

**LUTHERAN SOCIAL SERVICES  
OF NORTHERN CALIFORNIA  
AND SUBSIDIARY**

**Consolidated Financial Statements for  
the Years Ended  
June 30, 2021 and 2020  
and Independent Auditors' Report**

# LUTHERAN SOCIAL SERVICES OF NORTHERN CALIFORNIA AND SUBSIDIARY

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## **INDEPENDENT AUDITORS' REPORT**

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

### Report on the Financial Statements

We have audited the accompanying financial statements of Lutheran Social Services of Northern California and Subsidiary (a California nonprofit corporation) (the "Entity") which comprise the consolidated statements of financial position as of June 30, 2021 and 2020, 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.

### Management's Responsibility for the Consolidated 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; 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 consolidated financial statements based on our audits. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Entity as of June 30, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

#### Other 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 May 2, 2022, on our consideration of the Entity’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 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 Entity’s internal control over financial reporting and compliance.

*Karlsson & Lane, a.c.*

Pleasanton, California  
May 2, 2022

**LUTHERAN SOCIAL SERVICES OF NORTHERN CALIFORNIA  
AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>		
Cash	\$ 722,709	\$ 1,976,402
Restricted cash - cash held for agencies in trust	1,307,626	1,031,906
Investments	146,235	119,212
Grants and contributions receivable	4,330,438	1,920,430
Prepaid expenses and other assets	95,491	94,987
Property and equipment, net	<u>2,458,655</u>	<u>2,418,498</u>
Total assets	<u>\$ 9,061,154</u>	<u>\$ 7,561,435</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 1,305,997	\$ 1,386,523
Amounts payable to agencies in trust	1,307,626	1,031,906
Refundable advances	644,961	-
Debt	<u>170,632</u>	<u>181,210</u>
Total liabilities	<u>3,429,216</u>	<u>2,599,639</u>
<b>NET ASSETS</b>		
Net assets without donor restrictions:		
Undesignated	3,437,623	3,282,818
Board designated endowment	<u>250,000</u>	<u>250,000</u>
Total net assets without donor restrictions	3,687,623	3,532,818
Net assets with donor restrictions	<u>1,944,315</u>	<u>1,428,978</u>
Total net assets	<u>5,631,938</u>	<u>4,961,796</u>
Total liabilities and net assets	<u>\$ 9,061,154</u>	<u>\$ 7,561,435</u>

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

**LUTHERAN SOCIAL SERVICES OF NORTHERN CALIFORNIA  
AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
Revenue and support:		
Government grant revenue	\$ 12,296,076	\$ 10,772,274
Other contributions and grants	1,118,558	978,781
Other income	28,313	17,363
	<u>13,442,947</u>	<u>11,768,418</u>
Total revenue and support		
Net assets released from restrictions	<u>959,394</u>	<u>2,214,561</u>
Total revenues and net assets released from restrictions	<u>14,402,341</u>	<u>13,982,979</u>
Expenses:		
Program services	13,006,237	12,266,187
Fundraising	363,635	337,202
Management and general	877,664	691,704
Total expenses	<u>14,247,536</u>	<u>13,295,093</u>
Change in net assets without donor restrictions	<u>154,805</u>	<u>687,886</u>
<b>NET ASSETS WITH DONOR RESTRICTIONS</b>		
Contributions	1,442,951	2,614,252
Endowed investment income (loss)	31,780	(3,158)
Net assets released from restrictions	<u>(959,394)</u>	<u>(2,214,561)</u>
Change in net assets with donor restrictions	<u>515,337</u>	<u>396,533</u>
<b>CHANGE IN NET ASSETS</b>	670,142	1,084,419
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>4,961,796</u>	<u>3,877,377</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 5,631,938</u>	<u>\$ 4,961,796</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  
YEAR ENDED JUNE 30, 2021**

	Program Services				Total Programs	Fundraising	Management and General	Total
	Money Management Services	Housing for Youth	Housing for Families and Adults	Other Program				
Salaries and benefits	\$ 1,289,092	\$ 1,015,248	\$ 3,212,572	\$ -	\$ 5,516,912	\$ 247,434	\$ 481,315	\$ 6,245,661
Client assistance	-	1,700,503	3,406,601	304,063	5,411,167	-	-	5,411,167
Professional fees	51,492	87,826	544,064	-	683,382	39,126	25,262	747,770
Occupancy	208,174	71,284	215,928	-	495,386	20,636	84,673	600,695
Supplies	38,315	18,565	129,420	-	186,300	653	23,632	210,585
Equipment and building repairs	33,913	88,422	47,862	-	170,197	17,203	6,746	194,146
Depreciation	25,640	11,930	29,671	4,520	71,761	5,307	113,242	190,310
Telephone	21,740	27,169	85,238	1,101	135,248	2,240	46,117	183,605
Other	52,751	20,436	14,601	-	87,788	345	51,327	139,460
Insurance	13,530	9,041	69,227	-	91,798	2,823	9,190	103,811
Travel	2,682	25,175	37,056	-	64,913	1,451	1,276	67,640
Printing and duplicating	4,782	13,310	33,367	-	51,459	651	14,828	66,938
Outreach and education	-	966	5,949	-	6,915	15,017	604	22,536
Postage	8,504	55	1,852	-	10,411	4,623	7,369	22,403
Staff and board	6,067	157	7,773	-	13,997	343	3,839	18,179
Dues and subscriptions	-	-	-	-	-	5,783	8,210	13,993
Interest	-	8,603	-	-	8,603	-	34	8,637
<b>Total</b>	<b>\$ 1,756,682</b>	<b>\$ 3,098,690</b>	<b>\$ 7,841,181</b>	<b>\$ 309,684</b>	<b>\$ 13,006,237</b>	<b>\$ 363,635</b>	<b>\$ 877,664</b>	<b>\$ 14,247,536</b>

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  
YEAR ENDED JUNE 30, 2020**

	Program Services				Total Programs	Fundraising	Management and General	Total
	Money Management Services	Housing for Youth	Housing for Families and Adults	Other Program				
Client assistance	\$ -	\$ 1,379,932	\$ 2,999,795	\$ 1,361,043	\$ 5,740,770	\$ 4,886	\$ -	\$ 5,745,656
Salaries and benefits	1,245,072	789,162	2,819,775	-	4,854,009	242,153	395,531	5,491,693
Occupancy	197,194	72,610	134,223	-	404,027	18,327	81,012	503,366
Professional fees	34,914	81,232	106,440	500	223,086	5,004	36,850	264,940
Telephone	23,814	34,405	94,904	-	153,123	2,133	51,123	206,379
Equipment and building repairs	51,118	71,700	66,713	454	189,985	9,726	4,721	204,432
Depreciation	23,995	37,512	91,759	19,378	172,644	4,733	9,709	187,086
Supplies	43,360	10,920	84,982	-	139,262	730	7,451	147,443
Other	48,157	17,530	44,920	-	110,607	786	34,778	146,171
Travel	8,067	38,294	44,262	-	90,623	2,882	15,415	108,920
Insurance	14,292	10,476	63,915	-	88,683	3,012	11,642	103,337
Printing and duplicating	5,398	12,929	30,772	-	49,099	799	13,998	63,896
Staff and board	3,518	8,445	14,417	10	26,390	1,645	16,556	44,591
Outreach and education	-	29	2,018	187	2,234	25,300	636	28,170
Postage	9,399	154	1,591	-	11,144	4,465	6,283	21,892
Dues and subscriptions	1,489	-	-	-	1,489	10,621	5,317	17,427
Interest	-	9,012	-	-	9,012	-	682	9,694
<b>Total</b>	<b>\$ 1,709,787</b>	<b>\$ 2,574,342</b>	<b>\$ 6,600,486</b>	<b>\$ 1,381,572</b>	<b>\$ 12,266,187</b>	<b>\$ 337,202</b>	<b>\$ 691,704</b>	<b>\$ 13,295,093</b>

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



**LUTHERAN SOCIAL SERVICES OF NORTHERN CALIFORNIA  
AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 670,142	\$ 1,084,419
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Depreciation	190,310	187,086
Net realized and unrealized (gain) loss on investments	(27,023)	3,158
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable	(2,410,008)	(110,270)
Prepaid expenses and other assets	(504)	(375)
Accounts payable and accrued expenses	(80,526)	(41,545)
Amounts payable to agencies in trust	275,720	239,392
Refundable advances	644,961	-
Net cash (used in) provided by operating activities	<u>(736,928)</u>	<u>1,361,865</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	<u>(230,467)</u>	<u>(144,526)</u>
Net cash used in investing activities	<u>(230,467)</u>	<u>(144,526)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on debt	<u>(10,578)</u>	<u>(9,810)</u>
Net cash used in financing activities	<u>(10,578)</u>	<u>(9,810)</u>
<b>NET CHANGE IN CASH AND RESTRICTED CASH</b>	(977,973)	1,207,529
<b>CASH AND RESTRICTED CASH AT BEGINNING OF YEAR</b>	<u>3,008,308</u>	<u>1,800,779</u>
<b>CASH AND RESTRICTED CASH AT END OF YEAR</b>	<u>\$ 2,030,335</u>	<u>\$ 3,008,308</u>
<b>CASH AND RESTRICTED CASH CONSISTED OF THE FOLLOWING:</b>		
Cash	\$ 722,709	\$ 1,976,402
Restricted cash - cash held for agencies in trust	<u>1,307,626</u>	<u>1,031,906</u>
	<u>\$ 2,030,335</u>	<u>\$ 3,008,308</u>
<b>Supplemental information:</b>		
Cash paid for interest	<u>\$ 8,637</u>	<u>\$ 9,694</u>

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, 2021 AND 2020

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Nature of Operation** - Lutheran Social Services of Northern California (the “Organization”) is a California non-profit organization headquartered in Concord, California. The Organization 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. The Organization’s principal sources of funding are contract service fees from governmental agencies and contributions.

Lutheran Housing Development Company LLC (the “Company”), is a single member California limited liability company of which the Organization is the single member. The Company’s purpose is to hold real property for use in the Organization’s services.

**Basis of Accounting and Consolidation** - The financial statements are prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America applicable to not-for-profit organizations.

Assets, liabilities and operations of the Company are consolidated with the Organization (collectively, the “Entity”). All significant inter-company transactions have been eliminated in consolidation.

**Classification of Net Assets** - The Entity reports information regarding its financial position and activities according to two classes of net assets, as applicable: net asset without donor restrictions and net assets with donor restrictions.

*Net assets without donor restrictions* – net assets available for the general use to support operations.

*Net assets with donor restrictions* – 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 programmatic purposes specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

**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 and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

**Fair Value** - ASC 820 includes a fair value hierarchy that is intended to increase the consistency and comparability in fair value measurements and related disclosures. The fair value hierarchy is based on inputs to valuation techniques that are used to measure fair value that are either observable or unobservable. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources while unobservable inputs reflect a reporting entity's pricing based upon their own market assumptions. The fair value hierarchy consists of the following three levels:

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.

**Cash** - For the purpose of the statement of cash flows, the Entity considers all temporary investments with original maturities of three months or less to be cash.

**Cash Held for Agencies in Trust** - The Entity 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 Entity bank account and are withdrawn by the Recipients in accordance with budgets established by the Recipient with the counsel of the Entity. The cash is legally owned by the Recipients, and they may withdraw their cash from the program at any time. Cash held by the Entity 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.

**Grants and Contributions Receivable** - Grants and contributions receivable are recorded at the value of the revenue earned and are due upon presentation. 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. The Entity continually monitors the credit worthiness of each account and recognizes allowances for estimated bad debts on accounts that are no longer estimated to be collectible. The Entity adjusts any allowance for subsequent collections and final determination that a receivable is no longer collectible. There was no allowance considered necessary at June 30, 2021 or 2020, respectively.

**Property and Equipment** - Property and equipment is stated at cost, or if donated, at estimated fair value at the date of donation. Depreciation has been provided on the straight-line method over the estimated useful lives of the assets of 3 to 39 years. It is the Entity's policy to capitalize significant additions above \$1,000.

**Endowments** - The Entity follows the guidance included in ASC 958-205-45 which provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (“UPMIFA”). The guidance also requires additional disclosures about an organization’s endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

The Entity follows the following provisions of ASC 958-205-45:

*Interpretation of Relevant Law*

The board of directors of the Entity has interpreted California’s enacted version of UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Entity classifies as net assets with donor restrictions (1) the original value of gifts donated to the endowment, (2) the original value of subsequent gifts donated to the endowment, (3) additions to the endowment in accordance with donor directions, and (4) the remaining portion of the endowment fund that is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Entity in a manner consistent with the standard of prudence prescribed by the enacted version of UPMIFA.

*Spending Policy*

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

*Investment Policy, Strategies, and Objectives*

The Entity 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.

*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 Entity to retain as a fund of perpetual duration. There were no individual donor-restricted endowment funds with deficiencies at June 30, 2021.

**Grants and Contributions** - Grants and contributions are recognized as revenue in the period unconditionally promised or received. The Entity 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 Entity'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.

Donated materials and equipment 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 only in those instances in which they enhance non-financial assets or the Entity would have had to acquire such services if they had not been donated, required specialized skills, and are provided by individuals with those skills. Donated services of \$27,049 and \$58,125 were recognized as contribution revenue and personnel expenses related to the Housing for Youth program during the years ended June 30, 2021 and 2020, respectively.

**Income Taxes** - The Organization and Company 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 Entity is exempt from paying Federal and California income taxes except on any unrelated business income. The Entity had no unrelated business income for either of the years ended June 30, 2021 and 2020, respectively.

The Entity 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, 2021.

**Functional Expense Classification** - Expenses are charged to programs and supporting services on the basis of the Entity'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.

**Concentrations and Credit Risk** - The Entity has identified financial instruments that are potentially subject to credit risk as cash, investments and receivables. At June 30, 2021, the Entity had approximately \$2,107,000 of cash in excess of federally insured limits. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the near-term could materially affect the amounts reported in the statement of financial position. Investments are diversified into various types of marketable securities in order to limit the concentration of market risk. Receivables are unsecured, however concentrations of credit risk with respect to these receivables are limited as substantially all amounts are receivable from government agencies. Management does not believe there is any risk of bad debts relating to the receivable balances.

**Subsequent Events** - Subsequent events have been evaluated through May 2, 2022, which is the date the financial statements were available to be issued.

## 2. INVESTMENTS

Investments consist of the following at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Domestic equities	\$ 39,483	\$ 33,494
International equities	48,258	37,795
Bond funds	26,322	22,853
Alternative investments	20,473	17,466
Real estate securities	7,312	5,255
Money market	4,387	2,349
Total	<u>\$ 146,235</u>	<u>\$ 119,212</u>

The Entity's investments are held in a comingled fund with a third-party foundation, and are considered Level 2 instruments.

The Entity realized investment income net of related fees of \$31,780 during the year ended June 30, 2021 and realized an investment loss net of related fees of \$3,158 during the year ended June 30, 2020. Investment gains and losses are included in other income on the statements of activities.

## 3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Buildings and improvements	\$ 2,824,155	\$ 2,716,534
Land	753,070	753,070
Furniture and equipment	743,957	621,111
Vehicles	41,705	41,705
	<u>4,362,887</u>	<u>4,132,420</u>
Accumulated depreciation	<u>(1,904,232)</u>	<u>(1,713,922)</u>
Net property and equipment	<u>\$ 2,458,655</u>	<u>\$ 2,418,498</u>

Land and building with cost basis of \$1,201,912 and accumulated depreciation of \$402,661 are subject to a reversionary interest and lien held by a local government to use the land, building and improvements for program purposes through the year ending June 30, 2057.

#### 4. LINES OF CREDIT

The Entity entered into a line of credit with a maximum borrowing amount of \$1,300,000, maturing June 2022. The line of credit is secured by real property of the Entity. 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 Entity had no draws outstanding at June 30, 2021 and 2020, respectively.

#### 5. DEBT

The Entity's debt obligations as of June 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Note payable to a bank; interest rate at the U.S. three-year treasury constant maturity plus 0.125% adjusted weekly, plus 3% (3.585% at June 30, 2021); 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 Entity's real property.	158,053	163,502
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 Entity's real property.	<u>12,579</u>	<u>17,708</u>
Total	<u>\$ 170,632</u>	<u>\$ 181,210</u>

Future minimum principal payments as of June 30, 2021 are as follows:

<u>Year Ending June 30,</u>	
2022	\$ 10,732
2023	11,166
2024	7,859
2025	<u>140,875</u>
Total	<u>\$ 170,632</u>

## 6. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following as of June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Use restrictions:		
Other program purposes	\$ -	\$ 1,525
Project Hope	11,930	74,098
Polk Street	15,708	15,708
Youth leadership	26,216	26,216
Endowment	55,587	23,807
San Francisco programs	-	24,713
Fostering Future Success	-	29,612
Lutheran Hunger Network	42,612	34,507
Senior services	837,860	218,808
Disaster relief	294,547	312,634
Pilot program	232,649	232,649
Property	<u>269,810</u>	<u>277,305</u>
Total use restrictions	1,786,919	1,271,582
Subject to be held in perpetuity	<u>157,396</u>	<u>157,396</u>
Total net assets with donor restrictions	<u>\$ 1,944,315</u>	<u>\$ 1,428,978</u>

The Entity's net assets with donor restrictions include donor-restricted endowment funds. As required by ASC 958-205, 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.

Changes in the endowment as of June 30, 2021 and 2020 are as follows:

	<u>Board Designated</u>	<u>Use Restricted</u>	<u>Perpetual Balance</u>	<u>Total</u>
Endowment balance at June 30, 2019	\$ -	\$ 26,965	\$ 157,396	\$ 184,361
Investment (loss)	-	(3,158)	-	(3,158)
Contributions	<u>250,000</u>	<u>-</u>	<u>-</u>	<u>250,000</u>
Endowment balance at June 30, 2020	250,000	23,807	157,396	431,203
Investment gain	<u>-</u>	<u>31,780</u>	<u>-</u>	<u>31,780</u>
Endowment balance at June 30, 2021	<u>\$ 250,000</u>	<u>\$ 55,587</u>	<u>\$ 157,396</u>	<u>\$ 462,983</u>



## 7. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditures within one year at June 30, 2021 and 2020 consisted of the following:

Cash and cash equivalents	\$ 722,709
Cash held for agencies in trust	1,307,626
Investments	146,235
Grants and contributions receivable	<u>4,330,438</u>
	6,507,008
Less: Donor restricted endowment	(212,983)
Board designated endowment	(250,000)
Cash held for agencies in trust	(1,307,626)
Grants and contributions collectible in excess of one year	<u>(312,000)</u>
Total financial assets available to meet cash needs for general expenditures, within one year	<u><u>\$ 4,424,399</u></u>

The Entity 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 Entity 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 Entity'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.

## 8. OPERATING LEASES

The Entity leases program facilities and administrative offices under various cancelable and non-cancelable operating leases that expire through 2025. The aggregate remaining minimum rental payments required under the terms of all non-cancelable operating leases as of June 30, 2021 are as follows:

<u>Year Ending June 30,</u>	
2022	\$ 272,709
2023	280,411
2024	272,898
2025	<u>36,573</u>
Total	<u><u>\$ 862,591</u></u>

Rent expense on all leases totaled \$432,075 and \$347,512 during the years ended June 30, 2021 and 2020, respectively.

The Entity entered into a sublease for a portion of office space described above. Rent income totaled \$18,000 during both years ended June 30, 2021 and 2020, respectively. The Entity's sub-lease expires in May 2024. Future minimum cash receipts due under the lease are as follows:

<u>Year Ending June 30,</u>	
2022	\$ 18,000
2023	18,000
2024	<u>16,500</u>
Total	<u>\$ 52,500</u>

## **9. EMPLOYEE BENEFITS**

The Entity participates in a multi-employer 403(b) retirement plan (the "Plan"). The Entity makes required contributions equal to 3% of salaries for eligible employees. The Entity 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 years ended June 30, 2021 and 2020 were \$170,845 and \$156,872, respectively.

**LUTHERAN SOCIAL SERVICES  
OF NORTHERN CALIFORNIA AND SUBSIDIARY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 2021**

Federal Grantor Program Title/Pass-Through Grantor Program Title	Federal Assistance Listing Number	Pass-through Number	Federal Expenditures
<b>U.S. Department of Health and Human Services:</b>			
HIV Emergency Relief Project Grants - Passed through the City and County of San Francisco Department of Public Health	93.914	DPHC08000331	\$ <u>531,884</u>
Foster Care - Title IV-E - Passed through County of Sacramento	93.658	Title IV-E Sacramento	\$ 346,439
Foster Care - Title IV-E - Passed through County of Solano	93.658	Title IV-E Solano	30,849
Foster Care - Title IV-E - Passed through County of Alameda	93.658	Title IV-E Alameda	53,315
Foster Care - Title IV-E - Passed through County of Contra Costa	93.658	Title IV-E Contra Costa	91,244
Foster Care – Title IV-E – Passed through County of San Joaquin	93.658	Title IV-E San Joaquin	42,654
Foster Care – Title IV-E – Passed through Count of Napa	93.658	Title IV-E Napa	17,666
Foster Care - Title IV-E - Passed through County of San Francisco	93.658	Title IV-E San Francisco	<u>69,138</u>
Subtotal - Foster Care - Title IV-E	93.658		\$ <u>651,305</u>
Total U.S. Department of Health and Human Services			<u>\$ 1,183,189</u>

<b>Federal Grantor Program Title/Pass-Through Grantor Program Title</b>	<b>Federal Assistance Listing Number</b>	<b>Pass-through Number</b>	<b>Federal Expenditures</b>
<b>U.S. Department of Housing and Urban Development:</b>			
Housing Opportunities for Persons with AIDS	14.241	CA-H2001W058	\$ 435,382
Covid 19 - Housing Opportunities for Persons with AIDS	14.241	CA-H2001W058	<u>73,568</u>
Subtotal - Housing Opportunities for Persons with AIDS	14.241		<u>\$ 508,950</u>
Continuum of Care Program - Passed through City and County of San Francisco Department of Social Services	14.267	HSH17/18-028	\$ 169,929
Continuum of Care Program – Passed through Sacramento County Department of Human Assistance	14.267	CA0150L9T032013	516,170
Continuum of Care Program - Passed through San Joaquin County Department of Human Assistance	14.267	CA0252L9T111810	403,051
Continuum of Care Program - Passed through Sacramento Steps Forward	14.267	CA0132L9T032013	346,976
Continuum of Care Program - Passed through Sacramento Steps Forward	14.267	CA0135L9T031912	483,947
Continuum of Care Program - Passed through Sacramento Steps Forward	14.267	CA0828L9T032008	358,421
Continuum of Care Program - Passed through Sacramento Steps Forward	14.267	CA1152L9T031807	386,963
Continuum of Care Program - Passed through Sacramento Steps Forward	14.267	CA1829L9T031900	38,537
Continuum of Care Program - Passed through Sacramento Steps Forward	14.267	CA1830L9T031900	119,318

<b>Federal Grantor Program Title/Pass-Through Grantor Program Title</b>	<b>Federal Assistance Listing Number</b>	<b>Pass-through Number</b>	<b>Federal Expenditures</b>
Continuum of Care Program - Passed through Next Move	14.267	July 2020	818,067
Continuum of Care Program	14.267		<u>219,036</u>
Subtotal - Continuum of Care Program	14.267		<u>\$ 3,860,415</u>
Total U.S. Department of Housing and Urban Development			<u>\$ 4,369,365</u>
<b>U.S. Department of Justice:</b>			
Crime Victim Assistance - Passed through the California Governors Office of Emergency Assistance	16.575	013-90014-00	<u>\$ 292,916</u>
Total U.S. Department of Justice			<u>\$ 292,916</u>
Total			<u><u>\$ 5,845,470</u></u>

# LUTHERAN SOCIAL SERVICES OF NORTHERN CALIFORNIA AND SUBSIDIARY

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2021

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### **Note A - Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes federal award activity of the Entity under programs of the federal government for the year ended June 30, 2021. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”). Because the Schedule presents only a selected portion of the operations of the Entity, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Entity.

The expenditures listed in Foster Care - Title IV-E (93.658) passed through San Joaquin and Napa counties include commingled assistance from federal and non-federal government sources.

### **Note B - Summary of Significant Accounting Policies**

- (1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the costs principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- (2) The Entity has not elected to use the 10 percent de-minimis indirect cost rate as allowed under the Uniform Guidance.



**INDEPENDENT AUDITORS' 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 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 and Subsidiary (a nonprofit organization) (the "Entity") which comprise the consolidated statement of financial position as of June 30, 2021, 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 May 2, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Entity'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 the Entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the Entity'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 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 may exist that have not been identified.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Entity'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 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and questioned costs as items 2021-001 and 2021-002.

## Entity's Response to Findings

The Entity's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Entity's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## Purpose of this Report

The purpose of this report is solely to describe the scope and 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.

*Harrison & Lane, a.c.*

Pleasanton, California

May 2, 2022





## INDEPENDENT AUDITORS' 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 Social Services of Northern California and Subsidiary  
Concord, California

### Report on Compliance for Each Major Federal Program

We have audited Lutheran Social Services of Northern California and Subsidiary's (the "Entity") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Entity's major federal programs for the year ended June 30, 2021. The Entity's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Entity's major federal programs based on our audit of the types of compliance requirements referred to above. 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 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"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program identified in the accompanying schedule of findings and questioned costs occurred. An audit includes examining, on a test basis, evidence about the Entity's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Entity's compliance.

### Opinion on Each Major Federal Program

In our opinion, the Entity 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, 2021.

### 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 item 2021-001 and 2021-002. Our opinion on each major federal program is not modified with respect to these matters.

The Entity's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Entity's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### Report on Internal Control Over Compliance

Management of the Entity is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Entity's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Entity's 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs as items 2021-001 and 2021-002, that we consider to be significant deficiencies.

The Entity's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Entity's response was not subjected to the 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.

*Harrison & Lane, a.c.*

Pleasanton, California  
May 2, 2022

**LUTHERAN SOCIAL SERVICES  
OF NORTHERN CALIFORNIA AND SUBSIDIARY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2021**

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**I. SUMMARY OF INDEPENDENT AUDITORS' RESULTS**

**Financial Statements**

Type of auditors' report issued on whether the financial statements were prepared according to U.S. GAAP: **Unmodified**

Internal control over financial reporting:

Material weakness(es) identified:	_____	Yes	_____	X	No
Significant deficiency(ies) identified that are not considered to be a material weakness?	_____	Yes	_____	X	None Reported
Noncompliance material to financial statements noted?	_____	Yes	_____	X	No

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified?	_____	Yes	_____	X	No
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	_____	X	Yes	_____	None Reported

Type of auditors' 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)?	_____	X	Yes	_____	No
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Identification of major program:

Assistance Listing Number(s)  
14.267

Name of Federal Program or Cluster  
Continuum of Care Program

Dollar threshold used to distinguish between type A and type B programs: **\$750,000**

Auditee qualified as low-risk auditee?	_____	X	Yes	_____	No
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**LUTHERAN SOCIAL SERVICES  
OF NORTHERN CALIFORNIA AND SUBSIDIARY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
JUNE 30, 2021**

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**II. Financial Statement Findings**

None.

**III. Federal Awards Findings**

Finding 2021-001

Assistance Listing Number: 14.267

Program Title: Continuum of Care Program

Federal Agency: U.S. Department of Housing and Urban Development

Pass-Through Agency: San Joaquin County Department of Human Assistance; Sacramento Steps Forward; Next Move

Pass-Through Award No.: San Joaquin County Department of Human Assistance - CA0252L9T111810

Sacramento Steps Forward - CA0135L9T031912;  
CA0828L9T032008; CA1152L9T031807

Next Move - July 2020

Criteria

The Continuum of Care Program requires that the Entity perform a test of rent reasonableness at least annually to determine if rents paid for program participants are comparable to fair market rents in the vicinity of the participants housing.

Condition

The Entity was using the U.S. Department of Housing and Urban Development's ("HUD") published Fair Market Rents ("FMR") to determine the reasonableness of the rents paid, and not performing an analysis of rents in the immediate area of the participants housing.

Cause

The Entity was applying a method of determining reasonable rents that had been allowable under prior awards, prior to migration of the programs funding to the Continuum of Care program under assistance listing number 14.267.

Context

While the Entity did not utilize the required method of determining fair market rents required under the Continuum of Care Program, the Entity was employing a method of determining fair rents utilizing FMR data from HUD.

Effect

The potential existed that calculated fair market rents were less than provided by FMR data from HUD. Based on the Entity's subsequent calculation of fair market rents, no units were paying above rent limits imposed by the Continuum of Care Program.

Questioned Costs

None.

Prior Audit Finding

No.

Recommendation

The Entity should, at least annually, perform a survey of FMR utilizing an acceptable approach outlined by the Continuum of Care program. The Entity should document their comparison to FMR in each program participant's file prior to a participant's lease signing.

Views of Responsible Officials

The Entity agrees with the finding, and will implement procedures to implement the recommendation.

Finding 2021-002

Assistance Listing Number: 16.575  
Program Title: Crime Victim Assistance  
Federal Agency: U.S. Department of Justice  
Pass-Through Agency: California Governor's Office of Emergency Assistance  
Pass-Through Award No.: 013-90014-00

Criteria

In accordance with Uniform Guidance §200.510(b), the Entity is required to prepare a Schedule of Expenditures of Federal Awards ("SEFA") for the period covered by the auditee's financial statements which must include the total federal awards expended.

Condition

The Entity did not include a federally funded award in their SEFA submitted for audit. Our review of the contract identified the pass-through agency's communication of these federal awards and their related assistance listing number.

### Cause

The Entity was relying on their assessment of prior contracts that were managed under consistent programs and consistent pass-through agencies to determine if federal awards were included in the contract.

### Context

While the Entity did not identify the federal source of income, the contracts were explicit with respect to compliance terms, avoiding any non-compliance with federal compliance requirements.

### Effect

The Entity's SEFA did not sufficiently identify all federal awards expended by the Entity during the year ended June 30, 2021.

### Questioned Costs

None.

### Prior Audit Finding

No.

### Recommendation

The Entity should create an intake form for each grant and contract to document their search for federal funding, and to document significant contract compliance requirements and federal program compliance requirements. The Entity should document their process for meeting each compliance requirement and document an internal control over the process of meeting those requirements.

### Views of Responsible Officials

The Entity agrees with the finding, and will implement procedures to implement the recommendation.

## **IV. Prior Year Findings**

Not Applicable.