LUTHERAN SOCIAL SERVICES OF NORTHERN CALIFORNIA AND SUBSIDIARY

Consolidated Financial Statements for the Years Ended June 30, 2019 and 2018 and Independent Auditors' Report

LUTHERAN SOCIAL SERVICES
OF NORTHERN CALIFORNIA AND SUBSIDIARY

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KARLSSON & LANE
AN ACCOUNTANCY CORPORATION

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Lutheran Social Services of Northern California and Subsidiary (a California nonprofit corporation) (the "Entity") which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Entity as of June 30, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 *U.S. Code of Federal Regulations* ("CFR") Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2020, on our consideration of the Entity's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Entity's internal control over financial reporting and compliance.

Karlsson & Lane, a.c.

Pleasanton, California
January 30, 2020

LUTHERAN SOCIAL SERVICES OF NORTHERN CALIFORNIA AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
Cash and cash equivalents	$ 1,008,265	$ 408,022
Cash held for agencies in trust	792,514	1,277,077
Investments	122,370	121,804
Accounts receivable	1,810,160	1,768,891
Prepaid expenses and other assets	94,612	54,235
Property and equipment, net	2,461,058	2,510,911
Total assets	$ 6,288,979	$ 6,140,940
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 1,428,068	$ 797,196
Amounts payable to agencies in trust	792,514	1,277,077
Lines of credit	-	200,000
Debt	191,020	200,470
Total liabilities	2,411,602	2,474,743
NET ASSETS		
Net assets without donor restrictions	2,844,932	2,902,274
Net assets with donor restrictions	1,032,445	763,923
Total net assets	3,877,377	3,666,197
Total liabilities and net assets	$ 6,288,979	$ 6,140,940

See notes to consolidated financial statements.

LUTHERAN SOCIAL SERVICES OF NORTHERN CALIFORNIA AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenue and support:		
Contracts and fees	$ 9,243,421	$ 8,998,024
Contributions	687,208	666,152
Other income	267,968	223,134
Total revenue and support	10,198,597	9,887,310
Net assets released from restrictions	1,188,754	438,651
Total revenues and net assets released from restrictions	11,387,351	10,325,961
Expenses:		
Program services	10,496,865	9,328,999
Fundraising	347,804	307,952
Management and general	600,024	632,322
Total expenses	11,444,693	10,269,273
Change in net assets without donor restrictions	(57,342)	56,688
NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	1,456,710	472,144
Endowed investment income	566	3,090
Net assets released from restrictions	(1,188,754)	(438,651)
Change in net assets with donor restrictions	268,522	36,583
CHANGE IN NET ASSETS	211,180	93,271
NET ASSETS, BEGINNING OF YEAR	3,666,197	3,572,926
NET ASSETS, END OF YEAR	$ 3,877,377	$ 3,666,197

See notes to consolidated financial statements.

LUTHERAN SOCIAL SERVICES OF NORTHERN CALIFORNIA AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019

	Program Services							
	Money Management Services	Housing for Youth	Housing for Families and Adults	Other Program	Total Programs	Fundraising	Management and General	Total
Salaries and benefits	$ 1,315,064	$ 980,393	$ 2,486,144	$ -	$ 4,781,601	$ 232,159	$ 324,819	$ 5,338,579
Client assistance	-	1,518,130	2,402,155	381,975	4,302,260	3,883	8,672	4,314,815
Occupancy	179,718	64,749	103,448	-	347,915	17,431	68,004	433,350
Professional fees	29,620	79,932	61,548	-	171,100	21,119	24,802	217,021
Depreciation	27,894	47,617	89,027	6,406	170,944	5,664	9,772	186,380
Equipment and building repairs	35,699	75,405	32,344	-	143,448	23,242	8,519	175,209
Telephone	17,904	31,933	70,484	-	120,321	1,183	36,836	158,340
Supplies	23,371	12,515	72,797	-	108,683	102	8,483	117,268
Travel	2,261	54,577	31,486	-	88,324	2,839	22,669	113,832
Other	47,987	13,981	10,481	1,000	73,449	1,576	31,559	106,584
Insurance	14,429	11,037	63,572	-	89,038	3,043	3,937	96,018
Printing and duplicating	6,024	13,925	30,929	-	50,878	1,697	13,140	65,715
Staff and board	3,687	9,079	9,498	-	22,264	1,579	15,636	39,479
Outreach and education	-	619	669	4,000	5,288	22,504	556	28,348
Postage	8,934	137	1,703	-	10,774	3,833	6,085	20,692
Interest	-	9,271	-	-	9,271	-	9,425	18,696
Dues and subscriptions	246	600	461	-	1,307	5,950	7,110	14,367
Total	$ 1,712,838	$ 2,923,900	$ 5,466,746	$ 393,381	$ 10,496,865	$ 347,804	$ 600,024	$ 11,444,693

See notes to consolidated financial statements.

LUTHERAN SOCIAL SERVICES OF NORTHERN CALIFORNIA AND SUBSIDIARY

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018

	Program Services							
	Money Management Services	Housing for Youth	Housing for Families and Adults	Other Program	Total Programs	Fundraising	Management and General	Total
Salaries and benefits	$ 1,308,948	$ 861,673	$ 2,114,925	$ -	$ 4,285,546	$ 192,864	$ 282,193	$ 4,760,603
Client assistance	4	1,644,267	2,057,474	18,000	3,719,745	-	29	3,719,774
Occupancy	188,670	73,606	84,498	-	346,774	18,620	76,240	441,634
Professional fees	19,126	98,366	52,733	-	170,225	28,505	26,562	225,292
Other	50,399	18,563	10,815	19,100	98,877	5,050	71,206	175,133
Depreciation	26,743	45,892	71,698	595	144,928	4,784	9,823	159,535
Telephone	13,927	33,557	63,924	128	111,536	650	47,178	159,364
Equipment and building repairs	30,196	69,982	30,308	-	130,486	733	19,649	150,868
Supplies	22,474	12,428	68,683	-	103,585	468	17,439	121,492
Travel	2,581	54,333	18,169	-	75,083	3,553	25,334	103,970
Printing and duplicating	4,798	15,801	28,601	-	49,200	1,275	14,730	65,205
Insurance	13,496	9,659	32,240	-	55,395	2,985	5,109	63,489
Outreach and education	-	2,166	616	-	2,782	45,128	640	48,550
Staff and board	1,851	7,086	7,264	465	16,666	548	11,220	28,434
Postage	10,086	203	407	-	10,696	1,625	4,758	17,079
Interest	-	5,933	-	-	5,933	-	10,888	16,821
Dues and subscriptions	90	555	897	-	1,542	1,164	9,324	12,030
Total	$ 1,693,389	$ 2,954,070	$ 4,643,252	$ 38,288	$ 9,328,999	$ 307,952	$ 632,322	$ 10,269,273

See notes to consolidated financial statements.

LUTHERAN SOCIAL SERVICES OF NORTHERN CALIFORNIA AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 211,180	$ 93,271
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Depreciation	186,380	159,535
Net realized and unrealized (gain) on investments	(566)	(3,090)
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable	(41,269)	(773,733)
Prepaid expenses and other assets	(40,377)	(3,770)
Accounts payable and accrued expenses	630,872	162,797
Net cash provided by (used in) operating activities	946,220	(364,990)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(136,527)	(114,802)
Net cash used in investing activities	(136,527)	(114,802)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net advances (repayments) on line of credit	(200,000)	200,000
Principal payments on debt	(9,450)	(9,440)
Net cash (used in) provided by financing activities	(209,450)	190,560
NET CHANGE IN CASH AND CASH EQUIVALENTS	600,243	(289,232)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	408,022	697,254
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 1,008,265	$ 408,022
Supplemental information:		
Cash paid for interest	$ 18,696	$ 16,821

See notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

The Entity maintains its accounting records and prepares its financial statements using the accrual basis of accounting; therefore, revenue is recognized when earned, regardless of when collected, and expenses are recognized when the obligation is incurred regardless of when paid.

The Entity reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

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

Net assets with donor restrictions – net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or programmatic purposes specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

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

Level 1 - instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets.

Level 2 - instrument valuations are obtained from readily-available pricing sources for comparable instruments.

Level 3 - instrument valuations are obtained without observable market values and require a high level of judgment to determine the fair value.

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

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

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

Accounts Receivable - Accounts receivable are recorded at the value of the revenue earned and are due upon presentation. Receivable balances with charges over thirty days old are considered delinquent and management begins collection efforts at this time. Delinquent accounts receivable invoices do not accrue interest. The Entity continually monitors the credit worthiness of each account and recognizes allowances for estimated bad debts on accounts that are no longer estimated to be collectible. The Entity regularly adjusts any allowance for subsequent collections and final determination that a receivable is no longer collectible. There was no allowance considered necessary at June 30, 2019 or 2018.

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

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

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

Interpretation of Relevant Law

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

Spending Policy

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

Investment Policy, Strategies, and Objectives

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

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Entity to retain as a fund of perpetual duration. There were no individual donor-restricted endowment funds with deficiencies at June 30, 2019.

Contracts and Fees - Contracts and fees are recognized when the Entity incurs expenditures related to the required program services. Amounts billed or received in advance are recorded as advances until the related services are performed.

Contributions - Contributions are recognized as revenue when they are unconditionally communicated. Contributions are recorded at their fair value as unrestricted support or restricted support, depending on the absence or existence of donor-imposed restrictions as applicable. Contributions of long-lived assets restricted for purpose are temporarily restricted and are released from restriction over the period the asset is required to be used for the donor's specific purpose. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the Statements of Activities as net assets released from restrictions.

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

Income Taxes - The Organization and Company are organized under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. Accordingly, the Entity is exempt from paying Federal and California income taxes except on any unrelated business income. The Entity had no unrelated business income for either of the years ended June 30, 2019 and 2018, respectively.

The Entity has adopted the accounting guidance related to uncertain tax positions, and has evaluated its tax positions taken for all open tax years. Currently, the fiscal 2015 through 2018 information returns are open and subject to examination. In management's judgment there are no uncertain tax positions as of June 30, 2019.

Functional Expense Classification – Expenses are charged to programs and supporting services on the basis of the Entity's estimates. Costs are directly applied to the related program or supporting service when identifiable. Certain categories of expenses benefit more than one program or supporting service and are allocated on a reasonable basis that is consistently applied.

Change in Accounting Principle - During 2019 the Entity adopted the Financial Accounting Standards Board's ("FASB") auditing standards update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* ASU 2016-14 amends the current reporting model for non-profit organizations and enhances their required disclosures. The major changes impacting the Entity include: (1) requiring the presentation of only two classes of net assets now titled *"net assets with donor restriction"* and *"net assets without donor restriction"*, (2) requiring that all non-profits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (3) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (4) presenting investment return net of external investment expenses, and (5) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of non-profit financial statements. The Entity has adopted ASU 2016-14 as of and for the year ended June 30, 2019, with retrospective application for the 2018 financial statements. As a result, the Entity changed its presentation of net asset classes and expanded footnote disclosures as required by ASU 2016-14.

Subsequent Events - Subsequent events have been evaluated through January 30, 2020, which is the date the financial statements were available to be issued.

2. INVESTMENTS

Investments consist of the following at June 30, 2019 and 2018:

	2019	2018
Domestic equities	$ 37,759	$ 36,971
International equities	38,603	38,618
Bond funds	28,188	28,804
Alternative investments	10,670	9,764
Real estate securities	6,450	7,647
Money market	700	-
Total	$ 122,370	$ 121,804

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

Investment returns are included in other income on the statements of activities, and consist of the following for the years ended June 30, 2019 and 2018:

	2019	2018
Interest and dividends	$ 105	$ 10
Net unrealized and realized (losses) gains	905	6,060
Total	$ 1,010	$ 6,070

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2019 and 2018:

	2019	2018
Buildings and improvements	$ 2,694,917	$ 2,601,234
Land	753,070	753,070
Furniture and equipment	539,907	497,062
	3,987,894	3,851,366
Accumulated depreciation	(1,526,836)	(1,340,455)
Net property and equipment	$ 2,461,058	$ 2,510,911

Land and building with cost basis of $1,063,900 and accumulated depreciation of $195,495 are subject to a lien held by a local government to use the land, building and improvements for program purposes.

4. LINES OF CREDIT

The Entity entered into a line of credit with a maximum borrowing amount of $1,300,000, maturing June 2021. The line of credit is secured by real property of the Entity. The interest rate is equal to the 30-day LIBOR rate plus 2.5%. The rate will update monthly through maturity. Interest payments on outstanding principal are due monthly.

5. DEBT

The Entity's debt obligations as of June 30, 2019 and 2018 are as follows:

	2019	2018
Note payable to a bank; interest rate at 3.75% through December 2017, resetting to the U.S. three year treasury constant maturity plus 0.125% adjusted weekly, plus 3% thereafter; principal and interest payments of $980 are due monthly through December 2017, thereafter adjusting each month for changes in the U.S. three year constant maturity, based on a 300 month amortization ending December 2040, with all outstanding principal and interest due December 2024; collateralized by the Entity's real property.	168,336	172,955
Note payable to a local government; interest at 3% annually; principal and interest payments of $466 due monthly with remaining principal and interest due at maturation; matures October 2023; collateralized by the Entity's real property.	22,684	27,515
Total	$ 191,020	$ 200,470

Future minimum principal payments as of June 30, 2019 are as follows:

2020	$ 28,171
2021	29,267
2022	30,407
2023	31,591
2024	29,062
2025 and thereafter	42,522
Total	$ 191,020

6. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following as of June 30, 2019 and 2018:

	2019	2018
Use restrictions:		
Project Hope	$ -	$ 1,000
Polk Street	15,708	15,708
Youth leadership	26,216	26,216
Endowment	26,965	21,804
Lutheran Hunger Network	30,209	25,942
Senior services	118,379	-
Disaster relief	180,822	19,930
Pilot program	191,950	203,632
Property	284,800	292,295
Total use restrictions	875,049	606,527
Subject to be held in perpetuity	157,396	157,396
Total net assets with donor restrictions	$ 1,032,445	$ 763,923

The Entity's net assets with donor restrictions include donor-restricted endowment funds. As required by ASC 958-205, net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Changes in the endowment as of June 30, 2019 and 2018 are as follows:

	Use Restricted	Perpetual Balance	Total
Endowment balance at June 30, 2017	$ 18,714	$ 157,396	$ 176,110
Investment income	3,090	-	3,090
Endowment balance at June 30, 2018	21,804	157,396	179,200
Investment income	5,161	-	5,161
Endowment balance at June 30, 2019	$ 26,965	$ 157,396	$ 184,361

7. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditures within one year at June 30, 2019 and 2018 consisted of the following:

	2019	2018
Cash and cash equivalents	$ 1,008,265	$ 408,022
Cash held for agencies in trust	792,514	1,277,077
Investments	122,370	121,804
Accounts and pledges receivable	1,810,160	1,768,891
	3,733,309	3,575,794
Less: Donor restricted endowment	(157,396)	(157,396)
Cash held for agencies in trust	(792,514)	(1,277,077)
Total financial assets available to meet cash needs for general expenditures, within one year	$ 2,783,399	$ 2,141,321

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

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

8. OPERATING LEASES

The Entity leases facilities under various non-cancelable or contingently cancelable operating leases that expire through 2024. The aggregate remaining minimum rental payments required under the terms of all non-cancelable or contingently cancelable operating leases as of June 30, 2019 are as follows:

Year Ending June 30,	
2020	$ 234,448
2021	243,862
2022	250,898
2023	258,089
2024	250,064
Total	$ 1,237,361

The Entity entered into a sublease for a portion of office space described above. Rent income totaled $2,000 and $18,000 during the years ended June 30, 2019 and 2018, respectively. The Entity's sub-lease expires in May 2024. Future minimum cash receipts due under the lease are as follows:

Year Ending June 30,		
2020	$	18,000
2021		18,000
2022		18,000
2023		18,000
2024		16,500
Total	$	88,500

9. EMPLOYEE BENEFITS

The Entity participates in a multi-employer 403(b) retirement plan (the "Plan"). The Entity makes required contributions equal to 3% of salaries for eligible employees. The Entity also matches 100% of eligible employee's contributions to the Plan for the first 2% of compensation that eligible employees contribute. Eligibility is based on hours per week and length of employment. Contributions made for the years ended June 30, 2019 and 2018 were $142,158 and $130,154, respectively.

10. CONCENTRATIONS AND CREDIT RISK

The Entity has identified financial instruments that are potentially subject to credit risk as cash, investments and accounts receivable. At June 30, 2019, the Entity had approximately $1,538,000 in excess of federally insured limits. Investments are diversified into various types of marketable securities in order to limit the concentration of market risk. Accounts receivable are unsecured, however concentrations of credit risk with respect to these receivables are limited as substantially all amounts are receivable from government agencies. Management does not believe there is any risk of bad debts relating to the accounts receivable. Substantially all of the Entity's contract revenues are provided by federal, state or local government agencies.

11. RELATED PARTY TRANSACTIONS

During the year ended June 30, 2018, the Entity contracted with a company owned by an employee to provide daycare program assistance of approximately $8,493. No services were provided in 2019. There were no outstanding accounts payable to the company at June 30, 2019 or 2018, respectively.

12. CONTINGENCIES

In prior years the Entity received contributions from state and local government agencies that require the Entity to renovate and operate real property for the purpose of transitional housing for periods of ten years to fifty years. Management believes the possibility of failing to meet the requirements of the contributions is remote. Should the Entity fail to meet the requirements, the properties would be remitted to the government agencies. The contributions are temporarily restricted, and the restrictions are released over the periods of the related agreements.

LUTHERAN SOCIAL SERVICES
OF NORTHERN CALIFORNIA AND SUBSIDIARY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2019

Federal Grantor Program Title/Pass-Through Grantor Program Title	Federal CFDA Number	Pass-through Number	Federal Expenditures
U.S. Department of Health and Human Services:			
HIV Emergency Relief Project Grants - Passed through the City and County of San Francisco Department of Public Health	93.914	1000002604	$ 450,315
Total U.S. Department of Health and Human Services			$ 450,315
U.S. Department of Housing and Urban Development:			
Housing Opportunities for Persons with AIDS	14.241	CAH18-0012	$ 445,565
Continuum of Care Program - Passed through City and County of San Francisco Department of Social Services	14.267	HSH 17/18-028	181,503
Continuum of Care Program - Passed through San Joaquin County Department of Human Assistance	14.267	CA0252L9T111810	395,532
Continuum of Care Program - Passed through Sacramento County Department of Human Assistance	14.267	CA0150L9T031710	465,697
Continuum of Care Program - Passed through Sacramento Steps Forward	14.267	CA0132L9T031811	371,958
Continuum of Care Program - Passed through Sacramento Steps Forward	14.267	CA0156L9T031609	73,522

Continuum of Care Program - Passed through Sacramento Steps Forward	14.267	CA1541L9T031701	17,886
Continuum of Care Program - Passed through Sacramento Steps Forward	14.267	CA0135L9T031811	333,568
Continuum of Care Program - Passed through Sacramento Steps Forward	14.267	CA1544L9T031701	54,094
Continuum of Care Program - Passed through Sacramento Steps Forward	14.267	CA0828L9T031806	297,469
Continuum of Care Program - Passed through Sacramento Steps Forward	14.267	CA1152L9T031706	294,651
Continuum of Care Program - Passed through Next Move	14.267	2019	788,029
Continuum of Care Program	14.267	CA0301L9T181811	15,651
Subtotal - Continuum of Care Program	14.267		3,289,560
Total U.S. Department of Housing and Urban Development			$ 3,735,125
Total			$ 4,185,440

LUTHERAN SOCIAL SERVICES OF NORTHERN CALIFORNIA AND SUBSIDIARY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2019

Note A - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes federal award activity of the Entity under programs of the federal government for the year ended June 30, 2019. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Entity, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Entity.

Note B - Summary of Significant Accounting Policies

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

(2) The Entity has not elected to use the 10 percent de-minimis indirect cost rate as allowed under the Uniform Guidance.

KARLSSON & LANE
AN ACCOUNTANCY CORPORATION

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the consolidated financial statements of Lutheran Social Services of Northern California and Subsidiary (a nonprofit organization) (the "Entity") which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated January 30, 2020.

Internal Control Over Financial Reporting

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

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

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Entity's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope and our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Karlsson & Lane, a.c.

Pleasanton, California
January 30, 2020

KARLSSON & LANE
AN ACCOUNTANCY CORPORATION

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

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

Report on Compliance for Each Major Federal Program

We have audited Lutheran Social Services of Northern California and Subsidiary's (the "Entity") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Entity's major federal programs for the year ended June 30, 2019. The Entity's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Entity's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program identified in the accompanying schedule of findings and questioned costs occurred. An audit includes examining, on a test basis, evidence about the Entity's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

Karlsson & Lane, a.c.

Pleasanton, California
January 30, 2020

LUTHERAN SOCIAL SERVICES
OF NORTHERN CALIFORNIA AND SUBSIDIARY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2019

I. SUMMARY OF INDEPENDENT AUDITORS' RESULTS

Financial Statements

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

Internal control over financial reporting:

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

Federal Awards

Internal control over major programs:

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

Type of auditors' report issued on compliance for major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	____	Yes	X	No

Identification of major program:

CDFA Number(s)	Name of Federal Program or Cluster
14.267	Continuum of Care Program

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

Auditee qualified as low-risk auditee?	X	Yes	____	No

II. Financial Statement Findings

None.

III. Federal Awards Findings

None.

IV. Prior Year Findings

Not Applicable.