

**Lutheran Social Services of Northern California
and Subsidiary**

Consolidated Financial Statements
and Single Audit Reports and Schedules

June 30, 2022
(With Comparative Totals for 2021)



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Lutheran Social Services of Northern California and Subsidiary
Concord, California

Opinion

We have audited the accompanying consolidated financial statements of Lutheran Social Services of Northern California (a California nonprofit corporation) and Subsidiary (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2022, 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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lutheran Social Services of Northern California and Subsidiary as of June 30, 2022, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis of Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Lutheran Social Services of Northern California and to meet our other ethical responsibilities in accordance with the 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 audit opinion.

Report on Summarized Comparative Information

The consolidated financial statements of Lutheran Social Services of Northern California as of June 30, 2021, were audited by other auditors whose report dated May 2, 2022, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent in all material respects, with the audited financial statements from which it has been derived.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.



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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 Lutheran Social Services of Northern California'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, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with 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 Lutheran Social Services of Northern California'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 Lutheran Social Services of Northern California'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 audit was 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 (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the 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 information 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 February 1, 2023, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.



Armanino^{LLP}
San Francisco, California

February 1, 2023

Lutheran Social Services of Northern California and Subsidiary
Consolidated Statement of Financial Position
June 30, 2022
(With Comparative Totals for 2021)

	2022	2021
ASSETS		
Cash and cash equivalents	\$ 104,365	\$ 722,709
Restricted cash - cash held for agencies in trust	1,287,302	1,307,626
Investments	125,569	146,235
Grants and contributions receivables	4,524,854	4,330,438
Prepaid expenses and other assets	124,753	95,491
Property and equipment, net	2,825,796	2,458,655
Total assets	\$ 8,992,639	\$ 9,061,154
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 757,311	\$ 513,849
Accrued expenses	677,640	792,147
Amounts payable to agencies in trust	1,287,302	1,307,626
Refundable advances	904,240	644,962
Line of credit	450,000	-
Note payable	159,308	170,632
Total liabilities	4,235,801	3,429,216
Net assets		
Without donor restrictions		
Undesignated	3,210,950	3,437,623
Board designated	250,000	250,000
Total without donor restrictions	3,460,950	3,687,623
With donor restrictions	1,295,888	1,944,315
Total net assets	4,756,838	5,631,938
Total liabilities and net assets	\$ 8,992,639	\$ 9,061,154

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

Lutheran Social Services of Northern California and Subsidiary
Consolidated Statement of Activities
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

	Without Donor <u>Restrictions</u>	With Donor Restrictions	<u>2022 Total</u>	<u>2021 Total</u>
Revenues, gains (losses), and other support				
Contract revenue	\$ 13,847,598	\$ 101,994	\$ 13,949,592	\$ 12,296,076
Grants and contributions	1,405,664	-	1,405,664	2,381,429
In-kind contributions	379,603	-	379,603	180,080
Investment income (loss), net	(15,343)	-	(15,343)	31,780
Other revenue	636	-	636	15,313
Rental income	116,490	-	116,490	13,000
Net assets released from restrictions	<u>750,421</u>	<u>(750,421)</u>	<u>-</u>	<u>-</u>
Total revenues, gains (losses), and other support	<u>16,485,069</u>	<u>(648,427)</u>	<u>15,836,642</u>	<u>14,917,678</u>
Functional expenses				
Program services	15,013,578	-	15,013,578	13,006,237
Management and general	1,396,552	-	1,396,552	877,664
Fundraising	<u>301,612</u>	<u>-</u>	<u>301,612</u>	<u>363,635</u>
Total functional expenses	<u>16,711,742</u>	<u>-</u>	<u>16,711,742</u>	<u>14,247,536</u>
Change in net assets	(226,673)	(648,427)	(875,100)	670,142
Net assets, beginning of year	<u>3,687,623</u>	<u>1,944,315</u>	<u>5,631,938</u>	<u>4,961,796</u>
Net assets, end of year	<u>\$ 3,460,950</u>	<u>\$ 1,295,888</u>	<u>\$ 4,756,838</u>	<u>\$ 5,631,938</u>

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

Lutheran Social Services of Northern California and Subsidiary
Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

	Money Management Services	Housing for Youth	Housing for Families and Adults	Other Program	Total Program Services	Management and General	Fundraising	2022 Total	2021 Total
Personnel expenses									
Salaries and benefits	\$ 1,123,646	\$ 1,398,587	\$ 3,658,408	\$ -	\$ 6,180,641	\$ 513,534	\$ 225,059	\$ 6,919,234	\$ 6,245,661
Client assistance	-	2,066,195	3,806,714	280,474	6,153,383	13,295	-	6,166,678	5,411,167
Professional fees	61,641	81,038	901,294	-	1,043,973	62,306	8,997	1,115,276	747,770
Occupancy	191,468	189,962	195,496	-	576,926	82,655	22,348	681,929	600,695
Supplies	39,996	20,975	177,531	-	238,502	16,101	798	255,401	210,585
Equipment and building repairs	44,554	65,370	43,475	-	153,399	15,795	1,410	170,604	194,146
Depreciation	33,648	15,656	38,938	5,932	94,174	148,611	6,965	249,750	190,310
Telephone	26,301	28,789	93,574	1,457	150,121	55,692	2,320	208,133	183,605
Other	59,782	51,510	54,188	-	165,480	435,048	409	600,937	139,460
Insurance	13,802	13,981	44,184	-	71,967	5,614	2,842	80,423	103,811
Travel	6,739	38,234	41,509	-	86,482	2,581	3,931	92,994	67,640
Printing and duplicating	6,252	9,976	30,077	-	46,305	13,549	720	60,574	66,938
Outreach and education	-	1,138	649	-	1,787	725	18,435	20,947	22,536
Postage	6,719	281	2,820	-	9,820	17,154	4,740	31,714	22,403
Staff and Board	6,672	12,523	14,216	-	33,411	1,285	2,389	37,085	18,179
Dues and Subscriptions	-	-	774	-	774	8,756	249	9,779	13,993
Interest	-	6,433	-	-	6,433	3,851	-	10,284	8,637
	<u>\$ 1,621,220</u>	<u>\$ 4,000,648</u>	<u>\$ 9,103,847</u>	<u>\$ 287,863</u>	<u>\$ 15,013,578</u>	<u>\$ 1,396,552</u>	<u>\$ 301,612</u>	<u>\$ 16,711,742</u>	<u>\$ 14,247,536</u>

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

Lutheran Social Services of Northern California and Subsidiary
Consolidated Statement of Cash Flows
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Change in net assets	\$ (875,100)	\$ 670,142
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	249,750	190,310
Net realized and unrealized (gain) loss on investments	20,666	(27,023)
Changes in operating assets and liabilities		
Grants and contributions receivables	(194,416)	(2,410,008)
Prepaid expenses and other assets	(29,262)	(504)
Accounts payable and accrued expenses	128,954	(80,526)
Amounts payable to agencies in trust	(20,324)	275,720
Refundable advances	259,279	644,961
Net cash used in operating activities	<u>(460,453)</u>	<u>(736,928)</u>
Cash flows from investing activities		
Purchases of property and equipment	<u>(616,891)</u>	<u>(230,467)</u>
Net cash used in investing activities	<u>(616,891)</u>	<u>(230,467)</u>
Cash flows from financing activities		
Principal payments on note payable	(11,324)	(10,578)
Borrowings on line of credit	<u>450,000</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>438,676</u>	<u>(10,578)</u>
Net decrease in cash and restricted cash	(638,668)	(977,973)
Cash and restricted cash, beginning of year	<u>2,030,335</u>	<u>3,008,308</u>
Cash and restricted cash, end of year	<u>\$ 1,391,667</u>	<u>\$ 2,030,335</u>
Cash and restricted cash consisted of the following:		
Cash and cash equivalents	\$ 104,365	\$ 722,709
Restricted cash - cash held for agencies in trust	<u>1,287,302</u>	<u>1,307,626</u>
	<u>\$ 1,391,667</u>	<u>\$ 2,030,335</u>

Supplemental disclosures of cash flow information

Cash paid during the year for		
Interest	\$ 10,187	\$ 8,637

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

Lutheran Social Services of Northern California and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2022

1. NATURE OF OPERATIONS

Lutheran Social Services of Northern California ("LSSNC") was founded in July 1968 as a California non-profit organization headquartered in Concord, California. LSSNC serves as a social service agency to all of Northern California by providing professional counseling and promotion of welfare work to all persons within society. LSSNC's principal sources of funding are contract service fees from governmental agencies and contributions.

Lutheran Housing Development Company LLC ("LHDC"), is a single member California limited liability company of which LSSNC is the single member. LHDC's purpose is to hold real property for use in LSSNC's services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("US GAAP") applicable to nonprofit organizations. The assets, liabilities and operations of LHDC are consolidated with LSSNC (collectively, the "Organization"). All significant inter-company transactions have been eliminated in consolidation.

The Organization reports information regarding its financial position and activities based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- *Net assets without donor restrictions* - Includes net assets available for use in general operations and not subject to donor restrictions. The Organization's board may designate net assets without donor restrictions for specific purposes. Donor restricted contributions whose restrictions are met in the same reporting period, are reported as unrestricted support.
- *Net assets with donor restrictions* - Includes net assets subject to donor-imposed restrictions. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Lutheran Social Services of Northern California and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Change in accounting principle

In September 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The new guidance requires nonprofit entities to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. The standard also increases the disclosure requirements around contributed nonfinancial assets, including disaggregating by category the types of contributed nonfinancial assets a nonprofit entity has received. The Organization adopted this new standard on July 1, 2021. Adoption of this standard did not have a material impact on the consolidated financial statements.

Cash and cash equivalents

Cash and cash equivalents of cash and all highly liquid instruments with an original maturity of three months or less.

Cash held for agencies in trust

The Organization has established a relationship with social security recipients (the "Recipients") through city and county contracts, whereby the Recipients' social security checks are deposited into specific Organization bank accounts and are withdrawn by the Recipients in accordance with budgets established by the Recipient with the counsel of the Organization. The cash is legally owned by the Recipients, and they may withdraw their cash from the program at any time. Cash held by the Organization on behalf of the Recipients is presented on the statements of financial position as cash held for agencies in trust with a corresponding liability presented as amounts payable to agencies in trust.

Investments

Investments are valued at fair value with realized and unrealized gains and losses reflected in the statements of activities.

Property and equipment

Property and equipment are reported at cost. Donated items are carried at estimated fair value when received.

Depreciation of both purchased and donated items are computed using the straight-line method over the estimated useful lives:

Buildings and improvements	5-30 years
Furniture and equipments	10 years
Automobiles	5 years

Lutheran Social Services of Northern California and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of long-lived assets

Management reviews each asset or asset group for impairment whenever events or circumstances indicate the carrying value of an asset or asset group may not be recoverable, but at least annually. No impairment provision was recorded by the Organization during the year.

Grants and contributions receivable

Contributions, including unconditional promises to give, are recognized as revenues in the period the promise is received. Conditional promises to give are not recognized until they become unconditional; that is when the barrier has been overcome and right of release/right of return no longer exists.

Accounts receivable

Account receivable balances with charges over thirty days old are considered delinquent and management begins collection efforts at this time. Delinquent accounts receivable invoices do not accrue interest. An allowance for doubtful contributions receivable is provided based upon management's judgment including such factors as prior collection history, type of contribution and current aging of contributions receivable. There was no allowance for doubtful contributions receivable as of June 30, 2022, as all outstanding balances are expected to be collected.

Fair value measurements

In accordance with financial accounting standards, fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Such standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value within a fair value hierarchy. 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 measurements involving significant unobservable inputs (Level 3 measurements).

- *Level 1* - instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets.
- *Level 2* - instrument valuations are obtained from readily-available pricing sources for comparable instruments.
- *Level 3* - instrument valuations are obtained without observable market values and require a high level of judgment to determine the fair value.

Lutheran Social Services of Northern California and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Grants and contributions

Grants and contributions are recognized as revenue in the period unconditionally promised or received. The Organization reports contributions in the net assets with donor restrictions class if they are received with donor stipulations as to their use, or if the contribution contains an implied time restriction. They are initially reported in the net assets with donor restrictions class, even if it is anticipated such restrictions will be met in the current reporting period. Conditional promises to give for restricted purposes are presented as contributions without donor restrictions upon meeting the conditions if the condition and restriction are met in the same reporting period. If contributions are received without donor stipulations or an implied time restriction, they are considered unrestricted funds and are included as part of the Organization's net assets without donor restrictions. Cash received before conditions of contributions are met are deferred and presented as refundable advances on the statements of financial position.

In-kind contributions

Donated goods and property are recognized as contributions based on the estimated fair value at the date the contribution is made. Donated services are recognized as contributions at their estimated fair value in those instances in which they enhance non-financial assets or the Organization would have had to acquire such services if they had not been donated and are provided by individuals with specialized skills.

Income taxes

LSSNC and LHDC are organized under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. Accordingly, the Organization is exempt from paying Federal and California income taxes except on any unrelated business income. The Organization had no unrelated business income for the year ended June 30, 2022.

The Organization has adopted the accounting guidance related to uncertain tax positions, and has evaluated its tax positions taken for all open tax years. In management's judgment there are no uncertain tax positions as of June 30, 2022.

Functional allocation of expenses

Costs of providing the Organization's programs and other activities have been presented in the statement of functional expenses. Expenses are charged to programs and supporting services on the basis of the Organization's estimates. Costs are directly applied to the related program or supporting service when identifiable. Certain categories of expenses benefit more than one program or supporting service and are allocated based on relative direct costs.

Lutheran Social Services of Northern California and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentrations and credit risk

Occasionally the Organization's bank and investment balances exceed Federal Deposit Insurance Corporation and Securities Investor Protection Corporation insured limits. The Organization has not experienced and does not anticipate any losses related to these accounts.

The Organization's accounts and contributions and grants receivable are unsecured and the Entity is at-risk to the extent that such amounts become uncollectible. The Organization estimates its allowances for doubtful accounts and uncollectible contributions and grants based on known facts and historical trends.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues, and expenses as of the date and for the period presented. Accordingly, actual events and results could differ from those assumptions and estimates.

Subsequent events

The Organization has evaluated subsequent events through February 1, 2023, the date the financial statements were available to be issued. Based upon this evaluation, it was determined no subsequent events occurred that require recognition or additional disclosure in the consolidated financial statements.

3. INVESTMENTS

The Organization's investments are held in a pooled trust account. The asset allocation of the investments in the pooled trust account as of June 30, 2022 is as follows:

Domestic equities	\$ 33,904
International equities	41,438
Bond funds	22,602
Alternative investments	17,580
Real estate securities	6,278
Money market	<u>3,767</u>
	<u>\$ 125,569</u>

Lutheran Social Services of Northern California and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2022

3. INVESTMENTS (continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2022:

	Level 1	Level 2	Level 3	Fair Value
Investments in pooled trust account	\$ -	\$ 125,569	\$ -	\$ 125,569

4. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of the following:

Buildings and improvements	\$ 3,340,572
Land	753,070
Furniture and equipment	810,498
Vehicles	75,637
	4,979,777
Accumulated depreciation	(2,153,981)
	\$ 2,825,796

Depreciation expense for the year ended June 30, 2022 was \$249,750.

5. LINE OF CREDIT

The Organization has a revolving line of credit with a maximum borrowing amount of \$1,300,000, maturing June 2026. The line of credit is secured by real property of the Organization. The interest rate is equal to the 30-day LIBOR rate plus 2.5%. The rate will update monthly through maturity. Interest payments on outstanding principal are due monthly. The Organization had an outstanding balance of \$450,000 on the line of credit as of June 30, 2022.

Lutheran Social Services of Northern California and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2022

6. NOTE PAYABLE

The Organization's debt obligations as of June 30, 2022 are as follows:

Note payable to a bank; interest rate at the U.S. three-year treasury constant maturity plus 0.125% adjusted weekly, plus 3% (6.1% at June 30, 2022); principal and interest payments based on a 300 month amortization ending December 2040 are due monthly, with all outstanding principal and interest due December 2024; collateralized by the Organization's real property.	\$ 152,013
Note payable to a local government; interest at 3% annually; principal and interest payments of \$476 due monthly with remaining principal and interest due at maturation; matures October 2023; collateralized by the Organization's real property.	7,295
	\$ 159,308

The future maturities of the notes payable are as follows:

<u>Year ending June 30,</u>	
2023	\$ 12,398
2024	8,598
2025	138,312
	\$ 159,308

Lutheran Social Services of Northern California and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2022

7. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

Use restrictions:	
Project Hope	\$ 11,930
Polk Street	15,708
Youth leadership	26,215
Endowment	55,587
San Francisco programs	23,000
Lutheran Hunger Network	47,542
Senior services	450,751
Disaster relief	15,416
Pilot program	206,028
Property	262,315
OES program	14,000
Sacramento program	<u>10,000</u>
	1,138,492
Subject to be held in perpetuity	<u>157,396</u>
	<u><u>\$ 1,295,888</u></u>

Net assets with donor restrictions released from restriction during the year were as follows:

Other program purposes	\$ 16,160
Endowment	5,035
Lutheran Hunger Network	4,070
Senior services	387,110
Disaster relief	281,930
Pilot program	26,621
Sacramento program	10,000
DHA program	5,000
Mi Casa	7,000
Property	<u>7,495</u>
	<u><u>\$ 750,421</u></u>

8. ENDOWMENT

The Organization's endowment includes both donor-restricted endowment funds and funds designated by the Board to function as endowments to generally support the operational needs of the Organization. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Lutheran Social Services of Northern California and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2022

8. ENDOWMENT (continued)

Interpretation of relevant law

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

In accordance with UPMIFA, the Organization considers the following 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 the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

Return objectives and risk parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Trustees, the Organization diversifies its investments, subject to practicality constraints, among a variety of asset classes so as to provide a balance that will enhance total real return while avoiding undue risk concentration in any single asset class or investment category.

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2022.

Lutheran Social Services of Northern California and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2022

8. ENDOWMENT (continued)

Spending policy

The Organization may appropriate endowment earnings for expenditure through the budgeting process.

Endowment composition

Endowment net asset composition by type of fund as of June 30, 2022 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 212,983	\$ 212,983
Board-designated endowment funds	<u>250,000</u>	<u>-</u>	<u>250,000</u>
	<u>\$ 250,000</u>	<u>\$ 212,983</u>	<u>\$ 462,983</u>

Changes in endowment net assets for the fiscal year ended June 30, 2022 is as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Balance, June 30, 2021	<u>\$ 250,000</u>	<u>\$ 212,983</u>	<u>\$ 462,983</u>
Investment return			
Investment income	<u>-</u>	<u>5,035</u>	<u>5,035</u>
Total investment return	<u>-</u>	<u>5,035</u>	<u>5,035</u>
Appropriation of net assets	<u>-</u>	<u>(5,035)</u>	<u>(5,035)</u>
Balance, June 30, 2022	<u>\$ 250,000</u>	<u>\$ 212,983</u>	<u>\$ 462,983</u>

Strategies employed for achieving objectives

The Organization has adopted an investment policy that attempts to maximize capital appreciation within reasonable levels of risk, and to preserve the long-term inflation adjusted value of the portfolio. Endowment assets are invested in a diversified mix of domestic and international fixed income and equity securities.

9. OPERATING LEASES

The Organization leases program facilities and administrative offices under various cancelable and noncancelable operating leases that expire through 2025.

Lutheran Social Services of Northern California and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2022

9. OPERATING LEASES (continued)

The scheduled minimum lease payments under the lease terms are as follows:

<u>Year ending June 30,</u>	
2023	\$ 280,411
2024	272,898
2025	<u>36,573</u>
	<u>\$ 589,882</u>

Rent expense on all leases for the year ended June 30, 2022 was \$312,929.

10. IN-KIND CONTRIBUTIONS

In-kind contributions are reported as contributions at their estimated fair value on the date of receipt. The Organization's in-kind contributions are primarily comprised of donated goods and supplies. The valuation is based on the amounts provided by the donor and analysis of the fair market value of similar goods.

In-kind contributions for the year ended June 30, 2022 amounted to \$379,603 and consists of donated goods. The donated goods are used in the programs and are not monetized.

11. EMPLOYEE BENEFITS

The Organization participates in a multi-employer 403(b) retirement plan (the "Plan"). The Organization makes required contributions equal to 3% of salaries for eligible employees. The Organization also matches 100% of eligible employee's contributions to the Plan for the first 2% of compensation that eligible employees contribute. Eligibility is based on hours per week and length of employment. Contributions made for the year ended June 30, 2022 were \$161,994.

12. LIQUIDITY AND AVAILABILITY

The Organization receives significant contributions and promises to give restricted by donors, and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. The Organization manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

Although not expected to be needed, the perpetual portion of the Organization's endowed net assets could be used to meet cash needs if necessary. Prudent investment management, however, must be considered to ensure the preservation of the funds for future use.

Lutheran Social Services of Northern California and Subsidiary
Notes to Consolidated Financial Statements
June 30, 2022

12. LIQUIDITY AND AVAILABILITY (continued)

The following reflects the Organization's financial assets reported on the accompanying statement of financial position as of June 30, 2022, reduced by amounts not available for general use within one year because of contractual or donor-imposed restrictions.

Financial assets	
Cash and cash equivalents	\$ 104,365
Restricted cash - cash held for agencies in trust	1,287,302
Investments	125,569
Grants and contribution and other assets receivables	<u>4,524,854</u>
	<u>6,042,090</u>
Less: amounts unavailable for general expenditures within one year, due to:	
Net assets with donor restrictions	(1,295,888)
Board designated endowment	(250,000)
Restricted cash - cash held for agencies in trust	<u>(1,287,302)</u>
	<u>(2,833,190)</u>
	<u>\$ 3,208,900</u>

SINGLE AUDIT REPORTS AND SCHEDULES

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
Lutheran Social Services of Northern California and Subsidiary
Concord, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Lutheran Social Services of Northern California (a California nonprofit corporation) and Subsidiary (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2022, 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 February 1, 2023.

Report on Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Armanino^{LLP}
San Francisco, California

February 1, 2023

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
Lutheran Social Services of Northern California and Subsidiary
Concord, California

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Lutheran Social Services of Northern California (a California nonprofit corporation) and Subsidiary (the "Organization")'s 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 each of the Organization's major federal programs for the year ended June 30, 2022. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 the Organization'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 the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control Over Compliance

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

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

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

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

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino^{LLP}
San Francisco, California

February 1, 2023

Lutheran Social Services of Northern California and Subsidiary
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2022

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal AL Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
<u>Expenditures of Federal Awards</u>			
U.S. Department of Health and Human Services			
Program Name			
HIV Emergency Relief Project Grants -Passed through the City and County of San Francisco Department of Public Health	93.914	DPHC08000331	\$ 475,913
Foster Care - Title IV-E - Passed through County of Sacramento	93.658	Title IV-E Sacramento	191,212
Foster Care - Title IV-E - Passed through County of Solano	93.658	Title IV-E Solano	18,480
Foster Care - Title IV-E - Passed through County of Alameda	93.658	Title IV-E Alameda	115,785
Foster Care - Title IV-E - Passed through County of Contra Costa	93.658	Title IV-E Contra Costa	120,087
Foster Care – Title IV-E – Passed through County of San Joaquin	93.658	Title IV-E San Joaquin	52,023
Foster Care - Title IV-E - Passed through County of San Francisco	93.658	Title IV-E San Francisco	51,018
Foster Care - Title IV-E - Passed through County of San Mateo	93.658	Title IV-E San Mateo	2,848
Foster Care - Title IV-E - Passed through County of Sonoma	93.658	Title IV-E Sonoma	<u>15,369</u>
 Total U.S. Department of Health and Human Services			 <u>1,042,735</u>

The accompanying notes to the Schedule of Expenditures of Federal Awards
are an integral part of this schedule.

Lutheran Social Services of Northern California and Subsidiary
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2022

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal AL Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
U.S. Department of Housing and Urban Development:			
Housing Opportunities for Persons with AIDS	14.241	CA-H2001W058	464,584
Covid 19 - Housing Opportunities for Persons with AIDS	14.241	CA-H2001W058	27,796
Continuum of Care Program - Passed through City and County of San Francisco Department of Social Services	14.267	HSH17/18-028	171,973
Continuum of Care Program – Passed through Sacramento County Department of Human Assistance	14.267	CA0150L9T0320 13	355,069
Continuum of Care Program – Passed through Sacramento County Department of Human Assistance	14.267	CA0150L9T032 114	175,834
Continuum of Care Program - Passed through San Joaquin County Department of Human Assistance	14.267	CA0252L9T1118 10	35,434
Continuum of Care Program - Passed through San Joaquin County Department of Human Assistance	14.267	CA0252L9T112 012	394,003
Continuum of Care Program - Passed through Sacramento Steps Forward	14.267	CA0132L9T0320 13	189,767
Continuum of Care Program - Passed through Sacramento Steps Forward	14.267	CA0132L9T032 114	149,049
Continuum of Care Program - Passed through Sacramento Steps Forward	14.267	CA0135L9T0319 12	332,673
Continuum of Care Program - Passed through Sacramento Steps Forward	14.267	CA0135L9T032 114	94,327
Continuum of Care Program - Passed through Sacramento Steps Forward	14.267	CA0828L9T0320 08	329,416
Continuum of Care Program - Passed through Sacramento Steps Forward	14.267	CA1152L9T0319 08	24,739
Continuum of Care Program - Passed through Sacramento Steps Forward	14.267	CA1152L9T0321 09	377,059
Continuum of Care Program - Passed through Sacramento Steps Forward	14.267	CA1829L9T0319 00	180,400
Continuum of Care Program - Passed through Sacramento Steps Forward	14.267	CA1829L9T0320 01	208,586
Continuum of Care Program - Passed through Sacramento Steps Forward	14.267	CA1830L9T0319 00	202,392
Continuum of Care Program - Passed through Sacramento Steps Forward	14.267	CA1830L9T0320 01	193,228
Continuum of Care Program - Passed through Next move	14.267	CA1303L9T0320 06	63,363
Continuum of Care Program - Passed through Next move	14.267	CA1303L9T0321 07	850,097
Continuum of Care Program	14.267	CA0301L9T1820 13	162,179
Continuum of Care Program	14.267	CA0301L9T1821 14	102,009
Total U.S. Department of Housing and Urban Development:			<u>5,083,977</u>
U.S. Program Department of Justice:			
Crime Victim Assistance - Passed through the California Governors Office of Emergency Assistance	16.575	013-90014-00	<u>346,787</u>

The accompanying notes to the Schedule of Expenditures of Federal Awards
are an integral part of this schedule.

Lutheran Social Services of Northern California and Subsidiary
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2022

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal AL Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
Total U.S. Program Department of Justice:			<u>346,787</u>
Total Expenditures of Federal Awards			<u>\$ 6,473,499</u>

The accompanying notes to the Schedule of Expenditures of Federal Awards
 are an integral part of this schedule.

Lutheran Social Services of Northern California and Subsidiary
Notes to Schedule of Expenditures of Federal Awards
June 30, 2022

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Lutheran Social Services of Northern California (a California nonprofit corporation) and Subsidiary (the "Organization") under programs of the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or limited as to reimbursement. Pass-through entity identifying numbers are presented where available and applicable.

3. INDIRECT COST RATE

The Organization has elected to not use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance. The Organization applies indirect costs in accordance with the specific terms of its federal award agreements.

Lutheran Social Services of Northern California and Subsidiary
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2022

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No
Identification of major programs:	
<u>Name of Federal Program or Cluster</u>	<u>AL Number</u>
Continuum of Care Program	14.267
Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as low-risk auditee?	Yes

Lutheran Social Services of Northern California and Subsidiary
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2022

SECTION II - SUMMARY OF FINANCIAL STATEMENT FINDINGS

There are no financial statement findings to be reported.

SECTION III - SUMMARY OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no federal award findings to be reported.

Lutheran Social Services of Northern California and Subsidiary
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2022

Finding number: 2021-001
Corrective action was taken.

Finding number: 2021-002
Corrective action was taken.