




# **Episcopal Children's Services, Inc.**

## **Independent Auditor's Report, Financial Statements, and Supplementary Information**

June 30, 2024 and 2023



## Contents

<b>Independent Auditor's Report</b> .....	1
<b>Financial Statements</b>	
Statements of Financial Position.....	4
Statements of Activities.....	5
Statements of Functional Expenses.....	6
Statements of Cash Flows .....	8
Notes to Financial Statements .....	9
<b>Supplementary Information</b>	
Schedule of Expenditures of Federal Awards and State Financial Assistance .....	18
Notes to Schedule of Expenditures of Federal Awards and State Financial Assistance.....	21
Schedule of Source and Expenditures of City Grant Funds .....	22
Schedule of Findings and Questioned Costs.....	23
<b>Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards – Independent Auditor’s Report</b> .....	25
<b>Report on Compliance for Each Major Program and Major State Project and on Internal Control over Compliance Required by the Uniform Guidance and Chapter 10.650, Rules of the Auditor General – Independent Auditor’s Report</b> .....	27

## **Independent Auditor's Report**

Board of Directors  
Episcopal Children's Services, Inc.  
Jacksonville, Florida

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the financial statements of Episcopal Children's Services, Inc., which comprise the statements of financial position as of June 30, 2024 and 2023, 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 Episcopal Children's Services, Inc. as of June 30, 2024 and 2023, 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) 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 Episcopal Children's Services, Inc. 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 these 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 of 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 Episcopal Children's Services, Inc.'s ability to continue as a going concern within one year after the date that these financial statements are available to be issued.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Episcopal Children's Services, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Episcopal Children's Services, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

### ***Other Matters - Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance; schedule of source and expenditures of city grant funds and schedule of findings and questioned costs, as required by Title 2. U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, Chapter 10.650 Rules of the Auditor General, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2024, on our consideration of Episcopal Children's Services, Inc.'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 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 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 Episcopal Children's Services, Inc.'s internal control over financial reporting and compliance.

**Forvis Mazars, LLP**

**Jacksonville, Florida  
November 20, 2024**

**Episcopal Children's Services, Inc.**  
**Statements of Financial Position**  
**June 30, 2024 and 2023**

	<u>2024</u>	<u>2023</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 2,648,614	\$ 2,243,637
Grants receivable	4,532,507	4,562,406
Investments	1,365,757	1,221,227
Prepaid expenses and other current assets	1,040,843	-
Total current assets	9,587,721	8,027,270
Property and equipment, net	7,462,943	7,648,968
Right-of-use asset, operating	4,187,066	3,856,389
Right-of-use asset, finance	502,608	517,741
Other non-current assets	15,276	15,275
Total assets	<u>\$ 21,755,614</u>	<u>\$ 20,065,643</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 2,715,891	\$ 2,485,882
Accrued expenses	2,241,620	1,920,436
Refundable advances	1,489,575	729,999
Operating lease liabilities, current	852,444	706,707
Finance lease liabilities, current	33,804	31,133
Total current liabilities	7,333,334	5,874,157
<b>Long-Term Liabilities</b>		
Operating lease liabilities, less current	3,498,893	3,275,057
Finance lease liabilities, less current	299,860	333,664
Total long-term liabilities	3,798,753	3,608,721
Total liabilities	11,132,087	9,482,878
<b>Net Assets</b>		
Without donor restrictions	10,623,527	10,582,765
Total net assets	10,623,527	10,582,765
Total liabilities and net assets	<u>\$ 21,755,614</u>	<u>\$ 20,065,643</u>

**Episcopal Children's Services, Inc.**  
**Statements of Activities**  
**Years Ended June 30, 2024 and 2023**

	<u>2024</u>	<u>2023</u>
<b>Changes in Net Assets without Donor Restrictions</b>		
<b>Support and Revenue</b>		
Grants and contracts from agencies		
Federal grants - direct	\$ 42,791,463	\$ 41,118,732
Federal grants - State pass-through	36,417,479	67,940,074
State grants	16,647,788	16,271,753
Kids Hope Alliance	1,373,658	1,368,067
Local counties	264,725	278,708
Contracts with other non-profit agencies	1,167,511	1,046,742
	<u>98,662,624</u>	<u>128,024,076</u>
<b>Contributions</b>	<u>308,271</u>	<u>419,522</u>
<b>Revenues</b>		
In-kind contributions	9,178,105	8,716,626
Program fees	377,242	622,399
Net investment income	195,576	128,559
Miscellaneous	314,904	225,687
	<u>10,065,827</u>	<u>9,693,271</u>
<b>Total Public Support and Revenue</b>	<u>109,036,722</u>	<u>138,136,869</u>
<b>Expenses</b>		
Program service	102,810,283	132,213,887
Management and general	6,185,677	5,307,869
	<u>108,995,960</u>	<u>137,521,756</u>
<b>Increase in Net Assets Without Donor Restrictions</b>	40,762	615,113
<b>Net Assets Without Donor Restrictions, Beginning of Year</b>	<u>10,582,765</u>	<u>9,967,652</u>
<b>Net Assets Without Donor Restrictions, End of Year</b>	<u>\$ 10,623,527</u>	<u>\$ 10,582,765</u>

**Episcopal Children's Services, Inc.**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2024**

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries	\$ 29,014,389	\$ 3,763,868	\$ 32,778,257
Employee benefits	3,878,578	508,024	4,386,602
Payroll taxes	2,116,139	271,443	2,387,582
	<u>35,009,106</u>	<u>4,543,335</u>	<u>39,552,441</u>
Total salaries and related expenses			
Payments to providers	44,731,589	-	44,731,589
Program expenses	15,547,311	1,125,635	16,672,946
Depreciation and amortization	1,048,585	13,151	1,061,736
Occupancy	1,266,828	31,950	1,298,778
Office expense	284,441	33,983	318,424
Food and kitchen supplies	1,325,739	-	1,325,739
Utilities and telephone	687,901	13,602	701,503
Repairs and maintenance	911,706	4,768	916,474
Travel	557,766	12,522	570,288
Insurance	396,017	66,360	462,377
Professional fees	690,862	300,109	990,971
Janitorial services	168,574	-	168,574
Conference and meetings	151,569	26,536	178,105
Interest	5,112	-	5,112
Bank charges and fees	23,841	-	23,841
Advertising	2,404	1,445	3,849
Miscellaneous expenses	932	12,281	13,213
	<u>\$ 102,810,283</u>	<u>\$ 6,185,677</u>	<u>\$ 108,995,960</u>

**Episcopal Children's Services, Inc.**  
**Statement of Functional Expenses**  
**Year Ended June 30, 2023**

	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Salaries	\$ 26,358,190	\$ 3,534,494	\$ 29,892,684
Employee benefits	3,636,133	490,717	4,126,850
Payroll taxes	1,897,032	250,321	2,147,353
	<u>31,891,355</u>	<u>4,275,532</u>	<u>36,166,887</u>
Total salaries and related expenses			
Payments to providers	82,279,183	376,466	82,655,649
Program expenses	10,927,890	316,424	11,244,314
Depreciation and amortization	964,194	943	965,137
Occupancy	1,401,064	50,372	1,451,436
Office expense	207,094	26,551	233,645
Food and kitchen supplies	1,355,659	-	1,355,659
Utilities and telephone	735,166	12,020	747,186
Repairs and maintenance	1,034,657	715	1,035,372
Travel	538,007	6,289	544,296
Insurance	335,373	50,707	386,080
Professional fees	190,145	171,890	362,035
Janitorial services	128,267	-	128,267
Conference and meetings	164,842	17,556	182,398
Interest	30,160	-	30,160
Bank charges and fees	28,770	-	28,770
Advertising	2,061	2,200	4,261
Miscellaneous expenses	-	204	204
	<u>\$ 132,213,887</u>	<u>\$ 5,307,869</u>	<u>\$ 137,521,756</u>

**Episcopal Children's Services, Inc.**  
**Statements of Cash Flows**  
**Years Ended June 30, 2024 and 2023**

	<u>2024</u>	<u>2023</u>
<b>Cash Flows from Operating Activities</b>		
Changes in net assets	\$ 40,762	\$ 615,113
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	1,061,736	965,137
Realized and unrealized gain on investments	(150,912)	(120,798)
Loss (gain) on disposal of property and equipment	(13,235)	99,735
Noncash operating lease expense	797,965	789,154
Change in grants receivable	29,899	(212,795)
Change in prepaid expenses and other assets	(1,040,844)	850,362
Change in accounts payable and accrued expenses	551,193	(99,812)
Change in refundable advances	759,576	346,884
Change in operating lease liabilities	(759,069)	(751,368)
Net cash provided by operating activities	<u>1,277,071</u>	<u>2,481,612</u>
<b>Cash Flows from Investing Activities</b>		
Purchases of property and equipment	(847,343)	(1,292,298)
Purchases of investments	(126,078)	(571,840)
Proceeds from sale of investments	<u>132,460</u>	<u>488,174</u>
Net cash used in investing activities	<u>(840,961)</u>	<u>(1,375,964)</u>
<b>Cash Flows from Financing Activities</b>		
Payment on finance lease obligations	<u>(31,133)</u>	<u>(27,823)</u>
Net cash used in financing activities	<u>(31,133)</u>	<u>(27,823)</u>
<b>Net Increase in Cash</b>	404,977	1,077,825
<b>Cash and Cash equivalents, Beginning of Year</b>	<u>2,243,637</u>	<u>1,165,812</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 2,648,614</u>	<u>\$ 2,243,637</u>
<b>Supplemental Cash Flow Information</b>		
Cash paid for Interest	\$ 27,805	\$ 30,161

## **Note 1. Summary of Significant Accounting Policies**

### ***Organization***

Founded in 1966, Episcopal Children's Services, Inc. (ECS) provides high quality services to children in fourteen counties in Northeast and Central Florida. Services provided by ECS include: high quality early education programs at twenty seven Head Start/Early Head Start centers, nine Community Partnership childcare centers for Head Start services and home based Early Head Start child care programs and one directly operated Early Learning Center; School Readiness, Child Care Resource and Referral and Voluntary Pre-Kindergarten Administration; the USDA Child Care Food Program to over 1,800 children daily; the Regional Training Institute for child care teachers; social services and partnership in the Jacksonville Early Learning Partnership in Duval County.

### ***Basis of Accounting***

The financial statements of ECS have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

### ***Basis of Presentation***

The financial statements are presented in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-205, Not-for-Profit Entities, Presentation of Financial Statements. Accordingly, the accounts of ECS are reported in the following net asset categories:

#### ***Net Assets with Donor Restrictions***

The part of net assets of ECS that is subject to donor-imposed restrictions (donors include other types of contributors, including makers of certain grants). There were no net assets with donor restrictions as of June 30, 2024 and 2023.

#### ***Net Assets without Donor Restrictions***

The part of net assets of ECS that is not subject to donor-imposed restrictions (donors include other types of contributors, including makers of certain grants).

Contributions received with donor restrictions that are met in the same reporting period are reported as increases in net assets without donor restrictions.

### ***Use of Estimates***

The preparation of financial statements, in accordance with accounting principles generally accepted in the United States, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying disclosures. Accordingly, actual results could differ from those estimates.

### ***Concentration of Credit Risk Arising from Cash Deposits in Excess of Insurance Limits***

ECS maintains most of its cash at one financial institution and the balance is insured by the Federal Deposit Insurance Corporation (FDIC). At June 30, 2024 and 2023, the FDIC's standard insurance coverage for our accounts was set at \$250,000.

ECS maintains accounts with a single brokerage firm. The account contains cash and securities. Balances are insured up to \$500,000 (with a limit of \$250,000 for cash items) by the Securities Investor Protection Corporation.

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

For purposes of the Statements of Cash Flows, ECS considers all unrestricted highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

### ***Receivables***

Grants receivable are stated at the amounts management expects to collect from outstanding balances. If amounts become uncollectible, they will be charged to the program when the determination that the receivable is uncollectible is made. At June 30, 2024 and 2023, there is no allowance for credit losses.

### ***Investments***

Investments in equity securities, treasury notes, and exchange traded funds with readily determinable market values are reported at fair values in the statements of financial position. Unrealized gains and losses are included in the statements of activities.

### ***Property and Equipment***

Expenditures for property, equipment and improvements are capitalized at cost. Equipment expenditures of less than \$5,000 and ordinary repairs and maintenance are charged to expense when incurred. Donated assets are capitalized and recorded at their fair value at the date of receipt. Depreciation is computed using the straight-line method over the estimated useful life of the asset, ranging from 3 to 39 years.

### ***Leases***

ECS determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of right-of-use ("ROU") assets and lease liabilities on the statement of financial position as of June 30, 2024. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. ECS determines lease classification as operating or finance at the lease commencement date.

ECS combines lease and nonlease components, such as common area and other maintenance costs, in calculating the ROU assets and lease liabilities for its office buildings and equipment.

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. ECS uses the implicit rate when it is readily determinable. As some leases do not provide an implicit rate, ECS uses the risk-free rate based on the information available at the commencement date to determine the present value of lease payments. ECS has elected not to record leases with an initial term of 12 months or less on the statement of financial position. Lease expense on such leases is recognized on a straight-line basis over the lease term.

### ***Grant Revenue***

ECS has grant revenue recognized on the incurrence of allowable costs or based on other terms of the award for fixed price, unit-of-service, and other types of awards. These grants generally require a monthly invoice to be submitted for reimbursement. These grants are awarded to ECS to carry out programs supporting the mission and do not have any performance obligations related to the grantor. These amounts are reported as grants and contracts from agencies in the statements of activities.

### ***In-Kind Contributions***

Donated materials are recorded as contributions at their estimated fair value at the date of donation. Long-lived assets or the use of facilities are recorded as contributions in the period received at fair value. Contributions of services are recorded in the financial statements if the services enhance or create non-financial assets or require specialized skills and are provided by individuals possessing those skills.

### ***Program Fees***

ECS charges program fees to families in one fee-based program for receiving benefits through their programs. The services are provided on a daily basis and are generally billed on a monthly basis. This program has struggled with full enrollment which attributes to the decline in program fees. This program was partially converted to Head Start in August 2023 and will be fully converted to a Head Start program in August 2024. ECS recognized revenues over time of \$377,242 and \$622,399 for the years ended June 30, 2024 and 2023, respectively.

### ***Income Taxes***

ECS is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code; accordingly, the accompanying financial statements do not reflect a provision or liability for federal and state income taxes. ECS has determined that it does not have any material unrecognized tax benefits or obligations as of June 30, 2024 or 2023.

### ***Expense Allocation***

The cost of providing program and management activities have been summarized on a functional basis in the Statements of Activities and in the Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

ECS uses the direct costing method to allocate costs. Directly identifiable expenses are charged to the programs and supporting services. Expenses related to more than one function are charged to programs and support on the basis of periodic time. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of ECS.

### ***Adoption of New Accounting Standards***

In June 2016, the FASB issued guidance (FASB ASC 326) which significantly changed how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through operations. The most significant change in this standard is a shift from the incurred loss model to the expected loss model.

Under the standard, disclosures are required to provide users of the financial statements with useful information in analyzing an entity's exposure to credit risk and the measurement of credit losses. Financial assets held by ECS that are subject to the guidance in FASB ASC 326 were accounts receivable.

ECS adopted the standard effective July 1, 2023. The impact of the adoption was not considered material to the financial statements and primarily resulted in enhanced disclosures only.

**Episcopal Children's Services, Inc,  
Notes to Financial Statements  
June 30, 2024 and 2023**

**Note 2. Liquidity and Availability of Funds**

ECS's financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statements of financial position date, are as follows:

	<u>2024</u>	<u>2023</u>
Cash and cash equivalents	\$ 2,648,614	\$ 2,243,637
Grants receivable	4,532,507	4,562,406
Investments	<u>1,365,757</u>	<u>1,221,227</u>
Total financial assets as of year-end	8,546,878	8,027,270
Those unavailable for general expenditures within one year		
Refundable advances	<u>1,489,575</u>	<u>729,999</u>
Total financial assets available to meet general expenditures within the next 12 months	<u>\$ 7,057,303</u>	<u>\$ 7,297,271</u>

As part of ECS' liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. ECS has a line of credit with a \$1,000,000 limit that it could draw upon, as necessary.

**Note 3. Investments**

Investments are comprised of the following at June 30:

	<u>2024</u>		
	<u>Cost</u>	<u>Unrealized Gain (Loss)</u>	<u>Fair Value</u>
Equity securities	\$ 24,362	\$ 28,843	\$ 53,205
Treasury notes	496,504	6,376	502,880
Exchange traded funds	<u>488,682</u>	<u>320,990</u>	<u>809,672</u>
Totals	<u>\$ 1,009,548</u>	<u>\$ 356,209</u>	<u>\$ 1,365,757</u>

**Episcopal Children’s Services, Inc,  
Notes to Financial Statements  
June 30, 2024 and 2023**

	<b>2023</b>		
	<b>Cost</b>	<b>Unrealized Gain (Loss)</b>	<b>Fair Value</b>
Equity securities	\$ 24,362	\$ 15,690	\$ 40,052
Treasury notes	455,037	(3,510)	451,527
Exchange traded funds	<u>503,036</u>	<u>226,612</u>	<u>729,648</u>
Totals	<u>\$ 982,435</u>	<u>\$ 238,792</u>	<u>\$ 1,221,227</u>

**Note 4. Fair Value Measurements**

ECS investments are reported at fair value in the accompanying Statements of Financial Position. The methods used to measure fair value may produce an amount that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, although ECS 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.

	<b>2024</b>			
	<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobserv- able Inputs (Level 3)</b>
Equity securities	\$ 53,205	\$ 53,205	\$ -	\$ -
Treasury notes	502,880	-	502,880	-
Exchange traded funds	<u>809,672</u>	<u>809,672</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,365,757</u>	<u>\$ 862,877</u>	<u>\$ 502,880</u>	<u>\$ -</u>

	<b>2023</b>			
	<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobserv- able Inputs (Level 3)</b>
Equity securities	\$ 40,052	\$ 40,052	\$ -	\$ -
Treasury notes	451,527	-	451,527	-
Exchange traded funds	<u>729,648</u>	<u>729,648</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,221,227</u>	<u>\$ 769,700</u>	<u>\$ 451,527</u>	<u>\$ -</u>

**Episcopal Children’s Services, Inc,  
Notes to Financial Statements  
June 30, 2024 and 2023**

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs have the lowest priority. ECS uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, ECS measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are used only when Level 1 or Level 2 inputs are not available. ECS did not have any financial assets or liabilities measured at fair value on a recurring basis categorized as level 3 during the years ended June 30, 2024 and 2023.

**Level 1 Fair Value Measurements**

The fair values of equity securities and exchange traded funds are based on the closing price reported in the active market where the individual securities are traded, when available.

**Level 2 Fair Value Measurements**

The fair values of treasury notes are based on the closing price reported in the active market where the individual notes are traded, when available.

There were no changes during the years ended June 30, 2024 and 2023 to the valuation techniques used to measure fair values on a recurring basis.

**Note 5. Property and Equipment**

Major classes of property and equipment and their estimated useful lives are as follows at June 30:

	<u>Useful Life in Years</u>	<u>2024</u>	<u>2023</u>
Land and improvements		\$ 858,397	\$ 858,397
Buildings and improvements	5 - 39	7,891,183	7,820,048
Furniture and equipment	3 - 10	5,474,856	5,226,141
Vehicles	5 - 7	532,872	567,632
Construction in process		<u>558,544</u>	<u>74,504</u>
		15,315,852	14,546,722
Accumulated depreciation		<u>(7,852,909)</u>	<u>(6,897,754)</u>
Net property and equipment		<u>\$ 7,462,943</u>	<u>\$ 7,648,968</u>

Depreciation and amortization expense for the years ending June 30, 2024 and 2023 was \$1,061,736 and \$965,137, respectively.

**Episcopal Children’s Services, Inc,  
Notes to Financial Statements  
June 30, 2024 and 2023**

---

**Note 6. Debt**

In February 2019, ECS obtained a \$600,000 line of credit with a bank. Interest accrues at 1.62% above the Secured Overnight Financing Rate (SOFR) for the applicable interest period. In June 2022, ECS and the bank amended the line of credit agreement to allow for up to \$1,000,000 of borrowings. Interest period is the period commencing on the 7th day of each month and ending on the numerically corresponding date one month later. The line of credit is secured by deposits held with the lender. The line of credit has a maturity date of February 24, 2025. As of June 30, 2024 and 2023, no amounts were outstanding.

Subsequent to year end, ECS renewed their line of credit agreement to extend the maturity date to February 28, 2026.

**Note 7. Leases**

***Finance Leases***

Finance leases consist of a building for use in the Head Start program. The lease is payable in monthly installments of \$4,917. At the end of the lease, ECS may purchase the property for any unpaid amounts under the lease.

***Operating Leases***

ECS has various operating leases principally for property and some office equipment, some of which requires the payment of a share of property taxes, insurance, and normal maintenance costs. Termination of the leases is generally prohibited unless there is a violation under the lease agreement.

***All Leases***

ECS does not have any lease agreements with related parties. ECS does not have any leases which contain material residual value guarantees or material restrictive covenants.

The lease cost and other required information for the years ended June 30, 2024 and 2023, are:

	<u>2024</u>	<u>2023</u>
Lease expense		
Finance lease expense		
Amortization of right of use asset	\$ 24,432	\$ 24,432
Interest on lease liabilities	27,867	30,190
Operating lease fixed cost	978,793	953,661
Short-term lease cost	3,996	23,920
Variable lease cost	<u>3,480</u>	<u>3,480</u>
Total lease cost	<u>\$ 1,038,568</u>	<u>\$ 1,035,683</u>

**Episcopal Children’s Services, Inc,  
Notes to Financial Statements  
June 30, 2024 and 2023**

	<u>2024</u>	<u>2023</u>
Other information		
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from finance leases	\$ 27,867	\$ 30,190
Financing cash flows from finance leases	31,133	28,810
Operating cash flows from operating leases	809,261	751,368
Weighted-average remaining lease term		
Finance leases	7.51 years	8.51 years
Operating leases	6.64 years	7.49 years
Weighted-average discount rate:		
Finance leases	8.03%	8.03%
Operating leases	3.23%	3.04%

Future minimum lease payments and reconciliation to the statement of financial position at June 30, 2024, are as follows:

	<u>Finance Leases</u>	<u>Operating Leases</u>
2025	\$ 59,000	\$ 1,023,722
2026	59,000	924,325
2027	59,000	740,334
2028	59,000	668,834
2029	59,000	644,534
Thereafter	<u>147,500</u>	<u>1,157,544</u>
Total future undiscounted lease payments	442,500	5,159,293
Interest	<u>(108,836)</u>	<u>(807,956)</u>
Lease liabilities	<u>\$ 333,664</u>	<u>\$ 4,351,337</u>

**Note 8. In-Kind Contributions**

ECS recognized in-kind contributions within the statement of activities for the years ended June 30, 2024 and 2023, as follows:

	<u>2024</u>	<u>2023</u>
Rental and donated space	\$ 463,374	\$ 509,828
Volunteer and intern services	8,200,766	7,488,025
Professional services	<u>513,965</u>	<u>718,773</u>
Total in-kind contributions	<u>\$ 9,178,105</u>	<u>\$ 8,716,626</u>

**Episcopal Children's Services, Inc,  
Notes to Financial Statements  
June 30, 2024 and 2023**

---

Rental and donated space is recorded based on the appraised value of the space. Volunteer and intern services are recorded based on a standard hourly rate unless the volunteer is operating in their professional role. Professional services are recorded based on the competitive market rate for the professional services contributed. All of the in-kind contributions received by ECS were used in administering the programs.

**Note 9. Pension Expense**

ECS has an annuity plan (Sec. 403(b)) with OneAmerica under which employees are eligible to participate upon hired. ECS matches the employee's contributions dollar-for-dollar, up to 5% of their annual salary after one year of service and worked at least 1000 hours. Upon completion of five years of service, employees become 100% vested in employer contributions.

Pension expense was approximately \$818,000 and \$773,000 for the years ended June 30, 2024 and 2023, respectively.

**Note 10. City of Jacksonville Grant**

The City of Jacksonville Grant is a reimbursement for services rendered supporting the Kid's Hope Alliance program. ECS requests reimbursement by submitting monthly expense reports accompanied by supporting documentation. Revenue and expenses for the grant totaled \$1,373,658 and \$1,368,067 for the years ended June 30, 2024 and 2023, respectively.

The City of Jacksonville also provides grant funding to ECS through the support of Public Service grant funds and Community Development Block Grant funding.

**Note 11. Current Vulnerability Due to Certain Concentration**

ECS operates in a heavily regulated environment. Its operations are subject to the administrative directives, rules, and regulations of federal, state, and local regulatory agencies. Such administrative directives, rules, and regulations are subject to change by an act of Congress, legislature, or an administrative change. Such changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

**Note 12. Subsequent Events**

Subsequent events have been evaluated through November 20, 2024, which is the date the financial statements were available to be issued.

***Supplementary Information***

**Episcopal Children's Services, Inc.**  
**Schedule of Expenditures of Federal Awards and State Financial Assistance**  
**Year Ended June 30, 2024**

Federal Grants / Pass - Through Grantor Program Title	Period	Federal ALN/ CSFA Number	Pass-Through Grantor Number	Award Amount	Federal Awards Expenditures	State Financial Assistance Expenditures
<b>Federal Awards</b>						
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
Head Start Cluster						
Alachua Head Start Carryover Funds	8/1/22-7/31/23	93.600		\$ 376,074	\$ 376,074	\$ -
Alachua Head Start Grant	8/1/22-7/31/23	93.600		5,533,078	565,707	-
Head Start American Rescue Plan Grant	4/1/21-3/31/23	93.600		3,533,265	111,252	-
Central Florida Head Start & Early Head Start Grant	6/1/22-5/31/23	93.600		15,916,482	40,177	-
Central Florida Head Start & Early Head Start Consolidated Grant	4/1/23-3/31/24	93.600		21,071,994	19,377,021	-
Central Florida Head Start & Early Head Start COLA & QI	4/1/23-3/31/24	93.600		2,075,399	2,075,399	-
Central Florida Head Start & Early Head Start Grant	4/1/24-3/31/25	93.600		28,290,620	6,470,350	-
Duval Early Head Start Balance of Funds	4/1/22-3/31/23	93.600		2,681,781	126,528	-
North Florida Head Start & Early Head Start Consolidated Grant	4/1/23-3/31/24	93.600		12,500,270	10,702,076	-
North Florida Head Start & Early Head Start Grant	4/1/24-3/31/25	93.600		13,826,178	3,247,792	-
Total Head Start Cluster					<u>43,092,376</u>	<u>-</u>

**Episcopal Children's Services, Inc.**  
**Schedule of Expenditures of Federal Awards and State Financial Assistance**  
**Year Ended June 30, 2024**

**(Continued)**

Federal Grants / Pass - Through Grantor Program Title	Period	Federal ALN/ CSFA Number	Pass-Through Grantor Number	Award Amount	Federal Awards Expenditures	State Financial Assistance Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES						
PASS-THROUGH STATE OF FLORIDA, DEPARTMENT OF						
CHILDREN AND FAMILY SERVICES, FLORIDA						
PARTNERSHIP FOR SCHOOL READINESS:						
Early Learning Coalition of North Florida						
(SR) School Readiness	7/1/23-6/30/24	93.575	EL434	11,409,629	10,982,349	-
Other Direct Services: Gold Seal Payments, Performance Funding, Special Needs	7/1/23-6/30/24	93.575	EL434	2,237,400	1,734,538	-
(ARPA) The American Rescue Plan Stabilization Funding	7/1/23-6/30/24	93.575	EL434	13,155,463	12,271,005	-
(CRRSA) Coronavirus Response and Relief Supplemental Act Funding	7/1/23-6/30/24	93.575	EL434	1,279,153	-	-
School Readiness Program Assessments	7/1/23-6/30/24	93.575	EL434	-	-	-
VPK Program Assessment	7/1/23-6/30/24	93.575/48.108	EL434	172,163	172,163	-
VPK Wage Incentive (\$15 per Hour minimum wage)	7/1/23-6/30/24	93.575	EL434	1,096,690	9,597	-
SR CCDF Mandatory	7/1/23-6/30/24	93.596	EL434	1,005,808	968,141	-
SR CCDF Matching and MOE	7/1/23-6/30/24	93.596	EL434	4,094,475	3,941,140	-
City of Gainesville - American Rescue Plan	5/1/22-4/1/26	93.575		443,521	375,307	-
Total CCDF Cluster					30,454,240	-
Early Learning Coalition of North Florida						
SR Temporary Assistance for Needy Families	7/1/23-6/30/24	93.558	EL434	4,431,839	4,265,871	-
Social Services Block Grant	7/1/23-6/30/24	93.667	EL434	12,573	12,102	-
Early Learning Florida through University of Florida	9/1/22-8/31/23	84.419A	EL434	13,000	-	-
					4,277,973	-

**Episcopal Children's Services, Inc.**  
**Schedule of Expenditures of Federal Awards and State Financial Assistance**  
**Year Ended June 30, 2024**

**(Continued)**

Federal Grants / Pass - Through Grantor Program Title	Period	Federal ALN/ CSFA Number	Pass-Through Grantor Number	Award Amount	Federal Awards Expenditures	State Financial Assistance Expenditures
U.S. DEPARTMENT OF AGRICULTURE PASS THROUGH						
STATE OF FLORIDA, DEPARTMENT OF HEALTH						
Child Care Food Program	10/1/22-9/30/23	10.558	S-583	234,986	234,986	-
Child Care Food Program	10/1/23-9/30/24	10.558	S-583	1,122,577	1,122,577	-
					1,357,563	-
<b>State Financial Assistance</b>						
STATE OF FLORIDA AGENCY FOR WORKFORCE INNOVATION						
Early Learning Coalition of North Florida						
Voluntary Pre-Kindergarten (VPK)	7/1/23-6/30/24	48.108	EL433	16,647,788	-	16,647,788
					-	16,647,788
					\$ 79,182,152	\$ 16,647,788

**Episcopal Children's Services, Inc.**  
**Notes to Schedule of Expenditures of Federal Awards and State Financial Assistance**  
**June 30, 2024 and 2023**

---

**Note 1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards and state financial assistance includes the federal award activity of Episcopal Children's Services, Inc. under programs of the federal government for the year ended June 30, 2024. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and the requirements described in Chapter 10.650, Rules of the Auditor General. Because the Schedule presents only a selected portion of the operations of Episcopal Children's Services, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Episcopal Children's Services, Inc.

**Note 2. Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**Note 3. Indirect Cost Rate**

Episcopal Children's Services, Inc. has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**Episcopal Children's Services, Inc.**  
**Schedule of Source and Expenditures of City Grant Funds**  
**Year Ended June 30, 2024**

	<b>City FY 2023-2024 Grant 666638-24</b>	<b>City FY 2023-2024 Grant 666488-24</b>	<b>City FY 2022-2023 Grant #2 8739-15</b>
<b>CITY OF JACKSONVILLE PUBLIC SERVICE GRANT FOR FISCAL YEAR 2023-2024</b>			
Amount of award	\$ 137,000	\$ 29,150	\$ 105,000
Actual funds received from city in last audit period	-	(29,150)	(25,000)
Actual amount received this period	-	-	-
Amount remaining to be distributed	<u>\$ 137,000</u>	<u>\$ -</u>	<u>\$ 80,000</u>

<b>Item</b>	<b>Budgeted</b>	<b>Actual October 1, 2023 June 30, 2024</b>	<b>Remaining Balance</b>
Salaries and benefits	\$ -	\$ -	\$ -
Other operating expenses	137,000	-	137,000
Total	<u>\$ 137,000</u>	<u>\$ -</u>	<u>\$ 137,000</u>

<b>Item</b>	<b>Budgeted</b>	<b>Actual July 1, 2023 June 30, 2024</b>	<b>Remaining Balance</b>
Salaries and benefits	\$ 29,150	\$ 29,150	\$ -
Other operating expenses	-	-	-
Total	<u>\$ 29,150</u>	<u>\$ 29,150</u>	<u>\$ -</u>

<b>Item</b>	<b>Budgeted</b>	<b>Actual October 1, 2022 June 30, 2023</b>	<b>Remaining Balance</b>
Salaries and benefits	\$ 25,000	\$ 25,000	\$ -
Other operating expenses	80,000	-	80,000
Total	<u>\$ 105,000</u>	<u>\$ 25,000</u>	<u>\$ 80,000</u>

**Episcopal Children's Services, Inc.  
 Schedule of Findings and Questioned Costs  
 Federal Programs and State Projects  
 Year Ended June 30, 2024**

---

**Section I - Summary of Independent Auditor's Results**

**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:  
 Material weakness(es) identified? Yes\_\_\_ / No \_\_X\_\_

Significant deficiency(ies) identified that are not  
 considered to be material weaknesses? Yes\_\_X\_\_ / No \_\_\_

Noncompliance material to financial statements noted? Yes\_\_\_ / No \_\_X\_\_

**Federal Awards**

Internal control over the major program:  
 Material weakness(es) identified? Yes\_\_\_ / No \_\_X\_\_

Significant deficiency(ies) that are not considered to be  
 material weaknesses? Yes\_\_\_ / No \_\_X\_\_

Type of auditor's report issued on compliance for the  
 major programs: Unmodified

Any audit findings disclosed that are required to be  
 reported in accordance with 2 CFR section 200.516(a)? Yes\_\_X\_\_ / No \_\_\_

Identification of federal major programs:

CFDA Number	Name of Federal Program or Cluster
93.575	CCDF Cluster
93.558	Temporary Assistance for Needy Families

Dollar threshold used to distinguish between type A  
 and type B programs: \$2,422,188

Auditee qualified as low-risk auditee? Yes\_\_\_ / No \_\_X\_\_

**Section II - Financial Statement Findings**

**Finding 2024 - 02: Over Accrual of Revenues and Expenses**

*Criteria:* Monthly accrual entries for School Readiness ("SR") revenue and expenses are recorded and subsequently reversed to ensure amounts are not double-booked.

**Episcopal Children's Services, Inc.  
Schedule of Findings and Questioned Costs  
Federal Programs and State Projects  
Year Ended June 30, 2024**

**(Continued)**

---

***Finding 2024 - 02: Over Accrual of Revenues and Expenses (Continued)***

*Condition:* Management did not identify accrual entries that were not subsequently reversed.

*Cause:* Lack of appropriate monitoring of accrual and reversal entries.

*Effect:* Management has SR revenue and expenses double-booked and overstated revenues and expenses.

*Recommendation:* We recommend that management implement controls to prevent or detect and correct errors resulting from reversal entries not being recorded properly.

*Views of responsible officials and planned corrective actions:* Management agrees with this finding based on the above criterion. Please refer to the Corrective Action Plan.

**Section III - Federal Award Findings and Questioned Costs**

***Finding 2024 - 01: Ineligible Recipient***

Federal Awards and Specific Award Identifications:

U.S. Department of Health and Human Services: School Readiness

ALN's: 93.575 & 93.558

*Criteria:* Recipients who become ineligible due to aging out should be identified at the time of ineligibility and be excluded from future billings.

*Condition:* Management did not identify an ineligible recipient in a timely manner, resulting in an ineligible recipient receiving funding through the School Readiness program.

*Cause:* Lack of appropriate monitoring over eligibility requirements for recipients.

*Effect:* Management included the ineligible recipient in reimbursement requests and received funding for the same recipient.

*Questioned costs:* A sample of 40 items was tested in which 1 item did not meet the eligibility criteria for grant reimbursement. This error resulted in improper reimbursement of \$1,948. This error was extrapolated to the sample population which resulted in total questioned costs of \$277,342.

*Recommendation:* We recommend that management implement controls to prevent or detect and correct errors resulting from ineligible recipients receiving funding.

*Views of responsible officials and planned corrective actions:* Management agrees with this finding based on the above criterion. Please refer to the Corrective Action Plan.

## **Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

### **Independent Auditor's Report**

Board of Directors  
Episcopal Children's Services, Inc.  
Jacksonville, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Episcopal Children's Services, Inc., which comprise the statement of financial position as of June 30, 2024, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 20, 2024.

### **Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Episcopal Children's Services, Inc.'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the effectiveness of Episcopal Children's Services, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Episcopal Children's Services, Inc.'s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and responses [Schedule of Findings and Questioned Costs] as item 2024-02 that we consider to be a significant deficiency.

### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Episcopal Children's Services, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2024-01.

### ***Management's Response to Findings***

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Episcopal Children's Services, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Episcopal Children's Services, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

***Forvis Mazars, LLP***

**Jacksonville, Florida  
November 20, 2024**

## **Report on Compliance for Each Major Program and Major State Project and on Internal Control Over Compliance Required by the Uniform Guidance and Chapter 10.650, *Rules of the Auditor General***

### **Independent Auditor's Report**

Board of Directors  
Episcopal Children's Services, Inc.  
Jacksonville, Florida

### **Report on Compliance for Each Major Federal Program and Major State Project**

#### ***Opinion on Each Major Federal Program and State Project***

We have audited Episcopal Children's Services, Inc.'s compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* and described in the Department of Financial Services State Projects Compliance Supplement that could have a direct and material effect on each of Episcopal Children's Services, Inc.'s major federal programs and state projects for the year ended June 30, 2024. Episcopal Children's Services, Inc.'s major federal programs and major state projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Episcopal Children's Services, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs and state projects for the year ended June 30, 2024.

#### ***Basis for Opinion on Each Major Federal Program and State Project***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and *Rules of the Auditor General* Chapter 10.650, *Florida Single Audit Act Audits Nonprofit and For-Profit Organizations*. Our responsibilities under those standards and the Uniform Guidance are further described in the "Auditor's Responsibilities for the Audit of Compliance" section of our report.

We are required to be independent of Episcopal Children's Services, Inc. and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program and state project. Our audit does not provide a legal determination of Episcopal Children's Services, Inc.'s compliance with the compliance requirements referred to above.

### **Responsibilities of Management for Compliance**

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Episcopal Children's Services, Inc.'s federal programs and state projects.

### **Auditor's Responsibilities for the Audit of Compliance**

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Episcopal Children's Services, Inc.'s compliance based on our audit. 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 generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Episcopal Children's Services, Inc.'s compliance with the requirements of each major federal program and state project as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, the Uniform Guidance, and *Rules of the Auditor General Chapter 10.650, Florida Single Audit Act Audits Nonprofit and For-Profit Organizations*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Episcopal Children's Services, Inc.'s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Episcopal Children's Services, Inc.'s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance and *Rules of the Auditor General Chapter 10.650, Florida Single Audit Act Audits of Nonprofit and For-Profit Organizations*, but not for the purpose of expressing an opinion on the effectiveness of Episcopal Children's Services, Inc.'s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2024-01. Our opinion on each major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on Episcopal Children's Services, Inc.'s response to the noncompliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. Episcopal Children's Services, Inc.'s response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response. Episcopal Children's Services, Inc. is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. Episcopal Children's Services, Inc.'s corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

### **Report on Internal Control Over Compliance**

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program and state project on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program and state project will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program and state project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the "Auditor's Responsibilities for the Audit of Compliance" section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and *Rules of the Auditor General* Chapter 10.650, *Florida Single Audit Act Audits of Nonprofit and For-Profit Organizations*. Accordingly, this report is not suitable for any other purpose.

**Forvis Mazars, LLP**

**Jacksonville, Florida  
November 20, 2024**



## 2023-2024 Financial Audit Summary of Findings

### Current Year Finding

#### **Finding 2024-01**

##### *Ineligible Recipient*

*Criteria:* Recipients who become ineligible due to aging out should be identified at the time of ineligibility and be excluded from future billings.

*Condition:* Management did not identify an ineligible recipient in a timely manner, resulting in an ineligible recipient receiving funding through the School Readiness program.

*Effect:* Management included the ineligible recipient in reimbursement requests and received funding for the same recipient.

*Cause:* Lack of appropriate monitoring over eligibility requirements for recipients.

*Recommendation:* We recommend that management implement controls to prevent or detect and correct errors resulting from ineligible recipients receiving funding.

*Views of responsible officials and planned corrective actions:* Management agrees with this finding based on the above criterion. Please refer to the Corrective Action Plan.

#### **Finding 2024-02**

##### *Over Accrual of Revenues and Expenses*

*Criteria:* Monthly accrual entries for School Readiness ("SR") revenue and expenses are recorded and subsequently reversed to ensure amounts are not double-booked.

*Condition:* Management did not identify accrual entries that were not subsequently reversed.

*Effect:* Management has SR revenue and expenses double-booked and overstated revenues and expenses.

*Cause:* Lack of appropriate monitoring of accrual and reversal entries.

*Recommendation:* We recommend that management implement controls to prevent or detect and correct errors resulting from reversal of entries not being recorded properly.

*Views of responsible officials and planned corrective actions:* Management agrees with this finding based on the above criterion. Please refer to the Corrective Action Plan.



# Corrective Action Plan

For the Fiscal Year Ended June 30, 2024

---

## ***Finding 2024-01***

*Name of contact person:* Teresa Matheny, Chief Programs Officer

*Correction Action:* Management determined that this recipient was ineligible during the program year and changed their status to inactive. However, new staff did not process reimbursement for the overpayment. To address this, management has improved its quality assurance procedures by having personnel run monthly eligibility reports to identify recipients whose ages fall outside acceptable ranges prior to submitting the monthly invoice. Any ineligible recipients who have not been terminated will be promptly removed from service and excluded from the monthly invoice. The quality assurance team will also evaluate any potential overpayments that may have occurred and, if necessary, will apply refunds as credits on the next invoice to the Division of Early Learning.

In relation to the issue mentioned in this finding, management has recorded the amount of \$1,947.06 as a credit on a Prior Year 23-24 Invoice in the 5045 report and has processed this amount for repayment to the Division of Early Learning as of September 13, 2024.

Management conducted a thorough review of the identified eligibility issue and found only two cases among all enrolled participants. The total claims billed after the age-out date that remain unpaid amounted to \$4,503.69 for both instances during the fiscal year. These amounts have been submitted to the Division of Early Learning for repayment.

*Proposed completion date:* Management has already put the new quality assurance processes in place to tackle potential eligibility issues, and the reimbursement for the overpayment will be included in the September 5045 report scheduled for October 2024.

## ***Finding 2024-02***

*Name of contact person:* Wendy Hughes, Chief Business Officer

*Correction Action:* Management identified a flaw in the process control for accruing School Readiness ("SR") revenue and expenses. Upon discovery, this process was halted, and a revised workflow was developed to ensure clear segregation of duties and effective reconciliation controls for accurate revenue recording. Additionally, separate reconciliation measures were established to verify revenue totals against payment receipts on a monthly, quarterly, and annual basis. System security controls were also assessed and updated to guarantee that proper review and posting procedures are in place for all accounting team members, with supervisors overseeing and posting all transactions.



*Proposed completion date:* As of October 14, 2024, management has implemented a clear process to redefine the recording procedures for SR revenue and expenses, and security controls in the accounting system have been updated. Staff received training on the new procedures on October 18, 2024, and the revised process took effect immediately after that training.

