# *EMMAUS HOMES, INC.*

*CONSOLIDATED FINANCIAL STATEMENTS*

*JUNE 30, 2023*

Emmaus

## Contents

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## Independent Auditors' Report

Board of Directors
Emmaus Homes, Inc.
St. Charles, Missouri

### *Opinion*

We have audited the consolidated financial statements of Emmaus Homes, Inc.. and its subsidiaries, Emmaus Resident Trust Foundation, L.L.C. and Emmaus Properties, L.L.C., not-for-profit organizations, (collectively, the Organization) which comprise the consolidated statement of financial position as of June 30, 2023 and 2022, and the related consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

### *Basis For Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities For The Audit Of The Consolidated Financial Statements section of our report. We are required to be independent of the Organization 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 Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization' ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

***Auditors' Responsibilities For The Audit Of The Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 auditing standards generally accepted in the United States of America 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 consolidated financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 the Organization'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization'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.

RubinBrown LLP

November 2, 2023

# EMMAUS HOMES, INC.

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

**Assets**

| | June 30, 2023 | June 30, 2022 |
|---|---|---|
| **Current Assets** | | |
| Cash and cash equivalents | $ 4,931,306 | $ 8,141,212 |
| Cash held for clients | 452,807 | 557,709 |
| Accounts receivable (net of allowance for doubtful accounts of $50,698 in 2023 and $36,666 in 2022) | 3,314,715 | 2,267,871 |
| Grants receivable | 82,168 | 94,020 |
| Unconditional promises to give, net | 155,423 | 144,919 |
| Prepaid expenses | 203,705 | 202,596 |
| Investments | 5,043 | 5,128 |
| **Total Current Assets** | 9,145,167 | 11,413,455 |
| **Other Assets** | | |
| Unconditional promises to give, net | 55,300 | — |
| Investments restricted/designated for endowment | 21,782,182 | 20,287,357 |
| Annuities receivable | 79,512 | 75,259 |
| Other assets | 82,100 | 104,364 |
| Property and equipment | 3,102,389 | 3,190,516 |
| Right-of-use assets | 66,059 | — |
| Beneficial interests in perpetual trusts | 3,737,241 | 3,490,852 |
| **Total Other Assets** | 28,904,783 | 27,148,348 |
| **Total Assets** | $ 38,049,950 | $ 38,561,803 |

**Liabilities And Net Assets**

| | June 30, 2023 | June 30, 2022 |
|---|---|---|
| **Current Liabilities** | | |
| Current maturities of long-term debt | $ 206,228 | $ 21,733 |
| Current portion of lease liabilities | 44,649 | 51,852 |
| Accounts payable | 286,008 | 455,804 |
| Accrued wages | 2,060,368 | 2,174,933 |
| Accrued self-insurance liability | 183,900 | 184,400 |
| Amounts held for clients | 452,807 | 557,709 |
| **Total Current Liabilities** | 3,233,960 | 3,446,431 |
| **Other Long-Term Liabilities** | 102,031 | 102,031 |
| **Long-Term Debt** | 201,468 | 407,621 |
| **Long-Term Lease Liabilities** | 15,699 | 20,086 |
| **Total Liabilities** | 3,553,158 | 3,976,169 |
| **Net Assets** | | |
| Without donor restrictions: | | |
| Operations | 6,072,584 | 7,979,625 |
| Investment in property and equipment | 2,598,373 | 2,587,193 |
| Board-designated endowment | 14,727,991 | 13,262,322 |
| Total Without Donor Restrictions | 23,398,948 | 23,829,140 |
| With donor restrictions | 11,097,844 | 10,756,494 |
| **Total Net Assets** | 34,496,792 | 34,585,634 |
| **Total Liabilities And Net Assets** | $ 38,049,950 | $ 38,561,803 |

# EMMAUS HOMES, INC.

## CONSOLIDATED STATEMENTS OF ACTIVITIES

| | For The Years Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | | | 2022 | | |
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| **Program Revenue** | | | | | | |
| Program service fees | $ 29,776,533 | $ — | $ 29,776,533 | $ 25,092,603 | $ — | $ 25,092,603 |
| Governmental program grants | 429,491 | — | 429,491 | 464,561 | — | 464,561 |
| CARES Act government grants | — | — | — | 67,135 | — | 67,135 |
| **Total Program Revenue** | 30,206,024 | — | 30,206,024 | 25,624,299 | — | 25,624,299 |
| **Other Revenue, Support, Gains And Losses** | | | | | | |
| Contributions | 380,685 | 82,386 | 463,071 | 586,473 | 24,469 | 610,942 |
| Special events, net | 51,609 | — | 51,609 | 20,745 | — | 20,745 |
| Bequests | 949,835 | — | 949,835 | 472,585 | 16,280 | 488,865 |
| United Way | 119,455 | 119,454 | 238,909 | 116,429 | 116,430 | 232,859 |
| Grant income - nongovernment | 54,297 | 15,267 | 69,564 | 78,988 | 16,161 | 95,149 |
| Gift annuities | — | 4,253 | 4,253 | — | 62,894 | 62,894 |
| Other income | 27,314 | — | 27,314 | 11,584 | — | 11,584 |
| Investment income designated/appropriated from endowments | 956,798 | — | 956,798 | 880,500 | — | 880,500 |
| Loss on disposal of property and equipment | (32,656) | — | (32,656) | (6,559) | — | (6,559) |
| **Total Other Revenue, Support, Gains And Losses** | 2,507,337 | 221,360 | 2,728,697 | 2,160,745 | 236,234 | 2,396,979 |
| **Net Assets Released From Restrictions** | 944,287 | (944,287) | — | 1,936,556 | (1,936,556) | — |
| **Total Revenues, Support, Gains And Losses** | 33,657,648 | (722,927) | 32,934,721 | 29,721,600 | (1,700,322) | 28,021,278 |
| **Expenses** | | | | | | |
| Program Services: | | | | | | |
| Residential care | 31,127,539 | — | 31,127,539 | 25,556,347 | — | 25,556,347 |
| Management | 3,373,582 | — | 3,373,582 | 3,149,701 | — | 3,149,701 |
| Fundraising | 444,303 | — | 444,303 | 415,802 | — | 415,802 |
| **Total Expenses** | 34,945,424 | — | 34,945,424 | 29,121,850 | — | 29,121,850 |
| **Increase (Decrease) In Net Assets From Operations** | (1,287,776) | (722,927) | (2,010,703) | 599,750 | (1,700,322) | (1,100,572) |
| **Other Income, Gains And Losses** | | | | | | |
| Gain on forgiveness of Paycheck Protection Program Loan | — | — | — | 5,284,644 | — | 5,284,644 |
| Change in value of beneficial interests in perpetual trusts | — | 246,389 | 246,389 | — | (741,869) | (741,869) |
| Investment income (loss) in excess of amount designated/appropriated from endowments | 857,584 | 817,888 | 1,675,472 | (2,870,122) | (1,147,461) | (4,017,583) |
| **Total Other Income, Gains And Losses** | 857,584 | 1,064,277 | 1,921,861 | 2,414,522 | (1,889,330) | 525,192 |
| **Increase (Decrease) In Net Assets** | (430,192) | 341,350 | (88,842) | 3,014,272 | (3,589,652) | (575,380) |
| **Net Assets - Beginning Of Year** | 23,829,140 | 10,756,494 | 34,585,634 | 20,814,868 | 14,346,146 | 35,161,014 |
| **Net Assets - End Of Year** | $ 23,398,948 | $ 11,097,844 | $ 34,496,792 | $ 23,829,140 | $ 10,756,494 | $ 34,585,634 |

See the notes to consolidated financial statements.

# EMMAUS HOMES, INC.

## CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
## For The Year Ended June 30, 2023

| | Residential Care Programs | Management | Fundraising | Total |
|---|---|---|---|---|
| Salaries | $ 23,689,012 | $ 2,074,789 | $ 269,152 | $ 26,032,953 |
| Fringe benefits and payroll taxes | 3,997,780 | 351,782 | 52,531 | 4,402,093 |
| Other personnel costs | 500,091 | 128,167 | 6,000 | 634,258 |
| Bad debt expense | — | 14,032 | — | 14,032 |
| Communications | 257,917 | 42,094 | 25,038 | 325,049 |
| Contract services | 933,738 | 171,399 | — | 1,105,137 |
| Information technology services | 122,054 | 119,248 | 14,509 | 255,811 |
| Insurance | 349,118 | 36,030 | 7,392 | 392,540 |
| Interest | 25,347 | 4,641 | — | 29,988 |
| Maintenance and repair | 179,976 | 39,748 | 4,255 | 223,979 |
| Materials and supplies | 107,641 | 17,618 | 7,566 | 132,825 |
| Miscellaneous | 55,583 | 31,013 | 12,586 | 99,182 |
| Rent | 120,747 | 114 | 15 | 120,876 |
| Professional fees | 9,166 | 137,892 | 5,700 | 152,758 |
| Staff training | 106,370 | 37,323 | 13,052 | 156,745 |
| Staff travel | 146,353 | 9,309 | 3,197 | 158,859 |
| Transportation | 243,465 | 30,256 | 5,799 | 279,520 |
| Utilities | 37,887 | 20,610 | 2,628 | 61,125 |
| Total Expenses Before Depreciation And Amortization | 30,882,245 | 3,266,065 | 429,420 | 34,577,730 |
| Depreciation and amortization | 245,294 | 107,517 | 14,883 | 367,694 |
| Total Expenses | $ 31,127,539 | $ 3,373,582 | $ 444,303 | $ 34,945,424 |

# EMMAUS HOMES, INC.

## CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
## For The Year Ended June 30, 2022

| | Residential Care Programs | Management | Fundraising | Total |
|---|---|---|---|---|
| Salaries | $ 18,832,802 | $ 1,854,076 | $ 267,009 | $ 20,953,887 |
| Fringe benefits and payroll taxes | 3,544,604 | 355,603 | 53,194 | 3,953,401 |
| Other personnel costs | 475,709 | 186,453 | 5,196 | 667,358 |
| Bad debt expense | — | 8,929 | — | 8,929 |
| Communications | 261,112 | 41,074 | 12,794 | 314,980 |
| Contract services | 601,508 | 141,828 | — | 743,336 |
| Information technology services | 101,905 | 80,306 | 9,962 | 192,173 |
| Insurance | 333,207 | 32,378 | 5,757 | 371,342 |
| Interest | 30,080 | 35,055 | — | 65,135 |
| Maintenance and repair | 233,465 | 35,189 | 2,966 | 271,620 |
| Materials and supplies | 122,778 | 15,287 | 637 | 138,702 |
| Miscellaneous | 55,348 | 18,823 | 7,371 | 81,542 |
| Rent | 250,584 | 291 | 37 | 250,912 |
| Professional fees | 17,744 | 143,936 | 11,158 | 172,838 |
| Staff training | 76,930 | 33,598 | 8,448 | 118,976 |
| Staff travel | 96,757 | 10,312 | 1,602 | 108,671 |
| Transportation | 176,074 | 22,299 | 11,120 | 209,493 |
| Utilities | 39,038 | 20,474 | 2,535 | 62,047 |
| Total Expenses Before Depreciation And Amortization | 25,249,645 | 3,035,911 | 399,786 | 28,685,342 |
| Depreciation and amortization | 306,702 | 113,790 | 16,016 | 436,508 |
| Total Expenses | $ 25,556,347 | $ 3,149,701 | $ 415,802 | $ 29,121,850 |

# EMMAUS HOMES, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | For The Years Ended June 30, 2023 | 2022 |
|---|---|---|
| **Cash Flows From Operating Activities** | | |
| Decrease in net assets | $ (88,842) | $ (575,380) |
| Adjustments to reconcile decrease in net assets to net cash from operating activities: | | |
| Depreciation and amortization | 367,694 | 436,508 |
| Loss on disposal of property and equipment | 32,656 | 6,559 |
| Gain on forgiveness of Paycheck Protection Program Loan | — | (5,284,644) |
| Endowment contributions | — | (16,280) |
| Realized losses on investments | 640,942 | 77,186 |
| Unrealized (gains) losses on investments | (2,549,401) | 3,467,879 |
| Change in value of perpetual trusts | (246,389) | 741,869 |
| Changes in assets and liabilities: | | |
| Accounts and grants receivable | (1,034,992) | 151,490 |
| Unconditional promises to give | (65,804) | 1,069,397 |
| Prepaid expenses and other assets | 21,155 | 122,894 |
| Annuities receivable | (4,253) | (62,894) |
| Accounts payable | (169,796) | (56,638) |
| Accrued wages | (114,565) | 176,691 |
| Accrued self-insurance liability | (500) | (103,200) |
| Amounts held for clients | (104,902) | (416,969) |
| Other liabilities | — | (451,011) |
| Right-of-use assets and lease liabilities | (10,411) | — |
| **Net Cash Used In Operating Activities** | (3,327,408) | (716,543) |
| **Cash Flows From Investing Activities** | | |
| Proceeds from sale of investments | 7,246,185 | 25,210,849 |
| Purchases of investments | (6,694,417) | (27,090,918) |
| Net purchases of money market funds | (138,049) | 1,200,977 |
| Purchases of property and equipment | (324,805) | (97,560) |
| Proceeds from sale of property and equipment | 500 | 37,705 |
| **Net Cash Provided By (Used In) Investing Activities** | 89,414 | (738,947) |
| **Cash Flows From Financing Activities** | | |
| Principal payments on long-term debt | (21,658) | (20,622) |
| Payments on finance leases | (55,156) | (72,462) |
| Proceeds from endowment contributions | — | 16,280 |
| **Net Cash Used In Financing Activities** | (76,814) | (76,804) |
| **Net Decrease In Cash, Cash Equivalents And Restricted Cash** | (3,314,808) | (1,532,294) |
| **Cash, Cash Equivalents And Restricted Cash - Beginning Of Year** | 8,698,921 | 10,231,215 |
| **Cash, Cash Equivalents And Restricted Cash - End Of Year** | $ 5,384,113 | $ 8,698,921 |
| **Supplemental Disclosure Of Cash Flow Information** | | |
| Interest paid | $ 30,036 | $ 52,082 |

See the notes to consolidated financial statements.

## 1. Organization And Operations

### Organization

Emmaus Homes, Inc. (Emmaus) is organized as a benevolent nonprofit corporation under the laws of the State of Missouri. Emmaus' articles of incorporation provide for management of its property and affairs by a self-perpetuating Board of Directors (the Board). Emmaus is affiliated with the United Church of Christ through the Council for Health and Human Services Ministries.

Emmaus is the sole member of two Missouri limited liability companies that manage its long-term assets. The Emmaus Resident Trust Foundation, L.L.C. (the Foundation) holds and manages Emmaus long-term investment assets while Emmaus Properties, L.L.C. (Properties) holds and manages Emmaus' real property. Both the Foundation and Properties are disregarded entities for income tax purposes.

The accompanying consolidated financial statements include the accounts of Emmaus and its wholly-owned subsidiaries, the Foundation and Properties (collectively, the Organization).

### Nature Of Business

Compelled by faith in Jesus Christ, the mission of the Organization is to enrich the lives of individuals of all beliefs, with cognitive or developmental disabilities, by fostering independence, inclusion, and self-advocacy.

The Organization provides for the care and habilitation of nearly 200 adults with cognitive and other developmental disabilities. Services are provided in individualized supported living arrangements in four counties in Eastern Missouri. Services are provided without regard to race, color, religion, national origin, sex, veteran status, or disability. The Organization's corporate office is located in St. Charles, Missouri.

### Description Of Program Services And Supporting Activities

The Organization's programs and services are designed to achieve the highest quality of life possible, to inspire growth and learning in the most normative environment possible, to encourage independence in choice of lifestyle and personal growth, and to facilitate participation in all decisions affecting a person's quality of life including the right to decide to attend or not attend religious programs and services.

These services are provided through the Organization's Residential Care and the following supporting activities:

**Management**

Includes the functions necessary to maintain an equitable employment program, ensure an adequate working environment, provide coordination and articulation of the Organization's program strategy, secure proper administrative functioning of the Board, maintain competent legal services for the program administration of the Organization, and manage the information technology, financial and budgetary responsibilities of the Organization.

**Fundraising**

Provides the structure necessary to encourage and secure private financial support from individuals, foundations, and corporations to support operating activities.

## 2. Summary Of Significant Accounting Policies

### Principles Of Consolidation

The accompanying consolidated financial statements include the accounts of Emmaus and its wholly-owned subsidiaries, the Foundation and Properties. All significant inter-entity accounts, balances and transactions have been eliminated in consolidation.

### Basis Of Accounting

The accompanying consolidated financial statements of the Organization have been prepared on the accrual basis of accounting.

### Basis Of Presentation

Financial statement presentation follows guidance set forth by generally accepted accounting principles for not-for-profit organizations, which requires the Organization to report information regarding its consolidated financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Net assets consist of the following:

**Net Assets Without Donor Restrictions**

Net assets without donor restrictions include net assets and contributions not subject to donor-imposed stipulations. Net assets without donor restrictions include investments designated by the Board for endowment.

#### Net Assets With Donor Restrictions

Net assets with donor restrictions include net assets and contributions subject to donor-imposed stipulations. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time, while others are to be invested in perpetuity and only the income be made available for operations in accordance with donor restrictions.

### Estimates And Assumptions

Management uses estimates and assumptions in preparing its consolidated financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

### Operating And Nonoperating Activity

Operating results in the consolidated statement of activities reflect all transactions except the gain on forgiveness of Paycheck Protection Program Loan, change in value of beneficial interests in perpetual trusts and investment income (loss) in excess of amount appropriated for operations.

### Cash, Cash Equivalents And Restricted Cash

The Organization considers all highly liquid financial instruments, excluding amounts categorized as Board-designated assets, purchased with a maturity of three months or less to be cash equivalents.

The Organization invests its excess cash in debt instruments and securities with financial institutions with strong credit ratings and has established guidelines relative to diversification and maturities that are designed to maintain safety and liquidity. Cash balances that exceed Federal Deposit Insurance Corporation (FDIC) limits are invested in money market funds that invest exclusively in short-term U.S. government securities, including repurchase agreements secured by U.S. government securities. At June 30, 2023, the cash, cash equivalents and restricted cash balance in excess of FDIC insurance limits was approximately $4,798,000.

The following is a reconciliation between cash, cash equivalents and restricted cash reported within the consolidated statement of financial position and the total cash, cash equivalents and restricted cash on the consolidated statement of cash flows as of June 30:

| | 2023 | 2022 |
|---|---|---|
| Cash and cash equivalents | $ 4,931,306 | $ 8,141,212 |
| Cash held for clients | 452,807 | 557,709 |
| Total cash, cash equivalents and restricted cash | $ 5,384,113 | $ 8,698,921 |

### Cash Held For Clients

The cash held for clients is held by the Organization for the clients and a corresponding liability is recorded. These funds are maintained in a separate bank account at a federally insured financial institution.

### Accounts And Grants Receivable

Accounts and grants receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual balances. Those balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. No allowance for uncollectible grants receivable is considered necessary by management.

### Promises To Give

Promises to give are reported at the amount management expects to collect on balances outstanding at year end. Management closely monitors outstanding balances and writes off, as of year end, all balances that are determined to be uncollectible.

### Investments

Investments are reported at fair value. Investments for which quoted market prices are not available are carried at estimated realizable values as determined by the investment manager and reviewed by management. Gains and losses on sales of investments are determined on a specific cost-identification method. Unrealized gains and losses are determined based on year-end fair value fluctuations.

Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the consolidated statement of financial position.

### Property And Equipment

Property and equipment is carried at cost, less accumulated depreciation computed on the straight-line method over estimated useful lives ranging from 3 to 30 years. Leasehold improvements are amortized over the shorter of the term of the lease or the estimated useful lives of the assets. Maintenance and repairs are charged to operations when incurred. Expenditures of at least $5,000 for additions and improvements, that increase the useful lives of the respective assets, are capitalized.

The Organization reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of any asset may not be recoverable from the estimated future cash flows expected to result for its use and eventual disposition. No impairment loss was recognized in 2023 or 2022.

### Paycheck Protection Program Loan

The Organization had a loan that was part of the Paycheck Protection Program (PPP) established under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and administered by the U.S. Small Business Administration (SBA). The Organization used the proceeds from the loan exclusively for qualified expenses under the PPP, as further detailed in the CARES Act and applicable guidance issued by the SBA. The Organization considered the PPP loan to be debt, subject to the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 470, *Debt*. The Organization did not impute additional interest at a market rate as transactions where interest rates are prescribed by governmental agencies are not subject to the accounting guidance on imputing interest.

The loans remained recorded as a liability until either (1) the loan was, in part or wholly, forgiven and the debtor had been legally released or (2) the debtor paid off the loan to the creditor. Once the loan was forgiven and legal release was received, the Organization reduced the liability by the amount forgiven and recorded a gain on extinguishment.

During 2022, the Organization met the conditions necessary in order for the PPP loan to be forgiven and received approval of this forgiveness from the SBA. As such, the Organization recognized forgiveness of the PPP loan of $5,284,644 on the consolidated statement of activities during 2022.

### Leases

On July 1, 2022, the Organization utilized the modified retrospective approach to adopt the provisions of ASC Topic 842, *Leases*, which includes a number of optional practical expedients that entities may elect to apply. The Organization has elected certain practical expedients, including the use of hindsight in determining the lease term at transition and in assessing impairment of an entity's right-of-use (ROU) assets and the package of practical expedients to not reassess prior conclusions related to contracts containing leases, lease classification and initial direct costs. The Organization has also elected the practical expedient not to assess whether existing leases that were not previously accounted for as leases under ASC Topic 840 are or contain a lease under ASC 842. The initial adoption of ASC 842 did not result in a cumulative adjustment to net assets. Results for 2023 are presented under ASC 842, while the prior period consolidated financial statements have not been adjusted and continue to be presented under ASC 840, the accounting standard in effect at that time.

As further described in Note 9, the Organization maintains leases of vehicles, office equipment and storage space. Lease ROU assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. On lease commencement, the ROU assets equal the lease liability, plus any lease payments made at or before the commencement date, less any lease incentives received. The Organization's leases generally have terms of one to five years. The Organization does not record ROU assets or lease liabilities for leases with an initial expected lease term of 12 months or less. For operating leases, lease expense for minimum lease payments is recognized on a straight-line basis over the term of the lease.

The lease terms utilized in determining ROU assets and lease liabilities include the noncancellable portion of the underlying leases along with renewal periods, only if it is reasonably certain that the option will be exercised. When determining if a renewal option is reasonably certain of being exercised, the factors considered, include but are not limited to, the cost of moving to another location, the cost of disruption of operations, the purpose or location of the lease asset and the terms associated with extending the lease. These leases may have additional renewal options; however, the Organization has not included the renewal periods in the term when determining the ROU asset and lease liability as management is not reasonably certain if such renewals will be exercised. Accordingly, only the initial terms are included in the lease terms when calculating the ROU assets and lease liabilities. The Organization has not included any termination penalties in its lease payments, nor shortened any lease terms related to options to terminate a lease.

As most leases do not provide an implicit discount rate, the Organization estimates an incremental borrowing rate based on the information available at the lease commencement date to determine the present value of the lease payments. The estimated incremental borrowing rate represents the estimated rate of interest that would have been charged to borrow an amount equal to the lease payments on a collateralized basis for a similar period of time.

The Organization's operating leases may contain fixed rent escalations over the lease term, and the Organization recognizes expense for these leases on a straight-line basis over the lease term of the respective ROU asset. The Organization recognizes the related lease expense on a straight-line basis and records the difference between the recognized lease expense and amounts payable under the lease as part of the ROU asset.

The Organization does not separate non-lease components of a contract from the lease components to which they relate for all classes of lease assets.

### Revenue And Revenue Recognition

### Program Service Fees

Within program service fees on the consolidated statement of activities, the Organization has the following revenue streams:

| | 2023 | 2022 |
|---|---|---|
| Residential habilitation | $ 29,223,713 | $ 24,951,376 |
| Accessible housing rental income | 41,300 | 52,976 |
| Representative payee fees | 90,859 | 88,251 |
| Value based payment incentive fees | 420,661 | — |
| Total Program Service Fees | $ 29,776,533 | $ 25,092,603 |

#### Residential Habilitation

The Organization recognizes revenue associated with the residential habilitation of individuals eligible for services through the Medicaid Home and Community Based Waiver Program. Residential Habilitation services include individual supported and shared living, transportation, and professional assessment and monitoring by registered nurses. Reimbursement rates for these services are based on the needs of the individual being served and are approved annually by the Missouri Department of Mental Health (DMH). Payments for these services are billed monthly and are typically paid within thirty days. The performance obligation of delivering residential habilitation services is simultaneously received and consumed by the individuals; therefore; the revenue is recognized ratably as services are rendered.

#### Accessible Housing Rental Income

Properties holds and manages four accessible homes in which some of the Organization's clients are served. Rental agreements are executed between the clients residing in these homes and Properties. Monthly rent is collected at the beginning of the month from these clients. Performance obligation of providing access to housing is satisfied ratably over the period in which that individual chooses to receive services in homes under this arrangement.

#### Representative Payee Fees

The Organization recognizes revenue from individuals who have elected to receive Social Security representative payee services. The fee for this service is determined annually by the Social Security Administration. The performance obligation is met monthly by completing all fiduciary and reporting responsibilities associated with administering that individual's monthly entitlement.

**Value Based Payment Incentive Fees**

The Organization recognizes revenue from DMH for achieving Value Based Payment incentives. DMH has established a priority of coordinating quality care funding strategies that improve individual outcomes and reward providers who facilitate quality outcomes. The performance obligations are met by achieving predetermined performance benchmarks established by DMH.

Overall, economic conditions can impact the nature, timing, and uncertainty of the Organization's revenues and cash flows.

The opening and closing balances of program service receivables for the year ended June 30, 2023 were $2,167,808 and $3,171,330, respectively. The opening and closing balances of program service receivables for the year ended June 30, 2022 were $2,191,292 and $2,167,808, respectively.

**Governmental Program Grants**

A portion of the Organization's revenue is derived from cost-reimbursable state, county and federal contracts and grants, which are conditioned upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures would be reported as refundable advances in the consolidated statement of financial position.

The Organization recognized as revenue the amounts received from the U.S. Department of Health and Human Services Provider Relief Fund as it incurred losses that the CARES Act is intended to compensate. Funds received during 2022 amounted to $67,135. No funds were received in 2023.

At June 30, 2023 and 2022, the Organization had no cost-reimbursable contracts and grants that have not yet been recognized. At June 30, 2023 and 2022, grants receivable on the consolidated statement of financial position include $82,168 and $94,020, respectively, of qualifying expenditures that have been incurred but not yet reimbursed.

**Public Support**

Unconditional promises to give are recognized as support in the period in which the promises are received and are recorded at the present value of the estimated future cash flow. Conditional promises to give, that is, those with a measurable performance or other barrier, are recognized as support when the conditions upon which they depend are met.

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions. As permitted under generally accepted accounting principles, the Organization reports contributions with donor restrictions as without donor restrictions in the current year when the Organization meets the donor restrictions in the same period as recognition of the contributions.

### Donated Materials And Services

Donated materials are recorded at fair value at the date of donation.

The Organization periodically receives in-kind donations, including client recreational items, facility supplies, property and equipment, and special event resources. The fair value of donated materials and property and equipment was $1,420 and $23,049 in 2023 and 2022, respectively.

Donated services are recognized as contributions if the services: (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Donated services that meet the criteria for recognition are recorded at fair value at the date of donation.

The Organization generates numerous volunteer hours each year that add a dimension to the quality of life for individuals served by the Organization over and above the amount provided by salaried personnel. These donated services have not been recognized as contributions in the consolidated financial statements since the aforementioned recognition criteria, as stated by generally accepted accounting principles, were not met.

### Functional Expense Allocations

The consolidated statement of functional expenses presents expenses by functional and natural classification. When expense allocations are necessary, expenses are charged to program services and supporting activities based on an appropriate allocation method, including inputs such as time and effort, census counts and square footage. Salaries have been allocated on the basis of estimates of time and effort. Fringe benefits have been allocated using a stand-alone joint cost method, the basis being payroll cost by functional department. Depreciation and amortization, occupancy, and insurance costs are allocated on a square footage basis by function. Management expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

### Tax Status

Emmaus is exempt from federal income taxes on related, exempt income under Section 501(c)(3) of the Internal Revenue Code (IRC).

As single member LLCs of Emmaus, the Foundation and Properties are considered disregarded entities for income tax purposes, and thus are also tax exempt under Section 501(c)(3) of the IRC.

The Organization's federal tax returns for tax years 2019 and later remain subject to examination by taxing authorities.

### Reclassifications

Certain 2022 balances have been reclassified, where appropriate, to conform with the 2023 consolidated financial statement presentation.

### Subsequent Events

Management evaluates subsequent events through the date the consolidated financial statements are available for issue, which is the date of the Independent Auditors' Report.

## 3. Unconditional Promises To Give

Promises to be received in future periods are collectible as follows:

| | 2023 | 2022 |
|---|---|---|
| Less than one year: | | |
| United Way | $ 119,454 | $ 116,430 |
| Employee giving campaign | 15,436 | 14,469 |
| Other | 20,533 | 14,020 |
| | 155,423 | 144,919 |
| One to five years: | | |
| Other | 70,000 | — |
| Discount on long term promises to give | (14,700) | — |
| | $ 210,723 | $ 144,919 |

## 4. Investments And Assets Restricted/Designated For Endowment

Investme0nts consist of the following:

| | | 2023 | | 2022 |
|---|---|---|---|---|
| Money market funds | $ | 928,576 | $ | 791,138 |
| Fixed income securities | | 6,632,205 | | 5,623,471 |
| Equity securities | | 14,026,317 | | 13,672,572 |
| Real estate investment trusts | | 200,127 | | 205,304 |
| | $ | 21,787,225 | $ | 20,292,485 |

These amounts are reported in the consolidated statement of financial position as follows:

| | | 2023 | | 2022 |
|---|---|---|---|---|
| Investments | $ | 5,043 | $ | 5,128 |
| Assets restricted/designated for endowment | | 21,782,182 | | 20,287,357 |
| | $ | 21,787,225 | $ | 20,292,485 |

Investment income for the years ended June 30, 2023 and 2022 is comprised of the following:

| | | 2023 | | 2022 |
|---|---|---|---|---|
| Unrealized gains (losses) | $ | 2,549,401 | $ | (3,467,879) |
| Realized losses | | (640,942) | | (77,186) |
| Distributions from trusts | | 128,298 | | 116,500 |
| Interest and dividend income | | 666,017 | | 368,558 |
| Less: Investment fees | | (70,504) | | (77,076) |
| | $ | 2,632,270 | $ | (3,137,083) |

Investment income is reported in the consolidated statement of activities as follows:

| | | 2023 | | 2022 |
|---|---|---|---|---|
| Appropriation for current operations | $ | 828,500 | $ | 764,000 |
| Distributions from trusts | | 128,298 | | 116,500 |
| | | 956,798 | | 880,500 |
| Investment income (loss) in excess of amount designated/appropriated from endowments | | 1,675,472 | | (4,017,583) |
| | $ | 2,632,270 | $ | (3,137,083) |

The amount reported as investment income designated for operations is based on an amount appropriated by the Organization's Board in accordance with their investment spending policy. From time to time, the amount appropriated for operations may be in excess of the actual investment return.

## 5. Irrevocable Charitable Trusts

The Organization is the beneficiary of various irrevocable deferred gifts administered by a third party. The present value of these contracts has been reflected in the consolidated financial statements as annuities receivable and as net assets with donor restrictions due to time restrictions. These receivables are carried at the present value of the estimated future receivable upon maturity. When the contracts mature, the current value will be reclassified as net assets with or without donor restrictions based on the donors' restrictions.

The following is a summary of changes in annuity receivables:

| | 2023 | 2022 |
|---|---|---|
| Beginning balance | $ 75,259 | $ 12,365 |
| Change in present value of receivable | 4,253 | 62,894 |
| Ending balance | $ 79,512 | $ 75,259 |

## 6. Beneficial Interests In Perpetual Trusts

The Organization is the beneficiary of several perpetual split interest trusts. The Organization records these trusts at fair market value in the amount of split interest as designated by the donors, ranging from 4.76% to 100%.

On February 5, 1971, the Wulfekammer Staake Bode Charitable Trust was established for the primary benefit of the Organization. U.S. Bank and two management persons of the Organization serve as co-trustees. Ten percent of net income of the trust estate during the previous calendar year is retained and reinvested into the principle of the trust; the remaining ninety percent is distributed quarterly to the organization. When the principle of the trust estate as of the first day of any calendar year has increased in value to twice its starting value, the Organization receives a 25% distribution of the trust estate value. The remaining value of the trust principle becomes the new starting value of which is measured for future distributions. Income and principle distributions from the trust are without donor restrictions.

Various terms included in the trust documents require distributions to be made each year based upon income earned and/or a percentage of assets remaining. The Organization received $128,298 in distributions and recognized investment appreciation of $246,389 for the year ended June 30, 2023. The Organization received $116,500 in distributions, and recognized investment depreciation of $741,869, for the year ended June 30, 2022. The Organization's interest in these perpetual trusts amounted to $3,737,241 and $3,490,852 at June 30, 2023 and 2022, respectively. See Note 13 for fair value disclosures.

## 7. Property And Equipment

Property and equipment consists of:

| | 2023 | 2022 |
|---|---|---|
| Land, buildings and leasehold improvements | $ 4,022,743 | $ 4,207,037 |
| Furniture and equipment | 1,066,534 | 1,042,519 |
| Vehicles | 1,950,215 | 2,152,779 |
| Construction in process | 39,484 | — |
| | 7,078,976 | 7,402,335 |
| Less: Accumulated depreciation and amortization | 3,976,587 | 4,211,819 |
| | $ 3,102,389 | $ 3,190,516 |

## 8. Long-Term Debt

The Organization's outstanding debt balance consists of three bank borrowings that were used to partially finance the purchase of three residential homes (the Homes). The Homes are used to support the operating activities of the Organization's Residential Care Programs.

Two of the bank borrowings, which matured during the fiscal year ended June 30, 2020, were structured as 5-year loans with fixed interest rates of 4.50%, and required monthly principal and interest payments totaling $1,998 until maturity, based on a 20-year amortization schedule and one final lump sum payment due at maturity. During 2020, the terms of the loans were amended such that the maturity dates were extended to March 2025 and required monthly principal and interest payments increased to $2,009 until maturity. Both loans are secured by the respective property as well as an assignment of the rent associated with each property.

One of the bank borrowings, totaling $225,000, is structured as a 5-year loan with a fixed interest rate of 5.50% and requires monthly principal and interest payments totaling $1,558 until maturity in September 2023 and one final lump sum payment due at maturity. The loan is secured by the property as well as an assignment of the rent associated with the property. Subsequent to year end, this loan was paid in full.

The balances outstanding on these loans at June 30, 2023 and 2022 total $407,696 and $429,354, respectively.

The scheduled maturities of the long-term debt at June 30, 2023 are as follows:

| Year | Amount |
|---|---|
| 2024 | $ 206,228 |
| 2025 | 201,468 |
| | $ 407,696 |

In addition to bank borrowings, the purchase of the Homes was partially financed by long-term funding agreements with the DDRB of St. Charles County (“DDRB”). Under these funding agreements, the DDRB provided $102,031 that may remain outstanding during the term of the Organization’s continued ownership and use of the Homes in St. Charles County to support adults with developmental disabilities. The balance related to these funding agreements at June 30, 2023 and 2022 was $102,031, which is included in other long-term liabilities in the consolidated statements of financial position.

## 9. Leases

### Under ASC 842

The Organization has finance leases for vehicle and office equipment and an operating lease for storage space that expire at various dates through 2025. Some leases include options to renew or terminate the leases that can be exercised at the Organization’s discretion.

The components of lease expense are as follows for the year ended June 30, 2023:

| Finance Lease Costs | Classification | Amount |
|---|---|---|
| Amortization of ROU assets | Depreciation and amortization | $ 31,990 |
| Interest | Interest | 6,975 |
| | | $ 38,965 |

| Operating Lease Costs | Classification | Amount |
|---|---|---|
| Operating lease costs | Depreciation and amortization | $ 15,743 |
| | Interest | 1,814 |
| | | $ 17,557 |

The ROU assets and lease liabilities at June 30, 2023 are included within the consolidated statement of financial position as follows:

| | |
|---|---|
| **Assets** | |
| ROU assets - operating lease | $ 38,234 |
| ROU assets - finance leases | 27,825 |
| | $ 66,059 |
| **Liabilities** | |
| Current liabilities: | |
| Operating lease liabilities | $ 27,127 |
| Finance lease liabilities | 17,522 |
| Non-current liabilities | |
| Operating lease liabilities | 9,464 |
| Finance lease liabilities | 6,235 |
| | $ 60,348 |

Supplemental cash flow and other information related to leases are as follows:

| | |
|---|---|
| **Cash Flow Information:** | |
| Cash paid for operating leases included in operating activities | $ 19,200 |
| Cash paid for finance leases included in financing activities | 55,156 |
| **Other Information:** | |
| Weighted-average remaining term - operating leases | 1.33 |
| Weighted-average remaining term - finance leases | 1.04 |
| Weighted-average discount rate - operating leases | 6.88% |
| Weighted-average discount rate - finance leases | 5.78% |

The reconciliation of the undiscounted cash flows for each of the next two years of the lease liabilities recorded on the consolidated statement of financial position is as follows:

| Years | Operating Lease | Finance Leases |
|---|---|---|
| 2024 | $ 28,800 | $ 23,073 |
| 2025 | 9,600 | 7,210 |
| Total minimum lease payments | 38,400 | 30,283 |
| Less: Amount of lease payments representing interest | 1,809 | 6,526 |
| Present value of future minimum lease payments | 36,591 | 23,757 |
| Less: Current portion | 27,127 | 17,522 |
| | $ 9,464 | $ 6,235 |

**Under ASC 840**

The future minimum lease payments under capital lease obligations as of June 30, 2022 were due as follows:

| Year | Amount |
|---|---|
| 2023 | $ 58,384 |
| 2024 | 17,088 |
| 2025 | 7,210 |
| Total minimum lease payments | 82,682 |
| Less: Amount representing interest | 10,744 |
| Present value of net minimum lease payments | 71,938 |
| Less: Current maturities | 51,852 |
| Long-term capital lease obligations | $ 20,086 |

At June 30, 2022, total assets under capital leases included in property and equipment on the consolidated statements of financial position consisted of:

| | |
|---|---|
| Vehicles | $ 368,395 |
| Office equipment | 16,795 |
| Accumulated depreciation | (308,762) |
| | $ 76,428 |

Amortization expense for assets under capital leases was $74,376 for the year ended June 30, 2022.

Aggregate minimum rental commitments under operating leases at June 30, 2022 are as follows:

| Year | Amount |
|---|---|
| 2023 | $ 12,991 |
| 2024 | 1,706 |
| | $ 14,697 |

Rent expense for operating leases for the year ended June 30, 2022 was $252,005.

## 10. Line Of Credit

The Organization had a line-of-credit agreement in the amount of $1,000,000 with U.S. Bank. Borrowing under the line of credit bore interest at a rate equal to one-month Term SOFR rate plus 2.10% (1.52% at June 30, 2022) and was secured by all investments. There was no outstanding balance on this line of credit at June 30, 2022. The line of credit contains a financial covenant and the Organization was in compliance with this covenant at June 30, 2022. The line of credit expired in March 2023 and was not renewed.

During 2023, the Organization entered into a revolving line of credit agreement with PNC Bank for borrowings of up to $1,000,000. Borrowing under the line of credit bears interest at a rate equal to one-month Term SOFR rate plus 1.75% (6.84% at June 30, 2023) per annum and is secured by all personal property of the Organization. The line of credit matures on December 12, 2024 and is payable on demand. There were no draws on this line of credit during the year ended June 30, 2023 and no amount remained outstanding as of June 30, 2023.

## 11. Self-Insured Medical Benefits

The Organization has established a self-insurance plan covering certain medical benefits for substantially all of its employees. Medical claims are subject to per participant and aggregate limits, with the excess liability coverage provided by an independent insurer. After meeting a preset claim limit for a participant, the Organization is reimbursed for the excess cost of claims paid for a participant during the annual term of the insurance policy. The amount expensed by the Organization for these medical benefits is $2,042,439 and $1,906,667 for the years ended June 30, 2023 and 2022, respectively. This expense is included in fringe benefits in the consolidated statements of functional expenses. Based on known facts and historical trends, the accrued self-insurance liability as of June 30, 2023 and 2022 is $183,900 and $184,400, respectively. Management believes that such accruals are adequate and the ultimate resolution of these matters will not have a material adverse effect on the consolidated financial position of the Organization.

## 12. Net Assets

Net assets with donor restrictions as of June 30 are as follows:

| | 2023 | 2022 |
|---|---|---|
| Time Restricted: | | |
| United Way | $ 119,454 | $ 116,430 |
| Annuities | 79,512 | 75,259 |
| Other | 92,386 | 24,469 |
| Total Time Restricted | 291,352 | 216,158 |
| Purpose Restricted: | | |
| Endowment income | 1,175,699 | 1,170,839 |
| Other | 15,060 | 24,449 |
| Total Purpose Restricted | 1,190,759 | 1,195,288 |
| Assets Held in Perpetuity: | | |
| Investments | 5,878,492 | 5,854,196 |
| Beneficial interests in perpetual trusts | 3,737,241 | 3,490,852 |
| Total Assets Held in Perpetuity | 9,615,733 | 9,345,048 |
| | $ 11,097,844 | $ 10,756,494 |

Net assets were released from net assets with donor restrictions as follows:

| | 2023 | 2022 |
|---|---|---|
| Time Restricted: | | |
| United Way | $ 116,430 | $ 113,496 |
| Bequests | — | 1,093,189 |
| Other | 14,470 | 10,250 |
| Total Time Restricted | 130,900 | 1,216,935 |
| Purpose Restricted: | | |
| Endowment income | 788,732 | 673,121 |
| Other | 24,655 | 46,500 |
| Total Purpose Restricted | 813,387 | 719,621 |
| | $ 944,287 | $ 1,936,556 |

### Endowment

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

### Interpretation Of Relevant Law

The Board of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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 classifies as endowment with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the endowment fund with donor restrictions that is not classified in endowment principal is classified as endowment earnings until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Organization considers the following facts in making a determination to appropriate or accumulate endowment funds with donor restrictions:

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

### Endowment Asset Composition By Type Of Fund As Of June 30:

| | 2023 | | | |
|---|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions: Earnings | With Donor Restrictions: Principal | Total |
| Endowment funds with donor restrictions | $ — | $ 1,175,699 | $ 5,878,492 | $ 7,054,191 |
| Board designated endowment funds | 14,727,991 | — | — | 14,727,991 |
| | $ 14,727,991 | $ 1,175,699 | $ 5,878,492 | $ 21,782,182 |

| | 2022 | | | |
|---|---|---|---|---|
| | Without Donor Restrictions | With Donor Restrictions: Earnings | With Donor Restrictions: Principal | Total |
| Endowment funds with donor restrictions | $ — | $ 1,170,839 | $ 5,854,196 | $ 7,025,035 |
| Board designated endowment funds | 13,262,322 | — | — | 13,262,322 |
| | $ 13,262,322 | $ 1,170,839 | $ 5,854,196 | $ 20,287,357 |

### Changes In Endowment Assets For The Years Ended June 30:

| | Without Donor Restrictions | With Donor Restrictions: Earnings | With Donor Restrictions: Principal | Total |
|---|---|---|---|---|
| Endowment assets, July 1, 2021 | $ 14,324,531 | $ 2,963,585 | $ 5,865,752 | $ 23,153,868 |
| Investment loss, net | (2,113,350) | (1,119,625) | (27,836) | (3,260,811) |
| Proceeds from endowment contributions | — | — | 16,280 | 16,280 |
| Transfers to board designated endowment funds | 1,142,020 | — | — | 1,142,020 |
| Appropriation for current operations | (90,879) | (673,121) | — | (764,000) |
| Endowment assets, June 30, 2022 | 13,262,322 | 1,170,839 | 5,854,196 | 20,287,357 |
| Investment income, net | 1,495,376 | 793,592 | 24,296 | 2,313,264 |
| Transfers to board designated endowment funds | 10,061 | — | — | 10,061 |
| Appropriation for current operations | (39,768) | (788,732) | — | (828,500) |
| Endowment assets, June 30, 2023 | $ 14,727,991 | $ 1,175,699 | $ 5,878,492 | $ 21,782,182 |

### Funds With Deficiencies

From time to time, the fair value of assets associated with the individual endowment funds with donor restrictions may fall below the level that the donor requires the Organization to retain as a fund of perpetual duration. If such deficiencies exist, the Organization would continue appropriation for certain purposes which are deemed prudent by the Board. There were no such deficiencies as of June 30, 2023 or 2022.

### Return Objectives And Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those funds with donor restrictions that the Organization must hold in perpetuity or for a donor specified period, as well as board-designated funds. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the appropriate index while assuming a moderate level of investment risk. Actual returns in any given year may vary from this amount.

### Strategies Employed For Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives with prudent risk constraints.

During the year ended June 30, 2019, the Board converted $4,000,000 of endowment assets to a short-term investment strategy to allow for possible excess spending during the three-year period ending June 30, 2021 (Note 18). $2,000,000 of excess spending withdrawals were taken in 2020. During 2022, the Board approved reinvesting the remaining $2,000,000 in accordance with the Organization's Investment Policy Statement. The amount was fully re-invested as of June 30, 2022.

**Spending Policy And How The Investment Objectives Relate To Spending Policy**

The Organization has a policy of appropriating for distribution each year 5% of its endowment fund's average fair value of the prior 20 quarters through the March 31 preceding the fiscal year in which the distribution is planned. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to grow. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity, as well as to provide additional real growth through new contributions and investment return.

## 13. Fair Value Measurements

The following are the major categories of assets and liabilities measured at fair value on a recurring basis during the years ended June 30, 2023 and 2022. Assets measured and reported at fair value are classified and disclosed in one of the following three categories:

*Level 1* Quoted prices that are readily available in active markets/exchanges for identical investments and derivatives. The types of investments and derivatives that are classified at this level generally include money market funds and exchange-traded equities.

*Level 2* Pricing inputs other than quoted prices included within Level 1 that are observable for the investment, either directly or indirectly. Level 2 pricing inputs include prices quoted for similar investments in active markets/exchanges or prices quoted for identical or similar investments in markets that are not active, and fair value is determined using inputs that are derived principally from or corroborated by observable model data by correlation or other means. The types of investments that are classified at this level include investment grade taxable bonds and international developed bonds.

*Level 3* Significant pricing inputs that are unobservable for the investment and includes investments for which there is little, if any, market activity for the investment. The inputs into determination of fair value require significant management judgment and estimation. The types of investments that are classified at this level include beneficial interests in perpetual trusts held by others and real estate investment trusts.

There are three general valuation techniques that may be used to measure fair value, as described above:

- *Market approach* - Uses prices and other relevant information generated by market transactions involving identical or comparable asset or liabilities.

- *Cost approach* - Based on the amount that currently would be required to replace the service capacity of an asset.

- *Income approach* - Uses valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts.

Inputs refer broadly to the assumptions that market participants would use in pricing the investments, including assumptions about risk, for example, the risk inherent in a particular valuation technique used to measure fair value including a pricing model and/or the risk inherent in the inputs to the valuation technique. Inputs may be observable or unobservable.

Observable inputs are inputs that reflect the assumptions market participants would use in pricing the investment based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the investment or derivative based on the best information available in the circumstances.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement of the investment or derivative. The Organization's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment or derivative.

The Organization's assets that are measured at fair value are reported in the consolidated statement of financial position as either "investments," "assets restricted/designated for endowment" or "beneficial interests in perpetual trusts" at both June 30, 2023 and 2022.

The following tables set forth by level, within the fair value hierarchy, the Organization's assets at fair value at June 30, 2023 and 2022:

| | 2023 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Money market funds | $ 928,576 | $ — | $ — | $ 928,576 |
| Fixed income securities: | | | | |
| Investment grade taxable bonds | — | 5,854,421 | — | 5,854,421 |
| International developed bonds | — | 338,269 | — | 338,269 |
| Global high yield taxable bonds | — | 439,515 | — | 439,515 |
| Equity securities: | | | | |
| U.S. large-cap | 5,934,600 | — | — | 5,934,600 |
| U.S. mid-cap | 2,401,658 | — | — | 2,401,658 |
| U.S. small-cap | 1,900,111 | — | — | 1,900,111 |
| International developed | 2,369,833 | — | — | 2,369,833 |
| Emerging markets | 768,450 | — | — | 768,450 |
| Hedge funds | 651,665 | — | — | 651,665 |
| Real estate investment trusts | — | — | 200,127 | 200,127 |
| Beneficial interests in perpetual trusts | — | — | 3,737,241 | 3,737,241 |
| | $ 14,954,893 | $ 6,632,205 | $ 3,937,368 | $ 25,524,466 |

| | 2022 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Money market funds | $ 791,138 | $ — | $ — | $ 791,138 |
| Fixed income securities: | | | | |
| Investment grade taxable bonds | — | 5,184,743 | — | 5,184,743 |
| International developed bonds | — | 438,728 | — | 438,728 |
| Equity securities: | | | | |
| U.S. large-cap | 5,261,815 | — | — | 5,261,815 |
| U.S. mid-cap | 2,624,653 | — | — | 2,624,653 |
| U.S. small-cap | 1,650,827 | — | — | 1,650,827 |
| International developed | 2,744,691 | — | — | 2,744,691 |
| Emerging markets | 736,258 | — | — | 736,258 |
| Hedge funds | 654,328 | — | — | 654,328 |
| Real estate investment trusts | — | — | 205,304 | 205,304 |
| Beneficial interests in perpetual trusts | — | — | 3,490,852 | 3,490,852 |
| | $ 14,463,710 | $ 5,623,471 | $ 3,696,156 | $ 23,783,337 |

There were no significant transfers between Levels 1, 2 or 3 during the years ended June 30, 2023 or 2022. During 2023 and 2022, there were no changes in the methods or assumptions utilized to derive the fair values of the Organization's assets.

As of June 30, 2023 and 2022, the Level 2 and 3 investments listed in the fair value hierarchy tables use the following valuation techniques and inputs:

**Fixed Income Securities**

The fair value of investments in investment grade taxable, international developed and global high yield taxable bonds is primarily determined using techniques that are consistent with the market approach. Significant observable inputs include benchmark yields, reported trades, observable broker-dealer quotes, issuer spreads, and security specific characteristics, such as early redemption options.

**Alternative Investments - Real Estate Investment Trust**

Alternative investments consist of an investment in a Real Estate Investment Trust (REIT). The fair value of this investment is classified as Level 3. The values for underlying investments are fair value estimates determined by the REIT in accordance with U.S. generally accepted accounting principles.

**Beneficial Interests In Perpetual Trusts**

Beneficial interests in perpetual trusts held by others are valued using the fair value of the assets in the trust as a practical expedient unless facts and circumstances indicate that the fair value of the assets in the trust differs from the fair value of the beneficial interests. Perpetual trusts held by others are classified within Level 3 of the fair value hierarchy.

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 years ended June 30, 2023 and 2022:

| | Real Estate Investment Trust | Beneficial Interests In Perpetual Trusts | Total |
|---|---|---|---|
| Balance - July 1, 2021 | $ 4,590 | $ 4,232,721 | $ 4,237,311 |
| Purchases | 200,000 | — | 200,000 |
| Realized and unrealized gain on investment | 714 | — | 714 |
| Change in value of beneficial interests in perpetual trusts | — | (741,869) | (741,869) |
| Balance - June 30, 2022 | 205,304 | 3,490,852 | 3,696,156 |
| Realized and unrealized loss on investment | (5,177) | — | (5,177) |
| Change in value of beneficial interests in perpetual trusts | — | 246,389 | 246,389 |
| Balance - June 30, 2023 | $ 200,127 | $ 3,737,241 | $ 3,937,368 |

## 14. Funding Concentration

The Organization receives funding for a majority of its clients from DMH under the Medicaid Home and Community Based Services Waiver Program (Medicaid HCBS Waiver Program). DMH pays the Organization for providing services associated with the residential habilitation of these individuals. The amounts received from the above sources account for approximately 98% of total program revenue and 90% of total revenues and support for the year ended June 30, 2023. The amounts received from the above sources accounted for approximately 97% of total program revenue and 89% of total revenues and support for the year ended June 30, 2022. Since the Organization receives a substantial amount of its support from state and local government agencies, a reduction in the level of this support, if this were to occur, may have an adverse effect on the Organization's programs and activities.

As of June 30, 2023 and 2022, substantially all of the accounts receivable balance represented amounts due from state governmental agencies.

## 15. Pension Plans

The Organization's employees may be eligible to receive pension benefits under one of two pension plans currently in effect. The first is a defined contribution plan, administered through the United Church of Christ, which provides benefits for employees serving in a ministerial capacity for the Organization. Contributions for ministers are made quarterly at a rate of 14% of the employees' total compensation.

The second plan is a 403(b) retirement plan sponsored by the Organization that provides coverage for its remaining employees. Employees are eligible to participate in salary reduction contributions on their dates of hire. Employees who have completed one year of consecutive service are eligible to receive employer-matching contributions. The Organization's contributions plus any earnings they generate are vested 100% after three years of service.

Pension expense for the years ended June 30, 2023 and 2022 for both plans totaled $242,422 and $276,073, respectively. This amount is included in fringe benefits in the consolidated financial statements.

## 16. Commitments

The Organization is the guarantor on several leases for residential space entered into by individuals supported by the Organization. The aggregate amount guaranteed by the Organization at June 30, 2023 totaled approximately $1,168,000. These leases expire on various dates through fiscal year 2029.

## 17. Contingencies

The Organization is subject to legal claims arising out of the normal course of conducting its operations. Management does not expect that these matters will have a material adverse effect on the consolidated financial statements of the Organization.

## 18. Liquidity And Availability Of Financial Assets

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the consolidated statement of financial position, comprise the following at June 30:

| | **2023** | **2022** |
|---|---|---|
| Cash and cash equivalents | $ 4,931,306 | $ 8,141,212 |
| Accounts receivable, net of allowance | 3,314,715 | 2,267,871 |
| Grants receivable | 82,168 | 94,020 |
| Unconditional promises to give | 155,423 | 144,919 |
| Less: amounts with donor restrictions | (15,060) | (24,449) |
| Current assets available for general expenditures | 8,468,552 | 10,623,573 |
| Distributions from beneficial interests in perpetual trusts | 125,200 | 131,100 |
| Endowment spending-rate distributions and appropriations | 855,000 | 828,500 |
| | $ 9,448,752 | $ 11,583,173 |

The primary revenue source for the Organization is funding provided by DMH under Medicaid HCBS Waiver Program which funds residential services for the Organization's clients (see Note 14). The State of Missouri does not currently fund its Medicaid waiver program at a level that supports the existing economic conditions in the labor markets where the Organization operates. To help fund this revenue shortfall, the Organization engages in a variety of fundraising activities and maintains an endowment to generate investment income.

The Organization plans the use of a significant portion of its operating cash reserves to fund competitive wages that exceed the anticipated level of annual operating revenue (see the Consolidated Statement of Cash Flows) while at the same time continuing its advocacy efforts to increase state funding.