Consolidated Financial Statements
and Supplementary Information

Lutheran Social Services of the South, Inc. dba Upbring

March 31, 2024 and 2023

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MOSSADAMS

Report of Independent Auditors

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

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

Other Matter

The consolidated financial statements of the Organization for the year ended March 31, 2023, were audited by other auditors whose report dated August 3, 2023, expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

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

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations (CFR)* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2024, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Moss Adams LLP

Albuquerque, New Mexico
August 9, 2024

Consolidated Financial Statements

Lutheran Social Services of the South, Inc.
Consolidated Statements of Financial Position
March 31, 2024 and 2023

	2024	2023
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 2,537,113	$ 2,013,347
Accounts receivable, net	4,837,653	4,780,981
Contributions receivable	323,557	305,000
Inventory	655	54,545
Prepaid expenses and other current assets	861,958	592,095
Investments	42,717,656	37,333,742
Total current assets	51,278,592	45,079,710
OTHER ASSETS		
Beneficial interests in assets held by others	8,696,640	7,266,857
Property, buildings, and equipment, net	10,536,144	11,363,297
Long-term contibutions recievable, net	446,732	585,465
Operating right-of-use assets	10,097,973	7,707,295
Total other assets	29,777,489	26,922,914
TOTAL ASSETS	$ 81,056,081	$ 72,002,624

See accompanying notes.

Lutheran Social Services of the South, Inc.
Consolidated Statements of Financial Position
March 31, 2024 and 2023

	2024	2023
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 2,463,036	$ 2,212,673
Accrued expenses	5,122,283	4,198,366
Deferred grant revenue	200,000	200,000
Current portion of operating lease liability	4,608,538	4,146,770
Total current liabilities	12,393,857	10,757,809
LONG-TERM LIABILITIES		
Long-term debt	6,190	18,835
Line of credit	-	250,000
Operating lease liability, less current portion	5,207,504	3,584,822
Total long-term liabilities	5,213,694	3,853,657
Total liabilities	17,607,551	14,611,466
NET ASSETS		
Without donor restrictions		
Board designated	-	1,078,034
Undesignated	42,216,396	38,027,034
Total without donor restrictions	42,216,396	39,105,068
With donor restrictions	21,232,134	18,286,090
Total net assets	63,448,530	57,391,158
TOTAL LIABILITIES AND NET ASSETS	$ 81,056,081	$ 72,002,624

See accompanying notes.

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

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

See accompanying notes.

Lutheran Social Services of the South, Inc.
Consolidated Statement of Activities
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 revenue	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

See accompanying notes.

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

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

See accompanying notes.

Lutheran Social Services of the South, Inc.
Consolidated Statement of Functional Expenses
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

See accompanying notes.

Lutheran Social Services of the South, Inc.
Consolidated Statements of Cash Flows
Years Ended March 31, 2024 and 2023

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 6,057,372	$ (6,172,586)
Adjustments to reconcile change in net assets to net cash from operating activities		
Change in fair value of beneficial interests in assets held by others	(783,062)	320,301
Depreciation	1,002,902	1,074,005
Provision for bad debt expense	45,074	8,984
Net realized and unrealized (gain) loss on investments	(6,689,036)	3,641,689
Net loss (gain) on sale of property, buildings, and equipment	(11,462)	(19,928)
Contributions received for beneficial interests in assets held by others	-	(144,197)
Noncash operating lease expense	(2,390,678)	3,195,934
Changes in operating assets and liabilities		
Accounts receivable	(101,746)	545,211
Contributions receivable	120,176	(882,965)
Inventory	53,890	(54,544)
Prepaid expenses and other current assets	(269,863)	467,610
Accounts payable	250,363	(384,344)
Accrued expenses	923,917	25,214
Deferred grant revenue	-	193,587
Operating lease liability	2,084,450	(3,171,637)
Net cash from operating activities	292,297	(1,357,666)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, buildings, and equipment	(198,879)	(231,895)
Proceeds from sale of property, buildings, and equipment	34,592	25,649
Purchases of investments	(6,093,627)	(5,396,656)
Proceeds from the sales of investments	6,752,028	6,963,733
Net cash from investing activities	494,114	1,360,831
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(12,645)	(12,241)
Proceeds from line of credit draws	-	2,350,000
Payments on line of credit	(250,000)	(2,100,000)
Contributions received for beneficial interests in assets held by others	-	144,197
Net cash from financing activities	(262,645)	381,956
NET INCREASE IN CASH AND CASH EQUIVALENTS	523,766	385,121
CASH AND CASH EQUIVALENTS, beginning of year	2,013,347	1,628,226
CASH AND CASH EQUIVALENTS, end of year	$ 2,537,113	$ 2,013,347

See accompanying notes.

Lutheran Social Services of the South, Inc.
Consolidated Statements of Cash Flows
Years Ended March 31, 2024 and 2023

	2024	2023
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for		
Interest	$ 25,393	$ 28,600
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Right-of-use assets obtained in exchange for operating lease liabilities	$ 7,135,439	$ 10,903,229

See accompanying notes.

Note 1 – Organization

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

Lutheran Social Services of the South, Inc. operates under the 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 affiliate: Lutheran Properties, Inc. Upbring and its affiliate are hereinafter referred to as the "Organization."

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

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

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

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

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

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

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

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

Note 2 – Summary of Significant Accounting Policies

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

Without donor restrictions – Net assets available for use in general operations and not subject to donor restrictions. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors. During the years ended March 31, 2024 and 2023, there were $0 and $1,078,034 included in Board Designated endowments, respectively.

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 credit loss of $45,074 and $45,074 as of March 31, 2024 and 2023, respectively.

Contributions receivable – Promises to give are recorded at cash value expected to be collected in one year and at net present value if expected to be collected in more than one year. Conditional promises to give are not included as revenue or contributions receivable until such time as the barriers and right of release/return have been overcome. The Organization recorded a net present value discount on contributions receivable of $67,268 and $104,535 at March 31, 2024 and 2023, respectively.

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

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

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

- **Level 1** – Observable inputs such as quoted prices in active markets, with valuations obtained from readily available pricing sources for market transactions involving identical assets or liabilities. The investments included in Level 1 are mutual funds typically valued at the closing price reported on the active market on which the individual securities are traded.

- **Level 2** – Inputs (other than quoted market prices included within Level 1) that are either directly or indirectly observable for the asset or liability, through correlation with market data at the measurement date and fair value is determined through the use of models or other valuation techniques. The Organization does not have any Level 2 investments for the years ended March 31, 2024 and 2023.

- **Level 3** – Unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. Fair value for these investments is determined using valuation methodologies that consider a range of factors including but not limited to the nature of the investment, market conditions, current and projected operating performance, and changes in operating characteristics of the investment. The investments included in Level 3 are investment trusts typically valued based on information received from the custodian.

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

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

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

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

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.

Receivables and deferred grant revenue from programs – Receivables from programs represent amounts due from the Organization's programs and activities. Deferred revenue from programs represents advance payments to the Organization for programs and activities to be conducted in fiscal year 2025. At April 1, 2022, the Organization had $0 in deferred grant revenue.

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 $3,763,653 and $3,971,007 of contributed services and donated use of facilities in the consolidated statements of activities for the years ended March 31, 2024 and 2023, respectively.

Advertising costs – Advertising costs are expensed as incurred. Advertising costs for the years ended March 31, 2024 and 2023, were approximately $211,000 and $226,000, respectively, and are included in program expenses in the accompanying consolidated statements of activities.

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

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

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

Employee retirement plan – The Organization sponsors a 403(b) plan (the Plan) for the benefit of substantially all employees. The Organization is the administrator of the Plan. Participants may elect to contribute up to the annual maximum set by the Internal Revenue Service. The Organization did not contribute to the plan during the years ended March 31, 2024 and 2023.

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

The Organization accounts for income taxes under Financial Accounting Standards Board ASC Topic 740, *Income Taxes*. The Organization evaluates uncertain tax positions, if any exist, under this topic. The Organization accounts for uncertainty of income taxes based on a “more likely than not” threshold for the recognition and de-recognition of tax positions, which includes the accounting for interest and penalties relating to tax positions. The Organization currently does not have any tax positions that it would consider uncertain at March 31, 2024 and 2023.

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 – Subsequent events are events or transactions that occur after the consolidated statement of financial position date but before the consolidated financial statements are available to be issued. The Organization recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statement of financial position, including the estimates inherent in the process of preparing the consolidated financial statements. The Organization's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated statement of financial position but arose after the consolidated statement of financial position date and before the consolidated financial statements are available to be issued. In preparing the accompanying consolidated financial statements, the Organization has reviewed events that have occurred through August 9, 2024, the date the financial statements were available to be issued.

Note 3 – Liquidity and Availability of Resources

The following chart represents the Organization's financial assets available to meet cash needs for general expenditures within one year of March 31, 2024. Due to the nature of the restrictions from contributions received from donors and beneficial interests in assets held by others, the Organization has omitted all restricted contributions and beneficial interests in assets held by others.

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

Current financial assets, at year end:	2024	2023
Cash and cash equivalents	$ 2,537,113	$ 2,013,347
Accounts receivable, net	4,837,653	4,870,406
Contributions receivable	770,289	890,465
Investments	42,717,656	37,333,742
	50,862,711	45,107,960
Less resources unavailable for general operations within one year due to donor-imposed time or purpose restrictions:	(10,195,329)	(9,303,078)
Net assets restricted by donors with time or purpose restrictions	(3,372,305)	(2,912,199)
Endowments subject to appropriation and satisfaction of donor restrictions	(13,567,634)	(12,215,277)
Less resources unavailable to management without Board's approval:		
Board designated endowment funds	-	(1,078,034)
	$ 37,295,077	$ 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, 2024, $5,000,000 was available for use.

Note 4 – Concentrations of Risk

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

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

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

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%	76%
State government	16%	-
	79%	76%

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.

Note 5 – Investments and Fair Value Measurements

Investments consisted of the following at March 31:

	2024	2023
Domestic and international equity funds	$ 33,011,449	$ 28,039,292
Mutual funds	9,440,491	9,072,839
Cryptocurrency	41,022	41,022
Cash	224,694	180,589
	$ 42,717,656	$ 37,333,742

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

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of March 31, 2024:

	Level 1	Level 2	Level 3	Fair Value
Domestic and international equity funds	$ 33,011,449	$ -	$ -	$ 33,011,449
Mutual funds	9,440,491	-	-	9,440,491
Cryptocurrency	-	-	41,022	41,022
Cash	224,694	-	-	224,694
Total investments	$ 42,451,940	$ -	$ 41,022	$ 42,717,656
Beneficial interests in assets held by others	$ -	$ -	$ 8,696,640	$ 8,696,640

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, 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

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

2024

Quantitative Information About Level 3 Fair Value Measurements

	Fair Value	Valuation of Technique	Unobservable Input	Range
Cryptocurrency	$ 41,022	Market, cost, or income	Listing prices	na*

2023

Quantitative Information About Level 3 Fair Value Measurements

	Fair Value	Valuation of Technique	Unobservable Input	Input Value
Cryptocurrency	$ 41,022	Market, cost, or income	Listing prices	na*

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

Note 6 – Property, Buildings, and Equipment

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

	2024	2023
Buildings and improvements	$ 24,252,558	$ 24,131,040
Equipment	5,725,185	7,159,164
Land and improvements	1,248,039	1,248,039
	31,225,782	32,538,243
Accumulated depreciation	(20,689,638)	(21,174,946)
	$ 10,536,144	$ 11,363,297

Depreciation expense for the years ended March 31, 2024 and 2023, was $1,002,902 and $1,074,005, respectively.

Note 7 – Operating Leases

Lease expenses for minimum lease payments for operating leases are recognized on a straight-line basis over the lease term. Rent expense under operating leases for the years March 31, 2024 and 2023, was $5,408,074 and $4,856,252, 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, 2024 and 2023, were 1.56% and 3.79 years and 1.42% and 2.27 years, respectively.

Future minimum lease payments on operating leases are as follows:

Year ending March 31,	
2025	$ 4,100,035
2026	3,068,812
2027	2,196,628
2028	1,642,752
Thereafter	1,524,041
	12,532,268
Less imputed interest	2,716,226
Lease liability, net of discount	9,816,042
Current portion	(4,608,538)
	$ 5,207,504

Note 8 – Accrued Expenses and Other

Accrued expenses consist of the following at March 31:

	2024	2023
Accrued salaries and wages	$ 4,712,238	$ 3,631,842
Other accrued expenses	260,045	299,358
Accrued charity care	-	117,166
Accrued insurance	150,000	150,000
	$ 5,122,283	$ 4,198,366

Note 9 – Net Assets with Donor Restrictions

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

	2024	2023
Subject to the passage of time		
Time-restricted beneficial interests in assets held by others	$ 1,252,103	$ 1,196,044
Subject to purpose restrictions		
Children's services	8,817,647	7,913,114
Donor restricted endowments	574,726	152,067
Community services	125,579	193,920
	9,517,952	8,259,101
Perpetual in nature		
Beneficial interests in assets held by others	7,664,500	6,070,813
Donor restricted endowments	2,797,579	2,760,132
	10,462,079	8,830,945
	$ 21,232,134	$ 18,286,090

Note 10 – Endowments

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

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

Changes in endowment net assets for the fiscal year ended March 31, 2024, are 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
Contributions	-	-	10,000	10,000
Investment return	-	517,724	27,447	545,171
Appropriations for expenditures	(1,078,034)	(95,065)	-	(1,173,099)
Balance, March 31, 2024	$ -	$ 574,726	$ 2,797,579	$ 3,372,305

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, 2024 and 2023, donor-restricted endowment funds had aggregated original values below current fair values; therefore, no deficiencies are reported.

Note 11 – Related-Party Transactions

Residents at residential treatment center receive education services provided by TCS, an unconsolidated related-party non-profit organization. The Organization receives related-party income from TCS related to leasing office and classroom space, performing IT services, and providing education services using TCS curriculum. Additionally, the Organization incurs related-party expenses related to education services performed by TCS. For the years ended March 31, 2024 and 2023, TCS leased office and classroom space from the Organization for approximately $102,000 and $162,000, respectively. For the years ended March 31, 2024 and 2023, the Organization received routine services from TCS for approximately $96,000 and $91,000, respectively. For the years ended March 31, 2024 and 2023, TCS received education and support services from the Organization for approximately $146,000 and $72,000, respectively.

Casa Gracia NC, LLC (CGNC) is wholly owned by TCS. For the years ended March 31, 2024 and 2023, the Organization received education services from CGNC in the amounts of approximately $1,959,000 and $1,586,000, respectively.

Note 12 – Commitments and Contingencies

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

As a condition of the sale of a senior services facility, the Organization remains responsible for the care of certain residents. The estimated cost incurred by the Organization to provide these charity services to residents was approximately $117,000 and $44,000 for the years ended March 31, 2024 and 2023, respectively. The Organization recorded a liability for future care of these residents totaling approximately $0 and $117,000 as of March 31, 2024 and 2023, respectively.

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

Note 13 – Line of Credit and Long-term Debt

During the year ended March 31, 2024, the Organization maintained a line of credit (LOC) with a financial institution. The LOC had a maximum of $5,000,000 with a variable SOFR rate plus 1.30% and a maturity date of January 31, 2025. For the years ended March 31, 2024 and 2023, the LOC had a balance outstanding of $0 and $250,000, respectively.

On April 3, 2013, the Organization entered into a Promissory Note with a principal of $155,000. The Promissory Note has a maturity date of April 3, 2027, or earlier upon the occurrence of certain events, and carries an interest rate of 3.25%. For the years ended March 31, 2024 and 2023, the Promissory Note had a balance outstanding of $6,190 and $18,235, respectively.

Single Audit Reports and Schedules

Lutheran Social Services of the South, Inc.
Schedule of Expenditures of Federal Awards
Year Ended March 31, 2024

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 Children Program			
Unaccompanied Children Program (ORR El Paso Long Term)	93.676		$ 1,358,841
Unaccompanied Children Program (ORR El Paso Short Term)	93.676		6,061,699
Unaccompanied Children Program (ORR Bokenkamp)	93.676		14,409,582
Unaccompanied Children Program (ORR McAllen)	93.676		10,189,668
Unaccompanied Children Program (ORR Corpus Christi)	93.676		5,849,700
Unaccompanied Children Program (ORR Grace House Residential)	93.676		12,161,804
Unaccompanied Children Program (ORR Grace House Therapeutic)	93.676		(13,018)
Unaccompanied Children Program (ORR Loma Alta)	93.676		17,132,709
Unaccompanied Children Program (ORR Krause)	93.676		9,575,343
Total Unaccompanied Children Program			76,726,328
Pass-through Lutheran Refugee Service			
Refugee and Entrant Assistance State/Replacement Designee Administered Programs	93.566	2302MDRCMA	312,271
Total Pass-through Lutheran Refugee Service			312,271
Head Start Cluster			
Head Start (South Fort Worth)	93.600		4,769,634
Head Start (Brazoria)	93.600		3,095,069
Head Start (Beeville, Granbury, Live Oak and Refugio "BGLR")	93.600		3,862,715
Head Start (San Antonio)	93.600		1,341,834
Head Start(Galveston)	93.600		3,678,360
Head Start (Wharton/Matagorda Bay)	93.600		3,489,085
Head Start (American Rescue Funds)	93.600		3,500
Total Head Start Cluster			20,240,197
Total U.S. Department of Health and Human Services			97,278,796
U.S. Department of Agriculture			
Pass-through from the Texas Department of Agriculture			
Child Nutrition Cluster			
Cash Assistance			
National School Lunch Program	10.555	N/A	79,223
U.S.D.A Commodities			
National School Lunch Program	10.555	1229	5,925
Total Child Nutrition Cluster			85,148
Child and Adult Care Food Program	10.558	N/A	174,730
Total U.S. Department of Agriculture			259,878
Total Expenditures of Federal Awards			$ 97,538,674

See accompanying notes.

Note 1 – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Lutheran Social Services of the South, Inc. dba Upbring (the Organization) for the year ended March 31, 2024. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the consolidated statements of financial position, changes in net assets, functional expenses, or cash flows of the Organization.

Note 2 – Summary of Significant Accounting Policies

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

2. The commodities received, which are noncash revenues, are valued using prices provided by the United States Department of Agriculture. The value of commodities received for the year ended March 31, 2024, was $5,925 and is reported in the Schedule of Expenditures of Federal Awards under the Department of Agriculture Commodities program, Federal Assistance Listing Number 10.555.

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

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

Note 3 – Indirect Cost

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

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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Lutheran Social Services of the South, Inc. dba Upbring (the Organization), which comprise the consolidated statement of financial position as of March 31, 2024, 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 9, 2024.

Report on 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) 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 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.

Moss Adams LLP

Albuquerque, New Mexico
August 9, 2024

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

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

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited Lutheran Social Services of the South, Inc. d/b/a Upbring (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 the Organization's major federal program for the year ended March 31, 2024. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended March 31, 2024.

Basis for Opinion on the Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

In performing an audit in accordance with GAAS, *Government Auditing Standards,* and the Uniform Guidance, we

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

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

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2024-001 to be a significant deficiency.

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

Government Auditing Standards requires the auditor to perform limited procedures on the Organization’s response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The Organization’s response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Moss Adams LLP

Albuquerque, New Mexico
August 9, 2024

Section I – Summary of Audit Results

Financial Statements

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

Internal control over financial reporting:

• Material weakness(es) identified?	☐ Yes	☒ No
• Significant deficiency(ies) identified?	☐ Yes	☒ None reported
Noncompliance material to financial statements noted?	☐ Yes	☒ No

Federal Awards

Internal control over major federal program:

• Material weakness(es) identified?	☐ Yes	☒ No
• Significant deficiency(ies) identified?	☒ Yes	☐ None reported
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	☒ Yes	☐ No

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

Assistance Listing Number	*Name of Federal Program or Cluster*	*Type of Auditor's Report Issued on Compliance for Major Federal Programs*
93.600	Head Start Cluster	Unmodified

Dollar threshold used to distinguish between type A and type B programs:	$ 2,926,160	
Auditee qualified as low-risk auditee?	☒ Yes	☐ No

Section II – Financial Statement Findings

No matters noted.

Section III – Federal Award Findings and Questioned Costs

2024-001 – Reporting (Significant Deficiency in Internal Control Over Compliance)

Assistance Listing Number	*Program Name*	*Award Numbers*	*Award Year*
93.600	Head Start Cluster	06CH011065	2024
		06CH011534	2024
		06CH011529	2024
		06CG011498	2024

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

Condition and context – The annual special report SF-429 A required under the program was submitted after the due date.

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

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

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

Repeat finding – This is not a repeat finding.

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

Views of responsible officials – The report was submitted late as noted. There has been turnover of all the staff in the Head Start Finance area since the previous report was submitted. Additionally, the oversight was discovered by the existing team just eight business days after the deadline and immediately remedied. The grant team has implemented personal calendar reminders to ensure that the mistake is not repeated. Additionally, the finance department will work to create a deadlines calendar to support the team and ensure compliance.

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