, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Warren Center, Inc. (Organization) (a nonprofit organization), which comprise the statement of financial position as of August 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 July 2, 2024.

Report on 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) 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 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 Organization'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.

Report on 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.



A Limited Liability Partnership

Arlington, Texas
July 2, 2024

**Report of Independent Auditors on Compliance for Each Major Federal and State Program
and on Internal Control Over Compliance Required by the Uniform Guidance and the *Texas
Grant Management Standards***

To the Board of Directors of
The Warren Center, Inc.

Report on Compliance for each Major Federal and State Program

Opinion on Each Major Federal and State Program

We have audited The Warren Center, Inc.'s (Organization) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* and the *Texas Grant Management Standards* (TxGMS) that could have a direct and material effect on each of the Organization's major federal and state programs for the year ended August 31, 2023. The Organization's major federal and state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

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 each of its major federal and state programs for the year ended August 31, 2023.

Basis for Opinion on Each Major Federal and State Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); 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) and audit requirements of the TxGMS. Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization 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 and state program. Our audit does not provide a legal determination of the Organization'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 the Organization's federal and state programs.

Auditors' 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 the Organization'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 GAAS, *Government Auditing Standards*, Uniform Guidance and the TxGMS 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 the Organization's compliance with the requirements of each major federal and state program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards* and the Uniform Guidance and the TxGMS, 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 the Organization compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization'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 and the TxGMS, but not for the purpose of expressing an opinion on the effectiveness of the Organization'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.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2023-001, 2023-002 and 2023-003. Our opinion on each major federal program is not modified with respect to these matters.

Government Auditing Standards require the auditor to perform limited procedures on the Organization's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses or significant deficiencies.

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 or state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023-001 to be a material weakness.

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 or state program that are less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2023-002 and 2023-003 to be significant deficiencies.

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

Government Auditing Standards require the auditor to perform limited procedures on the Organization's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other 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 and the TxGMS. Accordingly, this report is not suitable for any other purpose.



A Limited Liability Partnership

Arlington, Texas
July 2, 2024

The Warren Center, Inc.
Schedule of Findings and Questioned Costs
Year Ended August 31, 2023

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness identified?	No
• Significant deficiency identified?	None reported
Noncompliance material to financial statements noted?	No

Federal and State Awards

Internal control over major programs:	
• Material weakness identified?	Yes
• Significant deficiency identified?	Yes
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance or TxGMS?	Yes

Identification of Major Federal and State Programs:

Federal:

Special Education - Grants for Infants and Families	ALN 84.181
Provider Relief Fund (PRF)	ALN 93.498

State:

Early Childhood Intervention Services	N/A
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Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	Yes

The Warren Center, Inc.
Schedule of Findings and Questioned Costs
Year Ended August 31, 2023

Section II - Financial Statement Findings

None

Section III - Federal and State Award Findings and Questioned Costs

Finding 2023-001: Allowable costs – material weakness in internal controls over compliance and compliance finding.

Special Education - Grants for Infants and Families ALN 84.181
Early Childhood Intervention Services

Criteria: The Organization's internal control procedures over compliance specify that all employees maintain timesheets with hours that agree to the payroll register and support the amounts allocated to grant activities.

Condition: During allowable cost testing for federal and state grants, for 2 of the 25 payroll transactions tested, the amount charged to the grant did not agree to the employee's timesheet

Cause: The Organization had turnover in the accounting department that resulted in oversight.

Effect: The cumulative effect of the exceptions noted during tested resulted in the grants being overcharged by the Organization.

Questioned Costs: None

Recommendation: Management should ensure amounts charged to the grants agree to timesheets and payroll registers before the request for reimbursement is submitted.

Management's Response: See corrective action plan

Finding 2023-002: Allowable costs – significant deficiency in internal controls over compliance and compliance finding.

Special Education - Grants for Infants and Families ALN 84.181
Early Childhood Intervention Services

Criteria: The Organization's internal control procedures over compliance specify that all invoices and allocations are approved and agree to the amount allocated to grant activities.

Condition: During allowable cost testing for federal and state grants, for 1 of the 25 invoices tested, the base amount used for allocation and charged to the grant did not agree to the invoice.

The Warren Center, Inc.
Schedule of Findings and Questioned Costs
Year Ended August 31, 2023

Cause: There was human error when the amount was entered into the accounting software and, ultimately, an oversight due to turnover in personnel.

Effect: The Organization's grant expenses were not fully documented in accordance with the internal control over compliance procedures.

Questioned Costs: None

Recommendation: Management should ensure amounts charged to the grants agree to invoices before the request for reimbursement is submitted.

Management's Response: See corrective action plan

Finding 2023-003: Allowable costs – significant deficiency in internal controls over compliance and compliance finding.

Provider Relief Fund (PRF) ALN 93.498

Criteria: The Organization's internal control procedures over compliance specify that all invoices agree to the amount allocated to grant activities.

Condition: During allowable cost testing, for 1 of the 25 invoices tested, the amount charged to the grant did not agree to the invoice.

Cause: There was human error when the amount was entered into the accounting software and, ultimately, an oversight due to turnover in personnel.

Effect: The effect of the exception noted during tested resulted in the grant being overcharged by the Organization.

Questioned Costs: None

Recommendation: Management should ensure amounts charged to the grant agree to invoices before reporting.

Management's Response: See corrective action plan

Section IV - Summary of Prior Year Audit Findings

None



July 2, 2024

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CORRECTIVE ACTION PLAN

Sutton Frost Cary LLP
200 E. Front Street, Suite 200
Arlington, Texas 76011

Subject: Management Response to FY 2023 Audit Findings

The management of The Warren Center, Inc. acknowledge receipt of the following findings for the audit year FY 2023.

While agreeing with the findings, management submits the following as its response:

Finding 2023-001: Allowable costs – material weakness in internal controls over compliance and compliance finding.

Management Response

All submissions of timesheets and payroll reimbursed by grants will require review by the Controller or the COO, in the Controller's absence, to ensure that expenditures charged to the grants agree to the original timesheets or payroll prior to submission or charging to a specific grant

Finding 2023-002: Allowable costs – significant deficiency in internal controls over compliance and compliance finding.

Management Response

All submissions of expenses reimbursed by grants will require review by the Controller or the COO, in the Controller's absence, to ensure that expenditures charged to the grants agree to the original documents (invoices or receipts) prior to submission or charging to a specific grant.



Finding 2023-003: Allowable costs – significant deficiency in internal controls over compliance and compliance finding.

Management Response

All submissions of expenses reimbursed by grants will require review by the Controller or the COO, in the Controller's absence, to ensure that expenditures charged to the grants agree to the original documents (invoices or timesheets) prior to submission or charging to a specific grant

Parties Responsible:

Controller or Chief Operating Officer, in the Controller's absence

The Corrective Action Plan will be put in place no later than June 13, 2024.

Please let us know if you have any questions.



Amy Spawn
Chief Executive Officer

