

FAMILY SERVICES, INC.

Financial and Compliance Report

Entity Identification Number 1-560689235-A1

June 30, 2021 and 2020

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

INDEPENDENT AUDITORS' REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Family Services, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Family Services, Inc. as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters- Other Information

Our audits were conducted for the purpose of forming an opinion on the 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 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the 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 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 11, 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
March 11, 2022

FAMILY SERVICES, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 2,957,078	\$ 3,150,675
Grants receivable	1,433,538	1,176,973
Promises to give	272,167	652,391
Accounts receivable, net	110,709	94,158
Prepaid expenses and other	63,565	73,049
Investments	82,096	-
Property and equipment, net	6,571,205	4,782,918
Beneficial interest in assets held by others	<u>3,052,212</u>	<u>2,798,752</u>
<u>TOTAL ASSETS</u>	<u>\$ 14,542,570</u>	<u>\$ 12,728,916</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 445,179	\$ 832,003
Accrued expenses	345,154	322,343
Loan payable	1,087,400	1,087,400
Capital lease obligation	42,918	-
Notes payable	3,636,079	2,134,171
Accrued pension cost	<u>1,566,882</u>	<u>2,078,939</u>
<u>Total Liabilities</u>	<u>7,123,612</u>	<u>6,454,856</u>
Net assets		
Without donor restrictions		
Board designated	651,962	526,423
Undesignated	<u>5,069,350</u>	<u>3,503,724</u>
	5,721,312	4,030,147
With donor restrictions		
	<u>1,697,646</u>	<u>2,243,913</u>
<u>Total Net Assets</u>	<u>7,418,958</u>	<u>6,274,060</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 14,542,570</u>	<u>\$ 12,728,916</u>

FAMILY SERVICES, INC.
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.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Grant income	\$ 8,713,366	\$ 598,750	\$ 9,312,116
United Way	501,984	-	501,984
Capital campaign contributions	-	61,280	61,280
In-kind contributions	1,129,006	-	1,129,006
Other contributions	279,368	-	279,368
Special events	72,536	78,250	150,786
Program service fees	858,271	-	858,271
Rental income	168,351	-	168,351
Other	10,865	5,525	16,390
Change in value of beneficial interest	<u>(350,826)</u>	<u>(3,274)</u>	<u>(354,100)</u>
	11,382,921	740,531	12,123,452
Net assets released from restrictions	<u>831,041</u>	<u>(831,041)</u>	<u>-</u>
Total Support and Revenue	<u>12,213,962</u>	<u>(90,510)</u>	<u>12,123,452</u>
EXPENSES			
Program Services			
Safe Relationships	1,329,555	-	1,329,555
Family Solutions	996,878	-	996,878
Head Start	4,721,074	-	4,721,074
Early Head Start	2,920,618	-	2,920,618
Child Development Services	127,326	-	127,326
Universal Pre-K	606,245	-	606,245
Total Program Services	<u>10,701,696</u>	<u>-</u>	<u>10,701,696</u>
Management and General	1,381,095	-	1,381,095
Fundraising	<u>332,143</u>	<u>-</u>	<u>332,143</u>
Total Expenses	<u>12,414,934</u>	<u>-</u>	<u>12,414,934</u>
Other Losses			
Pension expense in excess of net periodic pension cost	<u>(1,470,282)</u>	<u>-</u>	<u>(1,470,282)</u>
CHANGE IN NET ASSETS	(1,671,254)	(90,510)	(1,761,764)
Net Assets, Beginning of Year	<u>5,701,401</u>	<u>2,334,423</u>	<u>8,035,824</u>
Net Assets, End of Year	<u>\$ 4,030,147</u>	<u>\$ 2,243,913</u>	<u>\$ 6,274,060</u>

FAMILY SERVICES, INC.
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.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2020

	Program Services							Management and General	Fundraising	Total
	Safe Relationships	Family Solutions	Head Start	Early Head Start	Child Development Services	Universal Pre-K	Total Program Services			
Salaries and wages	\$ 798,290	\$ 689,590	\$ 2,271,267	\$ 690,980	\$ 71,788	\$ 103,930	\$ 4,625,845	\$ 668,084	\$ 202,770	\$ 5,496,699
Employee benefits	130,458	123,711	457,205	153,757	15,129	18,494	898,754	103,623	35,579	1,037,956
Contract daycare services	-	-	443,160	1,248,173	-	-	1,691,333	-	-	1,691,333
Professional fees	29,189	24,596	115,522	39,500	4,565	289,365	502,737	199,525	7,990	710,252
Supplies, postage and shipping	28,833	15,953	246,791	282,991	2,601	1,685	578,854	24,182	11,011	614,047
Telephone	34,956	14,930	92,792	15,258	445	1,845	160,226	23,563	8,292	192,081
Occupancy	100,000	-	517,596	181,992	12,839	-	812,427	-	-	812,427
Utilities	27,266	12,136	46,071	10,328	-	1,414	97,215	42,318	2,485	142,018
Insurance	19,976	17,173	64,587	17,618	1,682	1,883	122,919	15,000	3,313	141,232
Repairs and maintenance	69,853	22,194	127,725	54,382	2,020	2,060	278,234	97,201	4,429	379,864
Printing and publications	1,769	868	1,585	688	1,033	208	6,151	7,926	9,852	23,929
Advertising and marketing	-	359	-	-	-	182,816	183,175	42,693	15	225,883
Staff travel and training	16,708	5,674	69,863	96,956	72	-	189,273	14,842	8,119	212,234
Transportation	1,006	-	10,746	2,103	340	-	14,195	-	-	14,195
Food and food service supplies	10,189	5,756	143,497	23,418	11,055	374	194,289	2,477	1,838	198,604
Specific assistance to individuals	5,437	2,892	-	-	-	-	8,329	-	-	8,329
Provision for bad debts	-	2,803	-	-	-	-	2,803	9,301	-	12,104
Depreciation	33,372	35,217	69,399	96,660	166	2,171	236,985	33,609	5,914	276,508
Interest	22,253	22,971	-	-	-	-	45,224	46,127	-	91,351
Miscellaneous	-	55	43,268	5,814	3,591	-	52,728	50,624	30,536	133,888
	<u>\$ 1,329,555</u>	<u>\$ 996,878</u>	<u>\$ 4,721,074</u>	<u>\$ 2,920,618</u>	<u>\$ 127,326</u>	<u>\$ 606,245</u>	<u>\$ 10,701,696</u>	<u>\$ 1,381,095</u>	<u>\$ 332,143</u>	<u>\$ 12,414,934</u>

FAMILY SERVICES, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 1,144,898	\$ (1,761,764)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	358,258	276,508
Non-cash gift of real estate	(382,000)	-
Non-cash gift of investments	(100,622)	-
Unrealized losses on investments	18,741	-
Change in value of beneficial interests	(260,324)	354,100
Provision for bad debts	3,895	12,104
Provision for uncollectible pledges	11,630	-
Loss on sale of real estate	47,927	-
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Receivables	91,583	299,990
Prepaid expenses and other	9,484	(58,652)
Increase (decrease) in:		
Accounts payable	(386,824)	349,599
Accrued expenses	22,811	(115,981)
Accrued pension cost	(512,057)	1,221,670
<u>Net Cash Provided by Operating Activities</u>	<u>67,400</u>	<u>577,574</u>
INVESTING ACTIVITIES		
Capital expenditures	(2,147,247)	(399,114)
Proceeds from sale of real estate	383,400	-
Distributions from beneficial interest	6,864	36,848
Reinvested investment income, net	(215)	-
<u>Net Cash Used in Investing Activities</u>	<u>(1,757,198)</u>	<u>(362,266)</u>
FINANCING ACTIVITIES		
Change in revolving line of credit	74,587	(74,546)
Principal payments on debt	(95,642)	(1,860,410)
Proceeds from loan payable	-	1,087,400
Proceeds from long-term debt	1,522,963	2,048,500
Repayment of capital lease obligation	(5,707)	-
<u>Net Cash Provided by Financing Activities</u>	<u>1,496,201</u>	<u>1,200,944</u>
Change in Cash and Cash Equivalents	(193,597)	1,416,252
Cash and Cash Equivalents at Beginning of Year	<u>3,150,675</u>	<u>1,734,423</u>
Cash and Cash Equivalents at End of Year	<u>\$ 2,957,078</u>	<u>\$ 3,150,675</u>
<u>SUPPLEMENTAL INFORMATION:</u>		
Interest paid	<u>\$ 115,325</u>	<u>\$ 91,351</u>
Non-cash investing and financing activity:		
Capital expenditures funded by capital lease obligation	<u>\$ 48,625</u>	<u>\$ -</u>

FAMILY SERVICES, INC.
NOTES TO 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.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Agency have been prepared on the accrual basis in accordance with U.S. generally accepted accounting principles (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.

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.

FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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 was not considered necessary at June 30, 2021 or 2020. 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, 2021 and 2020.

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 statements of financial position. Realized and unrealized gains and losses are included in the change in net assets in the accompanying 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 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 “Foundation”), 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 Foundation, 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 Foundation. The Agency has granted the Foundation 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 statements of financial position at the current market value of the underlying investments held by the Foundation, which amounted to \$822,212 and \$668,752 as of June 30, 2021 and 2020, 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 Foundation.

The Agency has also established a different trust arrangement with Wells Fargo Bank (the “Trustee”) serving as a trustee for the Foundation. The purpose of the arrangement is to have the Trustee hold title on behalf of the Foundation 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 Foundation. Pursuant to GAAP, the real estate property has been recognized as a beneficial interest in assets held by others in the accompanying statements of financial position at the current market value of the real estate property which totaled \$2,230,000 and \$2,130,000 as of June 30, 2021 and 2020, 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 allocations from annual fundraising campaigns of The United Way of Forsyth County, Inc. Allocations are generally determined through budgets submitted to The United Way’s Allocations Committee and approved by its Board of Directors. Head Start and Early Head Start receive 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, 2021 and 2020, the Agency received approximately 59% and 61%, respectively, of its annual support and revenue from Head Start and Early Head Start and another 4%, respectively, from United Way.

FAMILY SERVICES, INC.
NOTES TO 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. For the years ended June 30, 2021 and 2020, the Agency received in-kind contributions of telecommunications services valued at \$83,240 and \$105,891, respectively, and in-kind contributions of childcare services of \$221,897 and \$303,207, respectively. Additionally, the Agency received in-kind contributions of donated use of space at various locations totaling \$719,908 for the years ended June 30, 2021 and 2020, respectively. The Agency received a donation of real estate property valued at \$382,000 during the year ended June 30, 2021.

A substantial number of volunteers donate significant amounts of time to the Agency; however, no amounts have been reflected in the 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 statements of activities. The statements of functional expenses presents the natural classification detail of expenses by function. The 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, 2021 and 2020, advertising costs were \$85,451 and \$225,883, respectively.

Income Tax Status

The Agency is a not-for-profit organization and is 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 purpose.

The Agency's primary tax positions relate to its status as a not-for-profit entity exempt from income taxes and classification of activities related to its exempt purpose. It is the opinion of management that the Agency has no uncertain tax positions that would be subject to change upon examination.

The Agency is required to file a federal exempt organization tax return (Form 990) annually to retain its exempt status. The Agency is also required to file an exempt organization business income tax return (Form 990-T) for any year unrelated business income exceeds \$1,000. The Agency'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 FINANCIAL STATEMENTS

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Estimates

The preparation of 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, 2021) through the date of this report, which represents the date the financial statements were available to be issued and determined that all significant events and disclosures are included in the 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>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 2,957,078	\$ 3,150,675
Receivables	1,816,414	1,923,522
Investments	82,096	-
Beneficial interest in assets held by the Winston-Salem Foundation	<u>822,212</u>	<u>668,752</u>
Total financial assets	5,677,800	5,742,949
Less those unavailable for general expenditure within one year due to:		
Purpose restrictions	(1,383,731)	(1,813,850)
Beneficial interest	<u>(822,212)</u>	<u>(668,752)</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 3,471,857</u>	<u>\$ 3,260,347</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 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 FINANCIAL STATEMENTS

NOTE D: FAIR VALUE MEASUREMENTS (CONTINUED)

Pension Projected Benefit Obligation: Based upon actuarial assumptions including a discount rate of 2.85%, 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, 2021 and 2020:

	2021				2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets:								
Investments	\$ 82,096	\$ -	\$ -	\$ 82,096	\$ -	\$ -	\$ -	\$ -
Beneficial interest in assets held by others	-	-	3,052,212	3,052,212	-	-	2,798,752	2,798,752
Pension plan investments:								
Equity funds	1,893,808	-	-	1,893,808	1,738,396	-	-	1,738,396
Bond funds	1,130,176	-	-	1,130,176	997,441	-	-	997,441
Money market funds	30,545	-	-	30,545	113,955	-	-	113,955
	<u>\$ 3,136,625</u>	<u>\$ -</u>	<u>\$ 3,052,212</u>	<u>\$ 6,188,837</u>	<u>\$ 2,849,792</u>	<u>\$ -</u>	<u>\$ 2,798,752</u>	<u>\$ 5,648,544</u>
Liabilities:								
Pension projected benefit obligation	\$ -	\$ -	\$ 4,621,411	\$ 4,621,411	\$ -	\$ -	\$ 4,928,731	\$ 4,928,731

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, 2021 and 2020:

	2021	2020
Assets:		
Balance, beginning of year	\$ 2,798,752	\$ 3,189,700
Change in value of beneficial interest	260,324	(354,100)
Distributions	(6,864)	(36,848)
Balance, end of year	<u>\$ 3,052,212</u>	<u>\$ 2,798,752</u>
Liabilities:		
Balance, beginning of year	\$ 4,928,731	\$ 4,164,693
Service and interest cost	158,199	157,898
Actuarial (gain) loss	(52,048)	1,242,399
Benefits disbursed	(463,595)	(730,366)
Effects of settlement on projected benefit obligation	50,124	94,107
Balance, end of year	<u>\$ 4,621,411</u>	<u>\$ 4,928,731</u>

FAMILY SERVICES, INC.
NOTES TO 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, 2021, unconditional promises to give are expected to be realized in the following periods:

Due within one year	\$	185,021
Due in one to five years		<u>115,146</u>
		300,167
Allowance for uncollectible pledges		<u>(28,000)</u>
	\$	<u>272,167</u>

NOTE F: INVESTMENTS

As of June 30, 2021, investments totaling \$82,096 consisted of stocks of public companies. No investments were held as of June 30, 2020.

NOTE G: PROPERTY AND EQUIPMENT

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

	<u>2021</u>	<u>2020</u>
Land and buildings	\$ 6,625,435	\$ 4,779,851
Vehicles	209,897	203,934
Furniture, fixtures, and equipment	1,983,600	1,695,603
Leasehold improvements	<u>2,461,740</u>	<u>2,461,740</u>
	11,280,672	9,141,128
Less accumulated depreciation	<u>(4,709,467)</u>	<u>(4,358,210)</u>
	<u>\$ 6,571,205</u>	<u>\$ 4,782,918</u>

Depreciation expenses totaled \$358,258 and \$276,508 for the years ended June 30, 2021 and 2020, respectively.

FAMILY SERVICES, INC.
NOTES TO 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 will be recognized in the 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, 2021 and 2020 are summarized as follows:

	<u>2021</u>	<u>2020</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	\$ 125,735
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.	1,459,647	-
Note payable due in monthly installments of \$305 including interest at 3.12%, through May 2025. Note is secured by vehicle.	12,724	-

FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE I: NOTES PAYABLE (CONTINUED)

	<u>2021</u>	<u>2020</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>1,953,385</u>	<u>2,008,436</u>
	<u>\$ 3,636,079</u>	<u>\$ 2,134,171</u>

Future maturities of notes payable are as follows:

<u>Year Ending June 30,</u>	
2022	\$ 116,723
2023	321,204
2024	124,962
2025	128,877
2026	129,763
Thereafter	<u>2,814,550</u>
	<u>\$ 3,636,079</u>

At June 30, 2021, the Agency was in compliance with or had received waivers for 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>2021</u>	<u>2020</u>
Subject to expenditure for specified purposes and/or passage of time:		
Various programs	\$ 41,783	\$ 108,005
Capital Campaign	1,341,948	1,705,845
Operations – timing restrictions	<u>143,665</u>	<u>287,734</u>
	1,527,396	2,101,584
Not subject to Agency's spending policy or appropriation:		
Beneficial interest in assets held by others	<u>170,250</u>	<u>142,329</u>
	<u>\$ 1,697,646</u>	<u>\$ 2,243,913</u>

FAMILY SERVICES, INC.
NOTES TO 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 financial statements as of and for the years ended June 30, 2021 and 2020.

	<u>2021</u>	<u>2020</u>
Accumulated benefit obligation	\$ 4,621,411	\$ 4,928,731
Fair value of plan assets	\$ 3,054,529	\$ 2,849,792
Projected benefit obligation	(4,621,411)	(4,928,731)
Funded status	\$ (1,566,882)	\$ (2,078,939)
Accrued pension cost reflected in the statements of financial position	\$ (1,566,882)	\$ (2,078,939)
Items not yet recognized as a component of net periodic pension cost:		
Net loss	\$ 1,130,050	\$ 1,794,664
Prior service cost	-	-
Pension loss and prior service cost	\$ 1,130,050	\$ 1,794,664
Net periodic pension cost (income)	\$ 166,049	\$ (68,396)
Employer contributions	\$ 111,256	\$ 178,927
Pension benefits paid	\$ 463,595	\$ 730,366
Weighted-average assumptions as of end of year:		
Discount rate, pre-retirement	2.85%	2.80%
Discount rate, post-retirement	2.85%	2.80%
Expected long-term rate of return on plan assets	6.75%	7.50%
Rate of compensation increase per year	N/A	N/A

FAMILY SERVICES, INC.
NOTES TO 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, 2020</u>	<u>Reclassified as Net Periodic Pension Cost</u>	<u>Amounts Arising During Period</u>	<u>Effects of Settlement</u>	<u>June 30, 2021</u>
Net (gain) or loss	\$ 1,794,664	\$ (196,645)	\$ (383,397)	\$ (84,572)	\$ 1,130,050

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 \$104,198.

Expected Future Benefit Payments

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

<u>Year Ending June 30,</u>	
2022	\$ 185,890
2023	189,948
2024	189,339
2025	190,917
2026	198,876
2027 – 2031	1,037,351

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 \$120,000 to the plan during the year ended June 30, 2022.

No plan assets are expected to be returned to the employer during the year ended June 30, 2022.

FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE K: RETIREMENT PLANS (CONTINUED)

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

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>

Plan Assets by Category as of June 30, 2020

Equity funds	\$ 1,738,396	61.0%
Bond funds	997,441	35.0%
Money market funds	<u>113,955</u>	<u>4.0%</u>
Total	<u>\$ 2,849,792</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 \$108,151 and \$94,620 to this plan during the years ended June 30, 2021 and 2020, respectively.

FAMILY SERVICES, INC.
NOTES TO 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, 2021 and 2020.

The Agency leases various assets under operating leases expiring through July 2021. 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>
2022	\$ 19,562	\$ 8,333
2023	19,562	-
2024	<u>11,411</u>	<u>-</u>
Total minimum lease payments	50,535	<u>\$ 8,333</u>
Less amount representing interest	<u>(7,617)</u>	
Present value of net minimum lease payments	<u>\$ 42,918</u>	

Rent expense under all operating leases for the years ended June 30, 2021 and 2020 was \$117,411 and \$101,173, 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, 2021 and 2020, Head Start program costs included matching contributions of \$3,218,016 (\$288,417 of cash contributions and \$2,929,599 of in-kind contributions) and \$2,371,752 (\$252,073 of cash contributions and \$2,119,679 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 financial statements. However, these services do meet Head Start criteria for match requirements. At June 30, 2021, 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 15.05% in order for the Early Head Start Program to be in compliance.

FAMILY SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS

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 prior years, 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 two deferred forgivable mortgages representing \$150,507 in loans from the City of Winston-Salem. The loans are secured by a deed of trust on the property and bear no interest for a ten-year term for one and a twenty-year term for the other. 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) and \$50,507 for the note with the ten-year term (maturing in April 2022).

NOTE O: CONDITIONAL GRANTS

The Agency has been awarded a grant with various conditions, including the availability of funds which is not guaranteed. This grant will be recognized in the financial statements when the conditions are met. Conditional promises to give totaled \$106,310 as of June 30, 2021. There were no conditional promises to give as of June 30, 2020.

FAMILY SERVICES, INC.
SCHEDULE OF FEDERAL AWARDS
For the Year Ended June 30, 2021

<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	\$ 7,524,846
Pass-through from N.C. Department of Administration: NC Council for Women & Youth Involvement Family Violence Prevention Grant	93.671	<u>34,503</u>
<u>Total U.S. Department of Health and Human Services</u>		<u>7,559,349</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	41,501
Pass-through from N.C. Department of Health and Human Services - Emergency Shelter Grants Program	14.231	19,721
Pass-through from City of Winston-Salem - Emergency Shelter Grants Program	14.231	59,464
Pass-through from City of Winston-Salem - * Continuum of Care Program	14.267	<u>99,457</u>
<u>Total U.S. Department of Housing and Urban Development</u>		<u>220,143</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	648,984
U.S. Department of Justice, National Children's Alliance, Child Advocacy Centers of N.C., Victims of Child Abuse Act Grant Program	16.758	<u>6,300</u>
<u>Total U.S. Department of Justice</u>		<u>655,284</u>
U.S. Department of Treasury: Pass-through from the N.C. Department of Administration * CARES Act	21.019	148,390
U.S. Department of Treasury: Pass-through from the N.C. Department of Administration * Child Advocacy Centers of N.C. - CARES Act	21.019	<u>195,547</u>
<u>Total U.S. Department of Administration</u>		<u>343,937</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>64,313</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>29,765</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u><u>\$ 8,872,791</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, 2021

<u>State Grantor/Pass-Through Grantor/Program Title</u>	<u>Contract #</u>	<u>Expenditures</u>
N.C. Department of Administration, Council for Women:		
Direct Programs:		
Domestic Violence	N/A	\$ 45,856
Sexual Assault	N/A	24,175
Divorce Filing Fees	N/A	19,000
Marriage License Fees	N/A	<u>17,500</u>
<u>Total N.C. Department of Administration, Council for Women</u>		<u>106,531</u>
N.C. Department of Juvenile Justice and Delinquency:		
Pass-through from Forsyth County - Strengthening		
* Families Program for Parents and Youth	N/A	<u>99,996</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>49,683</u>
N.C. Department of Health and Human Services:		
COVID-19 Childcare Bonuses	N/A	<u>58,874</u>
TOTAL EXPENDITURES OF NORTH CAROLINA AWARDS		<u><u>\$ 315,084</u></u>

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 financial statements of Family Services, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2021 and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 11, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the 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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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 11, 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

We have audited Family Services, Inc.'s compliance with the types of compliance requirements described 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, 2021. Family Services, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Family Services, Inc.'s major federal programs based on our audit of types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U. S. generally accepted auditing standards; 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Family Services, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on Family Services, Inc.'s compliance.

Opinion on Each Major Federal Program

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, 2021.

Report on Internal Control Over Compliance

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

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

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

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

Butler & Burke LLP

Winston-Salem, North Carolina
March 11, 2022

FAMILY SERVICES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2021

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of Family Services, Inc.
2. No significant deficiencies relating to the audit of the financial statements are 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 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.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

None

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

None