Consolidated Financial Statements

Lutheran Social Services of the South, Inc.

d/b/a Upbring

As of and for the years ended March 31, 2020 and 2019
with Report of Independent Auditors
Lutheran Social Services of the South, Inc.  
d/b/a Upbring  
Consolidated Financial Statements  
As of and for the years ended March 31, 2020 and 2019

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Report of Independent Auditors

The Board of Directors
Lutheran Social Services of the South, Inc., d/b/a Upbring

We have audited the accompanying consolidated statements of financial position of Lutheran Social Services of the South, Inc. (the “Organization”) d/b/a Upbring as of March 31, 2020 and 2019, and the related consolidated statements of activities, cash flows, and functional expenses for the years then ended.

Management’s Responsibility 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; this includes 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.

Auditor’s Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements 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 entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of March 31, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.
Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated July 30, 2020 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 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.

Emphasis of Matter

As discussed in Note 12 to the consolidated financial statements, on March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigations measures worldwide. The ultimate financial impact and duration of these events cannot be reasonably estimated at this time. Our opinion is not modified with respect to this matter.

Holtzman Partners, LLP

Austin, Texas
July 9, 2020
Lutheran Social Services of the South, Inc.  
d/b/a Upbring  

Consolidated Statements of Financial Position  

As of March 31, 2020 and 2019

<table>
<thead>
<tr>
<th>Assets</th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets:</td>
<td>$5,901,210</td>
<td>$2,044,637</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable, net of allowance for uncollectible accounts</td>
<td>$5,978,557</td>
<td>$7,438,675</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>$726,859</td>
<td>$297,210</td>
</tr>
<tr>
<td>Investments</td>
<td>$33,767,099</td>
<td>$36,457,234</td>
</tr>
<tr>
<td>Total current assets</td>
<td>$46,373,725</td>
<td>$46,237,756</td>
</tr>
<tr>
<td>Beneficial interests in assets held by others</td>
<td>$6,025,278</td>
<td>$6,170,198</td>
</tr>
<tr>
<td>Property, buildings, and equipment, net</td>
<td>$12,667,936</td>
<td>$11,192,919</td>
</tr>
<tr>
<td>Other long-term assets</td>
<td>$865,408</td>
<td>$902,273</td>
</tr>
<tr>
<td>Total assets</td>
<td>$65,932,347</td>
<td>$64,503,146</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities and net assets</th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current liabilities:</td>
<td>$1,162,136</td>
<td>$967,196</td>
</tr>
<tr>
<td>Accounts payable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>$6,564,614</td>
<td>$4,578,622</td>
</tr>
<tr>
<td>Deferred income</td>
<td>$730,024</td>
<td>$590,108</td>
</tr>
<tr>
<td>Current portion of long-term debt</td>
<td>$13,070</td>
<td>$11,115</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>$8,469,844</td>
<td>$6,147,041</td>
</tr>
<tr>
<td>Long-term debt, less current portion</td>
<td>$42,784</td>
<td>$54,926</td>
</tr>
<tr>
<td>Deferred income</td>
<td>$153,017</td>
<td>$199,583</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>$8,665,645</td>
<td>$6,401,550</td>
</tr>
</tbody>
</table>

Net assets:
- Net assets without donor restrictions | $37,572,069 | $39,366,198 |
- Net assets with donor restrictions | $19,694,633 | $18,735,398 |
| Total net assets | $57,266,702 | $58,101,596 |
| Total liabilities and net assets | $65,932,347 | $64,503,146 |

See accompanying notes to consolidated financial statements.
Lutheran Social Services of the South, Inc.  
d/b/a Upbring  

Consolidated Statement of Activities  

For the Year Ended March 31, 2020

<table>
<thead>
<tr>
<th>Without Donor Restrictions</th>
<th>With Donor Restrictions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues, gains and other support:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residential treatments</td>
<td>$42,693,969</td>
<td>$</td>
</tr>
<tr>
<td>Therapeutic foster care</td>
<td>16,472,132</td>
<td>–</td>
</tr>
<tr>
<td>Education</td>
<td>11,465,631</td>
<td>–</td>
</tr>
<tr>
<td>Contributions, grants and bequests</td>
<td>2,340,907</td>
<td>7,620,152</td>
</tr>
<tr>
<td>Community Services</td>
<td>1,193,948</td>
<td>–</td>
</tr>
<tr>
<td>Investment loss, net</td>
<td>(658,851)</td>
<td>(110,019)</td>
</tr>
<tr>
<td>Adoption services</td>
<td>102,069</td>
<td>–</td>
</tr>
<tr>
<td>Change in fair value of beneficial interests in assets held by others</td>
<td>10,968</td>
<td>(83,380)</td>
</tr>
<tr>
<td>Gain on sale of Trinity Place Apartments</td>
<td>2,310,248</td>
<td>–</td>
</tr>
<tr>
<td>Other</td>
<td>513,112</td>
<td>261,449</td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>6,728,967</td>
<td>(6,728,967)</td>
</tr>
<tr>
<td><strong>Total revenues, gains and other support</strong></td>
<td>83,173,100</td>
<td>959,235</td>
</tr>
<tr>
<td><strong>Expenses:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Program services</td>
<td>73,336,526</td>
<td>–</td>
</tr>
<tr>
<td>Management and general</td>
<td>9,250,421</td>
<td>–</td>
</tr>
<tr>
<td>Agency advancement</td>
<td>2,380,282</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>84,967,229</td>
<td>–</td>
</tr>
<tr>
<td><strong>Change in net assets</strong></td>
<td>(1,794,129)</td>
<td>959,235</td>
</tr>
<tr>
<td><strong>Net assets at beginning of year</strong></td>
<td>39,366,198</td>
<td>18,735,398</td>
</tr>
<tr>
<td><strong>Net assets at end of year</strong></td>
<td>$37,572,069</td>
<td>$19,694,633</td>
</tr>
</tbody>
</table>

*See accompanying notes to consolidated financial statements.*
Lutheran Social Services of the South, Inc.

d/b/a Upbring

Consolidated Statement of Activities

For the Year Ended March 31, 2019

<table>
<thead>
<tr>
<th>Revenues, gains and other support:</th>
<th>Without Donor Restrictions</th>
<th>With Donor Restrictions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential treatments</td>
<td>$ 30,120,439</td>
<td>$</td>
<td>–</td>
</tr>
<tr>
<td>Therapeutic foster care</td>
<td>18,360,122</td>
<td>–</td>
<td>18,360,122</td>
</tr>
<tr>
<td>Contributions, grants and bequests</td>
<td>3,024,205</td>
<td>5,956,404</td>
<td>8,980,609</td>
</tr>
<tr>
<td>Community services</td>
<td>1,219,525</td>
<td>–</td>
<td>1,219,525</td>
</tr>
<tr>
<td>Education</td>
<td>4,851,368</td>
<td>–</td>
<td>4,851,368</td>
</tr>
<tr>
<td>Investment income, net</td>
<td>1,202,651</td>
<td>154,550</td>
<td>1,357,201</td>
</tr>
<tr>
<td>Adoption services</td>
<td>176,135</td>
<td>–</td>
<td>176,135</td>
</tr>
<tr>
<td>Change in fair value of beneficial interests in assets held by others</td>
<td>174,533</td>
<td>(350,454)</td>
<td>(175,921)</td>
</tr>
<tr>
<td>Other</td>
<td>1,989,707</td>
<td>–</td>
<td>1,989,707</td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>5,286,896</td>
<td>(5,286,896)</td>
<td>–</td>
</tr>
</tbody>
</table>

| Total revenues, gains and other support | 66,405,581 | 473,604 | 66,879,185 |

<table>
<thead>
<tr>
<th>Expenses:</th>
<th>Without Donor Restrictions</th>
<th>With Donor Restrictions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program services</td>
<td>57,879,110</td>
<td>4,238</td>
<td>57,883,348</td>
</tr>
<tr>
<td>Agency advancement</td>
<td>2,100,141</td>
<td>–</td>
<td>2,100,141</td>
</tr>
</tbody>
</table>

| Total expenses | 67,317,704 | 4,238 | 67,321,942 |

<table>
<thead>
<tr>
<th>Change in net assets</th>
<th>Without Donor Restrictions</th>
<th>With Donor Restrictions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>(912,123)</td>
<td>469,366</td>
<td>(442,757)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net assets at beginning of year</th>
<th>Without Donor Restrictions</th>
<th>With Donor Restrictions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>40,278,321</td>
<td>18,266,032</td>
<td>58,544,353</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net assets at end of year</th>
<th>Without Donor Restrictions</th>
<th>With Donor Restrictions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 39,366,198</td>
<td>$ 18,735,398</td>
<td>$ 58,101,596</td>
<td></td>
</tr>
</tbody>
</table>

See accompanying notes to consolidated financial statements.
Lutheran Social Services of the South, Inc.
d/b/a Upbring

Consolidated Statements of Cash Flows

For the years ended March 31, 2020 and 2019

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in net assets</td>
<td>$ (834,894)</td>
<td>$ (442,757)</td>
</tr>
<tr>
<td>Adjustment to reconcile change in net assets to cash provided by / used in operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions received for capital expenditures</td>
<td>(1,255,033)</td>
<td>(598,879)</td>
</tr>
<tr>
<td>Change in fair value of beneficial interests in assets held by others</td>
<td>144,920</td>
<td>175,921</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>991,424</td>
<td>1,031,595</td>
</tr>
<tr>
<td>Net realized and unrealized losses/(gains) on investments</td>
<td>1,815,101</td>
<td>(365,894)</td>
</tr>
<tr>
<td>Net gain on sale of property, buildings, and equipment</td>
<td>(2,838)</td>
<td>(4,356)</td>
</tr>
<tr>
<td>Receipt of contributed life insurance policies</td>
<td>(261,449)</td>
<td>–</td>
</tr>
<tr>
<td>Changes in operating assets and liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>1,460,118</td>
<td>(588,412)</td>
</tr>
<tr>
<td>Prepaid expenses and other current assets</td>
<td>(168,200)</td>
<td>260,434</td>
</tr>
<tr>
<td>Other long-term assets</td>
<td>36,865</td>
<td>29,356</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>194,940</td>
<td>(272,507)</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>1,985,992</td>
<td>432,128</td>
</tr>
<tr>
<td>Deferred income</td>
<td>93,350</td>
<td>189,369</td>
</tr>
<tr>
<td>Net cash provided by / used in operating activities</td>
<td>4,200,296</td>
<td>(154,002)</td>
</tr>
</tbody>
</table>

Investing activities

| Purchase of property, buildings and equipment and other assets, net | (2,485,104) | (1,037,133) |
| Proceeds from sale of property, buildings, and equipment | 21,500 | 4,356 |
| Net (purchases) sales of investments | 875,035 | (318,062) |
| Net cash used in investing activities | (1,588,569) | (1,350,839) |

Financing activities

| Contributions received for capital expenditures | 1,255,033 | 598,879 |
| Payments on long-term debt | (10,187) | (10,212) |
| Net cash provided by financing activities | 1,244,846 | 588,667 |

Net change in cash and cash equivalents

| Cash and cash equivalents, beginning of year | 2,044,637 | 2,960,811 |
| Cash and cash equivalents, end of year | $ 5,901,210 | $ 2,044,637 |

Supplemental disclosure of cash flow information:

| Cash paid for interest | $         | –         | $ 2,857 |

See accompanying notes to consolidated financial statements
**Consolidated Statement of Functional Expenses**

For the year ended March 31, 2020

<table>
<thead>
<tr>
<th>Program Services</th>
<th>Supporting Services</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Children Services</strong></td>
<td><strong>Shelters for Unaccompanied Children</strong></td>
</tr>
<tr>
<td>-------------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>Salaries and employee benefits</td>
<td>$4,997,065</td>
</tr>
<tr>
<td>Assistance to others</td>
<td>9,432,362</td>
</tr>
<tr>
<td>Occupancy</td>
<td>1,199,471</td>
</tr>
<tr>
<td>Professional and contract services</td>
<td>39,014</td>
</tr>
<tr>
<td>Travel and meetings</td>
<td>332,042</td>
</tr>
<tr>
<td>Other</td>
<td>539,322</td>
</tr>
<tr>
<td><strong>Total Program Services</strong></td>
<td>$16,539,276</td>
</tr>
</tbody>
</table>
Lutheran Social Services of the South, Inc.
d/b/a Upbring

Consolidated Statement of Functional Expenses

For the year ended March 31, 2019

<table>
<thead>
<tr>
<th>Program Services</th>
<th>Supporting Services</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Children</strong></td>
<td><strong>Shelters for Unaccompanied Children</strong></td>
</tr>
<tr>
<td>Salaries and employee benefits</td>
<td>$4,695,137</td>
</tr>
<tr>
<td>Assistance to others</td>
<td>$10,429,358</td>
</tr>
<tr>
<td>Occupancy</td>
<td>$1,389,560</td>
</tr>
<tr>
<td>Professional and contract services</td>
<td>$98,994</td>
</tr>
<tr>
<td>Travel and meetings</td>
<td>$407,205</td>
</tr>
<tr>
<td>Other</td>
<td>$1,017,818</td>
</tr>
<tr>
<td><strong>Total Program Services</strong></td>
<td><strong>$18,038,072</strong></td>
</tr>
</tbody>
</table>

See accompanying notes to consolidated financial statements
Lutheran Social Services of the South, Inc.
d/b/a Upbring

Notes to Consolidated Financial Statements

As of and for the years ended March 31, 2020 and 2019

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 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 our 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 and Krause children’s centers that provide 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 Headstart and Early Headstart Preschool programs that help children from low-income families prepare to start kindergarten ready to learn. The Organization operates two schools: Upbring School of Arts and Sciences in Austin and Upbring School of Discovery and Leadership in Houston. The schools 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.
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 (“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. The only limits on net assets without donor restrictions are those resulting from the nature of the Organization and its purposes.

*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-imposes 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.
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.

Fair Value of Financial Instruments
The Organization groups its assets and liabilities measured at fair value in a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as 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; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The level of the fair value hierarchy in which the fair value measurement falls is determined by the lowest level input that is significant to the fair value measurement.

The Organization’s financial instruments consist principally of cash and cash equivalents, accounts receivable, investments, beneficial interest in assets held by others, accounts payable, accrued expenses, and long-term debt. 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. Cash equivalents and investments, measured at fair value on a recurring basis, are categorized as Level 1 based on quoted prices in active markets. Beneficial interest in assets held by others are carried at the fair value of the underlying investments held by the trusts and are categorized as Level 2. The carrying value of the long-term debt approximates its fair value.

There were no transfers between levels during fiscal years 2020 or 2019.

Use of Estimates
The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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.
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 $108,472 and $93,327 as of March 31, 2020 and 2019, 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 recognized when conditions on which they depend are substantially met. The Organization did not record a net present value discount on contributions receivable at March 31, 2020 and 2019, as the amount would be insignificant. Promises to give are reported in the consolidated statements of financial position as accounts receivable, net and totaled $261,670 and $379,568 as of March 31, 2020 and 2019, respectively.

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.

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 trust at the fair value of the underlying investments held by the trusts. The trust assets are invested in equity securities with 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 accountable to the government for them. 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. During year ended March 31, 2020, the Organization adopted a policy to expense 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.

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 $960,000 and $927,000 of contributed services and donated use of facilities in the consolidated statements of activities for the years ended March 31, 2020 and 2019, respectively.

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, 2020 and 2019, the Organization received approximately $1,806,000 and $221,000, 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, 2020 and 2019 were approximately $93,000 and $61,000, 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 2020 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, 2020 and 2019.
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 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, 2020.

Reclassifications
Certain prior year balances have been reclassified to conform to current year presentation. Total net assets were unchanged due to these reclassifications.

Recent Accounting Pronouncements
In May 2014, the FASB issued Accounting Standard Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606). This ASU will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance, and creates guidance for when revenue should be recognized from the exchange of goods or services. ASU No. 2016-08 was issued in March 2016 to clarify the principal versus agent guidance in this new revenue recognition standard. ASU No. 2020-05 was issued in June 2020 to defer the effective date of ASU 2014-09 for private companies that have not yet issued their financial statements (or made financial statements available for issuance) reflecting the adoption of ASC 606. After this deferral, this standard is effective for annual reporting periods beginning after December 15, 2019. Management is currently evaluating the effect of these provisions on the Company’s financial position and results of operations.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). This standard requires lessees to recognize a lease liability and a lease asset for all leases, including operating leases, with a term greater than 12 months on its balance sheet. The standard also expands the required quantitative and qualitative disclosures surrounding leases. In July 2018 this standard was updated and improved through ASU 2019-10 and ASU 2018-11. In June 2020, the FASB issued ASU 2020-05, which changed the effective date for entities other than public business entities to annual periods beginning after December 15, 2021. Early adoption is permitted. This standard will be applied using a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. However, per ASU 2018-11, the Organization can elect to recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption rather than in the earliest period presented. Management is currently evaluating the effect of these provisions on the Organization’s financial position and results of operations.
In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This standard is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to use a new forward-looking “expected loss” model that generally will result in the earlier recognition of allowances for losses. In November 2019, the FASB issued ASU 2019-10, which changed the effective date for entities other than public business entities to annual periods beginning after December 15, 2022. Early adoption is permitted. This standard will be applied as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. Management is currently evaluating the effect of these provisions on the Organization’s financial position and results of operations.

3. Concentrations of Credit 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.

Funding sources representing more than 10% of the Organization’s total accounts receivable and revenues as of and for the year ended March 31, 2020 are as follows:

<table>
<thead>
<tr>
<th>Accounts Receivable</th>
<th>Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private</td>
<td>23%</td>
</tr>
<tr>
<td>Federal Government</td>
<td>42%</td>
</tr>
<tr>
<td>State Government</td>
<td>31%</td>
</tr>
</tbody>
</table>

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.
In addition, the revenue received from such contracts with Federal Departments 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.

4. 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, 2020. 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:

<table>
<thead>
<tr>
<th>Current financial assets, at year end</th>
<th>As of March 31, 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$5,901,210</td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>5,978,557</td>
</tr>
<tr>
<td>Investments</td>
<td>33,767,099</td>
</tr>
<tr>
<td></td>
<td><strong>45,646,866</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Less resources unavailable for general operations within one year due to donor-imposed time or purpose restriction</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Investments restricted by donors with time or purpose restrictions</td>
<td>$(30,206,381)</td>
</tr>
<tr>
<td>Endowments subject to appropriation and satisfaction of donor restrictions</td>
<td>$(2,107,745)</td>
</tr>
<tr>
<td></td>
<td><strong>(32,314,126)</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial assets available to meet cash needs for general expenditures within one year</th>
<th>As of March 31, 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>$13,332,740</strong></td>
</tr>
</tbody>
</table>

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.
5. Investments

Investments consisted of the following at March 31:

<table>
<thead>
<tr>
<th>Investment Type</th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic and international equity funds</td>
<td>$15,736,857</td>
<td>$18,731,826</td>
</tr>
<tr>
<td>Mutual funds</td>
<td>16,078,103</td>
<td>13,742,431</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>1,315,960</td>
<td>3,072,257</td>
</tr>
<tr>
<td>Cash</td>
<td>553,374</td>
<td>687,316</td>
</tr>
<tr>
<td>International bonds</td>
<td>82,805</td>
<td>223,404</td>
</tr>
<tr>
<td><strong>Total investments</strong></td>
<td><strong>$33,767,099</strong></td>
<td><strong>$36,457,234</strong></td>
</tr>
</tbody>
</table>

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.

6. Property, Buildings, and Equipment

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

<table>
<thead>
<tr>
<th>Property Type</th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings and improvements</td>
<td>$19,401,822</td>
<td>$19,067,375</td>
</tr>
<tr>
<td>Equipment</td>
<td>6,978,717</td>
<td>6,965,689</td>
</tr>
<tr>
<td>Land and improvements</td>
<td>1,215,398</td>
<td>1,209,698</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>2,977,371</td>
<td>880,186</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>30,573,308</strong></td>
<td><strong>28,122,948</strong></td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>(17,905,372)</td>
<td>(16,930,029)</td>
</tr>
<tr>
<td><strong>Total property, buildings, and equipment, net</strong></td>
<td><strong>$12,667,936</strong></td>
<td><strong>$11,192,919</strong></td>
</tr>
</tbody>
</table>

7. Accrued Expenses and Other

Accrued expenses consist of the following at March 31:

<table>
<thead>
<tr>
<th>Expense Type</th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued payroll and benefits</td>
<td>$4,714,838</td>
<td>$3,540,005</td>
</tr>
<tr>
<td>Other accrued expenses</td>
<td>1,346,916</td>
<td>472,085</td>
</tr>
<tr>
<td>Accrued charity care</td>
<td>354,213</td>
<td>417,537</td>
</tr>
<tr>
<td>Accrued insurance</td>
<td>148,647</td>
<td>148,995</td>
</tr>
<tr>
<td><strong>Total accrued expenses and other</strong></td>
<td><strong>$6,564,614</strong></td>
<td><strong>$4,578,622</strong></td>
</tr>
</tbody>
</table>
Notes to Consolidated Financial Statements (continued)

8. Net Assets With Donor Restrictions

Net assets with donor restrictions consist of assets with temporary and permanent restrictions. Temporarily restricted net assets consist of contributions from individuals, local, state, and federal sources, and contributions of beneficial interests in assets held by others, which are all limited in use by donor-imposed restrictions or are inherently time restricted. Permanently restricted net assets consist of irrevocable rights to receive all or a portion of the income earned on trust assets held at third party organizations whose donors have designated the Organization as a beneficiary, and contributions provided to the Organization by various donors to establish donor restricted endowments to be held in perpetuity by the Organization. Net assets with donor restrictions are available for the following purposes at March 31:

<table>
<thead>
<tr>
<th>Temporary restricted net assets:</th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Children’s services</td>
<td>$ 9,651,355</td>
<td>$ 9,787,441</td>
</tr>
<tr>
<td>Beneficial interests in assets held by others</td>
<td>1,166,020</td>
<td>1,274,645</td>
</tr>
<tr>
<td>Disaster response</td>
<td>1,628,944</td>
<td>487,103</td>
</tr>
<tr>
<td>Community services</td>
<td>190,014</td>
<td>107,547</td>
</tr>
<tr>
<td>Total temporarily restricted net assets</td>
<td>12,636,333</td>
<td>11,656,736</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Permanently restricted net assets:</th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beneficial interests in assets held by others</td>
<td>4,859,258</td>
<td>4,895,553</td>
</tr>
<tr>
<td>True donor restricted endowments</td>
<td>2,199,042</td>
<td>2,183,109</td>
</tr>
<tr>
<td>Total permanently restricted net assets</td>
<td>7,058,300</td>
<td>7,078,662</td>
</tr>
<tr>
<td>Total net assets with donor restrictions</td>
<td>$ 19,694,633</td>
<td>$ 18,735,398</td>
</tr>
</tbody>
</table>

9. Endowments

Upbring holds various true-donor restricted endowments, which are classified according to donor’s restrictions.

Upbring 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, Upbring classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment by donors, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the true-donor restricted endowments that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Upbring 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.
Changes in endowment net assets for the year ended March 31, 2020 were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment net assets, beginning of year</td>
<td>$288,508</td>
<td>$2,183,109</td>
<td>$2,471,617</td>
</tr>
<tr>
<td>Contributions</td>
<td>$288,508</td>
<td>$2,183,109</td>
<td>$2,471,617</td>
</tr>
<tr>
<td>Investment return</td>
<td>$288,508</td>
<td>$2,183,109</td>
<td>$2,471,617</td>
</tr>
<tr>
<td>Appropriations for expenditures</td>
<td>$288,508</td>
<td>$2,183,109</td>
<td>$2,471,617</td>
</tr>
<tr>
<td>Endowment net assets (liabilities), end of year</td>
<td>$288,508</td>
<td>$2,183,109</td>
<td>$2,471,617</td>
</tr>
</tbody>
</table>

Changes in endowment net assets for the year ended March 31, 2019 were as follows:

<table>
<thead>
<tr>
<th></th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Endowment net assets, beginning of year</td>
<td>$186,457</td>
<td>$1,761,632</td>
<td>$1,948,089</td>
</tr>
<tr>
<td>Contributions</td>
<td>$186,457</td>
<td>$1,761,632</td>
<td>$1,948,089</td>
</tr>
<tr>
<td>Investment return (loss)</td>
<td>$186,457</td>
<td>$1,761,632</td>
<td>$1,948,089</td>
</tr>
<tr>
<td>Appropriations for expenditures</td>
<td>(9,883)</td>
<td>(9,883)</td>
<td>(9,883)</td>
</tr>
<tr>
<td>Endowment net assets, end of year</td>
<td>$288,508</td>
<td>$2,183,109</td>
<td>$2,471,617</td>
</tr>
</tbody>
</table>

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, 2020 and 2019, donor-restricted endowment funds had aggregated original values below current fair values, therefore, no deficiencies are reported.

10. Related Party Transactions

Residents at residential treatment centers 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 and performing IT services. Additionally, the Organization incurs related party expenses related to education services performed by TCS. TCS leased the office and classroom space from the Organization for approximately $155,000 for both 2020 and 2019. For the years ended March 31, 2020 and 2019, the Organization received education services from TCS in the amounts of approximately $198,000 and $196,000, respectively.
Trinity Place Apartments ("TPA") was a Section 202 Program of Housing for the Elderly or Handicapped in conjunction with the Section 8 Housing Assistance Payments Program. The Organization considers TPA a related party. The Organization provided certain administrative support for a management fee, but did not have economic interest in TPA and TPA was, therefore, not consolidated with the Organization. For the years ended March 31, 2020 and 2019, TPA owed the Organization approximately $9,000 and $111,000, respectively. Additionally, the Organization earned management and bookkeeping fees of approximately $36,000 during 2019. In April 2019, TPA was sold to a third party. As part of the sale, the Organization received proceeds totaling approximately $2,000,000 recorded as other revenues in the consolidated statements of activities.

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 $63,000 for both 2020 and 2019. The Organization recorded a liability for future care of these residents totaling $354,213 and $417,537 as of March 31, 2020 and 2019, respectively.

The Organization had allowances for estimated uncollectible accounts of $108,472 and $93,327 as of March 31, 2020 and 2019, 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, 2020 and 2019 was $3,286,894 and $1,909,573, respectively.

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

<table>
<thead>
<tr>
<th>Fiscal years ending March 31,</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2021</td>
<td>$ 2,925,195</td>
</tr>
<tr>
<td>2022</td>
<td>2,630,052</td>
</tr>
<tr>
<td>2023</td>
<td>1,977,937</td>
</tr>
<tr>
<td>2024</td>
<td>1,347,326</td>
</tr>
<tr>
<td>2025 and thereafter</td>
<td>413,628</td>
</tr>
<tr>
<td>Total future minimum lease payments</td>
<td>$ 9,294,138</td>
</tr>
</tbody>
</table>

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.
12. Subsequent Events

The Organization has evaluated subsequent events through July 9, 2020, which represents the date the consolidated financial statements were available to be issued.

On March 11, 2020, the World Health Organization declared a novel strain of coronavirus ("COVID-19") a "Public Health Emergency of International Concern" and characterized COVID-19 as a pandemic. On March 13, 2020, the President of the United States declared the COVID-19 pandemic a national emergency, invoking powers under the Stafford Act, the legislation that directs federal emergency disaster response. The extent of the impact of COVID-19 on the Organization's operational and financial performance will depend on future developments, including the duration and spread of the outbreak, additional government restrictions, and the impact of COVID-19 on the Organization's operations, all of which are highly uncertain and cannot be predicted.

The Organization holds a note receivable in the amount of $857,275 as of March 31, 2020 that was to be repaid in October 2020. On May 12, 2020, the Organization extended the repayment date by six months.
SINGLE AUDIT INFORMATION
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

Independent Auditor’s Report

Board of Directors
Lutheran Social Services of the South, Inc., d/b/a Upbring

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the consolidated financial statements of Lutheran Social Services of the South, Inc. (the “Organization”) d/b/a Upbring, which comprise the consolidated statement of financial position as of March 31, 2020, and the related consolidated statements of activities, consolidated 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 July 9, 2020.

Internal Control over Financial Reporting

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

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

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

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Holtzman Partners, LLP
Austin, Texas
July 9, 2020
REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH THE UNIFORM GUIDANCE

Independent Auditor’s Report

Board of Directors
Lutheran Social Services of the South, Inc., d/b/a Upbring

Report on Compliance for Each Major Federal Program

We have audited Lutheran Social Services of the South Inc.’s (the “Organization”) d/b/a Upbring, compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on the Organization’s major federal program for the year ended March 31, 2020. 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.

Management’s Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for the Organization’s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization’s compliance.
Opinion on Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended March 31, 2020.

Report on Internal Control over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization’s internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization’s internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 consolidated financial statements of the Organization as of and for the year ended March 31, 2020, and have issued our report thereon dated July 9, 2020, 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.

Holtzman Partners, LLP
Austin, Texas
July 9, 2020
Lutheran Social Services of the South, Inc.  
d/b/a Upbring  
Schedule of Expenditures of Federal Awards  
For the year ended March 31, 2020

<table>
<thead>
<tr>
<th>Federal Grantor/Pass-Through Grantor/Program Title</th>
<th>CFDA Number</th>
<th>Grantor’s Number</th>
<th>Federal Expenditures (Note A)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>U.S. Department of Health &amp; Human Services</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pass-through from the Office of Refugee Resettlement - Division of Unaccompanied Children:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unaccompanied Alien Children Program (ORR El Paso Long Term)</td>
<td>93.676</td>
<td>90ZU00163-03</td>
<td>$882,230</td>
</tr>
<tr>
<td>Unaccompanied Alien Children Program (ORR El Paso Short Term)</td>
<td>93.676</td>
<td>90ZU00229-03</td>
<td>2,372,690</td>
</tr>
<tr>
<td></td>
<td></td>
<td>90ZU00310-01</td>
<td>425,107</td>
</tr>
<tr>
<td>Unaccompanied Alien Children Program (ORR Bokenkamp)</td>
<td>93.676</td>
<td>90ZU00231-03</td>
<td>8,387,883</td>
</tr>
<tr>
<td></td>
<td></td>
<td>90ZU00310-01</td>
<td>1,543,290</td>
</tr>
<tr>
<td>Unaccompanied Alien Children Program (ORR McAllen)</td>
<td>93.676</td>
<td>90ZU00232-03</td>
<td>4,718,961</td>
</tr>
<tr>
<td></td>
<td></td>
<td>90ZU00310-01</td>
<td>888,844</td>
</tr>
<tr>
<td>Unaccompanied Alien Children Program (ORR Corpus Christi)</td>
<td>93.676</td>
<td>90ZU00230-01</td>
<td>3,267,402</td>
</tr>
<tr>
<td></td>
<td></td>
<td>90ZU00309-01</td>
<td>573,668</td>
</tr>
<tr>
<td>Unaccompanied Alien Children Program (ORR Grace House Residential)</td>
<td>93.676</td>
<td>90ZU00260-01</td>
<td>2,476,443</td>
</tr>
<tr>
<td></td>
<td></td>
<td>90ZU00260-02</td>
<td>3,380,390</td>
</tr>
<tr>
<td>Unaccompanied Alien Children Program (ORR Grace House Therapeutic)</td>
<td>93.676</td>
<td>90ZU00260-01</td>
<td>1,072,575</td>
</tr>
<tr>
<td></td>
<td></td>
<td>90ZU00260-02</td>
<td>1,500,939</td>
</tr>
<tr>
<td>Unaccompanied Alien Children Program (ORR Dallas)</td>
<td>93.676</td>
<td>90ZU00260-01</td>
<td>196,100</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>31,686,522</td>
</tr>
<tr>
<td>Pass-through from the Office of Head Start:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Head Start and Early Head Start (Wharton/Matagorda Bay)</td>
<td>93.600</td>
<td>06CH010129-05</td>
<td>3,020,307</td>
</tr>
<tr>
<td></td>
<td></td>
<td>06CH010129-06</td>
<td>287,162</td>
</tr>
<tr>
<td>Head Start and Early Head Start (South Fort Worth)</td>
<td>93.600</td>
<td>06CH010884-01</td>
<td>4,121,614</td>
</tr>
<tr>
<td></td>
<td></td>
<td>06CH011065-01</td>
<td>1,646,073</td>
</tr>
<tr>
<td>Total U.S. Department of Health &amp; Human Services</td>
<td></td>
<td></td>
<td>40,761,684</td>
</tr>
<tr>
<td><strong>U.S. Department of Homeland Security</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pass-through from the Evangelical Lutheran Church in America:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>via its Lutheran Disaster Response US program (ELCA_LDR):</td>
<td>97.088</td>
<td>FEMA-DR-4332-TX</td>
<td>2,597,930</td>
</tr>
<tr>
<td>Total U.S. Department of Homeland Security</td>
<td></td>
<td></td>
<td>2,597,930</td>
</tr>
<tr>
<td><strong>US Department of Agriculture</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pass-through from the Texas Department of Agriculture:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Child Nutrition Cluster:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash Assistance:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>National School Lunch/Breakfast Program</td>
<td>10.555</td>
<td>N/A</td>
<td>230,169</td>
</tr>
<tr>
<td>Non-Cash Assistance:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DB Commodity Program New Life (Note B)</td>
<td>10.555</td>
<td>1229</td>
<td>5,317</td>
</tr>
<tr>
<td>DB Commodity Program Krause (Note B)</td>
<td>10.555</td>
<td>3871</td>
<td>4,822</td>
</tr>
<tr>
<td>Total Child Nutrition Cluster</td>
<td></td>
<td></td>
<td>240,308</td>
</tr>
<tr>
<td>Child and Adult Care Food Program</td>
<td>10.558</td>
<td>N/A</td>
<td>282,083</td>
</tr>
<tr>
<td>Total U.S. Department of Agriculture</td>
<td></td>
<td></td>
<td>522,391</td>
</tr>
<tr>
<td><strong>Total Expenditures of Federal Awards</strong></td>
<td></td>
<td></td>
<td>$43,882,005</td>
</tr>
</tbody>
</table>
Note A - Basis of Presentation
The accompanying schedule of expenditures of federal awards includes the federal grant activity of Lutheran Social Services of the South, Inc. d/b/a Upbring under programs of the federal government for the year ended March 31, 2020. 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 Lutheran Social Services of the South, Inc. d/b/a Upbring, it is not intended to and does not present the consolidated financial position, changes in net assets or cash flows of Lutheran Social Services of the South, Inc. d/b/a Upbring.

Note B - 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.

3) Grants, cost reimbursement contracts, cooperative agreements, and direct appropriations are considered expended when the expenditure or expense transactions occur.

4) Lutheran Social Services of the South, Inc. d/b/a Upbring has elected to not use the 10 percent de minimus indirect cost rate as allowed under the Uniform Guidance, section 414.

5) For those funds that have matching revenues and state funding, federal expenditures were determined by deducting matching revenues from total expenditures.
Part I – Summary of the auditor’s results

Financial Statements

i. The type of audit report issued was unmodified.

ii. There were no significant deficiencies or material weaknesses required to be disclosed by *Government Auditing Standards* issued by the Comptroller General of the United States of America.

iii. There were no instances of noncompliance, as defined by the *Government Auditing Standards*, to the consolidated financial statements.

Audit of Federal Awards

iv. There were no significant deficiencies or material weaknesses required to be disclosed by the Uniform Guidance 2 CFR 200.516(a).

v. The type of report issued on compliance for major programs was unmodified.

vi. The audit disclosed no audit findings, which the auditor is required to report in accordance with 2 CFR 200.516(a).

vii. The major federal program is:
    CFDA# 93.676 Unaccompanied Alien Children Program

viii. The dollar threshold used to distinguish between type A and Type B programs as described in the Uniform Guidance was $1,311,250.

ix. The auditee qualifies as a low-risk auditee under the Uniform Guidance.
Part II – Schedule of Financial Statement Findings – Findings related to the financial statements which are required to be reported in accordance with Government Auditing Standards generally accepted in the United States of America.

No findings were noted.
Schedule of Findings and Questioned Costs (continued)

Part III – Findings and questioned costs for federal awards which are required to be reported under 2CFR200 Section 516(a) of the Uniform Guidance

No findings were noted.