



Children's Home Society of North Carolina, Inc. 401(k) Profit Sharing Plan

Financial Statements and Supplementary Information

As of December 31, 2020 (in Liquidation) and 2019 (in Liquidation) and
for the Year Ended December 31, 2020 (in Liquidation)



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Preliminary Draft



Independent Auditors' Report

Board of Trustees
Children's Home Society of North Carolina, Inc.
401(k) Profit Sharing Plan
Greensboro, NC

Report on the Financial Statements

We were engaged to audit the accompanying financial statements of Children's Home Society of North Carolina, Inc. 401(k) Profit Sharing Plan (the "Plan"), which comprise the statements of net assets available for benefits as of December 31, 2020 (in Liquidation) and 2019 (in Liquidation), and the related statement of changes in net assets available for benefits for the year ended December 31, 2020 (in Liquidation), and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matter described in the *Basis for Disclaimer of Opinion* paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 ("ERISA"), the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note 4, which was certified by TD Ameritrade Trust Company, the custodian of the Plan as of December 31, 2019 and for the period January 1, 2020 through May 22, 2020 and Matrix Trust Company, the custodian of the Plan as of December 31, 2020 and for the period May 23, 2020 through December 31, 2020, collectively, the custodians ("custodians") of the Plan, except for comparing the information with the related information included in the financial statements. We have been informed by the plan administrator that the custodians hold the Plan's investment assets and execute investment transactions. The plan administrator has obtained a certification from the custodians as of December 31, 2020 (in Liquidation) and 2019 (in Liquidation), and for the year ended December 31, 2020 (in Liquidation), that the information provided to the plan administrator by the custodians is complete and accurate.



Disclaimer of Opinion

Because of the significance of the matter described in the *Basis for Disclaimer of Opinion* paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

Report on Form and Content in Compliance with DOL Rules and Regulations

The form and content of the information included in the financial statements, other than that derived from the information certified by the custodians, have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

High Point, NC

,, 2021

Preliminary Draft

Children's Home Society of North Carolina, Inc.
401(k) Profit Sharing Plan
Statements of Net Assets Available for Benefits
December 31, 2020 (in Liquidation), and 2019 (in Liquidation)

| | <u>2020</u> | <u>2019</u> |
|-----------------------------------|-------------|---------------------|
| ASSETS | | |
| Investments, at fair value | \$ - | \$ 5,560,714 |
| Net assets available for benefits | <u>\$ -</u> | <u>\$ 5,560,714</u> |

Preliminary Draft

Children's Home Society of North Carolina, Inc.
 401(k) Profit Sharing Plan
 Statement of Changes in Net Assets Available for Benefits
 Year Ended December 31, 2020 (in Liquidation)

| | |
|---|--------------------|
| Additions to net assets attributed to: | |
| Investment income: | |
| Net appreciation in fair value of investments | \$ 35,875 |
| Interest and dividends | 813 |
| | <u>36,688</u> |
| Total investment income | |
| | <u>36,688</u> |
| Contributions: | |
| Employer | 1,762 |
| | <u>1,762</u> |
| Total additions | |
| | <u>38,450</u> |
| Deductions from net assets attributed to: | |
| Benefits paid to participants | 5,580,488 |
| Administrative expenses | 18,676 |
| | <u>5,599,164</u> |
| Total deductions | |
| | <u>5,599,164</u> |
| Net decrease | |
| | (5,560,714) |
| Net assets available for benefits: | |
| Beginning of year | <u>5,560,714</u> |
| End of year | <u><u>\$ -</u></u> |

Notes to Financial Statements

1. Description of Plan

The following description of Children's Home Society of North Carolina, Inc. 401(k) Profit Sharing Plan (the "Plan") provides only general information. Participants should refer to the plan document for a more complete description of the Plan's provisions.

General

The Plan is a defined contribution plan covering all full-time employees of the Children's Home Society of North Carolina, Inc. (the "Company") who have 6 months and 750 hours of service. The Board of Trustees of the Company controls and manages the operation and administration of the Plan. Effective May 23, 2020, Matrix Trust Company ("Matrix") replaced TD Ameritrade Trust Company ("TDA") as the custodian (collectively the "custodians") of the Plan. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

Plan status

On November 11, 2019, the Board of Trustees of the Company approved the termination of the Plan, effective as of December 31, 2019. In accordance with accounting principles generally accepted in the United States of America ("GAAP"), the Plan has changed its basis of accounting used to value Plan assets from the ongoing basis to the liquidation basis as of and for the years ended December 31, 2020 and 2019. The ongoing basis of accounting approximates the liquidation basis of accounting from January 1, 2019 through the date of termination, December 31, 2019.

Contributions

Each year, participants may contribute up to 100% of their pretax annual compensation, as defined in the plan document. Participants who had attained age 50 before the end of the plan year were eligible to make catch-up contributions. Participants may contribute amounts representing distributions from other qualified plans and certain individual retirement accounts. Newly eligible employees were automatically enrolled in the Plan at a deferral rate of 3% of base compensation. An eligible employee could avoid the automatic contribution by contacting the custodian and indicating a preferred amount. Each year, the Company may make a discretionary matching contribution as well as a discretionary profit-sharing contribution. No discretionary matching or discretionary profit-sharing contributions were made for the year ended December 31, 2020. Contributions are subject to certain limitations.

Investment options

Participants directed the investment of their accounts into various investment options offered by the Plan. The Plan offered mutual funds and a money market fund as investment options for participants.

Participant accounts

Each participant's account was credited with the participant's contribution, Company contributions and allocations of Plan earnings and was charged with benefit payments, fees for participant-initiated transactions, and allocations of administrative expenses and Plan losses. Allocations were based on participant earnings or account balances, as defined. The benefit to which a participant was entitled is the benefit that can be provided from the participant's vested account.

Vesting

Participants were immediately vested in their contributions plus actual earnings thereon. Vesting in the Company-matching and profit-sharing portion of their accounts, plus actual earnings thereon, was based on years of service. A participant was 100% vested after four years of credited service.

Payment of benefits

On termination of service due to death, disability or retirement, a participant may elect to receive an amount equal to the value of the participant's vested interest in his or her account in either a lump-sum amount or various installment and annuity options as provided by the Plan. For termination of service due to other reasons, a participant may receive the value of the vested interest in his or her account as a lump-sum distribution. Amounts contributed on a before-tax basis may only be withdrawn upon demonstration of disability or after the participants reach the age of 59½ years.

Forfeitures

At December 31, 2020 and 2019, forfeited nonvested accounts totaled \$0 and \$7,507, respectively. These accounts were used to pay administrative expenses and reduce future Company contributions. During 2020, forfeitures of approximately \$7,507 were used to pay administrative expenses.

2. Summary of Significant Accounting Policies

Basis of accounting

The financial statements of the Plan are prepared using the liquidation basis of accounting in conformity with GAAP.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets, liabilities, and changes therein, and disclosure of contingent assets and liabilities. Accordingly, actual results may differ from those estimates and assumptions.

Investment valuation and income recognition

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. Plan management determines the Plan's valuation policies utilizing information provided by the custodian. See Note 3 for discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation includes the Plan's gains and losses on investments bought and sold, as well as held during the year.

Payment of benefits

Benefit payments are recorded upon distribution.

Administrative expenses

The Plan's administrative expenses are paid by either the Plan or the Company, as provided by the plan document. Certain administrative functions are performed by employees of the Company. No such employee receives compensation from the Plan. Expenses relating to specific participant transactions are charged directly to the participant's account. Certain investment-related expenses are included in net appreciation of the fair value of investments.

Subsequent events

The Plan has evaluated subsequent events through ****, 2021**, the date the financial statements were available to be issued.

3. Fair Value Measurements

Fair value, as defined under GAAP, is an exit price representing 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. GAAP establishes a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value. These tiers include:

- Level 1:** Observable inputs such as quoted prices in active markets.
- Level 2:** Inputs other than quoted prices in active markets that are either directly or indirectly observable.
- Level 3:** Unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Plan's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities, and their placement within the fair value hierarchy levels.

There have been no changes in methodologies used at December 31, 2020 and 2019. The following is a description of the valuation methodologies used for assets measured at fair value.

Mutual funds and money market fund

Mutual funds and the money market fund are publicly traded investments and are valued daily at the closing price reported on the active market on which the funds are traded.

Children's Home Society of North Carolina, Inc.
 401(k) Profit Sharing Plan
 Notes to Financial Statements

The following table sets forth by level within the fair value hierarchy the Plan's assets accounted for at fair value on a recurring basis as of December 31:

| | 2019 | | | Total |
|------------------------------------|---------------------|----------------|----------------|---------------------|
| | Level 1 | Level 2 | Level 3 | |
| Mutual funds and money market fund | \$ 5,560,714 | \$ - | \$ - | \$ 5,560,714 |
| Investments at fair value | <u>\$ 5,560,714</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 5,560,714</u> |

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. Furthermore, although the Plan 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.

4. Unaudited Information Certified by the Custodians

The accompanying financial statements include the following unaudited information as of December 31, 2020 and 2019, and for the year ended December 31, 2020, that was obtained from data prepared and certified to be complete and accurate by the Plan's custodians:

| | 2020 (in Liquidation) | 2019 (in Liquidation) |
|---|--|--|
| Investments, at fair value | <u>\$ -</u> | <u>\$ 5,560,714</u> |
| Net appreciation in fair value of investments | <u>\$ 35,875</u> | |
| Interest and dividends | <u>\$ 813</u> | |

5. Exempt Party-in-Interest Transactions

Certain Plan investments are managed by TDA. TDA is a custodian as defined by the Plan, and, therefore, these transactions qualify as exempt party-in-interest transactions. Fees paid by the Plan to TDA for investment management services amounted to \$1,575 for the year ended December 31, 2020.

6. Tax Status

The Plan has not obtained a determination letter from the Internal Revenue Service (the "IRS") stating that the Plan was in compliance with the applicable requirements of the Internal Revenue Code (the "IRC"). The Plan is relying on IRS approval of the volume submitter plan that it is utilizing. The IRS has determined and informed the volume submitter sponsor by a letter dated March 31, 2014, that the volume submitter plan document was designed in accordance with applicable sections of the IRC. The plan administrator believes that the Plan is currently designed and being operated in compliance with the applicable requirements of the IRC. Therefore, the plan administrator believes that the Plan was qualified, and the related trust was tax exempt as of the financial statement date.

GAAP requires plan management to evaluate tax positions taken by the Plan and recognize a tax liability (or asset) if the Plan has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. The plan administrator has analyzed the tax positions taken by the Plan, and has concluded that, as of December 31, 2020 and 2019, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

7. Risks and Uncertainties

The Plan invests in various investment securities. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, and that such changes could materially affect participants' account balances and the amounts reported in the statement of net assets available for benefits.