

Consolidated Financial Statements

Lutheran Social Services of the South, Inc.

d/b/a Upbring

*As of and for the years ended March 31, 2021 and 2020
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, 2021 and 2020

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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, 2021 and 2020, 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, 2021 and 2020, 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 22, 2021 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.

Haltzman Partners, LLP

Austin, Texas
July 22, 2021

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

Consolidated Statements of Financial Position

As of March 31, 2021 and 2020

	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,470,312	\$ 5,901,210
Accounts receivable, net of allowance for uncollectible accounts	6,841,462	5,978,557
Prepaid expenses and other current assets	726,199	726,859
Investments	39,564,446	33,767,099
Total current assets	50,602,419	46,373,725
Beneficial interests in assets held by others	7,293,152	6,025,278
Property, buildings, and equipment, net	12,765,881	12,667,936
Other long-term assets	4,204	865,408
Total assets	\$ 70,665,656	\$ 65,932,347
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 1,815,064	\$ 1,162,136
Accrued expenses	5,934,780	6,564,614
Deferred income	851,321	730,024
Current portion of long-term debt	13,070	13,070
Total current liabilities	8,614,235	8,469,844
Long-term debt, less current portion	29,856	42,784
Deferred income	73,995	153,017
Total liabilities	8,718,086	8,665,645
Net assets:		
Net assets without donor restrictions	40,838,575	37,572,069
Net assets with donor restrictions	21,108,995	19,694,633
Total net assets	61,947,570	57,266,702
Total liabilities and net assets	\$ 70,665,656	\$ 65,932,347

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, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support:			
Residential treatments	\$ 38,705,035	\$ -	\$ 38,705,035
Education	22,525,496	-	22,525,496
Therapeutic foster care	16,182,633	-	16,182,633
Investment income, net	8,395,067	1,144,927	9,539,994
Contributions, grants and bequests	4,555,729	3,593,496	8,149,225
Community Services	4,977,983	-	4,977,983
Change in fair value of beneficial interests in assets held by others	1,494	984,144	985,638
Other	947,871	(3,041)	944,830
Adoption services	45,675	-	45,675
Net assets released from restrictions	4,305,164	(4,305,164)	-
Total revenues, gains and other support	100,642,147	1,414,362	102,056,509
Expenses:			
Program services	86,651,777	-	86,651,777
Management and general	8,637,452	-	8,637,452
Agency advancement	2,086,412	-	2,086,412
Total expenses	97,375,641	-	97,375,641
Change in net assets	3,266,506	1,414,362	4,680,868
Net assets at beginning of year	37,572,069	19,694,633	57,266,702
Net assets at end of year	<u>\$ 40,838,575</u>	<u>\$ 21,108,995</u>	<u>\$ 61,947,570</u>

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

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support:			
Residential treatments	\$ 42,693,969	\$ –	\$ 42,693,969
Therapeutic foster care	16,472,132	–	16,472,132
Contributions, grants and bequests	11,465,631	–	11,465,631
Community services	2,340,907	7,620,152	9,961,059
Education	1,193,948	–	1,193,948
Investment loss, net	(658,851)	(110,019)	(768,870)
Adoption services	102,069	–	102,069
Change in fair value of beneficial interests in assets held by others	10,968	(83,380)	(72,412)
Gain on sale of Trinity Place Apartments	2,310,248	–	2,310,248
Other	513,112	261,449	774,561
Net assets released from restrictions	6,728,967	(6,728,967)	–
Total revenues, gains and other support	83,173,100	959,235	84,132,335
Expenses:			
Program services	73,336,526	–	73,336,526
Management and general	9,250,421	–	9,250,421
Agency advancement	2,380,282	–	2,380,282
Total expenses	84,967,229	–	84,967,229
Change in net assets	(1,794,129)	959,235	(834,894)
Net assets at beginning of year	39,366,198	18,735,398	58,101,596
Net assets at end of year	<u>\$ 37,572,069</u>	<u>\$ 19,694,633</u>	<u>\$ 57,266,702</u>

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, 2021 and 2020

	2021	2020
Operating activities		
Change in net assets	\$ 4,680,868	\$ (834,894)
Adjustment to reconcile change in net assets to cash (used in) provided by operating activities:		
Contributions received for capital expenditures	(205,550)	(1,255,033)
Change in fair value of beneficial interests in assets held by others	(445,231)	144,920
Depreciation	1,083,630	991,424
Net realized and unrealized (gain) losses on investments	(9,660,892)	1,815,101
Net gain on sale of property, buildings, and equipment	(3,025)	(2,838)
Receipt of contributed life insurance policies	-	(261,449)
Changes in operating assets and liabilities:		
Accounts receivable, net	(862,905)	1,460,118
Prepaid expenses and other current assets	661	(168,200)
Other long-term assets	861,204	36,865
Accounts payable	652,928	194,940
Accrued expenses	(629,834)	1,985,992
Deferred income	42,275	93,350
Net cash provided by (used in) operating activities	(4,485,871)	4,200,296
Investing activities		
Purchase of property, buildings and equipment and other assets, net	(1,189,868)	(2,485,104)
Proceeds from sale of property, buildings, and equipment	11,318	21,500
Net proceeds on sales of investments	3,040,902	875,035
Net cash provided by (used in) investing activities	1,862,352	(1,588,569)
Financing activities		
Contributions received for capital expenditures	205,550	1,255,033
Payments on long-term debt	(12,929)	(10,187)
Net cash provided by financing activities	192,621	1,244,846
Net change in cash and cash equivalents	(2,430,898)	3,856,573
Cash and cash equivalents, beginning of year	5,901,210	2,044,637
Cash and cash equivalents, end of year	\$ 3,470,312	\$ 5,901,210
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 1,774	\$ -

See accompanying notes to consolidated financial statements

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

Consolidated Statement of Functional Expenses

For the year ended March 31, 2021

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

See accompanying notes to consolidated financial statements.

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

Consolidated Statement of Functional Expenses

For the year ended March 31, 2020

	Program Services							Supporting Services			Grand Total	
	Children Services	Shelters for Unaccompanied Children	Residential Treatment Centers	Education Services	Disaster Response	Community Services	Innovation and Research Initiatives	Total	Management and General	Agency Advancement		Total
Salaries and employee benefits	\$ 4,997,065	\$ 16,570,124	\$ 8,323,842	\$ 6,737,192	\$ 2,793,105	\$ 229,078	\$ 626,483	\$ 40,276,889	\$ 5,560,435	\$ 1,433,344	\$ 6,993,779	\$ 47,270,668
Assistance to others	9,432,362	4,348,874	912,028	732,626	250,373	1,038,395	1,214	16,715,872	52,394	19,730	72,124	16,787,996
Occupancy	1,199,471	6,638,821	875,750	2,259,570	102,450	43,256	19,758	11,139,076	1,719,351	399,387	2,118,738	13,257,814
Professional and contract services	39,014	92,306	108,689	915,168	7,163	–	69,131	1,231,471	1,513,930	127,293	1,641,223	2,872,694
Travel and meetings	332,042	628,473	120,864	310,430	116,193	1,479	7,501	1,516,982	137,375	66,297	203,672	1,720,654
Other	539,322	668,189	458,537	581,212	15,543	398	193,035	2,456,236	266,936	334,231	601,167	3,057,403
Total Expenses	\$ 16,539,276	\$ 28,946,787	\$ 10,799,710	\$ 11,536,198	\$ 3,284,827	\$ 1,312,606	\$ 917,122	\$ 73,336,526	\$ 9,250,421	\$ 2,380,282	\$ 11,630,703	\$ 84,967,229

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, 2021 and 2020

1. Organization

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

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

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

Children’s Services include 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.

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

Notes to Consolidated Financial Statements (continued)

Education services include Head Start and Early Head Start Preschool programs that help children from low-income families prepare to start kindergarten ready to learn. The Organization operates 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.

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

Notes to Consolidated Financial Statements (continued)

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.

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

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

Notes to Consolidated Financial Statements (continued)

quoted prices in active markets. Beneficial interest in assets held by others is 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 have been no changes in Level 1, Level 2, and Level 3 and no changes in valuation techniques for these assets or liabilities for the period ended March 31, 2021 and 2020.

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 \$144,268 and \$108,472 as of March 31, 2021 and 2020, 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, 2021 and 2020, as the amount would be insignificant. Promises to give are reported in the consolidated statements of financial position as accounts receivable, net and totaled \$125,006 and \$261,670 as of March 31, 2021 and 2020, 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.

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

Notes to Consolidated Financial Statements (continued)

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 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.

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

Notes to Consolidated Financial Statements (continued)

Contributions

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

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

Contributed Services and Facilities

Contributed services and materials represent in-kind contributions and are reflected in the statement of activities as contributions at their fair value on the date of receipt. Contributed services are recognized by the Organization if the services received create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributed services relate to office rent and other vendor services. Fair value of the contributed services is determined using current fair market rates for office rent and the actual vendor costs of services provided. The Organization recognized approximately \$3,211,225 and \$960,000 of contributed services and donated use of facilities in the consolidated statements of activities for the years ended March 31, 2021 and 2020, 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, 2021 and 2020, the Organization received approximately \$1,994,000 and \$1,806,000, 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, 2021 and 2020 were approximately \$87,000 and \$93,000, respectively, and are included in program expenses in the accompanying consolidated statements of activities.

Operating Leases

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

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

Notes to Consolidated Financial Statements (continued)

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, 2021 and 2020.

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, 2021.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (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. This standard has been adopted in the financial statements for the period ended March 31, 2021. The adoption of ASC 606 did not have an impact on the financial statements.

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.

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

Notes to Consolidated Financial Statements (continued)

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.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, which eliminates, adds, and modifies certain disclosure requirements for fair value measurements as part of its disclosure framework project. The guidance is effective for all entities for fiscal years beginning after December 15, 2019. Early adoption is permitted. This standard has been adopted beginning with the reporting period ended March 31, 2021.

In September 2020, the FASB issues ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The amendments in the Update require not-for-profit entities to present contributed nonfinancial assets as separate line item in the statement of activities and to disclose additional information about contributed nonfinancial assets to provide additional transparency about their use in the entity's programs and other activities. Retrospective application is required. The amendments in the update are effective for annual periods beginning after June 15, 2021. Early adoption is permitted. Management is currently evaluating the effect of these provisions on the Organization's financial position and results of operations.

3. Concentrations of Risk

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

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

Notes to Consolidated Financial Statements (continued)

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, 2021 are as follows:

	<u>Accounts Receivable</u>	<u>Revenues</u>
Federal Government	50%	52%
State Government	25%	17%
Private	22%	<10%

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

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

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

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

Notes to Consolidated Financial Statements (continued)

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, 2021. 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:

	As of March 31,	
	2021	2020
Current financial assets, at year end		
Cash and cash equivalents	\$ 3,470,312	\$ 5,901,210
Accounts receivable, net	6,841,462	5,978,557
Investments	39,564,446	33,767,099
	49,876,220	45,646,866
Less resources unavailable for general operations within one year due to donor-imposed time or purpose restriction		
Investments restricted by donors with time or purpose restrictions	(31,898,949)	(30,206,381)
Endowments subject to appropriation and satisfaction of donor restrictions	(2,583,461)	(2,107,745)
	(34,482,410)	(32,314,126)
Financial assets available to meet cash needs for general expenditures within one year	\$ 15,393,810	\$ 13,332,740

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:

	2021	2020
Domestic and international equity funds	\$ 23,338,122	\$ 15,736,857
Mutual funds	14,400,726	16,078,103
International bonds	1,305,821	82,805
Cash	519,777	553,374
Corporate bonds	-	1,315,960
Total investments	\$ 39,564,446	\$ 33,767,099

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

Notes to Consolidated Financial Statements (continued)

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

6. Property, Buildings, and Equipment

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

	<u>2021</u>	<u>2020</u>
Buildings and improvements	\$ 23,496,746	\$ 19,401,822
Equipment	6,970,369	6,978,717
Land and improvements	1,246,829	1,215,398
Construction in progress	18,617	2,977,371
Total	<u>31,732,561</u>	30,573,308
Less accumulated depreciation	<u>(18,966,680)</u>	(17,905,372)
Total property, buildings, and equipment, net	<u>\$ 12,765,881</u>	<u>\$ 12,667,936</u>

7. Accrued Expenses and Other

Accrued expenses consist of the following at March 31:

	<u>2021</u>	<u>2020</u>
Accrued payroll and benefits	\$ 5,317,061	\$ 4,714,838
Other accrued expenses	184,350	1,346,916
Accrued charity care	283,369	354,213
Accrued insurance	150,000	148,647
Total accrued expenses and other	<u>\$ 5,934,780</u>	<u>\$ 6,564,614</u>

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.

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

Notes to Consolidated Financial Statements (continued)

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

	<u>2021</u>	<u>2020</u>
Temporarily restricted net assets:		
Children's services	\$ 11,438,415	\$ 9,651,355
Time-restricted beneficial interests in assets held by others	1,304,917	1,166,020
Disaster response	-	1,628,944
Community services	133,111	190,014
Total temporarily restricted net assets	<u>12,876,443</u>	<u>12,636,333</u>
Permanently restricted net assets:		
Beneficial interests in assets held by others	5,988,235	4,859,258
True donor restricted endowments	2,244,317	2,199,042
Total permanently restricted net assets	<u>8,232,552</u>	<u>7,058,300</u>
Total net assets with donor restrictions	<u>\$ 21,108,995</u>	<u>\$ 19,694,633</u>

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, 2021 were as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ (91,297)	\$ 2,199,042	\$ 2,107,745
Contributions	-	11,300	11,300
Investment return	534,568	33,975	568,543
Appropriations for expenditures	(104,127)	-	(104,127)
Endowment net assets, end of year	<u>\$ 339,144</u>	<u>\$ 2,244,317</u>	<u>\$ 2,583,461</u>

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

Notes to Consolidated Financial Statements (continued)

Changes in endowment net assets for the year ended March 31, 2020 were as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 288,508	\$ 2,183,109	\$ 2,471,617
Contributions	-	10,000	10,000
Investment return (loss)	(61,441)	5,933	(55,508)
Appropriations for expenditures	<u>(318,364)</u>	<u>-</u>	<u>(318,364)</u>
Endowment net assets (liabilities), end of year	<u>\$ (91,297)</u>	<u>\$ 2,199,042</u>	<u>\$ 2,107,745</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, 2021 and 2020, 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, 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, 2021 and 2020, TCS leased the office and classroom space from the Organization for approximately \$201,000 and \$155,000, respectively. For the years ended March 31, 2021 and 2020, TCS received education services from the Organization for approximately \$216,000 and \$0, respectively. For the years ended March 31, 2021 and 2020, the Organization received education services from TCS in the amounts of approximately \$0 and \$198,000, respectively.

Casa Garcia NC, LLC (CGNC) is wholly owned by TCS. The contracted educational services provided to the Organization's ORR programs was previously provided by TCS until the fall of 2018. TCS would receive reimbursement for such services from the Texas Education Agency (TEA). In August 2018, TEA determined that funding education for unaccompanied children held in custody or for the federal government being served by Texas public schools was unallowable. To provide continuity in educational services and maintain compliance with ORR year-round educational requirements for all youth under our care, the Organization contracted CGNC for these services. For the years ended March 31, 2021 and 2020, the Organization received education services from CGNC in the amounts of approximately \$872,000 and \$809,000, respectively.

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

Notes to Consolidated Financial Statements (continued)

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, 2021 and 2020, TPA owed the Organization approximately \$0 and \$9,000, respectively. 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 in fiscal year 2020.

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 \$71,000 and \$63,000 for the years ended March 31, 2021 and 2020, respectively. The Organization recorded a liability for future care of these residents totaling approximately \$283,000 and \$354,000 as of March 31, 2021 and 2020, 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, 2021 and 2020 was \$3,974,144 and \$3,286,894, respectively.

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

<u>Fiscal years ending March 31,</u>	
2022	\$ 3,138,001
2023	2,342,446
2024	1,815,297
2025	325,961
2026 and thereafter	304,150
Total future minimum lease payments	<u>\$ 7,925,855</u>

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

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

Notes to Consolidated Financial Statements (continued)

12. Subsequent Events

The Organization has evaluated subsequent events through July 22, 2021, which represents the date the consolidated financial statements were available to be issued.

In May 2021, the Organization made an \$800,000 draw on its line of credit, which was paid in full on July 1, 2021.

In June 2021, the Organization transitioned operations of the Upbring School of Discovery & Leadership based in Houston, Texas to a Lutheran education organization with similar operations in their portfolio. The closure of this location, including \$1.5 million, approximately 2% of anticipated revenues did not impact change in net assets for the year ended March 31, 2021, as operations ceased subsequent to year end and no provisions for closure were necessary.

In July 2021, the Organization relinquished its license to the Texas Health and Human Services Commission to operate the Krause Children's Center in Katy, TX. The discontinued operations, including \$6.5M in revenue or 7% of anticipated operations, will result in a loss as operations cease in the year ending March 31, 2022. The ultimate amount of the loss cannot be determined at this time.

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, 2021, and the related consolidated statements of activities, cash flows, and consolidated functional expenses for the year then ended, and the related notes to the consolidated financial statements and have issued our report thereon dated July 22, 2021.

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.

Haltzman Partners, LLP

Austin, Texas
July 22, 2021



**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 programs for the year ended March 31, 2021. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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 programs 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 Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended March 31, 2021.

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 programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal programs 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, 2021, and have issued our report thereon dated July 22, 2021, 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.

Haltzman Partners, LLP

Austin, Texas
July 22, 2021

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

Schedule of Expenditures of Federal and State Awards

For the year ended March 31, 2021

Federal and State Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass Through Grantor's Number	Federal Expenditures (Note A)
U.S. Department of Health & Human Services			
Pass-through from the Office of Refugee Resettlement - Division of Unaccompanied Children:			
Unaccompanied Alien Children Program (ORR El Paso Long Term)	93.676	90ZU0183-03, 90ZU0374-01, 90ZU0183-02	\$ 801,012
Unaccompanied Alien Children Program (ORR El Paso Short Term)	93.676	90ZU0310-01, 90ZU0310-02, 90ZU0229-02, 90ZU0229-03	2,663,656
Unaccompanied Alien Children Program (ORR Bokenkamp)	93.676	90ZU0307-01, 90ZU0307-02, 90ZU0231-02, 90ZU0231-03	7,281,010
Unaccompanied Alien Children Program (ORR McAllen)	93.676	90ZU0308-01, 90ZU0308-02, 90ZU0231-02, 90ZU0231-03	4,866,105
Unaccompanied Alien Children Program (ORR Corpus Christi)	93.676	90ZU0309-01, 90ZU0309-02, 90ZU0232-02, 90ZU0232-03	3,067,531
Unaccompanied Alien Children Program (ORR Grace House Residential)	93.676	90ZU0260-02, 90ZU0260-03, 90ZU0260-01	5,803,617
Unaccompanied Alien Children Program (ORR Grace House Therapeutic)	93.676	90ZU0268-02, 90ZU0268-03, 90ZU0268-01	2,916,262
Unaccompanied Alien Children Program (ORR Dallas)	93.676	90ZU0283-01	132,979
			<u>27,532,172</u>
Pass-through Lutheran Refugee Service			
Refugee and Entrant Assistance State/Replacement Designee Administered Programs	93.566	2002MDRCMA	35,522
Pass-through the City of Lubbock, Texas			
COVID-19 Low-Income Home Energy Assistance - Comprehensive Energy Assistance Program and CARES Act (CEAP-CV)	93.568	15414	450,804
Pass-through from the Office of Head Start:			
Head Start and Early Head Start (Wharton/Matagorda Bay)	93.600	06CH10129-01-06	2,854,153
COVID-19 Head Start and Early Head Start (Wharton/Matagorda Bay CARES')	93.600	06CH10129-06-01	145,996
Head Start and Early Head Start (Wharton/Matagorda Bay)	93.600	06CH011968-01-00	320,214
Head Start and Early Head Start (South Fort Worth)	93.600	06CH010884-02-00	4,535,931
COVID-19 Head Start and Early Head Start (South Fort Worth CARES')	93.600	06CH010884-02-01	384,918
Head Start and Early Head Start (Brazoria)	93.600	06CH011065-01-00	1,375,764
COVID-19 Head Start and Early Head Start (Brazoria CARES')	93.600	06CH011065-01-02	103,768
Head Start and Early Head Start (Brazoria)	93.600	06CH011065-02-00	2,283,746
Head Start and Early Head Start (Beeville, Granbury, Live Oak and Refugio "BGLR")	93.600	06CH011498-01-00	3,469,340
COVID-19 Head Start and Early Head Start (BGLR CARES')	93.600	06CH011498-01-02	349,765
Head Start and Early Head Start (Galveston)	93.600	06CH011534-01-00	2,774,048
COVID-19 Head Start and Early Head Start (Galveston CARES')	93.600	06CH011534-01-02	275,374
Early Head Start (San Antonio)	93.600	06CH011529-01-00	1,469,498
COVID-19 Early Head Start (San Antonio CARES')	93.600	06CH011529-01-02	50,701
			<u>20,393,216</u>
Total U.S. Department of Health & Human Services			<u>48,411,714</u>
U.S. Department of Housing and Urban Development			
Pass-through the City of Lubbock, Texas			
COVID-19 Home Investment Partnerships Program - Tenant Based Rental Assistance (TBRA) Emergency Assistance Program	14.239	15321	1,715,124
Total U.S. Department of Housing and Urban Development			<u>1,715,124</u>
U.S. Department of Justice			
Pass-through the Texas Office of the Governor			
Crime Victim Assistance	16.575	3960801	150,000
Total U.S. Department of Justice			<u>150,000</u>
U.S. Department of the Treasury			
Pass-through the City of Lubbock, Texas			
COVID-19 Coronavirus Relief Fund - Rent and Utility Assistance	21.019	15358	1,337,870
Total U.S. Department of the Treasury			<u>1,337,870</u>

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

Schedule of Expenditures of Federal and State Awards (continued)

U.S. Department of Homeland Security			
Pass-through from the Evangelical Lutheran Church in America: via its <i>Lutheran Disaster Response US program (ELCA_LDR)</i> :			
National VOADs Project Comeback: Texas	97,088	FEMA-DR-4332-TX	804,831
Total U.S. Department of Homeland Security			<u>804,831</u>
U.S. Department of Agriculture			
Pass-through from the Texas Department of Agriculture:			
Child Nutrition Cluster:			
Cash Assistance:			
National School Lunch/Breakfast Program	10,555	N/A	175,027
Non-Cash Assistance:			
DB Commodity Program New Life (Note B)	10,555	1229	26,039
DB Commodity Program Krause (Note B)	10,555	3871	4,244
Total Child Nutrition Cluster			<u>205,310</u>
Child and Adult Care Food Program	10,558	N/A	248,031
Total U.S. Department of Agriculture			<u>453,341</u>
Total Expenditures of Federal Awards			<u>\$52,872,880</u>
Health and Human Services Commission			
MH Child Residential Treatment	N/A	N/A	\$ 74,907
Total Expenditures of State Awards			<u>\$ 74,907</u>

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal and state awards includes the federal grant activity of Lutheran Social Services of the South, Inc. d/b/a Upbring under programs of the federal and state government for the year ended March 31, 2021. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and the State of Texas Uniform Grant Management Standards (UGMS), which includes the State of Texas Single Audit Circular. Because the schedule presents only a selected portion of the operations of 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 and UGMS, wherein certain types of expenditures are not allowed or are limited as to reimbursement.

2) The commodities received, which are noncash revenues, are valued using prices provided by the United States Department of Agriculture.

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

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

5) For those funds that have matching revenues and state funding, federal and state expenditures were determined by deducting matching revenues from total expenditures.

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

Schedule of Findings and Questioned Costs

For the year ended March 31, 2021

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 #93.600 Head Start and Early Head Start
CFDA#14.239 Home Investment Partnerships Program – Tenant Based Rental Assistance (TBRA) Emergency Assistance Program
CFDA #21.019 Coronavirus Relief Fund – Rent and Utility Assistance
- viii. The dollar threshold used to distinguish between type A and Type B programs as described in the Uniform Guidance was \$1,586,186.
- ix. The auditee qualifies as a low-risk auditee under the Uniform Guidance.

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

Schedule of Findings and Questioned Costs (continued)

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.

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

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.