

DEPELCHIN CHILDREN'S CENTER

FINANCIAL STATEMENTS

DECEMBER 31, 2021

(With Summarized Comparative Information for 2020)

(With Independent Auditor's Report Thereon)

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 **DoerenMayhew**
CPAS AND ADVISORS

DEPELCHIN CHILDREN’S CENTER

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
of **DePelchin Children's Center**

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of DePelchin Children's Center (DePelchin), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of DePelchin as of December 31, 2021, 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) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of DePelchin 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 Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the financial statements that are free from material misstatement, whether due to fraud or error.

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

Report on the Audit of the Financial Statements (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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 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 DePelchin'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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about DePelchin'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.

Report on the Audit of the Financial Statements (Continued)

Report on Summarized Comparative Information

We have previously audited DePelchin's December 31, 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 28, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2022 on our consideration of DePelchin'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 solely 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 the effectiveness of 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 DePelchin's internal control over financial reporting and compliance.



Houston, Texas
June 27, 2022

DEPELCHIN CHILDREN'S CENTER

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2021

(with comparative financial information for 2020)

<u>Assets</u>	<u>2021</u>	<u>2020</u>
Cash and cash equivalents (Note 11)	\$ 8,647,380	\$ 5,794,600
Contract receivables, net (Note 11)	1,129,485	1,148,677
Contributions receivable	117,492	69,757
Federal and state grant receivables (Note 11)	1,076,096	1,017,951
Prepaid insurance and other assets	469,065	377,662
Investments - board-designated (Notes 3 and 4)	5,229,116	4,685,833
Property and equipment, net of accumulated depreciation (Note 5)	666,866	639,631
Interest in net assets of FDCC (Note 6)	123,628,568	114,220,807
Total assets	<u>\$ 140,964,068</u>	<u>\$ 127,954,918</u>
<u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ 2,420,462	\$ 2,367,189
Deferred revenue	1,489,868	228,935
Federal loan (Note 7)	-	2,169,510
Other liabilities (Note 8)	105,683	307,913
Total liabilities	<u>4,016,013</u>	<u>5,073,547</u>
Net assets:		
Without donor restrictions		
Undesignated	7,770,899	3,745,826
Board designated (Note 4)	5,229,116	4,685,833
Total without donor restrictions	<u>13,000,015</u>	<u>8,431,659</u>
With donor restrictions:		
Purpose or time restrictions (Note 12)	319,473	228,905
Purpose restrictions - FDCC net assets (Notes 6 and 12)	98,881,257	89,402,840
Perpetual restrictions - FDCC net assets (Notes 6 and 12)	24,747,310	24,817,967
Total with donor restrictions	<u>123,948,040</u>	<u>114,449,712</u>
Total net assets	<u>136,948,055</u>	<u>122,881,371</u>
Total liabilities and net assets	<u>\$ 140,964,068</u>	<u>\$ 127,954,918</u>

See accompanying notes to financial statements.

DEPELCHIN CHILDREN'S CENTER

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2021 (with summarized financial information for 2020)

	2021			
	Without Donor Restrictions	With Donor Restrictions	Total	2020
Public support, revenues, and other:				
Public support:				
Contributions:				
General public	\$ 1,708,606	\$ 351,371	\$ 2,059,977	\$ 1,469,769
Private foundations	875,888	1,012,139	1,888,027	1,437,687
Testamentary bequests	1,247,502	-	1,247,502	53,619
United Way allocation	-	1,369,981	1,369,981	1,874,314
Federal and state grants	-	6,325,266	6,325,266	5,666,671
Forgiveness of federal loan	2,169,510	-	2,169,510	-
Total public support	6,001,506	9,058,757	15,060,263	10,502,060
Revenues:				
Program service fees, net (Note 11)	13,532,968	-	13,532,968	12,936,145
Contribution from FDCC (Note 9)	4,912,220	-	4,912,220	4,480,000
Investment return, net	677,507	-	677,507	668,694
Miscellaneous	101,759	-	101,759	51,026
Total revenues	19,224,454	-	19,224,454	18,135,865
Other:				
Net assets released from restrictions - satisfaction of program restrictions (Note 12)	8,968,189	(8,968,189)	-	-
Change in interest in net assets of FDCC (Note 6)	-	9,407,760	9,407,760	10,655,650
Total public support, revenues, and other	34,194,149	9,498,328	43,692,477	39,293,575
Expenses:				
Program services:				
Adoption	350,698	-	350,698	485,787
Post adoption	169,580	-	169,580	769,448
Foster care	11,713,236	-	11,713,236	12,265,717
Community mental health	1,577,317	-	1,577,317	400,131
Parent education and family support	3,929,951	-	3,929,951	3,325,646
Prevention	4,169,299	-	4,169,299	4,209,058
Community research and evaluation	203,796	-	203,796	248,041
Residential services	2,097,807	-	2,097,807	1,939,821
Total program services	24,211,684	-	24,211,684	23,643,649
Fund development	1,387,654	-	1,387,654	1,361,372
Management and general	3,778,953	-	3,778,953	3,692,744
Total expenses	29,378,291	-	29,378,291	28,697,765
Change in net assets before changes related to transfers of assets to FDCC	4,815,858	9,498,328	14,314,186	10,595,810
Transfer of assets to FDCC	(247,502)	-	(247,502)	(53,619)
Change in net assets	4,568,356	9,498,328	14,066,684	10,542,191
Net assets at beginning of year	8,431,659	114,449,712	122,881,371	112,339,180
Net assets at end of year	<u>\$ 13,000,015</u>	<u>\$ 123,948,040</u>	<u>\$ 136,948,055</u>	<u>\$ 122,881,371</u>

See accompanying notes to financial statements.

DEPELCHIN CHILDREN'S CENTER

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2021 (with summarized financial information for 2020)

	2021											
	Adoption	Post Adoption	Foster Care	Community Mental Health	Parent Education and Family Support	Prevention	Community Research and Evaluation	Residential Services	Fund Development	Management and General	Total	2020
Salaries	\$ 229,580	\$ 87,439	\$ 3,131,688	\$ 986,761	\$ 1,758,476	\$ 1,915,686	\$ 71,714	\$ 1,181,995	\$ 703,038	\$ 2,442,685	\$ 12,509,062	\$ 13,034,389
Benefits including payroll taxes	52,480	12,327	730,034	224,731	392,438	424,268	17,853	265,862	164,925	652,194	2,937,112	2,982,536
Specific assistance to individuals	250	-	6,075,505	772	182,780	118,463	-	188,984	-	-	6,566,754	6,244,073
In-kind rent	30,455	47,874	400,689	148,891	319,102	964,070	-	105,611	36,214	96,052	2,148,958	1,525,435
Professional fees	10,857	3,424	266,363	85,838	870,432	79,173	102,549	37,116	78,356	392,666	1,926,774	1,787,785
Occupancy	11,527	12,012	504,370	54,950	138,182	440,658	1,497	157,857	18,809	42,143	1,382,005	1,222,024
Publications and advertising	1,140	366	44,294	5,028	74,307	9,106	741	6,553	233,635	1,123	376,293	277,641
Depreciation	1,744	1,746	47,365	8,279	18,627	98,206	317	58,090	2,338	7,345	244,057	286,935
Supplies and minor equipment	472	278	72,064	11,255	38,586	17,083	238	21,144	2,633	41,436	205,189	152,228
Travel, conferences and meetings	3,574	1,113	79,790	9,611	31,258	14,959	1,522	6,824	23,408	6,892	178,951	164,983
Other expense	8,020	3,001	346,848	39,616	105,763	87,196	7,365	64,193	124,298	96,417	882,717	794,276
COVID-19 expense	-	-	-	-	-	-	-	-	-	-	-	220,165
Provision for doubtful accounts	599	-	14,226	1,585	-	431	-	3,578	-	-	20,419	5,295
Total functional expenses	<u>\$ 350,698</u>	<u>\$ 169,580</u>	<u>\$ 11,713,236</u>	<u>\$ 1,577,317</u>	<u>\$ 3,929,951</u>	<u>\$ 4,169,299</u>	<u>\$ 203,796</u>	<u>\$ 2,097,807</u>	<u>\$ 1,387,654</u>	<u>\$ 3,778,953</u>	<u>\$ 29,378,291</u>	<u>\$ 28,697,765</u>

See accompanying notes to financial statements.

DEPELCHIN CHILDREN'S CENTER

STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2021 (with comparative financial information for 2020)

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Change in net assets	\$ 14,066,684	\$ 10,542,191
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	244,057	286,935
Federal loan forgiveness	(2,169,510)	-
Provision for doubtful accounts	20,419	5,295
Realized and unrealized gain from investment transactions	(543,222)	(566,020)
(Increase) decrease in operating assets:		
Interest in net assets of FDCC	(9,407,761)	(10,655,650)
Contract receivables, net	(1,227)	59,543
Contributions receivable	(47,735)	108,807
Federal and state grant receivables	(58,145)	(138,061)
Prepaid insurance and other assets	(91,403)	(121,522)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	53,273	(59,636)
Deferred income	1,260,933	58,696
Other liabilities	(202,230)	41,405
Net cash provided (used) by operating activities	<u>3,124,133</u>	<u>(438,017)</u>
Cash flows from investing activities:		
Purchases of investments	(2,011,947)	(1,593,974)
Sales of investments	2,011,886	1,680,215
Purchases of property and equipment	(271,292)	(53,184)
Net cash (used) provided by investing activities	<u>(271,353)</u>	<u>33,057</u>
Cash flows from financing activities:		
Proceeds from federal loan	-	2,169,510
Net cash provided by financing activities	<u>-</u>	<u>2,169,510</u>
Net increase in cash and cash equivalents	2,852,780	1,764,550
Cash and cash equivalents at beginning of year	<u>5,794,600</u>	<u>4,030,050</u>
Cash and cash equivalents at end of year	<u><u>\$ 8,647,380</u></u>	<u><u>\$ 5,794,600</u></u>

See accompanying notes to financial statements.

DEPELCHIN CHILDREN'S CENTER

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

Note 1 - Organization

DePelchin Children's Center (DePelchin) is a Texas nonprofit corporations organized for the principal purpose of providing comprehensive child welfare and mental health services to families and children in Texas. DePelchin Psychiatric Services, a Texas nonprofit corporation in which DePelchin was the sole member since 2006, was dissolved effective September 27, 2021.

Note 2 - Summary of Significant Accounting Policies

Comparative Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in accordance with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with DePelchin's financial statements for the year ended December 31, 2020, from which the summarized information was derived.

Basis of Presentation

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions - Net assets available for use in general operations and not subject to donor or grantor restrictions. The Board of Directors has designated from net assets without donor restrictions, net assets for a board-designated endowment restricted for special purposes.

Net assets with donor restrictions - Net assets that are subject to donor or grantor imposed restrictions. Some restrictions are temporary in nature, such as those that will be met by either action or passage of time. Other restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. DePelchin has recorded its interest in the net assets of the Foundation for DePelchin Children's Center (FDCC) (see Note 6). Net assets with donor restrictions are reclassified to net assets without donor restrictions and reported on the statement of activities and changes in net assets as net assets released from restrictions when the donor or grantor restriction has been met either through the expiration of time or satisfying the restricted purpose.

Cash and Cash Equivalents

Cash equivalents include highly liquid investment instruments with maturities of three months or less at time of purchase. At December 31, 2021, cash and cash equivalents includes a money market mutual fund of \$8,485,033, which is valued at quoted market price at year-end and considered to be a Level 1 fair value under GAAP.

DEPELCHIN CHILDREN'S CENTER

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

Note 2 - Summary of Significant Accounting Policies (Continued)

Contract Receivables

Contract receivables are uncollateralized and represent fees due for services provided under agreements that have contractually negotiated rates. These receivables have been reduced by \$84,830 for contractual allowances at December 31, 2021. The gross contract receivable balance at December 31, 2021 was \$1,214,315. The gross contract receivable balance at January 1, 2021 was \$1,233,043.

Contributions receivable

Contributions receivable that are expected to be collected within one year are recorded at net realizable value. Amounts that are expected to be collected in future years are discounted to estimate the present value of future cash flows, if material. An allowance for uncollectible accounts is provided when it is believed that amounts may not be collected in full. The allowance is based on historical experience, assessment of economic conditions, and a review of subsequent collections. Management has assessed the contributions receivable for collectability and has determined that no allowance for uncollectible amounts is deemed necessary at December 31, 2021. At December 31, 2021, DePelchin had no long-term contributions receivable.

Investments

Investments are recorded at fair value. Investment return includes interest and dividend income, realized gains and losses, and unrealized gains and losses, less investment related expenses. Investment return from investment transactions is initially recorded as net assets without donor restriction or net assets with donor restrictions and is reflected as net assets released from restrictions in the statement of activities and changes in net assets to the extent amounts become available for use during the period. Realized gains and losses are determined using the specific identification method.

Property and Equipment

Property and equipment are recorded at cost if purchased. Donated property and equipment are recorded at their fair value on the date of the gift, which is then treated as cost. Property and equipment additions over \$5,000 are capitalized. Depreciation is recorded using the straight-line method based upon the estimated useful lives of the assets as follows:

Buildings and improvements	5 to 30 years
Furniture, equipment and computer software	3 to 10 years
Transportation equipment	3 years

When assets are sold or otherwise disposed of, the cost and related depreciation are removed from the accounts and any resulting gain or loss is included in the statement of activities and changes in net assets. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed.

DEPELCHIN CHILDREN'S CENTER

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

Note 2 - Summary of Significant Accounting Policies (Continued)

Impairment of Long-Lived Assets

When events or changes in circumstances indicate that the carrying amount of property and equipment may not be recoverable, an evaluation of the recoverability of currently recorded costs is performed. When an evaluation is performed, the estimated value of undiscounted future net cash flows associated with the asset is compared to the asset's carrying value to determine if a write-down to fair value is required. If such asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended December 31, 2021.

Federal Loan

DePelchin elected to account for the Paycheck Protection Program funds utilizing the debt accounting model, under which the loan proceeds and related interest are recorded as a liability. If the entity is legally released as the primary obligor on the debt, the liability would be derecognized, resulting in a gain on loan extinguishment on the statement of activities and changes in net assets.

Revenue Recognition

Contributions are recorded as revenue when an unconditional commitment is received from the donor. Contributions are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions.

Conditional promises to give are those that contain a measurable performance obligation or other barrier, as well as a right of return, and are not recognized until the conditions on which they depend have been met. Consequently, at December 31, 2021, conditional contributions approximating \$162,500 have not been recognized in the accompanying financial statements because \$62,500 is dependent on incurring costs for providing integrated mental health services and \$100,000 is dependent on incurring costs for providing services to children at the residential treatment center. If funds are received in advance of the condition being met, they are recorded as deferred revenue and recognized as revenue once the conditions have been met. As of December 31, 2021, \$1,280,420 has been recognized in deferred revenue in the statement of financial position related to conditional promises to give.

United Way Allocation represents the funds awarded to DePelchin as an affiliate agency in the Houston area. DePelchin has elected to recognize the United Way award when notification of the final commitment has been received. For the year ended December 31, 2021, DePelchin recognized approximately \$1.4 million.

DEPELCHIN CHILDREN'S CENTER

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

Note 2 - Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)

Federal and state grants represent cost-reimbursable contracts and grants, which are conditioned upon the incurrence of allowable qualifying expenses. Amounts are recognized as revenue when DePelchin has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as a refundable advance within deferred revenue in the statement of financial position. DePelchin has been awarded cost-reimbursable grants of \$5,386,562 that have not been recognized at December 31, 2021 because qualifying expenditures have not yet been incurred.

Program service fees are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered. DePelchin has entered into payment agreements with certain commercial insurance carriers and managed care organizations. The payments to DePelchin under these agreements are based on contractually negotiated rates. Contractual allowances reported within program service fees is \$72,987 for the year ended December 31, 2021.

Contributed services that meet the recognition requirements of GAAP are recorded at fair value. A substantial number of volunteers have donated time in connection with program services and administration of DePelchin; however, the financial statements do not reflect the value of these contributed services because they do not meet the recognition criteria prescribed by GAAP.

Contributed assets are recorded at fair value at the date of donation and recognized as unrestricted support unless the donor specifies how the 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 donor-restricted support and absent explicit donor stipulations about how long those long-lived assets must be maintained, are released from donor restrictions when the donated or acquired long-lived assets are placed in service.

Advertising Costs

Advertising costs are charged to operations when incurred. Advertising costs expensed for the year ended December 31, 2021 were \$34,355.

Functional Expenses

Functional expenses which cannot readily be related to a specific program are charged to the various programs based upon cost-to-cost basis, square footage, or other reasonable methods for allocating DePelchin's multiple function expenditures.

DEPELCHIN CHILDREN'S CENTER

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

Note 2 - Summary of Significant Accounting Policies (Continued)

Use of Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with GAAP. These estimates and assumptions affect the reported amounts of assets and liabilities, the amounts of reported revenues and expenses, and the allocation of expenses among various functions. Accordingly, actual results could vary from the estimates that were used.

Income Taxes

DePelchin is a nonprofit corporation and is exempt from federal income taxes on related income under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). DePelchin's management has evaluated the tax positions taken by DePelchin and has determined that as of December 31, 2021, there are no uncertain positions taken or expected to be taken that would require recognition or disclosure within the financial statements. DePelchin is subject to audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes that DePelchin is no longer subject to income tax examinations for years prior to 2018.

Recent Accounting Pronouncement

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which is intended to increase transparency and comparability of accounting for lease transactions. ASU 2016-02 requires lessees to recognize third party lease contracts with a term greater than one year on the statement of financial position, while recognizing expenses in a manner similar to current guidance. ASU 2016-02 is effective for year-ends beginning after December 15, 2021 and will have a material impact on DePelchin's financial position by increasing assets and liabilities by equal amounts through the recognition of right-of-use assets and corresponding lease liabilities. The adoption of ASU 2016-02 will not have a material impact on DePelchin's results of operations.

Subsequent Events

DePelchin has evaluated subsequent events through June 27, 2022, which is the date these financial statements were available for issuance.

DEPELCHIN CHILDREN'S CENTER

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

Note 3 - Fair Value of Financial Instruments

GAAP requires that certain assets and liabilities be reported at fair value in the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). DePelchin has estimated fair value of its financial instruments by utilizing observable market data when available, or models that utilize observable market data to estimate fair value. In addition to market information, DePelchin incorporates transaction-specific details that, in management's judgment, market participants would utilize in fair value measurement.

The three levels of the fair value hierarchy are as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities that can be accessed as of the reporting date.
- Level 2 - Pricing inputs other than quoted prices included in Level 1, which are either directly or indirectly observable. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.
- Level 3 - Unobservable inputs for the asset or liability, whereby assumptions that market participants would use is based on the best information available.

The asset's 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 at December 31, 2021. There have been no changes in valuation techniques for the year ended December 31, 2021.

Equity securities: Valued at the closing price reported on the active market on which the individual securities are traded. If not actively traded, valued using quoted market prices or model-driven valuations using significant inputs derived from, or corroborated by, observable market data.

Fixed income securities: Valued using pricing models maximizing the use of observable inputs for similar securities, including basing value on yields currently available on comparable securities of issuers with similar credit ratings. If quoted prices are not available for identical or similar securities, the security is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.

Money market mutual fund: Valued at the quoted net asset value of the shares reported by the fund on the active market on which the fund is traded.

DEPELCHIN CHILDREN'S CENTER

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

Note 3 - Fair Value of Financial Instruments (Continued)

The fair values of DePelchin's board-designated investments were valued based on the inputs at December 31, 2021 and are as follows:

	Level 1	Level 2	Level 3	Total
Equity investments:				
Information technology	\$ 1,089,265	\$ -	\$ -	\$ 1,089,265
Consumer cyclical	383,196	-	-	383,196
Financials	279,435	-	-	279,435
Health care	275,283	-	-	275,283
American Depository Receipts	-	234,141	-	234,141
Consumer staples	227,947	-	-	227,947
Industrials	132,395	-	-	132,395
Materials	53,246	-	-	53,246
Energy	32,271	-	-	32,271
Other	22,719	-	-	22,719
Total equity investments	2,495,757	234,141	-	2,729,898
Fixed income investments:				
Corporate bonds	-	1,956,579	-	1,956,579
U.S. Agency bonds	-	492,793	-	492,793
Total fixed income investments	-	2,449,372	-	2,449,372
Money market mutual fund	49,846	-	-	49,846
Total investments	\$ 2,545,603	\$ 2,683,513	\$ -	\$ 5,229,116

Note 4 - Board Designated Endowment

DePelchin's Board of Directors through specific action has created self-imposed limits on net assets without donor restrictions to operate as endowment funds. The change in board-designated assets is as follows for the year ended December 31, 2021:

	Amount
Board-designated endowment, beginning of year	\$ 4,685,833
Dividend, interest and other income	91,107
Net realized and unrealized gains	543,221
Amounts appropriated for expenditures	(91,045)
Change in board-designated endowment	543,283
Board-designated endowment, end of year	\$ 5,229,116

DEPELCHIN CHILDREN'S CENTER

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

Note 4 - Board Designated Endowment (Continued)

DePelchin has adopted investment and spending policies for the board-designated endowment funds that attempt to assure safety of the principal, provide adequate liquidity and provide total return subject to the constraint of capital preservation. The spending policy allows that the current income from dividends and interest will be used to fund current operating costs. The Board of Directors directs all other withdrawals from the board-designated assets.

Note 5 - Property and Equipment

Property and equipment and accumulated depreciation at December 31, 2021 are as follows:

	<u>Amount</u>
Buildings and improvements	\$ 5,248,837
Furniture, equipment and computer software	4,218,862
Transportation equipment	<u>109,609</u>
 Total property and equipment	 9,577,308
 Less: accumulated depreciation	 <u>(8,910,442)</u>
 Total property and equipment, net of accumulated depreciation	 <u>\$ 666,866</u>

Depreciation expense for the year ended December 31, 2021 was \$244,057.

Note 6 - Interest in Net Assets of Foundation for DePelchin Children's Center

The Foundation for DePelchin Children's Center (FDCC) is a nonprofit, tax-exempt Texas corporation. DePelchin and FDCC are related organizations in that FDCC's primary purpose is to own, oversee, and manage trust funds and certain other properties that may be used to benefit DePelchin. Therefore, DePelchin currently has an interest, but not a beneficial interest, in the net assets of FDCC. In accordance with FASB ASC Topic 958-20 *Not-for-Profit Entities, Financially Interrelated Entities*, DePelchin has recorded its interest in the net assets of FDCC.

The Boards of Directors of FDCC and DePelchin do not have common members. The Board of Directors of FDCC recommends to the Trust for DePelchin Children's Center the amount and timing of distributions, if any, to DePelchin and places restrictions on such distributions that are in accordance with any program restrictions stipulated by the original donor of the assets owned by FDCC.

DEPELCHIN CHILDREN'S CENTER

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

Note 6 - Interest in Net Assets of Foundation for DePelchin Children's Center (Continued)

At December 31, 2021, DePelchin's interest in the net assets of FDCC and the change in interest in net assets of FDCC for the year ended December 31, 2021 are as follows:

	Interest in Net Assets of FDCC		Changes in Interest in Net Assets of FDCC	
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions
Timing of distribution restricted by FDCC	\$ -	\$ 47,892,708	\$ -	\$ 3,518,275
Restricted by original donor:				
Mental health/therapeutic care	-	42,794,237	-	3,435,406
Property and facility maintenance	-	12,796,380	-	1,027,259
Education and training	-	9,715,830	-	779,961
Residential treatment	-	8,057,802	-	646,859
Programs designated by FDCC	-	2,371,610	-	-
	<u>\$ -</u>	<u>\$ 123,628,567</u>	<u>\$ -</u>	<u>\$ 9,407,760</u>

The change in net assets of FDCC for the year ended December 31, 2021 is as follows:

	Without Donor Restrictions	With Donor Restrictions
Net assets of FDCC, beginning of year	\$ -	\$114,220,807
Investment appreciation	-	9,989,151
Investment income	-	2,507,991
Transfer of assets from DePelchin	-	282,763
Donations	-	10,920
Contribution to DePelchin	-	(2,800,000)
Other expenses	-	(583,065)
Change in net assets of FDCC	-	9,407,760
Net assets of FDCC, end of year	<u>\$ -</u>	<u>\$123,628,567</u>

DEPELCHIN CHILDREN'S CENTER

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

Note 7 - Federal Loan

On April 5, 2020, DePelchin entered into a loan agreement and promissory note pursuant to the Paycheck Protection Program which was established under the CARES Act and is administered by the U.S. Small Business Administration (SBA). DePelchin received loan proceeds of \$2,169,510 and accounted for the federal loan under the debt accounting model. Subject to certain conditions, the loan was eligible for forgiveness in whole or in part. On June 22, 2021, DePelchin received notification that their forgiveness application was approved by the SBA. Accordingly, the federal loan proceeds of \$2,169,510 were recognized as income during the year ended December 31, 2021. DePelchin may be subject to examination from the SBA for six years following the date of forgiveness.

Note 8 - Pension, Saving and Health Plans

DePelchin maintains a 403(b) Thrift Plan (the Plan) for its eligible employees. Participants may elect to contribute any amount provided they do not contribute more than the maximum permitted by law. The maximum deferral limit for the year ended December 31, 2021 was \$19,500 with an additional Special Catch-up Contribution allowed for those age 50 or over of \$6,500.

DePelchin makes a matching contribution equal to 100% of up to 3% of each employee's compensation. DePelchin may, at its sole discretion, make a base contribution to individual participant accounts. During 2021, the discretionary base contribution was 2% of total eligible compensation paid to all eligible participants. The Plan contributions expensed by DePelchin during the year ended December 31, 2021 were \$400,593.

DePelchin Children's Center adopted an Executive Savings Plan to provide specified benefits for a select group of management. Participation agreements are established for each participant, which define the benefit accrual rate and vesting date. At December 31, 2021, a liability of \$105,683 has been recorded as other liabilities in the financial statements. During the year ended December 31, 2021, one of the participant agreements became fully vested and paid out in the amount of \$307,913.

Note 9 - Related-Party Transactions

The Board of Directors of FDCC recommends the annual contributions to DePelchin Children's Center for approval from its trust. Such contributions were \$2,800,000 for the year ended December 31, 2021. DePelchin Children's Center has entered into a lease agreement with FDCC for several buildings. Rent approximates the fair market value on the leased buildings and is contributed to DePelchin Children's Center by FDCC. An in-kind contribution of \$2,112,220 is included in the \$4,912,220 contribution from FDCC on the statement of activities and changes in net assets and within in-kind rent expense on the statement of functional expenses for the year ended December 31, 2021.

DEPELCHIN CHILDREN'S CENTER

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

Note 9 - Related-Party Transactions (Continued)

Certain members of the Board of Directors are also affiliated with companies and institutions that provide services to DePelchin. In the opinion of management, such transactions have been entered into in the normal course of business at prevailing rates or have been awarded based on competitive bids.

Note 10 - Commitments and Contingencies

Lease Commitments

DePelchin leases equipment and office space under various operating lease agreements expiring through 2026. Future minimum annual lease payments under lease agreements with terms greater than one year are as follows at December 31, 2021:

<u>Years Ending December 31,</u>	<u>Amount</u>
2022	\$ 401,273
2023	270,326
2024	167,036
2025	105,923
2026	<u>35,385</u>
Total minimum future payments	<u>\$ 979,943</u>

Rental expense for the year ended December 31, 2021 totaled \$539,400. DePelchin also recognized income and rental expense for donated lease space from third parties in the amount of \$36,738 and from FDCC in the amount of \$2,112,220.

Grant Programs

DePelchin Children's Center participates in a number of federal and state grant programs. These programs are subject to program compliance audits by grantors or their representatives. Management believes DePelchin has complied with requirements of the grants.

Litigation

In the normal course of business, DePelchin may become subject to lawsuits and other claims and proceedings. Such matters are subject to uncertainty and outcomes are not predictable with assurance. Management is not aware of any pending or threatened lawsuit or proceedings which would have a material adverse effect on DePelchin's financial position, liquidity, or results of operations.

DEPELCHIN CHILDREN'S CENTER

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

Note 11 - Concentration of Credit Risk and Customer Risk

DePelchin is subject to concentration of credit risk relating primarily to cash and cash equivalents, investments and receivables. DePelchin's cash deposits at times exceed federal insured limits, but management believes this risk has been mitigated by the financial strength of the financial institution in which the deposits are held. As of December 31, 2021, cash deposits of \$79,691 were not covered by federal depository insurance. Board-designated investments consist primarily of domestic corporate stocks and fixed income securities, which could subject DePelchin to losses in event of a general downturn in the public market. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in net values of investment securities will occur in the near term and that such changes could materially affect the amounts recorded in the statement of financial position. Contributions receivable represent unconditional promises to give and are monitored by DePelchin for potential losses.

Texas Department of Family and Protective Services (TDFPS) comprises approximately 69% of DePelchin's total public support and revenues for the year ended December 31, 2021 and approximately 84% of total receivables at December 31, 2021. DePelchin enters into various contracts with TDFPS, with most contracts being one year in duration. DePelchin has had a program service relationship with this governmental agency for over 30 years.

Note 12 - Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following at December 31, 2021:

	<u>Amount</u>
Donor purpose or time restrictions:	
Foster care and adoption	\$ 26,131
Strategic initiatives	62,962
Prevention	51,159
Residential	146,621
Time restrictions	<u>32,600</u>
Total purpose or time restrictions	<u>319,473</u>
Interest in net assets of FDCC:	
Perpetual in nature	24,747,309
Timing	47,892,706
Mental health/therapeutic care	35,288,232
Property and facility maintenance	12,796,381
Education and training	<u>2,903,939</u>
Total interest in net assets of FDCC	<u>123,628,567</u>
Total net assets with donor restrictions	<u>\$ 123,948,040</u>

DEPELCHIN CHILDREN'S CENTER

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

Note 12 - Net Assets with Donor Restrictions (Continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the year ended December 31, 2021:

	<u>Amount</u>
Foster care and adoption	\$ 468,588
Strategic initiatives	10,800
Prevention	6,668,736
Residential	403,329
Family care	1,291,706
Time restrictions	<u>125,030</u>
Total released from donor restrictions	<u>\$ 8,968,189</u>

Note 13 - Liquidity and Availability of Resources

The following represents financial assets available to meet cash needs for general expenditures within one year as of December 31, 2021:

	<u>Amount</u>
Financial assets available within one year:	
Cash and cash equivalents	\$ 8,647,380
Contract receivables	1,214,315
Contributions receivable	117,492
Federal and state grant receivables	1,076,096
Investments	<u>5,229,116</u>
Total financial assets available within one year	16,284,399
Amounts unavailable for general expenditure within one year:	
With donor restrictions	(319,473)
Subject to internal Board designations	<u>(5,229,116)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 10,735,810</u>

DePelchin has \$5,229,116 of board-designated assets which consist of readily redeemable investments, that do not have donor restrictions, but are subject to internally imposed limits. These assets can be made available by the action of the Board of Directors for normal operating expenditures upon approval of the governing board. DePelchin's goal is to maintain cash and cash equivalents on hand to meet 60 days of normal operating expenses, which were on average \$3.8 million for the year December 31, 2021.

*** * * End of Notes * * ***