Lutheran Social Services of the South, Inc.

Consolidated Financial Statements
and Single Audit Reports and Schedules

March 31, 2023 and 2022

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of Lutheran Social Services of the South, Inc. (the "Organization"), which comprise the consolidated statements of financial position as of March 31, 2023 and 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lutheran Social Services of the South, Inc. as of March 31, 2023 and 2022, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Lutheran Social Services of the South, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Change in Accounting Principle

As discussed in Note 14 to the consolidated financial statements, the Organization adopted FASB Topic 842, Leases. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Lutheran Social Services of the South, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Lutheran Social Services of the South, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 3, 2023, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Armanino LLP

Armanino LLP
Austin, Texas

August 3, 2023

Lutheran Social Services of the South, Inc.
Consolidated Statements of Financial Position
March 31, 2023 and 2022

	2023	2022
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,013,347	$ 1,628,226
Accounts receivable, net of allowance for uncollectible accounts	4,780,981	5,335,176
Current portion of contributions receivable	305,000	7,500
Inventory	54,545	-
Prepaid expenses and other current assets	592,095	1,059,705
Investments	37,333,742	42,337,214
Total current assets	45,079,710	50,367,821
Other assets		
Beneficial interests in assets held by others	7,266,857	7,792,452
Property, buildings, and equipment, net	11,363,297	12,211,129
Long-term contributions receivable, net	585,465	-
Right of use leases	7,707,295	-
Total other assets	26,922,914	20,003,581
Total assets	$ 72,002,624	$ 70,371,402

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

Lutheran Social Services of the South, Inc.
Consolidated Statements of Financial Position
March 31, 2023 and 2022

	2023	2022
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$ 2,212,673	$ 2,597,017
Accrued expenses	4,198,366	4,173,152
Deferred grants	200,000	-
Current portion of notes payable	-	13,070
Current portion of lease liability	4,146,770	-
Total current liabilities	10,757,809	6,783,239
Long-term liabilities		
Long-term debt, less current portion	18,835	18,006
Line of credit	250,000	-
Deferred income	-	6,413
Lease liability, less current portion	3,584,822	-
Total long-term liabilities	3,853,657	24,419
Total liabilities	14,611,466	6,807,658
Net assets		
Without donor restrictions		
Board designated	1,078,034	2,394,924
Undesignated	38,027,034	41,349,495
Total without donor restrictions	39,105,068	43,744,419
With donor restrictions	18,286,090	19,819,325
Total net assets	57,391,158	63,563,744
Total liabilities and net assets	$ 72,002,624	$ 70,371,402

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

Lutheran Social Services of the South, Inc.
Consolidated Statement of Activities
For the Year Ended March 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support			
Residential treatments	$ 62,683,562	$ -	$ 62,683,562
Education	22,179,656	-	22,179,656
Therapeutic foster care	11,543,573	-	11,543,573
Contributions, grants and bequests	5,158,554	3,914,770	9,073,324
Community services	2,186,669	-	2,186,669
Investment loss, net	(1,144,427)	(1,560,805)	(2,705,232)
Changes in fair value of beneficial interests in assets held by others	-	(320,301)	(320,301)
Adoption services	9,650	-	9,650
Other	796,030	(9,720)	786,310
Net assets released from restriction	3,557,179	(3,557,179)	-
Total revenues, gains, and other support	106,970,446	(1,533,235)	105,437,211
Functional expenses			
Program services	100,236,497	-	100,236,497
Management and general	9,799,697	-	9,799,697
Agency advancement	1,573,603	-	1,573,603
Total functional expenses	111,609,797	-	111,609,797
Change in net assets	(4,639,351)	(1,533,235)	(6,172,586)
Net assets, beginning of year	43,744,419	19,819,325	63,563,744
Net assets, end of year	$ 39,105,068	$ 18,286,090	$ 57,391,158

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

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

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

Lutheran Social Services of the South, Inc.
Consolidated Statement of Functional Expenses
For the Year Ended March 31, 2023

	Program Services								Support Services			
	Children Services	Shelters for Unaccompanied Children	Residential Treatment Center	Education Services	Disaster Response	Community Services	Innovation and Research Initiatives	Total Program Services	Management and General	Agency Advancement	Total Support Services	Total
Salaries and employee benefits	$ 4,567,049	$ 37,204,189	$ 3,195,541	$ 9,904,904	$ 221,184	$ 212,159	$ 452,547	$ 55,757,573	$ 5,101,433	$ 921,061	$ 6,022,494	$ 61,780,067
Assistance to others	6,356,145	5,440,417	363,355	410,689	79,491	1,920,387	1,056	14,571,540	32,881	11,624	44,505	14,616,045
Occupancy	1,146,723	6,594,431	766,787	4,718,832	4,124	57,557	4,337	13,292,791	2,301,659	254,896	2,556,555	15,849,346
Professional and contract services	89,337	194,609	23,670	4,895,618	2,504	22,414	209,971	5,438,123	1,665,430	214,723	1,880,153	7,318,276
Travel and meetings	308,215	3,454,535	23,467	903,018	13,775	3,749	11,174	4,717,933	133,539	36,216	169,755	4,887,688
Other	405,015	1,439,179	583,722	3,975,929	11,889	23,823	18,980	6,458,537	564,755	135,083	699,838	7,158,375
	$ 12,872,484	$ 54,327,360	$ 4,956,542	$ 24,808,990	$ 332,967	$ 2,240,089	$ 698,065	$ 100,236,497	$ 9,799,697	$ 1,573,603	$ 11,373,300	$ 111,609,797

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

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

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

Lutheran Social Services of the South, Inc.
Consolidated Statements of Cash Flows
For the Years Ended March 31, 2023 and 2022

	2023	2022
Cash flows from operating activities		
Change in net assets	$ (6,172,586)	$ 1,616,174
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Contributions received for capital expenditures	-	(30,800)
Change in fair value of beneficial interests in assets held by others	320,301	(377,334)
Depreciation	1,074,005	1,184,287
Provision for bad debt expense	8,984	-
Net realized and unrealized (gain) loss on investments	3,641,689	(993,032)
Net loss (gain) on sale of property, buildings, and equipment	(19,928)	4,468
Contributions received for beneficial interests in assets held by others	(144,197)	(592,835)
Non-cash operating lease expense	3,195,934	-
Changes in operating assets and liabilities		
Accounts receivable, net	545,211	1,498,786
Pledges receivable	(882,965)	-
Inventory	(54,544)	-
Prepaid expenses and other current assets	467,610	(333,506)
Other long-term assets	-	4,204
Accounts payable	(384,344)	781,953
Accrued expenses	25,214	(1,761,628)
Deferred income	193,587	(918,903)
Lease liability	(3,171,637)	-
Net cash provided by (used in) operating activities	(1,357,666)	81,834
Cash flows from investing activities		
Purchase of property, buildings and equipment and other assets, net	(231,895)	(635,403)
Proceeds from sale of property, buildings, and equipment	25,649	1,400
Purchases of investments	(5,396,656)	(21,500,124)
Proceeds from the sales of investments	6,963,733	19,598,422
Net cash provided by (used in) investing activities	1,360,831	(2,535,705)
Cash flows from financing activities		
Contributions received for capital expenditures	-	30,800
Payments on long-term debt	(12,241)	(11,850)
Proceeds from line of credit draws	2,350,000	-
Payments on line of credit	(2,100,000)	-
Contributions received for beneficial interests in assets held by others	144,197	592,835
Net cash provided by financing activities	381,956	611,785
Net increase (decrease) in cash and cash equivalents	385,121	(1,842,086)
Cash and cash equivalents, beginning of year	1,628,226	3,470,312

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

Lutheran Social Services of the South, Inc.
Consolidated Statements of Cash Flows
For the Years Ended March 31, 2023 and 2022

	2023	2022
Cash and cash equivalents, end of year	$ 2,013,347	$ 1,628,226

Supplemental disclosures of cash flow information

Cash paid during the year for		
Interest	$ 28,600	$ -

Supplemental schedule of noncash investing and financing activities

Right-of-use assets obtained in exchange for operating lease liabilities	$ 10,903,229	$ -

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

1. ORGANIZATION

Lutheran Social Services of the South, Inc. was founded in 1881 as a nonprofit Organization and has a rich legacy of serving vulnerable children, families and communities in Texas through a strong network of programs and services that serve more than 23,000 people annually.

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

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

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

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

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

Education services include Head Start and Early Head Start Preschool programs that help children from low-income families prepare to start kindergarten ready to learn. Upbring works closely with Trinity Charter Schools to provide education services to the children in our residential treatment program.

1. ORGANIZATION (continued)

Disaster Response aided 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. During the year ended March 31, 2023, Lutheran Social Services Disaster Response, Inc. was discontinued by the Organization. See Note 12 regarding these discontinued operations.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and consolidation

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

Without donor restrictions - Net assets available for use in general operations and not subject to donor restrictions. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors. During the years ended March 31, 2023 and 2022, there were $1,078,034 and $2,394,924 included in Board Designated endowments, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of accounting and consolidation (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-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.

Use of estimates

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

Functional allocation of expenses

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

Cash and cash equivalents

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

Accounts receivable

Accounts receivable are recorded at net realizable value. The Organization continually assesses the collectability of outstanding receivable balances and if deemed necessary, maintains an allowance for estimated losses resulting from the non-collection of receivables. In estimating this allowance, the Organization considers factors such as: historical collection experience, a donor's current credit-worthiness, funding concentrations, age of the receivable balance – both individually and in the aggregate – and general economic conditions that may affect a funding source's ability to pay. Actual collections could differ from the Organization's estimates. The Organization had allowances for estimated uncollectible accounts of $45,074 and $79,178 as of March 31, 2023 and 2022, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions receivable

Promises to give are recorded at cash value expected to be collected in one year and at net present value if expected to be collected in more than one year. Conditional promises to give are not included as revenue or contributions receivable until such time as the barriers and right of release/return have been overcome. The Organization recorded a net present value discount on contributions receivable of $104,535 and $0 at March 31, 2023 and 2022, 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.

Fair value measurements

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

- *Level 1* - Observable inputs such as quoted prices in active markets, with valuations obtained from readily available pricing sources for market transactions involving identical assets or liabilities. The investments included in Level 1 are mutual funds typically valued at the closing price reported on the active market on which the individual securities are traded.
- *Level 2* - Inputs (other than quoted market prices included within Level 1) that are either directly or indirectly observable for the asset or liability, through correlation with market data at the measurement date and fair value is determined through the use of models or other valuation techniques. The Organization does not have any Level 2 investments for the years ended March 31, 2023 and 2022.
- *Level 3* - Unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. Fair value for these investments is determined using valuation methodologies that consider a range of factors including but not limited to the nature of the investment, market conditions, current and projected operating performance and changes in operating characteristics of the investment. The investments included in Level 3 are investment trusts typically valued based on information received from the custodian.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

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

Beneficial interests in assets held by others

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

Property, buildings, and equipment

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, buildings, and equipment (continued)

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

Grants revenue recognition

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

Contributions

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

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

Conditional promises to give, including those received under multiyear grant agreements, are recognized as revenue when the conditions on which they depend have been substantially met. At March 31, 2023 and 2022, the Organization had approximately $17,500,000 and $25,100,000, respectively, of conditional funding from federal grantors that had not been recognized as the conditions upon which they depend had not been met.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 $3,971,007 and $3,997,324 of contributed services and donated use of facilities in the consolidated statements of activities for the years ended March 31, 2023 and 2022, 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, 2023 and 2022, the Organization received approximately $2,965,000 and $2,066,000, 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, 2023 and 2022 were approximately $226,000 and $102,000, respectively, and are included in program expenses in the accompanying consolidated statements of activities.

Leases

In February 2016, the FASB issued Accounting Standards Update (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 Organization adopted ASC 842, Leases ("ASC 842") effective April 1, 2022. The Organization recognized and measured leases existing at, or entered into after April 1, 2022 (the beginning of the period of adoption) through a cumulative effect adjustment, with certain practical expedients available. Lease disclosures for the year ended March 31, 2022 are made under prior lease guidance in accordance with FASB ASC 840.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The new standard provides a number of optional practical expedients in transition. The Organization elected the available practical expedients to account for our existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement. The Organization has office lease agreements with lease and non-lease components, which the Organization generally accounts for as a single lease component. The adoption of ASC 842 on April 1, 2022, resulted in the recognition of right-of-use (ROU) assets - operating lease of $10,903,229 and operating lease liabilities of $10,815,404, which represents the present value of the remaining operating lease payments of $12,631,551, discounted using the incremental borrowing rate of 1.425%.

The standard had a material impact on our statement of financial position but did not have an impact on our statement of activities or statement of cash flows. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases.

This guidance requires lessees to recognize a lease liability and a right-of-use asset for all leases with terms greater than 12 months on its balance sheet. Whether an arrangement contains a lease is evaluated at the inception of the arrangement. The Organization estimates its lease liability at the present value of future rent payments required under a lease using the imputed rate when identifiable or a risk-free rate for a term approximating the lease term, exclusive of optional term extensions or terminations, in accordance with a policy election available to privately held companies under the guidance. The Organization's right-of-use asset initially is equal to its lease liability, adjusted for any lease incentives received or lease payments made. Rent expense is recorded on a straight-line basis over the term of a lease. Leases of 12 months or less at inception are not included in the Organization's right-of-use assets and lease liabilities. See Note 14 for additional disclosure related to the impact of adopting the new lease standard.

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, 2023 and 2022.

Income taxes

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes (continued)

The Organization accounts for income taxes under Financial Accounting Standards Board Accounting Standards Codification ("ASC") Topic 740, Income Taxes. The Organization evaluates uncertain tax positions, if any exist, under this topic. The Organization accounts for uncertainty of income taxes based on a "more-likely-than-not" threshold for the recognition and de-recognition of tax positions, which includes the accounting for interest and penalties relating to tax positions. The Organization currently does not have any tax positions that it would consider uncertain at March 31, 2023 and 2022.

Reclassifications

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

Subsequent events

The Organization has evaluated subsequent events through August 3, 2023, the date the financial statements were available to be issued and has determined that there are no additional adjustments and/or disclosures required.

3. LIQUIDITY AND AVAILABILITY OF RESOURCES

The following chart represents the Organization's financial assets available to meet cash needs for general expenditures within one year of March 31, 2023. 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:

3. LIQUIDITY AND AVAILABILITY OF RESOURCES (continued)

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

Current financial assets, at year end	
Cash and cash equivalents	$ 2,013,347
Accounts receivable, net	4,870,406
Contributions receivable	890,465
Investments	37,333,742
	45,107,960
Less resources unavailable for general operations within one year due to donor-imposed time or purpose restrictions:	
Net assets restricted by donors with time or purpose restrictions	(9,303,078)
Endowments subject to appropriation and satisfaction of donor restrictions	(2,912,199)
	(12,215,277)
Less resources unavailable to management without Board's approval:	
Board designated endowment funds	(1,078,034)
	(1,078,034)
	$ 31,814,649

The Organization maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, in accordance with the Board approved Investment Policy, the Organization maintains a balanced investment portfolio which includes short-term investments. These investments are readily available to the Organization for its operations. The Organization also maintains a line of credit that is used to help with cash flow for operations. The line of credit has a maximum limit of $5,000,000, and as of March 31, 2023, $4,750,000 was available for use.

4. CONCENTRATIONS OF RISK

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

4. CONCENTRATIONS OF RISK (continued)

Funding sources representing more than 10% of the Organization's total accounts receivable and revenues as of and for the year ended March 31, 2023 are as follows:

	Accounts Receivable	Revenue
Federal government	63.00 %	76.00 %
State government	16.00	-
	79.00 %	76.00 %

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

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

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

5. INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments consisted of the following at March 31:

	2023	2022
Domestic and international equity funds	$ 28,039,292	$ 35,007,250
Mutual funds	9,072,839	7,151,089
Cryptocurrency	41,022	-
Cash	180,589	178,875
	$ 37,333,742	$ 42,337,214

5. INVESTMENTS AND FAIR VALUE MEASUREMENTS (continued)

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

The following table sets forth by level, within the fair value hierarchy, Organization's assets at fair value as of March 31, 2023:

	Level 1	Level 2	Level 3	Fair Value
Domestic and international equity funds	$ 28,039,292	$ -	$ -	$ 28,039,292
Mutual funds	9,072,839	-	-	9,072,839
Cryptocurrency	-	-	41,022	41,022
Cash	180,589	-	-	180,589
Total investments	$ 37,292,720	$ -	$ 41,022	$ 37,333,742
Beneficial interests in assets held by others	$ -	$ -	$ 7,266,857	$ 7,266,857

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

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

6. PROPERTY, BUILDINGS, AND EQUIPMENT

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

	2023	2022
Buildings and improvements	$ 24,131,040	$ 23,846,448
Equipment	7,159,164	7,203,594
Land and improvements	1,248,039	1,248,039
Construction in progress	-	52,698
	32,538,243	32,350,779
Accumulated depreciation	(21,174,946)	(20,139,650)
	$ 11,363,297	$ 12,211,129

Depreciation expense for the years ended March 31, 2023 and 2022 was $1,074,005 and $1,184,287, respectively.

7. ACCRUED EXPENSES AND OTHER

Accrued expenses consist of the following at March 31:

	2023	2022
Accrued salaries and wages	$ 3,631,842	$ 3,266,643
Other accrued expenses	299,358	564,135
Accrued charity care	117,166	192,374
Accrued insurance	150,000	150,000
	$ 4,198,366	$ 4,173,152

8. NET ASSETS WITH DONOR RESTRICTIONS

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

	2023	2022
Subject to the passage of time:		
Time-restricted beneficial interests in assets held by others	$ 1,196,044	$ 1,295,864
Subject to purpose restrictions:		
Children's services	7,913,114	9,327,418
Donor restricted endowments	152,067	348,651
Community services	193,920	98,837
	8,259,101	9,774,906
Perpetual in nature:		
Beneficial interests in assets held by others	6,070,813	6,496,588
Donor restricted endowments	2,760,132	2,251,967
	8,830,945	8,748,555
	$ 18,286,090	$ 19,819,325

9. ENDOWMENTS

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

9. ENDOWMENTS (continued)

The Organization has interpreted the Texas Uniform Prudent Management of Institutional Funds Act ("TUPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the true-donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (a) the original value of gifts donated to the endowment in perpetuity, (b) the original value of subsequent gifts to the endowment in perpetuity, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowments that is classified within net assets with donor restrictions until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by TUPMIFA. Endowments are included in other investments within the Consolidated Statements of Financial Position. The Organization has a policy of annually reviewing and approving a withdrawal from the endowment equal to 2-6% of the rolling 20-quarter average value of the endowment. In establishing this policy, management expects the current spending policy to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment returns.

Changes in endowment net assets for the fiscal year ended March 31, 2023 is as follows:

	Board Designated	Amounts Subject to Appropriation	Amounts Perpetual in Nature	Total
Balance, March 31, 2022	$ 2,394,924	$ 348,651	$ 2,251,967	$ 4,995,542
Contributions	483,110	-	520,000	1,003,110
Investment return	-	(173,929)	(11,835)	(185,764)
Appropriations for expenditures	(1,800,000)	(22,655)	-	(1,822,655)
Balance, March 31, 2023	$ 1,078,034	$ 152,067	$ 2,760,132	$ 3,990,233

9. ENDOWMENTS (continued)

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

	Board Designated	Amounts Subject to Appropriation	Amounts Perpetual in Nature	Total
Balance, March 31, 2021	$ -	$ 339,144	$ 2,244,317	$ 2,583,461
Contributions	2,455,031	119,059	-	2,574,090
Investment return	19,893	(109,552)	7,650	(82,009)
Appropriations for expenditures	(80,000)	-	-	(80,000)
Balance, March 31, 2022	$ 2,394,924	$ 348,651	$ 2,251,967	$ 4,995,542

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, 2023 and 2022 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 center receive education services provided by Trinity Charter Schools (TCS), an unconsolidated related party non-profit organization. The Organization receives related party income from TCS related to leasing office and classroom space, performing IT services, and providing education services using TCS curriculum. Additionally, the Organization incurs related party expenses related to education services performed by TCS. For the years ended March 31, 2023 and 2022, TCS leased office and classroom space from the Organization for approximately $162,000 and $183,000, respectively. For the years ended March 31, 2023 and 2022, the Organization received routine services from TCS for approximately $91,000 and $141,000, respectively. For the years ended March 31, 2023 and 2022, TCS received education and support services from the Organization for approximately $72,000 and $194,000, respectively.

Casa Garcia NC, LLC (CGNC) is wholly owned by TCS. For the years ended March 31, 2023 and 2022, the Organization received education services from CGNC in the amounts of approximately $1,586,000 and $1,287,000, respectively.

11. COMMITMENTS & CONTINGENCIES

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

As a condition of the sale of a senior services facility, the Organization remains responsible for the care of certain residents. The estimated cost incurred by the Organization to provide these charity services to residents was approximately $44,000 and $73,000 for the years ended March 31, 2023 and 2022, respectively. The Organization recorded a liability for future care of these residents totaling approximately $117,000 and $192,000 as of March 31, 2023 and 2022, respectively.

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

12. DISCONTINUED OPERATIONS

The Organization's consolidating entity, Lutheran Social Services of the South, Inc. Disaster Response ceased operations on December 31, 2022. The shifting landscape in the disaster response landscape has changed in recent years, leading to the decision to support disaster differently. The Organization will support disaster response work through our community engagement efforts and work with key stakeholders when another disaster impacts Texas. There was no loss or gain related to the cessation of operations.

13. LINE OF CREDIT

During the year ended March 31, 2023, the Organization maintained a line of credit (LOC) with a financial institution. The LOC had a maximum of $3,000,000 with a variable SOFR rate plus 1.40%. On December 21, 2022, the LOC was extended with an increased maximum limit of $5,000,000 with a variable SOFR rate (4.64% at March 31, 2023) plus 1.30%. At March 31, 2023, the LOC had a balance outstanding of $250,000 and matures January 31, 2025.

14. LEASES

Lease expenses for minimum lease payments for operating leases are recognized on a straight-line basis over the lease term. Rent expense under operating leases for the years March 31, 2023 and 2022 was $4,856,252 and $4,206,381, respectively, which is included in occupancy costs, and travel and meeting costs, for the building leases and equipment leases, respectively, in the accompanying consolidated statement of activities. The weighted-average discount rate and weighted-average remaining lease term in years for operating leases as of March 31, 2023 were 1.42% and 2.27 years, respectively.

14. LEASES (continued)

Future minimum lease payments on operating leases are as follows

Year ending March 31,	
2024	$ 4,146,770
2025	2,407,705
2026	1,199,519
2027	157,040
2028	13,087
	7,924,121
Less: imputed interest	(192,529)
Lease liability, net of discount	7,731,592
Current portion	(4,146,770)
	$ 3,584,822

SINGLE AUDIT REPORTS AND SCHEDULES

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Lutheran Social Services of the South, Inc. (the "Organization"), which comprise the consolidated statements of financial position as of March 31, 2023, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the consolidated financial statements, and have issued our report thereon dated August 3, 2023.

Report on Internal Control over Financial Reporting

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

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

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

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Armanino LLP

Armanino[LLP]
Austin, Texas

August 3, 2023

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

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Lutheran Social Services of the South, Inc. (the "Organization")'s compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended March 31, 2023. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended March 31, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Organization's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weakness or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

We have audited the consolidated financial statements of the Organization as of and for the year ended March 31, 2023, and have issued our report thereon dated August 3, 2023, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Armanino LLP

Armanino LLP
Austin, Texas

August 3, 2023

Lutheran Social Services of the South, Inc.
Schedule of Expenditures of Federal and State Awards
For the Year Ended March 31, 2023

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Grantor's Number	Total Federal Expenditures
Expenditures of Federal Awards			
U.S. Department of Health and Human Services			
Unaccompanied Alien Children Program			
Unaccompanied Alien Children Program (ORR El Paso Long Term)	93.676		$ 1,146,901
Unaccompanied Alien Children Program (ORR El Paso Short Term)	93.676		4,312,399
Unaccompanied Alien Children Program (ORR Bokenkamp)	93.676		12,239,104
Unaccompanied Alien Children Program (ORR McAllen)	93.676		9,056,572
Unaccompanied Alien Children Program (ORR Corpus Christi)	93.676		4,726,021
Unaccompanied Alien Children Program (ORR Grace House Residential)	93.676		9,903,264
Unaccompanied Alien Children Program (ORR Grace House Therapeutic)	93.676		1,683,497
Unaccompanied Alien Children Program (ORR Loma Alta)	93.676		14,623,247
Unaccompanied Alien Children Program (ORR Krause)	93.676		955,094
Total Unaccompanied Alien Children Program			58,646,099
Pass-through Lutheran Refugee Service			
Refugee and Entrant Assistance State/Replacement Designee Administered Programs	93.566	2102MDRCMA	269,707
Total Pass-through Lutheran Refugee Service			269,707
Head Start and Early Head Start			
Head Start and Early Head Start (American Rescue Funds)	93.600		1,191,887
Head Start and Early Head Start (Wharton/Matagorda Bay)	93.600		3,351,113
Head Start and Early Head Start (South Fort Worth)	93.600		5,143,238
Head Start and Early Head Start (Brazoria)	93.600		2,895,648
Head Start and Early Head Start (Beeville, Granbury, Live Oak and Refugio "BGLR")	93.600		3,964,398
Head Start and Early Head Start (Galveston)	93.600		3,690,121
Early Head Start (San Antonio)	93.600		1,334,304
Total Head Start and Early Head Start			21,570,709
Pass-through Texas Workforce Commission			
Child Care and Development Block Grant - Child Care Relief Fund	93.675	2921CCR006489	153,604
Total U.S. Department of Health and Human Services			80,640,119

Lutheran Social Services of the South, Inc.
Schedule of Expenditures of Federal and State Awards
For the Year Ended March 31, 2023

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Grantor's Number	Total Federal Expenditures
U.S Department of Agriculture			
Pass-through from the Texas Department of Agriculture:			
Child Nutrition Cluster			
Cash Assistance:			
National School Lunch/Breakfast Program	10.555	N/A	96,351
Non-Cash Assistance:			
DB Commodity Program New Life	10.555	1229	4,953
			4,953
Total Child Nutrition Cluster			101,304
Child and Adult Care Food Program	10.558	N/A	158,092
Total U.S Department of Agriculture			259,396
Total Expenditures of Federal Awards			80,899,515
Expenditures of State Awards			
Health and Human Services Commission			
Mental Health Child Residential Treatment	N/A	N/A	233,823
Total Expenditures of State Awards			233,823
Total Expenditures of Federal and State Awards			$ 81,133,338

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

Lutheran Social Services of the South, Inc.
Notes to Schedule of Expenditures of Federal and State Awards
March 31, 2023

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Lutheran Social Services of the South, Inc.(the "Organization") under programs of the federal and state government for the year ended March 31, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements*, *Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the *State of Texas Uniform Grant Management Standards* (UGMS), which includes the State of Texas Single Audit Circular. Because the schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the consolidated financial position, changes in net assets, or cash flows of the Organization.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and UGMS, wherein certain types of expenditures are not allowed or are limited as to reimbursement.

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

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

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

3. INDIRECT COST

The Organization has elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

Lutheran Social Services of the South, Inc.
Schedule of Findings and Questioned Costs
For the Year Ended March 31, 2023

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

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

Identification of major programs:

Name of Federal Program or Cluster	Assistance Listing Number
Unaccompanied Alien Children Program	93.676

Dollar threshold used to distinguish between Type A and Type B programs	$2,434,000
Auditee qualified as low-risk auditee?	Yes

SECTION II - SUMMARY OF FINANCIAL STATEMENT FINDINGS

There are no financial statement findings to be reported.

SECTION III - SUMMARY OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no federal award findings to be reported.

Lutheran Social Services of the South, Inc.
Summary Schedule of Prior Audit Findings
For the Year Ended March 31, 2023

Finding number:	**2022-001**
Criteria:	Contributions without donor imposed restrictions should be properly recorded as without donor restrictions in the financial statements.
Condition:	Large contributions received are classified as restricted by the discretion of the board.
Cause:	During our audit, we discovered a contribution to the Organization that was improperly classified as donor restricted, with a portion of the contribution designated by the board as a restricted endowment.
Effect or potential effect:	Net assets with donor restrictions were overstated by $2,952,534.
Management's Response:	Management has implemented a policy to review all gifts and net asset designations at year-end to validate that treatment is appropriate.