

**LUTHERAN SOCIAL SERVICES  
OF SOUTHERN CALIFORNIA AND  
LUTHERAN SOCIAL SERVICES FOUNDATION  
OF SOUTHERN CALIFORNIA**

**CONSOLIDATED FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION**

**JUNE 30, 2019 AND 2018**

**LUTHERAN SOCIAL SERVICES  
OF SOUTHERN CALIFORNIA AND  
LUTHERAN SOCIAL SERVICES FOUNDATION  
OF SOUTHERN CALIFORNIA**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
**Lutheran Social Services of Southern California and  
Lutheran Social Services Foundation of Southern California**

### **Report on Financial Statements**

We have audited the accompanying financial statements of Lutheran Social Services of Southern California and Lutheran Social Services Foundation of Southern California (collectively, the Organization), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the 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 Organization'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 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 financial statements referred to in the first paragraph present fairly, in all material respects, the consolidated financial position of the Organization as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Other Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information consisting of the consolidating schedule of financial position, consolidating schedule of activities and changes in net assets, and the schedule of expenditures of federal awards, as required by Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the 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 September 4, 2020, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

*Marcum LLP*

Hartford, CT  
September 4, 2020

**LUTHERAN SOCIAL SERVICES  
OF SOUTHERN CALIFORNIA AND  
LUTHERAN SOCIAL SERVICES FOUNDATION  
OF SOUTHERN CALIFORNIA**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**JUNE 30, 2019**

	2019	2018
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 1,202,280	\$ 578,098
Investments	514,093	881,528
Contract receivables, net	3,132,082	2,453,772
Prepaid expenses	204,183	64,475
<b>Total Current Assets</b>	<u>5,052,638</u>	<u>3,977,873</u>
<b>Noncurrent Assets</b>		
Property, plant and equipment, net	3,650,195	3,905,326
Security deposits	2,117	13,594
<b>Total Noncurrent Assets</b>	<u>3,652,312</u>	<u>3,918,920</u>
<b>Total Assets</b>	<u><u>\$ 8,704,950</u></u>	<u><u>\$ 7,896,793</u></u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 1,133,255	\$ 780,594
Mortgage payable, current maturities	16,697	16,163
Notes payable, current maturities	220,655	155,423
Due to government agencies	2,886,949	1,527,944
Deferred revenue	116,523	239,356
Other current liabilities	--	11,866
<b>Total Current Liabilities</b>	<u>4,374,079</u>	<u>2,731,346</u>
<b>Long-Term Liabilities</b>		
Line of credit	1,000,000	1,000,000
Mortgage payable, less current maturities	300,498	317,153
Notes payable, less current maturities	1,377,487	1,572,013
<b>Total Long-Term Liabilities</b>	<u>2,677,985</u>	<u>2,889,166</u>
<b>Total Liabilities</b>	<u>7,052,064</u>	<u>5,620,512</u>
<b>Net Assets</b>		
Without donor restrictions	579,498	1,307,442
With donor restrictions	1,073,388	968,839
<b>Total Net Assets</b>	<u>1,652,886</u>	<u>2,276,281</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 8,704,950</u></u>	<u><u>\$ 7,896,793</u></u>

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

**LUTHERAN SOCIAL SERVICES  
OF SOUTHERN CALIFORNIA AND  
LUTHERAN SOCIAL SERVICES FOUNDATION  
OF SOUTHERN CALIFORNIA**

**CONSOLIDATED STATEMENT OF ACTIVITIES AND  
CHANGES IN NET ASSETS**

**FOR THE YEAR ENDED JUNE 30, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue, Gains and Other Support</b>			
Government contracts	\$ 12,588,722	\$ --	\$ 12,588,722
Contributions	725,108	285,202	1,010,310
Fee for service	26,194	--	26,194
Rental and other income	278,808	--	278,808
Fundraising events	3,145	--	3,145
Investment income	45,179	--	45,179
Net assets released from restrictions	180,653	(180,653)	--
<b>Total Revenue, Gains and Other Support</b>	<u>13,847,809</u>	<u>104,549</u>	<u>13,952,358</u>
<b>Expenses</b>			
Program Services			
Veteran and community services	6,422,819	--	6,422,819
Counseling	4,404,327	--	4,404,327
Developmentally disabled services	331,155	--	331,155
Residential services	112,900	--	112,900
Senior companion services	241,088	--	241,088
Total Program Services	11,512,289	--	11,512,289
General and administrative	2,506,349	--	2,506,349
Fundraising	557,115	--	557,115
Total Expenses	<u>14,575,753</u>	<u>--</u>	<u>14,575,753</u>
<b>Change in Net Assets</b>	(727,944)	104,549	(623,395)
<b>Net Assets - Beginning of Year</b>	<u>1,307,442</u>	<u>968,839</u>	<u>2,276,281</u>
<b>Net Assets - End of Year</b>	<u>\$ 579,498</u>	<u>\$ 1,073,388</u>	<u>\$ 1,652,886</u>

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

**LUTHERAN SOCIAL SERVICES  
OF SOUTHERN CALIFORNIA AND  
LUTHERAN SOCIAL SERVICES FOUNDATION  
OF SOUTHERN CALIFORNIA**

**CONSOLIDATED STATEMENT OF ACTIVITIES AND  
CHANGES IN NET ASSETS**

**FOR THE YEAR ENDED JUNE 30, 2018**

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue, Gains and Other Support</b>			
Government contracts	\$ 8,563,075	\$ --	\$ 8,563,075
Contributions	1,170,260	346,890	1,517,150
Fee for service	171,737	--	171,737
Non-government contracts	155,811	--	155,811
Rental and other income	194,839	--	194,839
Fundraising events	139,604	--	139,604
Investment income	60,479	--	60,479
Net assets released from restrictions	<u>106,545</u>	<u>(106,545)</u>	<u>--</u>
<b>Total Revenue, Gains and Other Support</b>	<u>10,562,350</u>	<u>240,345</u>	<u>10,802,695</u>
<b>Expenses</b>			
Program Services			
Veteran and community services	4,524,477	--	4,524,477
Counseling	4,143,460	--	4,143,460
Developmentally disabled services	413,314	--	413,314
Residential services	155,964	--	155,964
Senior companion services	<u>77,299</u>	<u>--</u>	<u>77,299</u>
Total Program Services	9,314,514	--	9,314,514
General and administrative	2,505,835	--	2,505,835
Fundraising	<u>502,555</u>	<u>--</u>	<u>502,555</u>
<b>Total Expenses</b>	<u>12,322,904</u>	<u>--</u>	<u>12,322,904</u>
<b>Change in Net Assets</b>	(1,760,554)	240,345	(1,520,209)
<b>Net Assets - Beginning of Year</b>	<u>3,067,996</u>	<u>728,494</u>	<u>3,796,490</u>
<b>Net Assets - End of Year</b>	<u>\$ 1,307,442</u>	<u>\$ 968,839</u>	<u>\$ 2,276,281</u>

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

**LUTHERAN SOCIAL SERVICES  
OF SOUTHERN CALIFORNIA AND  
LUTHERAN SOCIAL SERVICES FOUNDATION  
OF SOUTHERN CALIFORNIA**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**

**FOR THE YEAR ENDED JUNE 30, 2019**

	Program Services						Supporting Services	Development	
	Veteran & Community Services	Counseling	Developmentally Disabled Services	Residential Services	Senior Companion Services	Total	General and Administrative	Fundraising	Total Expenses
Salaries	\$ 2,764,562	\$ 2,780,389	\$ 213,005	\$ 25,311	\$ 69,812	\$ 5,853,079	\$ 869,109	\$ 305,992	\$ 7,028,180
Employee benefits	332,019	347,710	37,201	6,950	9,295	733,175	107,680	38,062	878,917
Payroll taxes	214,570	221,395	15,804	1,674	5,110	458,553	71,714	18,902	549,169
<b>Total Personnel Expenses</b>	<u>3,311,151</u>	<u>3,349,494</u>	<u>266,010</u>	<u>33,935</u>	<u>84,217</u>	<u>7,044,807</u>	<u>1,048,503</u>	<u>362,956</u>	<u>8,456,266</u>
Program supplies	73,168	7,337	3,213	435	1,136	85,289	2,663	1,221	89,173
Client expenses	1,085,288	32,492	898	566	138,598	1,257,842	297	99	1,258,238
Professional services	1,193,730	268,400	15,877	2,568	815	1,481,390	580,348	81,142	2,142,880
Emergency assistance	--	14,476	--	60,515	--	74,991	--	--	74,991
Office expenses	30,061	19,682	1,266	599	529	52,137	14,116	7,065	73,318
Staff travel/meetings	56,980	129,939	7,472	307	528	195,226	31,228	11,941	238,395
Telephone/utilities	132,651	81,807	11,457	3,814	410	230,139	73,897	839	304,875
Rent	58,419	203,490	--	--	180	262,089	30,999	--	293,088
Maintenance	219,626	20,185	11,943	4,762	172	256,688	4,814	1,065	262,567
Volunteer costs	907	--	--	--	11,785	12,692	211	--	12,903
Information technology	50,779	17,886	1,196	60	59	69,980	6,907	25	76,912
Insurance	24,812	13,696	--	580	--	39,088	51,594	--	90,682
Interest	--	--	--	--	--	--	100,828	--	100,828
Taxes and licenses	37,566	4,190	2,536	372	14	44,678	2,084	--	46,762
Equipment rental	45,164	65,920	6,326	2,136	136	119,682	30,132	1,766	151,580
Employee expenses	6,164	1,965	252	155	1,801	10,337	7,420	1,562	19,319
Other expenses	34,379	134,496	2,709	2,096	684	174,364	3,923	62,551	240,838
Investment fees	--	--	--	--	--	--	8,045	--	8,045
Advertising	6,532	1,708	--	--	24	8,264	21,415	24,883	54,562
Provision for bad debt	--	--	--	--	--	--	300,000	--	300,000
Depreciation	55,442	37,164	--	--	--	92,606	186,925	--	279,531
<b>Total Other Expenses</b>	<u>3,111,668</u>	<u>1,054,833</u>	<u>65,145</u>	<u>78,965</u>	<u>156,871</u>	<u>4,467,482</u>	<u>1,457,846</u>	<u>194,159</u>	<u>6,119,487</u>
<b>Total Expenses</b>	<u>\$ 6,422,819</u>	<u>\$ 4,404,327</u>	<u>\$ 331,155</u>	<u>\$ 112,900</u>	<u>\$ 241,088</u>	<u>\$ 11,512,289</u>	<u>\$ 2,506,349</u>	<u>\$ 557,115</u>	<u>\$ 14,575,753</u>

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



**LUTHERAN SOCIAL SERVICES  
OF SOUTHERN CALIFORNIA AND  
LUTHERAN SOCIAL SERVICES FOUNDATION  
OF SOUTHERN CALIFORNIA**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**

**FOR THE YEAR ENDED JUNE 30, 2018**

	Program Services						Supporting Services	Development	
	Veteran & Community Services	Counseling	Developmentally Disabled Services	Residential Services	Senior Companion Services	Total	General and Administrative	Fundraising	Total Expenses
Salaries	\$ 1,994,397	\$ 2,385,380	\$ 239,259	\$ 71,321	\$ 16,520	\$ 4,706,877	\$ 1,059,920	\$ 221,344	\$ 5,988,141
Employee benefits	252,804	317,747	52,731	14,266	3,990	641,538	200,718	22,869	865,125
Payroll taxes	159,351	192,382	18,101	5,098	1,207	376,139	69,688	15,574	461,401
<b>Total Personnel Expenses</b>	<u>2,406,552</u>	<u>2,895,509</u>	<u>310,091</u>	<u>90,685</u>	<u>21,717</u>	<u>5,724,554</u>	<u>1,330,326</u>	<u>259,787</u>	<u>7,314,667</u>
Contracted services	716,778	468,710	--	--	--	1,185,488	--	--	1,185,488
Program supplies	41,989	6,935	2,994	816	--	52,734	--	--	52,734
Client expenses	55,058	12	494	--	--	55,564	--	--	55,564
Professional services	39,929	1,812	2,984	1,383	431	46,539	477,653	124,738	648,930
Emergency assistance	426,072	31,471	124	21,159	--	478,826	229	--	479,055
Office expenses	158,318	98,336	5,653	1,756	3,531	267,594	102,521	22,335	392,450
Staff travel/meetings	58,547	172,242	18,586	1,459	1,246	252,080	50,580	40,793	343,453
Telephone/utilities	114,901	93,760	12,359	19,665	217	240,902	63,275	702	304,879
Rent	42,083	208,122	--	--	600	250,805	40,463	6,050	297,318
Maintenance	117,407	9,838	19,351	6,708	--	153,304	9,342	2,574	165,220
Volunteer costs	112,588	--	--	645	48,980	162,213	251	124	162,588
Information technology	28,768	58,510	2,444	1,117	408	91,247	47,887	16,011	155,145
Insurance	42,288	28,303	12,536	6,860	36	90,023	30,490	324	120,837
Interest	--	--	--	--	--	--	88,077	--	88,077
Taxes and licenses	37,818	5,231	3,943	104	--	47,096	4,673	31	51,800
Equipment rental	13,717	12,212	1,343	2,032	--	29,304	10,280	1,200	40,784
Employee expenses	4,517	18,952	983	254	133	24,839	933	132	25,904
Other expenses	35,045	816	180	196	--	36,237	17,322	23,101	76,660
Investment fees	--	--	--	--	--	--	14,453	--	14,453
Advertising	157	19	--	--	--	176	2,696	4,653	7,525
Provision for bad debt	--	--	--	1,125	--	1,125	150,001	--	151,126
Depreciation	71,945	32,670	19,249	--	--	123,864	64,383	--	188,247
<b>Total Other Expenses</b>	<u>2,117,925</u>	<u>1,247,951</u>	<u>103,223</u>	<u>65,279</u>	<u>55,582</u>	<u>3,589,960</u>	<u>1,175,509</u>	<u>242,768</u>	<u>5,008,237</u>
<b>Total Expenses</b>	<u>\$ 4,524,477</u>	<u>\$ 4,143,460</u>	<u>\$ 413,314</u>	<u>\$ 155,964</u>	<u>\$ 77,299</u>	<u>\$ 9,314,514</u>	<u>\$ 2,505,835</u>	<u>\$ 502,555</u>	<u>\$ 12,322,904</u>

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

**LUTHERAN SOCIAL SERVICES  
OF SOUTHERN CALIFORNIA AND  
LUTHERAN SOCIAL SERVICES FOUNDATION  
OF SOUTHERN CALIFORNIA**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**FOR THE YEAR ENDED JUNE 30, 2019 AND 2018**

	2019	2018
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ (623,395)	\$ (1,520,209)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	279,531	188,247
Provision for bad debt	300,000	151,126
Net realized and unrealized gain on investments	(22,009)	(19,048)
Changes in operating assets and liabilities:		
Cash restricted for noncurrent purposes	--	(345,390)
Contract receivables	(978,310)	(928,955)
Prepaid expenses	(139,708)	(23,063)
Security deposits	11,477	(600)
Accounts payable and accrued expenses	352,661	218,961
Deferred revenue	(122,833)	180,866
Other current liabilities	(11,866)	722
Due to government agencies	1,359,005	1,642
<b>Net Cash Provided by (Used in) Operating Activities</b>	<u>404,553</u>	<u>(2,095,701)</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of property, plant and equipment	(24,400)	(260,394)
Proceeds from sale of investments	464,682	590,970
Purchase of investments	(75,238)	(26,386)
<b>Net Cash Provided by Investing Activities</b>	<u>365,044</u>	<u>304,190</u>
<b>Cash Flows from Financing Activities</b>		
Proceeds from contributions restricted for noncurrent purposes	--	345,390
Payments on mortgage payable	(16,121)	(15,566)
Payments on notes payable	(129,294)	(134,478)
Net proceeds from line of credit	--	1,000,000
<b>Net Cash (Used in) Provided by Financing Activities</b>	<u>(145,415)</u>	<u>1,195,346</u>
<b>Change in Cash and Cash Equivalents</b>	624,182	(596,165)
<b>Cash and Cash Equivalents - Beginning</b>	<u>578,098</u>	<u>1,174,263</u>
<b>Cash and Cash Equivalents - End</b>	<u>\$ 1,202,280</u>	<u>\$ 578,098</u>

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

**LUTHERAN SOCIAL SERVICES  
OF SOUTHERN CALIFORNIA AND  
LUTHERAN SOCIAL SERVICES FOUNDATION  
OF SOUTHERN CALIFORNIA**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**

**FOR THE YEAR ENDED JUNE 30, 2019 AND 2018**

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	2019	2018
<b>Supplemental Disclosure of Cash Flow Information</b>		
Interest paid	<u>\$ 100,828</u>	<u>\$ 88,077</u>
Purchase of property plant and equipment through notes payable	<u>\$ --</u>	<u>\$ 252,116</u>

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**LUTHERAN SOCIAL SERVICES  
OF SOUTHERN CALIFORNIA AND  
LUTHERAN SOCIAL SERVICES FOUNDATION  
OF SOUTHERN CALIFORNIA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

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**NOTE 1 – NATURE OF ORGANIZATION**

*NATURE OF ORGANIZATION*

The consolidated financial statements include the accounts of the Lutheran Social Services of Southern California (the Agency) and Lutheran Social Services Foundation of Southern California (the Foundation) (together, the Organization). The Foundation is a separate legal entity which was formed to support the Agency. The Agency also operates under the name LSS Community Care Centers in the counties of Los Angeles, Orange, Riverside, San Bernardino, Ventura and San Diego. Currently, all members of the Agency's Board of Directors are also members of the Board of Directors of the Foundation.

The Agency provides a variety of supportive services throughout southern California including emergency assistance, eviction and homeless prevention, food and clothing, utility assistance, senior support, mental health counseling, case management, academic support, employment services, programs for the developmentally disabled and transitional living programs and housing.

The Agency, a California nonprofit organization, is a multipurpose voluntary social service organization, which receives revenue and support from various Lutheran affiliated organizations, the Foundation and other private and governmental entities. Such support includes, but is not limited to, educating the general public and related Lutheran Church constituencies about services available through the Agency and helping develop, encourage and solicit ongoing financial support for the Agency.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*PRINCIPLES OF CONSOLIDATION*

The accompanying consolidated financial statements reflect the financial statements of the Agency and the Foundation. The directors of the Agency elect the board of directors of the Foundation. Because of common control by the Agency, the accompanying financial statements reflect the consolidated statements of the Agency and the Foundation. The Agency and the Foundation share common facilities and personnel. All inter-company transactions have been eliminated in consolidation.

**LUTHERAN SOCIAL SERVICES  
OF SOUTHERN CALIFORNIA AND  
LUTHERAN SOCIAL SERVICES FOUNDATION  
OF SOUTHERN CALIFORNIA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***BASIS OF PRESENTATION***

The accompanying consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis of accounting, revenue is recognized when earned and expenses when the related liability for goods and services is incurred, regardless of the timing of the related cash flows.

***NET ASSETS***

The financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

***NET ASSETS WITHOUT DONOR RESTRICTIONS***

Net assets without donor restrictions are resources available to support operations. The only limits on the use of these net assets are the broad limits resulting for the nature of the Organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

***NET ASSETS WITH DONOR RESTRICTIONS***

Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the Organization must continue to use the resources in accordance with the donor's instructions. When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions. Net assets with restrictions for acquisition of buildings or equipment (or less commonly, the contribution of those assets directly) are reported as net assets with donor restrictions until the specified asset is placed in service by the Organization, unless the donor provides more specific directions about the period of its use.

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*USE OF ESTIMATES*

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period in which the change is determined. Estimates are used when accounting for such items as allowance for uncollectible accounts, depreciation and amortization, amounts due to government agencies, management’s assessment of going concern, contingencies and litigation.

*CASH*

The Organization has deposits in United States financial institutions that maintain Federal Deposit Insurance Corporation (FDIC) deposit insurance on all interest and non-interest-bearing accounts, collectively, with an aggregate coverage up to \$250,000 per depositor per financial institution. At times, the amount of the deposits may exceed the FDIC limits. The portion of the deposits in excess of FDIC limits represents a credit risk of the Organization. The Organization has not realized any losses on these accounts.

*INVESTMENTS*

Investments are reported at fair value. Fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between participants at the measurement date. The fair value of investments is estimated based upon publicly quoted market prices for these or similar investments. Investment income or loss (including gains and losses on investments, interest, and dividends) is included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

Purchases and sales of securities are recorded on the trade date. Dividend income is recorded based upon the ex-dividend date. Interest income is recorded as earned on an accrual basis. Realized gains and losses are recorded upon disposition of securities, and are computed using the average cost method.

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***INVESTMENTS (CONTINUED)***

Unrealized gains or losses represent the difference between the adjusted cost and current market values of investments held at the end of the year and are reflected in the accompanying consolidated statements of activities and changes in net assets.

***CONTRACT RECEIVABLES AND REVENUE***

Government grants are recorded as receivables and revenue to the extent that expenses have been incurred for the purposes specified by the grantors. To the extent that amounts received exceed amounts spent, the Agency establishes advances from government agencies. Receivables are charged to the allowance for doubtful accounts when they are determined to be uncollectible based on a periodic review of the accounts by management. Factors used to determine whether an allowance should be recorded include the age of the receivable and a review of payments subsequent to year-end. The allowance for doubtful accounts totaled \$450,000 at June 30, 2019 and \$150,000 at June 30, 2018, respectively.

***PROPERTY, PLANT AND EQUIPMENT***

Property, plant and equipment are carried at cost or, if donated, at estimated fair value on the date of the gift. Depreciation is computed using the straight-line method over useful lives of three to ten years for equipment and furniture. Leasehold improvements are amortized on a straight line basis over the shorter of the estimated useful life of the asset or the related lease term.

The Organization capitalizes property and equipment with a cost of over \$5,000 and estimated useful life of 1 year or more. Expenditures or betterments that materially increase asset lives are capitalized. Ordinary repairs and maintenance are charged to operations as incurred. When assets are sold or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is included in operations.

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***IMPAIRMENT OF LONG-LIVED ASSETS***

The Organization evaluates whether there has been an impairment in value of its long-lived assets if certain circumstances indicate that a possible impairment may exist. An impairment in value may exist when the carrying value of a long-lived asset exceeds its undiscounted cash flows. If it is determined that an impairment in value has occurred, the carrying value is written down to its fair value as determined by a discounted cash flow model. There were no impairments of long-lived assets in 2019 or 2018.

***CONTRIBUTIONS AND REVENUE RECOGNITION***

Contributions, including unconditional promises to give are recorded as revenue and support with or without donor restrictions depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions. Conditional promises to give are recognized when the conditions upon which they depend are substantially met.

Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at present value of estimated cash flows after an allowance for estimated uncollectible contributions is provided. The discounts on these amounts are computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue.

***DONATED MATERIALS, EQUIPMENT AND SERVICES***

*Materials and Equipment* - Donations of materials and equipment are recorded at their estimated fair value on the date of the donation. Such donations are reported as unrestricted support unless the donor has restricted the donated materials and equipment to a specific purpose. Materials and equipment donated with explicit restrictions regarding their use are reported as restricted support. There were no donated materials, equipment and services received by the Organization in 2019 or 2018.



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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***DONATED MATERIALS, EQUIPMENT AND SERVICES (CONTINUED)***

*Services* - Under FASB ASC 958-605-50, *Accounting for Contributions Received and Contributions Made*, donated services are recognized if the services received create or enhance nonfinancial assets or require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. For the fiscal years ended June 30, 2019 and 2018, the Agency and Foundation did not receive any donated services.

***EXPENSE RECOGNITION AND ALLOCATION***

The cost of providing the Organization's various programs and other activities is summarized on a functional basis in the statements of activities and statements of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited using an allocation method that is consistently applied as follows:

- All developmentally disabled service programs under the Department of Behavioral Health (DBH) allocate costs based on the amounts billable under each program to all amounts billable under all DBH programs.
- Insurance and other expenses shared by all employees including office supplies and equipment and information technology supplies are allocated using the full-time equivalent (FTE) of each program to the total number of FTE's served by all of the Organization's programs.
- Administrative overhead is charged to each program based on the ratio of expenses of each program to the expenses of all programs not to exceed the federal indirect cost rate.

General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Organization.

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***OPERATING AND NON-OPERATING ACTIVITIES***

Operating revenue and expenses reflect activities in which the Organization engages in order to fulfill its mission. Non-operating activities represent expenses incurred and revenue received outside the program activities. Investment income, including interest and dividends, capital gains and realized and unrealized losses are considered to be non-operating.

***OPERATING LEASES***

Operating lease expense has been recorded on the straight-line basis over the life of the lease in accordance with GAAP. Deferred rent, when considered material, has been recorded for the difference between the fixed payment per the lease agreement and the rent expense under GAAP.

***INCOME TAXES***

The Agency and the Foundation are nonprofit corporations, under section 501(c)(3) of the Internal Revenue Code (IRC) and related California law. The Agency is classified as a public charity as described under sections 509(a)(1) and 170(b)(1)(A)(i) as an integrated auxiliary of a Church. It is an affiliated social ministry organization included in a group ruling issued to the Evangelical Lutheran Church in America (the Church) located in Chicago, Illinois, and has been granted a group exemption number.

The Agency has not been required to file federal and state exempt organization tax returns since its inception because of its religious affiliation. The taxing authorities have not challenged the Agency's tax position and are not expected to do so in the future absent materially changed circumstances.

The Agency's and the Foundation's revenue is derived primarily from government grants, investment income, contributions and other fundraising activities and are not subject to federal or state income taxes. The Agency and the Foundation do not pay any excise taxes nor do they earn any unrelated business income. Therefore, no provision for taxes was made. The Agency is subject to routine audits by taxing jurisdictions, however, there are currently no audits for any tax periods pending or in progress.

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***INCOME TAXES (CONTINUED)***

Generally accepted accounting principles provides accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Foundation in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Foundation is subject to routine audits by taxing jurisdictions, however, there are currently no audits for any tax periods pending or in progress.

***ADVERTISING***

Advertising costs are expensed as incurred and included in the statement of functional expenses. Advertising expenses for the years ended June 30, 2019 and 2018 amounted to \$54,562 and \$7,525, respectively, for the Agency and there were none for Foundation.

***RECLASSIFICATION***

Certain 2018 amounts have been reclassified to conform with the 2019 financial statement presentation.

***CHANGE IN ACCOUNTING PRINCIPLES***

The Organization implemented Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* in the current year, applying the changes retrospectively. The new standard changes the following aspects of the financial statements:

- Temporarily restricted and permanently restricted net asset classes are combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The financial statements include a note disclosure about liquidity and availability of resources (Note 3).
- Functional expenses are required to be presented within either the statement of activities, as a separate financial statement, or within the notes to the financial statements.

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**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS***

The Financial Accounting Standards Board (FASB) issued Accounting Standards Updated (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606) that eliminates the transaction-specific and industry-specific revenue recognition guidance under current U.S. Generally Accepted Accounting Principles (U.S. GAAP) and replaces it with a principle-based approach for determining revenue recognition. The core principle of this new standard is to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB also issued ASU 2015-14 that deferred the effective date of ASU 2014-09. The guidance is applicable to the Organization for the year ended June 30, 2020. Management is currently evaluating the impact of this new guidance, but does not currently anticipate that it will materially affect the financial statements.

In February 2015, the FASB issued ASU 2016-02, *Leases* (Topic 842) (ASU 2016-02). ASU 2016-02 requires that a lessee generally recognize assets and liabilities from all leases. A lessee should recognize in the statement of financial position a liability to make lease payment (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. Nonpublic business entities should apply the amendments for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. Early application is permitted for all nonpublic business entities upon issuance. Management is currently evaluating the impact of ASU 2016-02 but does not believe it will be material to the financial statements.

In November 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. ASU 2016-18 requires restricted cash to be included within beginning and ending total cash amounts reported in the statement of cash flows. Disclosure of the nature of the restrictions on cash balances is required under the guidance. Although this standard is effective for fiscal years beginning after December 31, 2018, the Organization early adopted the guidance in 2018. Management has determined that there was no effect on the financial statements.

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**NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES**

The Organization monitors its liquidity so that it is able to meet its operating needs and other contractual commitments. Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2019 are as follows:

Financial assets	
Cash and cash equivalents	\$ 1,202,280
Investments	514,093
Contract receivables	<u>3,132,082</u>
	4,848,455
Less financial assets held to meet donor-imposed restrictions	
Restricted by donors with time or purpose restrictions	(1,013,388)
Restricted by donors in perpetuity	<u>(60,000)</u>
Total financial assets available to meet cash needs	
for general expenditures within one year.	<u>\$ 3,775,067</u>

As part of the Organization's liquidity management plan, cash in excess of daily requirements are in short term investments. The Organization maintains a line of credit of \$1,000,000 to cover short-term cash needs. At June 30, 2019, the Organization has \$1,000,000 outstanding on the line of credit. Subsequent to June 30, the line of credit was paid off and a new line of credit in the amount of \$960,000 was obtained by the Organization (Note 15). Such amount remains available to draw down as of the date of this report

**NOTE 4 – INVESTMENTS**

***MARKETABLE SECURITIES***

The Foundation accounts for investments in marketable securities under FASB ASC 958-320, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. In accordance with FASB ASC 958-320, investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with realized and unrealized gains and losses included in the statement of activities.

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**NOTE 4 – INVESTMENTS (CONTINUED)**

*MARKETABLE SECURITIES (CONTINUED)*

Investments consist of the following at June 30:

	2019	2018
Money market funds	\$ 11,644	\$ 19,054
Mutual funds:		
Equities	172,299	297,222
Fixed income	259,133	446,029
Exchange traded products:		
Equities	29,631	36,262
Fixed income	41,386	82,961
	\$ 514,093	\$ 881,528

Investment income consists of the following for the year ended June 30:

	2019	2018
Interest and dividends	\$ 23,170	\$ 41,431
Net realized gains	20,231	64,320
Net unrealized gains (losses)	1,778	(45,272)
	\$ 45,179	\$ 60,479

Investment advisory fees amounted to \$8,045 in 2019 and \$14,453 in 2018.

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**NOTE 4 – INVESTMENTS (CONTINUED)**

***FAIR VALUE MEASUREMENTS***

The Foundation follows the guidance set forth by FASB ASC 820, *Fair Value Measurements*, which establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value as follows. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identified assets or liabilities (Level 1) and the lowest priority to unobservable outputs (Level 3). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

- Level 1 Fair value determined based on quoted prices in active markets for identical assets or liabilities.
- Level 2 Fair value determined using significant observable inputs, generally either quoted prices in active markets for similar assets or liabilities or quoted prices in markets that are not active.
- Level 3 Fair value determined using significant unobservable inputs, such as pricing models, discounted cash flows or similar techniques.

The assets or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The Agency and Foundation's financial instruments measured at fair value on a recurring basis are summarized below:

	Fair Value Hierarchy	Fair Value	
		2019	2018
Money market funds	Level 1	\$ 11,644	\$ 19,054
Mutual funds	Level 1	431,432	743,251
Exchange traded products	Level 1	71,017	119,223
		<u>\$ 514,093</u>	<u>\$ 881,528</u>

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**NOTE 5 – CONTRACT RECEIVABLES**

Contract receivables represent amounts due from various governmental agreements wherein services are performed under the contractual program guidelines. The amounts reflected as contract receivables are amounts due for services performed and billed under the terms of the contracts. For the years ended June 30, 2019 and 2018, the recorded allowance for uncollectible accounts receivable totaled \$450,000 and \$150,000, respectively.

The total contract receivables as of June 30, 2019 and 2018, without regard to those amounts reserved in the allowance for doubtful accounts, was \$3,582,082 and \$2,603,772, respectively.

**NOTE 6 – PROPERTY, PLANT AND EQUIPMENT**

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

	2019	2018
Land	\$ 1,475,962	\$ 1,475,962
Buildings and improvements	3,411,475	3,402,825
Automobiles	115,783	100,033
Equipment and furniture	<u>507,801</u>	<u>507,801</u>
	5,511,021	5,486,621
Less accumulated depreciation	<u>1,860,826</u>	<u>1,581,295</u>
	<u><u>\$ 3,650,195</u></u>	<u><u>\$ 3,905,326</u></u>

Depreciation expense totaled \$279,531 and \$188,247 for the years ended June 30, 2019 and 2018, respectively.



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**NOTE 7 – LINE OF CREDIT**

In April 2018, the Agency renewed its line of credit agreement with the Lutheran Church Extension Fund – Missouri Synod (LCEF) for up to \$1,000,000. The loan bears interest at an initial variable rate of 4.5% which can change each May 20, through the maturity date of April 20, 2021 (4.875% at June 30, 2019) based on the lenders cost of funds as defined in the agreement. Payments of interest only are required beginning May 20, 2018 and any unpaid principal on the note, together with accrued but unpaid interest are due at the maturity date. The line of credit is secured by a security instrument dated April 20, 2018 in certain assets of the Agency. The balance outstanding at June 30, 2019 and 2018 was \$1,000,000. In January 2020, the \$1,000,000 was paid in full (Note 15). In August 2019, the Organization entered into a new line of credit agreement with LCEF with a credit limit of \$960,000 and an initial interest rate of 4.75%.

**NOTE 8 – MORTGAGE AND NOTES PAYABLE LIABILITIES**

Mortgages and notes payable consist of the following at June 30:

	2019	2018
<i>Mortgage Payable</i>		
4% payable to Lutheran Church Extension Fund, secured by real estate payable in monthly installments of principal and interest of \$2,436 through September 2033.	\$ 317,195	\$ 333,316
<i>Notes Payable</i>		
5.5% unsecured note payable to Lutheran Church Extension Fund, with monthly payments of principal and interest of \$1,093 through January 2024.	53,697	63,563
4.125% payable to Mission Investment Fund of the Evangelical Lutheran Church in Americal (ELCA) , secured by selected assets of the Organization, with monthly payments of principal and interest of \$2,558 through September 2029.	255,993	275,686

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**NOTE 8 – MORTGAGE AND NOTES PAYABLE LIABILITIES (CONTINUED)**

	2019	2018
<i>Notes Payable (continued)</i>		
3.0% payable to Mission Investment Fund of the ELCA, secured by selected assets of the Organization, payable in monthly installments of principal and interest of \$7,422 through March 2035.	\$ 1,113,215	\$ 1,167,989
0.0% - 5.24% loans payable to Yucca Valley Ford, secured by vehicles, payable in monthly installments of principal and interest ranging from \$238 to \$492 with maturity dates through January 2022.	26,997	38,369
7.53% to 9.51% equipment and software loans payable secured by certain assets, payable in monthly installments of principal and interest ranging from \$752 to \$3,805 with maturity dates through September 2022.	148,240	181,829
	1,915,337	2,060,752
Less current maturities	237,352	171,586
Mortgages and notes payable, net of current maturities	\$ 1,677,985	\$ 1,889,166

Maturities of mortgage and notes payable liabilities subsequent to June 30, 2019 are as follows:

2020	\$ 237,352
2021	139,906
2022	130,240
2023	114,627
2024	106,215
Thereafter	1,186,997
	\$ 1,915,337

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**NOTE 9 – DUE TO GOVERNMENT AGENCIES**

At June 30, 2019 and 2018, the Agency had a total liability of \$2,886,949 and \$1,527,944 due to government agencies, representing net overpayments received by the Agency for its programs. In November 2019, the Agency was notified by the San Bernardino County department of Children and Family Services (CFS), that it is required to reimburse the County \$2,884,716 for the fiscal 2019 year. In conjunction with the annual closeout, the agency has recorded a receivable due from the government of \$394,913. The Agency has negotiated payments with CFS to make payments of \$400,000 per month beginning May 2020 until such amount is paid in full.

**NOTE 10 – COMMITMENTS**

***OPERATING LEASES***

The Agency is party to various lease agreements for the main office and other locations totaling nine sites where they conduct their programs. Monthly payments on the leases range from \$292 to \$4,988 and mature at various dates through April 2022. Certain of the lease agreements are currently on a month-to-month basis.

The Agency also leases vehicles under operating leases. Monthly payments on these leases range from \$248 to \$464 and mature at various dates between May 2019 and February 2021.

The Agency leases various office equipment under operating leases. Monthly payments range from \$38 to \$395 and mature at various dates between December 2019 and September 2022.

Future minimum lease payments are as follows:

	Office Space	Vehicles	Equipment	Total
2020	\$ 116,379	\$ 73,595	\$ 35,220	\$ 225,194
2021	21,500	48,276	30,325	100,101
2022	18,500	37,657	22,259	78,416
2023	3,500	1,502	2,086	7,088
2024	49,000	--	--	49,000
	<u>\$ 208,879</u>	<u>\$ 161,030</u>	<u>\$ 89,890</u>	<u>\$ 459,799</u>

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**NOTE 10 – COMMITMENTS (CONTINUED)**

***FUNDING AGENCIES***

The Agency has contracted with various funding agencies to perform services and receive reimbursements from state and county governments. Reimbursement received under these contracts and payments are subject to audit by the governing agencies. Upon audit, if discrepancies are discovered, the Agency could be held responsible for refunding the amounts in question. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered. These amounts are adjusted in future periods as adjustments become finalized or as the years are no longer subject to audits, reviews and investigations. The grant and contract provisions for the programs that the Agency participates are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near future.

Laws and regulations governing Medicaid and other programs that the Agency participates in are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

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**NOTE 11 – NET ASSETS WITH DONOR RESTRICTIONS**

At June 30, net assets with donor restrictions are available for the following purposes or periods:

	2019			2018		
	Agency	Foundation	Total	Agency	Foundation	Total
Purpose Restrictions, available for spending						
San Diego County programs	\$ 68,021	\$ --	\$ 68,021	\$ 237,043	\$ --	\$ 237,043
Kern County/Bakersfield programs	121,712	--	121,712	121,712	--	121,712
Senior housing and companion program	--	38,316	38,316	--	38,316	38,316
Housing counseling	4,850	--	4,850	--	--	--
Central City men's shelter	373,337	--	373,337	345,390	--	345,390
Lutheran Pastor's assistance	--	218,217	218,217	--	166,378	166,378
San Fernando Valley programs	--	20,000	20,000	--	20,000	20,000
Inland Empire programs	--	40,000	40,000	--	40,000	40,000
Long Beach programs	135,000	--	135,000	--	--	--
Disaster relief	53,935	--	53,935	--	--	--
Total net assets with donor restrictions	<u>\$ 756,855</u>	<u>\$ 316,533</u>	<u>\$ 1,073,388</u>	<u>\$ 704,145</u>	<u>\$ 264,694</u>	<u>\$ 968,839</u>

Changes in net assets with donor restrictions for the years ended June 30, 2019 and 2018 were as follows:

	Agency	Foundation	Total
Balance at June 30, 2017:	\$ 445,456	\$ 283,038	\$ 728,494
Contributions	345,390	1,500	346,890
Amounts released from restrictions	<u>(86,701)</u>	<u>(19,844)</u>	<u>(106,545)</u>
Net assets with donor restrictions at June 30, 2018	704,145	264,694	968,839
Contributions	221,732	63,470	285,202
Amounts released from restrictions	<u>(169,022)</u>	<u>(11,631)</u>	<u>(180,653)</u>
Net assets with donor restrictions at June 30, 2019	<u>\$ 756,855</u>	<u>\$ 316,533</u>	<u>\$ 1,073,388</u>

**LUTHERAN SOCIAL SERVICES  
OF SOUTHERN CALIFORNIA AND  
LUTHERAN SOCIAL SERVICES FOUNDATION  
OF SOUTHERN CALIFORNIA**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

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**NOTE 12 – PENSION PLAN**

Effective January 1, 1996, the Agency adopted a defined contribution pension plan under IRC 403(b) for all employees with one year of service and a minimum work schedule of one thousand (1,000) hours per year. Upon becoming an eligible participant in the Lutheran Social Services of Southern California Tax Deferred Annuity Plan (the Plan), the Agency will make required contributions equal to 3% of the employees' compensation. Additionally, the employees can, at their option, invest an additional 5% of their salary and the Agency will match an additional contribution of 1%.

Total cost for the Plan charged to expense amounted to \$139,942 and \$114,328 for the years ended June 30, 2019 and 2018, respectively.

**NOTE 13 – RELATED PARTY TRANSACTIONS**

By virtue of its Articles of Incorporation, cash and other assets held by the Foundation are dedicated for various purposes. Generally, unless specifically unrestricted in nature, contributions and funds received are temporarily restricted and the Foundation is responsible for holding, investing and managing the funds and assets until such time as they are used for their intended purposes. The Foundation's Board of Directors has the responsibility and authority to designate and grant a portion or all of the annual earnings to the Agency or to acquire assets which must be dedicated to Agency programs and services. For the years ended June 30, 2019 and 2018, the Foundation did not make any donations to the Agency.

**NOTE 14 – RISK CONCENTRATION**

The Agency derived approximately 85% and 79% of its revenues from the federal government for the years ended June 30, 2019 and 2018, respectively. While each federal program individually may not pose a threat of a severe impact on the Organization, the concentration of federal government funding as a whole might reasonably make the Organization vulnerable to financial risk in the event such federal funding is materially decreased.

**LUTHERAN SOCIAL SERVICES  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

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**NOTE 15 – SUBSEQUENT EVENTS**

In January 2020, the Agency sold one of its properties for total consideration of \$2,500,000. Approximately \$1.3 million of the proceeds were used to pay off its mortgage and line of credit to the Lutheran Church Extension Fund (Notes 7 and 8).

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic which continues to spread throughout the United States. The Organization is monitoring the outbreak of COVID-19 and the related business and travel restrictions and changes to behavior intended to reduce its spread, and its impact on operations, financial position, cash flows, patient admission trends, payments for services, and the industry in general, in addition to the impact on its employees. Due to the rapid development and fluidity of this situation, the magnitude and duration of the pandemic and its impact on the Organization's operations and liquidity is uncertain as of the date of this report. While there could ultimately be a material impact on operations and liquidity of the Organization, at the time of issuance, the impact could not be determined.

In April 2020, as a result of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, the Agency received a Paycheck Protection Program (PPP) loan in the amount of \$1,500,000. All or a portion of the PPP loan may be eligible to be forgiven by the U.S. Small Business Administration (SBA) and the lender upon application by the Organization, provided that the Organization shall have used the loan proceeds for eligible purposes, including the payment of payroll, benefits, rent, mortgage interest and utilities, during the 24 week period beginning on the date of the original funding of the loan. Management believes that it will meet the program requirements and that the loan will be forgiven under the program guidelines.

Management has evaluated all events or transactions that occurred after June 30, 2019 through September 4, 2020, which is the date that the financial statements were available to be issued. Except as described above, there were no other subsequent events that required recognition or additional disclosure in these financial statements.

**LUTHERAN SOCIAL SERVICES  
OF SOUTHERN CALIFORNIA AND  
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OF SOUTHERN CALIFORNIA**

**CONSOLIDATING SCHEDULE OF FINANCIAL POSITION**

**JUNE 30, 2019**

	Agency	Foundation	Eliminations	Total
<b>Assets</b>				
<b>Current Assets</b>				
Cash	\$ 1,185,502	\$ 16,778	\$ --	\$ 1,202,280
Investments	--	514,093	--	514,093
Contract receivables, net	3,132,082	--	--	3,132,082
Intercompany receivable	386,010	455,561	(841,571)	--
Prepaid expenses	204,183	--	--	204,183
<b>Total Current Assets</b>	<u>4,907,777</u>	<u>986,432</u>	<u>(841,571)</u>	<u>5,052,638</u>
<b>Property, Plant and Equipment</b>				
Land	724,462	751,500	--	1,475,962
Buildings and building improvements	2,979,708	431,767	--	3,411,475
Automobiles	115,783	--	--	115,783
Equipment and furniture	501,732	6,069	--	507,801
	4,321,685	1,189,336	--	5,511,021
Less accumulated depreciation	<u>1,703,354</u>	<u>157,472</u>	<u>--</u>	<u>1,860,826</u>
<b>Total Property, Plant and Equipment, net</b>	<u>2,618,331</u>	<u>1,031,864</u>	<u>--</u>	<u>3,650,195</u>
<b>Other Assets</b>				
Security deposits	2,117	--	--	2,117
<b>Total Other Assets</b>	<u>2,117</u>	<u>--</u>	<u>--</u>	<u>2,117</u>
<b>Total Assets</b>	<u>\$ 7,528,225</u>	<u>\$ 2,018,296</u>	<u>\$ (841,571)</u>	<u>\$ 8,704,950</u>

*See independent auditors' report.*



**LUTHERAN SOCIAL SERVICES  
OF SOUTHERN CALIFORNIA AND  
LUTHERAN SOCIAL SERVICES FOUNDATION  
OF SOUTHERN CALIFORNIA**

**CONSOLIDATING SCHEDULE OF FINANCIAL POSITION (CONTINUED)**

**JUNE 30, 2019**

	Agency	Foundation	Eliminations	Total
<b>Liabilities and Net Assets</b>				
<b>Current Liabilities</b>				
Accounts payable and accrued expenses	\$ 1,133,245	\$ 10	\$ --	\$ 1,133,255
Mortgage payable, current maturities	16,697	--	--	16,697
Notes payable, current maturities	220,655	--	--	220,655
Due to government agencies	2,886,949	--	--	2,886,949
Deferred revenue	116,523	--	--	116,523
Intercompany payable	455,561	386,010	(841,571)	--
<b>Total Current Liabilities</b>	<u>4,829,630</u>	<u>386,020</u>	<u>(841,571)</u>	<u>4,374,079</u>
<b>Long-Term Liabilities</b>				
Line of credit	1,000,000	--	--	1,000,000
Mortgage payable, less current maturities	300,498	--	--	300,498
Notes payable, less current maturities	1,377,487	--	--	1,377,487
<b>Total Long Term Liabilities</b>	<u>2,677,985</u>	<u>--</u>	<u>--</u>	<u>2,677,985</u>
<b>Total Liabilities</b>	<u>7,507,615</u>	<u>386,020</u>	<u>(841,571)</u>	<u>7,052,064</u>
<b>Net Assets</b>				
Without donor restrictions	(736,245)	1,315,743	--	579,498
With donor restrictions	756,855	316,533	--	1,073,388
<b>Total Net Assets</b>	<u>20,610</u>	<u>1,632,276</u>	<u>--</u>	<u>1,652,886</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 7,528,225</u>	<u>\$ 2,018,296</u>	<u>\$ (841,571)</u>	<u>\$ 8,704,950</u>

*See independent auditors' report.*

**LUTHERAN SOCIAL SERVICES  
OF SOUTHERN CALIFORNIA AND  
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**CONSOLIDATING SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS**

**FOR THE YEAR ENDED JUNE 30, 2019**

	Agency	Foundation	Eliminations	Total
<b>Activities Without Donor Restrictions</b>				
<b>Revenue, Gains and Other Support</b>				
Government contracts	\$ 12,588,722	\$ --	\$ --	\$ 12,588,722
Contributions	725,108	--	--	725,108
Fee for service	26,194	--	--	26,194
Rental and other income	278,808	--	--	278,808
Fundraising events	3,145	--	--	3,145
Investment income	26,226	18,953	--	45,179
Net assets released from restrictions	<u>169,022</u>	<u>11,631</u>	<u>--</u>	<u>180,653</u>
<b>Total Revenue, Gains and Other Support Without Donor Restrictions</b>	<u>13,817,225</u>	<u>30,584</u>	<u>--</u>	<u>13,847,809</u>
<b>Expenses</b>				
Program Services				
Veteran and community services	6,422,819	--	--	6,422,819
Counseling	4,404,327	--	--	4,404,327
Developmentally disabled services	331,155	--	--	331,155
Residential services	112,900	--	--	112,900
Senior companion services	<u>241,088</u>	<u>--</u>	<u>--</u>	<u>241,088</u>
Total Program Services	11,512,289	--	--	11,512,289
General and administrative	2,486,944	19,405	--	2,506,349
Fundraising	<u>557,115</u>	<u>--</u>	<u>--</u>	<u>557,115</u>
<b>Total Expenses</b>	<u>14,556,348</u>	<u>19,405</u>	<u>--</u>	<u>14,575,753</u>
<b>Changes in Net Assets Without Donor Restrictions</b>	(739,123)	11,179	--	(727,944)
<b>Activities With Donor Restrictions</b>				
Revenue and support				
Contributions	221,732	63,470	--	285,202
Net assets released from restrictions	<u>(169,022)</u>	<u>(11,631)</u>	<u>--</u>	<u>(180,653)</u>
<b>Changes in Net Assets With Donor Restrictions</b>	<u>52,710</u>	<u>51,839</u>	<u>--</u>	<u>104,549</u>
<b>Change in Net Assets</b>	<u>\$ (686,413)</u>	<u>\$ 63,018</u>	<u>\$ --</u>	<u>\$ (623,395)</u>

*See independent auditors' report.*

**LUTHERAN SOCIAL SERVICES  
OF SOUTHERN CALIFORNIA AND  
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OF SOUTHERN CALIFORNIA**

**CONSOLIDATING SCHEDULE OF ACTIVITIES AND CHANGES IN NET ASSETS**

**FOR THE YEAR ENDED JUNE 30, 2018**

	Agency	Foundation	Eliminations	Total
<b>Activities Without Donor Restrictions</b>				
<b>Revenue, Gains and Other Support</b>				
Government contracts	\$ 8,563,075	\$ --	\$ --	\$ 8,563,075
Contributions	1,168,760	1,500	--	1,170,260
Fee for service	171,737	--	--	171,737
Non-government contracts	155,811	--	--	155,811
Rental and other income	194,839	--	--	194,839
Fundraising events	139,604	--	--	139,604
Investment income	26,666	33,813	--	60,479
Net assets released from restrictions	<u>86,701</u>	<u>19,844</u>	<u>--</u>	<u>106,545</u>
<b>Total Revenue, Gains and Other Support Without Donor Restrictions</b>	<u>10,507,193</u>	<u>55,157</u>	<u>--</u>	<u>10,562,350</u>
<b>Expenses</b>				
Program Services				
Veteran and community services	4,524,477	--	--	4,524,477
Counseling	4,143,460	--	--	4,143,460
Developmentally disabled services	413,314	--	--	413,314
Residential services	155,964	--	--	155,964
Senior companion services	<u>77,299</u>	<u>--</u>	<u>--</u>	<u>77,299</u>
Total Program Services	9,314,514	--	--	9,314,514
General and administrative	2,230,412	275,423	--	2,505,835
Fundraising	<u>502,555</u>	<u>--</u>	<u>--</u>	<u>502,555</u>
<b>Total Expenses</b>	<u>12,047,481</u>	<u>275,423</u>	<u>--</u>	<u>12,322,904</u>
<b>Changes in Net Assets Without Donor Restrictions</b>	(1,540,288)	(220,266)	--	(1,760,554)
<b>Activities With Donor Restrictions</b>				
Revenue and support				
Contributions	345,390	1,500	--	346,890
Net assets released from restrictions	<u>(86,701)</u>	<u>(19,844)</u>	<u>--</u>	<u>(106,545)</u>
<b>Change in Net Assets With Donor Restrictions</b>	<u>258,689</u>	<u>(18,344)</u>	<u>--</u>	<u>240,345</u>
<b>Change in Net Assets</b>	<u>\$ (1,281,599)</u>	<u>\$ (238,610)</u>	<u>\$ --</u>	<u>\$ (1,520,209)</u>

*See independent auditors' report.*

**LUTHERAN SOCIAL SERVICES  
OF SOUTHERN CALIFORNIA AND  
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OF SOUTHERN CALIFORNIA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED JUNE 30, 2019**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Agency or Passed-Through Number	Paid to Subrecipients	Federal Expenditures
<u>Federal Emergency Management Agency (FEMA)</u>				
<u>Passed through United Way of America</u>				
Emergency Food and Shelter National Board Program - Ventura County (EFSP Phase 35)	97.024	N/A	\$ --	\$ 30,683
Emergency Food and Shelter National Board Program - San Bernardino County (EFSP Phase 33)	97.024	N/A	--	30,000
FEMA Expenditures			--	60,683
<u>U.S. Department of Housing and Urban Development (HUD)</u>				
<u>Passed through City of San Bernardino City Dept. of Public Service</u>				
HUD II - Continuum of Care (CoC) Permanent Housing for Homeless (HIV/AIDS)	14.235	CA 0938L9D091809	--	94,415
<u>Passed through County of Ventura</u>				
Supportive Housing Program - CoC - Rapid Re-Housing	14.235	CA 1619L9D111802	--	181,465
			--	275,880
<u>Passed through City of San Bernardino</u>				
Emergency Solutions Grant - Public Service Program	14.231	ESG2016.003	--	207,126
City of San Bernardino (CDBG)	14.231	E18-MC-06-0539	--	99,357
<u>Passed through County of Ventura</u>				
Emergency Solutions Grant - Homeless Emergency Assistance	14.231	SE182131102	--	16,476
<u>Passed through City of Riverside Economic Development Agency</u>				
Emergency Solutions Grant - Homeless Emergency Assistance - DPSS	14.231	6.143-15	--	10,121
Emergency Solutions Grant - Homeless Emergency Assistance	14.231	6.143-15	--	29,692
<u>Passed through City of Long Beach</u>				
Emergency Solutions Grant - Homeless Emergency Assistance	14.231	34426	--	40,262
			--	403,034
<u>Passed through Foothill Aids Project from City of Riverside</u>				
Housing Opportunities for persons with AIDS	14.241	FAPLSS 18-19	--	35,516
Crime Victim Assistance - OES Emergency Service	16.575	KD 17 01 1201	--	368,524
<u>CDBG - Entitlement Grants Cluster</u>				
<u>Passed through City of Santee</u>				
Caring Neighbors Community Development Block Grant (CDBG)	14.218	N/A	--	3,260
U.S. Department of Housing and Urban Development Expenditures			--	1,086,214

*See notes to the Schedule of Expenditures of Federal Awards.*

**LUTHERAN SOCIAL SERVICES  
OF SOUTHERN CALIFORNIA AND  
LUTHERAN SOCIAL SERVICES FOUNDATION  
OF SOUTHERN CALIFORNIA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)**

**FOR THE YEAR ENDED JUNE 30, 2019**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Agency or Passed-Through Number	Paid to Subrecipients	Federal Expenditures
<u>U.S. Department of Education</u>				
<u>TRIO Cluster</u>				
TRIO-Talent Search	84.044	P044A 160507	\$ --	\$ 43,961
TRIO-Talent Search	84.044	P044A 160507	--	207,220
TRIO-Upward Bound	84.047	P047A 171106	--	50,934
TRIO-Upward Bound	84.047	P047A 171106	--	217,812
U.S. Department of Education Expenditures			--	519,927
<u>U.S. Department of Health and Human Services (DHHS)</u>				
<u>Medicaid cluster</u>				
<u>Passed through County of San Bernardino</u>				
GMH (Medical Assistance Program)	93.778	13-441	--	249,539
WRAP-EPSDT (Medical Assistance Program)	93.778	11-360	--	1,175,942
ABET/FSP (Medical Assistance Program)	93.778	13-572	--	76,951
TBS (Medical Assistance Program)	93.778	11-354	--	81,531
ELIS (Medical Assistance Program)	93.778	13-566	--	306,552
			--	1,890,515
CAPTS (Promoting Safe and Stable Families)	93.556	T-1454-016-16	--	4,235
<u>477 Cluster</u>				
<u>Passed through County of Los Angeles Dept. of Health Services</u>				
Community Services Block Grant	93.569	78635	--	583,600
DHHS Expenditures			--	2,478,350
<u>U.S. Department of Transportation (DOT)</u>				
<u>Transit Services Programs Cluster</u>				
<u>Passed through OMNITrans</u>				
Enhanced Mobility for Seniors and Individuals with Disabilities	20.513	64A018-00784	--	31,286
Job Access and Reverse Commute Program	20.516	CA-37-X146	--	67,098
New Freedom Program	20.521	CA-57-X062	--	13,194
U.S. DOT Expenditures			--	111,578
<u>Corporation for National and Community Services (CFNCS)</u>				
<u>Foster Grandparent/Senior Companion Cluster</u>				
CNCS (Federal Senior Companion Program)	94.016	15SCPCA005	--	192,534
CFNCS Expenditures			--	192,534
Total Expenditures of Federal Awards			\$ --	\$ 4,449,286

*See notes to the Schedule of Expenditures of Federal Awards.*

**LUTHERAN SOCIAL SERVICES  
OF SOUTHERN CALIFORNIA AND  
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**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED JUNE 30, 2019**

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**NOTE 1 – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the SEFA) includes the federal award activity of Lutheran Social Services of Southern California (the Agency) under programs of the federal government for the year ended June 30, 2019. The information in this SEFA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a selected portion of the operations of the Agency, it is not intended to and does not present the financial position, activities, functional expenses or cash flows of the Agency.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**NOTE 3 – INDIRECT COST RATE**

The Agency did not elect the use of the 10-percent de minimis indirect cost rate 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 Southern California  
And Lutheran Social Services Foundation of Southern 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 financial statements of Lutheran Social Services of Southern California and Lutheran Services Foundation of Southern California (collectively, the Organization), a nonprofit organization, which comprise the consolidated statements of financial position as of June 30, 2019, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 4, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Organization'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2019-001 and 2019-002 to be material weaknesses.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses or schedule of findings and questioned costs as items 2019-001 and 2019-002 that we consider to be material weaknesses

### ***Compliance and Other Matters***

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

### ***The Organization's Response to Findings***

The Organization's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization'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 of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Hartford, CT  
September 4, 2020



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH  
MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors of  
**Lutheran Social Services of Southern California**

**Report on Compliance for Each Major Federal Program**

We have audited Lutheran Social Services of Southern California's (LSSSC) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the LSSSC's major federal program for the year ended June 30, 2019. LSSSC's major federal program is 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for LSSSC's major federal program 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 audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 occurred. An audit includes examining, on a test basis, evidence about LSSSC'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 LSSSC's compliance.

### ***Opinion on Major Federal Program***

In our opinion, LSSSC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2019.

### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2019-003. Our opinion on the major federal program is not modified with respect to this matter.

LSSSC's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. LSSSC'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 LSSSC 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 LSSSC's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its 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 LSSSC'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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified.

We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a deficiency in internal control over compliance, described in 2019-003 that we consider to be a significant deficiency.

LSSSC's response to the internal control over the compliance finding in our audit is described in the accompanying schedule of findings and questioned costs. LSSSC's response was not subject 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.

*Marcum LLP*

Hartford, CT  
September 4, 2020

**LUTHERAN SOCIAL SERVICES  
OF SOUTHERN CALIFORNIA AND  
LUTHERAN SOCIAL SERVICES FOUNDATION  
OF SOUTHERN CALIFORNIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE YEAR ENDED JUNE 30, 2019**

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**SECTION I – SUMMARY OF AUDITORS’ RESULTS**

**FINANCIAL STATEMENTS**

Type of auditors’ report issued on whether the financial statements audited were prepared in accordance with GAAP

*Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified?
- Significant deficiency(ies) identified?

  X   Yes      No  
     Yes   X   None reported

Noncompliance material to financial statements noted?

     Yes   X   No

**FEDERAL AWARDS**

Internal control over major federal programs:

- Material weakness(es) identified?
- Significant deficiency(ies) identified?

     Yes   X   No  
  X   Yes      None reported

Type of auditors’ report issued on compliance for major federal programs

*Unmodified*

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

  X   Yes      No

Identification of major federal program:

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>
93.778	U.S. Department of Health & Human Services (Medicaid) (GMH, WRAP-EPSDT, ABET/FSP, TBS, EIIS)

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

     Yes   X   No

**LUTHERAN SOCIAL SERVICES  
OF SOUTHERN CALIFORNIA AND  
LUTHERAN SOCIAL SERVICES FOUNDATION  
OF SOUTHERN CALIFORNIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**FOR THE YEAR ENDED JUNE 30, 2019**

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**SECTION II - FINANCIAL STATEMENTS FINDINGS**

***Material Weakness – Reporting***

***Finding 2019-001 – Net Assets Classification***

**Criteria:** The audited financial statements of a not-for-profit organization require net assets to be classified as with donor restriction and without donor restriction.

**Condition:** During the year, the organization failed to identify and record contributions as with or without donor restrictions. Adjustments were necessary to properly classify donor restricted contributions.

**Cause:** Management failed to properly classify contributions with restrictions in their accounting records.

**Effect:** Contributions with donor restrictions were reported as unrestricted prior to audit adjustments.

**Questioned Costs:** None

**Context:** Donor restricted contributions were reported as without donor restrictions.

**Reported as a Finding in Prior Year:** Yes – Reported as Finding 2018-001.

**Recommendation:** Written policies and procedures should be implemented to ensure that all contributions are properly classified as with or without donor restriction and any restrictions are only released upon when donor imposed restrictions are met.

**Views of Responsible Officials and Planned Corrective Action:** See management's responses to findings and corrective action plan included within this package.

**LUTHERAN SOCIAL SERVICES  
OF SOUTHERN CALIFORNIA AND  
LUTHERAN SOCIAL SERVICES FOUNDATION  
OF SOUTHERN CALIFORNIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**FOR THE YEAR ENDED JUNE 30, 2019**

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**SECTION II - FINANCIAL STATEMENTS FINDINGS (CONTINUED)**

***Material Weakness – Reporting***

***Finding 2019-002 – Financial Statements***

**Criteria:** The audited financial statements of a not-for-profit organization should be completed and supported by sufficient audit documentation and available for governance and management to make timely decisions based upon the reports. Grant reporting must be based upon complete and accurate financial information on a timely basis.

**Condition:** The financial statements and related supporting documentation were not completed in their entirety and available to be audited in a timely fashion. In addition, certain account reconciliations were not prepared prior to the audit.

**Cause:** During the fiscal year ended June 30, 2019, there was finance department personnel turnover and an information technology systems conversion that resulted in a significant backlog of work to be performed that was not resolved until after year end.

**Effect:** The financial statement audit was delayed.

**Questioned Costs:** None

**Context:** In preparing to perform the audit, it was determined that the books and records were not yet closed and reconciled in a manner sufficient to begin the audit timely.

**Reported as a Finding in Prior Year:** Yes – Reported as Finding 2018-002

**Recommendation:** Written policies and procedures should be implemented to ensure that accounts are reconciled timely and that financial statements and grant reporting are prepared accurately and fully supported by a proper underlying audit trail in a timely fashion.

**Views of Responsible Officials and Planned Corrective Action:** See management's responses to findings and corrective action plan included within this package.

**LUTHERAN SOCIAL SERVICES  
OF SOUTHERN CALIFORNIA AND  
LUTHERAN SOCIAL SERVICES FOUNDATION  
OF SOUTHERN CALIFORNIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**FOR THE YEAR ENDED JUNE 30, 2019**

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**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

***Significant Deficiency – Allowable Costs***

***Finding 2019-003 – Payroll***

***Federal CFDA Number – 93.778***

***Program Name – Medical Assistance Program***

**Criteria:** Only time worked on the Medical Assistance Program can be charged directly to that program.

**Condition:** Marcum selected 40 employees for payroll testing. Upon receiving support for these selections, 1 employee who was selected for testing for pay period 3/31/2019 was not employed during that time. However, upon review of the payroll register, this employee was processed through the payroll system as active, despite never receiving actual payment for the period. The payroll costs associated with this employee was charged to the Medical Assistance Program in error. The total amount of payroll expense that was incorrectly charged to the program was \$256.01.

**Cause:** The payroll for this employee was unintentionally processed through the payroll system for this pay period and the employee never received actual payment.

**Questioned Costs:** \$256.01

**Context:** Management believes this finding represents an isolated error in payroll processing that caused the Organization to charge unallowable costs to the program. The payroll system was made aware of this error and is in the process of correcting.

**Reported as a Finding in Prior Year:** No

**Recommendation:** Verify employee status prior to processing payroll for each payroll period.

**Views of Responsible Officials Planned Corrective Action:** See management's response to findings and corrective action plan included with this package.

**LUTHERAN SOCIAL SERVICES  
OF SOUTHERN CALIFORNIA AND  
LUTHERAN SOCIAL SERVICES FOUNDATION  
OF SOUTHERN CALIFORNIA**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**FOR THE YEAR ENDED JUNE 30, 2019**

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**Finding 2018-001** – The Organization failed to identify contributions with restrictions and recorded them as without donor restriction.

**Status** – This finding has been repeated in 2019 as finding 2019-001.

**Finding 2018-002** – The financial statements and related supporting documentation were not completed in their entirety and available to be audited in a timely fashion. In addition, certain account reconciliations were not prepared prior to the audit requiring a significant number of audit entries.

**Status** – This finding has been repeated in 2019 as finding 2019-002.

**Finding 2018-003** – The audit package and data collection form were submitted after the required due date of March 31, 2019.

**Status** – The audit package and data collection form have been submitted. The matter is closed.





## **CORRECTIVE ACTION PLAN**

### **Finding 2019-001 – Reporting**

**Description of Finding:** The Organization failed to identify and record contributions as with or without donor restrictions. Adjustments were necessary to properly classify donor restricted contributions.

**Statement of Concurrence or Nonconcurrence:** Lutheran Social Services of Southern California agrees with the finding and is putting a corrective action plan in place as outlined below:

**Corrective Action:** Lutheran Social Services of Southern California is in the process of developing a comprehensive set of policies and procedures to ensure that all contributions are identified in the accounting system as either with or without donor restrictions. Accounting personnel will be educated on the policy so that all contributions are properly classified and only released from restriction once the purpose or time restrictions are met.

**Expected Completion:** September 30, 2020

### **Finding 2019-002 – Financial Statements**

**Description of Finding:** The financial statements and related supporting documentation were not completed in their entirety and available to be audited in a timely fashion.

**Statement of Concurrence or Nonconcurrence:** Lutheran Social Services of Southern California agrees with the finding and is putting a corrective action plan in place as outlined below:

**Corrective Action:** Lutheran Social Services of Southern California is in the process of developing a comprehensive set of policies and procedures to ensure the accurate and timely reconciliation of all accounts as well as procedures for preparing financial statements that will be available to management and the board of directors. Such procedures will be used to train new finance and accounting personnel and help manage and bring best practices to the financial operations of the organization. In addition, the agency has hired additional resources in the finance and accounting area. This corrective action will ensure timely filing of the required financial statements and data collection form.

**Expected Completion:** September 30, 2020

**Finding 2019-003 – Allowable Costs**

**Description of Finding:** \$256 of payroll costs were incorrectly charged to the Medical Assistance Program grant

**Statement of Concurrence or Nonconcurrence:** Lutheran Social Services of Southern California agrees with the finding and is putting a corrective action plan in place as outlined below:

**Corrective Action:** Management believes this finding represents an isolated error in the payroll processing that caused the agency to charge unallowable costs to the program. The payroll provider has been made aware of this error and is in the process of correcting it.

**Expected Completion:** September 30, 2020

**LSSSC Contact:** John Kohl, Chief Financial Officer

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