

Lutheran Family Services of Virginia, Inc. and Subsidiaries d/b/a enCircle

Consolidated Financial Report

(In Accordance with the Requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards)

June 30, 2025

BROWNEDWARDS
certified public accountants

Lutheran Family Services of Virginia, Inc.
and Subsidiaries d/b/a enCircle

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Lutheran Family Services of Virginia, Inc. and Subsidiaries d/b/a enCircle

Directors

Ms. Lisa Alderman	The Rev. David Drebes
Mr. Clay Arthur	Mr. George Marget III
The Rev. Christopher Carr	Dr. Phyllis Milton, Bishop
Dr. Wanda Fisher	Ms. Christina O'Neill
The Rev. Richard Goeres	Mr. S James "Jim" Sikkema
Mr. Malcolm James	Ms. Heera Simon
Mr. Bruce Swanson	Mr. Chauncey Strong
Ms. Helen Keck	

Officers

The Rev. Richard Goeres	Chair
Mr. George Marget III	Vice Chair
Mr. Chauncey Strong	Secretary
Ms. Lisa Alderman	Treasurer

BROWNEDWARDS
certified public accountants

Independent Auditor's Report

Board of Directors of
Lutheran Family Services of Virginia, Inc.
and Subsidiaries d/b/a/enCircle
Roanoke, Virginia

Opinion

We have audited the accompanying consolidated financial statements of Lutheran Family Services of Virginia, Inc. and Subsidiaries d/b/a enCircle ("enCircle"), a not for profit organization, which comprise the consolidated statements of financial position as of June 30, 2025 and 2024 and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of enCircle as of June 30, 2025 and 2024, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of enCircle 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 opinions.

Responsibilities of Management for the 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 enCircle's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 generally accepted auditing standards 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 consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards 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 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 enCircle'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 enCircle'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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements.

The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated 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 January 16, 2026, on our consideration of enCircle'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 enCircle'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 enCircle's internal control over financial reporting and compliance.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
January 16, 2026

Consolidated Financial Statements

Lutheran Family Services of Virginia, Inc.
and Subsidiaries d/b/a enCircle

Consolidated Statements of Financial Position
June 30, 2025 and 2024

	2025	2024
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,455,800	$ 3,206,744
Accounts receivable, net	4,983,541	5,310,292
Prepaid expenses	403,014	224,752
Total current assets	6,842,355	8,741,788
OTHER ASSETS		
Property and equipment, net	3,536,268	3,792,200
Right-of-use asset – operating lease	4,264,733	5,001,549
Right-of-use asset – financing lease, net	333,608	171,847
Investments	7,304,889	6,569,923
Investments 457(b) plan	104,744	73,330
Intangible asset, net	110,019	220,500
Goodwill	-	729,993
Other assets	40,435	43,799
Total other assets	15,694,696	16,603,141
Total assets	**$ 22,537,051**	**$ 25,344,929**
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of long-term debt	$ 244,604	$ 575,222
Current portion of operating lease liability	914,926	1,063,340
Current portion of financing lease liability	87,109	56,988
Line of credit payable	236,000	-
Accounts payable, trade	2,145,833	2,390,317
Accrued salaries and wages	1,655,425	1,385,443
Total current liabilities	5,283,897	5,471,310
LONG-TERM LIABILITIES		
Employee benefits payable, 457(b) plan	104,744	73,330
Operating lease liability, net of current portion	3,539,854	4,104,638
Financing lease liability, net of current portion	264,679	131,659
Long-term debt, net	198,286	262,384
Total long-term liabilities	4,107,563	4,572,011
Total liabilities	9,391,460	10,043,321
NET ASSETS		
Without donor restriction	11,341,149	13,555,644
With donor restriction	1,804,442	1,745,964
Total net assets	13,145,591	15,301,608
Total net assets and liabilities	**$ 22,537,051**	**$ 25,344,929**

Lutheran Family Services of Virginia, Inc.
and Subsidiaries d/b/a enCircle

Consolidated Statement of Activities

Year Ended June 30, 2025

	Without Donor Restriction	With Donor Restriction	Total
OPERATING REVENUES AND PUBLIC SUPPORT			
Service fees	$ 59,109,754	$ -	$ 59,109,754
Contributions	383,202	108,600	491,802
Grants	128,143	93,000	221,143
Other income	5,427	-	5,427
Net assets released from restrictions	143,122	(143,122)	-
Total operating revenues and public support	59,769,648	58,478	59,828,126
EXPENSES			
Program services:			
Developmental services	35,685,483	-	35,685,483
Developmental services WV (Stonebrook LLC)	1,456,994	-	1,456,994
Minnick schools	13,192,738	-	13,192,738
Foster care and adoption services	952,766	-	952,766
Outpatient Mental Health services	416,260	-	416,260
Immigration services	3,730,322	-	3,730,322
Support services:			
Administrative management	6,923,345	-	6,923,345
Development	326,704	-	326,704
Total expenses from operations	62,684,612	-	62,684,612
Change in net assets from operations	(2,914,964)	58,478	(2,856,486)
NON-OPERATING ACTIVITIES			
Net investment return	769,571	-	769,571
Loss on the disposal of property and equipment	(69,102)	-	(69,102)
Change in net assets from non-operating activities	700,469	-	700,469
Change in net assets	(2,214,495)	58,478	(2,156,017)
NET ASSETS			
Beginning	13,555,644	1,745,964	15,301,608
Ending	**$ 11,341,149**	**$ 1,804,442**	**$ 13,145,591**

Lutheran Family Services of Virginia, Inc.
and Subsidiaries d/b/a enCircle

Consolidated Statement of Activities

Year Ended June 30, 2024

	Without Donor Restriction	With Donor Restriction	Total
OPERATING REVENUES AND PUBLIC SUPPORT			
Service fees	$ 55,361,380	$ -	$ 55,361,380
Contributions	402,097	-	402,097
Grants	329,301	136,044	465,345
Other income	9,275	-	9,275
Net assets released from restrictions	32,479	(32,479)	-
Total operating revenues and public support	56,134,532	103,565	56,238,097
EXPENSES			
Program services:			
Developmental services	32,055,913	-	32,055,913
Developmental services WV (Stonebrook LLC)	4,057,895	-	4,057,895
Minnick schools	10,476,653	-	10,476,653
Foster care and adoption services	746,088	-	746,088
Outpatient mental health services	386,122	-	386,122
Immigration services	3,697,061	-	3,697,061
Support services:			
Administrative management	6,294,384	-	6,294,384
Development	377,820	-	377,820
Total expenses from operations	58,091,936	-	58,091,936
Change in net assets from operations	(1,957,404)	103,565	(1,853,839)
NON-OPERATING ACTIVITIES			
Net investment return	932,272	-	932,272
Loss on the disposal of property and equipment	(14,168)	-	(14,168)
Change in net assets from non-operating activities	918,104	-	918,104
Change in net assets	(1,039,300)	103,565	(935,735)
NET ASSETS			
Beginning	14,594,944	1,642,399	16,237,343
Ending	**$ 13,555,644**	**$ 1,745,964**	**$ 15,301,608**

The Notes to Consolidated Financial Statements are an integral part of this statement.

Lutheran Family Services of Virginia, Inc.
and Subsidiaries d/b/a enCircle

Consolidated Statement of Functional Expenses
Year Ended June 30, 2025

	Developmental Services	Developmental Services WV (Stonebrook LLC)	Minnick Schools	Foster Care & Adoption Services	Outpatient Mental Health Services	Immigration Services	Total Program	Administrative Management	Development	Total
Employee compensation and benefits										
Employee salaries	$ 7,541,879	$ 847,335	$ 8,369,506	$ 507,560	$ 229,804	$ 2,466,264	$ 19,962,348	$ 4,676,935	$ 206,385	$ 24,845,668
Employee taxes and benefits	1,826,288	233,740	1,874,542	118,336	45,580	520,203	4,618,689	1,040,168	56,253	5,715,110
Total employee compensation and benefits	9,368,167	1,081,075	10,244,048	625,896	275,384	2,986,467	24,581,037	5,717,103	262,638	30,560,778
Foster and adoptive parent & family care expenses	23,219,347	2,091	-	229,676	2	63,088	23,514,204	54	-	23,514,258
Building occupancy	800,983	154,317	1,081,531	29,343	40,758	281,899	2,388,831	94,000	3,154	2,485,985
Furniture, equipment, and software	299,165	30,894	321,369	16,185	4,039	56,006	727,658	154,710	19,233	901,601
Travel and vehicles	216,446	34,262	173,314	22,777	6,874	57,214	510,887	85,967	3,333	600,187
Insurance	98,545	30,364	153,647	6,547	3,086	41,522	333,711	60,830	2,858	397,399
Food and beverages	116,824	23,266	201,453	16	-	8,717	350,276	184	63	350,523
Contract staff and services	52,426	10,795	178,048	8,455	51,987	29,954	331,665	161,664	1,575	494,904
Staff development	80,083	14,046	200,564	7,024	9,144	41,468	352,329	111,420	4,538	468,287
Bad debt expense (recovery)	(10,252)	249	-	(36,492)	171	-	(46,324)	-	-	(46,324)
Professional fees	-	-	17,941	-	-	-	17,941	216,402	8	234,351
Communications	97,279	19,370	37,846	9,223	6,404	41,664	211,786	50,031	1,871	263,688
Supplies and printing	75,386	5,671	119,592	5,582	1,398	25,913	233,542	16,956	4,549	255,047
Recruitment and retention	174,957	2,485	169,790	1,202	7,981	40,548	396,963	40,657	1,047	438,667
Marketing and promotions	41,411	1,170	16,713	11,904	1,534	18,303	91,035	62,048	18,738	171,821
Family and student support and enrichment	1,215	11,641	34,694	3,976	2	5,479	57,007	-	-	57,007
Service activities	21,482	1,038	33,855	105	548	5,538	62,566	2,329	13	64,908
Taxes	37,042	7,318	18,264	3,602	1,699	8,115	76,040	4,388	92	80,520
Interest expense and loan cost amortization	28,623	1,167	15,800	276	2,345	1,885	50,096	21,425	1,618	73,139
Agency membership and licenses	6,832	781	3,656	451	168	2,845	14,733	17,019	350	32,102
Other expenses	(1,025)	1,207	(2,309)	(107)	95	(761)	(2,900)	27,273	-	24,373
Postage	4,132	109	4,440	442	342	2,081	11,546	3,683	845	16,074
Board expenses	-	-	-	-	-	-	-	22,769	-	22,769
Accreditation expenses	-	-	9,213	-	-	-	9,213	-	-	9,213
Total expenses before depreciation and amortization	34,729,068	1,433,316	13,033,469	946,083	413,961	3,717,945	54,273,842	6,870,912	326,523	61,471,277
Amortization of goodwill	729,993	-	-	-	-	-	729,993	-	-	729,993
Depreciation and amortization	226,422	23,678	159,269	6,683	2,299	12,377	430,728	52,433	181	483,342
Impairment of goodwill	-	-	-	-	-	-	-	-	-	-
Total expenses	**$ 35,685,483**	**$ 1,456,994**	**$ 13,192,738**	**$ 952,766**	**$ 416,260**	**$ 3,730,322**	**$ 55,434,563**	**$ 6,923,345**	**$ 326,704**	**$ 62,684,612**

The Notes to Consolidated Financial Statements are an integral part of this statement.

Lutheran Family Services of Virginia, Inc.
and Subsidiaries d/b/a enCircle

Consolidated Statement of Functional Expenses
Year Ended June 30, 2024

	Developmental Services	Developmental Services WV (Stonebrook LLC)	Minnick Schools	Foster Care & Adoption Services	Outpatient Mental Health Services	Immigration Services	Total Program	Administrative Management	Development	Total
Employee compensation and benefits										
Employee salaries	$ 6,019,550	$ 2,221,121	$ 6,731,713	$ 394,302	$ 183,320	$ 2,366,737	$ 17,916,743	$ 4,418,728	$ 256,042	$ 22,591,513
Employee taxes and benefits	1,532,305	496,976	1,564,372	89,614	45,216	472,860	4,201,343	959,010	67,220	5,227,573
Total employee compensation and benefits	7,551,855	2,718,097	8,296,085	483,916	228,536	2,839,597	22,118,086	5,377,738	323,262	27,819,086
Foster and adoptive parent & family care expenses	21,932,334	-	32	141,513	16	44,923	22,118,818	-	-	22,118,818
Building occupancy	590,756	250,992	878,539	28,477	42,955	290,350	2,082,069	76,040	6,278	2,164,387
Furniture, equipment, and software	283,186	67,786	254,703	19,111	4,402	80,996	710,184	115,413	16,993	842,590
Travel and vehicles	199,665	68,190	109,283	18,388	4,609	90,943	491,078	108,287	6,168	605,533
Insurance	86,110	44,384	112,790	5,165	2,490	23,705	274,644	98,174	1,449	374,267
Food and beverages	82,835	83,176	163,967	742	-	10,700	341,420	254	5	341,679
Contract staff and services	37,209	17,917	72,675	5,785	74,215	98,982	306,783	26,644	1,451	334,878
Staff development	52,104	16,147	123,046	7,948	7,355	26,560	233,160	91,385	3,982	328,527
Bad debt expense (recovery)	-	236,216	-	-	-	-	236,216	-	-	236,216
Professional fees	3,420	1,701	14,694	281	152	1,391	21,639	199,889	138	221,666
Communications	79,556	31,064	29,360	6,425	6,054	32,192	184,651	38,135	2,288	225,074
Supplies and printing	70,533	24,724	56,588	4,242	1,320	25,208	182,615	8,367	1,467	192,449
Recruitment and retention	48,181	11,989	45,721	986	4,217	33,616	144,710	24,517	221	169,448
Marketing and promotions	27,724	3,653	23,362	7,991	2,188	43,815	108,733	43,269	10,397	162,399
Family and student support and enrichment	3,278	68,042	16,838	2,328	-	14,732	105,218	-	-	105,218
Service activities	9,679	675	54,438	3,127	722	4,848	73,489	81	-	73,570
Taxes	24,272	3,861	22,661	2,163	743	7,091	60,791	315	5	61,111
Interest expense and loan cost amortization	18,050	120	19,025	5	1,825	6	39,031	14,299	570	53,900
Agency membership and licenses	17,908	4,682	6,557	890	111	3,091	33,239	6,086	500	39,825
Other expenses	1,126	19,079	100	1,715	17	130	22,167	1,639	-	23,806
Postage	4,070	263	4,461	623	838	3,078	13,333	4,622	907	18,862
Board expenses	-	-	-	-	-	-	-	14,671	-	14,671
Accreditation expenses	58	-	8,736	-	-	-	8,794	-	-	8,794
Total expenses before depreciation and amortization	31,123,909	3,672,758	10,313,661	741,821	382,765	3,675,954	49,910,868	6,249,825	376,081	56,536,774
Amortization of goodwill	734,216	43,839	-	-	-	-	778,055	-	-	778,055
Depreciation and amortization	197,788	52,926	162,992	4,267	3,357	21,107	442,437	44,559	1,739	488,735
Goodwill impairment	-	288,372	-	-	-	-	288,372	-	-	288,372
Total expenses	**$ 32,055,913**	**$ 4,057,895**	**$ 10,476,653**	**$ 746,088**	**$ 386,122**	**$ 3,697,061**	**$ 51,419,732**	**$ 6,294,384**	**$ 377,820**	**$ 58,091,936**

The Notes to Consolidated Financial Statements are an integral part of this statement.

Lutheran Family Services of Virginia, Inc.
and Subsidiaries d/b/a enCircle

Consolidated Statements of Cash Flows

Years Ended June 30, 2025 and 2024

	2025	2024
OPERATING ACTIVITIES		
Change in net assets	$ (2,156,017)	$ (935,735)
Adjustments to reconcile change in net assets to net cash used by in operating activities:		
Depreciation and amortization	483,342	488,735
Loan cost amortization	8,664	2,166
Goodwill amortization	729,993	778,055
Goodwill impairment	-	288,372
Realized and unrealized gains on investments, net	(600,777)	(753,044)
Loss on disposal of property and equipment	69,102	14,168
Imputed interest recognized as contribution	(108,600)	-
Imputed interest	12,077	4,983
Decrease (increase) in:		
Accounts receivable	326,751	(846,115)
Prepaid expenses	(178,262)	(30,717)
Other assets	3,364	11,802
Right-of-use assets	575,055	(152,945)
Increase (decrease) in:		
Lease liabilities	(550,057)	213,590
Accounts payable, trade	(244,484)	350,698
Accrued salaries and wages	269,982	304,527
Net cash used in operating activities	(1,359,867)	(261,460)
INVESTING ACTIVITIES		
Purchases of property and equipment	(516,866)	(315,441)
Purchases of investments, net of sales	(134,189)	(191,822)
Proceeds from sale of property and equipment	619,585	4,056
Net cash used in investing activities	(31,470)	(503,207)
FINANCING ACTIVITIES		
Proceeds from line of credit	236,000	-
Payments on long-term debt	(595,607)	(564,055)
Net cash used in financing activities	(359,607)	(564,055)
Net change in cash and cash equivalents	(1,750,944)	(1,328,722)
CASH AND CASH EQUIVALENTS		
Beginning	3,206,744	4,535,466
Ending	**$ 1,455,800**	**$ 3,206,744**

The Notes to Consolidated Financial Statements are an integral part of these statements.

Lutheran Family Services of Virginia, Inc.
and Subsidiaries d/b/a enCircle

Consolidated Statements of Cash Flows

Years Ended June 30, 2025 and 2024

	2025	2024
SUPPLEMENTAL DISCLOSURES		
Supplemental disclosure of cash flow information:		
Payments on operating leases	$ 1,242,441	$ 1,204,500
Payments on finance leases for interest	$ 26,904	$ 29,746
Payments on finance leases for principal	$ 69,125	$ 61,474
Cash paid during the year for interest	$ 41,677	$ 31,980
Property and equipment purchased with long-term debt	$ 288,750	$ -
Supplemental disclosure of non-cash activity:		
Operating right-of-use assets obtained in exchange for lease obligations	$ 432,219	$ 1,286,225
Financing right-of-use assets obtained in exchange for lease obligations	$ 231,532	$ -

Lutheran Family Services of Virginia, Inc. and Subsidiaries d/b/a enCircle

Notes to Consolidated Financial Statements

June 30, 2025

Note 1 – Summary of Significant Accounting Policies

Organization and Nature of Activities

Lutheran Family Services of Virginia, Inc. and its subsidiaries, Dent Road, L.L.C. and Stonebrook Community Services LLC (collectively doing business as "enCircle") provide services to children, adults, and families. Program services offered include treatment foster care, adoption, family care homes, day support programs, in home support, group homes, immigration services, and outpatient mental health services. enCircle also operates Minnick Schools which provide educational instruction and counseling to students with complex behavioral and developmental needs who are referred from public school systems.

As of November 7, 2024, Stonebrook Community Services has ceased operations.

Basis of Presentation and Principles of Consolidation

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

All significant intercompany accounts and transactions have been eliminated in consolidation.

Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (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 consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions and may have impact on future periods.

Cash and Cash Equivalents

For purposes of reporting cash flows, enCircle considers all funds with a maturity of three months or less to be cash equivalents.

Accounts Receivable and Bad Debts

Accounts receivable are stated at their estimated collectible amounts and comprise amounts billed and currently due from customers. enCircle extends credit to customers in the normal course of business. Collections from customers are continuously monitored and an allowance for credit losses is maintained based on historical experience adjusted for current conditions and reasonable forecasts considering geographical and industry-specific economic factors. enCircle also considers any specific customer collection issues. enCircle evaluates its allowance for credit losses by programmatic division.

At origination, enCircle evaluates credit risk based on a variety of credit quality factors including prior payment experience, customer financial information, credit ratings, probabilities of default, industry trends and other internal metrics. On a continuing basis, data for each major customer is regularly reviewed based on past-due status to evaluate the adequacy

of the allowance for credit losses; actual write-offs are charged against the allowance. The allowance for credit loss was $7,000 and $340,669 for the years ended June 2025 and 2024, respectively.

Investments

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Intangible Asset and Goodwill

Intangible assets and goodwill are evaluated at least annually for possible impairment, and are being amortized from five to fifteen years as discussed below.

On July 8, 2011, enCircle acquired 100% of the outstanding stock of Lamano Agency, Inc. As a result of this acquisition and subsequent program growth and expansion, enCircle offers developmental services to individuals with intellectual and developmental disabilities. The purchase price of $5,236,965 was allocated as follows:

Intangible asset	$	1,657,000
Goodwill		3,579,965
	$	**5,236,965**

The intangible asset consists of the acquired relationships with the individuals served by the programs offered and was determined based on the projected future cash flows expected from these relationships. The intangible asset is being amortized on a straight line basis over fifteen years. Amortization expense was $110,481 and $110,500 for the years ended June 30, 2025 and 2024, respectively.

Goodwill consists largely of the assembled workforce acquired. Through June 30, 2020, enCircle followed the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 350 which required that goodwill not be amortized, but instead be assessed for impairment at least annually. Effective for the fiscal year ended June 30, 2021, enCircle adopted the provisions of FASB Accounting Standards Update No. 2019-06 which permits not for profit entities to amortize goodwill over a 10 year period, or less than 10 years if a shorter useful life is more appropriate. enCircle determined that a 5 year amortization period was appropriate. Amortization expense was $715,993 for the years ended June 30, 2025 and 2024.

On December 1, 2015, enCircle acquired the Virginia family care home operations of a national publicly traded corporation. This acquisition facilitated enCircle expanding its services into new regions of the state. The purchase price of $70,000 was recorded as goodwill. enCircle has elected to amortize this goodwill over a 5 year period. Amortization expense totaled $14,000 for the years ended June 30, 2025 and 2024.

On January 1, 2021, enCircle acquired substantially all the assets of Stonebrook, Inc., which operated seven group homes for adults in the Martinsburg, West Virginia area, allowing for expansion of its services into West Virginia. These operations are conducted under Stonebrook Community Services LLC, a wholly owned subsidiary of enCircle. Fixed assets acquired, including vehicles and furnishings and equipment, were recorded at fair value at the time of the acquisition and the remainder of the purchase price ($480,619) was recorded as goodwill. enCircle has elected to amortize this goodwill over a 10 year period. Amortization expense totaled $48,062 for the year ended June 30, 2024. Impairment expense total $288,372 for the years ended June 30, 2024.

Management concluded, after assessing the totality of events and circumstances, it is more likely than not, unamortized goodwill related to the 2011 and 2015 acquisition of goodwill is not impaired at June 30, 2025 and 2024. Management concludes that the unamortized goodwill related to the 2021 purchase is fully impaired as of June 30, 2024 and was written off during that fiscal year.

Classification of Net Assets

enCircle reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions are free of donor-imposed restrictions. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties. Revenues, gains, and losses that are not restricted by donors are included in this classification. Expenses are reported as decreases in this classification.

Net assets with donor restrictions are limited in use by donor-imposed stipulations that expire either by the passage of time or that can be fulfilled by action of enCircle pursuant to those stipulations. Net assets with donor restrictions also includes amounts required by donors to be held in perpetuity; however, generally, the income on these assets is available to meet various operating needs.

Revenue

Contributions

enCircle 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 restriction are reclassified to net assets without donor restriction and reported in the consolidated statements of activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions in the accompanying consolidated financial statements. enCircle reports gifts of property and equipment as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long lived assets are reported as support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, enCircle reports expirations of donor restrictions when the donated or acquired long lived assets are placed in service.

Service Fee Revenue

Service fee revenue includes amounts from third party payors, private insurance, client insurance, state and local governments, and grant service income.

Third Party Payor, Private Insurance and Client Insurance Payments

Third party payor, private insurance, and client insurance payment revenue is reported at the estimated net realizable amounts from clients, third party payors, and others for services rendered. The revenue is recognized as performance obligations are satisfied. Provisions for estimated third party payor settlements are provided in the period the related services are rendered. Revenue under third party payor agreements is subject to audit and retroactive adjustment.

Differences between the estimated amounts accrued at interim and final settlements are reported in operations in the year of such settlement.

State and Local Government Revenue

Service fee revenue received from state and local governments is reported at the estimated net realizable amount due from these governmental entities for services rendered based upon predetermined agreed upon rates. The revenue is recognized as performance obligations are satisfied. Differences between the estimated amounts accrued at interim and final payments received are reported in operations in the year of such settlement unless allowance has been made at the time of accrual for possible uncollectible accounts.

Grant Service Income

Grant service revenue from state and local governments or other third-party payors is reported at the estimated net realizable amount due from these entities. These service fee agreements are usually cost reimbursement grants, and costs incurred by enCircle are reimbursed by the grantor after performance obligations are met.

Functional Expenses and Allocation

Directly identifiable expenses are charged to programs and supporting services. Expenses that are attributable to one or more programs, or to supporting functions of enCircle are allocated based on various consistently used factors such as square footage occupied (occupancy and other facility related expenses) or relative payroll amounts. Supporting function expenses that are allocated include general administrative expenses, finance, human resources, facilities and information technology management, quality, and learning and development.

Advertising Costs

enCircle expenses advertising costs as they are incurred. Advertising costs totaled $171,821 and $162,399 for 2025 and 2024, respectively.

Income Taxes

enCircle is exempt from federal income taxes under Section 501(c)(3) of the *Internal Revenue Code*; accordingly, the accompanying financial statements do not reflect a provision or liability for federal or state income taxes.

Reclassification

Certain amounts in the prior-year consolidated financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year consolidated financial statements.

Adoption of FASB ASC 326

Effective July 1, 2023, enCircle adopted ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which modifies the measurement of expected credit losses on certain financial instruments. enCircle adopted this new guidance utilizing the modified retrospective transition method. Topic 326 requires measurement and recognition of expected versus incurred losses for financial assets held. Financial assets held by enCircle that are subject to ASU 2016-13 include trade accounts receivable. The adoption of this ASU did not have a material impact on the enCircle's consolidated financial statements but did change how the allowance for credit losses is determined.

Subsequent Events

In preparing these consolidated financial statements, enCircle has evaluated events and transactions for potential recognition or disclosure through January 16, 2026, the date the consolidated financial statements were available to be issued.

Note 2 – Financial Assets and Liquidity Resources

enCircle develops detailed monthly budgets to help forecast cash collections and disbursements to ensure financial assets are available as expenditures and obligations come due. To help manage unanticipated liquidity needs, enCircle has a line of credit totaling $1,500,000 which it could draw upon. See Note 7 for balances on the line of credit at June 30, 2025 and 2024.

The financial assets available within one year of the consolidated statement of financial position date to meet cash needs for general operating expenditures are as follows:

	2025	2024
Cash and cash equivalents	$ 1,455,800	$ 3,206,744
Accounts receivable, net	4,983,541	5,310,292
Investments, undesignated	4,224,796	3,800,083
	10,664,137	12,317,119
Less cash and accounts receivable restricted by donor	(203,567)	(136,044)
	$ 10,460,570	**$ 12,181,075**

Note 3 – Concentration of Credit Risk

Financial instruments that potentially subject enCircle to concentration of credit risk consist principally of interest bearing transaction accounts, investments, receivables, and support and revenue.

enCircle places its transaction accounts with high credit quality financial institutions. On June 30, 2025 and 2024, enCircle had deposits with one regional in excess of the amount insured by the Federal Deposit Insurance Corporation (FDIC). The uninsured balances were $1,204,308 and $2,954,492 at June 30, 2025 and 2024, respectively.

enCircle grants credit without collateral to Medicaid, local governmental authorities, and its clients. The mix of net receivables from clients and third party payors was concentrated in the following major payor classes as of June 30:

	2025	2024
Medicaid	$ 3,064,187	$ 3,025,721
State and local government	1,880,525	2,270,112
Other	38,829	14,459
	$ 4,983,541	**$ 5,310,292**

enCircle receives substantially all of its support and revenue from state and local government agencies in the form of fee for service agreements and third party insurance arrangements. Continuation of enCircle's program services is greatly dependent on the continued support of these agencies.

Note 4 – Property and Equipment

Property and equipment are stated at cost. Contributed assets are recorded at fair value at the date of gift. Maintenance and repairs are charged to operating expenses and major alterations and renovations are capitalized. It is enCircle's policy to capitalize capital expenditures greater than or equal to $10,000. For financial reporting purposes, depreciation is computed using the straight line method and amounted to $372,862 and $378,235 in 2025 and 2024, respectively.

Depreciation is provided on a straight line basis over the estimated useful lives of the assets as follows:

Land improvements	7 – 20 years
Building and leasehold improvements	3 – 30 years
Furniture and equipment	3 – 5 years
Vehicles	5 years

Property and equipment consisted of the following as of June 30:

	2025	2024
Land and land improvements	$ 646,607	$ 680,057
Buildings and leasehold improvement	4,789,752	4,943,964
Furniture and equipment	641,534	726,357
Vehicles	1,127,706	1,037,592
	7,205,599	7,387,970
Less accumulated depreciation	(3,669,331)	(3,595,770)
	$ 3,536,268	**$ 3,792,200**

Note 5 – Fair Value Measurements

enCircle has adopted accounting standards which establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that enCircle has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

  If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques are used to maximize the use of observable inputs and minimize the use of unobservable inputs. Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2025 and 2024.

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

The following table sets forth by level, within the fair value hierarchy, enCircle's assets at fair value as of June 30:

	2025			
	Level 1	**Level 2**	**Level 3**	**Total**
Investments:				
Short-term investments	$ 83,993	$ -	$ -	$ 83,993
Corporate bonds	1,251,525	-	-	1,251,525
Government bonds	977,554	-	-	977,554
International stocks	852,058	-	-	852,058
Domestic stocks	4,139,759	-	-	4,139,759
Total investments at fair value	**$ 7,304,889**	**$ -**	**$ -**	**$ 7,304,889**

	2024			
	Level 1	**Level 2**	**Level 3**	**Total**
Investments:				
Short-term investments	$ 4,127	$ -	$ -	$ 4,127
Corporate bonds	970,902	-	-	970,902
Government bonds	829,108	-	-	829,108
International stocks	706,093	-	-	706,093
Domestic stocks	4,059,693	-	-	4,059,693
Total investments at fair value	**$ 6,569,923**	**$ -**	**$ -**	**$ 6,569,923**

enCircle values short term investments, corporate bonds, and domestic stocks based on quoted market prices in active markets, such as U.S. Treasuries or publicly traded stocks.

Note 6 – Investments

Investments and investment return for June 30, 2025 are as follows:

	Cost	**Fair Value**	**Unrealized Appreciation**
Short-term investments	$ 83,993	$ 83,993	$ -
Corporate bonds	1,248,236	1,251,525	(3,289)
Government bonds	981,560	977,554	4,006
International stocks	665,672	852,058	(186,386)
Domestic stocks	2,748,537	4,139,759	(1,391,222)
	$ 5,727,998	**$ 7,304,889**	**$ 1,576,891**

Investment return for the year ended June 30, 2025, is summarized as follows:

Investment income	$ 168,794
Realized and unrealized gains, net	600,777
	$ 769,571

Investments and investment return for June 30, 2024 are as follows:

	Cost	Fair Value	Unrealized Appreciation
Short-term investment	$ 4,127	$ 4,127	$ -
Corporate bonds	960,028	970,902	10,874
Government bonds	841,980	829,108	(12,872)
International stocks	609,097	706,093	96,996
Domestic stocks	3,001,451	4,059,693	1,058,242
	$ 5,416,683	**$ 6,569,923**	**$ 1,153,240**

Investment return for the year ended June 30, 2024, is summarized as follows:

Investment income	$ 179,228
Realized and unrealized gains, net	753,044
	$ 932,272

Note 7 – Line of Credit

As of June 30, 2025 and 2024, enCircle had a $1,500,000 line of credit with First Citizens Bank to be drawn upon as needed. The line bears interest at SOFR plus 2.0% and the effective rate at June 30, 2025 was 6.31% and was 7.32% at June 30, 2024. The line is secured by enCircle's furnishings and equipment. $236,000 and $-0- was outstanding on the line as of June 30, 2025 and 2024, respectively.

Note 8 – Long Term Debt

Long term debt consists of the following at June 30:

	2025	2024
First Citizens Bank		
Loan dated November 30, 2020, payable in monthly installments of $47,052, including interest at 2.8%, secured by deeds of trust.	$ 206,068	$ 756,391
KOVAR		
Mortgage loan dated March 20, 2018, payable in 120 monthly installments of $1,063. The loan has no stated interest rate and is secured by real estate.	32,938	46,750
Mortgage loan dated June 6, 2018, payable in 120 monthly installments of $1,187. The loan has no stated interest rate and is secured by real estate.	40,353	55,783
Mortgage loan dated October 3, 2024, payable in 120 monthly installments of $1,604. The loan has no stated interest rate and is secured by real estate.	272,708	-
Total long-term debt	552,067	858,924
Less unamortized loan costs on First Citizens loan	(3,610)	(12,274)
Less discount on zero-interest mortgage loans, net	(105,567)	(9,044)
Total long-term debt net of loan costs	442,890	837,606
Less current portion of long-term	(244,604)	(575,222)
	$ 198,286	**$ 262,384**

Following are maturities of long term debt as of June 30, 2025:

Year Ending	
2026	$ 244,604
2027	46,242
2028	43,054
2029	19,250
2030 and thereafter	198,917
	$ 552,067

Deferred financing costs totaling $23,417 associated with the First Citizens loan are being amortized over the term of the loan, which is 84 months. Amortization of debt issuance costs is reported with interest expense in the consolidated statement of activities.

Note 9 – Net Assets without Donor Restrictions

Net assets internally restricted are as follows:

	2025	2024
Board designated for reserves – 1888 Legacy Fund	$ 357,973	$ 321,948
Undesignated	10,983,176	13,233,696
	$ 11,341,149	**$ 13,555,644**

Note 10 – Net Assets with Donor Restrictions

Donor restricted net assets for specific purposes and time are classified as follows:

	2025	2024
Restricted by donor for various programs	$ 98,000	$ 5,000
Restricted by donor for property and equipment	-	131,044
Imputed interest recognized as contribution	105,567	9,045
	$ 203,567	**$ 145,089**

Donor restricted net assets held in perpetuity are classified as follows:

	2025	2024
Endowment from Smelser Estate (Eleanor's Fund)	$ 1,438,767	$ 1,438,767
Minnick Education Center Endowment	162,108	162,108
	$ 1,600,875	**$ 1,600,875**

Note 11 – Endowment Funds

enCircle's endowment consists of two funds which are included in investments. These funds are donor restricted endowment funds and were established for a variety of purposes. In accordance with applicable accounting standards, net assets associated with these endowment funds are classified and reported based on the existence or absence of donor imposed restrictions.

The management of donor restricted endowment funds is governed by state law under the State Prudent Management of Institutional Funds (SPMIFA) law as adopted by Virginia state legislature in 2008. enCircle's Board of Directors has interpreted SPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, enCircle classifies net assets with donor restrictions as a) the original value of gifts donated to the permanent endowment, b) the original value of subsequent gifts to the permanent endowment, and c) any 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. enCircle has interpreted SPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law.

The composition by type of endowment funds as of June 30 is as follows:

	2025 and 2024		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	$ -	$ 1,600,875	$ 1,600,875

In accordance with state SPMIFA law, enCircle considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of enCircle 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 enCircle, and (7) the investment policies of enCircle.

enCircle has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor restricted funds that enCircle must hold in perpetuity. Under this policy, as approved by the Executive Committee of enCircle's Board of Directors, the endowment assets are invested in a manner that is intended to maximize long term growth using a balanced approach with less than full market risk and volatility.

To satisfy its long term rate of return objectives, enCircle 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).

There is a blanket appropriation of all earnings and appreciation in place. As such, all accumulated appreciation has been released from restriction and is reflected in the net assets without donor restrictions as of June 30, 2025 and 2024, respectively.

Note 12 – Retirement Plans

enCircle sponsors a defined contribution retirement plan that covers substantially all employees. Employees are eligible to make contributions to the plan after 60 days of employment and qualify for matching employer contributions after one year of employment in which at least 1,000 hours are worked. enCircle contributes to the plan in an amount set by the Board of Directors. Retirement plan expense amounted to $798,186 and $754,843 in 2025 and 2024, respectively.

enCircle also sponsors a Section 457(b) deferred compensation plan for enCircle's senior management. enCircle does not make any matching or other contributions to the plan. Eligible employees may defer a portion of their compensation into the plan, up to the maximum amount allowable under Internal Revenue Service regulations. One employee was participating in the plan as of June 30, 2025 and 2024.

Note 13 – Leases

Operating Leases

enCircle is the lessee of building properties under operating long-term operating leases. The leases have varying terms and expiration dates, ranging from 2 to 15 years, are generally non-cancellable, and may include options to extend or terminate the lease. The renewal provisions range from 1 to 7 years. enCircle exercises judgment to determine the term

of those leases when such options are present and include such options in the calculation of the lease term when it is reasonably certain that it will exercise those options.

Lease arrangements include minimum base rents, including certain predetermined rent increases over the life of the leases that are included in the determination of lease obligation and right-of-use asset amounts. Certain lease arrangements also include non-lease components such as taxes, insurance, and maintenance that are excluded from the determination of right-of-use assets and lease obligations and will be expensed in the periods they become due.

At commencement, right-of-use assets and liabilities are measured at the present value of future lease payments over the expected lease term. enCircle uses its incremental borrowing rate or the Federal Funds Rate based on information available at the time of the lease commencement to measure the present value of future payments.

Finance Leases

enCircle has various other installment notes accounted for as finance leases for vehicles and office equipment. The installment notes have varying monthly payments ranging from $332 to $4656, including interest and principal through March 2028. Interest rates vary and range from 9.80% to 15.20%. The notes are secured by vehicles and office equipment.

Lease Expense

Operating lease expense is recognized on a straight-line basis over the lease term. Finance lease expense is recognized as a combination of interest on lease liabilities and amortization of right-of-use assets. Lease expense is as follows below for the years ended June 30:

	2025	2024
Finance lease expense		
Amortization of ROU assets	$ 78,470	$ 70,402
Interest on lease liabilities	27,637	29,063
Operating lease expense	1,270,513	1,257,455
Variable lease expense	-	7,597
Sublease income	(5,836)	(5,567)
	$ 1,370,784	**$ 1,358,950**

Other lease information is as follows:

	2025	2024
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from finance leases	$ 26,904	$ 29,746
Financing cash flows from finance leases	69,145	61,474
Operating cash flows from operating leases	1,242,441	1,204,500
Weighted-average remaining lease term in years for operating leases	5.12	5.80
Weighted-average remaining lease term in years for finance leases	3.85	3.32
Weighted-average discount rate for operating leases	3.77%	3.34%
Weighted average discount rate for finance leases	9.76%	13.549%

Future minimum lease payments required under leases that have an initial or remaining non-cancellable lease term in excess of one year are as follows:

Year Ending June 30	Operating	Financing
2026	$ 1,062,083	$ 116,236
2027	1,012,104	116,236
2028	915,552	91,963
2029	718,502	56,386
2030	586,206	33,440
Thereafter	583,515	-
	4,877,962	414,261
Less present value discount	(423,182)	(62,473)
Total lease liabilities	**$ 4,454,780**	**$ 351,788**

Note 14 – Service Fee Revenue

Service fee revenue is reported at the amount that reflects the consideration to which enCircle expects to be entitled in exchange for providing services. These amounts are due from third party payors (including health insurers and government programs), clients, grantors and others. enCircle bills the third party and clients after the services are performed. Revenue is recognized as performance obligations are satisfied. Grant service revenue is recognized on a cost reimbursement basis as services are provided.

Performance obligations are determined based on the nature of the services provided by enCircle. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. enCircle believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation.

enCircle determines the transaction price based on standard charges, costs to provide various services, and/or rates set by various State authorities including local governments, Virginia Department of Social Services, and Medicaid for services provided, reduced by contractual adjustments provided to third party payors and implicit price concessions provided to certain categories of clients. enCircle determines its estimates of contractual adjustments based on contractual agreements, its policies, and historical experience. enCircle determines its estimate of implicit price concessions based on its historical collection experience with clients.

enCircle has agreements with third party payors that provide for payments at amounts different from its established rates. A summary of the basis for reimbursement with Medicaid follows.

Medicaid

The Medicaid programs in Virginia and West Virginia reimburse enCircle for services rendered to Medicaid eligible individuals based on rates established by the Medicaid Programs. The Virginia Medicaid Program utilizes a “price based” payment methodology. This prospective payment system utilizes specifically defined geographical peer groups.

Laws and regulations governing the Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Any adjustments to revenue as a result of audits or reviews are reflected in the year that those adjustments are settled. Service

fee revenue for the years ended June 30, 2025 and 2024, did not change due to amounts previously estimated that are no longer necessary as a result of final settlements and years that are no longer subject to audits, reviews, and investigations.

Generally, individuals served by enCircle who are covered by third party payors are responsible for related deductibles and coinsurance, which vary in amount. enCircle estimates the transaction price for individuals with deductibles and coinsurance based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to service fees revenue in the period of the change. For the years ended June 30, 2025 and 2024, no additional revenue was recognized due to changes in its estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years. Subsequent changes that are determined to be the result of an adverse change in the client's ability to pay are recorded as bad debt expense.

While enCircle provides care with the expectation that individuals served or third-party payors will pay the amount billed, based on historical experience, enCircle realizes there is an uncollectible amount related to client payments. Therefore, enCircle has determined it has provided implicit price concessions to individuals in that pay category and individuals with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to individuals or third-party payors and the amounts enCircle expects to collect based on its collection history with those individuals or payors.

enCircle has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors: payors, geography, service lines, method of reimbursement, and timing of when revenue is recognized.

Service fee revenue consists of the following:

	2025	2024
Medicaid (Virginia and West Virginia)	$ 38,250,355	$ 37,452,970
State and local governments	15,868,643	12,786,470
Grant service	4,356,930	4,240,746
Client insurance	315,108	289,384
Client payments	318,718	591,810
	$ 59,109,754	**$ 55,361,380**

Contractual allowances were approximately $105,000 and $71,000 for the years ended June 30, 2025 and 2024, respectively.

Approximately 65% of service fee revenue was derived from the Medicaid reimbursement programs for the year ended June 30, 2025 and approximately 68% for the year ended June 30, 2024. The remaining service fee revenue was derived from individuals and/or third-party insurance, along with grant service revenue. Individuals originate from Virginia and West Virginia.

enCircle has elected a practical expedient to not adjust the promised amount of consideration from individuals and third-party payors for the effects of a significant financing component due to the expectation that the period between the time the service is provided to an individual and the time that the individual or a third party payor pays for that service will be one year or less.

The balance of accounts receivable, net of the allowance, at July 1, 2025 and July 1, 2024 totaled $5,310,292 and $4,464,177, respectively.

ASC 606

Under Accounting Standards Codification ("ASC") 606, enCircle recognizes revenue in the statement of operations and contract assets on the balance sheets only when services have been provided. Since enCircle has performed its obligation under the contract, it has unconditional rights to the consideration recorded as assets and therefore, classifies those billed and unbilled assets as accounts receivable.

Under ASC 606, payments that enCircle receives from individuals or third party payors in advance of providing services represent contract liabilities. Such payments primarily relate to private pay individuals, which are billed monthly in advance. enCircle had no material contract liabilities or activity as of and for the years ended June 30, 2025 and 2024.

Disaggregation of Revenues

enCircle disaggregates revenue from contracts with clients by primary payor type. enCircle notes that disaggregation of revenue into these categories achieves the disclosure objectives to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The payment terms and conditions within enCircle's revenue generating contracts vary by payor. Payments are generally received within 30 to 60 days after billing.

Compliance

Lutheran Family Services of Virginia, Inc. and Subsidiaries d/b/a enCircle

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2025

Federal Grantor/Pass - Through Grantor/ Program or Cluster Title	Federal Assistance Listing Number	Pass-through Entity Identifying Number	Federal Expenditures
Department of Health and Human Services:			
Pass through from Lutheran Immigration and Refugee Service			
Unaccompanied Alien Children Program	93.676	357-24-00	$ 264,728
		357-25-00	241,557
		358-24-00	145,696
		358-25-00	52,887
		358C-24-00	507,972
		356A-24-00	1,096,339
		356A-25-00	133,505
		358D-23-00	71,978
		358D-24-00	1,914,830
Total Department of Health and Human Services			4,429,492
Total Expenditures of Federal Awards			**$ 4,429,492**

Notes:

Basis of Presentation

The accompanying schedule of federal expenditures includes the activity of all federally assisted programs of enCircle and is presented on the accrual basis of accounting, as described in Note 1 to enCircle's basic financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on this schedule.

De Minimis Indirect Cost Rate

The entity has elected to use the 10% de minimis indirect cost rate for all grants.

Correction from Prior Year

The current year schedule includes $72,562 of expenditures from the prior year that were not previously captured.

BROWNEDWARDS
certified public accountants

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors of
Lutheran Family Services of Virginia, Inc. and Subsidiaries d/b/a enCircle
Roanoke, Virginia

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Lutheran Family Services of Virginia, Inc. and Subsidiaries d/b/a enCircle ("enCircle") which comprise the consolidated statement of financial position as of June 30, 2025, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated January 16, 2026.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered enCircle'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 opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of enCircle's internal control. Accordingly, we do not express an opinion on the effectiveness of enCircle'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 consolidated 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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether enCircle's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated 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.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
January 16, 2026

BROWNEDWARDS
certified public accountants

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

To the Board of Directors of
Lutheran Family Services of Virginia, Inc. and Subsidiaries d/b/a enCircle
Roanoke, Virginia

Report on Compliance for Each Major Program

Qualified Opinion on Each Major Federal Program

We have audited Lutheran Family Services of Virginia, Inc. and Subsidiaries d/b/a enCircle's ("enCircle") compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on enCircle's major federal program for the year ended June 30, 2025. enCircle's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion section of our report, enCircle complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2025.

Basis for Qualified Opinion on Each Major Federal Program

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

We are required to be independent of enCircle 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. Our audit does not provide a legal determination of enCircle's compliance with the compliance requirements referred to above.

Matters Giving Rise to Qualified Opinion on Each Major Federal Program

As described in the accompanying schedule of findings and questioned costs, enCircle did not comply with the requirements of each major federal program as described in findings numbers 2025-001, 2025-002, and 2025-003.

Compliance with such requirements is necessary, in our opinion, for enCircle to comply with the requirements applicable to that program.

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 enCircle's federal programs.

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

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, 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 enCircle'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 enCircle'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, but not for the purpose of expressing an opinion on the effectiveness of enCircle's internal control over compliance. Accordingly, no such opinion is expressed.

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2025-001 and 2025-002. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control over Compliance

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify one deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. **We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2025-003 and 2025-004, to be material weaknesses.**

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our 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.

Government Auditing Standards requires the auditor to perform limited procedures on enCricle's response to the internal control over compliance finding identified in our compliance audit described in the accompanying schedule of findings and questioned costs. enCircle's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
January 16, 2026

Lutheran Family Services of Virginia, Inc.
and Subsidiaries d/b/a enCircle

Schedule of Findings and Questioned Costs
Year Ended June 30, 2025

A – Summary of Auditor's Results

1. The auditor's report expresses an **unmodified opinion** on the financial statements.
2. **No significant deficiencies and no material weaknesses** relating to the audit of the financial statements were reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. **No instances of noncompliance** material to the financial statements were disclosed during the audit.
4. **No significant deficiencies** and two material weaknesses relating to the audit of the major federal award programs were reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs expresses a **qualified opinion**.
6. The audit disclosed **three audit findings relating to major programs**.
7. The program tested as a major program was:

   93.676 Unaccompanied Alien Children

8. The **threshold** for distinguishing Types A and B programs was $750,000.
9. enCircle was determined to **not** be a **low risk auditee**.

B – Findings – Financial Statement Audit

None.

C – Findings and Questioned Costs – Major Federal Award Program Audit

2025-001: Unaccompanied Alien Children – AL #93.676, Allowed Costs

Condition In review of budget to actual expenditure amounts for the year under audit, the auditor noted three line items that exceeded the allowed budget amount for the year. While in some instances a budget amendment was complete, there were still overages.

Criteria Annual budgets are approved by the grantor agency and amendments must be submitted for approval to alter the original budget if needed.

Cause For all three line items, the original budget as approved was exceeded. In one line item, the budget amendment, while approved, was requested after June 30, 2025. On another, the budget amendment contained errors, showed an overage as of June 30, 2025. And in the third line item, the budget details salary information at the job description level and the actual exceeded the budget for this position. Management stated that a budget amendment was not required for this level of information; however, no support for this statement was provided in writing. It appears that monitoring is not sufficient to prevent budget overages from occurring, nor to detect them timely to rectify the grantor.

Effect enCircle violated their grant terms by exceeding their approved budget.

Questioned Cost Amount: $12,906.20

Recommendation: Management should implement procedures that allow for proper reviews of budget to actual information for grants to verify amounts expended and amounts remaining for expenditure monthly. Additionally, grant management personnel and financial personnel need to work on better communication regarding financial status of grants.

View of Responsible Officials and Planned Corrective Action: enCircle has developed a new budget tracking tool at the correct budget line items to ensure all categories do not go over budget before budget amendments are submitted and approved. Included in this tool is predictive analytics to determine where budget amendments might be needed proactively instead of reactively.

2025-002: Unaccompanied Alien Children – AL #93.676, Activities Allowed/Unallowed, Allowable Costs

Condition: During our testing of 25 disbursements for the program, we noted one disbursement for which an invoice did not support the amount of reimbursement for insurance premiums. We noted one instance where the expenditure was not a direct expense of the major program. We also noted 3 instances where $200 gift cards were purchased for clothing. These gift cards were not well tracked to ensure they were properly given to foster families and subsequently used for clothing. In one of the gift card instances, items other than clothing were included on the support. On this same gift card, an unspent balance on the gift card was not accounted for. In another of the gift card instances, there was no support for the use of the gift card and the gift card was never assigned to a specific child for clothing. In the third instance, the support for the use of the gift card was for a different retail store and none of the support showed payment being made in the form of a gift card, and therefore the actual use of the gift card is unknown.

Criteria: All disbursements should be properly supported by adequate documentation, made within program established guidelines.

Cause: Documented allowance for clothing was not followed in 3 instances tested. Support was for less than actual expenditures for one disbursement tested. One expenditure was not directly related to the major program. Unallowed items were purchased in one disbursement tested.

Effect: Disbursements that weren't allowable under the program were made in several instances because amounts were not adequately tracked or for an unallowed item. Additionally, unsupported items could not be verified for allowability due to lack of details as to what was purchased.

Questioned Cost Amount: $569.65 from the sample tested and projected to be approximately $75,000 of the total expenditures.

Perspective Information: 5 of 25 items selected for testing.

Recommendation: We recommend that stronger reviews and oversight is put in place to make sure that allowances for clothing are followed for all children in foster care. Additionally, if the program is going to continue use of gift cards as a means of providing funds for clothing purchases, then receipts for the use of those funds should be received to verify they were spent appropriately and controls over unspent gift cards must be put in place.

View of Responsible Officials and Planned Corrective Action: enCircle has officially adopted the policy that gift cards provided to foster parents will not be submitted for reimbursement until the receipts are returned by the parents. If they do not spend the entire amount, only the amount spent will be requested for reimbursement and enCircle will cover the difference from non-federal funds. enCircle is also considering other methods of helping parents purchase clothes for foster placements.

Further, enCircle has evaluated the use of all allocation methods for expenses that impact federal grants and will be limiting allocations to only clearly explicit expenses to ensure only programmatic costs are billed. Further, enCircle has created a new service code within its Chart of Accounts to track programmatic administration costs separate from overall administration costs.

2025-003: Unaccompanied Alien Children – AL #93.676, Controls over Compliance (Material Weakness)

Condition: In our testing of the Unaccompanied Children Program, we noted several compliance matters as noted in findings 2025-001 and 2025-002 that stem in part from either a failure of or a lack of controls to prevent, or detect and correct, matters for Federal awards. Many of the errors seem to stem from the entity's use of manual spreadsheets to complete many allocations, communication issues between program managers and financial personnel, and errors that were not noted and corrected in a timely manner. As a result of a lack of strong controls, the budget was exceeded, unallowed items were reimbursed, and amendments were not requested promptly for budget overages. There were also identified errors with the current year and prior year Schedule of Expenditures of Federal Awards that were not timely identified.

Criteria: Strong controls over Federal programs are necessary to ensure that fund are used appropriately, managed appropriately internally and accurate reporting is maintained that can be made available to all interested parties within the entity and to the grantor as required. Grantee entities are to be responsible stewards of funds and should have strong monitoring and controls in place to ensure that is met.

Cause: Errors in understanding allowable amounts per child, errors in understanding allowable items, lack of controls and processes to monitor gift cards, over-reliance on many manual processes and spreadsheets, and lack of communication appears to be creating some disconnect and issues that is allowing this breakdown in monitoring and reporting to occur.

Effect: As a result of the control concerns, we do believe that a larger error or several smaller issues that total a larger error could occur and not be timely noted and/or corrected by the entity.

Recommendation: We recommend enCircle work on controls that put in place monitoring over program usage of funds by independent individuals to verify gift cards, and other similar items are being appropriately monitored. We also recommend that enCircle investigate whether their current accounting system can help with the allocation of personnel and invoices across programs so there is less reliance on manual processes and journal entries. Additionally, we recommend that stronger monitoring and review processes be put in place for all programs to ensure budgetary and reporting compliance.

View of Responsible Officials and Planned Corrective Action: enCircle believes the measures taken for 2025-001 and 2025-002 are sufficient to address this finding. Further the measures taken for 2025-003 alleviate control and reporting issues related to the Schedule of Expenditures of Federal Awards.

Finally, enCircle on top of already occurring monthly program financial reviews is adding a monthly budget review for each federal grant with the programmatic staff.

2025-004: Unaccompanied Alien Children – AL #93.676, Controls over SEFA (Material Weakness)

Condition: In our testing of the current year SEFA, we noted $64,589 in expenditures were erroneously excluded. We also noted that $72,562 of expenditures from the prior year were also not previously captured in the prior year SEFA.

Criteria: Strong controls over SEFA preparation are necessary to ensure that funds are accurately reported.

Cause: Errors in capturing all expenditures from the general ledger to properly complete the SEFA.

Effect: As a result of the control concerns, we do believe that a larger error or several smaller issues that total a larger error could occur and not be timely noted and/or corrected by the entity.

Recommendation: We recommend enCircle work on controls that put in place monitoring over reporting of expenditures and SEFA preparation.

View of Responsible Officials and Planned Corrective Action: enCircle noted during the audit that federal expenditures were being billed into multiple revenue accounts depending on the nature of the expenditure (internal expense, client reimbursable expense, foster parent payments). These accounts have all been consolidated into one account to ensure internal and external reporting does not exclude billed expenditures.

Lutheran Family Services of Virginia, Inc. and Subsidiaries d/b/a enCircle

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2025

Department of Health and Human Services

2024-001: Unaccompanied Alien Children – AL #93.676, Allowed Costs

Condition and Criteria: In review of budget to actual expenditure amounts for the year under audit, the auditor noted two line items that exceeded the allowed budget amount for the year. While a budget amendment was completed for these line items, one line still exceeded the allowable budget amount. Annual budgets are approved by the grantor agency and amendments must be submitted for approval to alter the original budget if needed.

Recommendation: Management should implement procedures that allow for proper reviews of budget to actual information for grants to verify amounts expended and amounts remaining for expenditure monthly. Additionally, grant management personnel and financial personnel need to work on better communication regarding financial status of grants.

Current Status: Similar findings were noted in the 2025 audit.

2024-002: Unaccompanied Alien Children – AL #93.676, Activities Allowed/Unallowed, Allowable Costs

Condition and Criteria: During our testing of 25 disbursements for the program, we noted one disbursement for which an invoice or receipt from a third party vendor could not be provided. The only support provided was the excel allocation to various areas. We also noted 2 instances where children in foster care received more than the $150 clothing allowance, including the purchase of $200 gift cards in addition to other items in both instances. In the final issue in our sample of 25, we noted toys included with a clothing purchase. Toys should not be included in clothing allowances per grant guidelines. Our testing noted three instances where gift cards were not well tracked to ensure they were properly given to foster families and subsequently used for clothing. All disbursements should be properly supported by adequate documentation, made within program established guidelines.

Recommendation: We recommend that stronger reviews and oversight is put in place to make sure that allowances for clothing are followed for all children in foster care. Additionally, if the program is going to continue use of gift cards as a means of providing funds for clothing purchases, then receipts for the use of those funds should be received to verify they were spent appropriately and controls over unspent gift cards must be put in place.

Current Status: Similar findings were noted in the 2025 audit.

Lutheran Family Services of Virginia, Inc. and Subsidiaries d/b/a enCircle

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2025

2024-003: Unaccompanied Alien Children – AL #93.676, Controls over Compliance (Material Weakness)

Condition and Criteria: In our testing of the Unaccompanied Children Program, we noted several compliance matters as noted in findings 2024-001 and 2024-002 that stem in part from either a failure of or a lack of controls to prevent, or detect and correct, matters for Federal awards. Many of the errors seem to stem from the entity's use of manual spreadsheets to complete many allocations, communication issues between program managers and financial personnel, and errors that were not noted and corrected in a timely manner. As a result of a lack of strong controls, the budget was exceeded, disbursements were made in excess of per child allowable amounts, unallowed items were reimbursed, and amendments were not requested promptly for budget overages. Strong controls over Federal programs are necessary to ensure that fund are used appropriately, managed appropriately internally and accurate reporting is maintained that can be made available to all interested parties within the entity and to the grantor as required. Grantee entities are to be responsible stewards of funds and should have strong monitoring and controls in place to ensure that is met.

Recommendation: We recommend enCircle work on controls that put in place monitoring over program usage of funds by independent individuals to verify per child amounts, gift cards, and other similar items are being appropriately monitored. We also recommend that enCircle investigate whether their current accounting system can help with the allocation of personnel and invoices across programs so there is less reliance on manual processes and journal entries. Additionally, we recommend that stronger monitoring and review processes be put in place for all programs to ensure budgetary and reporting compliance.

Current Status: Similar findings were noted in the 2025 audit.

Lutheran Family Services of Virginia, Inc. and Subsidiaries d/b/a enCircle respectfully submits the following corrective action plan for the year ended June 30, 2025.

Name and address of independent public accounting firm:

Brown, Edwards & Company, L.L.P.
3906 Electric Road
Roanoke, Virginia 24018

Audit Period: Year ended June 30, 2025

The findings from the June 30, 2025 schedule of findings and questioned costs is discussed below.

Findings – Federal Award Programs Audits

Department of Health and Human Services

2025-001: Unaccompanied Children Program, AL #93.676, Allowable Costs

Condition In review of budget to actual expenditure amounts for the year under audit, the auditor noted three line items that exceeded the allowed budget amount for the year. While in some instances a budget amendment was complete, there were still overages.

Criteria Annual budgets are approved by the grantor agency and amendments must be submitted for approval to alter the original budget if needed.

Cause For all three line items, the original budget as approved was exceeded. In one line item, the budget amendment, while approved, was requested after June 30, 2025. On another, the budget amendment contained errors, showed an overage as of June 30, 2025. And in the third line item, the budget details salary information at the job description level and the actual exceeded the budget for this position. Management stated that a budget amendment was not required for this level of information; however, no support for this statement was provided in writing. It appears that monitoring is not sufficient to prevent budget overages from occurring, nor to detect them timely to rectify the grantor.

Effect enCircle violated their grant terms by exceeding their approved budget.

Recommendation Management should implement procedures that allow for proper reviews of budget to actual information for grants to verify amounts expended and amounts remaining for expenditure monthly. Additionally, grant management personnel and financial personnel need to work on better communication regarding financial status of grants.

Action Taken enCircle has developed a new budget tracking tool at the correct budget line items to ensure all categories do not go over budget before budget amendments are submitted and approved. Included in this tool is predictive analytics to determine where budget amendments might be needed proactively instead of reactively.

2025-002: Unaccompanied Children Program, AL #93.676, Activities Allowed/Unallowed, Allowable Costs

Condition During our testing of 25 disbursements for the program, we noted one disbursement for which an invoice did not support the amount of reimbursement for insurance premiums. We noted one instance where the expenditure was not a direct expense of the major program. We also noted 3 instances where $200 gift cards were purchased for clothing. These gift cards were not well tracked to ensure they were properly given to foster families and subsequently used for clothing. In one of the gift card instances, items other than clothing were included on the support. On this same gift card, an unspent balance on the gift card was not accounted for. In another of the gift card instances, there was no support for the use of the gift card and the gift card was never assigned to a specific child for clothing. In the third instance, the support for the use of the gift card was for a different retail store and none of the support showed payment being made in the form of a gift card, and therefore the actual use of the gift card is unknown.

Criteria All disbursements should be properly supported by adequate documentation, made within program established guidelines.

Cause Documented allowance for clothing was not followed in 3 instances tested. Support was for less than actual expenditures for one disbursement tested. One expenditure was not directly related to the major program. Unallowed items were purchased in one disbursement tested.

Effect Disbursements that weren't allowable under the program were made in several instances because amounts were not adequately tracked or for an unallowed item. Additionally, unsupported items could not be verified for allowability due to lack of details as to what was purchased.

Recommendation We recommend that stronger reviews and oversight is put in place to make sure that allowances for clothing are followed for all children in foster care. Additionally, if the program is going to continue use of gift cards as a means of providing funds for clothing purchases, then receipts for the use of those funds should be received to verify they were spent appropriately and controls over unspent gift cards must be put in place.

Action Taken enCircle has officially adopted the policy that gift cards provided to foster parents will not be submitted for reimbursement until the receipts are returned by the parents. If they do not spend the entire amount, only the amount spent will be requested for reimbursement and enCircle will cover the difference from non-federal funds. enCircle is also considering other methods of helping parents purchase clothes for foster placements.

Further, enCircle has evaluated the use of all allocation methods for expenses that impact federal grants and will be limiting allocations to only clearly explicit expenses to ensure only programmatic costs are billed. Further, enCircle has created a new service code within its Chart of Accounts to track programmatic administration costs separate from overall administration costs.

2025-003: Unaccompanied Children Program, AL #93.676, Controls over Compliance (Material Weakness)

Condition In our testing of the Unaccompanied Children Program, we noted several compliance matters as noted in findings 2025-001 and 2025-002 that stem in part from either a failure of or a lack of controls to prevent, or detect and correct, matters for Federal awards. Many of the errors seem to stem from the entity's use of manual spreadsheets to complete many allocations, communication issues between program managers and financial personnel, and errors that were not noted and corrected in a timely manner. As a result of a lack of strong controls, the budget was exceeded, unallowed items were reimbursed, and amendments were not requested promptly for budget overages. There were also identified errors with the current year and prior year Schedule of Expenditures of Federal Awards that were not timely identified.

Criteria Strong controls over Federal programs are necessary to ensure that fund are used appropriately, managed appropriately internally and accurate reporting is maintained that can be made available to all interested parties within the entity and to the grantor as required. Grantee entities are to be responsible stewards of funds and should have strong monitoring and controls in place to ensure that is met.

Cause Errors in understanding allowable amounts per child, errors in understanding allowable items, lack of controls and processes to monitor gift cards, over-reliance on many manual processes and spreadsheets, and lack of communication appears to be creating some disconnect and issues that is allowing this breakdown in monitoring and reporting to occur.

Effect As a result of the control concerns, we do believe that a larger error or several smaller issues that total a larger error could occur and not be timely noted and/or corrected by the entity.

Recommendation We recommend enCircle work on controls that put in place monitoring over program usage of funds by independent individuals to verify gift cards, and other similar items are being appropriately monitored. We also recommend that enCircle investigate whether their current accounting system can help with the allocation of personnel and invoices across programs so there is less reliance on manual processes and journal entries. Additionally, we recommend that stronger monitoring and review processes be put in place for all programs to ensure budgetary and reporting compliance.

Action Taken enCircle believes the measures taken for 2025-001 and 2025-002 are sufficient to address this finding. Further the measures taken for 2025-003 alleviate control and reporting issues related to the Schedule of Expenditures of Federal Awards.

Finally, enCircle on top of already occurring monthly program financial reviews is adding a monthly budget review for each federal grant with the programmatic staff.

2025-004: Unaccompanied Children Program, AL #93.676, Controls over SEFA (Material Weakness)

Condition: In our testing of the current year SEFA, we noted $64,589 in expenditures were erroneously excluded. We also noted that $72,562 of expenditures from the prior year were also not previously captured in the prior year SEFA.

Criteria: Strong controls over SEFA preparation are necessary to ensure that funds are accurately reported.

Cause: Errors in capturing all expenditures from the general ledger to properly complete the SEFA.

Effect: As a result of the control concerns, we do believe that a larger error or several smaller issues that total a larger error could occur and not be timely noted and/or corrected by the entity.

Recommendation: We recommend enCircle work on that put in place monitoring of expenditures and SEFA preparation.

Action Taken: enCircle noted during the audit that federal expenditures were being billed into multiple revenue accounts depending on the nature of the expenditure (internal expense, client reimbursable expense, foster parent payments). These accounts have all been consolidated into one account to ensure internal and external reporting does not exclude billed expenditures.

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