

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

**Consolidated Financial Statements for
the Years Ended
June 30, 2020 and 2019
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, 2020 and 2019, 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, 2020 and 2019, 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.

Emphasis of Matter

As discussed in Note 10 to the financial statements, on March 11, 2020 the World Health Organization declared the novel strain of coronavirus (“Covid-19”) a global pandemic and recommended containment and mitigation measures worldwide. The ultimate financial impact and duration of these events cannot be reasonably estimated at this time. Our opinion is not modified with respect to this matter.

Other Matter

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 March 24, 2021, 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
March 24, 2021

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

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash	\$ 1,976,402	\$ 1,008,265
Restricted cash - cash held for agencies in trust	1,031,906	792,514
Investments	119,212	122,370
Grants and contributions receivable	1,920,430	1,810,160
Prepaid expenses and other assets	94,987	94,612
Property and equipment, net	<u>2,418,498</u>	<u>2,461,058</u>
 Total assets	 <u>\$ 7,561,435</u>	 <u>\$ 6,288,979</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 1,386,523	\$ 1,428,068
Amounts payable to agencies in trust	1,031,906	792,514
Debt	<u>181,210</u>	<u>191,020</u>
 Total liabilities	 <u>2,599,639</u>	 <u>2,411,602</u>
 NET ASSETS		
Net assets without donor restrictions:		
Undesignated	3,282,818	2,844,932
Board designated endowment	<u>250,000</u>	<u>-</u>
 Total net assets without donor restrictions	 3,532,818	 2,844,932
 Net assets with donor restrictions	 <u>1,428,978</u>	 <u>1,032,445</u>
 Total net assets	 <u>4,961,796</u>	 <u>3,877,377</u>
 Total liabilities and net assets	 <u>\$ 7,561,435</u>	 <u>\$ 6,288,979</u>

See notes to consolidated financial statements.

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

**CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenue and support:		
Government grant revenue	\$ 10,772,274	\$ 9,243,421
Other contributions and grants	978,781	687,208
Other income	17,363	43,078
	<u>11,768,418</u>	<u>9,973,707</u>
Total revenue and support		
Net assets released from restrictions	<u>2,214,561</u>	<u>1,188,754</u>
Total revenues and net assets released from restrictions	<u>13,982,979</u>	<u>11,162,461</u>
Expenses:		
Program services	12,266,187	10,271,975
Fundraising	337,202	347,804
Management and general	691,704	600,024
Total expenses	<u>13,295,093</u>	<u>11,219,803</u>
Change in net assets without donor restrictions	<u>687,886</u>	<u>(57,342)</u>
NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	2,614,252	1,456,710
Endowed investment (loss) income	(3,158)	566
Net assets released from restrictions	<u>(2,214,561)</u>	<u>(1,188,754)</u>
Change in net assets with donor restrictions	<u>396,533</u>	<u>268,522</u>
CHANGE IN NET ASSETS	1,084,419	211,180
NET ASSETS, BEGINNING OF YEAR	<u>3,877,377</u>	<u>3,666,197</u>
NET ASSETS, END OF YEAR	<u>\$ 4,961,796</u>	<u>\$ 3,877,377</u>

See notes to 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	68,957	106,440	500	210,811	5,004	36,850	252,665
Equipment and building repairs	51,118	83,975	66,713	454	202,260	9,726	4,721	216,707
Telephone	23,814	34,405	94,904	-	153,123	2,133	51,123	206,379
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
Total	\$ 1,709,787	\$ 2,574,342	\$ 6,600,486	\$ 1,381,572	\$ 12,266,187	\$ 337,202	\$ 691,704	\$ 13,295,093

See notes to consolidated financial statements.

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

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019**

	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	\$ 1,315,064	\$ 980,393	\$ 2,486,144	\$ -	\$ 4,781,601	\$ 232,159	\$ 324,819	\$ 5,338,579
Client assistance	-	1,428,002	2,267,393	381,975	4,077,370	3,883	8,672	4,089,925
Occupancy	179,718	64,749	103,448	-	347,915	17,431	68,004	433,350
Professional fees	29,620	79,932	61,548	-	171,100	21,119	24,802	217,021
Depreciation	27,894	47,617	89,027	6,406	170,944	5,664	9,772	186,380
Equipment and building repairs	35,699	75,405	32,344	-	143,448	23,242	8,519	175,209
Telephone	17,904	31,933	70,484	-	120,321	1,183	36,836	158,340
Supplies	23,371	12,515	72,797	-	108,683	102	8,483	117,268
Travel	2,261	54,577	31,486	-	88,324	2,839	22,669	113,832
Other	47,987	13,981	10,481	1,000	73,449	1,576	31,559	106,584
Insurance	14,429	11,037	63,572	-	89,038	3,043	3,937	96,018
Printing and duplicating	6,024	13,925	30,929	-	50,878	1,697	13,140	65,715
Staff and board	3,687	9,079	9,498	-	22,264	1,579	15,636	39,479
Outreach and education	-	619	669	4,000	5,288	22,504	556	28,348
Postage	8,934	137	1,703	-	10,774	3,833	6,085	20,692
Interest	-	9,271	-	-	9,271	-	9,425	18,696
Dues and subscriptions	246	600	461	-	1,307	5,950	7,110	14,367
Total	\$ 1,712,838	\$ 2,833,772	\$ 5,331,984	\$ 393,381	\$ 10,271,975	\$ 347,804	\$ 600,024	\$ 11,219,803

See notes to consolidated financial statements.

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,084,419	\$ 211,180
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Depreciation	187,086	186,380
Net realized and unrealized loss (gain) on investments	3,158	(566)
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable	(110,270)	(41,269)
Prepaid expenses and other assets	(375)	(40,377)
Accounts payable and accrued expenses	(41,545)	630,872
Amounts payable to agencies in trust	239,392	(484,563)
Net cash provided by operating activities	<u>1,361,865</u>	<u>461,657</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(144,526)</u>	<u>(136,527)</u>
Net cash used in investing activities	<u>(144,526)</u>	<u>(136,527)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net advances (repayments) on line of credit	-	(200,000)
Principal payments on debt	<u>(9,810)</u>	<u>(9,450)</u>
Net cash used in financing activities	<u>(9,810)</u>	<u>(209,450)</u>
NET CHANGE IN CASH AND RESTRICTED CASH	1,207,529	115,680
CASH AND RESTRICTED CASH AT BEGINNING OF YEAR	<u>1,800,779</u>	<u>1,685,099</u>
CASH AND RESTRICTED CASH AT END OF YEAR	<u>\$ 3,008,308</u>	<u>\$ 1,800,779</u>
CASH AND RESTRICTED CASH CONSISTED OF THE FOLLOWING:		
Cash	\$ 1,976,402	\$ 1,008,265
Restricted cash - cash held for agencies in trust	<u>1,031,906</u>	<u>792,514</u>
	<u>\$ 3,008,308</u>	<u>\$ 1,800,779</u>
Supplemental information:		
Cash paid for interest	<u>\$ 9,694</u>	<u>\$ 18,696</u>

See notes to consolidated financial statements.

LUTHERAN SOCIAL SERVICES OF NORTHERN CALIFORNIA AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2020 AND 2019

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, 2020 or 2019, 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, 2020.

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, 2020 and 2019, 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, 2020 and 2019, 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, 2020.

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 on a reasonable basis that is consistently applied.

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, 2020, the Entity had approximately \$2,800,000 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.

Change in Accounting Principle - During 2020, the Entity adopted the Financial Accounting Standards Board’s Accounting (“FASB”) Standards Update 2018-08, *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This update assists organizations in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions. In addition, it provides new criteria to determine whether a contribution is conditional or unconditional. As a result, it enhances comparability of financial information among not-for-profit entities. The Entity has evaluated contributions received and contributions made and has determined that there is no change as a result of the adoption of the standard.

Reclassifications - Certain 2019 balances have been reclassified to conform to the 2020 consolidated financial statement presentation.

Subsequent Events - Subsequent events have been evaluated through March 24, 2021, which is the date the financial statements were available to be issued.

2. INVESTMENTS

Investments consist of the following at June 30, 2020 and 2019:

	2020	2019
	<u> </u>	<u> </u>
Domestic equities	\$ 33,494	\$ 37,759
International equities	37,795	38,603
Bond funds	22,853	28,188
Alternative investments	17,466	10,670
Real estate securities	5,255	6,450
Money market	2,349	700
Total	<u>\$ 119,212</u>	<u>\$ 122,370</u>

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

The Entity incurred an investment loss net of related fees of \$3,158 during the year ended June 30, 2020 and a gain net of related fees of \$5,161 during the year ended June 30, 2019. 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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Buildings and improvements	\$ 2,716,534	\$ 2,694,917
Land	753,070	753,070
Furniture and equipment	621,111	539,907
Vehicles	41,705	-
	<u>4,132,420</u>	<u>3,987,894</u>
Accumulated depreciation	<u>(1,713,922)</u>	<u>(1,526,836)</u>
Net property and equipment	<u>\$ 2,418,498</u>	<u>\$ 2,461,058</u>

Land and building with cost basis of \$1,201,912 and accumulated depreciation of \$363,137 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 2021. 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, 2020 and 2019, respectively.

5. DEBT

The Entity's debt obligations as of June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Note payable to a bank; interest rate at the U.S. three year treasury constant maturity plus 0.125% adjusted weekly, plus 3% (4.9% at June 30, 2020); 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.	163,502	168,336

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>17,708</u>	<u>22,684</u>
Total	<u>\$ 181,210</u>	<u>\$ 191,020</u>

Future minimum principal payments as of June 30, 2020 are as follows:

2021	\$ 10,316
2022	10,732
2023	11,166
2024	7,859
2025	<u>141,137</u>
Total	<u>\$ 181,210</u>

6. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Use restrictions:		
Other program purposes	\$ 1,525	\$ -
Project Hope	74,098	-
Polk Street	15,708	15,708
Youth leadership	26,216	26,216
Endowment	23,807	26,965
San Francisco programs	24,713	-
Fostering Future Success	29,612	-
Lutheran Hunger Network	34,507	30,209
Senior services	218,808	118,379
Disaster relief	312,634	180,822
Pilot program	232,649	191,950
Property	<u>277,305</u>	<u>284,800</u>
Total use restrictions	1,271,582	875,049
Subject to be held in perpetuity	<u>157,396</u>	<u>157,396</u>
Total net assets with donor restrictions	<u>\$ 1,428,978</u>	<u>\$ 1,032,445</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, 2020 and 2019 are as follows:

	Board Designated	Use Restricted	Perpetual Balance	Total
Endowment balance at June 30, 2018	\$ -	\$ 21,804	157,396	179,200
Investment income	-	5,161	-	5,161
Endowment balance at June 30, 2019	-	26,965	157,396	184,361
Investment (loss)	-	(3,158)	-	(3,158)
Contributions	250,000	-	-	250,000
Endowment balance at June 30, 2020	<u>\$ 250,000</u>	<u>\$ 23,807</u>	<u>\$ 157,396</u>	<u>\$ 431,203</u>

7. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditures within one year at June 30, 2020 and 2019 consisted of the following:

Cash and cash equivalents	\$ 1,976,402
Cash held for agencies in trust	1,031,906
Investments	119,212
Accounts and pledges receivable	<u>1,920,430</u>
	5,047,950
Less: Donor restricted endowment	(181,203)
Board designated endowment	(250,000)
Cash held for agencies in trust	<u>(1,031,906)</u>
Total financial assets available to meet cash needs for general expenditures, within one year	<u>\$ 3,584,841</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 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 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, 2020 are as follows:

<u>Year Ending June 30,</u>	
2021	\$ 265,162
2022	272,709
2023	280,411
2024	272,898
2025	<u>36,573</u>
Total	<u>\$ 1,127,753</u>

Rent expense on all leases totaled \$347,512 and \$320,074 during the years ended June 30, 2020 and 2019, 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, 2020 and 2019, 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>	
2021	\$ 18,000
2022	18,000
2023	18,000
2024	<u>16,500</u>
Total	<u>\$ 70,500</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, 2020 and 2019 were \$156,872 and \$142,158, respectively.

10. RISKS AND UNCERTAINTIES

On March 11, 2020, the World Health Organization declared a novel strain of coronavirus ("Covid-19") a global pandemic and recommended containment and mitigation measures worldwide. The Covid-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders, including California, where the Entity is headquartered.

Impacts to the Entity's operations include disruptions and restrictions on employee's ability to work. While the disruption from Covid-19 is currently expected to be temporary, there is considerable uncertainty around the duration of the closings and shelter in place orders and the ultimate financial impact. It is at least reasonably possible that this matter will negatively impact the Entity. However, the final impact and duration cannot be reasonably estimated at this time.

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2020**

Federal Grantor Program Title/Pass-Through Grantor Program Title	Federal CFDA Number	Pass-through Number	Federal Expenditures
U.S. Department of Health and Human Services:			
HIV Emergency Relief Project Grants - Passed through the City and County of San Francisco Department of Public Health	93.914	1000002604	<u>\$ 515,616</u>
Foster Care - Title IV-E - Passed through County of Sacramento	93.658	Title IV-E Sacramento	\$ 292,999
Foster Care - Title IV-E - Passed through County of Solano	93.658	Title IV-E Solano	20,844
Foster Care - Title IV-E - Passed through County of Alameda	93.658	Title IV-E Alameda	90,957
Foster Care - Title IV-E - Passed through County of Contra Costa	93.658	Title IV-E Contra Costa	106,139
Foster Care - Title IV-E - Passed through County of San Francisco	93.658	Title IV-E San Francisco	<u>44,319</u>
Subtotal - Foster Care - Title IV-E	93.658		<u>\$ 555,258</u>
Total U.S. Department of Health and Human Services			<u>\$ 1,070,874</u>
U.S. Department of Housing and Urban Development:			
Housing Opportunities for Persons with AIDS	14.241		<u>\$ 378,113</u>
Continuum of Care Program - Passed through City and County of San Francisco Department of Social Services	14.267	HS17/18-028	\$ 156,169

Continuum of Care Program - Passed through San Joaquin County Department of Human Assistance	14.267	CA0252L9T111810	369,093
Continuum of Care Program - Passed through Sacramento Steps Forward	14.267	CA0150L9T031912	504,911
Continuum of Care Program - Passed through Sacramento Steps Forward	14.267	CA0132L9T031912	371,217
Continuum of Care Program - Passed through Sacramento Steps Forward	14.267	CA0135L9T031912	412,934
Continuum of Care Program - Passed through Sacramento Steps Forward	14.267	CA0828L9T031907	364,400
Continuum of Care Program - Passed through Sacramento Steps Forward	14.267	CA1152L9T031807	324,205
Continuum of Care Program - Passed through Next Move	14.267	7/20	846,058
Continuum of Care Program	14.267		<u>183,935</u>
Subtotal - Continuum of Care Program	14.267		<u>\$ 3,532,922</u>
Total U.S. Department of Housing and Urban Development			<u>\$ 3,911,035</u>
Total			<u><u>\$ 4,981,909</u></u>

LUTHERAN SOCIAL SERVICES OF NORTHERN CALIFORNIA AND SUBSIDIARY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2020

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, 2020. 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.

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, 2020, 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 March 24, 2021.

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") to determine the 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 determination of financial statement amounts. 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 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
March 24, 2021



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, 2020. 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, 2020.

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, material weaknesses may exist that have not been identified.

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
March 24, 2021

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2020**

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	_____ <u>X</u> No
Significant deficiency(ies) identified that are not considered to be a material weakness?	_____ Yes	_____ <u>X</u> None Reported
Noncompliance material to financial statements noted?	_____ Yes	_____ <u>X</u> No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	_____ Yes	_____ <u>X</u> No
Significant deficiency(ies) identified that are not considered to be a material weakness(es)?	_____ Yes	_____ <u>X</u> 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)?	_____ Yes	_____ <u>X</u> No
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Identification of major program:

<u>CDFA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.267	Continuum of Care Program
93.658	Foster Care Title IV-E

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

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
JUNE 30, 2020**

II. Financial Statement Findings

None.

III. Federal Awards Findings

None.

IV. Prior Year Findings

Not Applicable.