



Certified Public Accountants

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

**Consolidated Financial Statements  
Year Ended June 30, 2017  
Together With Independent Auditor's Report**

**LUTHERAN SOCIAL SERVICES OF SOUTHERN CALIFORNIA AND  
LUTHERAN SOCIAL SERVICES FOUNDATION OF SOUTHERN CALIFORNIA  
CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**

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Certified Public Accountants

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### INDEPENDENT AUDITOR'S REPORT

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

#### Report on Financial Statements

We have audited the accompanying consolidated statements of financial position of Lutheran Social Services of Southern California (the "Agency") and Lutheran Social Services Foundation of Southern California (the "Foundation"), as of June 30, 2017, and the related consolidated statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

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

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

#### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

#### Opinion

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the consolidated financial position of the Agency and Foundation, as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying 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*, is presented for purposes of additional analysis and is 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 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 March 16, 2018, on our consideration of the Agency and Foundation'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 Agency and Foundation'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 Agency and Foundation's internal control over financial reporting and compliance.

A handwritten signature in dark ink that reads "Zuehl, Legaspi & Co." in a cursive script.

Los Angeles, California  
March 16, 2018

LUTHERAN SOCIAL SERVICES OF SOUTHERN CALIFORNIA and  
LUTHERAN SOCIAL SERVICES FOUNDATION OF SOUTHERN CALIFORNIA  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
June 30, 2017

| ASSETS  | Agency              | Foundation          | Eliminations          | Total               |
|---|---------------------|---------------------|-----------------------|---------------------|
| <b>CURRENT ASSETS</b>                           |                     |                     |                       |                     |
| Cash and cash equivalents                       | \$ 455,870          | \$ 718,393          | \$ -                  | \$ 1,174,263        |
| Investments                                     | -                   | 1,427,064           | -                     | 1,427,064           |
| Contract receivables                            | 1,675,943           | -                   | -                     | 1,675,943           |
| Intercompany receivable                         | 1,399,901           | -                   | (1,399,901)           | -                   |
| Prepaid expenses                                | 41,412              | -                   | -                     | 41,412              |
| <b>TOTAL CURRENT ASSETS</b>                     | <b>3,573,126</b>    | <b>2,145,457</b>    | <b>(1,399,901)</b>    | <b>4,318,682</b>    |
| <b>PROPERTY, PLANT AND EQUIPMENT</b>            |                     |                     |                       |                     |
| Land  | 724,462             | 751,500             | -                     | 1,475,962           |
| Buildings                                       | 2,801,325           | 437,167             | -                     | 3,238,492           |
| Building improvements                           | 199,449             | -                   | -                     | 199,449             |
| Automobiles                                     | 183,587             | -                   | -                     | 183,587             |
| Equipment and furniture                         | 290,652             | 6,069               | -                     | 296,721             |
| <b>TOTAL PROPERTY, PLANT AND EQUIPMENT</b>      | <b>4,199,475</b>    | <b>1,194,736</b>    | <b>-</b>              | <b>5,394,211</b>    |
| Accumulated depreciation                        | (1,680,724)         | (132,424)           | -                     | (1,813,148)         |
| <b>TOTAL PROPERTY, PLANT AND EQUIPMENT, NET</b> | <b>2,518,751</b>    | <b>1,062,312</b>    | <b>-</b>              | <b>3,581,063</b>    |
| Security deposits                               | 12,994              | -                   | -                     | 12,994              |
| <b>TOTAL ASSETS</b>                             | <b>\$ 6,104,871</b> | <b>\$ 3,207,769</b> | <b>\$ (1,399,901)</b> | <b>\$ 7,912,739</b> |
| <b>LIABILITIES AND NET ASSETS</b>               |                     |                     |                       |                     |
| <b>CURRENT LIABILITIES</b>                      |                     |                     |                       |                     |
| Accounts payable                                | \$ 170,640          | \$ -                | \$ -                  | \$ 170,640          |
| Accrued expenses                                | 390,993             | -                   | -                     | 390,993             |
| Deferred revenue                                | 1,584,792           | -                   | -                     | 1,584,792           |
| Security deposits                               | 10,100              | -                   | -                     | 10,100              |
| Intercompany payable                            | -                   | 1,399,901           | (1,399,901)           | -                   |
| Client trust funds                              | 1,044               | -                   | -                     | 1,044               |
| Mortgage payable, current portion               | 15,560              | -                   | -                     | 15,560              |
| Notes payable, current portion                  | 87,304              | -                   | -                     | 87,304              |
| <b>TOTAL CURRENT LIABILITIES</b>                | <b>2,260,433</b>    | <b>1,399,901</b>    | <b>(1,399,901)</b>    | <b>2,260,433</b>    |
| Mortgage payable, less current portion          | 333,322             | -                   | -                     | 333,322             |
| Notes payable, less current portion             | 1,522,494           | -                   | -                     | 1,522,494           |
| <b>TOTAL LONG-TERM LIABILITIES</b>              | <b>1,855,816</b>    | <b>-</b>            | <b>-</b>              | <b>1,855,816</b>    |
| <b>TOTAL LIABILITIES</b>                        | <b>4,116,249</b>    | <b>1,399,901</b>    | <b>(1,399,901)</b>    | <b>4,116,249</b>    |
| <b>COMMITMENTS</b>                              |                     |                     |                       |                     |
| <b>NET ASSETS</b>                               |                     |                     |                       |                     |
| Unrestricted                                    | 1,543,166           | 1,524,830           | -                     | 3,067,996           |
| Temporarily restricted                          | 445,456             | 58,287              | -                     | 503,743             |
| Permanently restricted                          | -                   | 224,751             | -                     | 224,751             |
| <b>NET ASSETS</b>                               | <b>1,988,622</b>    | <b>1,807,868</b>    | <b>-</b>              | <b>3,796,490</b>    |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>         | <b>\$ 6,104,871</b> | <b>\$ 3,207,769</b> | <b>\$ (1,399,901)</b> | <b>\$ 7,912,739</b> |

See accompanying notes to consolidated financial statements.

**LUTHERAN SOCIAL SERVICES OF SOUTHERN CALIFORNIA and  
LUTHERAN SOCIAL SERVICES FOUNDATION OF SOUTHERN CALIFORNIA  
CONSOLIDATED STATEMENTS OF ACTIVITIES  
Year ended June 30, 2017**

|  | Agency              | Foundation       | Eliminations     | Total               |
|--|---------------------|------------------|------------------|---------------------|
| <b>Unrestricted Income:</b>                |                     |                  |                  |                     |
| Contributions                              | \$ 1,207,849        | \$ 2,565         | \$ -             | \$ 1,210,414        |
| United Way                                 | 5,237               | -                | -                | 5,237               |
| Phonathon, walkathon                       | 53,631              | -                | -                | 53,631              |
| Area events                                | 42,409              | -                | -                | 42,409              |
| Appeals                                    | 895                 | -                | -                | 895                 |
| Thrift shop income                         | 19,341              | -                | -                | 19,341              |
| Fees and service                           | 1,038,208           | -                | (829,727)        | 208,481             |
| Government contracts                       | 5,744,018           | -                | -                | 5,744,018           |
| Non-government contracts                   | 207,738             | -                | -                | 207,738             |
| Disaster relief                            | 162,864             | -                | -                | 162,864             |
| Interest and dividends                     | 18,917              | 16,906           | -                | 35,823              |
| Other income                               | 162,482             | -                | -                | 162,482             |
| Capital gains                              | 3,922               | 4,369            | -                | 8,291               |
| Realized and unrealized gain               | 29,872              | 37,889           | -                | 67,761              |
| Loss on sale of assets                     | -                   | -                | -                | -                   |
| Net assets released from restrictions      | 1,763,215           | 228,961          | -                | 1,992,176           |
| <b>Total unrestricted income</b>           | <b>10,460,598</b>   | <b>290,690</b>   | <b>(829,727)</b> | <b>9,921,561</b>    |
| <b>Temporarily Restricted Income:</b>      |                     |                  |                  |                     |
| Contributions                              | 817,506             | -                | -                | 817,506             |
| Net assets released from restrictions      | (1,763,215)         | (201,505)        | -                | (1,964,720)         |
| <b>Total Temporarily Restricted Income</b> | <b>(945,709)</b>    | <b>(201,505)</b> | <b>-</b>         | <b>(1,147,214)</b>  |
| <b>Permanently Restricted Income:</b>      |                     |                  |                  |                     |
| Contributions                              | -                   | 3,000            | -                | 3,000               |
| Interest and dividends                     | -                   | 4,154            | -                | 4,154               |
| Capital gains                              | -                   | 1,080            | -                | 1,080               |
| Realized and unrealized gain               | -                   | 7,243            | -                | 7,243               |
| Investment fees                            | -                   | (1,784)          | -                | (1,784)             |
| Net assets released from restrictions      | -                   | (27,456)         | -                | (27,456)            |
| <b>Total Permanently Restricted Income</b> | <b>-</b>            | <b>(13,763)</b>  | <b>-</b>         | <b>(13,763)</b>     |
| <b>Total Income</b>                        | <b>9,514,889</b>    | <b>75,422</b>    | <b>(829,727)</b> | <b>8,760,584</b>    |
| <b>Expenses</b>                            |                     |                  |                  |                     |
| Administration fees                        | 842,212             | -                | (829,727)        | 12,485              |
| Advertising                                | 23,247              | -                | -                | 23,247              |
| Bad debts                                  | 101,613             | -                | -                | 101,613             |
| Depreciation                               | 139,913             | 15,321           | -                | 155,234             |
| Emergency assistance                       | 193,216             | -                | -                | 193,216             |
| Employee benefits                          | 648,502             | -                | -                | 648,502             |
| Employee expenses                          | 7,082               | -                | -                | 7,082               |
| Equipment rental                           | 28,408              | -                | -                | 28,408              |
| Fundraising                                | 47,697              | -                | -                | 47,697              |
| Information technology                     | 121,838             | -                | -                | 121,838             |
| Insurance                                  | 102,073             | -                | -                | 102,073             |
| Interest                                   | 68,596              | -                | -                | 68,596              |
| Investment fees                            | 6,582               | 7,167            | -                | 13,749              |
| Maintenance                                | 130,607             | -                | -                | 130,607             |
| Office expense                             | 321,405             | 9                | -                | 321,414             |
| Payroll taxes                              | 358,529             | -                | -                | 358,529             |
| Program expense                            | 127,147             | 3,000            | -                | 130,147             |
| Professional and outside services          | 827,003             | -                | -                | 827,003             |
| Rent                                       | 287,568             | -                | -                | 287,568             |
| Salaries                                   | 4,589,213           | -                | -                | 4,589,213           |
| Staff travel and meetings                  | 321,197             | -                | -                | 321,197             |
| Taxes and licenses                         | 17,918              | -                | -                | 17,918              |
| Telephone and utilities                    | 270,937             | -                | -                | 270,937             |
| Volunteer expenses                         | 141,157             | -                | -                | 141,157             |
| <b>Total Expenses</b>                      | <b>9,723,660</b>    | <b>25,497</b>    | <b>(829,727)</b> | <b>8,919,430</b>    |
| <b>Change in Net Assets</b>                | <b>\$ (208,771)</b> | <b>\$ 49,925</b> | <b>\$ -</b>      | <b>\$ (158,846)</b> |

See accompanying notes to consolidated financial statements.

**LUTHERAN SOCIAL SERVICES OF SOUTHERN CALIFORNIA and  
LUTHERAN SOCIAL SERVICES FOUNDATION OF SOUTHERN CALIFORNIA  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Year Ended June 30, 2017**

|   | <u>Agency</u>     | <u>Foundation</u> | <u>Total</u>        |
|---|-------------------|-------------------|---------------------|
| <b>OPERATING ACTIVITIES</b>   |                   |                   |                     |
| Change in net assets  | \$ (208,771)      | \$ 49,925         | \$ (158,846)        |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: |                   |                   |                     |
| Depreciation  | 139,913           | 15,321            | 155,234             |
| Bad debts   | 101,613           | -                 | 101,613             |
| Net realized and unrealized gain on investments   | (29,872)          | (37,889)          | (67,761)            |
| Changes in operating assets and liabilities:  |                   |                   |                     |
| (Increase) decrease in contracts receivables  | (422,421)         | -                 | (422,421)           |
| (Increase) decrease in other / intercompany receivables   | (144,002)         | 32,078            | (111,924)           |
| (Increase) decrease in prepaid expenses   | (4,194)           | -                 | (4,194)             |
| (Increase) decrease in security deposit (asset)   | (1,044)           | -                 | (1,044)             |
| Increase (decrease) in accounts payables  | (118,147)         | -                 | (118,147)           |
| Increase (decrease) in intercompany payables  | (32,078)          | 144,002           | 111,924             |
| Increase (decrease) in accrued expenses   | 65,053            | -                 | 65,053              |
| Increase (decrease) in deferred liability   | 679,414           | -                 | 679,414             |
| Increase (decrease) in security deposit (liability)   | (2,700)           | -                 | (2,700)             |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>  | <u>22,764</u>     | <u>203,437</u>    | <u>226,201</u>      |
| <b>INVESTING ACTIVITIES</b>   |                   |                   |                     |
| Purchase of fixed assets and improvements   | (47,712)          | -                 | (47,712)            |
| Purchase of investments   | (70,699)          | (101,613)         | (172,312)           |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>  | <u>(118,411)</u>  | <u>(101,613)</u>  | <u>(220,024)</u>    |
| <b>FINANCING ACTIVITIES</b>   |                   |                   |                     |
| Payment of debt   | (95,977)          | -                 | (95,977)            |
| Proceeds from loan  | 23,619            | -                 | 23,619              |
| <b>NET CASH USED IN FINANCING ACTIVITIES</b>  | <u>(72,358)</u>   | <u>-</u>          | <u>(72,358)</u>     |
| <b>CHANGE IN CASH AND CASH EQUIVALENTS</b>  | <u>(168,005)</u>  | <u>101,824</u>    | <u>(66,181)</u>     |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>   | <u>623,875</u>    | <u>616,569</u>    | <u>1,240,444</u>    |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>   | <u>\$ 455,870</u> | <u>\$ 718,393</u> | <u>\$ 1,174,263</u> |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>   |                   |                   |                     |
| Interest paid   | <u>\$ 68,596</u>  | <u>\$ -</u>       | <u>\$ 68,596</u>    |

See accompanying notes to consolidated financial statements.

**LUTHERAN SOCIAL SERVICES OF SOUTHERN CALIFORNIA and  
LUTHERAN SOCIAL SERVICES FOUNDATION OF SOUTHERN CALIFORNIA  
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES  
Year Ended June 30, 2017**

| Agency                   | Program Services             |              |                                   |                      | Supporting Services       |              | Development            |              | Total Expenses |              |
|--------------------------|------------------------------|--------------|-----------------------------------|----------------------|---------------------------|--------------|------------------------|--------------|----------------|--------------|
|                          | Veteran & Community Services | Counseling   | Developmentally Disabled Services | Residential Services | Senior Companion Services | Total        | Management and General | Fund-raising |                | Eliminations |
| Salaries                 | \$ 1,142,972                 | \$ 2,131,222 | \$ 273,620                        | \$ 78,745            | \$ 52,913                 | \$ 3,679,472 | \$ 790,422             | \$ 119,319   | \$ -           | \$ 4,589,213 |
| Employee benefits        | 164,541                      | 291,751      | 70,206                            | 12,245               | 10,070                    | 548,813      | 89,960                 | 9,729        | -              | 648,502      |
| Payroll taxes            | 86,881                       | 180,819      | 23,552                            | 4,654                | 4,031                     | 299,937      | 49,957                 | 8,635        | -              | 358,529      |
| Total Personnel Expenses | 1,394,394                    | 2,603,792    | 367,378                           | 95,644               | 67,014                    | 4,528,222    | 930,339                | 137,693      | -              | 5,596,244    |
| Administration fees      | 281,484                      | 441,470      | 59,250                            | 21,924               | 25,600                    | 829,728      | 12,484                 | -            | (829,727)      | 12,485       |
| Advertising              | -                            | 4,032        | 68                                | -                    | -                         | 4,100        | 1,147                  | 18,000       | -              | 23,247       |
| Bad debts                | 832                          | 99,977       | 341                               | 463                  | -                         | 101,613      | -                      | -            | -              | 101,613      |
| Emergency assistance     | 128,504                      | 35,266       | -                                 | 29,446               | -                         | 193,216      | -                      | -            | -              | 193,216      |
| Employee expenses        | 1,824                        | 3,752        | 411                               | 304                  | 240                       | 6,531        | 368                    | 183          | -              | 7,082        |
| Equipment rental         | 4,428                        | 14,414       | 264                               | 1,129                | -                         | 20,235       | 8,173                  | -            | -              | 28,408       |
| Fund-raising             | 39,118                       | 791          | -                                 | -                    | -                         | 39,909       | -                      | 7,788        | -              | 47,697       |
| Information technology   | 19,826                       | 54,612       | 2,449                             | 1,158                | 1,061                     | 79,106       | 35,135                 | 7,597        | -              | 121,838      |
| Insurance                | 34,432                       | 21,986       | 11,378                            | 6,132                | 117                       | 74,045       | 28,028                 | -            | -              | 102,073      |
| Interest                 | 50,039                       | -            | 14,281                            | 4,276                | -                         | 68,596       | -                      | -            | -              | 68,596       |
| Investment fees          | -                            | -            | -                                 | -                    | -                         | -            | 6,582                  | -            | -              | 6,582        |
| Maintenance              | 93,390                       | 8,831        | 14,697                            | 8,140                | 280                       | 125,338      | 5,269                  | -            | -              | 130,607      |
| Office expenses          | 34,604                       | 123,670      | 37,692                            | 4,649                | 907                       | 201,522      | 69,261                 | 50,622       | -              | 321,405      |
| Professional services    | 122,418                      | 481,919      | 2,721                             | 3,145                | -                         | 610,203      | 94,458                 | 122,342      | -              | 827,003      |
| Program expenses         | 63,647                       | 52,455       | 10,958                            | 87                   | -                         | 127,147      | -                      | -            | -              | 127,147      |
| Rent                     | 38,304                       | 197,260      | -                                 | -                    | -                         | 239,184      | 46,516                 | 1,888        | -              | 287,568      |
| Staff travels / meetings | 34,908                       | 184,730      | 18,782                            | 4,502                | 6,379                     | 249,301      | 62,109                 | 9,787        | -              | 321,197      |
| Taxes and licenses       | 4,843                        | 2,270        | 3,639                             | 1,625                | -                         | 12,377       | 5,464                  | 77           | -              | 17,918       |
| Telephone / utilities    | 114,362                      | 91,079       | 13,105                            | 20,490               | 1,440                     | 240,476      | 29,594                 | 867          | -              | 270,937      |
| Volunteer costs          | 1,677                        | -            | -                                 | 737                  | -                         | 141,086      | -                      | 71           | -              | 141,157      |
| Total Other Expenses     | 1,068,640                    | 1,818,514    | 190,036                           | 108,207              | 178,298                   | 3,363,693    | 404,588                | 219,222      | (829,727)      | 3,157,776    |
| Total Expenses           | 2,463,034                    | 4,422,306    | 557,414                           | 203,851              | 245,310                   | 7,891,915    | 1,334,927              | 356,905      | (829,727)      | 8,754,020    |
| Depreciation             | 102,014                      | 1,533        | 19,312                            | -                    | -                         | 122,859      | 17,054                 | -            | -              | 139,913      |
| Agency Totals            | \$ 2,565,048                 | \$ 4,423,839 | \$ 576,726                        | \$ 203,851           | \$ 245,310                | \$ 8,014,774 | \$ 1,351,981           | \$ 356,905   | \$ (829,727)   | \$ 8,893,933 |
| Foundation Totals        | -                            | -            | -                                 | -                    | 25,497                    | -            | -                      | -            | -              | 25,497       |
| Consolidated Totals      | -                            | -            | -                                 | -                    | \$ 1,377,478              | \$ 356,905   | \$ (829,727)           | \$ 8,919,430 | -              | \$ 8,919,430 |

See accompanying notes to consolidated financial statements.



**LUTHERAN SOCIAL SERVICES OF SOUTHERN CALIFORNIA AND  
LUTHERAN SOCIAL SERVICES FOUNDATION OF SOUTHERN CALIFORNIA  
CONSOLIDATED ANALYSIS OF NET ASSETS  
Year ended June 30, 2017**

|                              | <u>Agency</u>              | <u>Foundation</u>          | <u>Total</u>               |
|------------------------------|----------------------------|----------------------------|----------------------------|
| <b>NET ASSETS</b>            |                            |                            |                            |
| Unrestricted net assets      | \$ 1,543,166               | \$ 1,524,830               | \$ 3,067,996               |
| Temporarily restricted       |                            |                            |                            |
| Pastors Assistance Fund      | -                          | 8,727                      | 8,727                      |
| Edgar Fund                   | 313,513                    | -                          | 313,513                    |
| Jeppesen                     | 126,818                    | -                          | 126,818                    |
| Crockett                     | -                          | 49,560                     | 49,560                     |
| N LA Turkey/Holiday          | 3,913                      | -                          | 3,913                      |
| Homie Christmas              | 1,212                      | -                          | 1,212                      |
| Total Temporarily restricted | <u>445,456</u>             | <u>58,287</u>              | <u>503,743</u>             |
| Permanently restricted       |                            |                            |                            |
| Pastors Assistance Fund      | -                          | 164,751                    | 164,751                    |
| Memorial Endowment           | -                          | 60,000                     | 60,000                     |
| Total Permanently restricted | <u>-</u>                   | <u>224,751</u>             | <u>224,751</u>             |
| <b>TOTAL NET ASSETS</b>      | <b><u>\$ 1,988,622</u></b> | <b><u>\$ 1,807,868</u></b> | <b><u>\$ 3,796,490</u></b> |

See accompanying notes to consolidated financial statements

**LUTHERAN SOCIAL SERVICES OF SOUTHERN CALIFORNIA AND  
LUTHERAN SOCIAL SERVICES FOUNDATION OF SOUTHERN CALIFORNIA  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 1: 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"). The Foundation is a separate legal entity which was formed to support the Agency. The Agency also operates under the fictitious business name of 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 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 financial statements reflect the consolidated 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 combined statements of the Agency and the Foundation. The Agency and the Foundation share common facilities and personnel. All inter-organization transactions have been eliminated in consolidation.

**Basis of Presentation**

The accompanying consolidated financial statements of the Agency and the Foundation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Financial statement presentation follows the requirements of the Financial Accounting Standards Board (FASB) of the American Institute of Certified Public Accountants in its FASB ASC 958-205-45 ("Financial Statements of Not-for-Profit Organizations"). Under FASB ASC 958-205-45, the Agency and the Foundation are required to report information regarding the nature and amount of its three classes of net assets: unrestricted, temporarily restricted and permanently restricted net assets.

To ensure the observance of limitations and designations placed on the use of resources by the Board of Directors (the "Board"), various accounts are maintained in accordance with the principles of fund accounting. Under the fund accounting concept, separate funds are established as needed to achieve a proper segregation and fair presentation of those resources available for use at the discretion of the governing Board (unrestricted assets) and of those resources over which the Board has little, if any, discretion as to use because of externally imposed restrictions (temporarily restricted or permanently restricted assets).

**LUTHERAN SOCIAL SERVICES OF SOUTHERN CALIFORNIA AND  
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JUNE 30, 2017**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Temporarily restricted net assets represent program funds with short-term purpose and/or time restrictions. When program funds are expended, they are presented in the statement of functional expenses. As of June 30, 2017, temporarily restricted net assets were \$445,456 for the Agency and \$58,287 for the Foundation.

As of June 30, 2017, permanently restricted net assets were \$0 for the Agency and \$224,751 for the Foundation.

**Use of Estimates**

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, the Agency and Foundation's management evaluates the estimates and assumptions based upon historical experience and other various factors and circumstances; however, the actual results could differ from those estimates.

**Cash and cash Equivalents**

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of less than three months. The carrying value of cash and equivalents approximates fair value because of the short maturities of those financial instruments.

**Investments**

The Agency and the Foundation have adopted FASB ASC 958-320 ("Accounting for Certain Investments Held by Not-For-Profit Organizations"). The fair value of these assets 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.

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.

**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.

**LUTHERAN SOCIAL SERVICES OF SOUTHERN CALIFORNIA AND  
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The Agency and the Foundation 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.

**Contributions and Revenue Recognition**

In accordance with FASB ASC 958-605-50 (Accounting for Contributions Received and Contributions Made), revenues from contributions are recognized pursuant to the terms specified by the donor. Contributions are recognized at the earlier of the date receipt of funds or the date of a formal, unconditional pledge from known donors.

Unconditional contributions are measured at fair value when received or promised and reported as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions, including inherent time restrictions. When a time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted and reported in the statement of activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same reporting periods are reported as unrestricted support.

**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. For the fiscal year ended June 30, 2017, the total amount of donated materials and equipment received by the Agency was \$0 and \$2,425 by the Foundation.

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 year ended June 30, 2017, the Agency and Foundation did not receive any donated services.

**Functional Expenses**

The cost of providing the Agency's programs and other activities has been summarized on a functional basis in the statement of activities and statement 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.

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

**LUTHERAN SOCIAL SERVICES OF SOUTHERN CALIFORNIA AND  
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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Income Taxes**

The Agency and the Foundation are nonprofit corporations, under section 501(c)(3) of the Internal Revenue Code 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 revenues are 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 material excise taxes nor do they earn any unrelated business income. Therefore, no provision for taxes was made.

The Foundation adopted the provisions of FASB interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109*. FIN 48 addresses the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a threshold of more likely than not for recognition of tax benefits of uncertain tax positions taken or expected to be taken in a tax return. FIN 48 also provides related guidance on measurement, de-recognition, classification, interest and penalties and disclosure. The adoption of FIN 48 did not have a material impact on the Foundation's financial position, results of operations, or cash flows.

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's returns for years ended June 30, 2014, 2015 and 2016 are subject to examination by federal and state taxing authorities, generally for three years after they are filed.

**NOTE 3: 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.

**LUTHERAN SOCIAL SERVICES OF SOUTHERN CALIFORNIA AND  
LUTHERAN SOCIAL SERVICES FOUNDATION OF SOUTHERN CALIFORNIA  
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JUNE 30, 2017**

**NOTE 3: INVESTMENTS (continued)**

Investments consist primarily of mutual funds and corporate equities as follows:

|   | <u>Original Cost</u> | <u>2017 Fair<br/>Market Value</u> | <u>Cumulative<br/>Unrealized<br/>Gain<br/>on Investment</u> |
|---|----------------------|-----------------------------------|---|
| <u>Agency (held by Foundation):</u>       |                      |                                   |   |
| Mutual Funds Equities                     | \$ 143,866           | \$ 157,384                        | \$ 13,518   |
| Mutual Funds Fixed Income                 | 306,267              | 306,431                           | 164   |
| Exchange Traded Products-<br>Equities     | 65,876               | 70,792                            | 4,916   |
| Exchange Traded Products-<br>Fixed Income | 53,846               | 55,046                            | 1,200   |
| Sub-Total                                 | <u>\$ 569,855</u>    | <u>\$ 589,653</u>                 | <u>\$ 19,798</u>  |
| <u>Foundation:</u>                        |                      |                                   |   |
| Mutual Funds Equities                     | \$ 183,274           | \$ 216,057                        | \$ 32,783   |
| Mutual Funds Fixed Income                 | 416,148              | 416,814                           | 666   |
| Exchange Traded Products-<br>Equity       | 86,018               | 97,525                            | 11,507  |
| Exchange Traded Products-<br>Fixed Income | 74,280               | 76,382                            | 2,102   |
| Sub-Total                                 | <u>\$ 759,720</u>    | <u>\$ 806,778</u>                 | <u>\$ 47,058</u>  |
| Total                                     | <u>\$ 1,329,575</u>  | <u>\$ 1,396,431</u>               | <u>\$ 66,856</u>  |

Investment income (loss) at June 30, 2017 is comprised of the following:

|                        | <u>Thrivent</u>   | <u>Union Banc</u> | <u>Total</u>      |
|------------------------|-------------------|-------------------|-------------------|
| Interest and dividends | \$ 35,809         | \$ 14             | \$ 35,823         |
| Capital gains          | 8,291             | -                 | 8,291             |
| Net realized gains     | 11,652            | -                 | 11,652            |
| Net unrealized gain    | 56,109            | -                 | 56,109            |
| Total                  | <u>\$ 111,861</u> | <u>\$ 14</u>      | <u>\$ 111,875</u> |

Investment advisory fees amounted to \$13,749 for the year ended June 30, 2017.

**LUTHERAN SOCIAL SERVICES OF SOUTHERN CALIFORNIA AND  
LUTHERAN SOCIAL SERVICES FOUNDATION OF SOUTHERN CALIFORNIA  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 3: INVESTMENTS (continued)**

Fair Value Measurements

The Foundation follows FASB ASC 820-10-50 ("Fair Value Measurements"), for its financial instruments measured at fair value on a recurring basis. FASB ASC 820-10-50 provides a framework for measuring fair value under generally accepted accounting principles, expands disclosures about fair value measurements, and establishes a fair value hierarchy that requires an entirety to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The fair value hierarchy can be summarized as follows:

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

| <u>Financial Instrument</u> | <u>Fair Value Hierarchy</u> | <u>Fair Value at June 30, 2017</u> |
|-----------------------------|-----------------------------|------------------------------------|
| Cash and money market funds | Level 1                     | \$ 30,633                          |
| Investments                 | Level 1                     | <u>1,396,431</u>                   |
|                             |                             | <u>\$ 1,427,064</u>                |

**NOTE 4: CONTRACTS RECEIVABLES**

The contracts receivables represent amounts due from various governmental agreements wherein services are performed under the contractual program guidelines. The amounts reflected as contracts receivables are amounts due and owing for services performed and billed under the terms of the contracts. Since the receivables are due from governmental entities that have an immaterial history of nonpayment or default, management believes the total amount is wholly collectible and no reserve for uncollectible amounts is reflected in these financial statements.

The total contracts receivable as of June 30, 2017 was \$1,675,943.

**LUTHERAN SOCIAL SERVICES OF SOUTHERN CALIFORNIA AND  
LUTHERAN SOCIAL SERVICES FOUNDATION OF SOUTHERN CALIFORNIA  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 5: MORTGAGE AND NOTES PAYABLE LIABILITIES**

**MORTGAGE PAYABLE**

|   | <u>Current</u> | <u>Long-Term</u> | <u>Total</u> |
|---|----------------|------------------|--------------|
| Agency:   |                |                  |              |
| 4% payable to Lutheran Church Extension Fund, secured by real estate, principal and interest payable, \$2,436 monthly, matures September 2033 | \$ 15,560      | \$ 333,322       | \$ 348,882   |

**NOTES PAYABLE**

|  | <u>Current</u> | <u>Long-Term</u> | <u>Total</u> |
|--|----------------|------------------|--------------|
| Agency:  |                |                  |              |
| 5.5% payable to Lutheran Church Extension Fund, unsecured note, principal and interest payable, \$1,093 monthly, matures January 2024.                     | \$ 9,339       | \$ 63,565        | \$ 72,904    |
| 4.125% payable to Mission Investment Fund of the ELCA, secured by selected assets, principal and interest payable \$2,558 monthly, matures September 2029. | 18,899         | 275,686          | 294,585      |
| 3.0% payable to Mission Investment Fund of the ELCA, secured by selected building, principal and interest payable, \$7,422 monthly, matures March, 2035.   | 53,161         | 1,167,988        | 1,221,149    |
| 0.0% payable to Yucca Valley Ford, secured by selected vehicle, principal and interest payable, \$492 monthly, matures January 2021.                       | 5,905          | 15,255           | 21,160       |
| Total notes payable  | \$ 87,304      | \$ 1,522,494     | \$ 1,609,798 |

Maturities of mortgage and notes payable liabilities subsequent to June 30, 2017 are as follows:

|            | <u>Amount</u>       |
|------------|---------------------|
| 2018       | \$ 102,864          |
| 2019       | 106,436             |
| 2020       | 110,148             |
| 2021       | 111,542             |
| 2022       | 112,101             |
| Thereafter | 1,415,589           |
| Total      | <u>\$ 1,958,680</u> |



**LUTHERAN SOCIAL SERVICES OF SOUTHERN CALIFORNIA AND  
LUTHERAN SOCIAL SERVICES FOUNDATION OF SOUTHERN CALIFORNIA  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 6: COMMITMENT**

Office Lease

The Agency had entered into various lease agreements for the main office and other locations totaling 9 sites where they conduct their programs. The lease agreements have varying termination dates.

From 2021 onward, only one office location had a lease agreement.

Future minimum lease payment:

|            |    |                |
|------------|----|----------------|
| 2018       | \$ | 206,070        |
| 2019       |    | 178,288        |
| 2020       |    | 85,945         |
| 2021       |    | 21,500         |
| 2022       |    | 18,500         |
| Thereafter |    | <u>52,500</u>  |
| Total      | \$ | <u>562,803</u> |

Vehicle Lease

The Agency has entered into various auto lease agreements.

Future minimum lease payments are as follows:

|       |    |                |
|-------|----|----------------|
| 2018  | \$ | 73,139         |
| 2019  |    | 69,930         |
| 2020  |    | 26,337         |
| 2021  |    | <u>4,946</u>   |
| Total | \$ | <u>174,352</u> |

Equipment Lease

The Agency has entered into various lease agreements for certain equipment.

Future minimum lease payments are as follows:

|            |    |                |
|------------|----|----------------|
| 2018       | \$ | 47,492         |
| 2019       |    | 37,682         |
| 2020       |    | 34,327         |
| 2021       |    | 30,325         |
| 2022       |    | 16,883         |
| Thereafter |    | <u>1,410</u>   |
| Total      | \$ | <u>168,119</u> |

**LUTHERAN SOCIAL SERVICES OF SOUTHERN CALIFORNIA AND  
LUTHERAN SOCIAL SERVICES FOUNDATION OF SOUTHERN CALIFORNIA  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**NOTE 7: NET ASSETS**

The net assets of the Agency and Foundation are composed of unrestricted, temporarily restricted and permanently restricted net assets.

The temporarily restricted funds are available for the following:

|                              | <u>Agency</u>     | <u>Foundation</u> |
|------------------------------|-------------------|-------------------|
| O. Crocket Trust             | \$ -              | \$ 49,560         |
| Pastor's Assistance Fund     | -                 | 8,727             |
| Gift of Food Fund            | -                 | -                 |
| V. Jeppesen Fund             | 126,818           | -                 |
| Edgar Fund                   | 313,513           | -                 |
| LA Turkey/Holiday            | 3,913             | -                 |
| Homie Christmas              | 1,212             | -                 |
|                              | <u>445,456</u>    | <u>58,287</u>     |
| Total temporarily restricted | <u>\$ 445,456</u> | <u>\$ 58,287</u>  |

The permanently restricted funds are available for the following:

|                              | <u>Agency</u> | <u>Foundation</u> |
|------------------------------|---------------|-------------------|
| Pastors Assistance           | \$ -          | \$ 164,751        |
| Memorial Endowment           | -             | 60,000            |
|                              | <u>-</u>      | <u>224,751</u>    |
| Total permanently restricted | <u>\$ -</u>   | <u>\$ 224,751</u> |

**NOTE 8 – NET ASSETS RELEASED FROM RESTRICTIONS**

Net assets were released from temporarily and permanently restricted funds by incurring the expenses satisfying the restricted purposes or by occurrences of events specified by donors.

As of June 30, 2017, the temporarily restricted net assets are as follows:

|   | <u>Agency</u>     | <u>Foundation</u> | <u>Total</u>      |
|---|-------------------|-------------------|-------------------|
| Balance at June 30, 2016:               | \$ 1,391,165      | \$ 259,792        | \$ 1,650,957      |
| Contributions                           | 817,506           | -                 | 817,506           |
| Investment income                       | -                 | -                 | -                 |
| Net appreciation                        | -                 | -                 | -                 |
| Amounts released from restrictions      | (1,763,215)       | (201,505)         | (1,964,720)       |
| Temporarily restricted at June 30, 2017 | <u>\$ 445,456</u> | <u>\$ 58,287</u>  | <u>\$ 503,743</u> |

As of June 30, 2017, the permanently restricted net assets are as follows:

|   | <u>Agency</u> | <u>Foundation</u> | <u>Total</u>      |
|---|---------------|-------------------|-------------------|
| Balance at June 30, 2016                | \$ -          | \$ 238,514        | \$ 238,514        |
| Contributions                           | -             | 3,000             | 3,000             |
| Investment income, net                  | -             | 3,450             | 3,450             |
| Net appreciation                        | -             | 7,243             | 7,243             |
| Amounts released from restrictions      | -             | (27,456)          | (27,456)          |
| Permanently restricted at June 30, 2017 | <u>\$ -</u>   | <u>\$ 224,751</u> | <u>\$ 224,751</u> |

**LUTHERAN SOCIAL SERVICES OF SOUTHERN CALIFORNIA AND  
LUTHERAN SOCIAL SERVICES FOUNDATION OF SOUTHERN CALIFORNIA  
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**NOTE 9: 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 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 \$93,678 for the year ended June 30, 2017.

**NOTE 10: ADVERTISING**

Advertising costs are expensed as incurred and included in the statement of functional expenses. Advertising expenses for the year ended June 30, 2017 amounted to \$23,247 for the Agency and \$0 for the Foundation.

**NOTE 11: RELATED PARTY TRANSACTIONS**

By virtue of its Articles of Incorporation, cash and other assets held by the Foundation are dedicated to various endowment funds. The contributions and funds once 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 year ended June 30 2017, the Foundation did not make any donations to the Agency.

In September 2009, the Board of the Foundation approved a line of credit for the Agency to use during seasonal periods when cash flow is low or if needed. For the fiscal year 2017, the Agency did not borrow from the line of credit.

**NOTE 12: RISK CONCENTRATION**

The Agency derived over 58% of its revenues from the federal government. While each federal program individually may not pose a threat of a severe impact, the group concentration on the federal government as a whole might reasonably make the Agency vulnerable to financial risk in the event such federal funding is materially decreased.

**NOTE 13: SUBSEQUENT EVENT**

In accordance with ASC 855, subsequent events through March 16, 2018, the date of these financial statements, were evaluated. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

## SUPPLEMENTARY INFORMATION

**LUTHERAN SOCIAL SERVICES OF SOUTHERN CALIFORNIA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR PERIOD ENDED JUNE 30, 2017**

| FEDERAL GRANTOR/ PASS-THROUGH<br>GRANTOR/ PROGRAM TITLE                            | FEDERAL<br>CFDA<br>NUMBER | AGENCY OR<br>PASSED-THROUGH<br>NUMBER | FEDERAL<br>EXPENDITURES |
|--|---------------------------|---------------------------------------|-------------------------|
| <b><u>Federal Emergency Management Agency (FEMA)</u></b>                           |                           |                                       |                         |
| <i>Passed through United Way of America:</i>                                       |                           |                                       |                         |
| Ventura County (EFSP Phase 33)   | 97.024                    | N/A                                   | \$ 35,000               |
| San Bernardino County (EFSP Phase 33)  | 97.024                    | N/A                                   | 30,510                  |
| <i>Subtotal FEMA</i>   |                           |                                       | <u>\$ 65,510</u>        |
| <b><u>U.S. Department of Housing and Urban Development (HUD)</u></b>               |                           |                                       |                         |
| <i>Passed through City of San Bernardino City Dept of Public Service</i>           |                           |                                       |                         |
| HUD I - Transitional Housing for Homeless<br>(HIV/AIDS)                            | 14.235                    | CA0938L9D091506                       | \$ 11,147               |
| HUD II - (CoC) Permanent Housing for<br>Homeless (HIV/AIDS)                        | 14.235                    | CA1021L9D091502                       | 76,455                  |
| <i>Passed through Foothill Aids Project from City of Riverside</i>                 |                           |                                       |                         |
| Housing Opportunities for persons with AIDS  | 14.241                    | FAPLSS 16-17                          | 25,000                  |
| <i>Passed through City of San Bernardino</i>                                       |                           |                                       |                         |
| ESG - Public Service Program   | 14.231                    | ESG2016.003                           | 20,000                  |
| <i>Passed through County of San Bernardino Community Development &amp; Housing</i> |                           |                                       |                         |
| ESG - Homeless Emergency Assistance  | 14.231                    | 15-453                                | 54,912                  |
| <i>Passed through City of Riverside Economic Development Agency</i>                |                           |                                       |                         |
| ESG - Homeless Emergency Assistance  | 14.231                    | N/A                                   | 30,000                  |
| <i>Passed through City of Santee</i>   |                           |                                       |                         |
| Caring Neighbors (CDBG)  | 14.218                    | N/A                                   | 3,000                   |
| <i>Passed through City of Thousand Oaks</i>  |                           |                                       |                         |
| Emergency Assistance (CDBG)  | 14.218                    | 11263-2016                            | 19,908                  |
| <i>Passed through County of Ventura</i>  |                           |                                       |                         |
| ESG - Emergency Assistance   | 14.231                    | SE18213102                            | 13,092                  |
| <i>Passed through City of Long Beach</i>   |                           |                                       |                         |
| ESG - Emergency Assistance   | 14.231                    | #34426                                | 29,623                  |
| <i>Subtotal U.S.HUD</i>  |                           |                                       | <u>\$ 283,137</u>       |
| <b><u>US Department of Education</u></b>   |                           |                                       |                         |
| <b><u>TRIO CLUSTER</u></b>   |                           |                                       |                         |
| TRIO-Talent Search   | 84.044                    | P044A160507                           | \$ 200,851              |
| TRIO-Upward Bound  | 84.047                    | P047A120787                           | 26,639                  |
| TRIO-Upward Bound  | 84.047                    | P047A120787                           | 157,122                 |
| <i>Subtotal TRIO Cluster</i>   |                           |                                       | <u>\$ 384,612</u>       |

**LUTHERAN SOCIAL SERVICES OF SOUTHERN CALIFORNIA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR PERIOD ENDED JUNE 30, 2017**

| FEDERAL GRANTOR/ PASS-THROUGH<br>GRANTOR/ PROGRAM TITLE               | FEDERAL<br>CFDA<br>NUMBER | AGENCY OR<br>PASSED-THROUGH<br>NUMBER | FEDERAL<br>EXPENDITURES |
|---|---------------------------|---------------------------------------|-------------------------|
| <b><u>Department of Health and Human Services</u></b>                 |                           |                                       |                         |
| <i>Passed through County of San Bernardino</i>                        |                           |                                       |                         |
| GMH (Medical Assistance Program)                                      | 93.778                    | 13-441                                | \$ 216,738              |
| WRAP-EPSTD (Medical Assistance Program)                               | 93.778                    | 11-360                                | 575,569                 |
| ABET/FSP (Medical Assistance Program)                                 | 93.778                    | 13-572                                | 78,866                  |
| TBS (Medical Assistance Program)                                      | 93.778                    | 11-354                                | 67,810                  |
| EIS (Medical Assistance Program)                                      | 93.778                    | 13-566                                | 125,165                 |
|   |                           |                                       | 1,064,148               |
| CAPTS (Promoting Safe and Stable Families)                            | 93.556                    | T-1454-016-16                         | 6,987                   |
| <i>Passed through County of Los Angeles Dept of Health Services</i>   |                           |                                       |                         |
| Community Services Block Grant  | 93.569                    | 78635                                 | 22,811                  |
| <i>Subtotal DHHS</i>  |                           |                                       | \$ 1,093,946            |
| <b><u>U.S. Department of Transportation (DOT)</u></b>                 |                           |                                       |                         |
| <i>Passed through OMNITrans</i>                                       |                           |                                       |                         |
| Job Access and Reverse Commute Program                                | 20.516                    | CA-37-X146                            | \$ 13,050               |
| New Freedom Program   | 20.521                    | CA-57-X062                            | 22,228                  |
| <i>Subtotal DOT</i>   |                           |                                       | \$ 35,278               |
| <b><u>Corporation For National and Community Services (CFNCS)</u></b> |                           |                                       |                         |
| CNCS (Federal Senior Companion Program)                               | 94.016                    | 15SCPCA005                            | \$ 172,960              |
| <i>Subtotal CFNCS</i>   |                           |                                       | 172,960                 |
|   | <b>TOTAL</b>              |                                       | <b>\$ 2,035,443</b>     |

**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, 2017. 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, 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 was not contractually eligible and, therefore, did not elect the use of the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**LUTHERAN SOCIAL SERVICES OF SOUTHERN CALIFORNIA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR PERIOD ENDED JUNE 30, 2017**

**Section I - Summary of Auditor's Results**

Financial Statements

|   |               |                            |
|---|---------------|----------------------------|
| Type of auditor's report issued:                          | Unmodified    |                            |
| Internal control over financial reporting:                |               |                            |
| 1) Material weakness(es) identified?                      | _____ yes     | <u>  x  </u> no            |
| 2) Significant deficiency(ies) identified?                | _____ yes     | <u>  x  </u> none reported |
| <br>Noncompliance material to financial statements noted? | <br>_____ yes | <br><u>  x  </u> no        |

Federal Awards

|   |                |                            |
|---|----------------|----------------------------|
| Internal control over major programs:   |                |                            |
| 1) Material weakness(es) identified?  | _____ yes      | <u>  x  </u> no            |
| 2) Significant deficiency(ies) identified?  | _____ yes      | <u>  x  </u> none reported |
| <br>Type of auditor's report issued on compliance for major federal programs:                           | <br>Unmodified |                            |
| <br>Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)? | <br>_____ yes  | <br><u>  x  </u> no        |

Identification of Major Federal Programs:

| CFDA Number | Name of Federal Program or Cluster   |
|-------------|--|
| 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? \_\_\_\_\_ x \_\_\_\_\_ yes \_\_\_\_\_ no

**Section II - Financial Statement Findings**

None reported.

**Section III - Federal award Findings and Questioned Costs**

None reported.

**LUTHERAN SOCIAL SERVICES OF SOUTHERN CALIFORNIA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND CORRECTIVE ACTION PLAN  
YEAR ENDED JUNE 30, 2017**

There were no prior audit findings and corrective action plan.





Certified Public Accountants

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### **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of  
Lutheran Social Services of Southern California:  
Fullerton, 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 (the "Agency"), a nonprofit organization, which comprise the statements of financial position as of June 30, 2017, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 16, 2018.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Agency'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 Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 Agency's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

As part of obtaining reasonable assurance about whether the Agency'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*.

**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 Agency'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 Agency's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We also noted certain inconsequential matters that we reported to the management of the Agency in a separate letter dated March 16, 2018.

This report is intended solely for the information and use of the Agency's Board of Directors and management, federal awarding agencies and passed-through entities and is not intended to be, and should not be used by anyone other than the specified parties.

*Zuelo, Leggipi & Co.*

Los Angeles, California  
March 16, 2018



Certified Public Accountants

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### **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Directors of  
Lutheran Social Services of Southern California  
Fullerton, California

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

We have audited Lutheran Social Services of Southern California's (the "Agency") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Agency's major federal programs for the year ended June 30, 2017. The Agency's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### **Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of the Agency's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the 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 the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

In our opinion, the Agency complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.



## Report on Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Agency's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

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

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

## Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Agency as of and for the year ended June 30, 2017, and have issued our report thereon dated March 16, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

*Zuelco, Leggipi & Co.*

Los Angeles, California  
March 16, 2018