Consolidated Financial Statements
August 31, 2022 and 2021

Sherwood and Myrtie Foster's Home for Children, Inc.

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Independent Auditor's Report

To the Board of Directors
Sherwood and Myrtie Foster's Home for Children, Inc.
Stephenville, Texas

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Sherwood and Myrtie Foster's Home for Children, Inc. (a nonprofit organization), which comprise the consolidated statements of financial position as of August 31, 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 accompanying consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sherwood and Myrtie Foster's Home for Children, Inc. as of August 31, 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.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, Sherwood and Myrtie Foster's Home for Children, Inc. has adopted Accounting Standards Update No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities (Topic 958) for Contributed Nonfinancial Assets*, on a retrospective basis. Our opinion is not modified with respect to this matter.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities of the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Sherwood and Myrtie Foster's Home for Children, 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 these 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.

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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 Sherwood and Myrtie Foster's Home for Children, Inc.'s ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

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

In performing an audit in accordance with GAAS, 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 Sherwood and Myrtie Foster's Home for Children, 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 Sherwood and Myrtie Foster's Home for Children, 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.

Eide Bailly LLP

Abilene, Texas
January 12, 2023

Sherwood and Myrtie Foster's Home for Children, Inc.
Consolidated Statements of Financial Position
August 31, 2022 and 2021

	2022			2021
	Home Operations	Foundation	Consolidated Total	Consolidated Total
Assets				
Cash and cash equivalents	$ 768,493	$ 416,895	$ 1,185,388	$ 1,136,175
Investments	198,379	17,472,076	17,670,455	17,003,151
Assets held in charitable remainder trusts	-	30,539	30,539	36,813
Funds held for the benefit of children	17,980	-	17,980	18,983
Receivables, net of allowance	100,135	-	100,135	137,186
Intercompany receivable/payable	40,210	(40,210)	-	-
Prepaid expenses and other current assets	11,367	-	11,367	13,045
Land held for sale	-		-	600,000
Land, buildings and equipment, net	9,595,006	-	9,595,006	9,262,984
	$ 10,731,570	$ 17,879,300	$ 28,610,870	$ 28,208,337
Liabilities and Net Assets				
Liabilities				
Accounts payable	$ 29,786	$ 13,044	$ 42,830	$ 54,782
Accrued liabilities	57,985	272	58,257	26,496
Funds held for the benefit of children	17,836	-	17,836	19,290
Liability under charitable remainder trust agreements	-	15,414	15,414	21,688
Annuities payable	-	350,364	350,364	548,901
Total liabilities	105,607	379,094	484,701	671,157
Net Assets				
Without Donor Restrictions				
Undesignated	10,615,230	17,235,984	27,851,213	27,257,153
Designated for scholarships	-	39,136	39,136	52,260
With Donor Restrictions				
Scholarships	-	209,961	209,961	211,259
Various	10,733	-	10,733	1,383
Charitable remainder trusts	-	15,125	15,125	15,125
Total net assets	10,625,963	17,500,206	28,126,169	27,537,180
	$ 10,731,570	$ 17,879,300	$ 28,610,870	$ 28,208,337

	2022			2021
	Home Operations	Foundation	Consolidated Total	Consolidated Total
Changes in net assets without donor restrictions				
Revenues, gains and other support				
Contributions				
Churches	$ 497,547	$ -	$ 497,547	$ 577,600
Individuals and other organizations	1,233,582	24,197	1,257,779	1,420,975
Nonfinancial assets	94,824	3,352,039	3,446,863	853,807
Wills and estates	47,728	77,832	125,560	1,140,090
Fundraising appeals	593,779	-	593,779	402,338
Contracted services				
Child care revenues	822,918	-	822,918	1,088,271
Investment income				
Net investment return	2,009	342,108	344,117	329,539
Real estate rental income	5,216	-	5,216	4,690
Oil royalties	-	262,645	262,645	133,920
Realized and unrealized (losses) gains on investments	(8,314)	(2,484,698)	(2,493,012)	1,828,637
Other income	35,639	7,751	43,390	15,038
Loss on disposition of property	(49,444)	-	(49,444)	-
Net assets released from restrictions	32,753	2,600	35,353	30,554
Total revenues, gains and other support	3,308,237	1,584,474	4,892,711	7,825,459
Expenses and losses				
Children's services- Stephenville				
Direct care	2,242,126	-	2,242,126	2,396,732
Campus operation	1,361,920	-	1,361,920	1,183,954
Foster care	26,748	-	26,748	109,867
Scholarships and tuition	-	11,883	11,883	-
Fundraising	-	10,391	10,391	900
General operating expenses	159,305	213,407	372,712	329,584
Financial development services	425,325	-	425,325	426,879
Change in value of split interest agreements	-	(159,159)	(159,159)	23,169
Total expenses and losses	4,215,424	76,522	4,291,946	4,471,085
Change in net assets without donor restrictions	(907,187)	1,507,952	600,765	3,354,374

	2022			2021
	Home Operations	Foundation	Consolidated Total	Consolidated Total
Changes in net assets with donor restrictions				
Net investment return- scholarship restrictions	-	10,743	10,743	4,333
Cash contributions restricted for various purpose	42,103	1,600	43,703	25,664
Realized and unrealized (losses) gains on investments- scholarship	-	(30,869)	(30,869)	22,216
Net assets released from restrictions	(32,753)	(2,600)	(35,353)	(30,554)
Change in net assets with donor restrictions	9,350	(21,126)	(11,776)	21,659
Change in net assets	(897,837)	1,486,826	588,989	3,376,033
Transfers between consolidated organizations	279,577	(279,577)	-	-
Net assets, beginning of year	11,244,223	16,292,957	27,537,180	24,161,147
Net assets, end of year	$ 10,625,963	$ 17,500,206	$ 28,126,169	$ 27,537,180

	2022			2021
	Home Operations	Foundation	Consolidated Total	Consolidated Total
Children's services- Stephenville				
Salaries, wages and benefits	$ 2,089,994	$ -	$ 2,089,994	$ 2,198,244
Food, clothing, medical care	100,200	-	100,200	124,273
Supplies and travel	174,733	-	174,733	231,057
Services and professional fees	157,473	-	157,473	100,995
Liability and property insurance	257,353	-	257,353	192,404
Repairs/maintenance and vehicle expense	89,738	-	89,738	104,266
Office and occupancy	258,861	-	258,861	235,169
Scholarships and tuition	-	11,883	11,883	-
Foster care pass through	595	-	595	44,140
Depreciation	501,847	-	501,847	460,005
Total expenses	$ 3,630,794	$ 11,883	$ 3,642,677	$ 3,690,553
General operating expenses				
Salaries, wages and benefits	$ 81,045	$ 160,000	$ 241,045	$ 224,953
Supplies and travel	32,718	-	32,718	23,655
Services and professional fees	19,165	27,277	46,442	53,752
Office and occupancy	845	16,150	16,995	13,676
Property tax	78	5,653	5,731	4,714
Miscellaneous	713	4,327	5,040	8,834
Interest	1,251	-	1,251	-
Bad debts	17,392	-	17,392	-
Advertising	2,400	-	2,400	-
Community outreach	3,698	-	3,698	-
Total expenses	$ 159,305	$ 213,407	$ 372,712	$ 329,584
Financial development services				
Salaries, wages and benefits	$ 321,154	$ -	$ 321,154	$ 349,799
Supplies and travel	97,192	-	97,192	71,914
Services and professional fees	6,009	-	6,009	3,073
Office and occupancy	970	-	970	2,093
Total expenses	$ 425,325	$ -	$ 425,325	$ 426,879
Fundraising				
Donor expenses	$ -	$ 10,391	$ 10,391	$ 900

	2022			2021
	Home Operations	Foundation	Consolidated Total	Consolidated Total
Operating activities				
Change in net assets	$ (897,837)	$ 1,486,826	$ 588,989	$ 3,376,033
Net transfers between consolidated organizations	279,577	(279,577)	-	-
Adjustments to reconcile change in net assets to net cash from (used for) operating activities				
Depreciation	501,847	-	501,847	460,005
Realized and unrealized losses (gains) on investments	8,314	2,515,567	2,523,881	(1,850,853)
Loss on sale of assets	49,444	-	49,444	-
Change in value of split interest agreements	-	(159,159)	(159,159)	23,169
Contributions of nonfinancial assets	(94,824)	(3,352,039)	(3,446,863)	(853,807)
(Increase) decrease in receivables	37,051	-	37,051	(6,233)
Change in intercompany payable	79,790	(79,790)	-	-
(Increase) decrease in prepaid expenses/other assets	1,678	-	1,678	(11,458)
Increase (decrease) in accounts payable	(11,952)	-	(11,952)	(6,337)
Increase (decrease) in accrued liabilities	31,038	272	31,310	(1,333)
Net cash from (used for) operating activities	(15,874)	132,100	116,226	1,129,186
Investing activities				
Purchase of equipment and building construction	(883,313)	-	(883,313)	(534,630)
Proceeds from the sale of investments	852,183	5,523,939	6,376,122	2,206,104
Purchase of investments	-	(5,520,444)	(5,520,444)	(3,521,031)
Net cash from (used for) investing activities	(31,130)	3,495	(27,635)	(1,849,557)
Financing activities				
Payments on split interest obligations	-	(39,378)	(39,378)	(43,648)
Net cash from (used for) financing activities	-	(39,378)	(39,378)	(43,648)
Net change in cash and cash equivalents	(47,004)	96,217	49,213	(764,019)
Cash and cash equivalents, beginning of year	815,497	320,678	1,136,175	1,900,194
Cash and cash equivalents, end of year	$ 768,493	$ 416,895	$ 1,185,388	$ 1,136,175
Noncash investing activities				
Noncash contribution of property	$ -	$ 3,352,039	$ -	$ 600,000

Note 1 - Summary of Significant Accounting Policies

A summary of Sherwood and Myrtie Foster's Home for Children, Inc.'s (the Home) significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Nature of Activities

Sherwood and Myrtie Foster's Home for Children, Inc. was established in 1959 under the oversight of the Boles Home for Children. The Home incorporated and became independent of the Boles Home in January 1972, and a separate board of directors was appointed. The Home is a tax-exempt organization under Internal Revenue Code 501(c)(3).

The Foster's Home Foundation (the Foundation) is a non-profit foundation organized as a supporting organization for the benefit of the Sherwood and Myrtie Foster's Home for Children, Inc. A significant number of the Foundation's board members are also members of the Home's board of directors. The Home holds a significant economic interest in the net assets of the Foundation. As a result, the financial statements of the Foundation are consolidated with the financial statements of the Home.

Consolidation

The accompanying consolidated financial statements include the financial position, activities and cash flows of Sherwood and Myrtie Foster's Home for Children, Inc. and its affiliate, Foster's Home Foundation. The consolidated entity herein will be referred to as the Organization. All significant interrelated accounts and transactions have been eliminated in the consolidated financial statements.

Basis of Accounting

The consolidated financial statements of the Organization have been prepared on the accrual basis. Under this basis of accounting, revenue is recognized when earned, and expenses are recognized when incurred.

Basis of Presentation

The focus of these consolidated financial statements is to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of revenues, expenses, gains and losses into two classes of net assets – net assets without donor restrictions and net assets with donor restrictions.

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor-imposed restrictions. The board of directors has designated, from net assets without donor restrictions, net assets for a scholarship fund.

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. The Organization reports contributions as restricted support if they are received with donor stipulations that limit the use of the donated assets. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. These result in reclassification from net assets with donor restrictions to net assets without donor restrictions.

Revenues are reported as increases in net assets without donor restrictions unless use of the related asset 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 temporary restrictions on net assets (i.e., the 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.

Revenues

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restriction and reported in the statement of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the net assets with donor restrictions class, and a reclassification to net assets without donor restrictions is made to reflect the expiration of such restrictions.

The Organization reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Board designated net assets without donor restrictions have been invested in an investment portfolio specifically for scholarships for children who have lived at Foster's Home for Children. The restricted amounts included in the portfolio are original gifts intended to be held in perpetuity. It is the donors' and the Board's intent that only the scholarship portfolio investment earnings are to be used for the scholarships.

In-Kind Contributions

The Organization's policy regarding contributed assets is to consider and evaluate each asset individually, whether it is more financially advantageous to the Foundation to sell the asset immediately upon receipt or hold the investment for future growth potential. In valuing the contributed land, the Foundation estimated the fair value based on an external appraisal which was based upon recent comparable sales prices.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Organization considers all investments with an initial maturity of three months or less to be cash equivalents. This includes cash on hand, deposits in checking or savings accounts with banks, and money market funds in investment brokerage accounts.

Investments

Investments in debt and equity securities are recorded at fair value. The estimated fair value of debt and equity securities is based on quoted market prices. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by donors are reported as increases in net assets without donor restrictions if the restrictions are met (either by passage of time or by use) in the same reporting period in which the income and gains are recognized. Investments in mineral interests are recorded at cost.

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received. The Organization often receives intentions to give, which are not considered promises to give and thus, intentions to give are not recorded as revenue until the contribution is received in cash. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved.

Accounts Receivable

Accounts receivable includes amounts receivable from parents or state agencies for child care services provided. Provision for bad debts on accounts receivable is made in amounts required to maintain adequate reserves to cover anticipated losses based on historical collection ratios and analysis of aged accounts receivable. Accounts are charged off against the reserve when they are determined to be uncollectible.

Property, Plant and Equipment

Property, plant and equipment were recorded in the financial statements of the Home beginning in January 1972 when the Home became an independent organization. The estimated fair value was used to record fixed assets acquired prior to 1972. Since that date, acquisitions of property, plant and equipment have been recorded at cost, or at estimated fair value for donated property or equipment. The Organization's policy is to capitalize assets which cost $5,000 or more and have a useful life of one year or more.

Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

	Years
Buildings and improvements	10-40
Furniture and fixtures	10
Equipment	5-10
Vehicles	5

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Income Taxes

The Home and Foundation are organized as Texas nonprofit corporations and have been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Sections 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3), qualify for the charitable contribution deduction under Sections 170(b)(1)(A)(vi) and (viii), and have been determined not to be private foundations under Sections 509(a)(1) and (3), respectively. The Home and the Foundation are subject to federal income tax on net unrelated business taxable income. There was no unrelated business taxable net income for the fiscal years ended August 31, 2022 and 2021. The Home and Foundation are required to annually file a Form 990 with the Internal Revenue Service.

Management believes that each entity has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Annuities Payable

Annuities payable represent the present value of future payments to be made to annuitants using a discount rate of 6%.

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 present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the program and supporting services benefited. 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 reasonable basis that is consistently applied. Certain joint expenses, such as insurance, employee benefits, and payroll, are allocated among the program and supporting services to which they relate. The basis of allocation is based on employees' time incurred or other appropriate usage factors.

Subsequent Events

The Organization has evaluated subsequent events through January 12, 2023, the date the consolidated financial statements were available to be issued.

Change in Accounting Policy

As of September 1, 2020, the Organization adopted the provisions of Accounting Standards Update (ASU) 2020-07, *Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets.* The standard requires enhanced presentation and disclosure of contributed nonfinancial assets. Management has adopted the amendments of this update on a retrospective basis, because it provides increased and more transparent disclosure around contributed nonfinancial assets.

Note 2 - Liquidity and Availability

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

	2022	2021
Cash and cash equivalents	$ 1,185,388	$ 1,136,175
Investments	13,808,715	16,492,152
Receivables, net of allowance	100,135	137,186
	$ 15,094,238	$ 17,765,513

Investments reported above exclude investments restricted for scholarships, oil and gas mineral interests, and donated land, as these investments are not considered available for expenditure. The Organization regularly monitors the availability of resources required to meet its operating needs. For purpose of analyzing resources available to meet general expenditures within one year of the consolidated statement of financial position date, the Organization considers all expenditures related to its ongoing programmatic activities, as well as the conduct of services undertaken to support those activities, to be general expenditures.

Note 3 - Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following at August 31, 2022 and 2021:

	2022	2021
Scholarships	$ 209,961	$ 211,259
Various	10,733	1,383
Charitable remainder trust	15,125	15,125
	$ 235,819	$ 227,767

Note 4 - Net Assets Released from Restriction

Net assets were released from restriction for the years ended August 31, 2022 and 2021, by incurring expenses satisfying the following donor restrictions:

	2022	2021
Released from Restriction		
Ag program	$ 950	$ 18,954
Christmas gifts	9,725	11,600
Achiever's Program	650	-
Scholarships	24,028	-
	$ 35,353	$ 30,554

Note 5 - Mineral Royalty Interests in Oil Leases

The Sherwood and Myrtie Foster's Home for Children transferred the mineral royalty interests in real estate located in Ector County, Texas to the Foundation during the year ended August 31, 2002. The value of the transfer, $299,740, was based upon the Ector County tax appraisal statements for 2002. A warranty deed was issued at that time granting the Foundation the ownership of the mineral interests. Neither the Foster's Home for Children nor the Foundation have ever owned the surface rights to the real estate located above these mineral interests.

Note 6 - Compensated Absences

Vacations are accrued at a rate based upon the number of years of service. A year of full-time service will yield 10 vacation days. For each five-year period of continuous service, 3 additional days are earned, with the maximum number of earned vacation time in a given year being 22 days. Three vacation days may be carried over from the previous calendar year but must be used by March 31 of the succeeding year. As of August 31, 2022 and 2021, vacation payable was $6,612 and $4,671, respectively.

Sick leave benefits are not paid to employees upon termination of employment. As result, no accrual for sick leave is recorded.

Note 7 - Land, Buildings and Equipment

Land in use for purposes of housing children and providing work and play areas for the Organization is not included in investments but is considered property used for operations.

Land, buildings and equipment at August 31 consist of the following:

	2022	2021
Land	$ 784,857	$ 784,857
Construction in progress	999,865	328,520
Buildings and improvements	10,628,932	10,715,516
Furniture and fixtures	289,216	472,703
Equipment	623,534	614,118
Vehicles	814,603	812,450
	14,141,007	13,728,164
Less accumulated depreciation	(4,546,001)	(4,465,180)
Net land, buildings and equipment	$ 9,595,006	$ 9,262,984

Depreciation expense for the years ended August 31, 2022 and 2021, was $501,847 and $460,005, respectively.

Note 8 - Intercompany Transactions

Income allocations for monthly support and payments of expenses on behalf of the Home by the Foundation totaled $300,000 and $407,188 for the years ended August 31, 2022 and 2021, respectively. These transactions were eliminated in the consolidation of the financial statements.

The Board of Directors of the Home has adopted a policy allowing unrestricted bequests of $25,000 or less to be utilized for operations of the Home while all unrestricted bequests in excess of $25,000 would be held subject to specific direction by the Board. The board-designated transfers to the Foundation from the Home are intended to be retained and invested to provide endowment income support for the Home for future years. The Home transferred $20,423 and $1,377,151 in contributions to the Foundation for the years ended August 31, 2022 and 2021, respectively.

In December 2020, the Foundation signed a services agreement with the Home whereby the Foundation has agreed to reimburse the Home for the use of certain personnel, office space and accounting and bookkeeping services for $180,000 per year. As a result, the Foundation reimbursed the Home $180,000 for the year ended August 31, 2022 and $120,000 for the period from January 2021 through August 2021.

Note 9 - Pension Trust

In 1972, the Home established a qualified defined contribution pension plan and trust that includes essentially all employees in the child care services, age 19 and over, who have attained one month of service. If employees during the year are no longer employed at the valuation date, December 31, but have 500 hours of service for the calendar year, their salaries are considered in the participant allocations. The Home contributes an amount equivalent to 8% of the annual compensation paid to participants. The plan has been amended to incorporate recent law requirements and legal mandates. Employer contributions vest to the participating employees over 6 service years (over 1,000 hours worked in a service year) of employment as follows:

Years of Service	Percentage Vested
0-1	0%
2	20%
3	40%
4	60%
5	80%
6	100%

During January 2009, the Home converted its existing pension plan to a 401k plan using a third-party servicer, Principal Financial Group. Contributions to the plan as of August 31, 2022 and 2021, totaled $163,911 and $163,323, respectively. As of August 31, 2022 and 2021, the estimated retirement accrual not yet deposited to the Plan's trust was $34,351 and $21,792, respectively.

Note 10 - Investments

The Home's investment portfolio consisted of the following as of August 31, 2022 and 2021:

	Fair Value	
	2022	2021
Certificates of deposit	$ 32,390	$ 32,277
Equity securities	-	22,611
Mutual funds	165,989	309,164
Total	$ 198,379	$ 364,052

The Foundation's investment portfolio consisted of the following as of August 31, 2022 and 2021:

	Fair Value	
	2022	2021
Money market	$ 117,642	$ 791,047
Mutual funds/ETFs	13,430,782	15,308,915
Corporate bonds	42,560	47,765
Equity securities	58,655	154,766
Unit investment trust	170,658	36,866
	13,820,297	16,339,359
Land	3,352,039	-
Oil and gas interests *	299,740	299,740
Total	$ 17,472,076	$ 16,639,099

* Oil and gas interests are recorded at cost. Cost value is reported above in fair value columns to reconcile with amounts reported in the consolidated financial statements.

Note 11 - Concentration of Credit Risk

The Organization carries certain bank accounts with financial institutions which are subject to credit risk by the amount such assets exceed federal deposit insurance limits. The Organization has not experienced any losses on such accounts. Deposits subject to credit risk were $285,612 and $400,279 as of August 31, 2022 and 2021.

The accounts receivable of the Organization are primarily with governmental units and are not considered to be a significant concentration of credit risk.

Note 12 - Risks and Uncertainties

The Organization invests in various investment securities, which are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect amounts reported in the accompanying consolidated financial statements.

Note 13 - Risk Management

The Organization is exposed to various risks of loss related to general liability: torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; malpractice; and natural disasters. The Organization carries commercial insurance to insure against these losses.

Note 14 - Charitable Trusts and Annuities Payable

For charitable annuities for which the Foundation is trustee and beneficiary, contributions are recorded at fair value in the year of the agreement. In addition to the recording of the assets received, a liability is recorded representing the discounted future cash flows expected to the paid to the annuitant. The estimated liability of future cash flows is based upon the life expectancy of the annuitant, the contractual payout amounts and a discount rate of 6%. Annual adjustments to the annuity liability, as a result of amortization of the discount, annuity maturities and changes in the estimated life expectancies of the annuitants, are reflected as change in value of split-interest agreements in the statements of activities. Annuities payable of $350,364 and $548,901 were recorded at August 31, 2022 and 2021, respectively.

For charitable remainder trusts for which the Foundation is trustee and beneficiary, contributions are recorded at fair value in the year of the agreement and are reflected as charitable trusts in the accompanying consolidated financial statements. In addition to the recording of the assets held in trust, a liability is recorded representing the discounted future cash flows expected to be paid to the specified beneficiary designated by the donor. The estimated liability of future cash flows is based upon the life expectancy of the specified beneficiary, the current fair value of the trust, and the applicable federal rate ("AFR") related to each trust based on the AFR in effect at the date the trust was created. Investment income, payments to beneficiaries, and adjustments to the liability are reflected as changes in value of split-interest agreements in the consolidated statements of activities. The estimated liability for the future cash flows as of August 31, 2022 and 2021, was $15,414 and $21,688, respectively.

Note 15 - Fair Value Measurement

Authoritative guidance establishes a fair value hierarchy that distinguishes between assumptions based on market data (observable inputs) and the Organization's assumptions (unobservable inputs). Determining where an asset falls within that hierarchy depends on the lowest level input that is significant to the fair value measurement as a whole. An adjustment to the pricing method used within either Level 1 or Level 2 inputs could generate a fair value measurement that effectively falls in a lower level in the hierarchy. The hierarchy consists of the three broad levels as follows:

Level 1 – Quoted market prices in active markets for identical assets or liabilities
Level 2 – Inputs other than Level 1 inputs that are either directly or indirectly observable
Level 3 – Unobservable inputs developed using the Organization's and/or third party estimates and assumptions, which reflect those that market participants would use

The determination of where an asset or liability falls within the hierarchy requires significant judgment. The Organization evaluates its hierarchy disclosures periodically and based on various factors, it is possible that an asset or liability may be classified differently from period to period. However, the Organization expects that changes in classifications between different levels will be rare.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. While management believes the Organization's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Money Market, Mutual Funds, Corporate Bonds, Equity Securities, and Fixed Income

These investments are reported at fair value utilizing Level 1 and Level 2 inputs. For these securities, the Organization obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayments speeds, credit information and the bond's terms and conditions, among other things.

The following table summarizes the Home's financial instruments measured at fair value on a recurring basis as of August 31, 2022, based on the three-tier hierarchy:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial assets				
Certificate of deposit	$ -	$ 32,390	$ -	$ 32,390
Mutual funds	165,989	-	-	165,989
Total financial assets	$ 165,989	$ 32,390	$ -	$ 198,379

The following table summarizes the Home's financial instruments measured at fair value on a recurring basis as of August 31, 2021, based on the three-tier hierarchy:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial assets				
Certificate of deposit	$ -	$ 32,277	$ -	$ 32,277
Equity securities	22,611			22,611
Mutual funds	309,164	-	-	309,164
Total financial assets	$ 331,775	$ 32,277	$ -	$ 364,052

The following table summarizes the Foundation's financial instruments measured at fair value on a recurring basis as of August 31, 2022, based on the three-tier hierarchy:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial assets				
Money market	$ 117,642	$ -	$ -	$ 117,642
Mutual funds	13,461,321	-	-	13,461,321
Equity securities	58,655	-	-	58,655
Corporate bonds	-	42,560	-	42,560
Unit investment trust	-	170,658	-	170,658
	$ 13,637,618	$ 213,218	$ -	$ 13,850,836
Reported as				
Investments-only those at FV	$ 13,607,079	$ 213,218	$ -	$ 13,820,297
Charitable remainder trusts	30,539	-	-	30,539
	$ 13,637,618	$ 213,218	$ -	$ 13,850,836

The following table summarizes the Foundation's financial instruments measured at fair value on a recurring basis as of August 31, 2021, based on the three-tier hierarchy:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Financial assets				
Money market	$ 791,047	$ -	$ -	$ 791,047
Mutual funds	15,345,728	-	-	15,345,728
Equity securities	154,766	-	-	154,766
Corporate bonds	-	47,765	-	47,765
Unit investment trust	-	36,866	-	36,866
	$ 16,291,541	$ 84,631	$ -	$ 16,376,172
Reported as				
Investments-only those at FV	$ 16,254,728	$ 84,631	$ -	$ 16,339,359
Charitable remainder trusts	36,813	-	-	36,813
	$ 16,291,541	$ 84,631	$ -	$ 16,376,172

Note 16 - Endowment

The Foundation's endowment account contains individual donor restricted endowment funds established for the purpose of assisting the Home with the cost of higher education. The net assets of endowment funds are classified and reported based on the existence or absence of donor restrictions.

Interpretation of Relevant Law

The Foundation, relying on information and advice from legal counsel and appointed officers, has interpreted UPMIFA to require the preservation of the historic dollar value of donor-restricted endowment funds, absent explicit donor direction to the contrary. As a result of this interpretation, for financial reporting purposes, the Foundation classifies as net assets with donor restrictions the historic dollar value of assets held as donor-restricted endowment, including any subsequent gifts and any accumulations to donor-restricted endowments made in accordance with the instructions of the applicable gift instruments.

Endowment net assets consist of the following at August 31, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor restricted endowment funds			
Amount held in perpetuity	$ -	$ 41,000	$ 41,000
Subject to expenditure for scholarships	-	168,961	168,961
Board-designated endowment funds	39,136	-	39,136
Total endowed net assets	$ 39,136	$ 209,961	$ 249,097

Endowment net assets consist of the following at August 31, 2021:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor restricted endowment funds			
Amount held in perpetuity	$ -	$ 41,000	$ 41,000
Subject to expenditure for scholarships	-	170,259	170,259
Board-designated endowment funds	52,260	-	52,260
Total endowed net assets	$ 52,260	$ 211,259	$ 263,519

Changes in endowment net assets for the year ended August 31, 2022 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, August 31, 2021	$ 52,260	$ 211,259	$ 263,519
Contributions	865	21,428	22,293
Investment return			
Endowment and investment income	2,658	10,743	13,401
Net unrealized losses	(7,636)	(30,869)	(38,505)
Distributions and withdrawals	(9,011)	(2,600)	(11,611)
Endowment net assets, August 31, 2022	$ 39,136	$ 209,961	$ 249,097

Changes in endowment net assets for the year ended August 31, 2021 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, August 31, 2020	$ 45,540	$ 179,910	$ 225,450
Contributions	-	4,800	4,800
Investment return			-
Endowment and investment income	1,097	4,333	5,430
Net unrealized gains	5,623	22,216	27,839
Distributions and withdrawals	-	-	-
Endowment net assets, August 31, 2021	$ 52,260	$ 211,259	$ 263,519

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies that attempt to provide a predictable stream of funding for scholarships. Endowment assets are invested to yield a level of return to meet the objectives of the fund while adhering to a prudent level of risk.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through capital appreciation and current yield.

Spending Policy and How Investment Objectives Relate to Spending Policy

In accordance with UPMIFA, the Foundation considers the following factors in determining spending policy:

1. The duration and preservation of the endowment fund
2. The purposes of the Home and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation

The spending policy of the Foundation will be reviewed periodically using the seven factors above and approved by the Board of Directors in conjunction with the annual budget. Any subsequent modifications to the spending policy will be approved by the Board of Directors. Based on market performance, distributions may vary from year to year. The Foundation appropriates funds for expenditure as they are utilized for higher education and scholarship needs.

Underwater Endowments

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Foundation has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. The Foundation had no underwater endowments at August 31, 2022 and 2021.

Note 17 - Related Party Transactions

Board member contributions to the Organization totaled $89,081 and $67,669 for the years ended August 31, 2022 and 2021, respectively.