

FAMILY SERVICES, INC.

Financial and Compliance Report

Entity Identification Number 1-560689235-A1

June 30, 2022 and 2021

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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, 2022 and 2021, 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, 2022 and 2021, 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 December 29, 2022 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
December 29, 2022

FAMILY SERVICES, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Cash and cash equivalents	\$ 2,422,002	\$ 2,957,078
Grants receivable	853,610	1,433,538
Promises to give, net	160,026	272,167
Accounts receivable, net	80,864	110,709
Prepaid expenses and other	59,053	63,565
Investments	79,966	82,096
Property and equipment, net	6,306,630	6,571,205
Beneficial interest in assets held by others	<u>3,057,936</u>	<u>3,052,212</u>
<u>TOTAL ASSETS</u>	<u>\$ 13,020,087</u>	<u>\$ 14,542,570</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 406,616	\$ 445,179
Accrued expenses	350,493	345,154
Loan payable	-	1,087,400
Capital lease obligation	27,936	42,918
Notes payable	3,320,027	3,636,079
Accrued pension cost	<u>1,242,935</u>	<u>1,566,882</u>
<u>Total Liabilities</u>	<u>5,348,007</u>	<u>7,123,612</u>
Net assets		
Without donor restrictions		
Board designated	569,955	651,962
Undesignated	<u>5,606,206</u>	<u>5,069,350</u>
	6,176,161	5,721,312
With donor restrictions	<u>1,495,919</u>	<u>1,697,646</u>
<u>Total Net Assets</u>	<u>7,672,080</u>	<u>7,418,958</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 13,020,087</u>	<u>\$ 14,542,570</u>

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
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
	<u>12,600,847</u>	<u>237,356</u>	<u>12,838,203</u>
Net assets released from restrictions	439,083	(439,083)	-
<u>Total Support and Revenue</u>	<u>13,039,930</u>	<u>(201,727)</u>	<u>12,838,203</u>
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
<u>Total Program Services</u>	<u>10,621,452</u>	<u>-</u>	<u>10,621,452</u>
Management and General	1,875,007	-	1,875,007
Fundraising	400,465	-	400,465
<u>Total Expenses</u>	<u>12,896,924</u>	<u>-</u>	<u>12,896,924</u>
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	<u>5,721,312</u>	<u>1,697,646</u>	<u>7,418,958</u>
Net Assets, End of Year	<u>\$ 6,176,161</u>	<u>\$ 1,495,919</u>	<u>\$ 7,672,080</u>

FAMILY SERVICES, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Grant income	\$ 9,203,453	\$ 211,310	\$ 9,414,763
United Way	467,060	-	467,060
In-kind contributions	1,407,045	-	1,407,045
Other contributions	235,166	-	235,166
Special events	63,171	28,000	91,171
Program service fees	672,324	-	672,324
Rental income	126,319	-	126,319
Other	15,515	383	15,898
Unrealized losses on investments	-	(18,741)	(18,741)
Change in value of beneficial interest	226,439	33,885	260,324
	<u>12,416,492</u>	<u>254,837</u>	<u>12,671,329</u>
Net assets released from restrictions	<u>801,104</u>	<u>(801,104)</u>	<u>-</u>
Total Support and Revenue	<u>13,217,596</u>	<u>(546,267)</u>	<u>12,671,329</u>
EXPENSES AND LOSSES			
Program Services			
Safe Relationships	1,573,181	-	1,573,181
Family Solutions	853,325	-	853,325
Head Start	4,646,003	-	4,646,003
Early Head Start	2,795,553	-	2,795,553
Child Development Services	108,983	-	108,983
Universal Pre-K	198,363	-	198,363
Total Program Services	<u>10,175,408</u>	<u>-</u>	<u>10,175,408</u>
Management and General	1,524,341	-	1,524,341
Fundraising	358,797	-	358,797
Total Expenses	<u>12,058,546</u>	<u>-</u>	<u>12,058,546</u>
Loss on sale of real estate	47,927	-	47,927
Total Expenses and Losses	<u>12,106,473</u>	<u>-</u>	<u>12,106,473</u>
Other Gains			
Pension gains in excess of net periodic pension cost	580,042	-	580,042
CHANGE IN NET ASSETS	1,691,165	(546,267)	1,144,898
Net Assets, Beginning of Year	<u>4,030,147</u>	<u>2,243,913</u>	<u>6,274,060</u>
Net Assets, End of Year	<u>\$ 5,721,312</u>	<u>\$ 1,697,646</u>	<u>\$ 7,418,958</u>

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

	Program Services						Total Program Services	Management and General	Fundraising	Total
	Safe Relationships	Family Solutions	Head Start	Early Head Start	Child Development Services	Universal Pre-K				
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
	<u>\$ 1,489,922</u>	<u>\$ 836,663</u>	<u>\$ 5,139,250</u>	<u>\$ 2,930,358</u>	<u>\$ 112,657</u>	<u>\$ 112,602</u>	<u>\$ 10,621,452</u>	<u>\$ 1,875,007</u>	<u>\$ 400,465</u>	<u>\$ 12,896,924</u>

FAMILY SERVICES, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2021

	Program Services						Total Program Services	Management and General	Fundraising	Total
	Safe Relationships	Family Solutions	Head Start	Early Head Start	Child Development Services	Universal Pre-K				
Salaries and wages	\$ 1,012,812	\$ 528,023	\$ 2,326,666	\$ 806,697	\$ 59,011	\$ 82,097	\$ 4,815,306	\$ 722,994	\$ 217,034	\$ 5,755,334
Employee benefits	188,393	157,917	528,327	208,310	13,558	19,971	1,116,476	153,816	49,601	1,319,893
Contract daycare services	-	-	411,123	1,250,343	-	-	1,661,466	-	-	1,661,466
Professional fees	15,202	20,588	194,689	37,494	6,582	66,925	341,480	156,866	7,455	505,801
Supplies, postage and shipping	45,989	22,457	144,096	90,360	2,570	2,102	307,574	35,673	11,022	354,269
Telephone	42,968	19,391	95,656	15,903	766	2,028	176,712	29,617	10,072	216,401
Occupancy	100,000	-	532,069	183,142	16,169	-	831,380	-	-	831,380
Utilities	25,231	11,650	45,024	8,785	44	1,499	92,233	37,822	3,228	133,283
Insurance	10,122	6,185	33,937	8,702	870	655	60,471	5,551	3,709	69,731
Repairs and maintenance	46,583	20,031	156,333	41,643	2,789	2,126	269,505	73,583	5,549	348,637
Printing and publications	206	161	165	1,204	1,544	1,197	4,477	10,045	25,749	40,271
Advertising and marketing	-	359	7,231	2,039	-	17,500	27,129	58,322	-	85,451
Staff travel and training	11,539	4,014	28,212	19,003	240	-	63,008	5,685	1,659	70,352
Transportation	988	-	6,004	1,659	104	-	8,755	-	-	8,755
Food and food service supplies	7,716	1,815	48,575	9,471	3,853	-	71,430	1,064	669	73,163
Specific assistance to individuals	10,378	9	-	-	-	-	10,387	-	-	10,387
Provision for bad debts	-	2,995	-	-	-	-	2,995	900	-	3,895
Provision for uncollectible pledges	-	-	-	-	-	-	-	-	11,630	11,630
Depreciation	34,793	36,716	79,599	110,867	191	2,263	264,429	87,663	6,166	358,258
Interest	20,261	20,914	2,510	-	-	-	43,685	71,640	-	115,325
Miscellaneous	-	100	5,787	(69)	692	-	6,510	73,100	5,254	84,864
	<u>\$ 1,573,181</u>	<u>\$ 853,325</u>	<u>\$ 4,646,003</u>	<u>\$ 2,795,553</u>	<u>\$ 108,983</u>	<u>\$ 198,363</u>	<u>\$ 10,175,408</u>	<u>\$ 1,524,341</u>	<u>\$ 358,797</u>	<u>\$ 12,058,546</u>

FAMILY SERVICES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 253,122	\$ 1,144,898
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	379,626	358,258
Non-cash gift of real estate	-	(382,000)
Non-cash gift of investments	(12,026)	(100,622)
Unrealized losses on investments	14,576	18,741
Change in value of beneficial interests	(12,650)	(260,324)
Provision for bad debts	4,391	3,895
Provision for uncollectible pledges	1,000	11,630
Loss on sale of real estate	-	47,927
Gain upon debt extinguishment	(1,087,400)	-
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Receivables	716,523	91,583
Prepaid expenses and other	4,512	9,484
Increase (decrease) in:		
Accounts payable	(38,563)	(386,824)
Accrued expenses	5,339	22,811
Accrued pension cost	(323,947)	(512,057)
<u>Net Cash Provided by (Used in) Operating Activities</u>	<u>(95,497)</u>	<u>67,400</u>
INVESTING ACTIVITIES		
Capital expenditures	(115,051)	(2,147,247)
Proceeds from sale of real estate	-	383,400
Distributions from beneficial interest	6,926	6,864
Reinvested investment income, net	(420)	(215)
<u>Net Cash Used in Investing Activities</u>	<u>(108,545)</u>	<u>(1,757,198)</u>
FINANCING ACTIVITIES		
Change in revolving line of credit	(200,323)	74,587
Principal payments on debt	(115,729)	(95,642)
Proceeds from long-term debt	-	1,522,963
Repayment of capital lease obligation	(14,982)	(5,707)
<u>Net Cash Provided by (Used in) Financing Activities</u>	<u>(331,034)</u>	<u>1,496,201</u>
Change in Cash and Cash Equivalents	(535,076)	(193,597)
Cash and Cash Equivalents at Beginning of Year	<u>2,957,078</u>	<u>3,150,675</u>
Cash and Cash Equivalents at End of Year	<u>\$ 2,422,002</u>	<u>\$ 2,957,078</u>
<u>SUPPLEMENTAL INFORMATION:</u>		
Interest paid	<u>\$ 125,697</u>	<u>\$ 115,325</u>
Non-cash investing and financing activity:		
Capital expenditures funded by capital lease obligation	<u>\$ -</u>	<u>\$ 48,625</u>

FAMILY SERVICES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

FAMILY SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 \$28,000 was recorded as of June 30, 2022 and 2021. 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, 2022 and 2021.

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.

FAMILY SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 \$712,936 and \$822,212 as of June 30, 2022 and 2021, 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 \$2,345,000 and \$2,230,000 as of June 30, 2022 and 2021, 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, 2022 and 2021, the Agency received approximately 58% and 59%, respectively, of its annual support and revenue from Head Start and Early Head Start.

FAMILY SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2022 and 2021, advertising costs were \$120,710 and \$85,451, 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.

FAMILY SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2022) 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

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (Topic 958), which is effective for fiscal years beginning after June 15, 2021 and is intended to improve transparency in the reporting of contributed nonfinancial assets, also known as in-kind contributions, for not-for-profit Organizations. The ASU requires a not-for-profit organization to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets, along with expanded disclosure requirements. The adoption of ASU 2020-07 resulted in no material changes to the recognition of contributed nonfinancial assets.

Recently Issued Accounting Pronouncements Not Yet Effective

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842). This guidance will require the rights and obligations of new and existing lease arrangements to be recognized as assets and liabilities on the statement of financial condition. The guidance will also require 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 will be effective for periods beginning after December 15, 2021, will be to record right-of-use assets and obligations for current operating leases.

FAMILY SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 2,422,002	\$ 2,957,078
Receivables	1,094,500	1,816,414
Investments	79,966	82,096
Beneficial interest in assets held by the Winston-Salem Foundation	<u>712,936</u>	<u>822,212</u>
Total financial assets	4,309,404	5,677,800
Less those unavailable for general expenditure within one year due to:		
Purpose restrictions	(1,252,937)	(1,383,731)
Beneficial interest	<u>(712,936)</u>	<u>(822,212)</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 2,343,531</u>	<u>\$ 3,471,857</u>

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.

FAMILY SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 1 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.

FAMILY SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE D: FAIR VALUE MEASUREMENTS (CONTINUED)

Pension Projected Benefit Obligation: Based upon actuarial assumptions including discount rates from 2.85% to 4.50%, an expected long-term rate of return of 6.75%, 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, 2022 and 2021:

	2022				2021			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Investments	\$ 79,966	\$ -	\$ -	\$ 79,966	\$ 82,096	\$ -	\$ -	\$ 82,096
Beneficial interest in assets held by others	-	-	3,057,936	3,057,936	-	-	3,052,212	3,052,212
Pension plan investments:								
Equity funds	1,547,358	-	-	1,547,358	1,893,808	-	-	1,893,808
Bond funds	715,942	-	-	715,942	1,130,176	-	-	1,130,176
Money market funds	46,190	-	-	46,190	30,545	-	-	30,545
	<u>\$ 2,389,456</u>	<u>\$ -</u>	<u>\$ 3,057,936</u>	<u>\$ 5,447,392</u>	<u>\$ 3,136,625</u>	<u>\$ -</u>	<u>\$ 3,052,212</u>	<u>\$ 6,188,837</u>
Liabilities:								
Pension projected benefit obligation	\$ -	\$ -	\$ 3,552,425	\$ 3,552,425	\$ -	\$ -	\$ 4,621,411	\$ 4,621,411

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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Assets:		
Balance, beginning of year	\$ 3,052,212	\$ 2,798,752
Change in value of beneficial interest	12,650	260,324
Distributions	<u>(6,926)</u>	<u>(6,864)</u>
Balance, end of year	<u>\$ 3,057,936</u>	<u>\$ 3,052,212</u>
Liabilities:		
Balance, beginning of year	\$ 4,621,411	\$ 4,928,731
Service and interest cost	234,425	158,199
Actuarial (gain) loss	(963,347)	(52,048)
Benefits disbursed	(458,041)	(463,595)
Effects of settlement on projected benefit obligation	<u>117,977</u>	<u>50,124</u>
Balance, end of year	<u>\$ 3,552,425</u>	<u>\$ 4,621,411</u>

FAMILY SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2022, unconditional promises to give are expected to be realized in the following periods:

Due within one year	\$ 167,576
Due in one to five years	<u>20,450</u>
	188,026
Allowance for uncollectible pledges	<u>(28,000)</u>
	<u>\$ 160,026</u>

NOTE F: INVESTMENTS

As of June 30, 2022 and 2021, investments totaling \$79,966 and \$82,096, respectively, consisted of stocks of public companies.

NOTE G: PROPERTY AND EQUIPMENT

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

	<u>2022</u>	<u>2021</u>
Land and buildings	\$ 6,675,113	\$ 6,625,435
Vehicles	185,034	209,897
Furniture, fixtures, and equipment	1,983,600	1,983,600
Leasehold improvements	2,461,740	2,461,740
Construction in progress	<u>65,374</u>	<u>-</u>
	11,370,861	11,280,672
Less accumulated depreciation	<u>(5,064,231)</u>	<u>(4,709,467)</u>
	<u>\$ 6,306,630</u>	<u>\$ 6,571,205</u>

Depreciation expenses totaled \$379,626 and \$358,258 for the years ended June 30, 2022 and 2021, respectively.

FAMILY SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE H: LOAN PAYABLE (PPP)

On April 19, 2020, the Agency received loan proceeds in the amount of \$1,087,400 under the Paycheck Protection Program (“PPP”). Established as part of the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), the PPP provides for loans to qualifying businesses in amounts up to 2.5 times the business’s average monthly payroll expenses. PPP loans and accrued interest are forgivable after a “covered period” (24 weeks) as long as the borrower maintains its payroll levels and uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities. The forgiveness amount may be reduced if the borrower terminates employees or reduces salaries during the covered period. Any unforgiven portion of a PPP loan is payable over two years at an interest rate of 1%, with a deferral of payments for 10 months after the end of the covered period. The Agency believes it used PPP loan proceeds for purposes consistent with the PPP and obtained forgiveness of the entire loan balance including accrued interest in August 2021 from the Small Business Administration.

The Agency initially accounted for the PPP loan in accordance with ASC 470, *Debt*, and subsequently derecognized the debt when the debt was forgiven in accordance with ASC 405-20, *Liabilities: Extinguishments of Liabilities*. The amount forgiven has been recognized in the consolidated statement of activities for the year ended June 30, 2022 as a gain upon debt extinguishment.

NOTE I: NOTES PAYABLE

Notes payable at June 30, 2022 and 2021 are summarized as follows:

	<u>2022</u>	<u>2021</u>
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 November 2022.	\$ -	\$ 200,323
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	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.	1,404,396	1,459,647
Note payable due in monthly installments of \$305 including interest at 3.12%, through May 2025. Note is secured by vehicle.	9,758	12,724

FAMILY SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE I: NOTES PAYABLE (CONTINUED)

	<u>2022</u>	<u>2021</u>
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.	<u>1,895,873</u>	<u>1,953,385</u>
	<u>\$ 3,320,027</u>	<u>\$ 3,636,079</u>

Future maturities of notes payable are as follows:

<u>Year Ending June 30,</u>	
2023	\$ 120,881
2024	124,962
2025	128,877
2026	129,763
2027	1,710,839
Thereafter	<u>1,104,705</u>
	<u>\$ 3,320,027</u>

At June 30, 2022, the Agency was in compliance with all restrictive debt covenants.

NOTE J: NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes or periods at June 30:

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purposes and/or passage of time:		
Various programs	\$ 76,848	\$ 41,783
Capital Campaign	1,176,089	1,341,948
Operations – timing restrictions	<u>100,000</u>	<u>143,665</u>
	1,352,937	1,527,396
Not subject to Agency’s spending policy or appropriation:		
Beneficial interest in assets held by others	<u>142,982</u>	<u>170,250</u>
	<u>\$ 1,495,919</u>	<u>\$ 1,697,646</u>

FAMILY SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2022 and 2021.

	<u>2022</u>	<u>2021</u>
Accumulated benefit obligation	\$ 3,552,425	\$ 4,621,411
Fair value of plan assets	\$ 2,309,490	\$ 3,054,529
Projected benefit obligation	(3,552,425)	(4,621,411)
Funded status	\$ (1,242,935)	\$ (1,566,882)
Accrued pension cost reflected in the consolidated statements of financial position	\$ (1,242,935)	\$ (1,566,882)
Items not yet recognized as a component of net periodic pension cost:		
Net loss	\$ 747,966	\$ 1,130,050
Prior service cost	-	-
Pension loss and prior service cost	\$ 747,966	\$ 1,130,050
Net periodic pension cost	\$ 140,164	\$ 166,049
Employer contributions	\$ 143,815	\$ 111,256
Pension benefits paid	\$ 458,041	\$ 463,595
Weighted-average assumptions as of end of year:		
Discount rate, pre-retirement	4.50%	2.85%
Discount rate, post-retirement	4.50%	2.85%
Expected long-term rate of return on plan assets	6.75%	6.75%
Rate of compensation increase per year	N/A	N/A

FAMILY SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE K: RETIREMENT PLANS (CONTINUED)

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

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

	<u>June 30, 2021</u>	<u>Reclassified as Net Periodic Pension Cost</u>	<u>Amounts Arising During Period</u>	<u>Effects of Settlement</u>	<u>June 30, 2022</u>
Net (gain) or loss	\$ 1,130,050	\$ (104,198)	\$ (207,645)	\$ (70,241)	\$ 747,966

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 \$58,615.

Expected Future Benefit Payments

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

<u>Year Ending June 30,</u>	
2023	\$ 181,350
2024	180,768
2025	182,447
2026	190,525
2027	197,403
2028 – 2032	1,010,428

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 \$54,505 to the plan during the year ended June 30, 2023.

No plan assets are expected to be returned to the employer during the year ended June 30, 2023.

FAMILY SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE K: RETIREMENT PLANS (CONTINUED)

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

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	<u>46,190</u>	<u>2.0%</u>
Total	<u>\$ 2,309,490</u>	<u>100.0%</u>

Plan Assets by Category as of June 30, 2021

Equity funds	\$ 1,893,808	62.0%
Bond funds	1,130,176	37.0%
Money market funds	<u>30,545</u>	<u>1.0%</u>
Total	<u>\$ 3,054,529</u>	<u>100.0%</u>

Expected Long-Term Rate of Return on Plan Assets Assumption

The expected long-term rate of return on plan assets of 6.75% 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 \$96,203 and \$108,151 to this plan during the years ended June 30, 2022 and 2021, respectively.

FAMILY SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE L: RENT EXPENSE AND CONTRIBUTED FACILITIES

The principal commitments of the Agency are as follows:

Lease Commitments

Rent expense included in occupancy cost consisted of donated use of various locations and totaled \$719,908 for each of the years ended June 30, 2022 and 2021.

The Agency leases various assets under operating leases expiring through August 2024. The Agency also leases equipment under capital leases expiring through January 2024. Future minimum lease payments under non-cancellable leases with initial or remaining terms of one year or more are summarized as follows:

	<u>Capital Leases</u>	<u>Operating Leases</u>
2023	\$ 19,562	\$ 141,132
2024	11,411	36,966
2025	-	<u>2,282</u>
Total minimum lease payments	30,973	<u>\$ 180,380</u>
Less amount representing interest	<u>(3,037)</u>	
Present value of net minimum lease payments	<u>\$ 27,936</u>	

Rent expense under all operating leases for the years ended June 30, 2022 and 2021 was \$125,101 and \$117,411, respectively.

NOTE M: 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, 2022 and 2021, Head Start program costs included matching contributions of \$2,642,719 (\$316,421 of cash contributions and \$2,326,298 of in-kind contributions) and \$3,218,016 (\$288,417 of cash contributions and \$2,929,599 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, 2022, the Agency was in compliance with the Head Start matching requirements. However, the Agency needed a partial waiver reducing the required match from 20% to 17% in order for the Early Head Start Program to be in compliance.

FAMILY SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE N: IN-KIND CONTRIBUTIONS

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

	<u>2022</u>	<u>2021</u>
Office and classroom space	\$ 719,908	\$ 719,908
Property	-	382,000
Service discounts	87,282	83,240
Salaries and related benefits	<u>181,487</u>	<u>221,897</u>
	<u>\$ 988,677</u>	<u>\$ 1,407,045</u>

The Agency requires the use of office and classroom space for its daily operations. Based on current market rates for the use of office and classroom space, the Agency would have paid \$719,908 each year for the years ended June 30, 2022 and 2021, respectively.

The Agency was gifted real property during the year ended June 30, 2021. The appraised value on the date of the gift was approximately \$382,000.

The Agency was also provided with discounts on services provided. Based on current market rates for these various services the Agency would have paid \$87,282 and 83,240 for the years ended June 30, 2022 and 2021, respectively.

The Agency was also provided with employee services and benefits in certain in-kind classrooms at no cost. Based on current market rates for these services and benefits the Agency would have paid \$181,487 and 221,897 for the years ended June 30, 2022 and 2021, respectively.

All in-kind contributions received by the Agency for the years ended June 30, 2022 and 2021 were considered without donor restrictions and able to be used by the Agency as determined by the board of directors and management.

NOTE O: 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 23, 2022, the Agency was allocated \$270,055 of United Way funding for the year ended June 30, 2023.

FAMILY SERVICES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE P: 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).

FAMILY SERVICES, INC.
SCHEDULE OF FEDERAL AWARDS
For the Year Ended June 30, 2022

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. Department of Health and Human Services:		
* Direct Program- Head Start	93.600	\$ 7,391,791
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	24,567
Pass-through from N.C. Department of Administration: NC Council for Women & Youth Involvement Family Violence Prevention Grant	93.671	<u>36,845</u>
<u>Total U.S. Department of Health and Human Services</u>		<u>7,453,203</u>
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	49,876
Pass-through from N.C. Department of Health and Human Services - Emergency Shelter Grants Program	14.231	1,779
Pass-through from City of Winston-Salem - * Emergency Shelter Grants Program	14.231	103,949
Pass-through from City of Winston-Salem - * Continuum of Care Program	14.267	<u>107,942</u>
<u>Total U.S. Department of Housing and Urban Development</u>		<u>263,546</u>
U.S. Department of Justice:		
Pass-through from N.C. Department of Crime Control and Public Safety: * Victims of Crime Act Grant	16.575	<u>494,908</u>
<u>Total U.S. Department of Justice</u>		<u>494,908</u>
U.S. Department of Agriculture:		
Pass-through from N.C. Department of Health and Human Services - * Child and Adult Care Food Program	10.558	<u>138,740</u>
U.S. Department of Homeland Security		
Pass-through from United Way of Forsyth County, Inc. - Emergency Food and Shelter National Board Program	97.024	<u>36,766</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u><u>\$ 8,387,163</u></u>

* 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, 2022

<u>State Grantor/Pass-Through Grantor/Program Title</u>	<u>Contract #</u>	<u>Receipts</u>	<u>Expenditures</u>
N.C. Department of Administration, Council for Women:			
Direct Programs:			
Domestic Violence	N/A	\$ 54,471	\$ 54,471
Sexual Assault	N/A	30,935	30,935
Divorce Filing Fees	N/A	24,443	24,443
Marriage License Fees	N/A	<u>22,837</u>	<u>22,837</u>
<u>Total N.C. Department of Administration, Council for Women</u>		<u>132,686</u>	<u>132,686</u>
N.C. Department of Juvenile Justice and Delinquency:			
Pass-through from Forsyth County - Strengthening			
* Families Program for Parents and Youth	N/A	<u>100,000</u>	<u>100,000</u>
N.C. Department of Health and Human Services:			
Pass-through from Children's Advocacy			
* Centers of N.C. - Vantage Point CAC	N/A	<u>161,829</u>	<u>161,829</u>
TOTAL NORTH CAROLINA AWARDS		<u>\$ 394,515</u>	<u>\$ 394,515</u>

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

FAMILY SERVICES, INC.
NOTES TO SCHEDULES OF FEDERAL AND NORTH CAROLINA AWARDS

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.

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, 2022 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 December 29, 2022.

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 2022-001 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
December 29, 2022

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, 2022. 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, 2022.

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
December 29, 2022

FAMILY SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2022

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	CFDA# 93.600
Victims of Crime (VOCA)	CFDA# 16.575
8. The threshold for distinguishing types A and B programs was \$750,000.
9. Family Services, Inc. qualified as a low-risk auditee.

FAMILY SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
For the Year Ended June 30, 2022

B. FINDINGS – FINANCIAL STATEMENT AUDIT

2022-001 – 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, 6/30/2022 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 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.

Views of Responsible Officials and Planned Corrective Actions: Subsequent to year-end, management updated and improved the internal process for recording grant receivables and revenue and believes the new process 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