

Embrace Families Community Based Care, Inc.

Financial and Compliance Report
June 30, 2022

Contents

Independent auditor's report	1-3
<hr/>	
Financial statements	
Statements of financial position	4
Statements of activities	5
Statements of functional expenses	6-7
Statements of cash flows	8
Notes to financial statements	9-18
Supplementary information	
Schedule of expenditures of federal awards and state financial assistance	19
Notes to schedule of expenditures of federal awards and state financial assistance	20
<hr/>	
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 <i>Government Auditing Standards</i>	21-22
Compliance for each major federal program and state financial assistance project and report on internal control over compliance required by the Uniform Guidance and State of Florida Chapter 10.650, <i>Rules of the Auditor General</i>	23-25
<hr/>	
Schedule of findings and questioned costs	26-27
<hr/>	



RSM US LLP

Independent Auditor's Report

Board of Directors
Embrace Families Community Based Care, inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Embrace Families Community Based Care, Inc. (the Organization), which comprise the statements of financial position as of June 30, 2022 and 2021, the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of 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 Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 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.

Other Matters

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and State of Florida Chapter 10.650, *Rules of the Auditor General*, respectively, 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 March 21, 2023, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's 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.

RSM US LLP

Orlando, Florida
March 21, 2023

Embrace Families Community Based Care, Inc.

**Statements of Financial Position
June 30, 2022 and 2021**

	2022	2021
Assets		
Current assets:		
Cash	\$ 5,251,396	\$ 31,202
Restricted cash held for master trust	412,940	303,939
Accounts receivable	1,713,733	7,295,336
Prepaid expenses and other assets	285,536	243,761
Total current assets	7,663,605	7,874,238
Investment in limited liability company	99,664	224,775
Property and equipment, net	333,797	347,400
Total assets	\$ 8,097,066	\$ 8,446,413
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 7,966,896	\$ 5,674,275
Refundable advances	1,458	26,891
Due to Embrace Families, Inc.	1,091,482	1,526,206
Assets held for master trust	412,940	303,939
Notes payable—related party	1,220,000	1,220,000
Total current liabilities	10,692,776	8,751,311
Custodial assets held for others	330,525	339,586
Note payable	-	1,028,572
Total liabilities	11,023,301	10,119,469
Commitments and contingencies (Notes 5, 6 and 8)		
Net assets (deficit) without donor restrictions	(2,926,235)	(1,673,056)
Total liabilities and net assets	\$ 8,097,066	\$ 8,446,413

See notes to financial statements.

Embrace Families Community Based Care, Inc.

**Statements of Activities
Years Ended June 30, 2022 and 2021**

	2022	2021
Revenues:		
Grants and contracts	\$ 85,047,413	\$ 85,765,725
Forgiveness of Paycheck Protection Program loan	1,028,572	-
Contributions and other income	406,498	503,942
In-kind contributions	177,587	117,959
Total revenues	86,660,070	86,387,626
Expenses:		
Program services:		
Foster care	12,946,889	11,772,701
Adoptions	21,953,212	23,044,705
Residential	13,441,902	12,642,450
Independent living	9,145,533	9,536,039
System of care	11,906,475	11,770,871
Financial assistance	10,580,099	11,877,610
Other program services	5,867,864	3,262,673
Total program services	85,841,974	83,907,049
Supporting services:		
General and administrative	2,071,275	2,103,706
Total supporting services	2,071,275	2,103,706
Total expenses	87,913,249	86,010,755
Change in net assets	(1,253,179)	376,871
Net assets (deficit) without donor restrictions:		
Beginning	(1,673,056)	(2,049,927)
Ending	\$ (2,926,235)	\$ (1,673,056)

See notes to financial statements.

Embrace Families Community Based Care, Inc.

**Statement of Functional Expenses
Year Ended June 30, 2022**

	Program Services							Supporting Services		
	Foster Care	Adoptions	Residential	Independent Living	System of Care	Financial Assistance	Other Program Services	Total Program Services	General and Administrative	Total Expenses
Salaries	\$ 1,049,006	\$ 1,049,006	\$ 1,049,006	\$ 1,049,006	\$ 1,049,006	\$ 1,049,006	\$ 1,958,876	\$ 8,252,912	\$ 331,265	\$ 8,584,177
Payroll taxes and employee benefits	288,505	288,505	288,505	288,505	288,505	288,505	405,557	2,136,587	91,107	2,227,694
Total salaries and related benefits	1,337,511	1,337,511	1,337,511	1,337,511	1,337,511	1,337,511	2,364,433	10,389,499	422,372	10,811,871
Purchased services contracts	3,897,573	3,897,573	3,897,573	3,897,573	3,897,573	3,897,573	349,698	23,735,136	1,230,813	24,965,949
Adoption	-	15,394,171	-	-	-	-	-	15,394,171	-	15,394,171
Out of home	6,387,848	-	6,882,861	-	4,588,574	-	600	17,859,883	-	17,859,883
Professional fees	756,403	756,403	756,403	756,403	756,403	756,403	2,236,695	6,775,113	238,864	7,013,977
Financial assistance	93,930	93,930	93,930	93,930	93,930	4,114,988	-	4,584,638	29,662	4,614,300
Occupancy	354,494	354,494	354,494	354,494	354,494	354,494	626,669	2,753,633	111,945	2,865,578
Independent living	-	-	-	2,586,492	-	-	76,451	2,662,943	-	2,662,943
Client screening and certifications	-	-	-	-	758,860	-	2,723	761,583	-	761,583
Supplies	13,075	13,075	13,075	13,075	13,075	13,075	23,114	101,564	4,129	105,693
Communication	28,435	28,435	28,435	28,435	28,435	28,435	50,267	220,877	8,979	229,856
Advertising and marketing	17,143	17,143	17,143	17,143	17,143	17,143	30,305	133,163	5,414	138,577
Equipment rental and maintenance	2,609	2,609	2,609	2,609	2,609	2,609	4,612	20,266	824	21,090
Conferences, travel and training	14,939	14,939	14,939	14,939	14,939	14,939	26,409	116,043	4,718	120,761
Fees, bad debts and other	29,407	29,407	29,407	29,407	29,407	29,407	51,985	228,427	9,286	237,713
Depreciation	261	261	261	261	261	261	461	2,027	82	2,109
Memberships	8,092	8,092	8,092	8,092	8,092	8,092	14,305	62,857	2,555	65,412
Postage and shipping	2,284	2,284	2,284	2,284	2,284	2,284	4,037	17,741	721	18,462
Insurance	2,885	2,885	2,885	2,885	2,885	2,885	5,100	22,410	911	23,321
Total expenses	\$ 12,946,889	\$ 21,953,212	\$ 13,441,902	\$ 9,145,533	\$ 11,906,475	\$ 10,580,099	\$ 5,867,864	\$ 85,841,974	\$ 2,071,275	\$ 87,913,249

See notes to financial statements.

Embrace Families Community Based Care, Inc.

**Statement of Functional Expenses
Year Ended June 30, 2021**

	Program Services							Supporting Services		
	Foster Care	Adoptions	Residential	Independent Living	System of Care	Financial Assistance	Other Program Services	Total Program Services	General and Administrative	Total Expenses
Salaries	\$ 883,438	\$ 1,057,610	\$ 883,438	\$ 1,439,926	\$ 883,438	\$ 883,438	\$ 553,579	\$ 6,584,867	\$ 278,981	\$ 6,863,848
Payroll taxes and employee benefits	228,567	274,843	228,567	364,131	228,567	228,567	177,810	1,731,052	72,179	1,803,231
Total salaries and related benefits	1,112,005	1,332,453	1,112,005	1,804,057	1,112,005	1,112,005	731,389	8,315,919	351,160	8,667,079
Purchased services contracts	4,345,024	5,796,532	4,345,024	4,735,508	4,345,024	4,345,024	949,708	28,861,844	1,372,113	30,233,957
Adoption	-	14,666,273	-	-	-	-	-	14,666,273	-	14,666,273
Out of home	5,110,972	-	5,980,714	-	3,987,143	-	60	15,078,889	-	15,078,889
Professional fees	689,104	631,629	689,104	534,591	689,104	689,104	1,285,785	5,208,421	217,612	5,426,033
Financial assistance	65,972	79,051	65,972	107,030	65,972	5,281,846	-	5,665,843	20,833	5,686,676
Occupancy	313,053	375,113	313,053	507,879	313,053	313,053	205,901	2,341,105	98,859	2,439,964
Independent living	-	-	-	1,625,397	-	-	-	1,625,397	-	1,625,397
Client screening and certifications	-	-	-	-	1,121,992	-	-	1,121,992	-	1,121,992
Supplies	11,473	13,754	11,480	18,623	11,480	11,479	7,549	85,838	3,624	89,462
Communication	31,799	38,103	31,799	51,589	31,799	31,799	20,915	237,803	10,042	247,845
Advertising and marketing	30,184	36,168	30,184	48,969	30,184	30,184	19,853	225,726	9,532	235,258
Equipment rental and maintenance	12,683	15,198	12,683	20,577	12,683	12,683	8,342	94,849	4,005	98,854
Conferences, travel and training	5,661	6,783	5,661	9,184	5,661	5,661	3,723	42,334	1,788	44,122
Fees, bad debts and other	34,990	41,927	34,990	56,766	34,990	34,990	23,014	261,667	11,050	272,717
Depreciation	270	324	270	439	270	271	178	2,022	85	2,107
Memberships	4,579	5,487	4,579	7,429	4,579	4,579	3,012	34,244	1,446	35,690
Postage and shipping	2,822	3,382	2,822	4,579	2,822	2,822	1,856	21,105	891	21,996
Insurance	2,110	2,528	2,110	3,422	2,110	2,110	1,388	15,778	666	16,444
Total expenses	\$ 11,772,701	\$ 23,044,705	\$ 12,642,450	\$ 9,536,039	\$ 11,770,871	\$ 11,877,610	\$ 3,262,673	\$ 83,907,049	\$ 2,103,706	\$ 86,010,755

See notes to financial statements.

Embrace Families Community Based Care, Inc.

**Statements of Cash Flows
Years Ended June 30, 2022 and 2021**

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ (1,253,179)	\$ 376,871
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	2,109	2,107
Earnings in investment in limited liability company	(34,455)	(208,298)
Gain on sale of investment in limited liability company	-	(15,719)
Provision for doubtful accounts	(1,831)	27,155
Forgiveness of Paycheck Protection Program loan	(1,028,572)	-
Changes in operating assets and liabilities:		
Accounts receivable	5,583,434	(3,760,089)
Prepaid expenses and other assets	(41,775)	96,164
Accounts payable and accrued expenses	2,292,623	(379,070)
Refundable advances	(23,002)	23,569
Due to Embrace Families, Inc.	(434,724)	572,995
Assets held for master trust	109,001	81,568
Net cash provided by (used in) operating activities	5,169,629	(3,182,747)
Cash flows from investing activities:		
Proceeds from sale of investment in limited liability company	-	47,900
Distribution received from investment in limited liability company	159,566	140,000
Net cash provided by investing activities	159,566	187,900
Cash flows from financing activities:		
Proceeds from note payable—related party	-	1,000,000
Net cash provided by financing activities	-	1,000,000
Net increase (decrease) in cash and restricted cash held for master trust	5,329,195	(1,994,847)
Cash and restricted cash held for master trust:		
Beginning of year	335,141	2,329,988
End of year	\$ 5,664,336	\$ 335,141
Cash, end of year	\$ 5,251,396	\$ 31,202
Restricted cash held for master trust, end of year	412,940	303,939
Total	\$ 5,664,336	\$ 335,141
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 12,195	\$ 3,446

See notes to financial statements.

Embrace Families Community Based Care, Inc.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: Embrace Families Community Based Care, Inc., (EFCBC or the Organization) is a Florida nonprofit organization dedicated to developing community-based services and support for children and families served by the child welfare system in Orange, Osceola and Seminole Counties in the state of Florida. Operations are directed by a voluntary board who receive no compensation for their services.

EFCBC is a wholly owned subsidiary of Embrace Families, Inc. (Parent).

The Organization's program services are as follows:

Foster care: Provides recruitment, training, licensing, re-licensing and support for foster care parents.

Adoptions: Provides cost of adoption assistance, subsidy payments and other nonrecurring adoption expenses for adopting families.

Residential: Provides placement of children in relative care, family foster care, therapeutic foster care, medical foster care, residential group care or emergency shelter.

Independent living: Provides pre-independent living assessments, independent life skills assessments, employment training, counseling and after care support services, and provides payments to clients who participate in the program.

System of care: Provides case management, prevention and early intervention and domestic violence support.

Financial assistance: Provides assistance for community, assessments and preventative financial assistance.

Other program services: Includes background screenings, home licensing and home health inspections.

A summary of the Organization's significant accounting policies follows:

Basis of presentation: The accompanying financial statements have been prepared on the accrual basis of accounting.

A nonprofit organization is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed stipulations but may be designated for specific purposes by action of the Board of Directors.

Net assets with donor restrictions: Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization, the passage of time or permanently maintained by the Organization. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying statements of activities as net assets released from restrictions. The Organization does not have any net assets with donor restrictions.

Embrace Families Community Based Care, Inc.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Accounts receivable: Accounts receivable under grants and contracts are due in one year or less and are stated at net realizable value. The Organization uses the allowance method to determine uncollectible accounts receivable. The allowance is established based upon management's analysis of specific accounts and other economic factors. In the opinion of management, no allowance for uncollectible accounts receivable was considered necessary at June 30, 2022 and 2021.

Property and equipment: Property and equipment are recorded at cost when purchased or at fair value at the date of gift, if contributed. Property and equipment is capitalized if it has a cost of \$1,000 or more and a useful life, when acquired of more than a year. Property acquired with governmental funds is considered to be owned by the Organization while used in the program for which it was purchased or in future authorized programs; however, its disposition as well as the ownership of any proceeds therefrom is subject to applicable regulations. Depreciation of property and equipment is computed using the straight-line method of accounting over the estimated useful lives of the depreciable assets, which range from 3 to 40 years. Maintenance and repairs are charged to operations when incurred. When property and equipment are sold or otherwise disposed of, the asset account and the related accumulated depreciation account are relieved, and any gain or loss included in operations.

Impairment of long-lived assets: The carrying value of property and equipment is reviewed for impairment whenever events or changes in circumstances indicate such value may not be recoverable. Recoverability of assets or asset groups to be held and used is measured by a comparison of the carrying amount of an asset or asset group to future net cash flows expected to be generated by the asset or asset group. If such assets or asset groups are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets or asset groups exceeds the fair value of the assets or asset groups. Assets or asset groups to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. No impairment of its long-lived assets or asset groups has been recognized during the years ended June 30, 2022 and 2021.

Assets held for master trust: The Organization is a representative payee for children in licensed foster care that receive Social Security or other trust benefits. Benefit payments and withdrawals are recorded as assets and liabilities and are not reflected in the accompanying statements of activities. Funds are maintained in separate bank accounts as required by funding sources and reflected on the accompanying statements of financial position as restricted cash held for master trust.

Revenue from contracts related to exchange transactions: The Organization recognizes revenue from contracts with customers in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 606, Revenue from Contracts with Customers, which provides a five-step model for recognizing such revenue as follows:

- Identify the contract with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognize revenue when or as performance obligations are satisfied

Embrace Families Community Based Care, Inc.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

The Organization's revenues that relate to exchange transactions arise from an agreement with an affiliate, Community Based Care Integrated Health, Inc., to provide care coordination services for Medicaid recipients. The revenues are recognized over time as services are provided, on a monthly basis and are recorded in grants and contracts in the accompanying statements of activities. The Organization recognized revenue from exchange transactions in the amount of \$598,228 and \$518,281 during the years ended June 30, 2022 and 2021, respectively, which is included in grants and contracts revenue in the accompanying statements of activities. There was accounts receivable related to exchange transactions in the amount of \$18,885, \$0 and \$0 as of June 30, 2022, 2021 and 2020 respectively, and there was no deferred revenues related to exchange transactions as of June 30, 2022 or 2021, or 2020.

Government grants and contracts: Government grants and contracts are considered exchange transactions if each party receives and sacrifices commensurate value. Funds from these exchange transactions are not considered contributions and are deemed to be earned and reported as revenue when such funds have been expended towards the designated purpose or when the services are provided as stipulated by the grant or contract. Funds received in advance and not yet earned are recorded as deferred revenues. Government grants and contracts not considered exchange transactions are recognized as revenue when the funds are utilized by the Organization to carry out the activity stipulated by the grant or contract. The grants and contracts can be terminated by the grantor or refunding can be required under certain circumstances coupled with other performance and/or control barriers. For these reasons, these grant and contract agreements are considered conditional. Accordingly, amounts received, but not recognized as revenue, are classified in the accompanying statements of financial position as refundable advances. The Organization recognized revenue from government grants and contracts in the amount of \$84,449,185 and \$85,247,444 during the years ended June 30, 2022 and 2021, respectively, which is included in grants and contracts revenue in the accompanying statements of activities.

Contributions: Contributions received are recorded at fair value as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor restrictions. Donor-restricted support is reported as an increase in net assets with donor restrictions. Support that is restricted by the donor is reported as an increase in net assets without restrictions if the restriction expires in the reporting period in which the support is recognized. When a restriction is accomplished or it 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 accompanying statements of activities as net assets released from restrictions.

Contributions receivable, which represent unconditional written promises to give, are revenues in the period when the written promise is received. Conditional promises to give are recognized when the conditions upon which they depend are substantially met. A contribution is considered to be conditional if an agreement includes a barrier that must be overcome and either a right of return of assets or a right of release of a promise to transfer assets exists. Indicators of a barrier include measurable performance-related barrier or other measurable items, stipulations that limit discretion by the recipient on the conduct of an activity, and stipulations that are related to the purpose of the agreement.

In-kind contributions: In-kind contributions consist of donated materials, which are recorded as increases in net assets without donor restrictions unless the use of the related assets is limited by donor imposed restrictions. Donated materials are reflected in the accompanying statements of activities at their estimated fair values on the date of receipt. The Organization estimates the fair value on the basis of estimates of wholesale values that would be received from selling similar products in the United States of America and utilizes donated materials for its mission and does not monetize or sell the goods. The Organization records donated materials as in-kind revenue and expenses in the accompanying statements of activities and statements of functional expenses.

Embrace Families Community Based Care, Inc.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

The Organization reports revenues for the fair value of contributed services when the services require specialized skills, are provided by individuals possessing those skills, and represent services that would have been purchased had they not been donated. There were no contributed services for the years ended June 30, 2022 and 2021.

Functional expenses: The costs of providing the various programs and supporting services have been summarized on a functional basis in the accompanying statements of activities and in the accompanying statements of functional expenses. Accordingly, certain costs have been allocated among the various programs and supporting services benefited. Salaries and related payroll expenses are allocated among functional categories based on the estimated proportion of time spent to each function. All other expenses are allocated based on management's estimate of the relative functional activity.

Income taxes: The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from state income taxes under similar provisions of the Florida Statutes. Accordingly, no provision for federal and state income taxes has been recorded in the accompanying financial statements. The Organization follows accounting standards relating to accounting for uncertainty in income taxes. Management assessed whether there were any uncertain tax positions, which may give rise to income tax liabilities, and determined that there were no such matters requiring recognition in the accompanying financial statements.

Use of estimates: The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) 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.

Reclassification: Certain amounts have been reclassified from prior year financial statements to conform with current year presentation. Such reclassifications had no effect on total net assets, change in net assets, or cash flows as previously reported.

Concentrations: The Organization's financial instruments that are exposed to concentrations of credit risk include cash and government grants and contracts and related accounts receivable. Cash includes accounts placed with federally insured financial institutions. Such accounts may at times exceed federally insured limits. The Organization has not experienced any losses on such accounts.

The Organization's operating support and revenues includes concentrations primarily from federal and state programs. Changes in operating support and revenues from federal and state programs could significantly impact the Organization, including a reduction in the program services offered by the Organization; however, management does not anticipate any such changes in the near term.

Investment in limited liability company: EFCBC has an investment in a limited liability company, in which the Organization owns a 3.1% and 3% interest as of June 30, 2022 and 2021, respectively, and its Parent owns 36.1%, has the ability to exercise significant influence over the limited liability company and accordingly, has accounted for this investment using the equity method of accounting.

Embrace Families Community Based Care, Inc.

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Recently adopted accounting pronouncements: In September 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU is intended to improve transparency in the reporting of contributed nonfinancial assets, also known as gifts-in-kind, for nonprofit entities. The ASU will require a not-for-profit organization to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. The ASU will also require enhanced disclosure, including disaggregation of nonfinancial assets recognized by category and qualitative information about each category. The Organization adopted ASU 2020-07 during the year ended June 30, 2022, which resulted in enhanced disclosures in the notes to the financial statements.

Recently issued accounting pronouncements: In February 2016, the FASB issued its new lease accounting guidance in ASU 2016-02, *Leases (Topic 842)*. Under the new guidance, lessees will be required to recognize the following for all leases (except for short-term leases) at the commencement date: (1) A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Lessees will no longer be provided with a source of off-balance sheet financing. Lessees must apply a modified retrospective transition approach for leases existing at, or entered after, the beginning of the earliest comparative period presented in the financial statements. Nonpublic entities should apply the amendments for fiscal years beginning after December 15, 2021. The Organization is currently evaluating the impact this ASU will have on its financial statements.

Subsequent events: The Organization has evaluated subsequent events through March 21, 2023, the date on which the financial statements were available to be issued.

Note 2. Investment in Limited Liability Company

Investment in a limited liability company of \$99,664 and \$224,775 as of June 30, 2022 and 2021, respectively, consists of a 3.1% and 3% interest, respectively, in Community Based Care Integrated Health, LLC (Integrated Health). Integrated Health is a Florida limited liability company engaged in the child welfare managed care business throughout Florida. The investment is accounted for using the equity method as the Organization has significant influence, but not control over the entity. The Organization's share of Integrated Health's net income was \$34,455 and \$208,298 during the years ended June 30, 2022 and 2021, respectively, and is included in contributions and other income in the accompanying statements of activities. In addition, the Organization received distributions from Integrated Health in the amount of \$159,566 and \$140,000, during the years ended June 30, 2022 and 2021, respectively.

Embrace Families Community Based Care, Inc.

Notes to Financial Statements

Note 2. Investment in Limited Liability Company (Continued)

The following is a summary of financial position and results of operations of Integrated Health, as of and for the years ended June 30, 2022 and 2021:

	2022	2021
Total assets	\$ 3,407,642	\$ 6,741,859
Total liabilities	\$ 1,169,036	\$ 1,078,843
Total members' equity	2,238,606	5,663,016
Total liabilities and members' equity	\$ 3,407,642	\$ 6,741,859
Total revenues	\$ 13,418,291	\$ 16,047,990
Total expenses	12,129,701	10,375,127
Net income	\$ 1,288,590	\$ 5,672,863
EFCBC's share of net income	\$ 34,455	\$ 208,298

Note 3. Property and Equipment

Property and equipment at June 30, 2022 and 2021, consisted of the following:

	2022		
	EFCBC	Custodial Assets	Total
Land	\$ -	\$ 65,600	\$ 65,600
Buildings	-	362,448	362,448
Furniture and equipment	1,032,579	-	1,032,579
Software	460,316	-	460,316
	1,492,895	428,048	1,920,943
Less accumulated depreciation	(1,489,623)	(97,523)	(1,587,146)
	\$ 3,272	\$ 330,525	\$ 333,797
	2021		
	EFCBC	Custodial Assets	Total
Land	\$ -	\$ 65,600	\$ 65,600
Buildings	-	362,448	362,448
Furniture and equipment	1,032,579	-	1,032,579
Software	460,316	-	460,316
	1,492,895	428,048	1,920,943
Less accumulated depreciation	(1,485,081)	(88,462)	(1,573,543)
	\$ 7,814	\$ 339,586	\$ 347,400

Depreciation expense for the years ended June 30, 2022 and 2021, was \$2,109 and \$2,107, respectively.

Embrace Families Community Based Care, Inc.

Notes to Financial Statements

Note 4. Note Payable

On April 17, 2020, the Organization received a U.S. Small Business Administration (SBA) Paycheck Protection Program loan in the amount of \$1,028,572, which is recorded as a noncurrent note payable as of June 30, 2021, in the accompanying statements of financial position, in accordance with ASC 470, Simplifying the Classification of Debt in a Classified Balance Sheet. The loan bore interest at 1% annually and was to mature on April 17, 2022. Under the Coronavirus Aid, Relief and Economic Security Act (CARES Act), up to the full principal amount of the loan and any accrued interest can be forgiven if the Organization uses all of the loan proceeds for forgivable purposes as required under the CARES Act. The loan was forgiven by the SBA in July 2021 in the amount of \$1,028,572 in principal and \$12,600 in interest, which was recognized as revenue and included in forgiveness of Paycheck Protection Program loan during the year ended June 30, 2022. The SBA has the right to review the original application and forgiveness application for six years following forgiveness, in order to assess compliance with the CARES Act.

Note 5. Leases

The Organization leases facilities and equipment under various operating leases that expire through February 2028. Facilities leases include early termination clauses in the event the Organization's funding contracts are terminated. The aggregate rental expense incurred under these leases totaled approximately \$2,227,000 and \$2,124,000 for the years ended June 30, 2022 and 2021, respectively.

Future minimum lease payments under these operating leases as of June 30, 2022, are as follows:

Years ending June 30:	
2023	\$ 1,275,571
2024	1,229,185
2025	1,102,957
2026	763,726
2027	771,356
Thereafter	1,301,912
	<u>\$ 6,444,707</u>

Note 6. Retirement Plan

The Organization's employees are eligible to participate in a defined contribution 401(k) Profit Sharing Plan (the Plan). Employees become eligible to participate in the Plan on the first monthly date following the attainment of age 18 and the completion of one hour of service. Plan participants may voluntarily contribute, on a pre-tax basis, up to 100% of their qualified annual compensation, as defined in the Plan, up to the Internal Revenue Code maximum limits. The Organization makes matching contributions equal to 100% of each participant's contribution to a maximum of 4% of compensation, as defined in the Plan document. Contributions to the Plan for the years ended June 30, 2022 and 2021, were approximately \$212,000 and \$169,000, respectively, and are included in payroll taxes and employee benefits in the accompanying statements of functional expenses.

Embrace Families Community Based Care, Inc.

Notes to Financial Statements

Note 7. Related Party Transactions

The Organization receives management and administrative services through an agreement with its Parent, Embrace Families, Inc. The agreement automatically continues for successive one-year periods, unless either party gives written notice not to renew within 30 days prior to the expiration of each term. Management fees are charged based on direct costs and indirect costs incurred monthly. In addition, Embrace Families, Inc. charges a monthly fee for use of the data warehouse system (technology maintenance fee). Management fees and technology maintenance fees incurred by the Organization during the years ended June 30, 2022 and 2021, were approximately \$6,197,000 and \$6,161,000, respectively. Amounts due to Embrace Families, Inc. at June 30, 2022 and 2021, related to this agreement, totaled approximately \$1,091,500 and \$1,526,200, respectively, which is included in the accompanying statements of financial position.

In June 2019, the Organization entered into two promissory notes totaling \$220,000 with Embrace Families, Inc. to receive cash advances for current operations related to two programs. These promissory notes are non-interest bearing and due 30 days after Embrace Families, Inc. provides written notice of demand. In September 2020, the Organization entered into an additional promissory note in the amount of \$1,000,000 with Embrace Families, Inc. The note is due on demand and bears interest at an annual rate of 1%. At June 30, 2022 and 2021, the total balance is included as a current liability, in notes payable-related party in the accompanying statements of financial position.

During the years ended June 30, 2022 and 2021, the Organization received in-kind contributions of approximately \$178,000 and \$118,000 from Embrace Families Foundation, Inc., consisting of donated materials, which is included as in-kind contributions in the accompanying statements of activities.

The Organization made payments to an affiliate, Embrace Families Solutions, Inc., under a subrecipient agreement, of approximately \$485,000 and \$509,000, during the years ended June 30, 2022 and 2021, respectively. The Organization also contributed amounts related to care coordination services provided, of approximately \$598,000 and \$518,000, during the years ended June 30, 2022 and 2021, respectively. Amounts due to Embrace Families Solutions, Inc., at June 30, 2022 and 2021, totaled approximately \$92,000 and \$49,000, respectively, which is included in accounts payable and accrued expenses in the accompanying statements of financial position.

The Organization entered into an agreement in February 2014 with an affiliate, Community Based Care Integrated Health, LLC, to coordinate the delivery of Medicaid services to specified members and provide administrative services for which it would be compensated. During the years ended June 30, 2022 and 2021, the Organization recognized \$598,228 and \$518,281, respectively, for these services.

The Organization receives marketing services through an agreement with an affiliate, Embrace Families Foundation, Inc. Fees are fixed and incurred monthly. Expenses incurred by the Organization during both of the years ended June 30, 2022 and 2021, for these services were \$100,000, which is included in professional fees in the accompanying statements of functional expenses.

The Organization receives management and administrative services for a Community Impact program from an affiliate, Embrace Families Foundation, Inc. According to that agreement, the Organization is to reimburse Embrace Families Foundation, Inc. for 90% of the expenses incurred on this program. Expenses incurred by the Organization during the years ended June 30, 2022, and 2021, for these services were approximately \$163,000 and \$183,000, respectively, which is included in professional fees in the accompanying statements of functional expenses.

Embrace Families Community Based Care, Inc.

Notes to Financial Statements

Note 8. Commitments and Contingencies

EFCBC, as an authorized agent of the state of Florida in accordance with Florida Statute Section 409.1671, has contracted with organizations to deliver quality child welfare services. The contracts have five-year terms, but often can be renewed for additional five-year terms.

The Organization is subject to state and federal audit examination to determine compliance with grant or contract requirements. In the event that expenditures would be disallowed, repayment could be required. Management is of the opinion that such expenditures, if any, would not have a material adverse impact on the Organization.

Note 9. Conditional Grants

The Organization has conditional grants awarded from grantors of approximately \$166,200,000 and \$240,200,000 as of June 30, 2022 and 2021, respectively. Future payments are contingent upon the Organization carrying out certain activities related to meeting grantor-imposed barriers stipulated by the grant or contract.

Note 10. State Funding and Impact on Net Assets

The Organization receives a substantial amount of grants and contracts from the state of Florida to operate as a child welfare organization to benefit children and families in the service area discussed in Note 1. Servicing children and families who are at risk under a contract with the State of Florida's Department of Children and Families puts the Organization at risk if funding is not sufficient to meet those welfare needs. The state of Florida has several funding mechanisms to help make up any deficit incurred as follows: (a) the state of Florida established risk pools to assist organizations to ensure those organizations are adequately funded and that no children or families are denied assistance; (b) organizations can apply for an increase in core funding from the state of Florida's legislature and (c) organizations can also make direct funding requests from the state of Florida's legislature. During the years ended June 30, 2022 and 2021, respectively, the Organization was awarded approximately \$913,500 and \$6,331,200 increase in core funding from the state of Florida's legislature. The Organization requested additional funds from the state of Florida's risk pool during the years ended June 30, 2022 and 2021. The Organization has been successful in the prior years by obtaining additional funding through the risk pool, core funding and direct requests of the state of Florida legislature. However, successful efforts for additional state of Florida funding in prior years is no guarantee of success in the future.

Note 11. Liquidity and Availability of Resources

As of June 30, 2022 and 2021, the following reflects the Organization's financial assets, reduced by amounts not available for general use within one year of June 30:

	2022	2021
Financial assets, at year-end:		
Cash	\$ 5,251,396	\$ 31,202
Accounts receivable	1,713,733	7,295,336
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 6,965,129</u>	<u>\$ 7,326,538</u>

As part the Organization's liquidity management, its policy is to maintain 30 days of cash and receivables to meet operating and client related expenses.

Embrace Families Community Based Care, Inc.

Notes to Financial Statements

Note 12. Subsequent Event

On November 1, 2022, the Organization obtained a \$2,000,000 line of credit with a commercial financial institution. Outstanding balances on the line of credit bear interest at a rate of 2.25% above the Daily Simple Secured Overnight Financing Rate and the line matures on March 31, 2024. The line of credit is collateralized by certain assets of the Company and is guaranteed by Embrace Families, Inc. As of March 21, 2023, a balance of \$2,000,000 is outstanding.

On December 27, 2022, the Organization entered into a promissory note for a note payable in the amount of \$2,000,000 with Embrace Families, Inc. Outstanding balances on the note bear interest at a rate of 1% annually and the note matures upon at least 30 days' notice by Embrace Families, Inc.

Embrace Families Community Based Care, Inc.

**Schedule of Expenditures of Federal Awards and State Financial Assistance
Year Ended June 30, 2022**

Grantor/Pass-Through/Program Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
Federal Awards:				
U.S. Department of Health and Human Services:				
Passed-through:				
State of Florida Department of Children and Families:				
Guardianship Assistance	93.090	GJL58	\$ 201,160	\$ -
Promoting Safe and Stable Families	93.556	GJL58	2,718,577	2,214,307
Temporary Assistance for Needy Families	93.558	GJL58	4,495,562	2,510,600
Grants to States for Access and Visitation Program	93.597	GJL58	21,106	21,106
Chafee Education and Training Vouchers Program	93.599	GJL58	248,399	-
Adoption and Legal Guardian Incentive Payments	93.603	GJL58	428,860	-
Stephanie Tubbs Jones Child Welfare Services Program	93.645	GJL58	1,892,396	1,058,570
Foster Care – Title IV-E Program	93.658	GJL58	12,750,901	6,428,479
Adoption Assistance	93.659	GJL58	10,178,573	648,814
Social Services Block Grant	93.667	GJL58	3,188,082	1,151,562
Child Abuse and Neglect State Grants	93.669	GJL58	80,816	51,441
John H. Chafee Foster Care Program for Successful Transition to Adulthood	93.674	GJL58	1,439,217	66,553
Medicaid Cluster: Medical Assistance Program	93.778	GJL58	282,377	-
Total Medicaid Cluster			<u>282,377</u>	<u>-</u>
Direct program:				
Adoption Opportunities	93.652	90CO1138-02-000	1,909,604	309,394
Total U.S. Department of Health and Human Services			<u>39,835,630</u>	<u>14,460,826</u>
U.S. Department of Labor:				
Passed-through:				
CareerSource Central Florida:				
WIOA Youth Activities	17.259	1617-011	61,168	-
Total expenditures of federal awards			<u>\$ 39,896,798</u>	<u>\$ 14,460,826</u>
Grantor/Pass-Through/Program Title	State CSFA Number	Pass-Through Entity Identifying Number	State Expenditures	Amount Provided to Subrecipients
State Financial Assistance:				
State of Florida Department of Children and Families:				
Direct programs:				
Out-of-Home Supports	60.074	GJL58	\$ 4,107,500	\$ 174,808
CBC – Adoption Services	60.076	GJL58	27,017	-
Independent Living and Road-to-Independence Program	60.112	GJL58	120,970	-
Motor Vehicle Insurance for Kids in Care	60.123	GJL58	926,239	-
CBC – Sexually Exploited Children	60.138	GJL58	256,777	256,777
Extended Foster Care Program	60.141	GJL58	739,966	-
CBC – Purchase of Therapeutic Services for Children	60.183	GJL58	971,212	-
Family Finders Program	60.206	GJL58	81,860	75,052
Kinship Navigator Program	60.207	GJL58	827,698	758,855
Guardianship Assistance Program	60.210	GJL58	46,333	-
Total expenditures of state financial assistance			<u>8,105,572</u>	<u>1,265,492</u>
Total federal awards and state financial assistance			<u>\$ 48,002,370</u>	<u>\$ 15,726,318</u>

See notes to schedule of expenditures of federal awards and state financial assistance.

Embrace Families Community Based Care, Inc.

Notes to Schedule of Expenditures of Federal Awards and State Financial Assistance

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards and state financial assistance (the Schedule) includes the federal award and state financial assistance project activity of Embrace Families Community Based Care, Inc., under programs of the federal government and the state of Florida for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the State of Florida Chapter 10.650, *Rules of the Auditor General*. Because the Schedule presents only a selected portion of the operations of Embrace Families Community Based Care, Inc., it is not intended to and does not present the financial position, changes in net assets or cash flows of Embrace Families Community Based Care, Inc.

Note 2. Summary of Significant Accounting Policies

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

Note 3. Indirect Cost Rate

Embrace Families Community Based Care, Inc. has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

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

Independent Auditor's Report

Board of Directors
Embrace Families Community Based Care, Inc.

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 (*Government Auditing Standards*), the financial statements of Embrace Families Community Based Care, Inc. (the Organization), which comprise the statement of financial position as of June 30, 2022, 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 March 21, 2023.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Orlando, Florida
March 21, 2023



RSM US LLP

**Report on Compliance for Each Major Federal Program and State Financial Assistance Project and
Report on Internal Control Over Compliance Required By the Uniform Guidance and
State of Florida Chapter 10.650, *Rules of the Auditor General***

Independent Auditor's Report

Board of Directors
Embrace Families Community Based Care, inc.

Report on Compliance for Each Major Federal Program and State Financial Assistance Project

Opinion on Each Major Federal Program and State Financial Assistance Project

We have audited Embrace Families Community Based Care, Inc.'s (the Organization) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* and the State of Florida's Department of Financial Services' *State Projects Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs and state financial assistance projects for the year ended June 30, 2022. The Organization's major federal programs and state financial assistance projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs and state financial assistance projects for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program and State Financial Assistance Project

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

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program and major state financial assistance project. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, the Uniform Guidance, and Chapter 10.650 will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program and major state financial assistance project as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, the Uniform Guidance and Chapter 10.650, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance and Chapter 10.650, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control Over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and Chapter 10.650. Accordingly, this report is not suitable for any other purpose.

RSM US LLP

Orlando, Florida
March 21, 2023

Embrace Families Community Based Care, Inc.

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2022**

Section I – Summary of Auditor’s Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with U.S. GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No
Significant deficiency(ies) identified?	<u> </u> Yes	<u> X </u> None Reported
Noncompliance material to financial statements noted?	<u> </u> Yes	<u> X </u> No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No
Significant deficiency(ies) identified?	<u> </u> Yes	<u> X </u> None Reported

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 2 CFR 200.516(a)?

 Yes X No

Identification of major programs:

Assistance Listing Number(s)

Name of Federal Program or Cluster

93.658
93.645
93.652

Foster Care—Title IV-E Program
Stephanie Tubbs Jones Child Welfare Services Program
Adoption Opportunities

Dollar threshold used to distinguish between Type A and Type B federal programs:

 \$ 1,196,904

Auditee qualified as low-risk auditee?

 X Yes No

