

SHERWOOD AND MYRTIE FOSTER'S HOME FOR CHILDREN, INC.

CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
AUGUST 31, 2024**

WITH INDEPENDENT AUDITOR'S REPORT

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SHERWOOD AND MYRTIE FOSTER’S HOME FOR CHILDREN, INC.

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INDEPENDENT AUDITOR'S REPORT

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

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 statement of financial position as of August 31, 2024, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Sherwood and Myrtie Foster's Home for Children, Inc. as of August 31, 2024, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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 for 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 audit. 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.

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 issued.

OFFICE LOCATIONS

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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.

Pattillo, Brown & Hill, L.L.P.

December 2, 2024

SHERWOOD AND MYRTIE FOSTER'S HOME FOR CHILDREN, INC.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AUGUST 31, 2024

	2024		
	Home Operations	Foundation	Consolidated Total
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 558,188	\$ 429,864	\$ 988,052
Investments	206,244	23,685,994	23,892,238
Assets held in charitable remainder trusts	-	28,828	28,828
Funds held for the benefit of children	24,861	-	24,861
Receivables, net of allowance	78,292	-	78,292
Prepaid expenses and other current assets	10,960	-	10,960
Total current assets	<u>878,545</u>	<u>24,144,686</u>	<u>25,023,231</u>
PROPERTY & EQUIPMENT, NET OF DEPRECIATION	<u>8,859,146</u>	<u>-</u>	<u>8,859,146</u>
Total assets	<u>\$ 9,737,691</u>	<u>\$ 24,144,686</u>	<u>\$ 33,882,377</u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable	\$ 18,168	\$ -	\$ 18,168
Accrued liabilities	42,958	-	42,958
Funds held for the benefit of children	24,861	-	24,861
Unearned revenue	61,400	-	61,400
Liability under charitable remainder trust agreements	-	12,681	12,681
Annuities payable	<u>-</u>	<u>348,031</u>	<u>348,031</u>
Total liabilities	<u>147,387</u>	<u>360,712</u>	<u>508,099</u>
NET ASSETS			
Without donor restriction			
Undesignated	9,465,667	23,489,055	32,954,722
Designated for scholarships	<u>-</u>	<u>41,415</u>	<u>41,415</u>
Total net assets without donor restriction	9,465,667	23,530,470	32,996,137
With donor restriction			
Scholarships	-	237,357	237,357
Various	124,637	-	124,637
Charitable remainder trusts	<u>-</u>	<u>16,147</u>	<u>16,147</u>
Total net assets with donor restriction	<u>124,637</u>	<u>253,504</u>	<u>378,141</u>
Total net assets	<u>9,590,304</u>	<u>23,783,974</u>	<u>33,374,278</u>
Total liabilities and net assets	<u>\$ 9,737,691</u>	<u>\$ 24,144,686</u>	<u>\$ 33,882,377</u>

The accompanying notes are an integral part of these consolidated financial statements.

SHERWOOD AND MYRTIE FOSTER'S HOME FOR CHILDREN, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2024

	2024		
	Home Operations	Foundation	Consolidated Total
REVENUES, GAINS AND OTHER SUPPORT			
Changes in net assets without donor restriction			
Contributions			
Churches	\$ 691,351	\$ -	\$ 691,351
Individuals and other organizations	1,311,793	19,317	1,331,110
Nonfinancial assets	43,182	-	43,182
Wills and estates	3,031,026	65,851	3,096,877
Fundraising events	418,488	-	418,488
Contracted services			
Child care revenue	838,967	-	838,967
Investment income			
Net investment return	39,869	495,687	535,556
Real estate rental income	3,885	-	3,885
Oil royalties	-	219,651	219,651
Realized and unrealized gains (losses) on investments	(25,022)	2,063,040	2,038,018
Other income	53,229	4,479	57,708
Gain on disposal of assets	13,901	-	13,901
Net assets released from restrictions	39,857	18,084	57,941
Changes in net assets with donor restriction			
Contributions	55,020	11,000	66,020
Net investment return	-	1,022	1,022
Net assets released from restrictions	(39,857)	(18,084)	(57,941)
Total revenues	<u>6,475,689</u>	<u>2,880,047</u>	<u>9,355,736</u>
EXPENSES			
Children's services	2,043,766	18,384	2,062,150
Financial development services	375,401	-	375,401
SOAR	75,632	-	75,632
Total program services	<u>2,494,799</u>	<u>18,384</u>	<u>2,513,183</u>
Management and general	1,945,623	217,455	2,163,078
Total support services	<u>1,945,623</u>	<u>217,455</u>	<u>2,163,078</u>
Total expenses	<u>4,440,422</u>	<u>235,839</u>	<u>4,676,261</u>
OTHER CHANGES			
Intercompany transfers	(2,240,743)	2,240,743	-
Change in value of split interest agreements	-	(27,474)	(27,474)
Total other changes	<u>(2,240,743)</u>	<u>2,213,269</u>	<u>(27,474)</u>
CHANGE IN NET ASSETS	<u>(205,476)</u>	<u>4,857,477</u>	<u>4,652,001</u>
NET ASSETS, BEGINNING	<u>9,795,780</u>	<u>18,926,497</u>	<u>28,722,277</u>
NET ASSETS, ENDING	<u>\$ 9,590,304</u>	<u>\$ 23,783,974</u>	<u>\$ 33,374,278</u>

The accompanying notes are an integral part of these consolidated financial statements.

SHERWOOD AND MYRTIE FOSTER'S HOME FOR CHILDREN, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED AUGUST 31, 2024

	2024		
	Home Operations	Foundation	Consolidated Total
Children's services			
Salaries, wages and benefits	\$ 1,707,293	\$ -	\$ 1,707,293
Commissary, clothing, medical care	89,634	-	89,634
Supplies and travel	69,661	-	69,661
Education and training	21,082	-	21,082
Professional fees and services	6,580	-	6,580
Office expense	18,355	-	18,355
Occupancy and utilities	7,738	-	7,738
Scholarships and tuition	-	18,384	18,384
Printing and advertising	750	-	750
Community outreach	2,886	-	2,886
Youth activities	86,159	-	86,159
Special events	13,378	-	13,378
Miscellaneous	20,250	-	20,250
Total children's services	<u>2,043,766</u>	<u>18,384</u>	<u>2,062,150</u>
Financial development services			
Salaries, wages and benefits	260,151	-	260,151
Supplies and travel	14,457	-	14,457
Education and training	226	-	226
Office expense	31,326	-	31,326
Occupancy and utilities	1,969	-	1,969
Printing and advertising	21,542	-	21,542
Community outreach	8,870	-	8,870
Special events	34,983	-	34,983
Miscellaneous	1,877	-	1,877
Total financial development services	<u>375,401</u>	<u>-</u>	<u>375,401</u>
SOAR			
Salaries, wages and benefits	66,231	-	66,231
Supplies and travel	314	-	314
Miscellaneous	9,087	-	9,087
Total SOAR	<u>75,632</u>	<u>-</u>	<u>75,632</u>
Management and general			
Salaries, wages and benefits	475,199	170,000	645,199
Commissary, clothing, medical care	61,938	-	61,938
Supplies and travel	9,422	-	9,422
Education and training	1,356	-	1,356
Professional fees and services	31,682	25,243	56,925
Liability and property insurance	308,153	-	308,153
Maintenance and vehicle expense	122,630	-	122,630
Office expense	103,211	7,238	110,449
Occupancy and utilities	245,400	-	245,400
Printing and advertising	139	-	139
Property tax	-	14,075	14,075
Community outreach	3,433	-	3,433
Interest expense	8	-	8
Youth activities	35,859	-	35,859
Special events	3,602	-	3,602
Miscellaneous	43,924	899	44,823
Depreciation	499,667	-	499,667
Total management and general	<u>1,945,623</u>	<u>217,455</u>	<u>2,163,078</u>
Total expenses	<u>\$ 4,440,422</u>	<u>\$ 235,839</u>	<u>\$ 4,676,261</u>

The accompanying notes are an integral part of these consolidated financial statements.

SHERWOOD AND MYRTIE FOSTER'S HOME FOR CHILDREN, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2024 AND 2023

	2024		
	Home Operations	Foundation	Consolidated Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Change in net assets	\$ (205,476)	\$ 4,857,477	\$ 4,652,001
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation	499,667	-	499,667
(Gain)/loss on disposal of property and equipment	(13,901)	-	(13,901)
Realized and unrealized (gain) losses on investments	25,022	(2,063,040)	(2,038,018)
Change in value of split interest agreements	-	27,474	27,474
Decrease (increase) in assets:			
Accounts receivable	25,330	-	25,330
Intercompany receivable/payable	(195,507)	195,507	-
Prepaid expenses	10,201	-	10,201
Increase (decrease) in liabilities:			
Accounts payable	4,080	-	4,080
Accrued expenses	(38,230)	-	(38,230)
Unearned revenue	61,400	-	61,400
Net cash provided by operating activities	<u>172,586</u>	<u>3,017,418</u>	<u>3,190,004</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of investments	3,024,216	588,006	3,612,222
Purchase of investments	(2,969,740)	(3,638,465)	(6,608,205)
Proceeds from disposal of assets	19,400	-	19,400
Purchase of capital assets	(185,506)	-	(185,506)
Net cash used by investing activities	<u>(111,630)</u>	<u>(3,050,459)</u>	<u>(3,162,089)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments on charitable remainder trust agreements	-	(1,022)	(1,022)
Payments on split interest agreements	-	(36,742)	(36,742)
Net cash used by financing activities	<u>-</u>	<u>(37,764)</u>	<u>(37,764)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	60,956	(70,805)	(9,849)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>497,232</u>	<u>500,669</u>	<u>997,901</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 558,188</u>	<u>\$ 429,864</u>	<u>\$ 988,052</u>

The accompanying notes are an integral part of these consolidated financial statements.

SHERWOOD AND MYRTIE FOSTER'S HOME FOR CHILDREN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AUGUST 31, 2024

1. NATURE OF OPERATIONS

Sherwood and Myrtie Foster's Home for Children, Inc. (the "Home") 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 (collectively, the "Organization"). 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Organization prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The application of these accounting principles requires the Organization to distinguish between contributions that increase net assets with donor restrictions and net assets without donor restrictions. They also require recognition of contributions, including contributed services meeting certain criteria, at fair value. Below is a summary of certain significant accounting policies selected by management.

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. 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.

Use of Accounting Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Key accounting policies that include significant judgments and estimates include the depreciation of property and equipment, the fair value of investments, and annuities payable balance.

Cash and Cash Equivalents

For the purpose of the statement 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.

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 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 the Home. 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 Organization 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.

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 and Equipment

Property 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 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 calculated using the straight-line method over the estimated useful lives of the assets as follows:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	10 - 40
Furniture and fixtures	10
Equipment	5 - 10
Vehicles	5

Federal Income Tax

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 Foundation are subject to federal income tax on net unrelated business taxable income. There was no unrelated business taxable net income for the fiscal year ended August 31, 2024. 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%.

Expense Allocation

The costs of program and supporting services activities have been summarized on a functional basis in the consolidated statement of activities. The consolidated statement 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.

3. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at August 31, 2024:

	<u>2024</u>
Scholarships	\$ 237,357
Various	124,637
Charitable remainder trust	<u>16,147</u>
	<u>\$ 378,141</u>

4. NET ASSETS RELEASED FROM RESTRICTION

Net assets were released from restriction for the year ended August 31, 2024, by incurring expenses satisfying the following donor restrictions:

	<u>2024</u>
Released from Restriction	
Ag program	\$ 11,797
Christmas gifts	17,450
Shoes	4,610
Scholarships	<u>24,084</u>
	<u>\$ 57,941</u>

5. MINERAL ROYALTY INTERESTS IN OIL LEASES

The Home 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 interest. Neither the Home nor the Foundation have ever owned the surface rights to the real estate located above these mineral interests.

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, 2024, vacation payable was \$8,573.

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

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:

	<u>2024</u>
Land	\$ 784,857
Buildings and improvements	11,671,061
Furniture and fixtures	323,478
Equipment	593,997
Vehicles	<u>761,784</u>
	14,135,177
Less accumulated depreciation	<u>(5,276,031)</u>
Net property and equipment	<u>\$ 8,859,146</u>

Depreciation expense for the year ended August 31, 2024 was \$499,667.

8. INTERCOMPANY TRANSACTIONS

Income allocations for monthly support and payments of expenses on behalf of the Home by the Foundation totaled \$759,257 for the year ended August 31, 2024. 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 \$3,000,000 in contributions to the Foundation for the year ended August 31, 2024.

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, 2024.

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 services years (over 1,000 hours worked in a service year) of employment as follows:

<u>Years of Service</u>	<u>Percentage Vested</u>
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, 2024 totaled \$134,259. As of August 31, 2024 the estimated retirement accrual not yet deposited to the Plan's trust was \$21,539.

10. INVESTMENTS

The Home's investment portfolio consisted of the following as of August 31, 2024:

<u>Investment Type</u>	<u>Fair Value</u>
Certificates of deposit	\$ 32,390
Equity securities	27,651
Mutual funds	<u>146,203</u>
Total	<u>\$ 206,244</u>

The Foundation's investment portfolio consisted of the following as of August 31, 2024:

	<u>2024</u>
Investments at Fair Value	
Mutual funds/ETFs	\$ 19,777,378
Corporate bonds	41,395
Equity securities	74,309
Unit investment trust	<u>141,133</u>
	<u>\$ 20,034,215</u>
Other Investments	
Land*	3,352,039
Oil and gas interests **	<u>299,740</u>
	<u>\$ 23,685,994</u>

* Land is recorded at appraised value at the time of contribution

** Oil and gas interests are recorded at cost

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 \$376,168 as of August 31, 2024.

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

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.

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.

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 be 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 statement of activities. Annuities payable of \$348,031 were recorded at August 31, 2024.

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 statement of activities. The estimated liability for the future cash flows as of August 31, 2024 was \$12,681.

15. FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosure*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology include:

- Quoted market prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full-term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at August 31, 2024.

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 quote, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment 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, 2024, based on the three-tier hierarchy:

Assets at Fair Value as of August 31, 2024				
	Level 1	Level 2	Level 3	Total
Financial assets				
Certificate of deposit	\$ -	\$ 32,390	\$ -	\$ 32,390
Equity securities	27,651	-	-	27,651
Mutual funds	<u>146,203</u>	<u>-</u>	<u>-</u>	<u>146,203</u>
Total financial assets	<u>\$ 173,854</u>	<u>\$ 32,390</u>	<u>\$ -</u>	<u>\$ 206,244</u>

The following table summarizes the Foundation's financial instruments measured at fair value on a recurring basis as of August 31, 2024, based on the three-tier hierarchy:

Assets at Fair Value as of August 31, 2024				
	Level 1	Level 2	Level 3	Total
Financial assets				
Mutual funds	\$ 19,806,206	\$ -	\$ -	\$ 19,806,206
Equity securities	74,309	-	-	74,309
Corporate bonds	-	41,395	-	41,395
Unit investment trust	<u>-</u>	<u>141,133</u>	<u>-</u>	<u>141,133</u>
	<u>\$ 19,880,515</u>	<u>\$ 182,528</u>	<u>\$ -</u>	<u>\$ 20,063,043</u>
Reported as				
Investments-only those at FV	\$ 19,851,687	\$ 182,528	\$ -	\$ 20,034,215
Charitable remainder trusts	<u>28,828</u>	<u>-</u>	<u>-</u>	<u>28,828</u>
	<u>\$ 19,880,515</u>	<u>\$ 182,528</u>	<u>\$ -</u>	<u>\$ 20,063,043</u>

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-imposed restrictions.

Interpretation of Relevant Law

The Foundation, relying on information and advice from legal counsel and appointed officers, has interpreted the Uniform Prudent Management of Institutional Funds Act (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.

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.

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, 2024.

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. The general economic conditions;
4. The possible effect of inflation or 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.

Endowment net assets consist of the following at August 31, 2024:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor restricted endowment funds			
Amount held in perpetuity	\$ -	\$ 41,000	\$ 41,000
Subject to expenditure for scholarships	-	196,357	196,357
Board-designated endowment funds	41,415	-	41,415
Total endowed net assets	\$ 41,415	\$ 237,357	\$ 278,772

Changes in endowment net assets for the year ended August 31, 2024:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, August 31, 2023	\$ 41,415	\$ 244,441	\$ 285,856
Contributions	-	11,000	11,000
Distributions	-	(18,084)	(18,084)
Investment return			
Endowment and investment income	-	-	-
Net unrealized gains	-	-	-
Endowment net assets, August 31, 2024	<u>\$ 41,415</u>	<u>\$ 237,357</u>	<u>\$ 278,772</u>

17. LIQUIDITY AND AVAILABILITY

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

	2024
Cash & cash equivalents	\$ 988,052
Investments	20,034,215
Assets held in charitable remainder trusts	28,828
Funds held for the benefit of children	24,861
Receivables, net of allowance	<u>78,292</u>
Financial assets, at year end	21,154,248
Less:	
Board designated	41,415
Assets restricted by donor	<u>378,141</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 20,734,692</u>

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.

18. RELATED PARTY TRANSACTIONS

Board member contributions to the Organization totaled \$85,473 for the year ended August 31, 2024.

19. SUBSEQUENT EVENTS

Subsequent events have been evaluated through December 2, 2024, the issuance date of this report. No other events were noted that require disclosure.