Consolidated Financial Statements

Lutheran Social Services of the South, Inc.

d/b/a Upbring

As of and for the years ended March 31, 2018 and 2017
with Report of Independent Auditors

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

Consolidated Financial Statements

As of and for the years ended March 31, 2018 and 2017

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Report of Independent Auditors

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

We have audited the accompanying consolidated statements of financial position of Lutheran Social Services of the South, Inc. (the "Organization") *d/b/a* Upbring as of March 31, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards issued by the Comptroller General of the United States*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of March 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

HOLTZMAN PARTNERS

AUDIT · TAX · ADVISORY

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2018 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Holtzman Partners, LLP

Austin, Texas
August 17, 2018

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

Consolidated Statements of Financial Position

As of March 31, 2018 and 2017

		Donor Restricted			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**2018 Total**	**2017 Total**
Assets					
Current assets:					
Cash and cash equivalents	**$ 2,960,811**	**$ –**	**$ –**	**$ 2,960,811**	$ 4,265,050
Accounts receivable, net of allowance for uncollectible accounts	**6,850,263**	**–**	**–**	**6,850,263**	4,837,240
Prepaid expenses and other current assets	**557,644**	**–**	**–**	**557,644**	401,900
Total current assets	**10,368,718**	**–**	**–**	**10,368,718**	9,504,190
Investments					
Marketable securities	**23,853,366**	**10,558,875**	**1,803,006**	**36,215,247**	35,457,649
Beneficial interest in assets held by others	**–**	**552,114**	**5,352,037**	**5,904,151**	5,642,085
Total investments	**23,853,366**	**11,110,989**	**7,155,043**	**42,119,398**	41,099,734
Property, buildings, and equipment, net	**11,187,379**	**–**	**–**	**11,187,379**	11,654,238
Other long-term assets	**931,629**	**–**	**–**	**931,629**	958,486
Total assets	**$ 46,341,092**	**$ 11,110,989**	**$ 7,155,043**	**$ 64,607,124**	$ 63,216,648
Liabilities and net assets					
Current liabilities:					
Accounts payable	**$ 1,239,702**	**$ –**	**$ –**	**$ 1,239,702**	$ 871,748
Accrued expenses	**4,146,494**	**–**	**–**	**4,146,494**	4,010,212
Current portion of deferred income	**436,044**	**–**	**–**	**436,044**	185,732
Current portion of long-term debt	**10,751**	**–**	**–**	**10,751**	10,407
Total current liabilities	**5,832,991**	**–**	**–**	**5,832,991**	5,078,099
Long-term debt, less current portion	**65,502**	**–**	**–**	**65,502**	76,254
Deferred income	**164,278**	**–**	**–**	**164,278**	–
Total liabilities	**6,062,771**	**–**	**–**	**6,062,771**	5,154,353
Net assets:					
Unrestricted	**40,278,321**	**–**	**–**	**40,278,321**	41,266,317
Temporarily restricted	**–**	**11,110,989**	**–**	**11,110,989**	9,823,446
Permanently restricted	**–**	**–**	**7,155,043**	**7,155,043**	6,972,532
Total net assets	**40,278,321**	**11,110,989**	**7,155,043**	**58,544,353**	58,062,295
Total liabilities and net assets	**$ 46,341,092**	**$ 11,110,989**	**$ 7,155,043**	**$ 64,607,124**	$ 63,216,648

See accompanying notes to consolidated financial statements.

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

Consolidated Statement of Activities

For the Year Ended March 31, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Residential treatments	**$ 25,647,972**	**$ –**	**$ –**	**$ 25,647,972**
Therapeutic foster care	**17,996,913**	**–**	**–**	**17,996,913**
Contributions, grants and bequests	**6,087,813**	**2,770,080**	**10,987**	**8,868,880**
Education	**3,645,325**	**–**	**–**	**3,645,325**
Investment income	**2,457,882**	**479,034**	**353,815**	**3,290,731**
Adoption services	**280,169**	**–**	**–**	**280,169**
Community integration	**1,120**	**–**	**–**	**1,120**
Other	**198,133**	**–**	**–**	**198,133**
Net assets released from restrictions	**2,143,862**	**(1,961,571)**	**(182,291)**	**–**
Total revenues, gains and other support	**58,459,189**	**1,287,543**	**182,511**	**59,929,243**
Expenses:				
Salaries and employee benefits	**32,709,966**	**–**	**–**	**32,709,966**
Assistance to others	**16,789,702**	**–**	**–**	**16,789,702**
Facility and equipment	**3,647,932**	**–**	**–**	**3,647,932**
Professional and contract services	**2,993,246**	**–**	**–**	**2,993,246**
Travel and meeting	**1,059,055**	**–**	**–**	**1,059,055**
Depreciation and amortization	**1,031,097**	**–**	**–**	**1,031,097**
Interest	**9,582**	**–**	**–**	**9,582**
Other	**1,206,605**	**–**	**–**	**1,206,605**
Total expenses	**59,447,185**	**–**	**–**	**59,447,185**
Change in net assets	**(987,996)**	**1,287,543**	**182,511**	**482,058**
Net assets at beginning of year	**41,266,317**	**9,823,446**	**6,972,532**	**58,062,295**
Net assets at end of year	**$ 40,278,321**	**$ 11,110,989**	**$ 7,155,043**	**$ 58,544,353**

See accompanying notes to consolidated financial statements.

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

Consolidated Statement of Activities

For the Year Ended March 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, losses, gains and other support:				
Residential treatment	$ 25,614,813	$ –	$ –	$ 25,614,813
Therapeutic foster care	16,211,519	–	–	16,211,519
Net senior services revenue	5,650,966	–	–	5,650,966
Contributions, grants and bequests	4,708,330	1,699,967	93,883	6,502,180
Education	3,006,219	–	–	3,006,219
Investment income	2,517,604	273,974	128,906	2,920,484
Adoption services	673,466	–	–	673,466
Other	125,598	–	–	125,598
Net assets released from restrictions	2,065,365	(2,051,615)	(13,750)	–
Total revenues, losses, gains and other support	60,573,880	(77,674)	209,039	60,705,245
Expenses:				
Salaries and employee benefits	33,785,733	–	–	33,785,733
Assistance to others	17,380,635	–	–	17,380,635
Facility and equipment	4,677,979	–	–	4,677,979
Professional and contract services	3,663,376	16,737	919	3,681,032
Travel and meeting	973,467	–	–	973,467
Depreciation and amortization	1,618,443	–	–	1,618,443
Interest	6,156	–	–	6,156
Other	1,499,259	–	–	1,499,259
Total expenses	63,605,048	16,737	919	63,622,704
Gain on sale of senior service facilities	7,756,629	–	–	7,756,629
Change in net assets	4,725,461	(94,411)	208,120	4,839,170
Net assets at beginning of year	36,540,856	9,917,857	6,764,412	53,223,125
Net assets at end of year	$ 41,266,317	$ 9,823,446	$ 6,972,532	$ 58,062,295

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows

For the years ended March 31, 2018 and 2017

	2018	2017
Operating activities		
Change in net assets	**$ 482,058**	$ 4,839,170
Adjustment to reconcile change in net assets to cash used in operating activities:		
Change in fair value of beneficial interests in assets held by others	**(7,726)**	4,055
Amortization of deferred income for life leases	**–**	(243,938)
Depreciation and amortization	**1,031,098**	1,618,443
Net realized and unrealized gains on investments	**(2,113,233)**	(1,818,262)
Net gain on sale of property, buildings, and equipment	**(6,184)**	(7,531)
Net gain on divestiture of senior service facilities	**–**	(7,756,629)
Changes in operating assets and liabilities:		
Accounts receivable, net	**(2,013,023)**	1,604,587
Prepaid expenses and other current assets	**(155,744)**	(106,715)
Other long-term assets	**26,857**	30,463
Accounts payable	**367,954**	(350,194)
Accrued expenses	**136,282**	(55,993)
Deferred income	**414,590**	19,230
Net cash used in operating activities	**(1,837,071)**	(2,223,314)
Investing activities		
Purchase of property, buildings and equipment and other assets, net	**(580,693)**	(848,081)
Proceeds from sale of property, buildings, and equipment	**22,638**	16,775
Proceeds from divestiture of senior service facilities	**–**	7,996,711
Net sales (purchases) of investments	**1,101,295**	(10,221,740)
Decrease in assets whose use is limited	**–**	48,484
Net cash provided by (used in) investing activities	**543,240**	(3,007,851)
Financing activities		
Life lease deposits received	**–**	1,428,000
Life lease deposits refunded	**–**	(601,260)
Resident deposits received	**–**	41,602
Resident deposits refunded	**–**	(51,500)
Payments on long-term debt	**(10,408)**	(34,838)
Net cash (used in) provided by financing activities	**(10,408)**	782,004
Net change in cash and cash equivalents	**(1,304,239)**	(4,449,161)
Cash and cash equivalents, beginning of year	**4,265,050**	8,714,211
Cash and cash equivalents, end of year	**$ 2,960,811**	$ 4,265,050
Supplemental disclosure of cash flow information:		
Cash paid for interest	**$ 2,665**	$ 2,662

See accompanying notes to 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 throughout Texas through a strong network of programs and services that help serve more than 30,000 people annually.

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

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

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

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

Education services include Headstart and Early Headstart Preschool programs that help children from low-income families prepare to start kindergarten ready to learn. In the current fiscal year, we opened two new schools: Upbring School of Arts and Sciences in Austin and Upbring School of Discovery and Leadership in Houston. The schools will provide early education services to children ages six-weeks to elementary age, reserving spaces for children in the foster care system. Upbring works closely with Trinity Charter Schools to provide education services to the children in our residential treatment programs.

Disaster Response aids families' immediate needs by providing emergency hardship grants, and helping them find food, clothing, medical assistance and safe, clean shelter. In the wake of Hurricane Harvey along the Texas Gulf Coast, this work also includes future preparedness, emotional and spiritual care, volunteer coordination and long-term recovery.

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

1. Organization (continued)

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" (iii) 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 Presentation
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. All significant intercompany accounts and transactions have been eliminated in consolidation.

Display of Net Assets by Class
The net assets of the Organization are reported in each of the following classes: (a) unrestricted net assets, (b) temporarily restricted net assets, and (c) permanently restricted net assets. Net assets of the two restricted classes are created only by donor-imposed restrictions on their use. All other net assets, including Board designated, are legally unrestricted and are reported as part of the unrestricted class.

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

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

2. Summary of Significant Accounting Policies (continued)

The Organization's financial instruments consist principally of cash and cash equivalents, accounts receivable, marketable securities, beneficial interest in assets held by others, accounts payable, accrued expenses, and long-term debt. The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses are considered to approximate their respective fair values due to the short-term nature of such financial instruments. Cash equivalents and marketable securities, measured at fair value on a recurring basis, are categorized as Level 1 based on quoted prices in active markets. Beneficial interest in assets held by others are carried at estimated fair market value based on quoted market prices. The carrying value approximates the fair value for the long-term debt.

The Organization recognizes transfers between levels at the end of the reporting period as if the transfers occurred on the last day of the reporting period. There were no transfers during fiscal years 2018 or 2017.

Use of Estimates
The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

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

Accounts Receivable
Accounts receivable are recorded at invoiced amount, net of contractual adjustments and allowance for doubtful accounts. Additions to the allowance for doubtful accounts are made by means of the provision for doubtful accounts. The amount of the provision for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in federal and state governmental health care coverage, and other collection indicators. The Organization had allowances for estimated uncollectible accounts of $21,233 and $0 as of March 31, 2018 and 2017, respectively.

Contributions Receivable
Promises to give are recorded at fair value if expected to be collected in one year and at net present value if expected to be collected in more than one year. Conditional promises to give are recognized when conditions on which they depend are substantially met. The Organization did not record a net present value discount on contributions receivable at March 31, 2018 and 2017, as the amount would be insignificant.

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 are reported in the consolidated

2. Summary of Significant Accounting Policies (continued)

statements of activities as interest income. All investments were valued using the market approach and Level 1 inputs under the fair value hierarchy.

Beneficial Interests in Assets Held by Others
The Organization has beneficial interests in trusts held by third party organizations. Under the terms of the trusts, the Organization has the irrevocable right to receive all or a portion of the income earned on the trust assets for the life of the trusts. The Organization does not control the assets held in these trusts. The Organization measures its beneficial interests in these trust at the fair value of the underlying investments held by the trusts. The trust assets are invested in equity securities with readily determined fair value. Distributions from the trusts are recognized as investment income in the appropriate net asset class according to the restrictions established by the settlors of the trusts. These beneficial interests have been classified as Level 2 under the fair value hierarchy.

Property, Buildings, and Equipment
Property, buildings, and equipment are recorded at cost if purchased. Donated property and equipment is recorded at the estimated fair value at the date of donation. Depreciation on property, buildings and equipment is provided on the straight-line method over the estimated useful lives of the assets. The estimate lives are approximately 30 years for buildings, 10 years for improvements, and 5 years for equipment. Major additions and betterments over $5,000 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.

Government Grants
Revenue from certain grants received from federal, state, and local governments are earned based on the Organization incurring allowable costs or providing services. Therefore, revenue is recognized as those costs are incurred or the services are provided.

Contributions
All contributions are recorded at fair value and are considered to be available for operations of the Organization unless specifically restricted by the donor. Unconditional promises to give cash and other assets are reported as either temporarily or permanently restricted net assets, 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

2. Summary of Significant Accounting Policies (continued)

other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, 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 stipulated time restriction ends or restricted purpose is accomplished, the related temporarily restricted net assets are reclassified to unrestricted net assets. This is reported in the consolidated statements of activities as net assets released from restrictions.

Contributed Services and Facilities
Contributed services and materials represent in-kind contributions and are reflected in the statement of activities as contributions at their fair value on the date of receipt. Contributed services are recognized by the Organization if the services received create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The Organization recognized approximately $479,000 and $248,000 of contributed services and donated use of facilities in the consolidated statements of activities for the years ended March 31, 2018 and 2017, 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, 2018 and 2017, the Organization received approximately $525,000 and $300,000 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.

Net Senior Services Revenue
Net senior service revenue was approximately $0 and $5.7 million for the years ended March 31, 2018 and 2017, respectively, and was reported at the estimated net realizable amounts from residents, third-party payers, and others for services rendered. Services provided to Medicare beneficiaries are reimbursed at flat rates as determined by the Medicare fiscal intermediary. Services rendered to Medicaid program beneficiaries are reimbursed at a flat daily rate, as determined by the responsible state agency.

Advertising Costs
Advertising costs are expensed as incurred. Advertising costs for the years ended March 31, 2018 and 2017 were approximately $261,000 and $305,000, respectively, and are included in program expenses in the accompanying consolidated statements of activities.

Operating Leases
The Organization accounts for rent expense for its operating leases on a straight-line basis in accordance with authoritative guidance on accounting for leases. The Organization leases office facilities that have terms expiring between 2018 and 2028. The term of the lease is considered its initial obligation period, which does not include option periods.

Most lease agreements contain rent holidays and/or rent escalation clauses. The Organization includes scheduled rent holidays and rent escalation clauses for the purposes of recognizing straight-line rent over the lease term.

2. Summary of Significant Accounting Policies (continued)

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. There were no contributions made by the Organization during the years ended March 31, 2018 and 2017.

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 ("FASB") 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, 2018.

Reclassifications
Certain prior year balances have been reclassified to conform to current year presentation.

Recent Accounting Pronouncements
In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU will supersede the revenue recognition requirements in *Topic 605, Revenue Recognition*, and most industry-specific guidance, and creates guidance for when revenue should be recognized from the exchange of goods or services. ASU No. 2016-08 was issued in March 2016 to clarify the principal versus agent guidance in this new revenue recognition standard. ASU 2016-10 was issued in April 2016 to clarify the guidance on accounting for licenses of intellectual property and identifying performance obligations in the new revenue recognition standard. ASU 2016-12 was issued in May 2016 to clarify the guidance on transition, collectibility, noncash consideration and the presentation of sales and other similar taxes in the new revenue recognition standard. ASU 2016-20 was issued in December 2016 to make technical corrections and improvements on narrow aspects of this guidance. ASU No. 2017-10 was issued in May 2017 to clarify that an operating entity in a service concession arrangement must consider the grantor the customer of the operation services it provides when it applies this revenue guidance in ASC 606. ASU No. 2015-14 was issued in August 2015 to defer the effective date of ASU 2014-09 for one year. For private companies, this standard is effective for annual reporting periods beginning after December 15, 2018. A nonpublic entity may elect to apply the guidance in this ASU early with certain restrictions. Management is currently evaluating the effect of these provisions on the Organization's consolidated financial position and results of operations.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This standard requires lessees to recognize a lease liability and a lease asset for all leases, including operating leases, with a term greater than 12 months on its balance sheet. The standard also expands the required quantitative and qualitative disclosures surrounding leases. This standard is effective for annual periods beginning after December 15,

2. Summary of Significant Accounting Policies (continued)

2019. Early adoption is permitted. This standard will be applied using a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Management is currently evaluating the effect of these provisions on the Organization's consolidated financial position and results of operations.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This standard is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, entities will be required to use a new forward-looking "expected loss" model that generally will result in the earlier recognition of allowances for losses. This guidance is effective for annual periods beginning after December 15, 2020. Early adoption is permitted. This standard will be applied as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. Management is currently evaluating the effect of these provisions on the Organization's consolidated financial position and results of operations.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which changes how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. The ASU requires amended presentation and disclosures to help not-for-profits provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. The guidance is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early application is permitted. Management is currently evaluating the effect of these provisions on the Organization's consolidated financial position and results of operations.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments — a consensus of the Emerging Issues Task Force*. This standard promotes consistency in the presentation of certain items on the Statement of Cash Flows. In November 2016 the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*. This standard clarifies restricted cash and restricted cash equivalents should be presented in the statement of cash flows. These new standards are effective for annual periods beginning after December 15, 2018. Early adoption is permitted. Management is currently evaluating the effect of these provisions on the Organization's consolidated financial position and results of operations.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies how entities will determine whether to account for a transfer of assets as an exchange transaction or a contribution and how they will determine whether a contribution is conditional. While accounting for contributions primarily affects not-for-profit entities, the clarified guidance applies to all entities (including business entities) that receive or make contributions, except for certain transactions such as transfers of assets that business entities receive from government entities. For private entities in which the entity serves as the resource recipient, this standard is effective for annual reporting periods beginning after December 15, 2018. For private entities in which the entity serves as the resource provider, this standard is effective for annual reporting periods beginning after

2. Summary of Significant Accounting Policies (continued)

December 15, 2019. Early adoption is permitted. Management is currently evaluating the effect of these provisions on the Organization's consolidated financial position and results of operations.

3. Concentrations of Credit Risk

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

Funding sources representing more than 10% of the Organization's total accounts receivable and revenues as of and for the year ended March 31, 2018 are as follows:

	Accounts Receivable	Revenues
Private	**13%**	**<10%**
Federal Government	**40%**	**30%**
State Government	**46%**	**41%**

The financial condition of the Organization depends significantly on revenues received from contracts with various departments of the government of the state of Texas (the "State Departments") and the Federal Government. Such State Departments are, in turn, dependent almost exclusively on annual or biennial appropriations granted to them by the legislature of the state of Texas. If appropriations to the State Departments are materially reduced or eliminated or appropriations are required to cover more facilities or individuals, the financial condition of the Organization could be materially and adversely affected. Additionally, if Federal Government spending priorities or administrative practices change significantly, the financial condition of the Organization could be materially and adversely affected.

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

4. Disposal of Assets

On December 2, 2016, the Organization sold the senior facility Kruse Village ("KMLV"). The facilities and related assets held by the Organization were sold to a third party for total cash proceeds of $7,996,711. The assets sold consisted primarily of accounts receivable, and property and equipment. The buyer also assumed certain accrued liabilities, non-refundable and refundable deposits, and life lease liabilities. In FY 2017, the Organization recognized a gain on sale of approximately $7.8 million, which is reflected in the accompanying consolidated statements of activities.

5. Investments

Investments consisted of the following at March 31:

	2018	**2017**
Domestic and international equity funds	**$ 21,021,298**	$ 17,714,800
Cash, short-term investments, and money market mutual funds	**17,356,679**	17,583,065
Corporate bonds	**3,331,044**	5,015,581
International bonds	**334,060**	554,612
Municipal bonds	**76,317**	50,739
Mortgage and asset backed bonds	**–**	130,672
Other	**–**	50,265
Total investments	**$ 42,119,398**	$ 41,099,734

Investment income for marketable securities and beneficial interests in donor established trusts consist of the following at March 31:

	2018	**2017**
Interest and dividend income	**$ 1,177,498**	$ 964,286
Net realized and unrealized gains	**2,113,233**	1,956,198
Total investment income	**$ 3,290,731**	$ 2,920,484

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 fess and advisory costs. The related investment expense for the years ended March 31, 2018 and 2017 was $88,843 and $16,737, respectively.

6. Accrued Expenses and Other

Accrued expenses consist of the following at March 31:

	2018	2017
Accrued payroll and benefits	**$ 2,875,917**	$ 2,897,400
Accrued charity care	**511,389**	621,236
Accrued insurance	**286,532**	245,962
Other accrued expenses	**472,656**	245,614
Total accrued expenses and other	**$ 4,146,494**	$ 4,010,212

7. Property, Buildings, and Equipment

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

	2018	2017
Buildings and improvements	**$ 20,122,127**	$ 19,748,625
Equipment	**9,491,790**	9,416,644
Land and improvements	**1,203,894**	1,195,894
Construction in progress	**34,049**	21,095
Total	**30,851,860**	30,382,258
Less accumulated depreciation	**(19,664,481)**	(18,728,020)
Total property, buildings, and equipment, net	**$ 11,187,379**	$ 11,654,238

8. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at March 31:

	2018	2017
Children services	**$ 9,481,527**	$ 8,673,470
Beneficial interests in assets held by others	**552,114**	481,795
Disaster relief services	**410,608**	222,740
Services for the poor	**314,001**	117,658
Adoption services	**307,483**	275,964
Elderly care services	**45,256**	51,819
Total temporarily restricted net assets	**$ 11,110,989**	$ 9,823,446

9. Permanently Restricted Net Assets

Permanently restricted net assets consisted of the following at March 31:

	2018	2017
Beneficial interests in assets held by others	**$ 5,352,037**	$ 5,091,911
True donor restricted endowments	**1,803,006**	1,880,621
Total permanently restricted net assets	**$ 7,155,043**	$ 6,972,532

10. Endowments

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

Upbring has interpreted the Texas Uniform Prudent Management of Institutional Funds Act ("TUPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the true-donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Upbring classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment by donors, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the true-donor restricted endowments that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Upbring in a manner consistent with the standard of prudence prescribed by TUPMIFA.

Changes in endowment net assets for the year ended March 31, 2018 were as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	**$ 180,714**	**$ 1,880,621**	**$ 2,061,335**
Contributions	**–**	**10,000**	**10,000**
Investment return	**211,458**	**(87,615)**	**123,843**
Appropriations for expenditures	**(220,068)**	**–**	**(220,068)**
Endowment net assets, end of year	**$ 172,104**	**$ 1,803,006**	**$ 1,975,110**

10. Endowments (continued)

Changes in endowment net assets for the year ended March 31, 2017 were as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 151,291	$ 1,773,697	$ 1,924,988
Contributions	–	92,585	92,585
Investment return	318,499	14,339	332,838
Appropriations for expenditures	(289,076)	–	(289,076)
Endowment net assets, end of year	$ 180,714	$ 1,880,621	$ 2,061,335

11. Related Party Transactions

Residents at residential treatment centers receive education services provided by Trinity Charter Schools (“TCS”), an unconsolidated related party non-profit organization. The Organization receives related party income from TCS related to leasing office and classroom space and performing IT services. Additionally, the Organization incurs related party expenses related to education services performed by TCS. For both years ended March 31, 2018 and 2017, TCS leased the office and classroom space from the Organization for approximately $167,000. For the years ended March 31, 2018 and 2017, the Organization incurred education expenses of approximately $201,000 and $202,000, respectively.

Trinity Place Apartments (“TPA”), a related party under common control, is a Section 202 Program of Housing for the Elderly or Handicapped in conjunction with the Section 8 Housing Assistance Payments Program. The Organization provides certain administrative support for a management fee, but does not have an economic interest in TPA and TPA is, therefore, not a consolidated entity with the Organization. For the years ended March 31, 2018 and 2017, TPA owed the Organization approximately $22,000 and $9,000, respectively. Additionally, the Organization earned management and bookkeeping fees of approximately $36,000 during both 2018 and 2017.

12. Commitments & Contingencies

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

As a condition of the sale of a senior services facility, the Organization is responsible for the care of certain residents. The estimated cost incurred by the Organization to provide these services to residents who are unable to pay was approximately $98,000 and $225,000 for the years ended March 31, 2018 and 2017, respectively.

12. Commitments & Contingencies (continued)

The Organization, as an integral part of its operation, has entered into short-term, cancelable lease agreements for equipment and office space in various cities. Additionally, the Organization has entered into non-cancelable lease agreements for equipment and office space in various cities. Lease and maintenance contract expense for all leases, cancelable and non-cancelable, for the years ended March 31, 2018 and 2017 was $1,512,317 and $1,559,514, respectively.

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

Fiscal years ending March 31,	
2019	**$ 1,320,916**
2020	**877,598**
2021	**800,053**
2022	**486,066**
2023 and thereafter	**771,306**
Total future minimum lease payments	**$ 4,255,939**

The Organization is funded 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 any disallowed costs.

13. Functional Allocation of Expenses

Functional expenses consisted of the following for the years ended March 31:

	2018	**2017**
Program services:		
Children services	**$ 45,196,682**	$ 43,239,341
Disaster relief	**2,845,470**	1,307,616
Services for the poor	**1,431,952**	1,901,047
Innovation initiatives	**526,479**	–
Resident services	–	6,039,795
Total program services	**50,000,583**	52,487,799
Supporting activities:		
Management and general	**7,353,978**	7,098,718
Agency advancement	**2,092,624**	3,028,891
Transaction related costs	–	1,007,296
Total expenses	**$ 59,447,185**	$ 63,622,704

14. Subsequent Events

The Organization has evaluated subsequent events through August 17, 2018, which represents the date the consolidated financial statements were available to be issued**.** No events have occurred from the statement position through date that would impact the consolidated financial statements.

SINGLE AUDIT INFORMATION

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

Independent Auditors' Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Lutheran Social Services of the South, Inc. (the "Organization") *d/b/a* Upbring, which comprise the consolidated statement of financial position as of March 31, 2018, and the related consolidated statement of activities, 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 17, 2018.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Purpose of this Report

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

Holtzman Partners, LLP

Austin, Texas
August 17, 2018

REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Independent Auditors' Report

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

Report on Compliance for the Major Federal Program

We have audited Lutheran Social Services of the South Inc.'s (the "Organization") *d/b/a* Upbring compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget* (OMB) *Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended March 31, 2018. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on the Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended March 31, 2018.

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Report on Internal Control over Compliance

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

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

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

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

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

We have audited the consolidated financial statements of the Organization as of and for the year ended March 31, 2018, and have issued our report thereon dated August 17, 2018, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Holtzman Partners, LLP

Austin, Texas
August 17, 2018

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

Schedule of Expenditures of Federal Awards

Year ended March 31, 2018

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass Through Grantor's Number	Federal Expenditures (Note A)	
U.S. Department of Health & Human Services				
Pass-through from the Office of Refugee Resettlement - Division of Unaccompanied Children:				
Unaccompanied Alien Children Program (ORR El Paso Long Term)	93.676	90ZU0183-01		
		90ZU0183-02		$ 266,766
Unaccompanied Alien Children Program (ORR El Paso Short Term)	93.676	90ZU0229-01		
		90ZU0229-02		2,194,244
Unaccompanied Alien Children Program (ORR Bokenkamp/McAllen)	93.676	90ZU0231-01		
		90ZU0231-02		10,024,587
Unaccompanied Alien Children Program (ORR Corpus Christi)	93.676	90ZU0232-01		
		90ZU0232-02		2,092,452
				14,578,049
Pass-through from the Office of Head Start				
Head Start and Early Head Start	93.600	06CH10129-03-00		
		06CH10129-04-00		2,921,939
Total U.S. Department of Health & Human Services				17,499,988
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	$ 250,738	
Non-Cash Assistance:				
DB Commodity Program New Life (Note B)	10.555	1229	3,151	
DB Commodity Program Krause (Note B)	10.555	3871	8,721	
Total Child Nutrition Cluster				262,610
Child and Adult Care Food Program	10.558	N/A		$ 180,178
Total U.S. Department of Agriculture				442,788
Total Expenditures of Federal Awards				$ 17,942,776

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Lutheran Social Services of the South, Inc. *d/b/a* Upbring under programs of the federal government for the year ended March 31, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Lutheran Social Services of the South, Inc. *d/b/a* Upbring, it is not intended to and does not present the consolidated financial position, changes in net assets or cash flows of Lutheran Social Services of the South, Inc. *d/b/a* Upbring.

Note B - Summary of Significant Accounting Policies

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

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

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

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

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

Schedule of Findings and Questioned Costs

Year ended March 31, 2018

Part I – Summary of the auditor's results

<u>Financial Statements</u>

i. The type of audit report issued was unmodified.

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

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

<u>Audit of Federal Awards</u>

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

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

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

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

viii. The dollar threshold used to distinguish between type A and Type B programs as described in the Uniform Guidance was $750,000.

ix. The auditee qualifies as a low-risk auditee under the Uniform Guidance.

Part II – Schedule of Financial Statement Findings – Findings related to the financial statements which are required to be reported in accordance with *Government Auditing Standards* generally accepted in the United States of America.

No findings were noted.

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

No findings were noted.

Summary Schedule of Prior Year Audit Findings

Year ended March 31, 2018

Finding 2017-001

Origination date: March 31, 2017

Condition and Context: In testing of twenty-five payroll expenditures there was an exception noted related to internal controls over payroll. The exception was caused by untimely approval for annual evaluations and pay raises, which caused payroll to be processed for two months with incorrect pay rates. It was noted there was a total of 220 employees with pay raises that were not approved and entered into the payroll system in a timely manner. This exception resulted in the organization requesting reimbursement for less than actual expenditures.

Recommendation: We recommend the Organization implement procedures to ensure annual evaluations and pay raises are approved and entered into the payroll system in a timely manner.

Responsible Official's Response: HR has been working with our payroll/HR information system provider to make sure that evaluation reminders are sent to managers within 10 days of the evaluation is due date, as well as set up status reports so that HR can track where performance evaluations are in the process and reach out to those managers who may be falling behind. Once evaluations are uploaded and approved by HR in the system all salary adjustments will automatically be updated in payroll to be reflected on the next payroll cycle.

Finding status as of March 31, 2018: The planned corrective action for this finding was completed for the 2018 fiscal year.

Finding 2017-002

CFDA 93.676 – Unaccompanied Alien Children Program, United States Department of Health & Human Services. Passed-through the Office of Refugee Resettlement-Division of Unaccompanied Children, Grant 90ZU0229, 90ZU0183, 90ZU0231, and 90ZU0232, year 2017-2018

Condition and Context: In testing of twenty-five payroll expenditures there was an exception noted related to internal controls over payroll. The exception was caused by untimely approval for annual evaluations and pay raises, which caused payroll to be processed for two months with incorrect pay rates. It was noted there was a total of 220 employees with pay raises that were not approved and entered into the payroll system in a timely manner. This exception resulted in the organization requesting reimbursement for less than actual expenditures.

Upbring The New LSS

Summary Schedule of Prior Year Audit Findings (continued)

Recommendation: We recommend the Organization implement procedures to ensure annual evaluations and pay raises are approved and entered into the payroll system in a timely manner.

Responsible Official's Response and Corrective Action Planned: HR has been working with our payroll/HR information system provider to make sure that evaluation reminders are sent to managers within 10 days of the evaluation is due date, as well as set up status reports so that HR can track where performance evaluations are in the process and reach out to those managers who may be falling behind. Once evaluations are uploaded and approved by HR in the system all salary adjustments will automatically be updated in payroll to be reflected on the next payroll cycle.

Finding status as of March 31, 2018: The planned corrective action for this finding was completed for the 2018 fiscal year.