

Consolidated Financial Statements  
and Supplementary Information

**Lutheran Social Services of the South, Inc. dba Upbring**

March 31, 2025 and 2024



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## **Report of Independent Auditors**

The Board of Directors  
Lutheran Social Services of the South, Inc. dba Upbring

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the consolidated financial statements of Lutheran Social Services of the South, Inc. dba Upbring (the Organization), which comprise the consolidated statements of financial position as of March 31, 2025 and 2024, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Organization as of March 31, 2025 and 2024, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audits 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 (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 the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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 for one year after the date that the financial statements are available to be issued.

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### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the 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 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 consolidated 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 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 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 consolidated 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 consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis 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.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 4, 2025, 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 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.

*Baker Tilly US, LLP*

Albuquerque, New Mexico  
August 4, 2025

## **Consolidated Financial Statements**

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**Lutheran Social Services of the South, Inc.**  
**Consolidated Statements of Financial Position**  
**March 31, 2025 and 2024**

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	2025	2024
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,831,413	\$ 2,537,113
Accounts receivable, net	5,280,041	4,837,653
Contributions receivable	468,837	323,557
Inventory	1,118	655
Prepaid expenses and other current assets	1,088,083	861,958
Investments	42,935,624	42,717,656
	52,605,116	51,278,592
<b>OTHER ASSETS</b>		
Beneficial interests in assets held by others	8,746,745	8,696,640
Property, buildings, and equipment, net	10,135,364	10,536,144
Long-term contributions receivable, net	146,846	446,732
Operating right-of-use assets	9,505,366	10,097,973
	28,534,321	29,777,489
<b>TOTAL ASSETS</b>	<b>\$ 81,139,437</b>	<b>\$ 81,056,081</b>

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See accompanying notes.

**Lutheran Social Services of the South, Inc.**  
**Consolidated Statements of Financial Position**  
**March 31, 2025 and 2024**

	2025	2024
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 2,629,092	\$ 2,463,036
Accrued expenses	6,510,856	5,122,283
Deferred grant revenue	-	200,000
Current portion of operating lease liability	4,333,216	4,608,538
Total current liabilities	13,473,164	12,393,857
<b>LONG-TERM LIABILITIES</b>		
Long-term debt	-	6,190
Operating lease liability, less current portion	5,141,543	5,207,504
Total long-term liabilities	5,141,543	5,213,694
Total liabilities	18,614,707	17,607,551
<b>NET ASSETS</b>		
Without donor restrictions	40,997,370	42,216,396
With donor restrictions	21,527,360	21,232,134
Total net assets	62,524,730	63,448,530
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 81,139,437</b>	<b>\$ 81,056,081</b>

See accompanying notes.

**Lutheran Social Services of the South, Inc.**  
**Consolidated Statement of Activities**  
**Year Ended March 31, 2025**

	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>			
Residential treatments	\$ 86,827,494	\$ -	\$ 86,827,494
Education	24,441,062	-	24,441,062
Therapeutic foster care	7,803,076	-	7,803,076
Community services	173,384	-	173,384
Contributions, grants, and bequests	2,077,599	2,537,623	4,615,222
Investment income, net	2,274,654	354,480	2,629,134
Changes in fair value of beneficial interests in assets held by others	28,826	273,749	302,575
Other	707,450	-	707,450
Net assets released from restriction	2,870,626	(2,870,626)	-
Total revenues, gains, and other support	<u>127,204,171</u>	<u>295,226</u>	<u>127,499,397</u>
<b>FUNCTIONAL EXPENSES</b>			
Program services	117,650,730	-	117,650,730
Management and general	10,772,467	-	10,772,467
Total functional expenses	<u>128,423,197</u>	<u>-</u>	<u>128,423,197</u>
<b>CHANGE IN NET ASSETS</b>	(1,219,026)	295,226	(923,800)
<b>NET ASSETS, beginning of year</b>	<u>42,216,396</u>	<u>21,232,134</u>	<u>63,448,530</u>
<b>NET ASSETS, end of year</b>	<u><u>\$ 40,997,370</u></u>	<u><u>\$ 21,527,360</u></u>	<u><u>\$ 62,524,730</u></u>

See accompanying notes.

**Lutheran Social Services of the South, Inc.**  
**Consolidated Statement of Activities**  
**Year Ended March 31, 2024**

	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUES, GAINS, AND OTHER SUPPORT</b>			
Residential treatments	\$ 80,929,643	\$ -	\$ 80,929,643
Education	20,476,075	-	20,476,075
Therapeutic foster care	10,213,010	-	10,213,010
Investment loss, net	6,646,698	969,538	7,616,236
Contributions, grants, and bequests	3,277,789	2,772,941	6,050,730
Changes in fair value of beneficial interests in assets held by others	28,141	754,921	783,062
Community services	149,724	-	149,724
Other revenue	567,613	-	567,613
Net assets released from restriction	1,551,356	(1,551,356)	-
Total revenues, gains, and other support	<u>123,840,049</u>	<u>2,946,044</u>	<u>126,786,093</u>
<b>FUNCTIONAL EXPENSES</b>			
Program services	110,356,147	-	110,356,147
Management and general	10,372,574	-	10,372,574
Total functional expenses	<u>120,728,721</u>	<u>-</u>	<u>120,728,721</u>
<b>CHANGE IN NET ASSETS</b>	3,111,328	2,946,044	6,057,372
<b>NET ASSETS, beginning of year</b>	<u>39,105,068</u>	<u>18,286,090</u>	<u>57,391,158</u>
<b>NET ASSETS, end of year</b>	<u>\$ 42,216,396</u>	<u>\$ 21,232,134</u>	<u>\$ 63,448,530</u>

See accompanying notes.

**Lutheran Social Services of the South, Inc.**  
**Consolidated Statements of Functional Expenses**  
**Year Ended March 31, 2025**

	Program Services							Support Services		Total	
	Children Services	Shelters for Unaccompanied Children	Residential Treatment Center	Education Services	Vector Point	Community Services	Innovation and Research Initiatives	Total Program Services	Management and General		Total Support Services
Salaries and employee benefits	\$ 3,469,208	\$ 56,463,182	\$ 2,588,874	\$ 13,288,822	\$ 574,571	\$ 239,183	\$ 121,344	\$ 76,745,184	\$ 6,491,794	\$ 6,491,794	\$ 83,236,978
Assistance to others	4,200,612	7,602,317	327,401	433,297	2,302	41,664	175	12,607,768	45,462	45,462	12,653,230
Occupancy	1,098,206	7,525,586	456,737	4,481,157	25,113	69,303	9,627	13,665,729	2,335,185	2,335,185	16,000,914
Professional and contract services	38,114	60,152	22,493	4,010,873	326,154	22	324,049	4,781,857	1,345,125	1,345,125	6,126,982
Travel and meetings	286,829	3,259,365	12,879	993,927	15,749	3,325	3,620	4,575,694	190,388	190,388	4,766,082
Other	251,019	1,952,185	167,487	2,843,641	16,004	21,715	22,447	5,274,498	364,513	364,513	5,639,011
	<u>\$ 9,343,988</u>	<u>\$ 76,862,787</u>	<u>\$ 3,575,871</u>	<u>\$ 26,051,717</u>	<u>\$ 959,893</u>	<u>\$ 375,212</u>	<u>\$ 481,262</u>	<u>\$ 117,650,730</u>	<u>\$ 10,772,467</u>	<u>\$ 10,772,467</u>	<u>\$ 128,423,197</u>

See accompanying notes.

**Lutheran Social Services of the South, Inc.**  
**Consolidated Statements of Functional Expenses**  
**Year Ended March 31, 2024**

	Program Services							Support Services		Total	
	Children Services	Shelters for Unaccompanied Children	Residential Treatment Center	Education Services	Vector Point	Community Services	Innovation and Research Initiatives	Total Program Services	Management and General		Total Support Services
Salaries and employee benefits	\$ 3,646,793	\$ 50,434,712	\$ 3,225,879	\$ 10,278,157	\$ 460,252	\$ 218,253	\$ 491,194	\$ 68,755,240	\$ 5,538,440	\$ 5,538,440	\$ 74,293,680
Assistance to others	5,418,632	7,122,041	440,446	372,277	-	115,039	501	13,468,936	34,098	34,098	13,503,034
Occupancy	1,027,645	6,891,761	573,518	2,931,832	20,047	68,450	2,846	11,516,099	2,129,635	2,129,635	13,645,734
Professional and contract services	18,170	50,179	3,772	4,638,710	45,000	3	93,635	4,849,469	1,945,107	1,945,107	6,794,576
Travel and meetings	289,445	4,693,878	16,764	731,064	1,155	4,997	13,156	5,750,459	209,811	209,811	5,960,270
Other	356,767	1,855,504	244,785	3,483,590	11,907	14,177	49,214	6,015,944	515,483	515,483	6,531,427
	<u>\$ 10,757,452</u>	<u>\$ 71,048,075</u>	<u>\$ 4,505,164</u>	<u>\$ 22,435,630</u>	<u>\$ 538,361</u>	<u>\$ 420,919</u>	<u>\$ 650,546</u>	<u>\$ 110,356,147</u>	<u>\$ 10,372,574</u>	<u>\$ 10,372,574</u>	<u>\$ 120,728,721</u>

See accompanying notes.

**Lutheran Social Services of the South, Inc.**  
**Consolidated Statements of Cash Flows**  
**Years Ended March 31, 2025 and 2024**

	2025	2024
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (923,800)	\$ 6,057,372
Adjustments to reconcile change in net assets to net cash from operating activities		
Change in fair value of beneficial interests in assets held by others	(50,105)	(783,062)
Depreciation	954,687	1,002,902
Provision for credit loss	-	45,074
Net realized and unrealized gain on investments	(1,597,481)	(6,689,036)
Net gain on sale of property, buildings, and equipment	-	(11,462)
Noncash operating lease expense	592,607	(2,390,678)
Changes in operating assets and liabilities		
Accounts receivable	(442,388)	(101,746)
Contributions receivable	154,606	120,176
Inventory	(463)	53,890
Prepaid expenses and other current assets	(226,125)	(269,863)
Accounts payable	166,056	250,363
Accrued expenses	1,388,573	923,917
Deferred grant revenue	(200,000)	-
Operating lease liability	(341,283)	2,084,450
	<u>(525,116)</u>	<u>292,297</u>
<b>Net cash from operating activities</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, buildings, and equipment	(553,907)	(198,879)
Proceeds from sale of property, buildings, and equipment	-	34,592
Purchases of investments	(6,419,758)	(6,093,627)
Proceeds from the sales of investments	7,799,271	6,752,028
	<u>825,606</u>	<u>494,114</u>
<b>Net cash from investing activities</b>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on long-term debt	(6,190)	(12,645)
Payments on line of credit	-	(250,000)
	<u>(6,190)</u>	<u>(262,645)</u>
<b>Net cash from financing activities</b>		
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	294,300	523,766
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>2,537,113</u>	<u>2,013,347</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 2,831,413</u>	<u>\$ 2,537,113</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	<u>\$ 5,098</u>	<u>\$ 25,393</u>
<b>SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Right-of-use assets obtained in exchange for operating lease liabilities	<u>\$ 3,348,677</u>	<u>\$ 7,135,439</u>

See accompanying notes.

# Lutheran Social Services of the South, Inc.

## Notes to Consolidated Statements

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### Note 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 23,000 people annually.

Lutheran Social Services of the South, Inc. operates under the dba “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 Lutheran Properties, Inc., a wholly owned affiliate. Upbring and its affiliate 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. Children that are showing the potential to become abusers as adults are entered into an intensive program providing wrap around services in their community to improve their coping skills. Adoptions occur naturally through the Foster in Texas program 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 five ORR programs in Texas for children who have migrated to the United States 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 the Organization’s New Life Children’s center that provides a safe place for girls from across Texas to heal from childhood traumas. Upbring’s children’s shelter and transitional foster care programs provide care and support from the Organization’s 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. Upbring works closely with Trinity Charter Schools (TCS) to provide education services to the children in the Organization’s residential treatment program.

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.

## **Lutheran Social Services of the South, Inc.**

### **Notes to Consolidated Statements**

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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.

#### **Note 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. As of March 31, 2025 and 2024, there were no Board Designated funds.

*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.

**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.

**Net assets released from restrictions** – Net assets released from restrictions are net asset reclassifications that result from fulfillment of the purposes for which the net assets were restricted and/or restrictions which expired with the passage of time.

## Lutheran Social Services of the South, Inc.

### Notes to Consolidated Statements

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**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 credit loss of \$45,074 and \$45,074 as of March 31, 2025 and 2024, respectively.

**Contributions receivable** – Promises to give are recorded at cash value 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 recorded a net present value discount on contributions receivable of \$34,318 and \$67,268 at March 31, 2025 and 2024, respectively.

**Inventory** – The Organization's inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out (FIFO) method.

**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, 2025 and 2024.

## Lutheran Social Services of the South, Inc.

### Notes to Consolidated Statements

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- **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.

**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. Maintenance and repairs which do not materially improve or extend the lives of the respective assets are charged to operating expenses as incurred.

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.

## Lutheran Social Services of the South, Inc.

### Notes to Consolidated Statements

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**Grants revenue recognition** – The Organization receives grants from the U.S. government and various other grantors for direct and indirect program costs associated with specific programs and projects. The grants received from the U.S. government are subject to certain restrictions, which are met by incurring qualifying expenses for the particular program or project that is funded by the grant. Revenue from such grants is recognized when the funds have been expended on activities stipulated in the grant agreement. For unconditional grants, revenue is recognized as contribution revenue that increases net assets with donor restrictions at the time the grant is received or pledged, and the funds are released from restriction when the qualifying expenses have been incurred.

**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.

**Deferred grant revenue from programs** – Deferred revenue from programs represents advance payments to the Organization for programs. The Organization had a balance of \$0 and \$200,000 in deferred grant revenue at March 31, 2025 and 2024. As of April 1, 2023, the Organization had a deferred revenue from programs balance of \$200,000.

**Contributed services and facilities** – Contributed services and materials represent in-kind contributions and are reflected in the consolidated statements 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 following contributed services and donated use of facilities in the consolidated statements of activities at March 31:

	2025	2024
Rent	\$ 302,979	\$ 623,584
Services	1,969,636	2,858,559
Goods and supplies	360,128	281,511
	\$ 2,632,743	\$ 3,763,654

## Lutheran Social Services of the South, Inc.

### Notes to Consolidated Statements

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**Advertising costs** – Advertising costs are expensed as incurred. Advertising costs for the years ended March 31, 2025 and 2024, were approximately \$41,000 and \$211,000, respectively, and are included in program expenses in the accompanying consolidated statements of activities.

**Leases** – The Organization leases office facilities under non-cancelable leases expiring between calendar years 2023 and 2027 and accounts for these leases in accordance with Accounting Standards Codification (ASC) 842. These non-cancelable leases have three- to five-year renewal options. The Organization leases certain equipment under non-cancelable leases expiring in 2026. These equipment leases were recorded as operating leases under ASC 842.

The Organization elected the available practical expedients to account for its existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement. The Organization has office lease agreements with lease and non-lease components, which the Organization generally accounts for as a single lease component.

This guidance requires lessees to recognize a lease liability and a right-of-use asset for all leases with terms greater than 12 months on its balance sheet. Whether an arrangement contains a lease is evaluated at the inception of the arrangement. The Organization estimates its lease liability at the present value of future rent payments required under a lease using the imputed rate when identifiable or a risk-free rate for a term approximating the lease term, exclusive of optional term extensions or terminations, in accordance with a policy election available to privately held companies under the guidance. The Organization's right-of-use asset initially is equal to its lease liability, adjusted for any lease incentives received or lease payments made. Rent expense is recorded on a straight-line basis over the term of a lease. Leases of 12 months or less at inception are not included in the Organization's right-of-use assets and lease liabilities.

**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, 2025 and 2024.

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

The Organization accounts for income taxes under Financial Accounting Standards Board 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, 2025 and 2024.

## Lutheran Social Services of the South, Inc.

### Notes to Consolidated Statements

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**Subsequent events** – Subsequent events are events or transactions that occur after the consolidated statement of financial position date but before the consolidated financial statements are available to be issued. The Organization recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statement of financial position, including the estimates inherent in the process of preparing the consolidated financial statements. The Organization’s consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated statement of financial position but arose after the consolidated statement of financial position date and before the consolidated financial statements are available to be issued. In preparing the accompanying consolidated financial statements, the Organization has reviewed events that have occurred through August 4, 2025, the date the financial statements were available to be issued.

### Note 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, 2025 and 2024. 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.

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

Current financial assets, at year end	2025	2024
Cash and cash equivalents	\$ 2,831,413	\$ 2,537,113
Accounts receivable, net	5,280,041	4,837,653
Contributions receivable	468,837	323,557
Investments	42,935,624	42,717,656
	51,515,915	50,415,979
Less resources unavailable for general operations within one year due to donor-imposed time or purpose restrictions	(10,340,220)	(10,195,329)
Net assets restricted by donors with time or purpose restrictions	(3,458,908)	(3,372,305)
Endowments subject to appropriation and satisfaction of donor restrictions	(13,799,128)	(13,567,634)
	\$ 37,716,787	\$ 36,848,345

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. The Organization also maintains a line of credit that is used to help with cash flow for operations. The line of credit has a maximum limit of \$5,000,000, and as of March 31, 2025, \$5,000,000 was available for use.

**Lutheran Social Services of the South, Inc.**  
**Notes to Consolidated Statements**

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**Note 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. 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.

Funding sources representing more than 10% of the Organization's total accounts receivable and revenues as of and for the year ended March 31, 2025, are as follows:

	Accounts Receivable	Revenue
Federal government	80%	86%
State government	12%	-
	92%	86%

Funding sources representing more than 10% of the Organization's total accounts receivable and revenues as of and for the year ended March 31, 2024, are as follows:

	Accounts Receivable	Revenue
Federal government	76%	77%
State government	12%	-
	88%	77%

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.

## Lutheran Social Services of the South, Inc.

### Notes to Consolidated Statements

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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.

#### Note 5 – Investments and Fair Value Measurements

Investments consisted of the following at March 31:

	2025	2024
Domestic and international equity funds	\$ 32,116,566	\$ 33,011,449
Mutual funds	10,401,568	9,440,491
Cryptocurrency	41,022	41,022
Cash	376,468	224,694
	\$ 42,935,624	\$ 42,717,656

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, the Organization's assets at fair value as of March 31, 2025:

	Level 1	Level 2	Level 3	Fair Value
Domestic and international equity funds	\$ 32,116,566	\$ -	\$ -	\$ 32,116,566
Mutual funds	10,401,568	-	-	10,401,568
Cryptocurrency	-	-	41,022	41,022
Cash	376,468	-	-	376,468
Total investments	\$ 42,894,602	\$ -	\$ 41,022	\$ 42,935,624
Beneficial interests in assets held by others	\$ -	\$ -	\$ 8,746,745	\$ 8,746,745

**Lutheran Social Services of the South, Inc.**  
**Notes to Consolidated Statements**

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, 2024:

	Level 1	Level 2	Level 3	Fair Value
Domestic and international equity funds	\$ 33,011,449	\$ -	\$ -	\$ 33,011,449
Mutual funds	9,440,491	-	-	9,440,491
Cryptocurrency	-	-	41,022	41,022
Cash	224,694	-	-	224,694
<b>Total investments</b>	<b>\$ 42,676,634</b>	<b>\$ -</b>	<b>\$ 41,022</b>	<b>\$ 42,717,656</b>
Beneficial interests in assets held by others	\$ -	\$ -	\$ 8,696,640	\$ 8,696,640

Information concerning the significant unobservable inputs used in estimating the fair value of investments as of March 31 is as follows:

2025 and 2024				
Quantitative Information About Level 3 Fair Value Measurements				
	Fair Value	Valuation of Technique	Unobservable Input	Range
Cryptocurrency	\$ 41,022	Cost	Listing prices	<u>N/A*</u>

\* Not included due to the wide range of possible values given the diverse nature of underlying investments

There was no changes in Level 3 assets measured at fair value on a recurring basis for the year ended March 31, 2025 and these assets are valued using the cost basis.

**Note 6 – Property, Buildings, and Equipment**

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

	2025	2024
Buildings and improvements	\$ 24,276,993	\$ 24,252,558
Construction in progress	504,562	-
Equipment	5,733,305	5,725,185
Land and improvements	1,249,310	1,248,039
	31,764,170	31,225,782
Accumulated depreciation	<u>(21,628,806)</u>	<u>(20,689,638)</u>
	<u>\$ 10,135,364</u>	<u>\$ 10,536,144</u>

Depreciation expense for the years ended March 31, 2025 and 2024, was \$954,687 and \$1,002,902, respectively.

**Lutheran Social Services of the South, Inc.**  
**Notes to Consolidated Statements**

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**Note 7 – Operating Leases**

Lease expenses for minimum lease payments for operating leases are recognized on a straight-line basis over the lease term. Rent expense under operating leases for the years March 31, 2025 and 2024, was \$4,910,827 and \$5,408,074, respectively, which is included in occupancy costs, and travel and meeting costs, for the building leases and equipment leases, respectively, in the accompanying consolidated statements of activities. The weighted-average discount rate and weighted-average remaining lease term in years for operating leases as of March 31, 2025 and 2024, were 3.42% and 3.13 years and 1.56% and 3.79 years, respectively.

Future minimum lease payments on operating leases are as follows:

<u>Year ending March 31,</u>	
2026	\$ 4,048,295
2027	2,795,246
2028	1,937,821
2029	1,407,516
2030	104,643
Thereafter	<u>43,276</u>
	10,336,797
Less imputed interest	<u>862,038</u>
Lease liability, net of discount	9,474,759
Current portion	<u>(4,333,216)</u>
	<u><u>\$ 5,141,543</u></u>

**Note 8 – Accrued Expenses and Other**

Accrued expenses consist of the following at March 31:

	<u>2025</u>	<u>2024</u>
Accrued salaries and wages	\$ 5,635,045	\$ 4,712,238
Other accrued expenses	725,811	260,045
Accrued insurance	<u>150,000</u>	<u>150,000</u>
	<u><u>\$ 6,510,856</u></u>	<u><u>\$ 5,122,283</u></u>

**Lutheran Social Services of the South, Inc.**  
**Notes to Consolidated Statements**

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**Note 9 – Net Assets with Donor Restrictions**

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

	<u>2025</u>	<u>2024</u>
Subject to the passage of time		
Time-restricted beneficial interests in assets held by others	\$ 1,285,390	\$ 1,252,103
Subject to purpose restrictions		
Children's services	8,893,115	8,817,647
Donor restricted endowments	638,638	574,726
Community services	161,715	125,579
	<u>9,693,468</u>	<u>9,517,952</u>
Perpetual in nature		
Beneficial interests in assets held by others	7,728,232	7,664,500
Donor restricted endowments	2,820,270	2,797,579
	<u>10,548,502</u>	<u>10,462,079</u>
	<u>\$ 21,527,360</u>	<u>\$ 21,232,134</u>

**Note 10 – 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 Directors 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. The Organization has a policy of annually reviewing and approving a withdrawal from the endowment equal to 2-6% of the rolling 20-quarter average value of the endowment. In establishing this policy, management expects the current spending policy to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment returns.

## Lutheran Social Services of the South, Inc.

### Notes to Consolidated Statements

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Changes in endowment net assets for the fiscal year ended March 31, 2025, are as follows:

	Board Designated	Amounts Subject to Appropriation	Amounts Perpetual in Nature	Total
Balance, March 31, 2023	\$ 1,078,034	\$ 152,067	\$ 2,760,132	\$ 3,990,233
Contributions	-	-	10,000	10,000
Investment return	-	517,724	27,447	545,171
Appropriations for expenditures	<u>(1,078,034)</u>	<u>(95,065)</u>	<u>-</u>	<u>(1,173,099)</u>
Balance, March 31, 2024	-	574,726	2,797,579	3,372,305
Contributions	-	-	13,089	13,089
Investment return	-	179,494	9,602	189,096
Appropriations for expenditures	<u>-</u>	<u>(115,582)</u>	<u>-</u>	<u>(115,582)</u>
Balance, March 31, 2025	<u>\$ -</u>	<u>\$ 638,638</u>	<u>\$ 2,820,270</u>	<u>\$ 3,458,908</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, 2025 and 2024, donor-restricted endowment funds had aggregated original values below current fair values; therefore, no deficiencies are reported.

#### Note 11 – Related-Party Transactions

Residents at residential treatment center receive education services provided by 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, 2025 and 2024, TCS leased office and classroom space from the Organization for approximately \$102,000. For the years ended March 31, 2025 and 2024, the Organization received routine services from TCS for approximately \$96,000 and \$146,000, respectively. For the years ended March 31, 2025 and 2024, TCS received education and support services from the Organization for approximately \$100,000 and \$96,000, respectively.

Casa Gracia NC, LLC (CGNC) is wholly owned by TCS. For the years ended March 31, 2025 and 2024, the Organization received education services from CGNC in the amounts of approximately \$2,552,000 and \$1,959,000, respectively.

## **Lutheran Social Services of the South, Inc.**

### **Notes to Consolidated Statements**

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#### **Note 12 – Commitments and 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 \$141,000 and \$117,000 for the years ended March 31, 2025 and 2024, respectively.

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.

#### **Note 13 – Line of Credit and Long-term Debt**

During the year ended March 31, 2024, the Organization maintained a line of credit (LOC) with a financial institution. The LOC had a maximum of \$5,000,000 with a variable SOFR rate plus 1.30% and a maturity date of January 31, 2025. As of March 31, 2025, the organization renewed the LOC with a maturity date of January 31, 2026 and an upsized maximum of \$10,000,000. As of March 31, 2025 and 2024, the LOC had no balance outstanding.

On April 3, 2013, the Organization entered into a Promissory Note with a principal of \$155,000. The Promissory Note has a maturity date of April 3, 2027, or earlier upon the occurrence of certain events, and carries an interest rate of 3.25%. For the year ended March 31, 2024, the Promissory Note had a balance outstanding of 6,190. The balance of the note was fully paid as of March 31, 2025.

## **Single Audit Reports and Schedules**

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**Lutheran Social Services of the South, Inc.**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended March 31, 2025**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal Assistance Listing Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Total Federal Expenditures</u>
<u>Expenditures of Federal Awards</u>			
U.S. Department of Health and Human Services			
Unaccompanied Children Program			
Unaccompanied Children Program (ORR El Paso Long Term)	93.676		\$ 1,760,321
Unaccompanied Children Program (ORR El Paso Short Term)	93.676		6,204,562
Unaccompanied Children Program (ORR Bokenkamp)	93.676		16,241,397
Unaccompanied Children Program (ORR McAllen)	93.676		10,171,953
Unaccompanied Children Program (ORR Corpus Christi Short Term)	93.676		6,004,912
Unaccompanied Children Program (ORR Corpus Christi Long Term)	93.676		1,227,857
Unaccompanied Children Program (ORR Grace House Residential)	93.676		13,511,864
Unaccompanied Children Program (ORR Loma Alta)	93.676		16,986,218
Unaccompanied Children Program (ORR Krause)	93.676		<u>12,456,120</u>
Total Unaccompanied Children Program			<u>84,565,204</u>
Pass-through Lutheran Refugee Service			
Refugee and Entrant Assistance State/Replacement Designee Administered Programs			
	93.566	2402MDRCMA	<u>398,827</u>
Total Pass-through Lutheran Refugee Service			<u>398,827</u>
Head Start Cluster			
Head Start (South Fort Worth)	93.600		4,585,693
Head Start (Brazoria)	93.600		3,653,102
Head Start (Beeville, Granbury, Live Oak and Refugio "BGLR")	93.600		3,688,611
Head Start (San Antonio)	93.600		1,631,269
Head Start(Galveston)	93.600		3,776,398
Head Start (Wharton/Matagorda Bay)	93.600		3,614,866
Head Start (Nueces)	93.600		<u>3,214,179</u>
Total Head Start Cluster			<u>24,164,118</u>
Total U.S. Department of Health and Human Services			<u>109,128,149</u>
U.S. Department of Agriculture			
Pass-through from the Texas Department of Agriculture			
Child Nutrition Cluster			
Cash Assistance			
National School Lunch Program	10.555	N/A	43,423
U.S.D.A Commodities			
National School Lunch Program	10.555	1229	<u>4,502</u>
Total Child Nutrition Cluster			<u>47,925</u>
Child and Adult Care Food Program	10.558	N/A	<u>276,149</u>
Total U.S. Department of Agriculture			<u>324,074</u>
Total Expenditures of Federal Awards			<u>\$ 109,452,223</u>

See accompanying notes.

# Lutheran Social Services of the South, Inc.

## Notes to Schedule of Expenditures of Federal Awards

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### **Note 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. dba Upbring (the Organization) for the year ended March 31, 2025. 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). 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 statements of financial position, changes in net assets, functional expenses, or cash flows of the Organization.

### **Note 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, 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. The value of commodities received for the year ended March 31, 2025, was \$4,502 and is reported in the Schedule of Expenditures of Federal Awards under the Department of Agriculture Commodities program, Federal Assistance Listing Number 10.555.
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.

### **Note 3 – Indirect Cost**

The Organization has elected to use the de minimis indirect cost rate allowed under the Uniform Guidance.



## **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***

The Board of Directors  
Lutheran Social Services of the South, Inc. dba Upbring

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. dba Upbring (the Organization), which comprise the consolidated statement of financial position as of March 31, 2025, 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, 2025.

### **Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

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## **Report on 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 consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Baker Tilly US, LLP*

Albuquerque, New Mexico  
August 4, 2025



# **Report of Independent Auditors on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance**

The Board of Directors  
Lutheran Social Services of the South, Inc. dba Upbring

## **Report on Compliance for the Major Federal Program**

### ***Opinion on the Major Federal Program***

We have audited Lutheran Social Services of the South, Inc. dba Upbring's (the Organization) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended March 31, 2025. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended March 31, 2025.

### ***Basis for Opinion on the Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (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 the major federal 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 programs.

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### ***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on 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 the 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.

### **Report on Internal Control Over Compliance**

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiency in internal control over compliance that we consider to be significant deficiency.

*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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2025-001 to be a significant deficiency.

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.

*Government Auditing Standards* requires the auditor to perform limited procedures on the Organization's response to the internal control over compliance findings identified in our 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. Accordingly, this report is not suitable for any other purpose.

*Baker Tilly US, LLP*

Albuquerque, New Mexico  
August 4, 2025

**Lutheran Social Services of the South, Inc.**  
**Schedule of Findings and Questioned Costs**  
**Year Ended March 31, 2025**

**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified?  Yes  None reported

Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

Internal control over major federal program:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified?  Yes  None reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?  Yes  No

Identification of major federal program and type of auditor’s report issued on compliance for major federal program:

<i>Assistance Listing Number</i>	<i>Name of Federal Program or Cluster</i>	<i>Type of Auditor’s Report Issued on Compliance for Major Federal Programs</i>
93.676	Unaccompanied Children Program	Unmodified

Dollar threshold used to distinguish between type A and type B programs: \$3,000,000

Auditee qualified as low-risk auditee?  Yes  No

**Lutheran Social Services of the South, Inc.**  
**Schedule of Findings and Questioned Costs**  
**Year Ended March 31, 2025**

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**Section II – Financial Statement Findings**

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No matters noted.

**Lutheran Social Services of the South, Inc.**  
**Schedule of Findings and Questioned Costs**  
**Year Ended March 31, 2025**

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**Section III – Federal Award Findings and Questioned Costs**

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2025-001 – Reporting (Significant Deficiency in Internal Control Over Compliance) (Repeated and Modified – Original 2024-001)

<i>Federal Assistance Listing Number</i>	<i>Program Name</i>	<i>Award Numbers</i>	<i>Award Year</i>
93.676	Unaccompanied Children Program	06CH01285001 90ZU056402	2025 2025

*Criteria* – Federal regulations and grant terms and conditions of the programs require annual special reports to be submitted to the awarding agencies. In accordance with Uniform Guidance 2 CFR 200.303 the Organization should establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal awards. Additionally, maintaining effective internal controls require that the Organization should submit those annual special reports on or before due the due date.

*Condition and context* – The semi-annual, and quarterly reports SF-425 required under the program was submitted after the due date.

*Cause* – The Organization does not have sufficient internal controls over their grant reporting process to ensure that the required reports are submitted on or before the due date.

*Effect* – There is an increased likelihood of noncompliance over reporting requirements.

*Questioned costs* – There were no questioned costs associated with this finding.

*Repeat finding* – This finding was previously reported as finding 2024-001.

*Recommendation* – We recommend that the Organization improve the controls over reporting functions which includes tracking the deadlines for all the reporting requirements.

*Views of responsible officials* – Upbring maintains a calendar of reports due and will add the following steps to their regular reporting process, first Grant Accountants will review all new grant awards for reporting schedules at their inception to ensure that off-cycle reporting requirements are included in the calendar, and Grant Accountants will review that the reports available in the Payment Management Services (PMS) system monthly and include all known due reports. The Grants Manager will review the calendar monthly to ensure that it is maintained with accurate information and the reporting steps are being addressed.

**Lutheran Social Services of the South, Inc.**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended March 31, 2025**

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Finding 2024-001 – Reporting (Significant Deficiency in Internal Control Over Compliance) – Repeated and Modified as Finding 2025-001.

**Lutheran Social Services of the South, Inc.  
Management's Corrective Action Plan  
Year Ended March 31, 2025**

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**Management's Corrective Action Plan  
Lutheran Social Services of the South, Inc. dba Upbring  
2 CFR – 200.511(c)  
Fiscal Year Ended March 31, 2025**

**2025-001 – Reporting (Significant Deficiency in Internal Controls Over Compliance) (Repeated and Modified – Original 2024-001)**

**Management's Response:** We acknowledge the findings related to noncompliance over reporting requirement. Upbring maintains a calendar reminder of reports due dates and have added the following steps to our regular reporting process:

- Grant Accountants will review all new grant awards for reporting schedules at their inception to ensure that off-cycle reporting requirements are included in the calendar, and review that the reports are available in the Payment Management Services (PMS) system monthly and include all known due reports.
- Grants Manager will review the calendar monthly to ensure that it is maintained with accurate information and the reporting steps are being addressed.

**Estimated Completion Date:** Completed as of July 30, 2025

**Responsible Persons:** Chief Financial Officer and Senior Manager of Grant Finance