

Lutheran Social Services of the South, Inc.

Consolidated Financial Statements
and Single Audit Reports and Schedules

March 31, 2022 and 2021



TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditor's Report	1 - 2
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4 - 5
Consolidated Statements of Functional Expenses	6 - 7
Consolidated Statements of Cash Flows	8
Notes to Consolidated Financial Statements	9 - 24
Single Audit Reports and Schedules	
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 <i>Government Auditing Standards</i>	26 - 27
Independent Auditor's Report on Compliance for Each Major Program, Internal Control Over Compliance, and on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	28 - 30
Schedule of Expenditures of Federal and State Awards	31 - 32
Notes to Schedule of Expenditures of Federal and State Awards	33
Schedule of Findings and Questioned Costs	34 - 35
Summary Schedule of Prior Audit Findings	36



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Lutheran Social Services of the South, Inc.
Austin, Texas

Opinion

We have audited the accompanying 2022 consolidated financial statements of Lutheran Social Services of the South, Inc. (the "Organization"), which comprise the consolidated statement of financial position as of March 31, 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the 2022 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lutheran Social Services of the South, Inc. as of March 31, 2022, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 Lutheran Social Services of the South, Inc.'s ability to continue as a going concern within one year after the date that the 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 consolidated 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.



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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 Lutheran Social Services of the South, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Lutheran Social Services of the South, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 4, 2022, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Prior Period Financial Statements

The consolidated financial statements as of March 31, 2021, were audited by Holtzman Partners LLP, whose practice became part of Armanino^{LLP} as of January 1, 2022, and whose report dated July 22, 2021, expressed an unmodified opinion on those statements.



Armanino^{LLP}
Austin, Texas

August 4, 2022

Lutheran Social Services of the South, Inc.
Consolidated Statements of Financial Position
March 31, 2022 and 2021

	2022	2021
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,628,226	\$ 3,470,312
Accounts receivable, net of allowance for uncollectible accounts	5,342,676	6,841,462
Prepaid expenses and other current assets	1,059,705	726,199
Investments	<u>42,337,214</u>	<u>39,564,446</u>
Total current assets	<u>50,367,821</u>	<u>50,602,419</u>
Other assets		
Beneficial interests in assets held by others	7,792,452	7,293,152
Property, buildings, and equipment, net	12,211,129	12,765,881
Other long-term assets	<u>-</u>	<u>4,204</u>
Total other assets	<u>20,003,581</u>	<u>20,063,237</u>
Total assets	<u>\$ 70,371,402</u>	<u>\$ 70,665,656</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 2,597,017	\$ 1,815,064
Accrued expenses	4,173,152	5,934,780
Deferred income	-	851,321
Current portion of long-term debt	<u>13,070</u>	<u>13,070</u>
Total current liabilities	<u>6,783,239</u>	<u>8,614,235</u>
Long-term liabilities		
Long-term debt, less current portion	18,006	29,856
Deferred income	<u>6,413</u>	<u>73,995</u>
Total long-term liabilities	<u>24,419</u>	<u>103,851</u>
Total liabilities	<u>6,807,658</u>	<u>8,718,086</u>
Net assets		
Without donor restrictions		
Board designated	2,394,924	-
Undesignated	<u>41,349,495</u>	<u>40,838,575</u>
Total without donor restrictions	43,744,419	40,838,575
With donor restrictions		
Total net assets	<u>19,819,325</u>	<u>21,108,995</u>
Total net assets	<u>63,563,744</u>	<u>61,947,570</u>
Total liabilities and net assets	<u>\$ 70,371,402</u>	<u>\$ 70,665,656</u>

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

Lutheran Social Services of the South, Inc.
Consolidated Statement of Activities
For the Year Ended March 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support			
Residential treatments	\$ 47,116,127	\$ -	\$ 47,116,127
Education	21,886,481	-	21,886,481
Therapeutic foster care	14,628,545	-	14,628,545
Contributions, grants and bequests	8,687,311	3,574,985	12,262,296
Community services	3,239,437	-	3,239,437
Investment income, net	1,853,822	18,955	1,872,777
Changes in fair value of beneficial interests in assets held by others	-	377,334	377,334
Adoption services	33,125	-	33,125
Other	860,337	-	860,337
Net assets released from restrictions	<u>5,260,944</u>	<u>(5,260,944)</u>	<u>-</u>
Total revenues, gains, and other support	<u>103,566,129</u>	<u>(1,289,670)</u>	<u>102,276,459</u>
Functional expenses			
Program services	90,833,793	-	90,833,793
Management and general	8,402,497	-	8,402,497
Agency advancement	<u>1,423,995</u>	<u>-</u>	<u>1,423,995</u>
Total functional expenses	<u>100,660,285</u>	<u>-</u>	<u>100,660,285</u>
Change in net assets	2,905,844	(1,289,670)	1,616,174
Net assets, beginning of year	<u>40,838,575</u>	<u>21,108,995</u>	<u>61,947,570</u>
Net assets, end of year	<u>\$ 43,744,419</u>	<u>\$ 19,819,325</u>	<u>\$ 63,563,744</u>

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

Lutheran Social Services of the South, Inc.
Consolidated Statement of Activities
For the Year Ended March 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support			
Residential treatments	\$ 38,705,035	\$ -	\$ 38,705,035
Education	22,525,496	-	22,525,496
Therapeutic foster care	16,182,633	-	16,182,633
Contributions, grants and bequests	4,555,729	3,590,455	8,146,184
Community services	4,977,983	-	4,977,983
Investment income, net	8,395,067	976,763	9,371,830
Changes in fair value of beneficial interests in assets held by others	1,494	1,152,308	1,153,802
Adoption services	45,675	-	45,675
Other	947,871	-	947,871
Net assets released from restrictions	<u>4,305,164</u>	<u>(4,305,164)</u>	<u>-</u>
Total revenues, gains, and other support	<u>100,642,147</u>	<u>1,414,362</u>	<u>102,056,509</u>
Functional expenses			
Program services	86,651,777	-	86,651,777
Management and general	8,637,452	-	8,637,452
Agency advancement	<u>2,086,412</u>	<u>-</u>	<u>2,086,412</u>
Total functional expenses	<u>97,375,641</u>	<u>-</u>	<u>97,375,641</u>
Change in net assets	3,266,506	1,414,362	4,680,868
Net assets, beginning of year	<u>37,572,069</u>	<u>19,694,633</u>	<u>57,266,702</u>
Net assets, end of year	<u>\$ 40,838,575</u>	<u>\$ 21,108,995</u>	<u>\$ 61,947,570</u>

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

Lutheran Social Services of the South, Inc.
Consolidated Statement of Functional Expenses
For the Year Ended March 31, 2022

	Program Services							Support Services			Total	
	Children Services	Shelters for Unaccompanied Children	Residential Treatment Centers	Education Services	Disaster Response	Community Services	Innovation and Research Initiatives	Total Program Services	Management and General	Agency Advancement		Total Support Services
Salaries and employee benefits	\$ 4,748,394	\$ 25,895,910	\$ 5,171,655	\$ 11,730,242	\$ 694,429	\$ 241,577	\$ 547,920	\$ 49,030,127	\$ 5,151,669	\$ 851,413	\$ 6,003,082	\$ 55,033,209
Assistance to others	8,132,187	4,672,448	601,104	905,255	189,096	2,993,891	570	17,494,551	48,551	-	48,551	17,543,102
Occupancy	1,196,529	4,862,690	1,433,064	3,489,389	32,325	59,959	52,810	11,126,766	1,605,759	208,688	1,814,447	12,941,213
Professional and contract services	182,141	58,783	233,093	3,486,631	4,743	13,827	74,258	4,053,476	1,140,871	157,124	1,297,995	5,351,471
Travel and meetings	243,511	2,328,299	61,250	1,044,797	4,888	2,709	4,346	3,689,800	100,198	46,768	146,966	3,836,766
Other	405,931	905,099	252,502	3,754,792	4,735	8,869	107,145	5,439,073	355,449	160,002	515,451	5,954,524
	<u>\$ 14,908,693</u>	<u>\$ 38,723,229</u>	<u>\$ 7,752,668</u>	<u>\$ 24,411,106</u>	<u>\$ 930,216</u>	<u>\$ 3,320,832</u>	<u>\$ 787,049</u>	<u>\$ 90,833,793</u>	<u>\$ 8,402,497</u>	<u>\$ 1,423,995</u>	<u>\$ 9,826,492</u>	<u>\$ 100,660,285</u>

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

Lutheran Social Services of the South, Inc.
Consolidated Statement of Functional Expenses
For the Year Ended March 31, 2021

	Program Services							Support Services			Total	
	Children Services	Shelters for Unaccompanied Children	Residential Treatment Centers	Education Services	Disaster Response	Community Services	Innovation and Research Initiatives	Total Program Services	Management and General	Agency Advancement		Total Support Services
Salaries and employee benefits	\$ 4,896,341	\$ 18,185,698	\$ 8,703,623	\$ 11,192,781	\$ 1,465,939	\$ 222,967	\$ 926,433	\$ 45,593,782	\$ 5,220,080	\$ 1,446,572	\$ 6,666,652	\$ 52,260,434
Assistance to others	9,330,074	2,967,544	721,503	2,712,067	311,783	4,253,710	272	20,296,953	-	-	-	20,296,953
Occupancy	1,211,059	4,830,787	1,120,457	5,347,567	78,217	63,391	68,213	12,719,691	2,001,749	417,646	2,419,395	15,139,086
Professional and contract services	69,443	47,166	135,163	2,262,759	23,572	12,460	467,520	3,018,083	1,237,233	117,565	1,354,798	4,372,881
Travel and meetings	119,574	268,731	63,828	462,431	16,439	-	250	931,253	30,237	25,170	55,407	986,660
Other	323,039	206,715	585,793	2,769,834	11,691	1,532	193,411	4,092,015	148,153	79,459	227,612	4,319,627
	<u>\$ 15,949,530</u>	<u>\$ 26,506,641</u>	<u>\$ 11,330,367</u>	<u>\$ 24,747,439</u>	<u>\$ 1,907,641</u>	<u>\$ 4,554,060</u>	<u>\$ 1,656,099</u>	<u>\$ 86,651,777</u>	<u>\$ 8,637,452</u>	<u>\$ 2,086,412</u>	<u>\$ 10,723,864</u>	<u>\$ 97,375,641</u>

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

Lutheran Social Services of the South, Inc.
Consolidated Statements of Cash Flows
For the Years Ended March 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Change in net assets	\$ 1,616,174	\$ 4,680,868
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Contributions received for capital expenditures	(30,800)	(205,550)
Change in fair value of beneficial interests in assets held by others	(377,334)	(1,152,308)
Depreciation	1,184,287	1,083,630
Net realized and unrealized (gain) on investments	(993,032)	(8,838,249)
Net loss (gain) on sale of property, buildings, and equipment	4,468	(3,025)
Contributions received for beneficial interest in assets held by others	(592,835)	(30,732)
Changes in operating assets and liabilities		
Accounts receivable, net	1,498,786	(862,905)
Prepaid expenses and other current assets	(333,506)	661
Other long-term assets	4,204	861,204
Accounts payable	781,953	652,928
Accrued expenses	(1,761,628)	(629,834)
Deferred income	<u>(918,903)</u>	<u>42,275</u>
Net cash provided by (used in) operating activities	<u>81,834</u>	<u>(4,401,037)</u>
Cash flows from investing activities		
Purchase of property, buildings and equipment and other assets, net	(635,403)	(1,189,868)
Proceeds from sale of property, buildings, and equipment	1,400	11,318
Net proceeds on sales of investments	<u>(1,901,702)</u>	<u>2,925,336</u>
Net cash provided by (used in) investing activities	<u>(2,535,705)</u>	<u>1,746,786</u>
Cash flows from financing activities		
Contributions received for capital expenditures	30,800	205,550
Payments on long-term debt	(11,850)	(12,929)
Contributions received for beneficial interests in assets held by others	<u>592,835</u>	<u>30,732</u>
Net cash provided by financing activities	<u>611,785</u>	<u>223,353</u>
Net decrease in cash and cash equivalents	(1,842,086)	(2,430,898)
Cash and cash equivalents, beginning of year	<u>3,470,312</u>	<u>5,901,210</u>
Cash and cash equivalents, end of year	<u>\$ 1,628,226</u>	<u>\$ 3,470,312</u>

Supplemental schedule of noncash investing and financing activities

Contributions received for beneficial interests in assets held by others	\$ 592,835	\$ 30,732
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The accompanying notes are an integral part of these consolidated financial statements.

Lutheran Social Services of the South, Inc.
Notes to Consolidated Financial Statements
March 31, 2022 and 2021

1. ORGANIZATION

Lutheran Social Services of the South, Inc. was founded in 1881 as a nonprofit Organization and has a rich legacy of serving vulnerable children, families and communities in Texas through a strong network of programs and services that serve more than 30,000 people annually.

Lutheran Social Services of the South, Inc. operates under the d/b/a "Upbring," in order to reflect its mission: to break the cycle of child abuse by empowering children, families and communities. Upbring provides children's services and disaster relief through the following wholly-owned affiliates: Lutheran Social Services Disaster Response, Inc. and Lutheran Properties, Inc. Upbring and its affiliates are hereinafter referred to as the "Organization."

The Organization provides innovative programs and social services for children and families including foster care, adoption, residential treatment, education, disaster relief and community services.

Children's Services include the Foster in Texas program where a family partners with Upbring to open their home and their hearts to a child in need, providing support for immediate needs such as food, clothing and shelter. Upbring also provides long-term support to help children build strong bonds with their new family members. Foster parents are trained in trauma-informed care, so they can help their children heal from the circumstances that brought them into foster care. Adoptions occur naturally through the Foster in Texas program, and are complemented by domestic and international adoption services to help children find their forever families. BeREAL supports young adults aging out of foster care with housing, assistance for basic needs and a strategy for achieving their life goals.

The Office of Refugee Resettlement (ORR) in Texas and throughout the United States helps new populations integrate into American life by connecting them to critical resources. Upbring operates four ORR programs in Texas for children who have migrated to the U.S. alone or with other minors. Rather than being deported, children who cross the border alone from Central America are turned over to ORR, held in designated facilities and provided with services until their family members can be located. This experience alone can be scary, but the staff at Upbring shelters provide the children with around-the-clock attention, caring for their physical, emotional and spiritual well-being.

Residential treatment programs include life-changing work being done at our New Life Children's center that provides a safe place for girls from across Texas to heal from childhood traumas. Upbring's children's shelters and transitional foster care programs provide care and support from our compassionate staff and nurturing foster parents until their families can be located.

Education services include Head Start and Early Head Start Preschool programs that help children from low-income families prepare to start kindergarten ready to learn. The Organization operates one school: Upbring School of Arts and Sciences in Austin. The school will provide early education services to children ages six-weeks to elementary age, reserving spaces for children in the foster care system. Upbring works closely with Trinity Charter Schools to provide education services to the children in our residential treatment programs.

Lutheran Social Services of the South, Inc.
Notes to Consolidated Financial Statements
March 31, 2022 and 2021

1. ORGANIZATION (continued)

Disaster Response aids families' immediate needs by providing emergency hardship grants, and helping them find food, clothing, medical assistance and safe, clean shelter alongside future preparedness, emotional and spiritual care, volunteer coordination and long-term recovery.

Community Services are provided primarily in Lubbock, Texas and help those in need with emergency assistance for food, utilities, prescriptions, free health screenings and consultations.

The alignment of partnerships and programs noted above allow the Organization to deliver innovative programs and services that make measurable progress toward the five key markers of every child's success: safety, health, education, life skills and vocation.

The Organization is governed by a Board of Directors (the "Board") where (i) six of the seats on the Board of the Organization shall be Lutheran Directors as endorsed by either the appropriate Bishop or District President of the Lutheran jurisdictional units of the Evangelical Lutheran Church in America (2 minimum); the Lutheran Church - Missouri Synod (2 minimum) or by the pastor of the congregation of the elected board member; and (ii) two of the Directors shall be elected by the Members at the Member's discretion (the "At Large Directors"). At-Large Directors do not have to be members of a Lutheran congregation. All Directors other than At-Large Directors shall be members of a Lutheran congregation within the State of Texas or the State of Louisiana.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and consolidation

The accompanying consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). All significant intercompany accounts and transactions have been eliminated in consolidation. Net assets, support and revenues, and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Without donor restrictions - Net assets available for use in general operations and not subject to donor restrictions. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors.

With donor restrictions - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, when the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Lutheran Social Services of the South, Inc.
Notes to Consolidated Financial Statements
March 31, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Functional allocation of expenses

The Organization is required to present the costs of providing various programs and other activities on a functional basis in the statement of activities. Costs are allocated between management and general expense or the appropriate program based on evaluations of the related benefits. Management and general expense include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization. Expenses directly attributable to a specific functional area are reported as expenses of those functional areas. Natural expenses attributable to more than one functional expense category are allocated based on the proportion of full-time employee equivalents of a program or other supporting service versus the total organizational full-time employee equivalents.

Cash and cash equivalents

The Organization considers certain liquid asset accounts with an original maturity of three months or less to be cash equivalents.

Accounts receivable

Accounts receivable are recorded at net realizable value. The Organization continually assesses the collectability of outstanding receivable balances and if deemed necessary, maintains an allowance for estimated losses resulting from the non-collection of receivables. In estimating this allowance, the Organization considers factors such as: historical collection experience, a donor's current credit-worthiness, funding concentrations, age of the receivable balance – both individually and in the aggregate – and general economic conditions that may affect a funding source's ability to pay. Actual collections could differ from the Organization's estimates. The Organization had allowances for estimated uncollectible accounts of \$79,178 and \$144,268 as of March 31, 2022 and 2021, respectively.

Contributions receivable

Promises to give are recorded at fair value if expected to be collected in one year and at net present value if expected to be collected in more than one year. Conditional promises to give are not included as revenue or contributions receivable until such time as the barriers and right of release/return have been overcome. The Organization did not record a net present value discount on contributions receivable at March 31, 2022 and 2021, as the amount would be insignificant. Promises to give are reported in the consolidated statements of financial position as accounts receivable, net and totaled \$7,500 and \$125,006 as of March 31, 2022 and 2021, respectively.

Lutheran Social Services of the South, Inc.
Notes to Consolidated Financial Statements
March 31, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Investments consist of marketable securities and are recorded at their fair values in the consolidated statements of financial position. Any changes in fair value are recorded as unrealized gains or losses. Realized gains and losses are recorded as the difference between historical cost and the proceeds received from the sale of the investment. Unrealized and realized gains and losses and interest income related to marketable securities are reported in the consolidated statements of activities as investment income (loss), net.

Fair value measurements

U.S. GAAP establishes fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). The three levels of the fair value of hierarchy are described below:

- *Level 1* - Observable inputs such as quoted prices in active markets, with valuations obtained from readily available pricing sources for market transactions involving identical assets or liabilities. The investments included in Level 1 are mutual funds typically valued at the closing price reported on the active market on which the individual securities are traded.
- *Level 2* - Inputs (other than quoted market prices included within Level 1) that are either directly or indirectly observable for the asset or liability, through correlation with market data at the measurement date and fair value is determined through the use of models or other valuation techniques. The Organization does not have any Level 2 investments for the years ended March 31, 2022 and 2021.
- *Level 3* - Unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. Fair value for these investments is determined using valuation methodologies that consider a range of factors including but not limited to the nature of the investment, market conditions, current and projected operating performance and changes in operating characteristics of the investment. The investments included in Level 3 are investment trusts typically valued based on information received from the custodian.

Lutheran Social Services of the South, Inc.
Notes to Consolidated Financial Statements
March 31, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

The Organization's financial instruments consist of cash and cash equivalents, accounts receivable, investments, beneficial interest in assets held by others, accounts payable, and accrued expenses. The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses are considered to approximate their respective fair values due to the short-term nature of such financial instruments.

Beneficial interests in assets held by others

The Organization has beneficial interests in trusts held by third party organizations. Under the terms of the trusts, the Organization has the irrevocable right to receive all or a portion of the income earned on the trust assets for the life of the trusts. The Organization does not control the assets held in these trusts. The Organization measures its beneficial interests in these trusts at the fair value of the underlying investments held by the trusts. The trust assets are invested in equity securities with a readily determined fair value. Distributions from the trusts are recognized as investment income in the appropriate net asset class according to the restrictions established by the settlors of the trusts. Changes in fair value related to beneficial interests in assets held by others are reported in the consolidated statements of activities as change in fair value of beneficial interests in assets held by others.

Property, buildings, and equipment

Property, buildings, and equipment are recorded at cost if purchased or at estimated fair value at the date of gift, if donated, less accumulated depreciation and amortization. Depreciation on property, buildings and equipment is provided on the straight-line method over the estimated useful lives of the assets. Land is not subject to depreciation. Title to certain capital assets purchased using funds provided by government sponsors is vested in the Organization and is included in property and equipment on the consolidated statements of financial position, to the extent that the expected useful life of the related asset exceeds one year. Certain equipment used by the Organization in connection with its performance under Head Start agreements with the United States government is owned by the government. These facilities and equipment are not included in the consolidated statements of financial position; however, the Organization is required to maintain and return these facilities to the government at the end of the contracts. The estimated lives are approximately 30 years for buildings, 10 years for improvements, and 5 years for equipment. Major additions and betterments over \$5,000 and with a useful life over one year are capitalized. The Organization expenses capital expenditures funded through federal grants, as the useful life for these items is uncertain. Maintenance and repairs which do not materially improve or extend the lives of the respective assets are charged to operating expenses as incurred.

Lutheran Social Services of the South, Inc.
Notes to Consolidated Financial Statements
March 31, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, buildings, and equipment (continued)

When events, circumstances, or operating results indicate that the carrying values of certain long-lived assets might be impaired, the Organization prepares projections of cash flows expected to result from the use of the assets and their eventual disposition. If the projections indicate that the recorded amounts are not expected to be recoverable, such amounts are reduced to estimated fair value. Fair value may be estimated based upon internal evaluations that include quantitative analysis of revenues and cash flows, reviews of recent sales of similar assets, and independent appraisals. To date, no such impairment charges have been recognized.

Government grants

Revenue from certain grants received from federal, state, and local governments is earned based on the Organization incurring allowable costs or providing services. Therefore, revenue is recognized as those costs are incurred or the services are provided.

Contributions

All contributions are recorded at fair value and are considered to be available for operations of the Organization unless specifically restricted by the donor. Unconditional promises to give cash and other assets are reported as net assets with restrictions, if they are received with donor stipulations that limit the use of donated assets.

The Organization recognizes gifts of land and buildings at the fair value at time of donation, and reports the gifts 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 support. The Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. When donor restrictions expire, that is when a restricted purpose is accomplished, the related restricted net assets are reclassified to unrestricted net assets. This is reported in the consolidated statements of activities as net assets released from restrictions.

Contributed services and facilities

Contributed services and materials represent in-kind contributions and are reflected in the statement of activities as contributions at their fair value on the date of receipt. Contributed services are recognized by the Organization if the services received create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributed services relate to office rent and other vendor services. Fair value of the contributed services is determined using current fair market rates for office rent and the actual vendor costs of services provided. The Organization recognized approximately \$3,997,324 and \$3,211,225 of contributed services and donated use of facilities in the consolidated statements of activities for the years ended March 31, 2022 and 2021, respectively.

Lutheran Social Services of the South, Inc.
Notes to Consolidated Financial Statements
March 31, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributed services and facilities (continued)

The Organization has a substantial number of donors who have contributed significant amounts of time and resources in support of the Organization. For the years ended March 31, 2022 and 2021, the Organization received approximately \$2,066,000 and \$1,994,000, respectively, for contributed services related to its Head Start Program, respectively. These services are not reflected in the Organization's consolidated statements of activities as they did not meet the criteria for recognition.

Advertising costs

Advertising costs are expensed as incurred. Advertising costs for the years ended March 31, 2022 and 2021 were approximately \$102,000 and \$87,000, respectively, and are included in program expenses in the accompanying consolidated statements of activities.

Operating leases

The Organization accounts for rent expense for its operating leases on a straight-line basis in accordance with authoritative guidance on accounting for leases. The Organization leases office facilities that have terms expiring between 2021 and 2028. The term of the lease is considered its initial obligation period, which does not include option periods.

Most lease agreements contain rent holidays and/or rent escalation clauses. The Organization includes scheduled rent holidays and rent escalation clauses for the purposes of recognizing straight-line rent over the lease term.

Employee retirement plan

The Organization sponsors a 403(b) plan (the "Plan") for the benefit of substantially all employees. The Organization is the administrator of the Plan. Participants may elect to contribute up to the annual maximum set by the Internal Revenue Service. The Organization did not contribute to the plan during the years ended March 31, 2022 and 2021.

Income taxes

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

Lutheran Social Services of the South, Inc.
Notes to Consolidated Financial Statements
March 31, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes (continued)

The Organization accounts for income taxes under Financial Accounting Standards Board Accounting Standards Codification ("ASC") Topic 740, Income Taxes. The Organization evaluates uncertain tax positions, if any exist, under this topic. The Organization accounts for uncertainty of income taxes based on a "more-likely-than-not" threshold for the recognition and de-recognition of tax positions, which includes the accounting for interest and penalties relating to tax positions. The Organization currently does not have any tax positions that it would consider uncertain at March 31, 2022.

Reclassifications

Certain amounts presented in the prior year financial statements have been reclassified to conform to the current year presentation. Such reclassifications had no net effect on total assets, liabilities, net assets, changes in net assets, or cash flows from the amounts previously presented.

Subsequent events

The Organization has evaluated subsequent events through August 4, 2022, the date the financial statements were available to be issued and has determined that there are no additional adjustments and/or disclosures required.

3. LIQUIDITY AND AVAILABILITY OF RESOURCES

The following chart represents the Organization's financial assets available to meet cash needs for general expenditures within one year of March 31, 2022. Due to the nature of the restrictions from contributions received from donors and beneficial interests in assets held by others, the Organization has omitted all restricted contributions and beneficial interests in assets held by others:

Lutheran Social Services of the South, Inc.
Notes to Consolidated Financial Statements
March 31, 2022 and 2021

3. LIQUIDITY AND AVAILABILITY OF RESOURCES (continued)

Financial assets available to meet cash needs for general expenditures within one year:

Cash and cash equivalents	\$ 1,628,226
Accounts receivable, net	5,342,676
Investments	<u>42,337,214</u>
	<u>49,308,116</u>
Less resources unavailable for general operations within one year due to donor-imposed time or purpose restrictions:	
Investments restricted by donors with time or purpose restrictions	(7,031,421)
Endowments subject to appropriation and satisfaction of donor restrictions	<u>(2,600,618)</u>
	<u>(9,632,039)</u>
Less resources unavailable to management without Board's approval:	
Board designated endowment funds	<u>(2,394,924)</u>
	<u>(2,394,924)</u>
	 <u><u>\$ 37,281,153</u></u>

The Organization maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, in accordance with the Board approved Investment Policy, the Organization maintains a balanced investment portfolio which includes short-term investments. These investments are readily available to the Organization for its operations.

4. CONCENTRATIONS OF RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of cash and cash equivalents, investments, and accounts receivable. The Organization maintains its cash and cash equivalent balances in highly rated financial institutions, which at times may exceed federally insured limits or be held in foreign jurisdictions. The Organization has not experienced any loss relating to cash and cash equivalents in these accounts. Investments are exposed to various risks, such as interest rate market and credit risks. Due to the level of risk associated with these investments, it is possible that changes in the near-term could materially affect the amounts reported in the consolidated statements of financial position. The Organization performs periodic credit evaluations of its customers' financial condition and generally does not require collateral.

Lutheran Social Services of the South, Inc.
Notes to Consolidated Financial Statements
March 31, 2022 and 2021

4. CONCENTRATIONS OF RISK (continued)

Funding sources representing more than 10% of the Organization's total accounts receivable and revenues as of and for the year ended March 31, 2022 are as follows:

	Accounts receivable	Revenue
Federal government	55.00 %	62.00 %
State government	18.00	13.00
Other	17.00	-
	90.00 %	75.00 %

The financial condition of the Organization depends significantly on revenues received from contracts with various departments of the government of the state of Texas (the "State Departments") and the Federal Government. Such State Departments are, in turn, dependent almost exclusively on annual or biennial appropriations granted to them by the legislature of the state of Texas.

If appropriations to the State Departments are materially reduced or eliminated or appropriations are required to cover more facilities or individuals, the financial condition of the Organization could be materially and adversely affected. Additionally, if Federal Government spending priorities or administrative practices change significantly, the financial condition of the Organization could be materially and adversely affected.

The revenue received from such contracts with the Federal Government and State Departments is dependent upon (i) the Organization's fulfilling its obligations under such contracts, (ii) the Organization's receipt of the appropriate certifications from the required licensing or certifying entity to provide the services required under such contracts, and (iii) the Organization's ability to renew such contracts with the State Departments.

5. INVESTMENTS & FAIR VALUE MEASUREMENTS

Investments consisted of the following at March 31:

	2022	2021
Domestic and international equity funds	\$ 35,007,250	\$ 23,338,122
Mutual funds	7,151,089	14,400,726
International bonds	-	1,305,821
Cash	178,875	519,777
	\$ 42,337,214	\$ 39,564,446

Lutheran Social Services of the South, Inc.
Notes to Consolidated Financial Statements
March 31, 2022 and 2021

5. INVESTMENTS & FAIR VALUE MEASUREMENTS (continued)

To obtain the maximum benefit from its investments, the Organization pools certain available funds and allocates investment income based on the ratio of each pool category's ownership interest in the investment portfolio. Investment income is reported net of related expenses such as custodial fees and advisory costs.

The following table sets forth by level, within the fair value hierarchy, Organization's assets at fair value as of March 31, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Domestic and international equity funds	\$ 35,007,250	\$ -	\$ -	\$ 35,007,250
Mutual funds	7,151,089	-	-	7,151,089
Cash	<u>178,875</u>	<u>-</u>	<u>-</u>	<u>178,875</u>
Total investments	<u>\$ 42,337,214</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42,337,214</u>
Beneficial interests in assets held by others	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,792,452</u>	<u>\$ 7,792,452</u>

The following table sets forth by level, within the fair value hierarchy, the Organization's assets and liabilities at fair value as of March 31, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Domestic and international equity funds	\$ 23,338,122	\$ -	\$ -	\$ 23,338,122
Mutual funds	14,400,726	-	-	14,400,726
International bonds	1,305,821	-	-	1,305,821
Cash	<u>519,777</u>	<u>-</u>	<u>-</u>	<u>519,777</u>
Total investments	<u>\$ 39,564,446</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39,564,446</u>
Beneficial interests in assets held by others	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,293,152</u>	<u>\$ 7,293,152</u>

Lutheran Social Services of the South, Inc.
Notes to Consolidated Financial Statements
March 31, 2022 and 2021

6. PROPERTY, BUILDINGS, AND EQUIPMENT

Property, buildings, and equipment consisted of the following at March 31:

	2022	2021
Buildings and improvements	\$ 23,846,448	\$ 23,496,746
Equipment	7,203,594	6,970,369
Land and improvements	1,248,039	1,246,829
Construction in progress	52,698	18,617
	32,350,779	31,732,561
Accumulated depreciation	(20,139,650)	(18,966,680)
	\$ 12,211,129	\$ 12,765,881

Depreciation expense for the years ended March 31, 2022 and 2021 was \$1,184,287 and \$1,083,630, respectively.

7. ACCRUED EXPENSES AND OTHER

Accrued expenses consist of the following at March 31:

	2022	2021
Accrued salaries and wages	\$ 3,266,643	\$ 5,317,061
Other accrued expenses	564,135	184,350
Accrued charity care	192,374	283,369
Accrued insurance	150,000	150,000
	\$ 4,173,152	\$ 5,934,780

Lutheran Social Services of the South, Inc.
Notes to Consolidated Financial Statements
March 31, 2022 and 2021

8. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes at March 31

	2022	2021
Subject to the passage of time:		
Time-restricted beneficial interests in assets held by others	\$ 1,295,864	\$ 1,304,917
Subject to purpose restrictions:		
Children's services	9,327,418	11,099,271
Donor restricted endowments	348,651	339,144
Community services	<u>98,837</u>	<u>133,111</u>
	<u>9,774,906</u>	<u>11,571,526</u>
Perpetual in nature:		
Beneficial interests in assets held by others	6,496,588	5,988,235
Donor restricted endowments	<u>2,251,967</u>	<u>2,244,317</u>
	<u>8,748,555</u>	<u>8,232,552</u>
	<u>\$ 19,819,325</u>	<u>\$ 21,108,995</u>

9. ENDOWMENTS

The Organization's endowment consists of numerous funds established for a variety of purposes including donor-restricted endowment funds. The net assets of endowment funds are classified and reported based on the existence or absence of donor restrictions. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Director's to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Organization has interpreted the Texas Uniform Prudent Management of Institutional Funds Act ("TUPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the true-donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the endowment in perpetuity, (b) the original value of subsequent gifts to the endowment in perpetuity, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowments that is classified within net assets with donor restrictions until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by TUPMIFA. Endowments are included in other investments within the Consolidated Statements of Financial Position.

Lutheran Social Services of the South, Inc.
Notes to Consolidated Financial Statements
March 31, 2022 and 2021

9. ENDOWMENTS (continued)

Changes in endowment net assets for the fiscal year ended March 31, 2022 is as follows:

	<u>Board Designated</u>	<u>Amounts Subject to Appropriation</u>	<u>Amounts Perpetual in Nature</u>	<u>Total</u>
Balance, March 31, 2021	\$ -	\$ 339,144	\$ 2,244,317	\$ 2,583,461
Contributions	2,455,031	-	-	2,455,031
Investment return	19,893	119,059	7,650	146,602
Appropriations for expenditures	<u>(80,000)</u>	<u>(109,552)</u>	<u>-</u>	<u>(189,552)</u>
Balance, March 31, 2022	<u>\$ 2,394,924</u>	<u>\$ 348,651</u>	<u>\$ 2,251,967</u>	<u>\$ 4,995,542</u>

Changes in endowment net assets for the fiscal year ended March 31, 2021 is as follows:

	<u>Amounts Subject to Appropriation</u>	<u>Amounts Perpetual in Nature</u>	<u>Total</u>
Balance, March 31, 2020	\$ (91,297)	\$ 2,199,042	\$ 2,107,745
Contributions	-	11,300	11,300
Investment return	534,568	33,975	568,543
Appropriations for expenditures	<u>(104,127)</u>	<u>-</u>	<u>(104,127)</u>
Balance, March 31, 2021	<u>\$ 339,144</u>	<u>\$ 2,244,317</u>	<u>\$ 2,583,461</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or TUPMIFA requires the Organization to retain as a fund of perpetual duration. The Organization has a policy that permits spending from underwater donor-restricted endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations.

As of March 31, 2022 and 2021 donor-restricted endowment funds had aggregated original values below current fair values, therefore, no deficiencies are reported.

Lutheran Social Services of the South, Inc.
Notes to Consolidated Financial Statements
March 31, 2022 and 2021

10. RELATED PARTY TRANSACTIONS

Residents at residential treatment center receive education services provided by Trinity Charter Schools (TCS), an unconsolidated related party non-profit organization. The Organization receives related party income from TCS related to leasing office and classroom space, performing IT services, and providing education services using TCS curriculum. Additionally, the Organization incurs related party expenses related to education services performed by TCS. For the years ended March 31, 2022 and 2021, TCS leased office and classroom space from the Organization for approximately \$183,000 and \$201,000, respectively. For the years ended March 31, 2022 and 2021, the Organization received routine services from TCS for approximately \$141,000 and \$216,000, respectively. For the years ended March 31, 2022 and 2021, TCS received education and support services from the Organization for approximately \$194,000 and \$0, respectively.

Casa Garcia NC, LLC (CGNC) is wholly owned by TCS. For the years ended March 31, 2022 and 2021, the Organization received education services from CGNC in the amounts of approximately \$1,287,000 and \$872,000, respectively.

11. COMMITMENTS & CONTINGENCIES

The Organization is subject to claims which arise in the ordinary course of its operations. In the opinion of management, the amount of ultimate liability with respect to claims will not materially affect results of operations or the consolidated financial position of the Organization.

As a condition of the sale of a senior services facility, the Organization remains responsible for the care of certain residents. The estimated cost incurred by the Organization to provide these charity services to residents was approximately \$73,000 and \$71,000 for the years ended March 31, 2022 and 2021, respectively. The Organization recorded a liability for future care of these residents totaling approximately \$192,000 and \$283,000 as of March 31, 2022 and 2021, respectively.

The Organization, as an integral part of its operation, has entered into short-term, cancelable lease agreements for equipment and office space in various cities. Additionally, the Organization has entered into non-cancelable lease agreements for equipment and office space in various cities. Lease and maintenance contract expense for all leases, cancelable and non-cancelable, for the years ended March 31, 2022 and 2021 was \$4,206,381 and \$3,974,144, respectively.

Lutheran Social Services of the South, Inc.
Notes to Consolidated Financial Statements
March 31, 2022 and 2021

11. COMMITMENTS & CONTINGENCIES (continued)

Future minimum lease payments on non-cancelable operating leases are as follows

<u>Year ending March 31,</u>	
2023	\$ 3,560,828
2024	2,477,638
2025	861,290
2026	308,812
2027	223,503
Thereafter	<u>103,918</u>
	<u>\$ 7,535,989</u>

The Organization is funded in part by governmental contracts for specific purposes that are subject to review and audit by the government agencies. These contracts have certain compliance requirements and, should audits by the governmental agencies disclose any areas of substantial noncompliance, the Organization may be required to refund disallowed costs.

SINGLE AUDIT REPORTS AND SCHEDULES



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
Lutheran Social Services of the South, Inc.
Austin, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Lutheran Social Services of the South, Inc. (the "Organization"), which comprise the consolidated statement of financial position as of March 31, 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated August 4, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies 2022-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated 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*.

The Organization's Response to Findings

The Organization's response to the findings identified in our audit is described in the accompanying schedule of findings and prior year findings. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.



Armanino^{LLP}
Austin, Texas

August 4, 2022



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM, INTERNAL CONTROL OVER COMPLIANCE, AND ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Lutheran Social Services of the South, Inc.
Austin, Texas

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Lutheran Social Services of the South, Inc. (the "Organization")'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended March 31, 2022. The Organization'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, the Organization 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, 2021.

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 programs.

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 (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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 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 program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

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 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*, 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 the Organization's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *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 the Organization'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 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, 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.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended March 31, 2022.

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.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the the Organization's consolidated financial statements as of and for the year ended March 31, 2022, and have issued our report thereon dated August 4, 2022, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.



Armanino^{LLP}
Austin, Texas

August 4, 2022

Lutheran Social Services of the South, Inc.
Schedule of Expenditures of Federal and State Awards
For the Year Ended March 31, 2022

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Grantor's Number	Total Federal Expenditures
<u>Expenditures of Federal Awards</u>			
U.S. Department of Health and Human Services			
Unaccompanied Alien Children Program			
Unaccompanied Alien Children Program (ORR El Paso Long Term)	93.676		\$ 819,887
Unaccompanied Alien Children Program (ORR El Paso Short Term)	93.676		3,709,223
Unaccompanied Alien Children Program (ORR Bokenkamp)	93.676		9,897,564
Unaccompanied Alien Children Program (ORR McAllen)	93.676		6,775,189
Unaccompanied Alien Children Program (ORR Corpus Christi)	93.676		3,832,836
Unaccompanied Alien Children Program (ORR Grace House Residential)			7,836,521
Unaccompanied Alien Children Program (ORR Grace House Therapeutic)			3,513,544
Unaccompanied Alien Children Program (ORR Loma Alta)			<u>4,692,157</u>
Total Unaccompanied Alien Children Program			<u>41,076,921</u>
Pass-through Lutheran Refugee Service			
Refugee and Entrant Assistance State/Replacement Designee Administered Programs	93.566	2002MDRCMA	230,065
Refugee and Entrant Assistance State/Replacement Designee Administered Programs	93.566	2102MDRCMA	<u>20,396</u>
Total Pass-through Lutheran Refugee Service			<u>250,461</u>
Pass-through the City of Lubbock, Texas			
COVID-19 Low-Income Home Energy Assistance - Comprehensive Energy Assistance	93.568	15414	<u>657,981</u>
Head Start and Early Head Start			
Head Start and Early Head Start (American Relief Funds)	93.600		1,579,463
Head Start and Early Head Start (Wharton/Matagorda Bay)	93.600		2,744,309
Head Start and Early Head Start (South Fort Worth)	93.600		5,009,565
Head Start and Early Head Start (Brazoria)	93.600		2,627,422
Head Start and Early Head Start (Beeville, Granbury, Live Oak and Refugio "BGLR")	93.600		3,616,490
Head Start and Early Head Start (Galveston)	93.600		2,943,198
Early Head Start (San Antonio)	93.600		<u>1,427,563</u>
Total Head Start and Early Head Start			<u>19,948,010</u>
Pass-through Texas Workforce Commission			
Child Care and Development Block Grant - Child Care Relief Fund	93.675	2921CCR006489	<u>133,623</u>
Total U.S. Department of Health and Human Services			<u>62,066,996</u>

The accompanying notes to the Schedule of Expenditures of Federal and State Awards
are an integral part of this schedule.

Lutheran Social Services of the South, Inc.
Schedule of Expenditures of Federal and State Awards
For the Year Ended March 31, 2022

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Grantor's Number	Total Federal Expenditures
U.S. Department of Justice			
Pass-through the Texas Office of the Governor			
Crime Victim Assistance	16.575	3960801	150,000
Crime Victim Assistance	16.575	3960802	<u>74,674</u>
Total U.S. Department of Justice			<u>224,674</u>
U.S Department of Agriculture			
Pass-through from the Texas Department of Agriculture:			
Child Nutrition Cluster			
Cash Assistance:			
National School Lunch/Breakfast Program	10.555	N/A	126,380
Non-Cash Assistance:			
DB Commodity Program New Life	10.555	1229	7,113
DB Commodity Program Krause	10.555	3871	<u>1,206</u>
Total Child Nutrition Cluster			<u>134,699</u>
Child and Adult Care Food Program	10.558	N/A	<u>319,745</u>
Total U.S Department of Agriculture			<u>454,444</u>
Total Expenditures of Federal Awards			<u>62,746,114</u>
<u>Expenditures of State Awards</u>			
Health and Human Services Commission			
Mental Health Child Residential Treatment	N/A	N/A	<u>57,765</u>
Total Expenditures of State Awards			<u>57,765</u>
Total Expenditures of Federal and State Awards			<u>\$ 62,803,879</u>

The accompanying notes to the Schedule of Expenditures of Federal and State Awards
are an integral part of this schedule.

Lutheran Social Services of the South, Inc.
Notes to Schedule of Expenditures of Federal and State Awards
March 31, 2022

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Lutheran Social Services of the South, Inc.(the "Organization") under programs of the federal and state government for the year ended March 31, 2022. The information in this 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 *State of Texas Uniform Grant Management Standards* (UGMS), which includes the State of Texas Single Audit Circular. Because the schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the consolidated financial position, changes in net assets, or cash flows of the Organization.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- 1) 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 and UGMS, wherein certain types of expenditures are not allowed or are limited as to reimbursement.
- 2) The commodities received, which are noncash revenues, are valued using prices provided by the United States Department of Agriculture.
- 3) Grants, cost reimbursement contracts, cooperative agreements, and direct appropriations are considered expended when the expenditure or expense transactions occur.
- 4) For those funds that have matching revenues and state funding, federal and state expenditures were determined by deducting matching revenues from total expenditures.

3. INDIRECT COST

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

Lutheran Social Services of the South, Inc.
 Schedule of Findings and Questioned Costs
 For the Year Ended March 31, 2022

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No
Identification of major programs:	

<u>Name of Federal Program or Cluster</u>	<u>Assistance Listing Number</u>
Unaccompanied Alien Children Program	93.676
Dollar threshold used to distinguish between Type A and Type B programs	\$1,875,573
Auditee qualified as low-risk auditee?	Yes

Lutheran Social Services of the South, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended March 31, 2022

SECTION II - SUMMARY OF FINANCIAL STATEMENT FINDINGS

Finding number:	2022-001
Criteria:	Contributions without donor imposed restrictions should be properly recorded as without donor restrictions in the financial statements.
Condition:	Large contributions received are classified as restricted by the discretion of the board.
Cause:	During our audit, we discovered a contribution to the Organization that was improperly classified as donor restricted, with a portion of the contribution designated by the board as a restricted endowment.
Effect or potential effect:	Net assets with donor restrictions were overstated by \$2,952,534.
Recommendation:	We recommend that management evaluate all contributions received to determine if any restrictions on the use of the funds exist and ensure all contributions are recorded appropriately in accordance with applicable restriction, if any.
View of responsible officials:	Management agrees with the auditors finding 2022-001 The Board of the Organization has a windfall policy such that 80% of unrestricted gifts received from donors are classified as a board designated endowment within the Organization's accounting system. The remaining 20% is considered unrestricted for use of operations. The Organization's accounting system has two classification codes to track restricted and unrestricted gifts. Management will review all gifts and net asset designations at year end to validate that treatment is appropriate.

SECTION III - SUMMARY OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no federal award findings to be reported.

Lutheran Social Services of the South, Inc.
Summary Schedule of Prior Audit Findings
For the Year Ended March 31, 2022

There were no prior year findings.