FAMILY SERVICES, INC.

Financial and Compliance Report

Entity Identification Number 1-560689235-A1

June 30, 2023 and 2022

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BUTLER BURKE LLP

CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Family Services, Inc.
Winston-Salem, North Carolina

INDEPENDENT AUDITORS' REPORT

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Family Services, Inc. (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above presented fairly, in all material respects, the financial position of Family Services, Inc. as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Consolidated 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements 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 generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Family Services, Inc.'s internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Family Services, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedules of federal and North Carolina awards, as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and by the Office of the State Auditor, are presented for purposes of additional analysis and are 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 audits 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 the consolidated financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information 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 March 27, 2024 on our consideration of Family Services, Inc.'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 Family Services, Inc.'s internal control over financial reporting and compliance.

Butler & Burke, LLP

Winston-Salem, North Carolina
March 27, 2024

FAMILY SERVICES, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2023 and 2022

	2023	2022
ASSETS		
Cash and cash equivalents	$ 1,977,128	$ 2,422,002
Grants receivable	746,386	853,610
Promises to give, net	300,968	160,026
Accounts receivable, net	61,428	80,864
Prepaid expenses and other	49,834	59,053
Investments	85,334	79,966
Property and equipment, net	8,559,452	6,306,630
Operating lease right-of-use assets	184,096	-
Beneficial interest in assets held by others	2,701,495	3,057,936
TOTAL ASSETS	$ 14,666,121	$ 13,020,087
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	$ 403,050	$ 406,616
Accrued expenses	297,212	350,493
Capital lease obligation	-	27,936
Financing lease liabilities	10,945	-
Operating lease liabilities	184,096	-
Notes payable	4,630,920	3,320,027
Accrued pension cost	1,039,779	1,242,935
Total Liabilities	6,566,002	5,348,007
Net assets		
Without donor restrictions		
Board designated	593,124	569,955
Undesignated	6,672,961	5,606,206
	7,266,085	6,176,161
With donor restrictions	834,034	1,495,919
Total Net Assets	8,100,119	7,672,080
TOTAL LIABILITIES AND NET ASSETS	$ 14,666,121	$ 13,020,087

FAMILY SERVICES, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Grant income	$ 10,379,690	$ 617,500	$ 10,997,190
United Way	283,866	-	283,866
In-kind contributions	864,502	-	864,502
Other contributions	192,474	-	192,474
Special events	255,442	-	255,442
Program service fees	620,121	-	620,121
Rental income	126,405	-	126,405
Other	15,574	647	16,221
Unrealized gains on investments	-	3,778	3,778
Change in value of beneficial interest	(340,904)	11,521	(329,383)
	12,397,170	633,446	13,030,616
Net assets released from restrictions			
Satisfaction of purpose restrictions	1,195,331	(1,195,331)	-
Satisfaction of timing restrictions	100,000	(100,000)	-
	1,295,331	(1,295,331)	-
Total Support and Revenue	13,692,501	(661,885)	13,030,616
EXPENSES			
Program Services			
Safe Relationships	1,465,882	-	1,465,882
Family Solutions	961,325	-	961,325
Head Start	5,049,663	-	5,049,663
Early Head Start	2,658,230	-	2,658,230
Child Development Services	124,944	-	124,944
Universal Pre-K	117,659	-	117,659
Total Program Services	10,377,703	-	10,377,703
Management and General	2,059,609	-	2,059,609
Fundraising	479,062	-	479,062
Total Expenses	12,916,374	-	12,916,374
OTHER GAINS			
Pension gains in excess of net periodic pension cost	313,797	-	313,797
CHANGE IN NET ASSETS	1,089,924	(661,885)	428,039
Net Assets, Beginning of Year	6,176,161	1,495,919	7,672,080
Net Assets, End of Year	$ 7,266,085	$ 834,034	$ 8,100,119

FAMILY SERVICES, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Grant income	$ 8,854,705	$ 261,060	$ 9,115,765
United Way	390,808	-	390,808
In-kind contributions	988,677	-	988,677
Other contributions	292,732	11,608	304,340
Special events	207,986	-	207,986
Program service fees	597,240	-	597,240
Rental income	142,203	-	142,203
Other	5,196	514	5,710
Gain upon debt extinguishment	1,087,400	-	1,087,400
Unrealized losses on investments	-	(14,576)	(14,576)
Change in value of beneficial interest	33,900	(21,250)	12,650
	12,600,847	237,356	12,838,203
Net assets released from restrictions			
Satisfaction of purpose restrictions	295,418	(295,418)	-
Satisfaction of timing restrictions	143,665	(143,665)	-
	439,083	(439,083)	-
Total Support and Revenue	13,039,930	(201,727)	12,838,203
EXPENSES			
Program Services			
Safe Relationships	1,489,922	-	1,489,922
Family Solutions	836,663	-	836,663
Head Start	5,139,250	-	5,139,250
Early Head Start	2,930,358	-	2,930,358
Child Development Services	112,657	-	112,657
Universal Pre-K	112,602	-	112,602
Total Program Services	10,621,452	-	10,621,452
Management and General	1,875,007	-	1,875,007
Fundraising	400,465	-	400,465
Total Expenses	12,896,924	-	12,896,924
OTHER GAINS			
Pension gains in excess of net periodic pension cost	311,843	-	311,843
CHANGE IN NET ASSETS	454,849	(201,727)	253,122
Net Assets, Beginning of Year	5,721,312	1,697,646	7,418,958
Net Assets, End of Year	$ 6,176,161	$ 1,495,919	$ 7,672,080

FAMILY SERVICES, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2023

	Program Services									
	Safe Relationships	Family Solutions	Head Start	Early Head Start	Child Development Services	Universal Pre-K	Total Program Services	Management and General	Fundraising	Total
Salaries and wages	$ 839,910	$ 626,500	$ 2,274,201	$ 594,312	$ 49,248	$ 84,068	$ 4,468,239	$ 930,729	$ 246,041	$ 5,645,009
Employee benefits	167,473	131,552	499,264	159,988	10,459	17,477	986,213	181,633	47,218	1,215,064
Contract daycare services	-	-	562,628	1,269,292	-	-	1,831,920	-	-	1,831,920
Professional fees	14,575	31,782	250,334	47,425	11,211	1,354	356,681	194,989	12,220	563,890
Supplies, postage and shipping	47,705	21,881	196,145	109,437	2,563	2,486	380,217	35,346	16,888	432,451
Telephone	26,721	13,258	30,596	13,984	1,001	1,215	86,775	27,805	6,456	121,036
Occupancy	100,000	-	547,135	185,819	18,861	-	851,815	-	-	851,815
Utilities	39,275	18,513	81,381	12,060	3,033	2,383	156,645	53,768	5,129	215,542
Insurance	29,846	18,238	80,334	12,502	3,636	1,932	146,488	16,369	4,140	166,997
Repairs and maintenance	94,151	28,478	137,960	33,840	9,615	3,103	307,147	118,606	7,889	433,642
Printing and publications	3,918	342	32	-	631	-	4,923	33,627	25,879	64,429
Advertising and marketing	-	359	4,643	-	-	-	5,002	71,760	-	76,762
Staff travel and training	12,436	9,187	108,426	55,714	564	882	187,209	11,292	840	199,341
Transportation	674	-	11,216	2,568	179	-	14,637	677	-	15,314
Food and food service supplies	14,504	971	183,694	29,123	13,332	122	241,746	4,263	1,071	247,080
Specific assistance to individuals	18,998	205	(189)	2,410	-	-	21,424	-	-	21,424
Provision for bad debts	-	1,554	-	-	-	-	1,554	-	-	1,554
Provision for uncollectible pledges	-	-	-	-	-	-	-	-	13,508	13,508
Provision for uncollectible grants	-	-	(32,622)	-	-	-	(32,622)	55,204	-	22,582
Depreciation	36,697	38,168	72,374	103,184	187	2,637	253,247	113,231	6,418	372,896
Interest	18,999	19,739	2,819	-	-	-	41,557	96,238	-	137,795
Other lease expense	-	-	26,936	14,504	-	-	41,440	22,479	-	63,919
Miscellaneous	-	598	12,356	12,068	424	-	25,446	91,593	85,365	202,404
	$ 1,465,882	$ 961,325	$ 5,049,663	$ 2,658,230	$ 124,944	$ 117,659	$ 10,377,703	$ 2,059,609	$ 479,062	$ 12,916,374

FAMILY SERVICES, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2022

	Program Services									
	Safe Relationships	Family Solutions	Head Start	Early Head Start	Child Development Services	Universal Pre-K	Total Program Services	Management and General	Fundraising	Total
Salaries and wages	$ 848,431	$ 538,388	$ 2,402,803	$ 870,151	$ 30,762	$ 81,274	$ 4,771,809	$ 923,723	$ 224,613	$ 5,920,145
Employee benefits	177,608	113,729	516,369	238,140	8,764	18,179	1,072,789	163,747	46,917	1,283,453
Contract daycare services	-	-	449,983	1,280,157	-	-	1,730,140	-	-	1,730,140
Professional fees	13,805	32,281	238,101	49,474	11,540	1,012	346,213	199,716	8,618	554,547
Supplies, postage and shipping	56,248	16,625	202,225	45,226	9,020	1,482	330,826	30,611	10,570	372,007
Telephone	40,094	18,751	113,129	20,369	726	2,037	195,106	30,266	10,055	235,427
Occupancy	100,000	-	506,767	182,064	14,891	-	803,722	-	-	803,722
Utilities	25,444	11,100	51,859	8,556	3,794	1,429	102,182	42,058	3,075	147,315
Insurance	26,365	16,111	70,861	11,094	4,079	1,707	130,217	14,461	3,657	148,335
Repairs and maintenance	119,099	18,932	152,713	27,942	10,670	1,817	331,173	122,779	5,244	459,196
Printing and publications	6,919	908	2,553	485	854	-	11,719	7,400	13,813	32,932
Advertising and marketing	119	359	75,350	-	-	-	75,828	44,882	-	120,710
Staff travel and training	8,619	4,856	124,650	54,094	161	1,028	193,408	13,125	3,179	209,712
Transportation	612	-	9,359	1,066	257	-	11,294	-	-	11,294
Food and food service supplies	4,530	1,429	116,096	20,856	16,203	-	159,114	2,085	1,646	162,845
Specific assistance to individuals	5,754	-	668	189	-	-	6,611	-	-	6,611
Provision for bad debts	-	4,391	-	-	-	-	4,391	-	-	4,391
Provision for uncollectible pledges	-	-	-	-	-	-	-	-	1,000	1,000
Depreciation	36,334	37,791	87,643	118,452	187	2,637	283,044	90,166	6,416	379,626
Interest	19,758	20,527	5,276	-	-	-	45,561	80,136	-	125,697
Miscellaneous	183	485	12,845	2,043	749	-	16,305	109,852	61,662	187,819
	$ 1,489,922	$ 836,663	$ 5,139,250	$ 2,930,358	$ 112,657	$ 112,602	$ 10,621,452	$ 1,875,007	$ 400,465	$ 12,896,924

FAMILY SERVICES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2023 and 2022

	2023	2022
OPERATING ACTIVITIES		
Change in net assets	$ 428,039	$ 253,122
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	372,896	379,626
Amortization on operating leases	63,919	-
Non-cash gift of investments	(984)	(12,026)
Unrealized (gains) losses on investments	(3,778)	14,576
Change in value of beneficial interests	329,383	(12,650)
Provision for bad debts	1,554	4,391
Provision for uncollectible pledges	13,508	1,000
Provision for uncollectible grants	22,582	-
Gain upon debt extinguishment	-	(1,087,400)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Receivables	(51,926)	716,523
Prepaid expenses and other	9,219	4,512
Increase (decrease) in:		
Accounts payable	(3,566)	(38,563)
Accrued expenses	(53,281)	5,339
Operating lease liabilities	(63,919)	-
Accrued pension cost	(203,156)	(323,947)
Net Cash Provided by (Used in) Operating Activities	860,490	(95,497)
INVESTING ACTIVITIES		
Capital expenditures	(2,625,718)	(115,051)
Distributions from beneficial interest	27,058	6,926
Reinvested investment income, net	(606)	(420)
Net Cash Used in Investing Activities	(2,599,266)	(108,545)
FINANCING ACTIVITIES		
Change in revolving line of credit	-	(200,323)
Principal payments on debt	(139,107)	(115,729)
Proceeds from long-term debt	1,450,000	-
Repayment of finance lease liabilities	(16,991)	-
Repayment of capital lease obligation	-	(14,982)
Net Cash Provided by (Used in) Financing Activities	1,293,902	(331,034)
Change in Cash and Cash Equivalents	(444,874)	(535,076)
Cash and Cash Equivalents, Beginning of Year	2,422,002	2,957,078
Cash and Cash Equivalents, End of Year	$ 1,977,128	$ 2,422,002
SUPPLEMENTAL INFORMATION:		
Interest paid	$ 137,795	$ 125,697

NOTE A: ORGANIZATION AND NATURE OF ACTIVITIES

Family Services, Inc. (the "Agency") is a not-for-profit organization organized under the laws of the State of North Carolina and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Agency is a United Way sponsored organization which administers a variety of programs aimed at alleviating contemporary family problems. Also, the Agency's Child Development Division, which includes the Head Start Program ("Head Start") and the Early Head Start Program ("Early Head Start"), provides comprehensive early child development for disadvantaged preschool children and their families. The Child Development Division participates in the USDA Food Service Program which subsidizes the food service for children participating in the Child Development Programs.

Family Services Foundation, Inc. (the "Foundation") was formed for the purposes of supporting the mission and programs of the Agency as well as holding and managing endowment funds and other assets for the Agency. The Agency controls the Foundation by voting for the majority of its board members. Therefore, the Agency and the Foundation are consolidated.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements of the Agency have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America (GAAP). The Agency reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

> *Net assets without donor restrictions* - net assets that are not restricted by donors or for which donor-imposed restrictions have expired. If the board specifies a purpose where none has been stated, such funds are classified as board designated net assets without donor restrictions.
>
> *Net assets with donor restrictions* - net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions on the net assets (i.e. donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. The Agency has adopted a policy to classify donor restricted contributions as without donor restrictions to the extent donor restrictions were met in the year the contribution was received.

The consolidated financial statements include the accounts of the Agency and the Foundation. All significant intercompany transactions have been eliminated.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

For purposes of reporting cash flows, the Agency considers all cash investments with an original maturity of three months or less to be cash equivalents. These accounts at times may exceed federally insured limits. The Agency has not experienced any losses on these accounts and management does not believe it is exposed to any significant credit risk.

Promises to Give

Contributions and non-government grants (promises to give) are recognized as revenues in the period the commitment is made. The Agency records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contributions and grants revenue in the consolidated statements of activities. The Agency determines an allowance for uncollectible promises to give based on historical experience, an assessment of the economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectible. An allowance for uncollectible promises to give of $12,500 and $28,000 was recorded as of June 30, 2023 and 2022 respectively. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions upon which they depend are substantially met.

Grants Receivable

Grants receivable are stated at net realizable value. All grants receivable are expected to be collected within one year.

Accounts Receivable

Accounts receivable is stated at the amounts management expects to collect from the outstanding balances. An allowance for uncollectible receivables of $10,000 was recorded as of June 30, 2023 and 2022.

Investments

The agency carries investments in marketable securities with readily determinable fair values and all investment in debt securities at their fair market values in the consolidated statements of financial position. Realized and unrealized gains and losses are included in the change in net assets in the accompanying consolidated statements of activities.

Property and Equipment

Property and equipment is stated at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is provided on a straight-line basis over estimated useful lives of the assets, generally from five to forty years. Expenditures for maintenance, repairs and minor renewals are charged to expense as incurred.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Beneficial Interests in Assets Held by Others

The Agency has established trust arrangements with the Winston-Salem Foundation (the "WSF"), the purpose of which is to provide permanent endowments to support the future needs of The Agency. Donor contributions and monies designated by the Board have been irrevocably transferred to the WSF, who will invest the funds and make quarterly earnings distributions, to the Agency or accumulated income funds within the endowments, in an amount determined by the WSF. The Agency has granted the WSF variance power, the unilateral power to redirect the use of the assets, but has retained a right to the assets by specifying itself as the beneficiary. Pursuant to GAAP, these endowments have been recognized as a beneficial interest in assets held by others in the accompanying consolidated statements of financial position at the current market value of the underlying investments held by the WSF, which amounted to $741,495 and $712,936 as of June 30, 2023 and 2022, respectively. The Agency is not subject to the Uniform Prudent Management of Institutional Funds Act or the endowment disclosure requirements of FASB ASC 958-205-50 for these funds since control over the funds was relinquished to the WSF.

The Agency has also established a different trust arrangement with Wells Fargo Bank (the "Trustee") serving as a trustee for the WSF. The purpose of the arrangement is to have the Trustee hold title on behalf of the WSF to certain real estate property and lease back this real estate property for use by the Agency. The deed contains a reversion clause allowing the property to revert back to the Agency at the discretion of the Trustee and the WSF. Pursuant to GAAP, the real estate property has been recognized as a beneficial interest in assets held by others in the accompanying consolidated statements of financial position at the current market value of the real estate property which totaled $1,960,000 and $2,345,000 as of June 30, 2023 and 2022, respectively.

Revenue Recognition

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received.

Primary Funding

The Agency receives Head Start and Early Head Start funds from the Department of Health and Human Services and is required to match federal funds with nonfederal contributions. For the years ended June 30, 2023 and 2022, the Agency received approximately 61% and 58%, respectively, of its annual support and revenue from Head Start and Early Head Start.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Services and In-Kind Contributions

Contributions of assets other than cash are recorded at their estimated fair value. The Agency reports revenues for the fair value of contributed services received where the services require specialized skills, are provided by individuals possessing these skills, and represent services that would have been purchased had they not been donated. A substantial number of volunteers donate significant amounts of time to the Agency; however, no amounts have been reflected in the consolidated financial statements for these services since the donated services do not meet the above conditions for recognition under GAAP.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses presents the natural classification detail of expenses by function. The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonableness basis that is consistently applied. The primary expenses that are allocated include salaries and related expenses, insurance, and telephone, which are allocated on the basis of estimates of time and effort, and depreciation and interest, which are allocated on a square footage basis.

Advertising Expenses

The Agency expenses advertising costs as incurred. For the years ended June 30, 2023 and 2022, advertising costs were $76,762 and $120,710, respectively.

Income Tax Status

The Agency and the Foundation are not-for-profit organizations and are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, income tax expense is limited to activities that are deemed by the Internal Revenue Service to be unrelated to their exempt purposes.

The Agency's and the Foundation's primary tax positions relate to their status as not-for-profit entities exempt from income taxes and classification of activities related to their exempt purposes. It is the opinion of management that the Agency and the Foundation have no uncertain tax positions that would be subject to change upon examination.

The Agency and the Foundation are required to file federal exempt organization tax returns (Form 990) annually to retain their exempt status. The Agency and the Foundation are also required to file exempt organization business income tax returns (Form 990-T) for any year unrelated business income exceeds $1,000. The Agency's and the Foundation's Form 990 filings are generally subject to examination by the Internal Revenue Service for three years after they are filed.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates

The preparation of consolidated financial statements in conformity with GAAP principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events

The Agency has evaluated its subsequent events (events occurring after June 30, 2023) through the date of this report, which represents the date the consolidated financial statements were available to be issued and determined that all significant events and disclosures are included in the consolidated financial statements.

Accounting Pronouncement Adopted in the Current Year

Lease Arrangements

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-02, *Leases* (Topic 842). This guidance requires the rights and obligations of new and existing lease arrangements to be recognized as assets and liabilities in the statement of financial position. The guidance also requires disclosures to better inform financial statement users of the amount, timing and uncertainty of cash flows arising from leases. The primary impact of this guidance, which is effective for periods beginning after December 15, 2021, will be to record right-of-use (ROU) assets and obligations for current operating leases. The Agency elected to adopt the requirements of the guidance effective July 1, 2022, and has elected to apply the provisions of this standard to the beginning of the period of adoption under ASU No. 2018-11, *Leases* (Topic 842) – *Targeted Improvements*. The adoption resulted in the Agency reclassifying the existing capital lease assets as finance ROU assets and existing capital lease obligations as finance lease liabilities as of July 1, 2022. Additionally, the adoption resulted in the recognition of operating ROU assets of $56,848 as well as operating lease liabilities of $56,848 as of July 1, 2022. There was no cumulative effect adjustment to the opening balance of net assets required.

In order to ease the transition process in the year of implementation, the Agency has elected to adopt the package of practical expedients available in the year of adoption provided in ASU 2016-02 and has elected not to adopt the available practical expedient to use hindsight in determining the lease term and in assessing impairment of the ROU assets.

The Agency has made the accounting policy election not to separate lease components from non-lease components, but rather will account for the components as a single lease component.

The Agency has made the accounting policy election to not apply the recognition requirements of Topic 842 for short-term leases for all existing and future short-term leases for all classes of underlying assets. A short-term lease is defined as a lease that, at the commencement date, has a lease term of twelve months or less and does not include an option to purchase the underlying asset that the lessee is reasonably certain to exercise.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Pronouncement Adopted in the Current Year (Continued)

Lease Arrangements (Continued)

Finally, the Agency has adopted ASU 2021-09, *Leases* (Topic 842) – *Discount Rate for Lessees That Are Not Public Business Entities,* which provides for more flexibility in determining discount rates for leases and allows for a risk-free rate election. In the absence of a rate implicit in a lease, an incremental borrowing rate or risk-free rate may be used to determine the initial carrying value of the lease liability. the Agency has elected to use the risk-free rate for periods comparable to lease terms for all classes of underlying assets. The risk-free rate is the rate of a zero-coupon U.S. Treasury instrument.

NOTE C: LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of the balance sheet date, comprise the following:

	2023	2022
Cash and cash equivalents	**$ 1,977,128**	**$ 2,422,002**
Receivables	**1,108,782**	**1,094,500**
Investments	**85,334**	**79,966**
Beneficial interest in assets held by the Winston-Salem Foundation	**741,495**	**712,936**
Total financial assets	**3,912,739**	**4,309,404**
Less those unavailable for general expenditure within one year due to:		
Purpose restrictions	**(685,663)**	**(1,252,937)**
Beneficial interest	**(741,495)**	**(712,936)**
Financial assets available to meet cash needs for general expenditure within one year	**$ 2,485,581**	**$ 2,343,531**

The Agency has a goal to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, the Agency has a $750,000 line of credit available to draw upon, if needed.

NOTE D: FAIR VALUE MEASUREMENTS

Financial assets and liabilities required to be measured on a recurring basis (at least annually) are classified under a three-tier hierarchy. Fair value is the amount that would be received to sell an asset, or paid to settle a liability, in an orderly transaction between market participants at the measurement date.

Assets and liabilities measured at fair value are categorized depending on the observability of the inputs employed in their measurement. Level I inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are observable inputs other than quoted prices included within Level 1 for the asset or liability, such as quoted prices for similar assets or liabilities, quoted prices in inactive markets, or other inputs that can be corroborated by observable data for substantially the full term of the assets or liabilities. Level 3 inputs are unobservable for the asset or liability, including the Agency's own assumptions in determining the fair value of assets or liabilities.

Valuation techniques used in the fair value measurements need to maximize the use of observable inputs and minimize the use of unobservable inputs. A valuation method may produce a fair value measurement that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Agency believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions could result in different fair value measurements at the reporting date.

The following is a description of the valuation methodologies used by the Agency for assets and liabilities measured at fair value:

Investments: Stocks valued at the closing price reported on the active market on which the securities are traded.

Beneficial Interest In Assets Held By Others: Equities and fixed income funds within the Winston-Salem Foundation (the Foundation) endowment pool are valued at the closing price reported on the active markets on which the individual securities are traded. Although the measurement is based on the unadjusted fair value of trust assets reported by the Foundation, the Agency has limited access to these funds. A substantial amount of the monies have been irrevocably assigned to the Foundation and the Agency is only able to redeem accumulated income that the Foundation has transferred to the grantable funds accounts within the endowments. The remaining endowment funds are available for specific uses based on the agreement by both the Agency and the Foundation. The real estate included in the beneficial interest in assets held by others is valued by an independent licensed appraiser based on a fee simple interest. The market value is defined as the most probable price which a property would bring in a competitive and open market under all conditions requisite for a fair sale. Due to the number of unobservable inputs included in the real estate valuation and the limited access to the funds mentioned above the Agency considers the measurement of its beneficial interest in assets held by others to be a Level 3 measurement within the fair value hierarchy.

Pension Plan Investments: Valued at the closing price reported on the active markets on which the equity securities and fixed income securities are traded.

NOTE D: FAIR VALUE MEASUREMENTS (CONTINUED)

Pension Projected Benefit Obligation: Based upon actuarial assumptions including discount rates from 4.50% to 4.95%, an expected long-term rate of return of 6.00%, and further assumptions for retirement age, mortality rates, employee withdrawal rates, and post-retirement expense loading charges.

The following table sets forth by level, within the fair value hierarchy, the Agency's assets and liabilities measured at fair value on a recurring basis as of June 30, 2023 and 2022:

	2023				2022			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Investments	$ 85,334	$ -	$ -	$ 85,334	$ 79,966	$ -	$ -	$ 79,966
Beneficial interest in assets held by others	-	-	2,701,495	2,701,495	-	-	3,057,936	3,057,936
Pension plan investments:								
Equity funds	1,306,656	-	-	1,306,656	1,547,358	-	-	1,547,358
Bond funds	939,875	-	-	939,875	715,942	-	-	715,942
Money market funds	45,848	-	-	45,848	46,190	-	-	46,190
	$ 2,377,713	$ -	$ 2,701,495	$ 5,079,208	$ 2,389,456	$ -	$ 3,057,936	$ 5,447,392
Liabilities:								
Pension projected benefit obligation	$ -	$ -	$ 3,332,158	$ 3,332,158	$ -	$ -	$ 3,552,425	$ 3,552,425

The table below sets forth a summary of changes in the fair value of the Agency's level 3 assets and liabilities for the years ended June 30, 2023 and 2022:

	2023	2022
Assets:		
Balance, beginning of year	**$ 3,057,936**	**$ 3,052,212**
Change in value of beneficial interest	**(329,383)**	**12,650**
Distributions	**(27,058)**	**(6,926)**
Balance, end of year	**$ 2,701,495**	**$ 3,057,936**
Liabilities:		
Balance, beginning of year	**$ 3,552,425**	**$ 4,621,411**
Service and interest cost	**182,995**	**234,425**
Actuarial (gain) loss	**(238,628)**	**(963,347)**
Benefits disbursed	**(164,634)**	**(458,041)**
Effects of settlement on projected benefit obligation	**-**	**117,977**
Balance, end of year	**$ 3,332,158**	**$ 3,552,425**

NOTE E: PROMISES TO GIVE

In connection with a capital campaign and other projects, the Agency solicited pledges to help fund various initiatives. As of June 30, 2023, unconditional promises to give are expected to be realized in the following periods:

Due within one year	**$ 175,968**
Due in one to five years	**137,500**
	313,468
Allowance for uncollectible pledges	**(12,500)**
	$ 300,968

NOTE F: INVESTMENTS

As of June 30, 2023 and 2022, investments totaling $85,334 and $79,966, respectively, consisted of stocks of public companies.

NOTE G: PROPERTY AND EQUIPMENT

Property and equipment at June 30, is summarized as follows:

	2023	**2022**
Land and buildings	**$ 8,666,929**	**$ 6,675,113**
Vehicles	**292,693**	**185,034**
Furniture, fixtures, and equipment	**2,235,415**	**1,983,600**
Leasehold improvements	**2,537,837**	**2,461,740**
Construction in progress	**263,704**	**65,374**
	13,996,578	**11,370,861**
Less accumulated depreciation	**(5,437,126)**	**(5,064,231)**
	$ 8,559,452	**$ 6,306,630**

Depreciation expenses totaled $372,896 and $379,626 for the years ended June 30, 2023 and 2022, respectively.

NOTE H: LEASES

The Agency has operating and financing leases for various office equipment under long-term non-cancelable lease arrangements. The leases expire through August 2027. The lease assets and liabilities were calculated utilizing the risk-free discount rate, according to the Agency's elected policy.

Total right-of-use assets and liabilities at June 30, 2023 are classified as follows in the statement of financial position:

Financing leases	
Financing lease right-of-use assets, net (included in property and equipment)	**$ 16,208**
Financing lease liabilities	**$ 10,945**
Operating leases	
Operating lease right-of-use assets	**$ 184,096**
Operating lease liabilities	**$ 184,096**

Total lease costs for the year ended June 30, 2023 are as follows:

Finance lease costs	
Amortization	**$ 16,991**
Interest	**2,571**
Operating lease costs	**63,919**
Short-term lease costs	
Program space (included in occupancy)	**113,750**
Total lease costs	**$ 197,231**

Rent expense under all leases totaled $144,663 for the year ended June 30, 2022.

The following summarizes the weighted-average discount rate and remaining lease term for finance leases as of June 30, 2023:

Weighted average discount rate	**12.65%**
Weighted average remaining lease term	**0.6 years**

The following summarizes the weighted-average discount rate and remaining lease term for operating leases as of June 30, 2023:

Weighted average discount rate	**2.29%**
Weighted average remaining lease term	**3.6 years**

NOTE H: LEASES (CONTINUED)

As of June 30, 2023, maturities of lease liabilities were as follows

	Finance Leases	Operating Leases
2024	$ 11,411	$ 67,241
2025	-	42,139
2026	-	39,858
2027	-	39,858
2028	-	3,320
Total lease payments	11,411	192,416
Less: imputed interest	(466)	(8,320)
Present value of lease liabilities	$ 10,945	$ 184,096

The following summarizes cash flow information related to leases for the year ended June 30, 2023:

Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 63,919
Operating cash flows for finance leases	2,571
Financing cash flows for finance leases	16,991
	$ 83,481
Right-of-use assets obtained in exchange for lease obligations	
Operating leases	$ 186,956

NOTE I: NOTES PAYABLE

Notes payable at June 30, 2023 and 2022 are summarized as follows:

	2023	2022
Revolving line of credit with local financial institution, limit of $750,000, variable interest rate equal to the Lender's base commercial rate, interest only monthly payments, collateralized by certain assets of the Agency, maturing February 2024.	$ -	$ -
Note payable with the Small Business Administration, payable in monthly installments of $43, beginning in June 2022 including interest at 2.75% through June 2052, when the note matures. Unsecured.	-	10,000
Mortgage note payable due in monthly installments of $8,543 including interest at 3.25%, through September 2027. All remaining principal and interest due at maturity. Note is secured by real estate.	1,347,298	1,404,396
Note payable due in monthly installments of $305 including interest at 3.12%, through May 2025 Note is secured by vehicle.	6,345	9,758
Mortgage note payable due in monthly installments of $10,034 including interest at 3.25%, through September 2026. All remaining principal and interest due at maturity. Note is secured by real estate.	1,837,056	1,895,873
Mortgage note payable due in monthly installments of $9,373 including interest at 5.95%, through February 2030. All remaining principal and interest due at maturity. Note is secured by real estate.	1,440,221	-
	$ 4,630,920	$ 3,320,027

NOTE I: NOTES PAYABLE (CONTINUED)

Future maturities of notes payable are as follows:

Year Ending June 30,	
2024	$ 152,206
2025	157,533
2026	160,458
2027	1,744,343
2028	1,131,354
Thereafter	1,285,026
	$ 4,630,920

At June 30, 2023, the Agency was in compliance with all restrictive debt covenants.

NOTE J: NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at June 30:

	2023	2022
Subject to expenditure for specified purposes:		
Various programs	$ 394,625	$ 76,848
Capital campaign	291,038	1,176,089
	685,663	1,252,937
Subject to passage of time:		
Operations	-	100,000
Not subject to Agency's spending policy or appropriation:		
Beneficial interest in assets held by others	148,371	142,982
	$ 834,034	$ 1,495,919

NOTE K: RETIREMENT PLANS

Employee Benefit Plan of Family Services, Inc.

The Agency has a noncontributory defined benefit retirement plan covering substantially all employees prior to plan curtailment. The plan provides for benefits to be paid to eligible employees at retirement based on years of service and compensation rates in the last years prior to retirement. Contributions to the plan comply with the funding requirements of the Employee Retirement Income Security Act. The Agency's funding policy is to fund pension cost accrued, as determined by an actuary, based upon the aggregate cost method.

The following table sets forth the funded status of the retirement plan and the amounts recognized in the Agency's consolidated financial statements as of and for the years ended June 30, 2023 and 2022.

	2023	2022
Accumulated benefit obligation	$ 3,332,158	$ 3,552,425
Fair value of plan assets	$ 2,292,379	$ 2,309,490
Projected benefit obligation	(3,332,158)	(3,552,425)
Funded status	$ (1,039,779)	$ (1,242,935)
Accrued pension cost reflected in the consolidated statements of financial position	$ (1,039,779)	$ (1,242,935)
Items not yet recognized as a component of net periodic pension cost:		
Net loss	$ 434,169	$ 747,966
Prior service cost	-	-
Pension loss and prior service cost	$ 434,169	$ 747,966
Net periodic pension cost	$ 110,641	$ 140,164
Employer contributions	$ 37,601	$ 143,815
Pension benefits paid	$ 164,634	$ 458,041
Weighted-average assumptions as of end of year:		
Discount rate, pre-retirement	4.95%	4.50%
Discount rate, post-retirement	4.95%	4.50%
Expected long-term rate of return on plan assets	6.00%	6.75%
Rate of compensation increase per year	N/A	N/A

NOTE K: RETIREMENT PLANS (CONTINUED)

Employee Benefit Plan of Family Services, Inc. (Continued)

Reconciliation of items not yet reflected in net periodic pension cost:

	June 30, 2022	Reclassified as Net Periodic Pension Cost	Amounts Arising During Period	Effects of Settlement	June 30, 2023
Net (gain) or loss	**$ 747,966**	**$ (58,615)**	**$ (255,182)**	**$ -**	**$ 434,169**

The estimated net gain and prior service costs for the defined benefit pension plan that will be recognized as net periodic pension cost during the next fiscal year are $0.

Expected Future Benefit Payments

The following benefit payments are expected to be paid as follows:

Year Ending June 30,	
2024	**$ 182,065**
2025	**183,286**
2026	**191,368**
2027	**198,214**
2028	**197,591**
2029 – 2033	**1,031,460**

Plan Curtailment

In November, 2009 the Board of Directors approved curtailment of the plan, which froze benefit accounts as of June 30, 2010. As a result of the pension plan curtailment, the board of directors adopted a resolution to create a defined contribution plan for the benefit of the Agency's employees. Employees became eligible to defer a portion of their salary as contributions to the plan on July 1, 2010.

Contributions

The Agency expects to contribute approximately $77,763 to the plan during the year ended June 30, 2024.

No plan assets are expected to be returned to the employer during the year ended June 30, 2024.

NOTE K: RETIREMENT PLANS (CONTINUED)

Employee Benefit Plan of Family Services, Inc. (Continued)

Plan Assets by Category as of June 30, 2023

Equity funds	**$ 1,306,656**	**57.0%**
Bond funds	**939,875**	**41.0%**
Money market funds	**45,848**	**2.0%**
Total	**$ 2,292,379**	**100.0%**

Plan Assets by Category as of June 30, 2022

Equity funds	**$ 1,547,358**	**67.0%**
Bond funds	**715,942**	**31.0%**
Money market funds	**46,190**	**2.0%**
Total	**$ 2,309,490**	**100.0%**

Expected Long-Term Rate of Return on Plan Assets Assumption

The expected long-term rate of return on plan assets of 6.00% was based on assumptions developed by the plan's investment consultant for each investment style category as to rate of return, risk, yield, and correlation with other categories that serve as components of the long-term strategy. Based upon these assumptions, eligible components are tested over the desired time horizon given the acceptable tolerance for risk as determined by the Plan Sponsor. The expected long-term rate of return reflects assumptions as to continued execution of the current strategic asset allocation, modern portfolio theory, and the plan's investment policy.

Investment Strategy

The weighted average maturity of plan liabilities is computed annually and used to evaluate the appropriateness of the investment strategy. All investment managers are regulated by the U.S. Securities and Exchange Commission and subject to the requirements of the Investment Advisers Act of 1940. A written investment policy statement provides guidance for fiduciaries and the plan's investment consultant. Each investment manager's performance is subject to review by the investment consultant and fiduciary committee on a regular basis.

403(b) Thrift Plan for Family Services, Inc.

The agency created a defined contribution plan for the benefit of the Agency’s employees as of July 1, 2010. Employees are eligible to participate in the plan at the date they are hired. The Agency matches employee contributions up to 4% of their annual compensation. Under the plan, the Agency can also make additional discretionary contributions to all eligible employees. The Agency contributed $82,696 and $96,203 to this plan during the years ended June 30, 2023 and 2022, respectively.

NOTE L: IN-KIND CONTRIBUTIONS

The Agency received the following in-kind contributions for the years ended June 30:

	2023	2022
Office and classroom space	$ 719,908	$ 719,908
Service discounts	-	87,282
Salaries and related benefits	144,594	181,487
	$ 864,502	$ 988,677

The Agency requires the use of office and classroom space for its daily operations. These are based on current market rates for the use of office and classroom space.

The Agency was also provided with employee services and benefits in certain in-kind classrooms at no cost. These are based on current market rates for these services and benefits.

The Agency was also provided with discounts on services provided. These are based on current market rates for these various services.

All in-kind contributions received by the Agency for the years ended June 30, 2023 and 2022 were considered without donor restrictions and able to be used by the Agency as determined by the board of directors and management.

NOTE M: CONDITIONAL PROMISE TO GIVE

The Agency is a United Way sponsored organization and receives annual funding from the United Way. This funding is contingent on the success of United Way's annual campaign and collection efforts and, therefore, is not recognized as revenue until funds are received. In a letter dated June 28, 2023, the Agency was allocated $289,315 of United Way funding for the year ended June 30, 2024.

NOTE N: CONTINGENCIES

Financial awards from federal and state governmental entities in the form of grants are subject to review and/or audit. Such review could result in claims against the Agency for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such review or audit since the amount, if any, cannot be determined at this date.

In a prior year, the Agency was awarded funds from the City of Winston-Salem to help fund construction and renovation of new facilities to house the Agency's daily operations. The funds are technically a deferred forgivable mortgage representing $100,000 in a loan from the City of Winston-Salem. The loan is secured by a deed of trust on the property and bears no interest for a twenty-year term. Subject to the continued use of the property for Agency operations, the loan will be forgiven at the end of the related terms. Because the likelihood of repayment is possible, but not probable, the funds received were recorded as revenue. In the unlikely event of default, the Agency would have to repay $100,000 for the note with a twenty-year term (maturing in April 2028).

For the year ended June 30, 2023, the Agency received federal grant funding via Forsyth County of $500,000 as a down payment on the Felicity Lane building. Under the grant contract, any real property or equipment acquired with federal grant funds must be used, insured, managed, and disposed of in accordance with 2 CFR 200.311 through 2 CFR 200.316, and must be returned to the grantor as soon as it is no longer used for an allowable use, as required by the Uniform Guidance and other federal law.

NOTE O: HEAD START — GRANTEE MATCH

The Head Start Program requires that no more than 80 percent of program costs be provided by federal financial assistance. The Agency must generate 20 percent of program cost from other sources, which can include in–kind contributions. For the years ended June 30, 2023 and 2022, Head Start program costs included matching contributions of $3,748,128 ($355,004 of cash contributions and $3,393,124 of in-kind contributions) and $2,642,719 ($316,421 of cash contributions and $2,326,298 of in-kind contributions), respectively. The in-kind contributions consisted primarily of facility space usage, supplies, and volunteer time. Facility usage contributions are measured and recorded based on the excess of fair market rental values over the actual amount of rent payments at four locations. Supplies are recorded at the approximate fair value at the date of donation. An amount for volunteer time is not recorded since the nature of the services do not meet the recognition criteria for inclusion in the consolidated financial statements. However, these services do meet Head Start criteria for match requirements. At June 30, 2023, the Agency was in compliance with the Head Start matching requirements.

FAMILY SERVICES, INC.
SCHEDULE OF FEDERAL AWARDS
For the Year Ended June 30, 2023

Federal Grantor/Pass-Through Grantor/Program Title	Assistance Listing Number (ALN)	Expenditures
U.S. Department of Health and Human Services:		
* Direct Program- Head Start	93.600	$ 7,933,686
Pass-through from the N.C. Department of Health and Human Services and Children's Advocacy Centers of N.C. - Temporary Assistance for Needy Families	93.558	27,954
Pass-through from N.C. Department of Administration: NC Council for Women & Youth Involvement Family Violence Prevention Grant	93.671	41,594
Total U.S. Department of Health and Human Services		8,003,234
U.S. Department of Housing and Urban Development:		
Pass-through from N.C. Department of Health and Human Services and City of Winston-Salem - Emergency Shelter Grants Program	14.231	72,299
Pass-through from N.C. Department of Health and Human Services and City of Winston-Salem and United Way of Forsyth County * Emergency Shelter Grants Program	14.231	155,199
Pass-through from City of Winston-Salem - Emergency Shelter Grants Program	14.231	63,706
Pass-through from City of Winston-Salem - Continuum of Care Program	14.267	31,866
Total U.S. Department of Housing and Urban Development		323,070
U.S. Department of Justice:		
Pass-through from N.C. Department of Crime Control and Public Safety: * Victims of Crime Act Grant	16.575	482,542
Total U.S. Department of Justice		482,542
U.S. Department of Agriculture:		
Pass-through from N.C. Department of Health and Human Services - * Child and Adult Care Food Program	10.558	226,188
U.S. Department of Treasury:		
Pass-through from County of Forsyth, North Carolina * Coronavirus State and Local Fiscal Recovery Funds	21.027	756,881
U.S. Department of Homeland Security		
Pass-through from United Way of Forsyth County, Inc. - Emergency Food and Shelter National Board Program	97.024	10,445
TOTAL EXPENDITURES OF FEDERAL AWARDS		$ 9,802,360

* Denotes a program having a direct and material effect on the financial statements

FAMILY SERVICES, INC.
SCHEDULE OF NORTH CAROLINA AWARDS
For the Year Ended June 30, 2023

State Grantor/Pass-Through Grantor/Program Title	Contract #	Receipts	Expenditures
N.C. Department of Administration, Council for Women:			
Direct Programs:			
Domestic Violence	N/A	$ 51,721	$ 51,721
Sexual Assault	N/A	28,110	28,110
Divorce Filing Fees	N/A	18,479	18,479
Marriage License Fees	N/A	19,173	19,173
Total N.C. Department of Administration, Council for Women		117,483	117,483
N.C. Department of Juvenile Justice and Delinquency:			
Pass-through from Forsyth County - Strengthening			
* Families Program for Parents and Youth	N/A	104,802	104,802
N.C. Administrative Office of the Courts			
Pass-through from N.C. Human Trafficking Commission			
Facility Improvement Grant	N/A	60,132	60,132
N.C. Department of Health and Human Services:			
Pass-through from Children's Advocacy			
* Centers of N.C. - Vantage Point CAC	N/A	148,746	148,746
TOTAL NORTH CAROLINA AWARDS		$ 431,163	$ 431,163

* Denotes a program having a direct and material effect on the financial statements

NOTE A: BASIS OF PRESENTATION

The accompanying schedules of federal and North Carolina awards include the federal and state grant activity of Family Services, Inc. and are presented on the accrual basis. The information in the schedules 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* and N. C. General Statute 143C-6-23. Therefore, some amounts presented in the schedules may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B: INDIRECT COST RATE

Family Services, Inc. has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

BUTLER BURKE LLP
CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Family Services, Inc.
Winston-Salem, North Carolina

INDEPENDENT AUDITORS' 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*

We have audited, in accordance with U.S. generally accepted auditing standards 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 Family Services, Inc. (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2023 and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 27, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Family Services, Inc.'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 Family Services, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Family Services, Inc.'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2023-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Family Services, Inc.'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 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.*

Family Services, Inc.'s Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Family Services, Inc.'s response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. Family Services, Inc.'s response was not subjected to the other auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

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 Family Services, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Family Services, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Butler & Burke, LLP

Winston-Salem, North Carolina
March 27, 2024

BUTLER BURKE LLP

CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Family Services, Inc.
Winston-Salem, North Carolina

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Family Services, Inc.'s compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of Family Services, Inc.'s major federal programs for the year ended June 30, 2023. Family Services, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Family Services, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

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

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

Responsibility 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 law, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Family Services, Inc.'s federal programs.

Auditors' 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 Family Services, Inc.'s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, internal 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 Family Services, Inc.'s compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Family Services, Inc.'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 Family Services, Inc.'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 Family Services, Inc.'s internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit 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. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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

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

Butler & Burke, LLP

Winston-Salem, North Carolina
March 27, 2024

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unmodified opinion on the consolidated financial statements of Family Services, Inc.

2. One material weakness relating to the audit of the consolidated financial statements is reported in the Independent Auditors' 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.*

3. No instances of non-compliance material to the consolidated financial statements of Family Services, Inc. were disclosed during the audit.

4. No significant deficiencies or material weaknesses in internal control relating to the audit of the major federal award programs were reported in the Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.

5. The auditors' report on compliance for each major federal award program for Family Services, Inc. expresses an unmodified opinion.

6. There were no audit findings relative to the major federal award programs for Family Services, Inc.

7. The programs tested as major programs were:

Head Start	ALN# 93.600
Victims of Crime (VOCA)	ALN# 16.575
Coronavirus State and Local Fiscal Recovery Funds	ALN# 21.027

8. The threshold for distinguishing types A and B programs was $750,000.

9. Family Services, Inc. did not qualify as a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

2023-001 – Grant Receivable Adjustments

Condition: Significant adjusting journal entries were required to adjust the grant receivable balance to actual as of year-end.

Criteria: The grant receivable balance should be adjusted to actual and reconciled to the general ledger on a monthly basis and as of year-end.

Cause: The internal process for recording and adjusting the grant receivable balance, which is fairly complex, has been in place at the Agency for many years, and was not communicated effectively to the new employees when turnover occurred in the accounting department in the current year. Because this process was not followed, the proper adjustments were not made to the grant receivable and revenue accounts during the year or as of year-end.

Effects: As a result, 6/30/2023 balances for certain grant receivable and revenue accounts had to be corrected with material adjusting journal entries during the audit. There are multiple ways to ensure the grant receivable and revenue balances are recorded properly during the year. However, regardless of the process, the grant receivable balance should be correct as of year-end.

Recommendation: The auditor recommends that the internal process for recording and adjusting the grant receivable balance be followed on a consistent basis to ensure the balance is recorded properly on a monthly basis and as of year-end to properly prepare consolidated financial statements in accordance with GAAP.

Views of Responsible Officials and Planned Corrective Actions: Subsequent to year-end, management has gained a better understanding of the internal process for recording grant receivables and revenue and believes following the process consistently will ensure that grant receivables and revenue are recorded properly on a monthly basis and as of year-end.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

2022-001 – Financial Statement Preparation

Condition: Significant adjusting journal entries were required to adjust the grant receivable balance to actual as of year-end.

Recommendation: The auditor recommends that the internal process for recording and adjusting the grant receivable balance be updated and improved to be less complex and easier to complete to ensure the balance is recorded properly on a monthly basis and as of year-end to properly prepare consolidated financial statements in accordance with GAAP.

Current Status: While the internal process for recording and adjusting the grant receivable balance was updated to be less complex and easier to complete, the new process was not followed consistently. This was due to turnover that occurred in management positions in the accounting department. As a result, the process was not communicated effectively to the new employees, resulting in essentially the same finding for the year ended June 30, 2023.