

PRESBYTERIAN CHILDREN'S  
HOMES AND SERVICES  
(a non-profit organization)  
FINANCIAL STATEMENTS AND  
REPORT OF INDEPENDENT  
CERTIFIED PUBLIC ACCOUNTANTS  
December 31, 2023 and 2022





Presbyterian Children's  
Homes and Services<sup>SM</sup>

**PRESBYTERIAN CHILDREN'S HOMES AND SERVICES**

**FINANCIAL STATEMENTS  
AND  
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

**DECEMBER 31, 2023 AND 2022**



**PRESBYTERIAN CHILDREN'S HOMES AND SERVICES**

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**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

Board of Directors  
Presbyterian Children's Homes and Services  
Austin, Texas

***Opinion***

We have audited the financial statements of Presbyterian Children's Homes and Services (a nonprofit organization), which comprise the statements of financial position as of December 31, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years 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 Presbyterian Children's Homes and Services as of December 31, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Presbyterian Children's Homes and Services and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Responsibilities of Management for the 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 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 Presbyterian Children's Homes and Services' ability to continue as a going concern for one year after the date that the financial statements are issued.

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**OFFICE LOCATIONS**

**TEXAS** | Waco | Temple | Hillsboro | Houston  
**NEW MEXICO** | Albuquerque

## ***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 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, 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 Presbyterian Children's Homes and Services' 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 Presbyterian Children's Homes and Services' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit

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

Waco, Texas

July 14, 2024



# FINANCIAL STATEMENTS

**PRESBYTERIAN CHILDREN'S HOMES AND SERVICES**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2023 AND 2022**

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 3,579,721	\$ 3,396,819	\$ 6,976,540
Short-term investments	43,585	-	43,585
Accounts receivable, net of allowance	1,279,555	-	1,279,555
Related party receivable	509,714	-	509,714
Interest receivable	73,620	-	73,620
Contributions receivable, net of allowance and discount	276,805	3,813,562	4,090,367
Estates receivable	64,000	41,019	105,019
Prepaid assets	943,013	-	943,013
Total current assets	6,770,013	7,251,400	14,021,413
Long-term investments	62,365,492	80,365,992	142,731,484
Property and equipment, net of accumulated depreciation	16,522,360	-	16,522,360
Right of use assets for operating leases, net of amortization	1,530,251	-	1,530,251
Total assets	\$ 87,188,116	\$ 87,617,392	\$ 174,805,508
<b>LIABILITIES AND NET ASSETS</b>			
Current liabilities:			
Accounts payable	\$ 474,532	\$ -	\$ 474,532
Accrued payroll and compensated absences	1,751,124	-	1,751,124
Other accrued expenses	-	-	-
Current portion of long-term debt	-	-	-
Current portion of operating lease liabilities	342,795	-	342,795
Other liabilities	93,734	-	93,734
Total current liabilities	2,662,185	-	2,662,185
Non-current portion of long-term debt	-	-	-
Non-current portion of lease liabilities	1,187,456	-	1,187,456
Total liabilities	3,849,641	-	3,849,641
Net assets:			
Without donor restrictions	83,338,475	-	83,338,475
With donor restrictions	-	87,617,392	87,617,392
Total net assets	83,338,475	87,617,392	170,955,867
Total liabilities and net assets	\$ 87,188,116	\$ 87,617,392	\$ 174,805,508

The accompanying notes are an integral part of this statement.

2022		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 2,506,780	\$ 3,371,071	\$ 5,877,851
51,509	-	51,509
935,177	-	935,177
144,780	-	144,780
72,220	-	72,220
201,935	3,537,618	3,739,553
152,050	41,019	193,069
374,129	-	374,129
<u>4,438,580</u>	<u>6,949,708</u>	<u>11,388,288</u>
57,609,252	74,020,720	131,629,972
16,808,063	-	16,808,063
412,496	-	412,496
<u>\$ 79,268,391</u>	<u>\$ 80,970,428</u>	<u>\$ 160,238,819</u>
\$ 718,891	\$ -	\$ 718,891
1,270,777	-	1,270,777
1,718	-	1,718
123,481	-	123,481
204,479	-	204,479
126,024	-	126,024
<u>2,445,370</u>	<u>-</u>	<u>2,445,370</u>
996,800	-	996,800
208,017	-	208,017
<u>3,650,187</u>	<u>-</u>	<u>3,650,187</u>
75,618,204	-	75,618,204
-	80,970,428	80,970,428
<u>75,618,204</u>	<u>80,970,428</u>	<u>156,588,632</u>
<u>\$ 79,268,391</u>	<u>\$ 80,970,428</u>	<u>\$ 160,238,819</u>

**PRESBYTERIAN CHILDREN'S HOMES AND SERVICES**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

	2023		Total
	Without Donor Restrictions	With Donor Restrictions	
<b>OPERATING ACTIVITIES</b>			
Revenue and support:			
Contributions and bequests	\$ 5,293,009	\$ 445,724	\$ 5,738,733
Fees for service	10,239,996	-	10,239,996
Government Grants	550,207	-	550,207
Other income	1,136,346	-	1,136,346
Total revenue and support before releases	<u>17,219,558</u>	<u>445,724</u>	<u>17,665,282</u>
Net assets released from restrictions	868,214	(868,214)	-
Total revenue and support	<u>18,087,772</u>	<u>(422,490)</u>	<u>17,665,282</u>
Expenses:			
Residential services	1,351,110	-	1,351,110
Single parent and transitional living programs	2,360,763	-	2,360,763
Foster care & adoption services	9,946,796	-	9,946,796
Community services	6,683,197	-	6,683,197
Advanced & student education	318,588	-	318,588
Program services	<u>20,660,454</u>	<u>-</u>	<u>20,660,454</u>
Fundraising	2,264,024	-	2,264,024
Management & general	2,409,861	-	2,409,861
Support services	<u>4,673,885</u>	<u>-</u>	<u>4,673,885</u>
Total expenses	<u>25,334,339</u>	<u>-</u>	<u>25,334,339</u>
Change in nets assets from operating activities	<u>(7,246,567)</u>	<u>(422,490)</u>	<u>(7,669,057)</u>
<b>NONOPERATING ACTIVITIES</b>			
Contributions to endowments	-	275,057	275,057
Gain on sale of assets	986,598	-	986,598
Investment income, net of investment expenses	3,941,176	246,617	4,187,793
Change in fair value of split interest and annuities	-	277,609	277,609
Realized gains on long-term investments	2,909,988	1,441,493	4,351,481
Unrealized gains (losses) on long-term investments	<u>7,129,076</u>	<u>4,828,678</u>	<u>11,957,754</u>
Change in nets assets from nonoperating activities	<u>14,966,838</u>	<u>7,069,454</u>	<u>22,036,292</u>
<b>CHANGE IN NET ASSETS</b>	<u>7,720,271</u>	<u>6,646,964</u>	<u>14,367,235</u>
<b>NET ASSETS, BEGINNING OF YEAR</b>			
As previously reported	75,618,204	80,970,428	156,588,632
Adjustment to beginning net assets	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET ASSETS, BEGINNING OF YEAR, RESTATED</b>	<u>75,618,204</u>	<u>80,970,428</u>	<u>156,588,632</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 83,338,475</u>	<u>\$ 87,617,392</u>	<u>\$ 170,955,867</u>

The accompanying notes are an integral part of this statement.

2022		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 4,711,702	\$ 621,750	\$ 5,333,452
9,392,046	-	9,392,046
462,085	-	462,085
1,147,962	-	1,147,962
<u>15,713,795</u>	<u>621,750</u>	<u>16,335,545</u>
2,427,281	(2,427,281)	-
<u>18,141,076</u>	<u>(1,805,531)</u>	<u>16,335,545</u>
1,601,101	-	1,601,101
2,039,770	-	2,039,770
10,119,806	-	10,119,806
6,221,211	-	6,221,211
387,459	-	387,459
<u>20,369,347</u>	<u>-</u>	<u>20,369,347</u>
2,241,933	-	2,241,933
<u>2,650,050</u>	<u>-</u>	<u>2,650,050</u>
4,891,983	-	4,891,983
<u>25,261,330</u>	<u>-</u>	<u>25,261,330</u>
<u>(7,120,254)</u>	<u>(1,805,531)</u>	<u>(8,925,785)</u>
-	219,092	219,092
-	-	-
3,620,495	192,129	3,812,624
-	(569,817)	(569,817)
1,765,772	143,605	1,909,377
<u>(15,661,745)</u>	<u>(13,477,731)</u>	<u>(29,139,476)</u>
<u>(10,275,478)</u>	<u>(13,492,722)</u>	<u>(23,768,200)</u>
(17,395,732)	(15,298,253)	(32,693,985)
91,340,418	97,942,199	189,282,617
<u>1,673,518</u>	<u>(1,673,518)</u>	<u>-</u>
<u>93,013,936</u>	<u>96,268,681</u>	<u>189,282,617</u>
<u>\$ 75,618,204</u>	<u>\$ 80,970,428</u>	<u>\$ 156,588,632</u>

The accompanying notes are an integral part of this statement.

**PRESBYTERIAN CHILDREN'S HOMES AND SERVICES**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2023**  
(with comparative totals for the year ended December 31, 2022)

Classification	2023				
	Residential Services	Single Parent & Transitional Living Programs	Foster Care & Adoption Services	Community Services	Advanced & Student Education
Salaries and wages	\$ 768,556	\$ 909,716	\$ 5,035,981	\$ 4,343,479	\$ 225,500
Employee benefits and taxes	203,865	248,599	1,415,198	1,168,292	40,129
	<u>972,421</u>	<u>1,158,315</u>	<u>6,451,179</u>	<u>5,511,771</u>	<u>265,629</u>
Client care services	67,894	59,332	1,811,781	147,077	23,267
Contracted services	13,506	21,100	167,633	137,902	3,131
Depreciation	9,479	429,570	170,276	36,239	2,562
Information technology	9,873	45,516	59,202	34,224	1,775
Insurance	52,697	103,631	218,333	218,197	10,255
Interest expense	307	639	5,293	8,972	47
Occupancy	107,475	277,871	477,521	194,595	4,556
Office & other expenses	22,188	36,061	84,620	67,433	3,155
Public relations and advertising	173	1,247	6,101	65,052	47
Recruiting and other employer	6,549	14,416	64,280	24,868	841
Repair and maintenance	55,350	178,382	158,627	75,244	1,151
Training	2,130	2,057	13,581	13,597	450
Transportation	19,449	24,996	57,637	27,858	286
Travel	11,619	7,630	200,732	120,168	1,436
Total	<u>\$ 1,351,110</u>	<u>\$ 2,360,763</u>	<u>\$ 9,946,796</u>	<u>\$ 6,683,197</u>	<u>\$ 318,588</u>

2023				2022	
Total Program Services	Fundraising	Management & General	Total Support Services	Total Expenses	Total Expenses
\$ 11,283,232	\$ 1,337,271	\$ 1,511,417	\$ 2,848,688	\$ 14,131,920	\$ 13,869,302
3,076,083	277,853	405,737	683,590	3,759,673	3,867,308
14,359,315	1,615,124	1,917,154	3,532,278	17,891,593	17,736,610
2,109,351	-	-	-	2,109,351	2,568,047
343,272	32,059	128,422	160,481	503,753	288,154
648,126	13,697	19,767	33,464	681,590	663,028
150,590	58,147	25,381	83,528	234,118	226,526
603,113	62,746	100,462	163,208	766,321	758,816
15,258	1,080	3,880	4,960	20,218	42,421
1,062,018	34,659	64,506	99,165	1,161,183	1,116,323
213,457	90,645	24,368	115,013	328,470	268,501
72,620	237,410	1,233	238,643	311,263	341,043
110,954	5,474	5,632	11,106	122,060	196,744
468,754	32,850	44,072	76,922	545,676	427,303
31,815	2,766	1,893	4,659	36,474	48,799
130,226	12,019	16,047	28,066	158,292	233,172
341,585	65,348	57,044	122,392	463,977	345,843
<u>\$ 20,660,454</u>	<u>\$ 2,264,024</u>	<u>\$ 2,409,861</u>	<u>\$ 4,673,885</u>	<u>\$ 25,334,339</u>	<u>\$ 25,261,330</u>

**PRESBYTERIAN CHILDREN'S HOMES AND SERVICES**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2022**

Classification	2022				
	Residential Services	Single Parent & Transitional Living Programs	Foster Care & Adoption Services	Community Services	Advanced & Student Education
Salaries and wages	\$ 1,050,017	\$ 831,391	\$ 4,861,737	\$ 4,034,366	\$ 217,756
Employee benefits and taxes	291,203	228,830	1,415,784	1,156,034	41,173
	<u>1,341,220</u>	<u>1,060,221</u>	<u>6,277,521</u>	<u>5,190,400</u>	<u>258,929</u>
Client care services	51,353	81,955	2,146,535	194,937	93,267
Contracted services	9,150	8,786	107,445	38,411	1,889
Depreciation	9,736	273,452	203,666	49,843	4,276
Information technology	8,866	42,074	51,481	29,974	769
Insurance	55,320	76,314	245,656	193,419	11,682
Interest expense	588	1,070	10,668	17,991	120
Occupancy	42,079	245,510	564,628	163,705	4,977
Office expenses	15,801	33,473	50,884	53,921	3,586
Public relations and advertising	422	1,294	9,800	47,105	317
Recruiting and other employer	9,961	14,084	73,230	23,879	1,103
Repair and maintenance	24,451	152,044	126,122	66,713	1,658
Training	4,861	2,956	16,792	16,002	828
Transportation	19,747	41,335	91,069	44,310	2,681
Travel	7,546	5,202	144,309	90,601	1,377
Total	<u>\$ 1,601,101</u>	<u>\$ 2,039,770</u>	<u>\$ 10,119,806</u>	<u>\$ 6,221,211</u>	<u>\$ 387,459</u>

The accompanying notes are an integral part of this statement.



2022

Total Program Services	Fundraising	Management & General	Total Support Services	Total Expenses
\$ 10,995,267	\$ 1,249,610	\$ 1,624,425	\$ 2,874,035	\$ 13,869,302
3,133,024	293,577	440,707	734,284	3,867,308
14,128,291	1,543,187	2,065,132	3,608,319	17,736,610
2,568,047	-	-	-	2,568,047
165,681	22,304	100,169	122,473	288,154
540,973	40,886	81,169	122,055	663,028
133,164	69,454	23,908	93,362	226,526
582,391	67,966	108,459	176,425	758,816
30,437	2,365	9,619	11,984	42,421
1,020,899	29,666	65,758	95,424	1,116,323
157,665	88,179	22,657	110,836	268,501
58,938	281,506	599	282,105	341,043
122,257	6,215	68,272	74,487	196,744
370,988	14,887	41,428	56,315	427,303
41,439	2,144	5,216	7,360	48,799
199,142	18,114	15,916	34,030	233,172
249,035	55,060	41,748	96,808	345,843
<u>\$ 20,369,347</u>	<u>\$ 2,241,933</u>	<u>\$ 2,650,050</u>	<u>\$ 4,891,983</u>	<u>\$ 25,261,330</u>

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**PRESBYTERIAN CHILDREN'S HOMES AND SERVICES**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

	2023	2022
<b>OPERATING ACTIVITIES</b>		
Change in net assets	\$ 14,367,235	\$ (32,693,985)
Adjustments to reconcile changes in net assets to net cash used by operating activities		
Bad debts	20,241	(28,066)
Depreciation	681,590	663,028
Noncash portion of lease expense for operating leases	312,276	351,180
Gain on sale of assets	(986,598)	-
Contributions of investments	14,481	(25,363)
Realized gains on long-term investments	(4,351,481)	(1,909,377)
Unrealized (gains) losses on long-term investments	(11,957,754)	29,139,476
Contributions restricted for long-term investments	(45,454)	(215,092)
Change in:		
Accounts receivable	(364,619)	(290,085)
Related party receivable	(364,934)	351,212
Interest receivable	(1,400)	3,317
Contributions receivable	(350,814)	487,147
Estates receivable	88,050	811,384
Prepaid assets	(568,884)	550,997
Accounts payable	(244,359)	297,651
Accrued payroll and compensated absences	480,347	(139,743)
Other accrued expenses	(1,718)	(183)
Other liabilities	(32,290)	63,914
Operating lease liabilities	(312,276)	(351,180)
Net cash used by operating activities	(3,618,361)	(2,933,768)
<b>INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(2,034,288)	(1,121,008)
Proceeds from sale of property and equipment	2,625,000	-
Purchase of investments	(4,958,445)	(1,325,557)
Proceeds from sale of investments	10,159,610	4,804,426
Net cash provided by investing activities	5,791,877	2,357,861
<b>FINANCING ACTIVITIES</b>		
Repayment of long term debt	(1,120,281)	(119,195)
Cash received from contributions, bequests, etc.	45,454	215,092
Net cash (used) provided by financing activities	(1,074,827)	95,897
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	1,098,689	(480,010)
<b>CASH AND CASH EQUIVALENTS, Beginning</b>	5,877,851	6,357,861
<b>CASH AND CASH EQUIVALENTS, Ending</b>	\$ 6,976,540	\$ 5,877,851
<b>SUPPLEMENTAL DISCLOSURE:</b>		
Interest paid	\$ 21,936	\$ 42,604

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# PRESBYTERIAN CHILDREN'S HOMES AND SERVICES

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023 and 2022

### 1. ORGANIZATION AND PURPOSE

On January 1, 2018, Presbyterian Children's Homes and Services, a Texas non-profit corporation established in 1903 and Presbyterian Children's Homes and Services of Missouri, a Missouri non-profit corporation established in 1914 merged after five years of affiliation. The resulting non-profit corporation, known as Presbyterian Children's Homes and Services (PCHAS), provides Christ-centered care and support to children and families in need in Texas, Louisiana and Missouri.

PCHAS (the Organization) provides foster care and adoption services. In addition, single parent family programs work to bring economic and emotional stability to children and their families, while transitional living programs assist young adults towards self-sufficiency by providing educational, economic and emotional support. In all three states, community service, case management and mentoring programs provide a network that brings together churches, schools, and other local resources to meet the varying needs of children and their families. The Organization also provides educational programs to help meet the needs of children in pursuit of college and vocational goals.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of PCHAS have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The following is a summary of the significant policies.

#### **Basis of Presentation**

The financial statements of PCHAS were prepared using the accrual basis of accounting and as such reflect all significant receivables, payables and other liabilities. The financial statements include statements of financial position, statements of activities, statements of functional expenses, statements of cash flows, and related notes. The Financial Accounting Standards Board (FASB) is the accepted standard setting body for non-profit organizations.

FASB Codification Section 958-605 requires that unconditional promises to give (pledges) be recorded as receivables and revenue and requires that the organization distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. FASB Codification Section 958-205 requires that the statements be organized based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified as follows:

**Net assets without donor restrictions** - Net assets that are not subject to donor imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization's board may designate assets without restrictions for specific operational purposes from time to time. Those designations do not carry the same limitations as net assets with donor restrictions and are included in this category.

**Net assets with donor restrictions** - Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

# PRESBYTERIAN CHILDREN'S HOMES AND SERVICES

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023 and 2022

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Cash and Cash Equivalents**

For the purposes of the statements of cash flows, the Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash equivalents are stated at cost, which approximates market value.

PCHAS maintains its cash in several financial institutions. These accounts at times may exceed federally insured limits. As of December 31, 2023 and 2022, cash balances in financial institutions exceeded Federal Deposit Insurance Corporation (FDIC) coverage by \$5,301,255 and \$3,906,497, respectively. In addition, the Organization has money market funds, which are not federally insured, but are subject to Securities Investor Protection Coverage (SIPC) as of December 31, 2023 and 2022.

PCHAS invests cash in excess of daily requirements in an overnight investment account, for the general operating account.

#### **Investments**

Investments in marketable securities are carried at market value based on the closing prices on the stock exchange as of the last day of the period. Realized and unrealized gains or losses are presented in accordance with any donor restrictions. Investment return is presented net of investment fees. PCHAS carries its investments in real estate at fair market value.

Investments include perpetual trusts in which PCHAS has an irrevocable right to receive the income earned on the trust assets in perpetuity, but never receives the assets which are held in trust by a third party. The interests in perpetual trusts are valued at the latest available market value. Changes in unrealized and realized gains (losses) on interests in perpetual trusts are recorded as changes in net assets with donor restrictions.

#### **Investment Pools**

PCHAS pools donor-restricted and board-designated endowments into pooled investment accounts. Realized and unrealized gains from the pooled investment accounts are allocated to the individual donor accounts based on the daily average of the market value of each endowment to the market value of the pooled investment accounts.

The fair value of assets in an individual donor restricted endowment are all above the endowments historic cost.

#### **Accounts Receivable**

Accounts receivable consists primarily of program services fees. An allowance for uncollectible accounts is determined using the aging method. All accounts over 90 days are reviewed to determine an allowance. Management provides for probable uncollectible amounts through a charge to earnings and a credit to an allowance based on its assessment of the current status of individual accounts.

#### **Contributions and Estates Receivable**

Unconditional contributions are recognized when pledged and recorded as assets without donor restrictions or assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional promises to give are recognized only when the condition on which they depend is substantially met making the promise unconditional. PCHAS is the beneficiary of several split interest agreements that include various trusts and charitable gift annuities administered by third parties. The receivable for the split interest agreements is recorded at the present value of the estimated future benefits to be received when the trust assets are distributed.

# PRESBYTERIAN CHILDREN'S HOMES AND SERVICES

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023 and 2022

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Contributions and Estates Receivable (Continued)

Estates are recognized in the period when notification is received and the value is determinable. The receivable for the estates is recorded at the estimated fair market value of the Organization's interest in the estate. Pledge contributions are recorded net of discount and allowance. Discounts and allowance are amortized over the term of the pledge contributions using the aging method.

#### Property and Equipment

PCHAS has adopted a capitalization threshold of \$2,000 and useful lives of five years or more. Therefore, purchases of property and equipment meeting these conditions are stated at cost. Depreciation on property and equipment is calculated on a straight-line basis over the estimated useful lives of the assets, generally 5 to 40 years. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend its life are expensed as incurred.

Donated property and equipment are valued at their estimated fair value at the time of donation and are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor imposed stipulations, PCHAS reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Long-lived assets are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount of an asset may not be recoverable. If the carrying value of the long-lived asset is not recoverable, an impairment charge is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including quoted market values and third-party independent appraisals, as deemed necessary.

#### Designation of Unrestricted Net Assets

It is the policy of the Board of Trustees to review its plans for meeting operational needs and its plans for property improvements and acquisitions from time to time and to designate appropriate sums of unrestricted net assets to assure adequate financing of such needs.

#### Donated Materials, Supplies and Facility Usage

Donated items and free use of facilities are valued at the estimated fair value at the date of donation. As donated items are used by our programs, a corresponding expense is recorded.

#### Donated Services

Donated services are recognized as contributions if the services create or enhance non-financial assets or if the services require specialized skills, are performed by people with those skills, and would otherwise be purchased by PCHAS. In addition, volunteers provide assistance with specific programs, fundraising, and work on many committees that is not recognized as revenue since the recognition criteria were not met.

# PRESBYTERIAN CHILDREN'S HOMES AND SERVICES

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023 and 2022

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### **Contributions, Fees, Investment Income, and Gains Restricted by Donors**

PCHAS recognizes revenue from contributions when they are received and program fees as the services are provided while expenses are reported as incurred. PCHAS reports gifts, net investment income and gains on investments as restricted income if it is received with donor stipulation that restricts the gift's use or income to a specific purpose or has a time restriction. When a restriction is met, net assets are reclassified from net assets with donor restriction to net assets without donor restriction and reported in the statements of activities as net assets released from restriction. If these restrictions are met in the same period in which the gift or income is earned, the gift or income is recorded as without donor restriction. Contributions restricted for the acquisition of land, buildings, and equipment are reported as net assets without donor restriction upon acquisition of the assets and the assets are placed in service.

#### **Estimates**

In the preparation of financial statements in conformity with GAAP, management uses estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and the reported revenue and expenses. While management believes these estimates to be reasonable, actual results could differ from those estimates. Significant estimates in the financial statements relate to determination of the allowance for uncollectible receivables, student loans and pledges, depreciable lives of property and equipment, value of split interest receivables, valuation of annuities payable and fair value of investments.

#### **Measure of Operations**

The statements of activities report all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Organization's ongoing activities. Non-operating activities are limited to resources that generate return from investments, endowment contributions, and other activities considered to be of a more unusual or nonrecurring nature.

#### **Expense Allocation**

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and the statements of functional expenses for the years ended December 31, 2023 and 2022. Accordingly, expenses directly related to a function are directly allocated to that function. Expenses that are attributable to or support more than one function are allocated on a reasonable basis such as total expense, square footage or number of budgeted positions, etc. For example, depreciation and utilities for shared facilities are allocated based on square footage, while insurance expense, depending on type, is allocated by budgeted salaries, net book value of assets, and number of vehicles. Expenses for shared supplies, postage, and office equipment are allocated based on the number of positions budgeted by department.

#### **Income Tax Status**

PCHAS is exempt from federal income tax under Section 501(c)3 of the Internal Revenue Code (IRC), though it would be subject to tax on income unrelated to its exempt purpose (unless that income is otherwise excluded by the IRC). PCHAS has concluded that no tax benefits or liabilities are required to be recognized in accordance with GAAP. The last three tax years remain open to examination by taxing authorities.



# PRESBYTERIAN CHILDREN'S HOMES AND SERVICES

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023 and 2022

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Income Tax Status (Continued)

PCHAS has adopted FASB Accounting Standards Codification (ASC) 740-10, *Accounting for Uncertainty in Income Tax*. That standard prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in financial statements. It also provides guidance for derecognition, classification, interest and penalties, accounting and interim periods, disclosure, and transition. Management believes there were none. In addition, PCHAS qualifies for the charitable contribution deduction under Section 170 of the IRC and has been classified as an organization other than a private foundation under Section 509(a)3.

#### Compensated Absences

Full-time and part-time employees working 30 hours or more per week accrue 15 to 36 days per year of Paid Time Off (PTO) based upon their hire date, position, and length of service. The maximum balance ranges from 30 to 42 days, based on the employee's hire date, position, and length of service. Upon termination, employees are paid 100% of their unused PTO balance.

The amount expected to be paid to employees for PTO not yet taken as of December 31st of each year is recorded as a liability on the statements of financial position.

#### Reclassifications

Certain prior period amounts have been reclassified to conform to current period presentations. Such reclassifications had no effect on previously reported change in net assets, in total.

#### New Accounting Pronouncements

As of Dec 31, 2023 there were no new accounting pronouncements that pertain to the Organization.

#### Adoption of New Lease Standard

In February 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, which applied to two types of leases: capital (or finance) leases and operating leases. While the requirements for a lessor under the new standard will remained similar to the current guidance, the requirements for a lessee were expanded. Previously, a lessee was only required to recognize capital leases on its statements of financial position. However, the new standard now required that a lessee recognize on the statements of financial position assets and liabilities for leases with terms of more than 12 months, regardless of the type of lease. Leases with terms of less than 12 months are exempt from the new standard, if the organization makes the accounting policy election. The effective date of this standard was for fiscal years beginning after December 15, 2021.

# PRESBYTERIAN CHILDREN'S HOMES AND SERVICES

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023 and 2022

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Adoption of New Lease Standard (Continued)

The required recognition, measurement and presentation of cash flows by a lessee depends on the type of lease:

(a) for capital or finance leases, lessees recognize amortization of the right-of-use asset separately from interest on the lease liability.

(b) for operating leases, lessees recognize a single total lease expense calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis.

For both types of leases, lessees recognize a right-of-use asset and a lease liability.

Effective January 1, 2022, the Organization adopted ASU 2016-02, *Leases* (ASU Topic 842) and subsequent amendments. The Organization has elected to use the transition method under which existing leases were measured and capitalized as of the date of adoption in lieu of applying the standard retrospectively to January 1, 2021.

Additionally, as part of the implementation, the Organization elected to use a package of optional practical expedients, which permitted the Organization to avoid reassessing previous lease identifications within contracts, the existence of initial direct costs, and the lease classifications of any expired and existing leases. Moreover, in accordance with the expedients, all leases classified as operating leases under previous GAAP were automatically classified as operating leases under the new standard, and all leases previously classified as capital leases were recorded as finance leases.

On January 1, 2022 the Organization's right-of-use asset for operating leases and lease obligations for operating leases were \$498,870. The Organization held no capital leases at the time of implementation; therefore, had no balances to record for right-of-use assets for finance leases or lease obligations for finance leases on that date.

#### Lease Policy

The lease standard requires that leases with a lease term of more than 12 months be classified as either finance or operating leases. Finance leases are those the Organization expects to consume a major part of the economic benefits of the leased asset before the end of the lease term. Conversely, for those leases in which the Organization does not expect to consume the major part of the economic benefits of the leased asset before the end of the lease term, the Organization has classified those as operating leases.

The Organization determines whether a contract contains a lease at the inception of the contract by determining whether the contract conveys the right to control the use of identified property for a period of time in exchange for consideration. Non-lease components, such as common area maintenance are separated from the lease components based on the terms of the related lease.

**PRESBYTERIAN CHILDREN’S HOMES AND SERVICES**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2023 and 2022**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Lease Policy (Continued)**

At the time of implementation on January 1, 2022, the Organization held several leases of office space which were classified as operating leases. The Organization also held leases for several vehicles which had not been previously classified as capital leases; therefore, those leases were also classified as operating leases under the optional practical expedients. The Organization held no finance leases at the time of implementation, nor does it hold any finance leases as of December 31, 2023. The Organization has made a policy election not to capitalize short-term leases with a term of 12 months or less, unless the Organization can reasonably assume the lease would be renewed at the end of its term.

The Organization's operating right-of-use assets and operating lease obligations are measured and recorded at the present value of remaining lease payments, with the key estimate being the discount rate used to discount the unpaid lease payments to present value. The Organization's leases generally do not include a readily determinable implicit rate; therefore, operating lease obligations and operating right-of-use assets are measured using the incremental borrowing rate as the discount rate. The incremental borrowing rate is that rate that would be paid to borrow on a collateralized basis over a similar term and amount equal to the lease payments in a similar economic environment.

The Organization elected to use the portfolio approach in measuring its operating leases for office space by applying a single incremental borrowing rate of 5% for new leases and 4% for existing leases, based on US Treasury Rates at of December 31, 2023 & December 31, 2022, respectively. In measuring its operating leases for vehicles, the Organization used the rate implicit in each vehicle's lease agreement. Disclosures about the Organization's lease activity are presented in Note 14, Leases.

**3. CASH AND INVESTMENTS**

**Long-term Investments**

A portion of long-term investments is held in pooled funds at Texas Presbyterian Foundation (TPF) and is invested generally 63% in equities, 21% in fixed income investments, and 16% in real estate and other less liquid strategies. A portion of long-term investments is invested in passive index funds.

PCHAS also holds some investments in real estate, mineral interests, and securities, all of which were donated. Long-term investments at the end of the year consist of the following:

Investment Type	December 31, 2023		December 31, 2022	
	Cost Value	Market Basis	Cost Value	Market Basis
TPF pooled funds	\$ 34,463,287	\$ 57,447,432	\$ 35,349,582	\$ 54,544,675
Equity securities	15,619,667	21,547,537	15,608,395	18,545,141
Debt securities	20,000	20,000	20,000	20,000
Beneficial interest in trusts	63,641,310	63,641,310	58,438,394	58,438,393
Real estate	48,446	48,446	48,446	48,446
Mineral interests	19,759	19,759	26,317	26,317
Other miscellaneous investments	7,000	7,000	7,000	7,000
Total investments	<u>\$ 113,819,469</u>	<u>\$ 142,731,484</u>	<u>\$ 109,498,134</u>	<u>\$ 131,629,972</u>

**PRESBYTERIAN CHILDREN’S HOMES AND SERVICES**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2023 and 2022**

**3. CASH AND INVESTMENTS (Continued)**

**Fair Value Measurements**

The following methods and assumptions were used in estimating the fair value disclosures for the financial instruments:

Investment securities - The fair values of investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices for identical or similar securities.

Receivables - The carrying amounts reported in the statements of financial position for all receivables approximate those receivables' fair values.

Payables - The carrying amounts reported in the statements of financial position for all payables approximate those payables' fair values.

	2023		2022	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Interest receivable	\$ 73,620	\$ 73,620	\$ 72,220	\$ 72,220
Contributions receivable	4,090,367	4,090,367	3,739,553	3,739,553
Estates receivable	105,019	105,019	193,069	193,069
Long term investments	142,731,484	142,731,484	131,629,972	131,629,972

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

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that can be easily accessed.
- Level 2: Inputs to the valuation methodology include:
  - Quoted prices for similar assets or liabilities in active markets;
  - Quoted prices for identical or similar assets or liabilities in inactive markets;
  - Inputs other than quoted prices that are observable for the asset or liability;
  - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
 If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

**PRESBYTERIAN CHILDREN’S HOMES AND SERVICES**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2023 and 2022**

**3. CASH AND INVESTMENTS (Continued)**

**Fair Value Measurements (Continued)**

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.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2023 and 2022 from prior periods.

Common stocks, corporate bonds, and U.S. government securities are valued at the closing price reported on the active market on which the individual securities are traded. Mutual funds are valued at the net asset value (NAV) of shares held at the end of the year.

Alternative investments which include pooled real estate funds, real estate, pooled alternative strategies funds, closely held hedge funds, closely held real estate investment trusts (REITs), and private equity are valued at other significant observable and unobservable inputs that include quoted prices of similar securities.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while PCHAS believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, PCHAS assets at fair value as of December 31, 2023:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
TPF pooled funds - stocks, bonds, gov't sec, real estate, alternative strategies	\$ 57,447,432	\$ 48,325,220	\$ 9,122,212	\$ -
Equity securities	21,547,537	21,547,537	-	-
Debt securities	20,000	20,000	-	-
Beneficial interest in trusts	63,641,310	53,360,362	3,903,236	6,377,712
Real estate	48,446	-	48,446	-
Mineral interests	19,759	19,197	-	562
Other miscellaneous investments	7,000	-	-	7,000
	<u>\$ 142,731,484</u>	<u>\$ 123,272,316</u>	<u>\$ 13,073,894</u>	<u>\$ 6,385,274</u>

**PRESBYTERIAN CHILDREN'S HOMES AND SERVICES**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2023 and 2022**

**3. CASH AND INVESTMENTS (Continued)**

**Fair Value Measurements (Continued)**

The following table sets forth a summary of changes in the fair value of Level 3 assets for the year ending December 31, 2023:

Beginning balance 1/1/2023	\$ 6,370,885
Asset changes	(121,586)
Income	5,533
Realized loss	65,783
Unrealized gain	64,659
Ending balance 12/31/2023	<u>\$ 6,385,274</u>

The following table sets forth by level, within the fair value hierarchy, PCHAS assets at fair value as of December 31, 2022:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
TPF pooled funds - stocks, bonds, gov't sec, real estate, alternative strategies	\$ 54,544,675	\$ 45,467,536	\$ 9,077,139	\$ -
Equity securities	18,545,141	18,545,141	-	-
Debt securities	20,000	20,000	-	-
Beneficial interest in trusts	58,438,393	48,919,018	3,156,050	6,363,325
Real estate	48,446	-	48,446	-
Mineral interests	26,317	25,757	-	560
Other miscellaneous investments	7,000	-	-	7,000
	<u>\$ 131,629,972</u>	<u>\$ 112,977,452</u>	<u>\$ 12,281,635</u>	<u>\$ 6,370,885</u>

The following table sets forth a summary of changes in the fair value of Level 3 assets for the year ending December 31, 2022:

Beginning balance 1/1/2022	\$ 6,487,724
Asset changes	(242,734)
Income	2,021
Realized gain	62,374
Unrealized gain	61,500
Ending balance 12/31/2022	<u>\$ 6,370,885</u>

# PRESBYTERIAN CHILDREN'S HOMES AND SERVICES

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023 and 2022

### 4. FINANCIAL ASSETS AND LIQUIDITY RESOURCES

As of December 31, 2023 and 2022, financial assets and liquidity resources available to the Organization for general operating expenses within one year of the statement of financial position are as follows:

	2023	2022
Cash and cash equivalents	\$ 3,579,721	\$ 2,506,780
Short-term investments	43,585	51,509
Accounts receivable, net of allowance	1,279,555	935,177
Related party receivable	509,714	144,780
Interest receivable	73,620	72,220
Unrestricted contributions receivable, expected within one year	154,142	96,054
Unrestricted pledges, expected within one year	300,863	273,037
Unrestricted estates receivable, expected within one year	64,000	152,050
Assets expected from trustee funds, within one year	1,729,675	1,698,678
Board approved draw from endowment, within one year	5,121,365	5,316,496
Total financial assets available for current use	<u>\$ 12,856,240</u>	<u>\$ 11,246,781</u>

As discussed in Note 2, Summary of Significant Accounting Policies, it is the policy of the Board of Trustees to review its plans for meeting operational needs and its plans for property improvements and acquisitions from time to time and to designate appropriate sums of unrestricted net assets to assure adequate financing of such needs. PCHAS invests cash in excess of daily requirements in an overnight investment account, for the general operating account. In addition, PCHAS has Board designated endowment net assets of \$62,290,295 and \$57,527,498 in 2023 and 2022, respectively. Although the Organization does not intend to spend from its board designated funds beyond the amount approved annually for general operating needs, amounts from these funds could be made available with Board approval, if necessary.

### 5. ENDOWMENT FUNDS

The Organization's endowment consists of a number of individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

# PRESBYTERIAN CHILDREN'S HOMES AND SERVICES

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023 and 2022

### 5. ENDOWMENT FUNDS (Continued)

#### Interpretation of Relevant Law

The Board of Trustees of PCHAS has interpreted the state Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the purchasing power (real value) of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, PCHAS classifies as permanently restricted net assets: (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, and (4) the portion of investment return added to the permanent endowment to maintain its purchasing power. For purposes of determining that portion, each year PCHAS adjusts permanently restricted net assets by an amount determined to be reasonable for use in the operations but also provide for the change in the average Consumer Price Index (CPI). If the endowment assets earn investment returns beyond the amount necessary to maintain the endowment assets' real value, that excess is maintained as endowment assets in permanently restricted net assets until appropriated by the Board for expenditure.

Although UPMIFA does not preclude the Organization from spending below the original gift value of donor-restricted endowments, the Organization considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument. The Organization has adopted a policy not to spend from underwater endowments unless directed otherwise by the donor.

At times the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. As of the date of these statements, no such deficiencies exist in the Organization's endowments.

In accordance with UPMIFA, PCHAS considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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



**PRESBYTERIAN CHILDREN'S HOMES AND SERVICES**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2023 and 2022**

**5. ENDOWMENT FUNDS (Continued)**

**Endowment Net Asset Classification by Type of Fund as of December 31, 2023**

	Without Donor Restriction	With Donor Restriction		Total With Donor Restriction	Total
		Temporarily Restricted	Permanently Restricted		
<u>Endowment Type</u>					
Donor restricted	\$ -	\$ 3,805,798	\$ 79,191,484	\$ 82,997,282	\$ 82,997,282
Board designated	62,290,295	-	-	-	62,290,295
Total investments	<u>\$ 62,290,295</u>	<u>\$ 3,805,798</u>	<u>\$ 79,191,484</u>	<u>\$ 82,997,282</u>	<u>\$ 145,287,577</u>

**Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2023**

	Without Donor Restriction	With Donor Restriction		Total With Donor Restriction	Total
		Temporarily Restricted	Permanently Restricted		
<u>Endowment Assets</u>					
Beginning balance	\$ 57,527,498	\$ 3,031,343	\$ 73,440,263	\$ 76,471,606	\$ 133,999,104
<u>Investment return</u>					
Investment return	715,686	92,692	-	92,692	808,378
Net appreciation (depreciation)					
realized & unrealized	10,037,649	973,691	5,476,164	6,449,855	16,487,504
Total invest return	<u>10,753,335</u>	<u>1,066,383</u>	<u>5,476,164</u>	<u>6,542,547</u>	<u>17,295,882</u>
Contributions	-	-	275,057	275,057	275,057
Appropriation of endowment					
assets for expenditure	45,383	-	-	-	45,383
Transfer to undesignated	(6,035,921)	(291,928)	-	(291,928)	(6,327,849)
Ending balance	<u>\$ 62,290,295</u>	<u>\$ 3,805,798</u>	<u>\$ 79,191,484</u>	<u>\$ 82,997,282</u>	<u>\$ 145,287,577</u>

**PRESBYTERIAN CHILDREN'S HOMES AND SERVICES**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2023 and 2022**

**5. ENDOWMENT FUNDS (Continued)**

**Endowment Net Asset Classification by Type of Fund as of December 31, 2022**

	Without Donor Restriction	With Donor Restriction		Total With Donor Restriction	Total
		Temporarily Restricted	Permanently Restricted		
<b><u>Endowment Type</u></b>					
Donor restricted	\$ -	\$ 3,031,343	\$ 73,440,263	\$ 76,471,606	\$ 76,471,606
Board designated	57,527,498	-	-	-	57,527,498
Total investments	<u>\$ 57,527,498</u>	<u>\$ 3,031,343</u>	<u>\$ 73,440,263</u>	<u>\$ 76,471,606</u>	<u>\$ 133,999,104</u>

**Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2022**

	Without Donor Restriction	With Donor Restriction		Total With Donor Restriction	Total
		Temporarily Restricted	Permanently Restricted		
<b><u>Endowment Assets</u></b>					
Beginning balance (as reported)	\$ 73,197,591	\$ 5,719,174	\$ 86,196,720	\$ 91,915,894	\$ 165,113,485
Adjustment (See Note 9)	1,673,518	(1,673,518)	-	(1,673,518)	-
Beginning balance (restated)	\$ 74,871,109	\$ 4,045,656	\$ 86,196,720	\$ 90,242,376	\$ 165,113,485
<b><u>Investment return</u></b>					
Investment return	739,568	89,059	-	89,059	828,627
Net appreciation (depreciation)					
realized & unrealized	(13,895,772)	(825,882)	(12,975,549)	(13,801,431)	(27,697,203)
Total invest return	<u>(13,156,204)</u>	<u>(736,823)</u>	<u>(12,975,549)</u>	<u>(13,712,372)</u>	<u>(26,868,576)</u>
Contributions	-	-	219,092	219,092	219,092
Appropriation of endowment assets for expenditure	3,063	-	-	-	3,063
Transfer to undesignated	(4,190,470)	(277,490)	-	(277,490)	(4,467,960)
Ending balance	<u>\$ 57,527,498</u>	<u>\$ 3,031,343</u>	<u>\$ 73,440,263</u>	<u>\$ 76,471,606</u>	<u>\$ 133,999,104</u>

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023 and 2022

5. ENDOWMENT FUNDS (Continued)

Return Objectives and Risk Parameters

PCHAS has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s) as well as board designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to result in high yields while assuming a moderate level of investment risk. PCHAS expects its endowment funds, over time, to provide an average rate of return of approximately eight percent annually. Actual returns in any given year may vary from this amount.

6. RECEIVABLES

Accounts Receivable

Accounts receivable includes fees from public and private sources to assist in the cost of providing services to children.

	2023	2022
Accounts receivable	\$ 1,344,326	\$ 990,110
Allowance for uncollectible accounts	(64,771)	(54,933)
	<u>\$ 1,279,555</u>	<u>\$ 935,177</u>

In 2023, bad debt expense was \$20,241 as a result of an increase in the allowance for doubtful accounts. In 2022, bad debt expense was (\$28,066) as a result of a decrease in the allowance for uncollectible accounts.

Contributions

Contributions receivable consists of the following:

	2023	2022
Donations receivable without donor restrictions	\$ 154,142	\$ 96,054
Donations receivable with donor restrictions	7,085	4,000
Pledges without donor restrictions	124,069	121,877
Pledges with donor restrictions	627,057	586,637
Split interest gifts	3,250,030	2,994,081
Total receivables	<u>4,162,383</u>	<u>3,802,649</u>
Allowance for uncollectible pledges	(42,759)	(42,034)
Unamortized discount on pledges	(29,257)	(21,062)
Total	<u>\$ 4,090,367</u>	<u>\$ 3,739,553</u>

**PRESBYTERIAN CHILDREN’S HOMES AND SERVICES**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2023 and 2022**

**6. RECEIVABLES (Continued)**

**Contributions (Continued)**

In calculating the present value of the long-term pledges, PCHAS used the Internal Revenue Service (IRS) discount rate of the month for December. The rate applied to the pledges was based on the year in which the pledge was made. The rates are as follows:

		IRS Discount Rate			
<u>Year</u>	<u>Rate</u>	<u>Year</u>	<u>Rate</u>	<u>Year</u>	<u>Rate</u>
2012	1.2%	2016	1.8%	2020	0.6%
2013	2.0%	2017	2.6%	2021	1.6%
2014	2.0%	2018	3.6%	2022	5.2%
2015	2.0%	2019	2.0%	2023	5.8%

Total contribution receivables expected to be received within one year total \$2,704,628; between one to five years \$807,095, and longer than 5 years are \$650,660.

PCHAS is the beneficiary in several split interest agreements. While PCHAS has been named as the remainder beneficiary, PCHAS is not the trustee nor does PCHAS exercise control over the assets of the trusts, except in a limited number of charitable remainder unitrusts. A receivable is recorded for the value provided by the third party trustee, which is the difference between the present value of expected future payments to the specified beneficiary and the market value of the assets. The value as of December 31, 2023 increased by \$255,949 from the value as of December 31, 2022, due to market conditions.

**Estates**

PCHAS is the beneficiary in several estates that are pending distribution. Receivables from estates total \$105,019 as of December 31, 2023. Amounts expected to be received within one year are \$64,000 and between one and five years are \$41,019.

**7. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at year-end:

	<u>Balance</u> <u>12/31/2022</u>	<u>Additions/</u> <u>Transfers</u>	<u>Deletions/</u> <u>Transfers</u>	<u>Balance</u> <u>12/31/2023</u>
Land	\$ 1,919,124	\$ -	\$ (882,755)	\$ 1,036,369
Buildings and improvements	23,217,490	2,468,033	(1,130,116)	24,555,407
Furniture and equipment	1,077,340	40,571	(122,763)	995,148
Vehicles	14,792	-	-	14,792
Capital work in progress	476,365	(474,315)	-	2,050
Total fixed assets	<u>26,705,111</u>	<u>2,034,289</u>	<u>(2,135,634)</u>	<u>26,603,766</u>
Less: accumulated depreciation	<u>(9,897,048)</u>	<u>(681,590)</u>	<u>497,232</u>	<u>(10,081,406)</u>
Net property and equipment	<u>\$ 16,808,063</u>	<u>\$ 1,352,699</u>	<u>\$ (1,638,402)</u>	<u>\$ 16,522,360</u>

Depreciation expense totaled \$681,590 in 2023 and \$663,028 in 2022.

**PRESBYTERIAN CHILDREN’S HOMES AND SERVICES**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2023 and 2022**

**8. LONG-TERM DEBT**

Long-term debt consists of the following:

	2023	2022
\$2,000,000 term loan with bank; payable in monthly installments of \$13,386, including interest, payable at 3.45%, with final payment due in January 15, 2031 - collateralized by real property	-	1,120,281
	-	1,120,281
Less current portion of long-term debt	-	123,481
	\$ -	\$ 996,800

Interest paid on long-term debt for the years ended December 31, 2023 and 2022 was \$20,650 and \$41,448, respectively.

In 2023, the Organization sold the collateralized real property and paid off the balance due; therefore, there are no future maturities of long-term debt as of December 31, 2023.

**9. CHANGE IN BEGINNING NET ASSETS**

Several endowments that the Organization previously treated as restricted were not actually established by the donor, but were historically recognized by the Organization as a way to honor the donor. Therefore, in 2022, the Organization reviewed the original documents of several of its previously restricted endowments to determine if they legally allowed for more flexibility in the use of the funds. Upon review, it was determined that several of those endowments did allow more flexibility and could be reclassified as unrestricted. Therefore, in 2022, \$1,673,518 in restricted endowments were reclassified as unrestricted, resulting in an adjustment to the beginning balance of the Organization's 2022 Net Assets. There were no adjustments to the beginning balance of the Organization's 2023 Net Assets.

**10. NET ASSET CLASSIFICATIONS**

**Without Donor Restriction**

Net assets without donor restriction represent resources over which the Board of Trustees have discretionary authority.

**With Donor Restriction**

Net assets with donor restriction include both temporarily restricted and permanently restricted net assets.

Temporarily restricted net assets include gifts that were received and are restricted for a specific use or have a time restriction. When the restrictions are met, the temporarily restricted net assets are released from restrictions to net assets without donor restrictions and reported on the statements of activities.

Permanently restricted net assets include endowment funds which PCHAS must hold in perpetuity and can only spend the income. Trusts held by a third party in perpetuity for the benefit of PCHAS are also included in this net asset category. Gains on these investments are available for use as specified by the donor. Permanently restricted net assets are categorized by income restriction.

**PRESBYTERIAN CHILDREN'S HOMES AND SERVICES**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2023 and 2022**

**10. NET ASSET CLASSIFICATIONS (Continued)**

**With Donor Restriction (Continued)**

Net assets with donor restrictions consisted of the following as of December 31, 2023.

	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Net Assets With Donor Restriction
Permanent improvements	\$ 353,541	\$ -	\$ 353,541
Advanced education	4,449,507	3,727,425	8,176,932
General education	754,419	3,120,954	3,875,373
Christian education	86,078	242,367	328,445
Special services	32,385	57,292	89,677
Time restricted	1,976,017	-	1,976,017
Other	773,960	21,469	795,429
Undesignated	-	72,021,978	72,021,978
	<u>\$ 8,425,907</u>	<u>\$ 79,191,485</u>	<u>\$ 87,617,392</u>

Net assets with donor restrictions consisted of the following as of December 31, 2022.

	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Net Assets With Donor Restriction
Permanent improvements	\$ 331,359	\$ -	\$ 331,359
Advanced education	3,870,349	3,518,956	7,389,305
General education	431,243	2,880,471	3,311,714
Christian education	71,381	216,250	287,631
Special services	22,649	57,292	79,941
Time restricted	1,774,972	-	1,774,972
Other	1,028,212	18,401	1,046,613
Undesignated	-	66,748,893	66,748,893
	<u>\$ 7,530,165</u>	<u>\$ 73,440,263</u>	<u>\$ 80,970,428</u>

**PRESBYTERIAN CHILDREN’S HOMES AND SERVICES**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2023 and 2022**

**10. NET ASSET CLASSIFICATIONS (Continued)**

**With Donor Restriction (Continued)**

Net assets were released from donor restrictions in 2023 and 2022, by incurring expenses satisfying the following restricted purposes or by expiration of time restrictions:

	Released from Donor Restrictions	
	2023	2022
Permanent improvements	\$ 24,411	\$ 553,928
Advanced education	186,718	1,478,623
General education	55,317	51,783
Christian education	4,899	1,756
Special services	3,908	3,004
Time restricted	345,077	208,195
Other	247,884	129,992
Undesignated	-	-
	<u>\$ 868,214</u>	<u>\$ 2,427,281</u>

**11. FEES FOR SERVICE & GOVERNMENT GRANTS**

Program service fees consist of the following for the year ended:

	December 31,	
	2023	2022
State of Texas	\$ 3,280,365	\$ 3,734,740
State of Missouri	391,890	274,916
Missouri Alliance for Children & Families, LLC	3,959,925	4,453,584
St. Louis County Children's Fund	1,052,711	741,063
Other fees	1,555,105	187,743
Fees for Service	<u>\$ 10,239,996</u>	<u>\$ 9,392,046</u>
Government Grants	550,207	462,085
	<u>\$ 10,790,203</u>	<u>\$ 9,854,131</u>

# PRESBYTERIAN CHILDREN'S HOMES AND SERVICES

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2023 and 2022

### 12. EMPLOYEE DEFINED CONTRIBUTION PLAN

PCHAS has established a 403(b) defined contribution plan for its employees in order to provide funds for their retirement or for their beneficiaries in the event of their death.

All employees of PCHAS are eligible to receive employer contributions upon completion of one year of service or 1,000 hours of service in a twelve month period. Upon meeting eligibility requirements to receive employer contributions, PCHAS will contribute an amount equal to 3% of each employee's base salary as a non-matching contribution. PCHAS will make additional matching contributions based upon 200% of an employee's participation in the plan through a voluntary salary reduction up to a total match of 6%. PCHAS contributed \$928,032 and \$934,050 to the plan on behalf of employees during the year ended December 31, 2023 and 2022, respectively. No significant changes were made to the plan in 2023 and 2022.

### 13. RELATED PARTY TRANSACTIONS

PCHAS is a limited member of the Missouri Alliance for Children and Families, L.L.C. (the Alliance) in which it has a 20% equity interest. The Alliance contracts with most of its members to provide a variety of services, as well as with non-member agencies and organizations across the state. The Alliance currently provides services to the Missouri Children's Division under two contracts. Both contracts are reviewed with the state and revised and renewed periodically. Under the initial contract, the Alliance provides case management services to children in the care and custody of the state. PCHAS contracts with the Alliance to provide certain services to these clients, including both residential and community-based care.

Under the second contract, the Alliance is the provider of record with the state, but acts primarily to provide administrative services to PCHAS and four other member agencies. These five agencies provide foster care case management services to clients, essentially as subcontractors with the Alliance. The contract provides annually for bonuses and/or penalties. PCHAS also provides other services for its clients and those of other private case management contractors across the state, as determined by the organization assigned to the case. These services include both residential and community-based services.

PCHAS leases office space to the Alliance on a monthly basis. Rental income received from the Alliance is included in other revenues in the amount of \$50,251 for the year ended December 31, 2023 and \$55,944 for the year ended December 31, 2022.

Distributions of capital from the Alliance are also included in other revenues. PCHAS received \$415,000 in distributions of capital for the year ended December 31, 2023 and \$300,000 in distributions of capital for the year ended December 31, 2022.

Other payments received from the Alliance for residential services, case management services, and permanency bonuses are included within fees for service as shown in Note 11.



**PRESBYTERIAN CHILDREN’S HOMES AND SERVICES**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2023 and 2022**

**14. LEASES**

In 2022 and 2023, the Organization held several office space leases, which were classified as operating leases. The Organization also held several vehicle leases in 2022 and 2023, which had not been previously classified as capital leases. Therefore, those leases were also classified as operating leases under the optional practical expedients. The Organization held no finance leases at the time of implementation. The Organization did not hold any leases with variable lease payments, options to extend or terminate the lease, or leases with residual value guarantees, restrictions or covenants, nor did the Organization hold any subleases. Short-term, defined as leases with initial terms of 12 months or less, are not reflected on the balance sheet and expenses are shown as short-term lease costs in the table below.

Total lease cost for each component is as follows for the year ended December 31:

	<u>2023</u>	<u>2022</u>
Operating lease cost - office space	\$ 256,212	\$ 293,367
Operating lease cost - vehicles	75,867	79,530
Short-term lease cost	103,648	140,930
	<u>\$ 435,727</u>	<u>\$ 513,827</u>

Cash paid for amounts included in the measurement of lease liabilities, by component, is as follows:

	<u>2023</u>	<u>2022</u>
Operating leases - office space	\$ 246,113	\$ 282,501
Operating leases - vehicles	66,163	68,679
	<u>\$ 312,276</u>	<u>\$ 351,180</u>

The weighted average of remaining lease term in years, by component, for the year-ended December 31, is as follows:

	<u>2023</u>	<u>2022</u>
Operating leases - office space	6.57	4.47
Operating leases - vehicles	2.52	1.56
	<u>9.09</u>	<u>6.03</u>

The weighted average of the discount rate, by component, for the year-ended December 31, is as follows:

	<u>2023</u>	<u>2022</u>
Operating leases - office space	4.87%	4.00%
Operating leases - vehicles	22.22%	20.60%
	<u>27.09%</u>	<u>24.60%</u>

**PRESBYTERIAN CHILDREN’S HOMES AND SERVICES**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2023 and 2022**

**14. LEASES (Continued)**

The minimum lease payments for operating leases under ASC 842 and related reconciliation to lease obligations as of December 31, 2023 are as follows:

	Operating Leases for Office Space	Operating Leases for Vehicles	Total Operating Leases
2024	\$ 306,112	\$ 58,634	\$ 364,746
2025	234,389	16,169	250,558
2026	225,639	15,552	241,191
2027	181,890	13,079	194,969
2028	181,890	-	181,890
Thereafter	385,378	-	385,378
Total future lease payments	\$ 1,515,298	\$ 103,434	\$ 1,618,732
Less effects of discounting	70,285	18,196	88,481
Total lease liability	1,445,013	85,238	1,530,251
Less current portion of lease liability	292,229	50,566	342,795
Long-term portion of lease liability	\$ 1,152,784	\$ 34,672	\$ 1,187,456

**15. SUBSEQUENT EVENTS**

Management of PCHAS has evaluated subsequent events through July 15, 2024, the issuance date of this report. Consequently, there are no particular events that have any material effect related to the financial position of the Organization for the year ending December 31, 2023 and do not require additional disclosure.