EPWORTH
Children & Family Services

Financial Statements with Independent Auditor's Report

DECEMBER 31, 2018

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BROWN SMITH WALLACE
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Independent Auditor's Report

Board of Directors
Epworth Children & Family Services, Inc.
Saint Louis, Missouri

Report on the Financial Statements

We have audited the accompanying financial statements of Epworth Children & Family Services, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility 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; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audit in accordance with 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements 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 the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Epworth Children & Family Services, Inc. as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is 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 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 April 25, 2019 on our consideration of the Organization'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 the Organization's internal control over financial reporting and compliance.

Brown Smith Wallace, LLP

Saint Louis, Missouri
April 25, 2019

EPWORTH CHILDREN & FAMILY SERVICES, INC.

Statement of Financial Position
December 31, 2018

ASSETS		
Cash and cash equivalents	$	**980,576**
Investments, at fair value		**5,213,538**
Accounts receivable, less allowance for doubtful accounts of $149,331		**1,229,076**
Contributions receivable, less allowance for doubtful accounts of $56,536		**97,709**
Grants receivable		**791,978**
Prepaids and other assets		**165,331**
Property and equipment, net		**3,609,488**
Beneficial interest in trusts, at fair value		**2,626,280**
TOTAL ASSETS	**$**	**14,713,976**
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	**$**	**104,778**
Accrued expenses		**416,712**
Other liabilities		**155,512**
Total Liabilities		**677,002**
Net Assets		
Without donor restrictions:		
Undesignated		**1,728,868**
Board designated for investments		**2,050,068**
Investment in property and equipment		**3,609,486**
Total Without Donor Restrictions		**7,388,422**
With donor restrictions		**6,648,552**
Total Net Assets		**14,036,974**
TOTAL LIABILITIES AND NET ASSETS	**$**	**14,713,976**

The accompanying notes are an integral part of these financial statements.

EPWORTH CHILDREN & FAMILY SERVICES, INC.

Statement of Activities

Year ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND PUBLIC SUPPORT			
Revenue:			
Fees for service	$ 7,571,034	$ -	$ 7,571,034
Federal and state grants	1,187,108	-	1,187,108
Investment income	(224,839)	(208,368)	(433,207)
Other income	94,678	-	94,678
Total revenue	8,627,981	(208,368)	8,419,613
Public support:			
Contributions	1,185,693	302,625	1,488,318
Special events	474,315	-	474,315
Change in value of perpetual trusts	-	(435,602)	(435,602)
Legacies, bequests and trusts	303,623	-	303,623
In-kind rent	70,500	-	70,500
United Way of Greater St. Louis	-	664,058	664,058
Total public support	2,034,131	531,081	2,565,212
Net assets released from restrictions	1,202,346	(1,202,346)	-
TOTAL REVENUE AND PUBLIC SUPPORT	11,864,458	(879,633)	10,984,825
EXPENSES			
Program services:			
Residential treatment	3,057,998	-	3,057,998
Community services	1,607,387	-	1,607,387
Emergency shelter	883,714	-	883,714
Foster care	2,130,982	-	2,130,982
Older youth services	1,277,918	-	1,277,918
Family support services	1,181,984	-	1,181,984
Prevention services	360,010	-	360,010
Psychological services	411,577	-	411,577
Total program services	10,911,570	-	10,911,570
Supporting services:			
Management and general	1,371,219	-	1,371,219
Fundraising	891,627	-	891,627
Total supporting services	2,262,846	-	2,262,846
TOTAL EXPENSES	13,174,416	-	13,174,416
CHANGE IN NET ASSETS	(1,309,958)	(879,633)	(2,189,591)
Net assets, beginning of year	8,698,380	7,528,185	16,226,565
Net assets, end of year	$ 7,388,422	$ 6,648,552	$ 14,036,974

The accompanying notes are an integral part of these financial statements.

EPWORTH CHILDREN & FAMILY SERVICES, INC.

Statement of Functional Expenses
Year ended December 31, 2018

	Program Services									Supporting Services			
	Residential Treatment	Community Services	Emergency Shelter	Foster Care	Older Youth Services	Family Support Services	Prevention Services	Psychological Services	Total	Management and General	Fundraising	Total	Total Expenses
Salaries	$ 1,740,647	$ 581,805	$ 536,483	$ 736,135	$ 592,701	$ 746,197	$ 177,820	$ 257,220	$ 5,369,008	$ 1,025,081	$ 478,621	$ 1,503,702	$ 6,872,710
Employee benefits and payroll taxes	309,937	84,902	129,292	306,102	121,352	232,748	57,261	49,307	1,290,901	115,783	112,829	228,612	1,519,513
Total salaries and related expenses	2,050,584	666,707	665,775	1,042,237	714,053	978,945	235,081	306,527	6,659,909	1,140,864	591,450	1,732,314	8,392,223
Professional fees	253,911	56,655	19,451	631,784	48,541	47,672	24,270	15,169	1,097,453	10,712	161,780	172,492	1,269,945
Supplies	14,470	4,196	8,662	7,115	8,098	9,201	2,094	2,121	55,957	11,516	29,474	40,990	96,947
Food service	138,528	121	86,547	130	24	403	-	244	225,997	1,900	1,289	3,189	229,186
Telephone	35,200	20,560	9,524	14,894	22,715	12,786	11,132	7,170	133,981	2,645	4,308	6,953	140,934
Utilities	60,700	19,077	13,874	15,609	20,811	6,937	6,937	8,671	152,616	17,343	3,469	20,812	173,428
Printing and postage	3,680	2,208	883	1,619	2,355	1,383	1,178	958	14,264	442	28,466	28,908	43,172
Repairs and maintenance	71,978	22,622	16,452	18,509	24,678	8,226	8,226	10,283	180,974	10,361	4,113	14,474	195,448
Training, travel, meetings and memberships	20,895	36,882	7,247	37,721	29,815	42,803	9,708	4,673	189,744	2,269	5,889	8,158	197,902
Automobile expense	6,568	3,941	1,576	2,890	4,204	2,365	2,102	1,314	24,960	788	525	1,313	26,273
Client assistance	44,594	665,736	10,886	285,946	154,090	5,993	6,303	7,425	1,180,973	-	-	-	1,180,973
Insurance	39,310	23,586	9,434	17,296	25,158	14,151	12,579	7,862	149,376	4,717	3,145	7,862	157,238
Interest	-	-	-	703	1,406	-	-	703	2,812	-	-	-	2,812
Bad debt	67,610	40,566	16,226	29,748	43,270	24,340	21,635	13,522	256,917	8,113	49,830	57,943	314,860
Rent	67,696	15,116	6,820	15,311	14,067	13,552	12,673	4,396	149,631	11,802	3,873	15,675	165,306
Miscellaneous	2,836	332	798	329	51,653	1,726	239	84	57,997	62,043	4,016	66,059	124,056
Total expenses before depreciation	2,878,560	1,578,305	874,155	2,121,841	1,164,938	1,170,483	354,157	391,122	10,533,561	1,285,515	891,627	2,177,142	12,710,703
Depreciation	179,438	29,082	9,559	9,141	112,980	11,501	5,853	20,455	378,009	85,704	-	85,704	463,713
Total expenses	$ 3,057,998	$ 1,607,387	$ 883,714	$ 2,130,982	$ 1,277,918	$ 1,181,984	$ 360,010	$ 411,577	$ 10,911,570	$ 1,371,219	$ 891,627	$ 2,262,846	$ 13,174,416

The accompanying notes are an integral part of these financial statements.

EPWORTH CHILDREN & FAMILY SERVICES, INC.

Statement of Cash Flows

Year ended December 31, 2018

Cash flows from operating activities:		
Change in net assets	$	(2,189,591)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation		463,713
Loss on disposal of property and equipment		229
Change in allowance for receivables		112,539
Change in value of beneficial interest in trusts		435,602
Net unrealized losses on investments		630,564
Net realized gains on investments		(183,923)
(Increase) decrease in assets and liabilities:		
Accounts receivable		(361,150)
Grants and contributions receivable		6,516
Prepaids and other assets		95,752
Accounts payable		(42,992)
Accrued expenses and other liabilities		77,601
Net cash used in operating activities		(955,140)
Cash flows from investing activities:		
Purchases of property and equipment		(89,868)
Proceeds from sales of investments		279,260
Purchases of investments		(78,157)
Net cash provided by investing activities		111,235
Cash flows from financing activities		
Payments on note payable		(319,861)
Net cash used in financing activities		(319,861)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(1,163,766)
Cash and cash equivalents, beginning of year		2,144,342
Cash and cash equivalents, end of year	$	980,576
Supplemental disclosure:		
Cash paid during the year for interest	$	2,812

The accompanying notes are an integral part of these financial statements.

Note A - Operations and Summary of Significant Accounting Policies

Operations

Epworth Children & Family Services, Inc. ("Epworth" or "the Organization") is a not-for-profit charitable corporation that provides a wide array of services to children, youth and families in need, strengthening the capacity of each to thrive in society. For more than 150 years, Epworth has provided the community with essential youth development services that have helped thousands of children overcome severe emotional and behavioral challenges. Epworth's innovative, holistic, and comprehensive treatment approach helps youth focus on solutions, build on inherent strengths and communicate more effectively. Youth and families turn to Epworth for foster care, emergency shelter, residential treatment, transitional living services, educational day treatment services, family support services, prevention services and psychological services each year. Epworth's revenue and support are derived primarily from local, state and federal agencies, along with public contributions.

In addition, Epworth is a member of the Children's Permanency Partnership, LLC, a for-profit LLC, which provides foster care case management services to youth in the custody of the State of Missouri.

Financial Statements Presentation

The following is a description of the two classes of net assets of the Organization:

Net Assets Without Donor Restrictions – Net assets available for use in the general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated funds, from net assets without donor restrictions for specific operating purposes.

Net Assets With Donor Restrictions – Net assets subject to donor imposed restrictions that are either temporary or perpetual in nature. Temporary donor-imposed restrictions will be met by events specified by the donor or the passage of time. Perpetual donor-imposed restrictions are indefinite, with the income from the contribution being available for expenditure, as defined by the donor. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated purpose for which the resource was restricted has been fulfilled.

Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restriction are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Donor-restricted contributions received and satisfied in the same year are reported as increases in contributions without donor restrictions.

Note A - Operations and Summary of Significant Accounting Policies (Continued)

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and accordingly, reflect all significant receivables, payables and other liabilities. Revenues and expense are recognized in the period which they are earned or incurred.

Change in Accounting Principle

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements for Not-for-Profit Entities.* The update addresses the complexity and understandability of net asset classifications, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has implemented ASU 2016-14 and has adjusted the presentation of the 2018 financial statements accordingly.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid financial instruments, excluding cash held in the investment accounts, with a maturity as of the financial statement date of three months or less to be cash equivalents. The Organization maintains cash balances at various major domestic financial institutions in amounts that at times may exceed federally insured limits. The Organization has not incurred any losses as a result of the excess balances.

Accounts and Grants Receivable

Accounts and grants receivable are fees for services and grants which are stated at the amount management expects to collect from outstanding balances. Invoices are considered past due once they are outstanding over 30 days. Management provides for probable uncollectible amounts through a charge against earnings and a corresponding increase in a valuation allowance based on its assessment of the current status of individual accounts. Balances still outstanding after management has used reasonable collection efforts are written off through a reduction in the valuation allowance and the receivable.

Investments

Investments are stated at fair value. Investment income is recognized when earned.

Note A - Operations and Summary of Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment in excess of $1,000 is recorded at cost or, if received by gift or bequest, at the market value at the date of donation. If the donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In absence of such stipulations, contributions of property and equipment are reported as support without donor restrictions. In 2018, the Organization did not receive contributions of property and equipment considered restricted support.

Depreciation is recorded on the straight-line basis over the estimated useful lives of the assets as follows: buildings and improvements, five to thirty years; furniture and equipment, three to fifteen years; automobiles, five years; and computers and software, three to five years. Expenditures for major renewals and improvements, which increase the useful lives of respective assets, are capitalized. Maintenance and repairs are expensed as incurred.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value and the carrying value of the asset. For the year ended December 31, 2018, management determined that no impairment loss needs to be recognized.

Other Liabilities

Other liabilities primarily consist of a medical claims reserve for the year ended December 31, 2018. As the Organization is self-funded for medical insurance purposes, a medical claims reserve has been established to capture the estimated incurred, but not reported claims liability. This reserve amounted to $110,000 for the year ended December 31, 2018.

Contributions

The Organization recognizes contributions as revenue when an unconditional promise is made. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as support with donor restrictions that increase the related net asset class. Support is released from restrictions once timing or donor stipulations have been satisfied.

Note A - Operations and Summary of Significant Accounting Policies (Continued)

Contributions (Continued)

In addition to receiving cash contributions, the Organization receives in-kind contributions of rental space and other items from donors. It is the Organization's policy to record the estimated fair value of certain in-kind donations as an expense in its financial statements and similarly increase in contribution revenue by a like amount. The Organization records those donations if their value is readily ascertainable and if the services performed require expertise.

Functional Expense Allocation

The Organization allocates expenses on a functional basis among various programs and supporting activities. Expenses that can be identified with a specific program and supporting activities are allocated directly according to their natural expenditure classifications.

Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated are salaries and benefits, professional fees, supplies, food service expense, telephone expense, utilities, printing and postage, repairs and maintenance, training and travel, automobile expense, insurance, interest, based debt, debt, and rent. The allocable expenses are allocated based on time and effort estimates for the various departments. Depreciation expense is allocated based on the location at which the asset is utilized.

Donated Services and Goods

The Organization records donated services and goods in accordance with *FASB ASC 958-605, Revenue Recognition.* As such, donated services are recognized when the service either creates or enhances a non-financial asset or requires specialized skill that would be purchased if the service was not donated. There were no such services during the year ended December 31, 2018.

Additionally, the Organization records donated goods as support at their estimated values, if determinable. For the year ended December 31, 2018, the Organization received donated rent valued at $70,500. During the year ended December 31, 2018, the Organization received $0 of donated assets.

Note A - Operations and Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Tax Status

The Organization constitutes a qualified not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code and is, therefore, exempt from federal income taxes.

In that regard, the Organization has evaluated its tax positions, expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings and believes that no provision for income taxes is necessary, at this time, to cover any uncertain tax positions.

Subsequent Events

The Organization evaluated all subsequent events through April 25, 2019, the date the financial statements were available to be issued.

Note B - Liquidity and Availability of Resources

Financial assets available for general expenditure, that is, without donor or management restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash and cash equivalents	$ 980,576
Accounts receivable	1,229,076
Grants receivable	791,978
Contributions receivable	97,709
Less non-current annuities	(73,480)
Endowment spending-rate distributions and appropriations (5%)	59,512
Board-designated investment distributions and appropriations (5%)	102,503
Distributions from beneficial interests in assets held by others	127,000
Less cash and receivables with donor restrictions	(662,358)
	$ 2,652,516

Note B - Liquidity and Availability of Resources (Continued)

In addition to the above resources, the Organization also holds a $500,000 line-of-credit with a maturity date of June 30, 2019. See Note H for more information on the line-of-credit.

The Organization has an endowment fund in which the investment income is restricted for building maintenance and improvements. The Organization has adopted a 5% spending policy for the endowment based on the prior calendar year's ending investment balance. For the year ending December 31, 2019, the Organization may withdraw up to $98,661 to assist with building maintenance and improvements.

The Organization has a board-designated investment fund with an annual spending rate of 5% as described in Note K. Although the Organization does not intend to exceed the spending policy rate, these amounts could be made available, if necessary.

Note C - Contributions Receivable

At December 31, 2018, contributions receivable was as follows:

Short-term contributions receivable	$ 80,765
Annuities receivable	73,480
Allowance for uncollectible accounts	(56,536)
	$ 97,709

Substantially all short-term contributions receivable are expected to be collected within one year.

Note D - Prepaid and Other Assets

At December 31, 2018, prepaid and other assets were as follows:

Prepaid expenses	$ 149,525
Investment in Children's Permanency Partnership	15,806
	$ 165,331

The Investment in Children's Permanency Partnership represents Epworth's share of the partnership assets for which it is a member and is calculated using the equity method of accounting.

Note D - Prepaid and Other Assets (Continued)

On April 22, 2005, the Organization became a member of the Children's Permanency Partnership, LLC, which entitles the Organization to a percentage of the overall earnings based on their case load. As of December 31, 2018, the Organization was a 35% member of the for-profit entity. Although ownership in the Limited Liability Corporation reflects a noncontrolling interest, the percentage of ownership can fluctuate and, as a result, the Organization accounts for this investment under the equity method.

Following is a summary of the financial position and results of operations of Children's Permanency Partnership, LLC, as of and for the year ended December 31, 2018:

	Unaudited
Total assets	$ 833,044
Total liabilities	666,137
Members' equity	$ 166,907
Revenue	$ 15,174,736
Net loss	$ (309,963)

Note E - Beneficial Interest in Trusts

The Organization is a named beneficiary of irrevocable deferred gifts. These amounts are held by third-party trustees and are included in net assets with donor restrictions by the Organization. At December 31, 2018, these assets, including investments and real estate, were valued at $2,626,280.

Note F - Property and Equipment

Property and equipment at December 31, 2018, are comprised of the following:

Land, buildings and improvements	$ 10,120,517
Furniture and equipment	1,134,902
Computers and software	801,142
Automobiles	222,903
	12,279,464
Less: accumulated depreciation	(8,669,976)
	$ 3,609,488

Note F - Property and Equipment (Continued)

The Organization leases a major portion of its land at no cost from the Women's Division of the United Methodist Church, a related party. In the event the Organization resolves to vacate this leased property, the Women's Division, at its option, shall either sell the leased property and invest the proceeds in a new site for the Organization under similar lease terms or reimburse the Organization for the fair value of the buildings and the improvements it made on the leased property. For the year ended December 31, 2018, Epworth has recorded an estimated fair value for this lease of $70,500 as both in-kind contribution income and rent expense.

On February 4, 2014, the Organization entered into a Missouri Affordable Housing Credit Program agreement with the Missouri Housing Development Commission. As a part of the agreement, the Organization's building utilized by the YES program is subject to a Land Use Restriction Agreement. Under the agreement, Epworth must operate, maintain, and manage the building as a homeless shelter under the YES program.

Note G - Defined Contribution Plan

The Organization's 401(k) Plan allows full and part time employees to defer a portion of their wages and receive a discretionary match on those deferrals not to exceed federal limits. Employees are eligible to enroll upon completion of their first year of service (12 months) and 1,000 work hours following their date of hire. If an employee does not meet the eligibility requirements in the first 12 months after hire, s/he can meet these requirements if 1,000 hours are worked in the following calendar year. Enrollment entry dates are January 1 or July 1 of the plan year.

The plan is a 2-year vesting plan. Epworth matches a maximum of 50% of the first 3% contributed by the employee. The Organization did not make a discretionary contribution to the 401(k) plan during 2018.

Note H - Line-of-Credit

During the year ended December 31, 2018, the Organization renewed its $500,000 uncommitted line-of-credit agreement with U.S. Bank, which matures on June 30, 2019. The interest rate on the line was 4.63% as of December 31, 2018. The balance is collateralized by receivables. As of December 31, 2018, there was no balance outstanding on the line-of-credit.

Note I - Fair Value Measurements of Assets and Liabilities

The Organization follows FASB ASC 820-10, *Fair Value Measurements and Disclosures.* FASB ASC 820-10 establishes a framework for measuring fair value and expands disclosures about fair value measurements.

FASB ASC 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC 820-10 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in active markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Common stocks, corporate bonds and U.S. government securities: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual Funds: Valued at the net assets value (NAV) of shares held at year end.

Beneficial interests in trusts: Measured at fair value on a recurring basis using significant third-party trust valuations and management's estimate of the value of the Organization's share of the investment.

Management determines the fair value measurement valuation policies and procedures, which are subject to Board assessment and approval. At least annually, management determines if the current valuation techniques used in fair value measurements are still appropriate.

Note I - Fair Value Measurements of Assets and Liabilities (Continued)

The Organization recognizes transfers between levels in the fair value hierarchy at the end of the reporting period. There were no transfers between levels for the year ending December 31, 2018.

The following table present the fair value measurements of investments recognized in the accompanying statement of financial position measured at fair value on a recurring basis and the level within the FASB ASC 820-10 fair value hierarchy in which the fair value measurements fall at December 31, 2018:

Description	Level 1	Level 2	Level 3	Balance 12/31/2018
Investments:				
Money market funds	$ 159,882	$ -	$ -	$ 159,882
Domestic exchange funds	154,609	-	-	154,609
Domestic mutual funds	1,894,664	-	-	1,894,664
International mutual funds	861,534	-	-	861,534
Credit funds	194,012	-	-	194,012
Diversified taxable mutual funds	1,795,792	-	-	1,795,792
Taxable high yield funds	71,376	-	-	71,376
Domestic preferred stock	61,084	-	-	61,084
Emerging markets	20,585	-	-	20,585
Total - Investments	$ 5,213,538	$ -	$ -	$ 5,213,538
Beneficial interest in trusts	$ -	$ -	$ 2,626,280	$ 2,626,280

The following is a reconciliation of the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the year ended December 31, 2018:

Beginning balance	$ 3,061,882
Decrease in fair value	(435,602)
Ending balance	$ 2,626,280

Note J - Endowment Funds

The Organization follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The Organization's endowment consists only of donor-designated funds; there were no board designated endowment funds during 2018. The named endowment funds are for general operating purposes except for the Odom funds, the earnings of which are restricted for building maintenance and improvements.

The Board of Directors has interpreted state law as requiring the preservation of the fair value of the original gift as of the date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization retains in perpetuity (a) the original value of initial and subsequent gift amounts (including promises to give net of discount and allowance for doubtful accounts donated to the endowment and (b) any accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by us in a manner consistent with the standard of prudence prescribed by UPMIFA. The Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

The Board of Directors adopted a spending rate of 5% per year based on the market value at the end of the previous calendar year for the endowment funds to provide a predictable stream of funding for operations while seeking to maintain the purchasing power of the endowment assets.

Note J - Endowment Funds (Continued)

Endowment asset composition as of December 31, 2018:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	$ -	$ 5,277,887	$ 5,277,887
Accumulated investment earnings	-	511,862	511,862
	$ -	$ 5,789,749	$ 5,789,749

Changes in endowment assets for the year ended December 31, 2018:

2018	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, Beginning of Year	$ -	$6,611,244	$6,611,244
Investment return	-	(208,368)	(208,368)
Change in value of perpetual trusts	-	(435,602)	(435,602)
Amounts released for expenditure	-	(177,525)	(177,525)
Endowment Net Assets, End of Year	$ -	$5,789,749	$5,789,749

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Organization have interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2018, funds with original gift values of $2,651,607, fair values of $3,163,471, and no deficiencies were reported in net assets with donor restrictions.

Note K - Net Assets Board Designated for Investments

The Organization holds an investment account that is restricted for long-term growth by the Board of Directors. Board restricted net assets at December 31, 2018, were $2,050,068. The investments are governed by a 5% annual spending rate policy. With Board approval, the Organization may exceed the annual spending rate.

Note L - Net Assets With Donor Restrictions

The Organization's net assets as of December 31, 2018, are restricted for the following purposes:

Subject to expenditure for specific purpose:	
United Way support	**$ 664,078**
Endowment earnings for operating expenses	**423,612**
Endowment earnings for capital improvements	**88,250**
Older youth services projects	**150,496**
	1,326,436
Subject to the passage of time:	
Promises to give that are not restricted by donors, but which are unavailable for expenditures until due	**44,229**
Endowments:	
Subject to endowment spending policy and appropriation:	
Gambrill funds	**250,000**
Adams funds	**102,288**
Hart funds	**232,611**
Odom funds	**1,620,565**
Other	**446,143**
Total Endowments	**2,651,607**
Not subject to spending policy or appropriation:	
Beneficial interest in trusts	**2,626,280**
	$ 6,648,552

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by the donors as follows for the year ended December 31, 2018.

Net assets released:	
Expiration of time restrictions	**728,898**
Satisfaction of program restrictions	**473,448**
	$ 1,202,346

Note M - Leases

The Organization leases equipment under operating leases expiring at various dates through 2020. Rental expense from these agreements was $99,646 for the year ended December 31, 2018.

Future minimum lease payments as of December 31, 2018, are as follows:

Years ending December 31,	Amount
2019	$ 72,954
2020	17,496

Note N - Concentrations

For the year ended December 31, 2018, approximately 20% of the Organization's revenue and public support is provided by one local government agency.

Supplemental Information

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THE FIRM FOR GROWTH.

Independent Auditor's 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

Board of Directors
Epworth Children & Family Services, Inc.
Saint Louis, Missouri

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 Epworth Children & Family Services, Inc., which comprise the statement of financial position as of December 31, 2018, 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 April 25, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Epworth Children & Family Services, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Epworth Children & Family Services, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Epworth Children & Family 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 Organization's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficienc*y 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 the 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Epworth Children & Family Services, Inc.'s financial statements are free of 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 determination of financial statement amounts. 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 no instances of noncompliance but did identify 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 items 2018-001.

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 the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brown Smith Wallace, LLP

Saint Louis, Missouri
April 25, 2019

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Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by Uniform Guidance

Board of Directors
Epworth Children & Family Services, Inc.
Saint Louis, Missouri

Report on Compliance for Each Major Federal Program

We have audited Epworth Children & Family Services, Inc.'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Epworth Children & Family Services, Inc.'s major federal programs for the year ended December 31, 2018. Epworth Children & Family Services, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Epworth Children & Family Services, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. 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; and the audit requirements of Title 2 U.S. Code *Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Epworth Children & Family Services, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Epworth Children & Family Services, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Epworth Children & Family Services, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2018.

Report on Internal Control over Compliance

Management of Epworth Children & Family Services, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Epworth's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Epworth's 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 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 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 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2018-002 to 2018-005, that we consider to be significant deficiencies.

Epworth Children & Family Services, Inc.'s response to the internal control over compliance findings identified in our audit is described in the accompanying corrective action plan. Epworth's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Brown Smith Wallace, LLP

Saint Louis, Missouri
April 25, 2019

EPWORTH CHILDREN & FAMILY SERVICES, INC.

Schedule of Expenditures of Federal Awards

Year ended December 31, 2018

Federal Grantor/Pass-through Grantor/ Program Titles	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Department of Health & Human Services			
Direct programs:			
Basic Center Program 10/1/16 - 9/30/19	93.623		$ 200,000
Transitional Living Program 4/01/14 - 3/31/19	93.550		186,000
			386,000
Pass Through From:			
Missouri Department of Health and Senior Services			
Prep Foster Youth Program 10/1/17 - 9/30/18	93.092	CS160541002	21,187
Total Department of Health and Human Services			407,187
Department of Housing and Urban Development			
Pass Through From:			
St. Louis County Department of Human Services		*	
Emergency Solutions Grant 5/1/17 - 4/30/18	14.231		6,664
Emergency Solutions Grant 5/1/17 - 4/30/18	14.231		24,042
Emergency Solutions Grant 5/1/18 - 4/30/19	14.231		18,238
Emergency Solutions Grant 5/1/18 - 4/30/19	14.231		23,176
Supportive Housing Program 11/1/17 - 10/31/18	14.235		29,339
Supportive Housing Program 11/1/18 - 10/31/19	14.235		205,451
Total Department of Housing and Urban Development			306,910
Department of Agriculture			
Child Nutrition Cluster			
Secondary Education		*	
School Breakfast Program	10.553		16,854
National School Lunch Program	10.555		22,974
Total Child Nutrition Cluster			39,828
Total Department of Agriculture			39,828
Total Expenditures of Federal Awards			**$ 753,925**

* Information not available.

Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2018

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Epworth Children & Family Services, Inc. and is presented on the accrual basis of accounting. 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). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note B - Indirect Cost Rate

For the year ended December 31, 2018, Epworth Children & Family Services, Inc. has elected to use the 10% de minimis indirect cost rate as allowed under Uniform Guidance.

EPWORTH CHILDREN & FAMILY SERVICES, INC.

Schedule of Findings and Questioned Costs
Year ended December 31, 2018

Summary of Auditor's Results

1. Financial Statements:

   a. The auditor's report expresses an unmodified opinion on the financial statements of Epworth Children & Family Services, Inc.

   b. Internal control over financial reporting:

i.	Material weakness identified?	No
ii.	Significant deficiencies identified?	No

   c. Noncompliance material to financial statements noted? No

2. Federal Awards:

   a. Internal Control over major programs:

i.	Material weakness identified?	No
ii.	Significant deficiencies identified?	Yes

   b. Noncompliance material to financial statements noted? No

   c. The auditor's report on compliance for the major federal award program expresses an unmodified opinion on all major federal programs.

   d. There were no audit findings relative to the major federal award program for Epworth Children & Family Services, Inc. noted that are required to be reported in accordance with 2 CFR section 200.516(a).

   e. The program tested as major program include:

CFDA Number	Name of Federal Program
93.550	Transitional Living Program/ Independent Living Program

   f. The threshold used for distinguishing between Type A and B programs was $750,000.

   g. Epworth Children & Family Services, Inc. is considered a low-risk auditee.

Findings – Financial Statements Audit – Year Ended December 31, 2018

2018-001 Review and Reporting of Grant Expenses

Criteria- Epworth Children & Family Services is responsible for tracking expenses applied to the grant to allow for proper monitoring of grant utilization.

Condition- Expenses attributed to grant clients and related services could not be segregated from overall program expenses.

Context- We noted expenses attributed to grant clients and services performed could not be segregated to provide reporting for those expenses applied against the grant.

Cause- The Organization does not track expenses by grant.

Effect- Failure to track expenses by grant for cost reimbursable grants could result in inaccurate reporting and the use of grant funding on clients unrelated to the grant.

Recommendation- Implement a formal procedure to track expenses by grant and evaluate actual expenses applied against the grant on a monthly basis.

Findings and Questioned Costs – Major Federal Awards Program

DEPARTMENT OF HEALTH & HUMAN SERVICES
Transitional Living Program—CFDA No. 93.550

2018-002 Internal Control Over Eligibility

Criteria- Epworth Children & Family Services is responsible for maintaining a proper internal control system over a client's administrative file record and initial eligibility determination.

Condition- The preventative review of a client's file and eligibility to be coded as a Basic Center Program recipient upon intake was not documented.

Context- We noted a lack of documentation of a review of a client's file at intake in 4 out of 6 instances.

Cause- The Organization did not consistently apply procedures calling for a documented preventative review of these files.

Findings and Questioned Costs – Major Federal Awards Program (Continued)

Effect- The lack of a documented preventative review could result in a client's program eligibility not being reviewed which could lead to potential noncompliance. However, no instances of noncompliance were noted as the result of the lack of a documented review.

Recommendation- Implement a formal procedure to review the client's file and eligibility upon intake to ensure they can be coded to the Basic Center Program.

2018-003 Internal Control to Monitor Days of Services

Criteria- Epworth Children & Family Services is responsible for maintaining a proper internal control system over a client's admittance and discharge to ensure they do not exceed the maximum allowable days of service as permitted by program compliance requirements.

Condition- A control did not exist to formally monitor clients and their related length of stays to ensure they did not exceed maximum allowable days of service.

Context- We noted a lack of documentation of a review of a client's days of service for 6 out of 6 instances.

Cause- The Organization did not implement a control to monitor the number of days of services a client receives.

Effect- The lack of a documented preventative review could result in clients exceeding the maximum allowable days of service resulting in excess grant expenses being utilized on the ineligible client.

Recommendation- Implement a formal procedure to review clients and their number of days of services to ensure no clients exceed the maximum allowable days as noted in compliance requirements.

2018-004 Review and Reporting of Grant Expenses

See finding 2018-001 under Financial Statements Audit.

Findings and Questioned Costs – Major Federal Awards Program (Continued)

2018-005 Review of Performance and Financial Reporting

Criteria- Epworth Children & Family Services is responsible for implementing and documenting controls over grant reporting.

Condition- Control and/or documentation of control related to reporting oversight did not exist.

Context- We noted a lack of review of performance reporting during 2018 and the lack of documentation of review of financial reporting during 2018.

Cause- Due to transition in staffing, the Organization did not implement a control to monitor or document oversight of grant reporting.

Effect- The lack of review may result in incorrect grant reporting and the loss or return of funding.

Recommendation- Implement a formal procedure documenting review of both performance and financial reporting prior to submission to the grantee.

Views of responsible officials and planned corrective action for item 2018-001:

While Epworth Children & Family Services, Inc. believes that we have properly monitored grant utilization, we are in agreement that there is no formal procedure to track expenses by grant. Based upon this finding, Epworth’s accounting department will implement an additional procedure during our monthly evaluation of all program expenses that will identify and track expenses by grant and allow Epworth to evaluate actual expenses applied against each grant on a monthly basis. This enhanced process will allow for precise tracking and reporting of all grant expenses.

Views of responsible officials and planned corrective action for item 2018-002:

Beginning in 2018, Epworth implemented a formal review of client eligibility at weekly Admissions staff meetings. Of the 6 participants selected for testing, the two without exceptions were new clients in 2018 that underwent the formal review during the Admissions meeting. Epworth will continue to use this process going forward.

Views of responsible officials and planned corrective action for item 2018-003:

Program management reviews client information and their number of days of services at weekly Admission staff meetings. While discussed, the review is not documented in meeting minutes. Going Forward, management will include a listing of the clients reviewed for maximum allowable days of service in the meeting minutes. Program management will then sign off on their attendance at the meeting, confirming their review of the listing of clients.

Views of responsible officials and planned corrective action for item 2018-004:

See management’s response for finding 2018-001 above.

Views of responsible officials and planned corrective action for item 2018-005:

While Epworth Children & Family Services, Inc. program personnel do review all documents related to grant reporting, we are in agreement that there is not a formal procedure documenting the review of both performance and financial reporting prior to submission of information to grantees. Based upon this finding, Epworth’s Supportive Housing Program is immediately implementing additional oversight and a formal procedure to document the review of both performance and financial reporting prior to submission to the grantee. This additional procedure will help assure that grant reporting is timely and accurate.

EPWORTH CHILDREN & FAMILY SERVICES, INC.

Summary Schedule of Prior Audit Findings

Year ended December 31, 2018

Findings and Questioned Costs – Major Federal Awards Program

DEPARTMENT OF HEALTH & HUMAN SERVICES
Basic Center Program—CFDA No. 93.623

2017-001 Internal Control Over Eligibility

Condition- The review of a client's file and eligibility to be coded as a Basic Center Program recipient upon intake was not documented.

Recommendation- Implement a formal procedure to review the client's file and eligibility upon intake to ensure they can be coded to the Basic Center Program.

Current Status- The finding does not warrant further action. The recommendation was adopted in May 2018 for all new clients going forward. The Organization did not implement a retrospective review of clients who entered the program prior to 2018.