



DEPELCHIN CHILDREN'S CENTER

FINANCIAL STATEMENTS

DECEMBER 31, 2023

(With Summarized Comparative Information for 2022)

(With Independent Auditor's Report Thereon)

DEPELCHIN CHILDREN'S CENTER

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Activities and Changes in Net Assets	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7



2600 North Loop West, Suite 600
Houston, Texas 77092

► 713.789.7077 | doeren.com

INDEPENDENT AUDITOR'S REPORT

To the 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, 2023, 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, 2023, 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.

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 Summarized Comparative Information

We have previously audited DePelchin's December 31, 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 27, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2022 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 25, 2024 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 25, 2024

DEPELCHIN CHILDREN'S CENTER

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2023

(with comparative financial information for 2022)

	2023	2022
<u>Assets</u>		
Cash and cash equivalents (Note 12)	\$ 8,711,056	\$ 8,809,835
Contract receivables, net (Note 12)	1,023,292	1,085,191
Contributions receivable, net (Note 3)	6,086,287	148,547
Federal and state grant receivables (Note 12)	1,412,971	976,170
Prepaid insurance and other assets	894,452	612,257
Investments - board-designated (Notes 4 and 5)	4,890,602	4,443,578
Restricted cash and cash equivalents (Note 1)	2,303,334	250,000
Contributions receivable restricted for capital project, net (Note 3)	3,975,027	1,750,000
Property and equipment, net of accumulated depreciation (Note 6)	1,560,352	925,612
Right-of-use assets, operating leases (Note 7)	466,763	629,507
Interest in net assets of FDCC (Note 8)	142,256,566	127,303,065
Total assets	<u>\$ 173,580,702</u>	<u>\$ 146,933,762</u>
<u>Liabilities and Net Assets</u>		
Liabilities		
Accounts payable and accrued expenses	\$ 2,807,172	\$ 2,488,626
Deferred revenue	282,348	857,914
Lease liabilities, operating (Note 7)	485,099	657,189
Other liabilities (Note 9)	328,624	214,537
Total liabilities	<u>3,903,243</u>	<u>4,218,266</u>
Net assets		
Without donor restrictions		
Undesignated	6,746,327	7,940,475
Board designated (Note 5)	4,890,602	4,443,578
Total without donor restrictions	<u>11,636,929</u>	<u>12,384,053</u>
With donor restrictions		
Purpose or time restrictions (Note 13)	15,783,964	3,028,378
Purpose restrictions - FDCC net assets (Notes 8 and 13)	116,584,370	101,786,414
Perpetual restrictions - FDCC net assets (Notes 8 and 13)	25,672,196	25,516,651
Total with donor restrictions	<u>158,040,530</u>	<u>130,331,443</u>
Total net assets	<u>169,677,459</u>	<u>142,715,496</u>
Total liabilities and net assets	<u>\$ 173,580,702</u>	<u>\$ 146,933,762</u>

See accompanying notes to financial statements

DEPELCHIN CHILDREN'S CENTER

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2023 (with comparative financial information for 2022)

	2023			2022
	Without Donor Restrictions	With Donor Restrictions	Total	
Public support, revenues, and other:				
Public support:				
Contributions of cash and other financial assets:				
General public	\$ 1,851,566	\$ 7,803,130	\$ 9,654,696	\$ 5,879,241
Private foundations	1,535,310	7,116,296	8,651,606	1,872,617
Testamentary bequests	20,000	-	20,000	73
United Way allocation	198,555	203,204	401,759	461,468
Contributions of nonfinancial assets (Note 14)	-	83,631	83,631	310,474
Federal and state grants	-	8,770,400	8,770,400	7,238,530
Total public support	3,605,431	23,976,661	27,582,092	15,762,403
Revenues:				
Program service fees, net (Note 12)	11,257,078	-	11,257,078	12,784,335
Contribution of cash from FDCC (Note 10)	-	3,850,134	3,850,134	2,970,000
Contribution of rent from FDCC (Notes 10 and 14)	3,316,705	-	3,316,705	2,112,220
Investment return, net	1,012,472	-	1,012,472	(547,931)
Miscellaneous	199,630	-	199,630	146,264
Total revenues	15,785,885	3,850,134	19,636,019	17,464,888
Other:				
Net assets released from restrictions - satisfaction of program restrictions (Note 13)	15,071,209	(15,071,209)	-	-
Change in interest in net assets of FDCC (Note 8)	-	14,953,501	14,953,501	3,674,498
Total public support, revenues, and other	34,462,525	27,709,087	62,171,612	36,901,789
Expenses:				
Program services:				
Adoption	306,190	-	306,190	362,469
Post adoption	169,130	-	169,130	177,112
Foster care	11,296,282	-	11,296,282	11,629,757
Integrated mental health	1,810,154	-	1,810,154	1,637,019
Supervised independent living	1,127,786	-	1,127,786	1,131,400
Parent education and family support	5,630,303	-	5,630,303	4,589,765
Prevention	4,437,453	-	4,437,453	3,680,227
Community research and evaluation	207,837	-	207,837	221,796
Residential services	1,904,410	-	1,904,410	2,209,414
Today's Harbor	2,459,936	-	2,459,936	168,870
Total program services	29,349,481	-	29,349,481	25,807,829
Fund development	1,644,113	-	1,644,113	1,635,646
Management and general	4,216,055	-	4,216,055	3,690,800
Total expenses	35,209,649	-	35,209,649	31,134,275
Change in net assets before changes related to transfers of assets to FDCC	(747,124)	27,709,087	26,961,963	5,767,514
Transfer of assets to FDCC	-	-	-	(73)
Change in net assets	(747,124)	27,709,087	26,961,963	5,767,441
Net assets at beginning of year	12,384,053	130,331,443	142,715,496	136,948,055
Net assets at end of year	\$ 11,636,929	\$ 158,040,530	\$ 169,677,459	\$ 142,715,496

See accompanying notes to financial statements

DEPELCHIN CHILDREN'S CENTER

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2023 (with comparative financial information for 2022)

	2023													
	Adoption	Post Adoption	Foster Care	Integrated Mental Health	TDFPS Supervised Independent Living	Parent Education and Family Support	Prevention	Community Research and Evaluation	Residential Services	Today's Harbor	Fund Development	Management and General	Total	2022
Salaries	\$ 199,649	\$ 79,665	\$ 3,447,251	\$ 1,249,606	\$ 224,488	\$ 2,870,728	\$ 2,660,676	\$ 39,035	\$ 1,141,503	\$ 486,339	\$ 949,715	\$ 2,855,548	\$ 16,204,203	\$ 13,897,791
Benefits including payroll taxes	41,741	15,801	737,428	255,145	50,141	567,695	522,241	9,126	227,375	89,615	196,270	682,195	3,394,773	3,025,789
Specific assistance to individuals	548	-	5,220,904	1,859	80,287	250,264	47,656	-	46,958	5,473	-	-	5,653,949	6,154,906
In-kind rent	28,388	45,376	429,990	14,194	459,028	353,145	574,906	-	105,611	1,204,485	40,624	93,429	3,349,176	2,145,895
Professional fees	11,000	3,780	303,642	140,645	17,398	891,823	126,683	150,682	47,990	21,315	152,593	365,449	2,233,000	2,067,041
Occupancy	11,997	18,065	540,355	27,074	244,299	199,617	278,891	1,519	173,521	504,662	24,405	42,492	2,066,897	1,623,623
Publications and advertising	1,783	438	72,707	7,848	1,379	116,497	16,378	943	7,371	4,530	96,783	1,630	328,287	460,033
Travel, conferences and meetings	1,258	1,631	121,545	45,071	1,230	167,259	41,285	731	11,252	10,271	82,312	21,009	504,854	335,687
Depreciation	1,153	1,307	35,041	2,801	33,587	16,832	20,125	296	55,657	45,555	1,116	9,233	222,703	235,529
Supplies and minor equipment	1,579	565	65,454	12,249	3,991	54,595	42,277	694	32,898	32,360	14,035	35,647	296,344	219,684
Other expense	6,964	2,502	318,453	49,446	11,869	141,848	106,306	4,811	53,798	55,330	86,260	109,423	947,010	935,484
Provision for credit losses	130	-	3,512	4,216	89	-	29	-	476	1	-	-	8,453	23,813
Total functional expenses	<u>\$ 306,190</u>	<u>\$ 169,130</u>	<u>\$ 11,296,282</u>	<u>\$ 1,810,154</u>	<u>\$ 1,127,786</u>	<u>\$ 5,630,303</u>	<u>\$ 4,437,453</u>	<u>\$ 207,837</u>	<u>\$ 1,904,410</u>	<u>\$ 2,459,936</u>	<u>\$ 1,644,113</u>	<u>\$ 4,216,055</u>	<u>\$ 35,209,649</u>	<u>\$ 31,125,275</u>

See accompanying notes to financial statements

DEPELCHIN CHILDREN'S CENTER

STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2023 (with comparative financial information for 2022)

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Change in net assets	\$ 26,961,963	\$ 5,767,441
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	222,703	235,529
Provision for credit losses	8,453	23,813
Realized and unrealized (gain) loss from investment transactions	(445,487)	788,408
Contributions restricted to capital project	(4,278,361)	(2,000,000)
Discount on long-term contributions receivable	127,954	-
In-kind donation of property and equipment	-	(222,692)
(Increase) decrease in operating assets:		
Interest in net assets of FDCC	(14,953,501)	(3,674,497)
Contract receivables, net	53,446	20,481
Contributions receivable	(6,065,694)	(31,055)
Federal and state grant receivables	(436,801)	99,926
Prepaid insurance and other assets	(282,195)	(143,192)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	318,546	68,164
Deferred revenue	(575,566)	(631,954)
Right-of-use assets and liabilities - operating, net	(9,346)	27,682
Other liabilities	114,087	108,854
Net cash provided by operating activities	<u>760,201</u>	<u>436,908</u>
Cash flows from investing activities:		
Purchases of investments	(2,520,426)	(729,066)
Sales of investments	2,518,889	726,196
Purchases of property and equipment	(857,443)	(271,583)
Net cash used by investing activities	<u>(858,980)</u>	<u>(274,453)</u>
Cash flows from financing activities:		
Collection of contributions restricted to capital project	<u>2,053,334</u>	<u>250,000</u>
Net cash provided by investing activities	<u>2,053,334</u>	<u>250,000</u>
Net increase in cash, cash equivalents and restricted cash	1,954,555	412,455
Cash, cash equivalents and restricted cash at beginning of year	<u>9,059,835</u>	<u>8,647,380</u>
Cash, cash equivalents and restricted cash at end of year	<u><u>\$ 11,014,390</u></u>	<u><u>\$ 9,059,835</u></u>

See accompanying notes to financial statements

DEPELCHIN CHILDREN'S CENTER

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023

Note 1 - Organization

DePelchin Children's Center (DePelchin) is a Texas nonprofit corporation organized for the principal purpose of providing comprehensive child welfare and mental health services to families and children in Texas.

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, 2022, 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 8). 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, Cash Equivalents and Restricted Cash

Cash and highly liquid financial instruments with maturities of three months or less at time of purchase, which are neither held for nor restricted by donors for long-term purposes, are considered cash and cash equivalents. Cash and highly liquid financial instruments restricted to building projects are excluded from this definition. At December 31, 2023, cash equivalents include a money market mutual fund of \$11,034,718, which is valued at quoted market price at year-end and considered to be a Level 1 fair value under GAAP.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the statement of financial position to the sum of the corresponding amounts within the statement of cash flows as of December 31, 2023:

Cash and cash equivalents	\$ 8,711,056
Cash restricted to construction of volunteer and donation building	<u>2,303,334</u>
Total cash, cash equivalents and restricted cash	<u>\$ 11,014,390</u>

DEPELCHIN CHILDREN'S CENTER

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023

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 \$87,834 for contractual allowances at December 31, 2023. The gross contract receivable balance at December 31, 2023 was \$1,110,422. The gross contract receivable balance at January 1, 2023 was \$1,182,957.

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, 2023.

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 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. Leasehold improvements associated with leases between entities under common control are amortized over the life of the improvement, as long as the lessee controls the use of the underlying assets through a lease. The unamortized balance of leasehold improvements related to common control leases totaled \$406,787 at December 31, 2023.

DEPELCHIN CHILDREN'S CENTER

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023

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, 2023.

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, 2023, conditional contributions approximating \$100,000 have not been recognized in the accompanying financial statements because the \$100,000 is dependent on incurring costs for providing services to children for integrated and community mental health services. 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, 2023, \$282,348 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.

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 \$7,264,377 that have not been recognized at December 31, 2023 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 at point in time. 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 \$46,453 for the year ended December 31, 2023.

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.

DEPELCHIN CHILDREN'S CENTER

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023

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, 2023 were \$92,275.

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.

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, 2023, 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 2020.

Leases

DePelchin recognizes right-of-use assets and lease liabilities for leases with terms greater than 12 months. Renewal periods are included in the expected lease term if they are reasonably certain of being exercised and lease components have been separated from non-lease components. Short term leases with initial terms less than 12 months are excluded and expensed on a straight-line basis over the lease terms.

The right-of-use assets and lease liabilities are recorded at the net present value of future lease payments and include any initial direct costs incurred at lease commencement. DePelchin has elected to use a risk-free discount rate to determine the net present value of the lease when the rate implicit in the lease is not readily determinable.

Right-of-use assets under operating leases are reduced as lease expense is incurred and right-of-use assets under finance leases are amortized on a straight-line basis over the shorter of the life of the lease or leased asset. For operating leases, lease expense is recognized on a straight-line basis over the term of the lease. For finance leases, lease expense is recognized based on an effective interest method.

DEPELCHIN CHILDREN'S CENTER

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023

Adoption of New Accounting Standard

The current expected credit loss (CECL) model established by ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, requires the recognition of estimated expected credit losses over the life of a financial instrument, giving consideration to historical information and future economic conditions and events. ASU 2016-13 and subsequent amendments are codified in ASC 326, with contributions receivable specifically excluded from the CECL standard. Effective January 1, 2023, DePelchin adopted the standard using the modified retrospective method with no significant impact on results of operations or cash flows.

Subsequent Events

DePelchin has evaluated subsequent events through June 25, 2024, which is the date these financial statements were available for issuance.

Note 3 - Contributions Receivable

Contributions receivable consists of the following at December 31, 2023:

Amounts due in less than one year	\$ 7,056,788
Amounts due in one to five years	<u>3,132,480</u>
Total contributions receivable	10,189,268
Less: discount to present value	<u>(127,954)</u>
Contributions receivable, net	<u>\$ 10,061,314</u>
Contributions receivable	\$ 6,145,102
Contributions receivable restricted for capital project	<u>4,044,166</u>
Total contributions receivable	10,189,268
Less: discount to present value (rate of 4%)	<u>(127,954)</u>
Contributions receivable, net	<u>\$ 10,061,314</u>

Note 4 - 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.

DEPELCHIN CHILDREN'S CENTER

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023

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, 2023. There have been no changes in valuation techniques for the year ended December 31, 2023.

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, 2023

The fair values of DePelchin's board-designated investments were valued based on the inputs at December 31, 2023 and are as follows:

	Level 1	Level 2	Level 3	Total
Equity investments:				
Information technology	\$ 665,373	\$ -	\$ -	\$ 665,373
Consumer cyclical	263,829	-	-	263,829
Financials	214,284	-	-	214,284
American Depository Receipts	-	198,654	-	198,654
Energy	192,843	-	-	192,843
Health care	173,340	-	-	173,340
Consumer staples	146,641	-	-	146,641
Industrials	122,818	-	-	122,818
Materials	45,177	-	-	45,177
Foreign		21,741	-	21,741
Total equity investments	<u>1,824,305</u>	<u>220,395</u>	<u>-</u>	<u>2,044,700</u>
Fixed income investments:				
Corporate bonds	-	2,353,861	-	2,353,861
U.S. Agency bonds	-	410,728	-	410,728
Total fixed income investments	<u>-</u>	<u>2,764,589</u>	<u>-</u>	<u>2,764,589</u>
Money market mutual fund	<u>81,313</u>	<u>-</u>	<u>-</u>	<u>81,313</u>
Total investments	<u>\$ 1,905,618</u>	<u>\$ 2,984,984</u>	<u>\$ -</u>	<u>\$ 4,890,602</u>

Note 5 - 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, 2023:

Board-designated endowment, beginning of year	\$ 4,443,578
Dividend, interest and other income	111,171
Net realized and unrealized gains	445,487
Amounts appropriated for expenditures	<u>(109,634)</u>
Change in board-designated endowment	<u>447,024</u>
Board-designated endowment, end of year	<u>\$ 4,890,602</u>

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.

DEPELCHIN CHILDREN'S CENTER

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023

Note 6 - Property and Equipment

Property and equipment and accumulated depreciation at December 31, 2023 are as follows:

Buildings and improvements	\$ 5,720,868
Furniture, equipment and computer software	4,567,534
Transportation equipment	<u>324,302</u>
Gross amount subject to depreciation	10,612,704
Less: accumulated depreciation	<u>(9,368,673)</u>
Net amount subject to depreciation	1,244,031
Construction in progress	<u>316,321</u>
Total property and equipment, net of accumulated depreciation	<u>\$ 1,560,352</u>

Construction in progress at December 31, 2023 represents costs incurred for the construction of the volunteer and donation building. On April 1, 2024, DePelchin entered into a construction contract of approximately \$7 million for the volunteer and donation building. Total estimated costs to construct the volunteer and donation building are approximately \$8 million, with construction estimated to be completed in June 2025. Depreciation expense for the year ended December 31, 2023 was \$222,703.

Note 7 - Leases

DePelchin leases office space and equipment, under operating lease agreements that expire at various dates through 2026. Monthly payments range from \$128 to \$8,546. DePelchin leases office space from a related party through a short-term lease with options to renew through 2025 (see Note 10) for which the lease expense amounted to \$3,316,705 for the year ended December 31, 2023.

DePelchin's lease expense consists of the following for the year ended December 31, 2023:

Operating lease cost	\$ 345,903
Short-term lease cost (inclusive of in-kind rent donations)	<u>3,349,176</u>
Total lease cost	<u>\$ 3,695,079</u>

The future payments under operating leases with terms greater than 12 months are as follows as of December 31, 2023:

2024	\$ 264,140
2025	186,499
2026	<u>45,762</u>
Total undiscounted cash flows	496,401
Less: present value discount	<u>(11,302)</u>
Total lease liabilities, operating	<u>\$ 485,099</u>

DEPELCHIN CHILDREN'S CENTER

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023

Supplemental lease information is as follows for the year ended December 31, 2023:

Cash paid for amounts included in measurement of lease liabilities -	
operating cash flows from operating leases	\$ 350,316
ROU assets obtained in exchange for new operating lease liabilities	165,438
Weighted-average remaining lease term - operating leases	1.99 years
Weighted-average discount rate - operating leases	2.37%

Note 8 - 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.

At December 31, 2023, 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, 2023 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	\$ -	\$ 69,480,894	\$ -	\$ 6,981,402
Restricted by original donor:				
Mental health/therapeutic care	-	39,321,252	-	4,452,469
Property and facility maintenance	-	10,708,973	-	1,212,597
Education and training	-	8,927,324	-	1,010,857
Residential treatment	-	7,403,931	-	838,427
Timing	-	4,042,582	-	457,749
Programs designated by FDCC	-	2,371,610	-	-
	<u>\$ -</u>	<u>\$ 142,256,566</u>	<u>\$ -</u>	<u>\$ 14,953,501</u>

DEPELCHIN CHILDREN'S CENTER

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023

The change in net assets of FDCC for the year ended December 31, 2023 is as follows:

	Without Donor Restrictions	With Donor Restrictions
Net assets of FDCC, beginning of year	\$ -	\$ 127,303,065
Investment appreciation	-	13,995,305
Investment income	-	2,875,679
In-kind contribution at fair value	-	525
Donations	-	2,822,209
Contribution to DePelchin	-	(3,850,134)
Other expenses	-	(890,083)
Change in net assets of FDCC	-	14,953,501
Net assets of FDCC, end of year	\$ -	\$ 142,256,566

Note 9 - 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, 2023 was \$22,500 with an additional Special Catch-up Contribution allowed for those age 50 or over of \$7,500.

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 2023, 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, 2023 were approximately \$500,000.

DePelchin 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, 2023, a liability of \$328,624 has been recorded as other liabilities in the financial statements.

Note 10 - Related-Party Transactions

The Board of Directors of FDCC recommends the annual contributions to DePelchin for approval from its trust. For the year ended December 31, 2023, such contributions were \$3,850,134. DePelchin has a 12 month lease agreement with FDCC for several buildings, with an option to extend up through 2025. Rent approximates the fair market value on the leased buildings and is contributed to DePelchin by FDCC. An in-kind contribution of \$3,316,705 is included as a 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, 2023.

DEPELCHIN CHILDREN'S CENTER

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023

Note 11 - Commitments and Contingencies

Grant Programs

DePelchin 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. 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.

Note 12 - 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, 2023, all cash deposits are 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 35% of DePelchin's total public support and revenues for the year ended December 31, 2023 and approximately 14% of total receivables at December 31, 2023. 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.

DEPELCHIN CHILDREN'S CENTER

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023

Note 13 - Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following at December 31, 2023:

Donor purpose or time restrictions:	
Foster care and adoption	\$ 1,228,967
Strategic initiatives	1,330,773
Prevention	5,554,077
Residential	776,643
Today's Harbor for Children	284,822
Volunteer and donation building construction	<u>6,608,682</u>
Total purpose or time restrictions	<u>15,783,964</u>
Interest in net assets of FDCC:	
Perpetual in nature	25,672,196
Timing	73,523,476
Mental health/therapeutic care	24,967,597
Property and facility maintenance	10,708,973
Education and training	<u>7,384,324</u>
Total interest in net assets of FDCC	<u>142,256,566</u>
Total net assets with donor restrictions	<u>\$ 158,040,530</u>

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, 2023:

Foster care and adoption	\$ 428,193
Strategic initiatives	370,362
Prevention	12,531,235
Residential	556,906
Facilities	88,791
Family care	260,100
Today's Harbor for Children	<u>835,622</u>
Total released from donor restrictions	<u>\$ 15,071,209</u>

Note 14 - Nonfinancial Contributions

DePelchin received the following nonfinancial contributions during the year ended December 31, 2023:

Building space	\$ 3,341,015
Professional services	51,160
Other	<u>8,161</u>
Total	<u>\$ 3,400,336</u>

DEPELCHIN CHILDREN'S CENTER

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023

Contributed building space represents in-kind contributions from FDCC and United Way for the use of several buildings to provide services. This donation is recorded as contributions and expense based on recent market rates.

Professional services represent the donated salary and benefit costs for individuals that provide services through the Families Count Program. These donated services were recorded as contributions and expense based on information provided by the resource provider.

Note 15 - 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, 2023:

Financial assets available within one year for general expenditure:	
Cash and cash equivalents	\$ 8,711,056
Contract receivables	1,110,422
Contributions receivable	4,748,044
Federal and state grant receivables	1,412,970
Investments	<u>4,890,602</u>
 Total financial assets available within one year for general expenditure	 20,873,094
 Amounts unavailable for general expenditure within one year:	
With donor restrictions - purpose	(9,175,282)
Subject to internal Board designations	<u>(4,890,602)</u>
 Financial assets available to meet cash needs for general expenditures within one year	 <u>\$ 6,807,210</u>

DePelchin has \$4,890,602 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. Financial assets available to meet cash needs for expenditures within one year without donor restricted funds are \$6.8 million. DePelchin's goal is to maintain cash and cash equivalents on hand to meet 60 days of normal operating expenses, equivalent to \$4.95 million.