



DEPELCHIN CHILDREN'S CENTER

FINANCIAL STATEMENTS

DECEMBER 31, 2024

(With Summarized Comparative Information for 2023)

(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

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, 2024, 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, 2024, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) 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.

"Doeren Mayhew" is the brand name under which Doeren Mayhew Assurance and Doeren Mayhew Advisors, LLC and its subsidiary entities provide professional services. Doeren Mayhew Assurance and Doeren Mayhew Advisors, LLC (and its subsidiary entities) practice as an alternative practice structure in accordance with the AICPA Code of Professional Conduct and applicable law, regulations and professional standards. Doeren Mayhew Assurance is a licensed independent CPA firm that provides attest services to its clients, and Doeren Mayhew Advisors, LLC and its subsidiary entities provide tax and business consulting services to their clients. Doeren Mayhew Advisors, LLC and its subsidiary entities are not licensed CPA firms.

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, 2023 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 25, 2024. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2023 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 26, 2025 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.

Doeren Mayhew Assurance

Houston, Texas
June 26, 2025

DEPELCHIN CHILDREN'S CENTER

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2024

(with comparative financial information for 2023)

Assets	2024	2023
Cash and cash equivalents (Note 12)	\$ 8,218,404	\$ 8,711,056
Contract receivables, net (Note 12)	1,271,600	1,023,292
Contributions receivable, net (Note 3)	2,557,049	6,086,287
Federal and state grant receivables (Note 12)	1,579,193	1,412,971
Prepaid insurance and other assets	381,200	894,452
Investments - board-designated (Notes 4 and 5)	5,174,341	4,890,602
Restricted cash and cash equivalents (Note 1)	2,971,854	2,303,334
Contributions receivable restricted for capital project, net (Note 3)	1,711,728	3,975,027
Property and equipment, net of accumulated depreciation (Note 6)	5,186,407	1,560,352
Right-of-use assets, operating leases (Note 7)	233,493	466,763
Interest in net assets of FDCC (Note 8)	150,273,673	142,256,566
	\$ 179,558,942	\$ 173,580,702
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,945,923	\$ 2,807,172
Deferred revenue	440,163	282,348
Lease liabilities, operating (Note 7)	248,943	485,099
Other liabilities (Note 9)	500,219	328,624
	3,135,248	3,903,243
Net assets:		
Without donor restrictions:		
Undesignated	5,668,758	6,746,327
Board designated (Note 5)	5,174,341	4,890,602
	10,843,099	11,636,929
With donor restrictions:		
Purpose or time restrictions (Note 13)	15,306,922	15,783,964
Purpose restrictions - FDCC net assets (Notes 8 and 13)	124,252,586	116,584,370
Perpetual restrictions - FDCC net assets (Notes 8 and 13)	26,021,087	25,672,196
	165,580,595	158,040,530
Total net assets	176,423,694	169,677,459
Total liabilities and net assets	\$ 179,558,942	\$ 173,580,702

See accompanying notes to financial statements

DEPELCHIN CHILDREN'S CENTER

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS YEAR ENDED DECEMBER 31, 2024 (with summarized financial information for 2023)

	2024			2023
	Without Donor Restrictions	With Donor Restrictions	Total	
Public support, revenues, and other:				
Public support:				
Contributions of cash and other financial assets:				
General public	\$ 1,979,404	\$ 574,347	\$ 2,553,751	\$ 9,654,696
Private foundations	1,438,071	2,847,527	4,285,598	8,651,606
Testamentary bequests	-	-	-	20,000
United Way allocation	-	585,657	585,657	401,759
Contributions of nonfinancial assets (Note 14)	-	112,018	112,018	83,631
Federal and state grants	-	9,684,183	9,684,183	8,770,400
Total public support	3,417,475	13,803,732	17,221,207	27,582,092
Revenues:				
Program service fees, net (Note 12)	12,631,555	-	12,631,555	11,257,078
Contribution of cash from FDCC (Note 10)	-	5,133,257	5,133,257	3,850,134
Contribution of rent from FDCC (Notes 10 and 14)	3,316,705	-	3,316,705	3,316,705
Investment return, net	999,046	-	999,046	1,012,472
Miscellaneous	196,386	-	196,386	199,630
Total revenues	17,143,692	5,133,257	22,276,949	19,636,019
Other:				
Net assets released from restrictions - satisfaction of program restrictions (Note 13)	19,414,031	(19,414,031)	-	-
Change in interest in net assets of FDCC (Note 8)	-	8,017,107	8,017,107	14,953,501
Total public support, revenues, and other	39,975,198	7,540,065	47,515,263	62,171,612
Expenses:				
Program services:				
Foster Care and Adoption	11,895,931	-	11,895,931	11,771,602
Counseling and Family Services	12,725,272	-	12,725,272	10,275,593
Residential Services	6,652,962	-	6,652,962	5,492,132
Integrated Mental Health	1,743,411	-	1,743,411	1,810,154
Total program services	33,017,576	-	33,017,576	29,349,481
Fund development	1,992,571	-	1,992,571	1,644,113
Management and general	5,758,881	-	5,758,881	4,216,055
Total expenses	40,769,028	-	40,769,028	35,209,649
Change in net assets	(793,830)	7,540,065	6,746,235	26,961,963
Net assets at beginning of year	11,636,929	158,040,530	169,677,459	142,715,496
Net assets at end of year	\$ 10,843,099	\$ 165,580,595	\$ 176,423,694	\$ 169,677,459

See accompanying notes to financial statements

DEPELCHIN CHILDREN'S CENTER

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2024 (with summarized financial information for 2023)

	2024							2023
	Foster Care and Adoption	Counseling and Family Services	Residential Services	Integrated Mental Health	Fund Development	Management and General	Total	
Salaries	\$ 4,154,730	\$ 7,485,307	\$ 2,542,321	\$ 1,224,397	\$ 1,104,019	\$ 3,440,813	\$ 19,951,587	\$ 16,204,203
Benefits including payroll taxes	808,874	1,409,391	467,563	242,435	252,887	769,756	3,950,906	3,394,773
Specific assistance to individuals	5,195,763	333,251	235,138	4,473	-	-	5,768,625	5,653,949
In-kind rent	374,706	1,035,266	1,813,614	29,660	26,001	119,054	3,398,301	3,349,176
Professional fees	266,493	921,538	84,015	90,695	167,630	1,097,517	2,627,888	2,233,000
Occupacy	470,813	636,298	1,111,374	31,452	20,695	60,652	2,331,284	2,066,897
Publications and advertising	81,997	146,575	11,670	4,908	151,119	438	396,707	328,287
Travel, conferences and meetings	151,007	287,275	26,871	49,546	117,942	16,977	649,618	504,854
Depreciation	24,441	27,499	214,211	2,661	328	28,416	297,556	222,703
Supplies and minor equipment	49,423	137,088	27,535	14,723	9,777	50,825	289,371	296,344
Other expense	314,805	305,748	118,365	45,722	142,173	174,433	1,101,246	947,010
Provision for credit losses	2,879	36	285	2,739	-	-	5,939	8,453
Total functional expenses	<u>\$ 11,895,931</u>	<u>\$ 12,725,272</u>	<u>\$ 6,652,962</u>	<u>\$ 1,743,411</u>	<u>\$ 1,992,571</u>	<u>\$ 5,758,881</u>	<u>\$ 40,769,028</u>	<u>\$ 35,209,649</u>

See accompanying notes to financial statements

DEPELCHIN CHILDREN'S CENTER

STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2024 (with comparative financial information for 2023)

	2024	2023
Cash flows from operating activities:		
Change in net assets	\$ 6,746,235	\$ 26,961,963
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	297,556	222,703
Provision for credit losses	5,939	8,453
Realized and unrealized gain from investment transactions	(279,416)	(445,487)
Contributions restricted to capital project	(1,775,313)	(4,278,361)
Discount on long-term contributions receivable	(83,439)	127,954
(Increase) decrease in operating assets:		
Interest in net assets of FDCC	(8,017,107)	(14,953,501)
Contract receivables, net	(254,247)	53,446
Contributions receivable	3,548,396	(6,065,694)
Federal and state grant receivables	(166,222)	(436,801)
Prepaid insurance and other assets	513,252	(282,195)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(861,249)	318,546
Deferred revenue	157,815	(575,566)
Right-of-use assets and liabilities - operating, net	(2,886)	(9,346)
Other liabilities	171,595	114,087
Net cash provided by operating activities	909	760,201
Cash flows from investing activities:		
Purchases of investments	(1,233,138)	(2,520,426)
Sales of investments	1,228,816	2,518,889
Purchases of property and equipment	(3,923,610)	(857,443)
Net cash used by investing activities	(3,927,932)	(858,980)
Cash flows from financing activities -		
Collection of contributions restricted to capital project	4,102,891	2,053,334
Net cash provided by investing activities	4,102,891	2,053,334
Net increase in cash, cash equivalents and restricted cash	175,868	1,954,555
Cash, cash equivalents and restricted cash at beginning of year	11,014,390	9,059,835
Cash, cash equivalents and restricted cash at end of year	\$ 11,190,258	\$ 11,014,390

See accompanying notes to financial statements

DEPELCHIN CHILDREN'S CENTER

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2024

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, 2023, 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, 2024, cash equivalents include a money market mutual fund of \$10,720,837, 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, 2024:

Cash and cash equivalents	\$ 8,218,404
Cash restricted to construction of volunteer and donation building	<u>2,971,854</u>
Total cash, cash equivalents and restricted cash	<u>\$ 11,190,258</u>

DEPELCHIN CHILDREN'S CENTER

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2024

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 \$90,573 for contractual allowances at December 31, 2024 and \$87,834 at January 1, 2024. The gross contract receivable balance at December 31, 2024 was \$1,331,171 and \$1,110,422 at January 1, 2024.

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, 2024.

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 \$10,000 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 \$616,617 at December 31, 2024 with associated remaining lives of four to seven years..

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, 2024.

DEPELCHIN CHILDREN'S CENTER

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2024

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, 2024, conditional contributions of approximately \$1,600,000 have not been recognized in the accompanying financial statements because \$1,500,000 is contingent upon DePelchin executing a contract with the State of Texas to serve as the Single Source Continuum Contractor for Community Based Care in Region 6A and/or 6B and \$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, 2024, \$440,163 has been recognized in deferred revenue in the statement of financial position related to conditional promises to give.

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 \$6,708,780 that have not been recognized at December 31, 2024 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 \$60,439 for the year ended December 31, 2024.

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, 2024 were \$85,750.

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, 2024

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, 2024, 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 2021.

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.

Reclassifications

Certain amounts have been reclassified in the 2023 financial statements to conform with the current year presentation. These reclassifications have no effect on the previously reported change in net assets or net asset balances.

Subsequent Events

On April 1, 2025, DePelchin entered into two contracts with the Department of Family and Protective Services of the State of Texas to provide Community Based Care for thirteen counties in the greater Houston area (CBC Contracts). Consequent to entering into the CBC Contracts, DePelchin formed two new companies: DePelchin Family Services and Texans Together SSCC. The CBC Contracts are to be assigned to Texans Together SSCC, which will serve as the Single Source Continuum Care provider entity. DePelchin Family Services will operate under a service agreement to provide support services for DePelchin and Texans Together SSCC. DePelchin will continue to operate status quo as a child placing agency.

DEPELCHIN CHILDREN'S CENTER

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2024

Management has evaluated subsequent events through June 26, 2025, the date which the financial statements were available to be issued and has determined that no other subsequent events require recognition or disclosure in these financial statements.

Note 3 - Contributions Receivable

Contributions receivable consists of the following at December 31, 2024:

Amounts due in less than one year	\$ 3,168,286
Amounts due in one to five years	<u>1,145,006</u>
Total contributions receivable	4,313,292
Less: discount to present value	<u>(44,515)</u>
Contributions receivable, net	<u>\$ 4,268,777</u>
Contributions receivable	\$ 2,596,704
Contributions receivable restricted for capital project	<u>1,716,588</u>
Total contributions receivable	4,313,292
Less: discount to present value (rate of 4%)	<u>(44,515)</u>
Contributions receivable, net	<u>\$ 4,268,777</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.

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.

DEPELCHIN CHILDREN'S CENTER

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2024

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

The fair values of DePelchin's board-designated investments were valued based on the inputs at December 31, 2024 and are as follows:

	Level 1	Level 2	Level 3	Total
Equity investments:				
Information technology	\$ 940,086	\$ -	\$ -	\$ 940,086
Consumer discretionary	288,038	-	-	288,038
Financials	213,712	-	-	213,712
American Depository Receipts	-	283,829	-	283,829
Energy	121,859	-	-	121,859
Health care	223,991	-	-	223,991
Consumer staples	85,090	-	-	85,090
Industrials	115,286	-	-	115,286
Other	47,706	-	-	47,706
Total equity investments	2,035,768	283,829	-	2,319,597
Fixed income investments:				
Corporate bonds	-	2,343,153	-	2,343,153
U.S. Agency bonds	-	489,391	-	489,391
Total fixed income investments	-	2,832,544	-	2,832,544
Money market mutual fund	22,200	-	-	22,200
Total investments	\$ 2,057,968	\$ 3,116,373	\$ -	\$ 5,174,341

DEPELCHIN CHILDREN'S CENTER

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2024

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, 2024:

Board-designated endowment, beginning of year	\$ 4,890,602
Dividend, interest and other income	185,116
Net realized and unrealized gains	279,416
Amounts appropriated for expenditures	<u>(180,793)</u>
Change in board-designated endowment	<u>283,739</u>
Board-designated endowment, end of year	<u>\$ 5,174,341</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.

Note 6 - Property and Equipment

Property and equipment and accumulated depreciation at December 31, 2024 are as follows:

Buildings and improvements	\$ 6,000,799
Furniture, equipment and computer software	4,714,968
Transportation equipment	<u>344,530</u>
Gross amount subject to depreciation	11,060,297
Less: accumulated depreciation	<u>(9,659,393)</u>
Net amount subject to depreciation	1,400,904
Construction in progress	<u>3,785,503</u>
Total property and equipment, net of accumulated depreciation	<u>\$ 5,186,407</u>

Construction in progress at December 31, 2024 represents costs incurred for the construction of the volunteer and donation building. Total estimated costs to construct the building are approximately \$8.5 million and construction was completed in June 2025. As of December 31, 2024, estimated costs to complete the construction were approximately \$4.7 million. Depreciation expense for the year ended December 31, 2024 was \$297,553.

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, 2024.

DEPELCHIN CHILDREN'S CENTER

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2024

DePelchin's lease expense consists of the following for the year ended December 31, 2024:

Operating lease cost	\$ 270,628
Short-term lease cost (inclusive of in-kind rent donations)	<u>3,453,497</u>
Total lease cost	<u>\$ 3,724,125</u>

The future payments under operating leases with terms greater than 12 months are as follows as of December 31, 2024:

2025	\$ 206,499
2026	<u>45,763</u>
Total undiscounted cash flows	252,262
Less: present value discount	<u>(3,319)</u>
Total lease liabilities, operating	<u>\$ 248,943</u>

Supplemental lease information is as follows for the year ended December 31, 2024:

Cash paid for amounts included in measurement of lease liabilities - operating cash flows from operating leases	\$ 274,140
ROU assets obtained in exchange for new operating lease liabilities	29,263
Weighted-average remaining lease term - operating leases	1.15 years
Weighted-average discount rate - operating leases	2.67%

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.

DEPELCHIN CHILDREN'S CENTER

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2024

At December 31, 2024, 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, 2024 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	\$ -	\$ 72,076,685	\$ -	\$ 2,595,791
Restricted by original donor:				
Mental health/therapeutic care	-	42,349,101	-	3,027,849
Property and facility maintenance	-	11,533,595	-	824,622
Education and training	-	9,614,753	-	687,429
Residential treatment	-	7,974,056	-	570,125
Timing	-	4,353,873	-	311,291
Programs designated by FDCC	-	2,371,610	-	-
	\$ -	\$ 150,273,673	\$ -	\$ 8,017,107

The change in net assets of FDCC for the year ended December 31, 2024 is as follows:

	Without Donor Restrictions	With Donor Restrictions
Net assets of FDCC, beginning of year	\$ -	\$ 142,256,566
Investment appreciation	-	10,855,884
Investment income	-	3,189,616
In-kind contribution at fair value	-	375
Donations	-	11,542
Contribution to DePelchin	-	(5,133,257)
Other expenses	-	(907,053)
Change in net assets of FDCC	-	8,017,107
Net assets of FDCC, end of year	\$ -	\$ 150,273,673

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, 2024 was \$23,000 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 an employee's contribution up to 5% of each employee's total annual compensation. DePelchin may, at its sole discretion, make an additional contribution to individual participant accounts. DePelchin made matching contributions of approximately \$425,000 related to the year ended December 31, 2024.

DePelchin adopted an Executive Savings Plan (ESP) 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, 2024, a liability of \$500,219 for the ESP has been recorded as other liabilities in the financial statements.

DEPELCHIN CHILDREN'S CENTER

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2024

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, 2024, such contributions were \$5,133,257. 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, 2024.

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 - Concentrations

Credit 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, 2024, approximately \$225,000 of cash deposits 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.

Public Support and Revenues

For the year ended December 31, 2024, approximately 43% of DePelchin's total public support and revenues was obtained from the Texas Department of Family and Protective Services (TDFPS) either through direct State of Texas awards or pass-through of funds originating at the Federal level. DePelchin enters into various contracts with TDFPS, with most contracts being one year in duration. DePelchin has had a program service relationship with this State governmental agency for over 30 years. For the year ended December 31, 2024, approximately 9% of DePelchin's total public support and revenues was obtained from grants that were funded by the U.S. Department of Health and Human Services.

DEPELCHIN CHILDREN'S CENTER

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2024

Note 13 - Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following at December 31, 2024:

Donor purpose or time restrictions:	
Foster care and adoption	\$ 467,091
Strategic initiatives	20,090
Prevention	4,054,292
Residential	383,548
Community Based Care	1,103,329
Facilities	36,601
Timing	837,861
Volunteer and donation building construction	<u>8,404,110</u>
Total purpose or time restrictions	<u>15,306,922</u>
Interest in net assets of FDCC:	
Perpetual in nature	26,021,089
Timing	76,430,558
Mental health/therapeutic care	28,216,678
Property and facility maintenance	11,533,595
Education and training	<u>8,071,753</u>
Total interest in net assets of FDCC	<u>150,273,673</u>
Total net assets with donor restrictions	<u>\$ 165,580,595</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, 2024:

Foster care and adoption	\$ 2,007,196
Strategic initiatives	2,642
Prevention	13,099,862
Residential	1,784,386
Facilities	30,674
Family care	212,748
Timing	2,229,852
Community Based Care	<u>46,671</u>
Total released from donor restrictions	<u>\$ 19,414,031</u>

Note 14 - Nonfinancial Contributions

DePelchin received the following nonfinancial contributions during the year ended December 31, 2024:

Building space	\$ 3,398,299
Professional services	<u>30,423</u>
Total	<u>\$ 3,428,722</u>

Contributed building space represents in-kind contributions of \$3,316,705 from FDCC and \$81,594 from a local school district for the use of several buildings to provide services. This donation is recorded as contributions and expense based on recent market rates.

DEPELCHIN CHILDREN'S CENTER

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2024

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, 2024:

Financial assets available within one year for general expenditure:	
Cash and cash equivalents	\$ 8,218,404
Contract receivables	1,331,171
Contributions receivable	1,576,704
Federal and state grant receivables	1,579,190
Investments	<u>5,174,341</u>
 Total financial assets available within one year for general expenditure	 17,879,810
 Amounts unavailable for general expenditure within one year:	
With donor restrictions - purpose	(6,902,812)
Subject to internal Board designations	<u>(5,174,341)</u>
 Financial assets available to meet cash needs for general expenditures within one year	 <u>\$ 5,802,657</u>

DePelchin has \$5,174,341 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, equivalent to approximately \$5.84 million.