

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

**Consolidated Financial Statements for  
the Years Ended  
June 30, 2017 and 2016  
and Independent Auditors' Report**

# LUTHERAN SOCIAL SERVICES OF NORTHERN CALIFORNIA AND SUBSIDIARY

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## **INDEPENDENT AUDITORS' REPORT**

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

### Report on the Financial Statements

We have audited the accompanying financial statements of Lutheran Social Services of Northern California and Subsidiary (a California nonprofit corporation) (the "Entity") which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

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

### Auditors' Responsibility

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

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

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

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Entity as of June 30, 2017 and 2016, 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 December 1, 2017, 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.

*Harlsson & Lane, a.c.*

Pleasanton, California  
December 1, 2017

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

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 697,254	\$ 279,137
Cash held for agencies in trust	1,276,126	587,318
Investments	118,714	110,387
Accounts receivable	995,158	1,360,567
Prepaid expenses and other assets	50,465	52,494
Property and equipment, net	<u>2,555,644</u>	<u>2,626,031</u>
Total assets	<u>\$ 5,693,361</u>	<u>\$ 5,015,934</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 634,399	\$ 565,192
Amounts payable to agencies in trust	1,276,126	587,318
Lines of credit	-	200,000
Debt	<u>209,910</u>	<u>219,366</u>
Total liabilities	<u>2,120,435</u>	<u>1,571,876</u>
<b>NET ASSETS</b>		
Unrestricted	2,845,586	2,698,615
Temporarily restricted	569,944	588,047
Permanently restricted	<u>157,396</u>	<u>157,396</u>
Total net assets	<u>3,572,926</u>	<u>3,444,058</u>
Total liabilities and net assets	<u>\$ 5,693,361</u>	<u>\$ 5,015,934</u>

See notes to consolidated financial statements.

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

**CONSOLIDATED STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>UNRESTRICTED NET ASSETS</b>		
Revenue and support:		
Contracts and fees	\$ 9,016,554	\$ 8,047,030
Contributions	370,640	546,908
Other income	196,921	152,439
	<u>9,584,115</u>	<u>8,746,377</u>
Total revenue and support		
Net assets released from restrictions	491,835	585,101
	<u>10,075,950</u>	<u>9,331,478</u>
Total revenues and net assets released from restrictions		
Expenses:		
Program services	9,181,309	8,194,642
Fundraising	232,903	258,839
Management and general	514,767	476,183
Total expenses	<u>9,928,979</u>	<u>8,929,664</u>
Change in unrestricted net assets	<u>146,971</u>	<u>401,814</u>
<b>TEMPORARILY RESTRICTED NET ASSETS</b>		
Contributions	469,744	299,575
Endowed investment (loss) income	3,988	(1,315)
Net assets released from restrictions	<u>(491,835)</u>	<u>(585,101)</u>
Change in temporarily restricted net assets	<u>(18,103)</u>	<u>(286,841)</u>
<b>CHANGE IN NET ASSETS</b>	128,868	114,973
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>3,444,058</u>	<u>3,329,085</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 3,572,926</u>	<u>\$ 3,444,058</u>

See notes to consolidated financial statements.

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

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2017**

	Program Services				Total Programs	Fundraising	Management and General	Total
	Money Management Services	Housing for Youth	Housing for Families and Adults	Other Program				
Salaries and benefits	\$ 1,294,593	\$ 1,035,002	\$ 2,069,504	\$ -	\$ 4,399,099	\$ 134,104	\$ 269,926	\$ 4,803,129
Client assistance	150	1,645,094	1,855,065	2,050	3,502,359	-	-	3,502,359
Occupancy	188,475	65,107	81,886	1,700	337,168	17,352	66,624	421,144
Professional fees	28,604	73,202	54,524	-	156,330	38,310	11,246	205,886
Telephone	20,985	45,669	63,820	1,744	132,218	550	33,701	166,469
Depreciation	25,426	46,107	65,746	479	137,758	3,496	7,655	148,909
Equipment and building repairs	30,901	53,916	30,500	-	115,317	9,238	6,562	131,117
Other	47,183	13,872	19,110	27,397	107,562	1,924	21,402	130,888
Supplies	24,314	14,898	60,722	1,565	101,499	191	9,747	111,437
Travel	5,773	36,263	19,610	574	62,220	2,446	18,477	83,143
Printing and duplicating	4,211	13,987	28,222	-	46,420	1,379	14,990	62,789
Insurance	13,065	12,890	25,812	-	51,767	2,485	4,812	59,064
Interest	-	7,977	-	-	7,977	-	24,731	32,708
Staff and board	2,129	4,016	4,767	-	10,912	2,385	12,713	26,010
Outreach and education	-	2,747	426	-	3,173	15,197	852	19,222
Postage	8,435	-	61	43	8,539	1,346	5,784	15,669
Dues and subscriptions	75	826	90	-	991	2,500	5,545	9,036
<b>Total</b>	<b>\$ 1,694,319</b>	<b>\$ 3,071,573</b>	<b>\$ 4,379,865</b>	<b>\$ 35,552</b>	<b>\$ 9,181,309</b>	<b>\$ 232,903</b>	<b>\$ 514,767</b>	<b>\$ 9,928,979</b>

See notes to consolidated financial statements.

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

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2016**

	Program Services				Total Programs	Fundraising	Management and General	Total
	Money Management Services	Housing for Youth	Housing for Families and Adults	Other Program				
Salaries and benefits	\$ 1,237,134	\$ 947,860	\$ 2,147,147	\$ -	\$ 4,332,141	\$ 161,622	\$ 245,929	\$ 4,739,692
Client assistance	(1,742)	1,090,590	1,568,369	-	2,657,217	-	276	2,657,493
Occupancy	189,481	39,861	94,355	1,991	325,688	12,665	67,078	405,431
Professional fees	26,917	72,051	80,773	-	179,741	31,333	17,388	228,462
Depreciation	24,809	35,980	64,981	70	125,840	3,976	7,314	137,130
Equipment and building repairs	28,919	34,140	44,019	-	107,078	9,031	9,329	125,438
Supplies	22,176	14,128	74,642	1,630	112,576	2,161	10,404	125,141
Telephone	9,510	28,104	57,017	1,986	96,617	1,078	23,772	121,467
Travel	3,730	35,548	25,904	-	65,182	3,525	17,005	85,712
Other	42,241	10,460	7,713	450	60,864	1,069	16,804	78,737
Printing and duplicating	5,420	12,359	30,686	-	48,465	2,839	20,835	72,139
Insurance	11,472	9,941	24,367	432	46,212	1,703	5,576	53,491
Staff and board	3,911	2,677	8,176	-	14,764	1,732	12,426	28,922
Postage	11,056	174	254	4	11,488	7,133	3,903	22,524
Outreach and education	-	215	781	-	996	16,310	95	17,401
Interest	-	8,234	-	-	8,234	-	8,622	16,856
Dues and subscriptions	104	90	1,345	-	1,539	2,662	9,427	13,628
<b>Total</b>	<b>\$ 1,615,138</b>	<b>\$ 2,342,412</b>	<b>\$ 4,230,529</b>	<b>\$ 6,563</b>	<b>\$ 8,194,642</b>	<b>\$ 258,839</b>	<b>\$ 476,183</b>	<b>\$ 8,929,664</b>

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, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 128,868	\$ 114,973
Adjustments to reconcile change in net assets to cash flows used in operating activities:		
Depreciation	148,909	137,130
Net realized and unrealized loss (gain) on investments	(8,327)	5,653
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable	365,409	(358,749)
Prepaid expenses and other assets	2,029	(62,402)
Accounts payable and accrued expenses	69,207	92,571
Net cash provided by (used in) operating activities	<u>706,095</u>	<u>(70,824)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	<u>(78,522)</u>	<u>(69,495)</u>
Net cash used in investing activities	<u>(78,522)</u>	<u>(69,495)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net advances (repayments) on line of credit	(200,000)	200,000
Principal payments on debt	<u>(9,456)</u>	<u>(9,119)</u>
Net cash (used in) provided by financing activities	<u>(209,456)</u>	<u>190,881</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	418,117	50,562
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>279,137</u>	<u>228,575</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 697,254</u>	<u>\$ 279,137</u>
<b>Supplemental information:</b>		
Cash paid for interest	<u>\$ 32,708</u>	<u>\$ 53,491</u>

See notes to consolidated financial statements.

# LUTHERAN SOCIAL SERVICES OF NORTHERN CALIFORNIA AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

**Basis of 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 three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

*Unrestricted Net Assets* - the portion of net assets that is neither temporarily nor permanently restricted by donor - imposed stipulations. These net assets are intended for use of management and the board of directors for program services, fundraising activities and general operations.

*Temporarily Restricted Net Assets* - the portion of net assets of which use by the Entity is limited by donor - imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Entity.

*Permanently Restricted Net Assets* - the portion of net assets of which use by the Entity is limited by donor - imposed stipulations that neither expire by passage of time nor can otherwise be removed by actions of the Entity.

**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, 2017 or 2016.

**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 permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts donated to the permanent endowment, and (3) additions to the permanent endowment in accordance with donor directions. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets 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 annually appropriates 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, 2017.

**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, temporarily restricted support, or permanently 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions.

**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, 2017 and 2016, 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 2013 through 2016 information returns are open and subject to examination. In management's judgment there are no uncertain tax positions as of June 30, 2017.

**Functional Expense Classification** - The costs of providing various programs and activities have been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs, fundraising and administrative activities that have benefited. Allocation is based on the estimates prepared by management.

**Subsequent Events** - Subsequent events have been evaluated through December 1, 2017, which is the date the financial statements were available to be issued.

**Reclassifications** - Certain 2016 consolidated financial statement balances have been reclassified to conform to the 2017 consolidated financial statement presentation.

## 2. INVESTMENTS

Investments consist of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Domestic equities	\$ 42,657	\$ 37,718
International equities	30,939	26,521
Bond funds	28,288	28,456
Real estate securities	11,336	11,994
Inflation indexed bonds	5,494	5,698
Total	<u>\$ 118,714</u>	<u>\$ 110,387</u>

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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 18	\$ 49
Net unrealized and realized (losses) gains	<u>8,327</u>	<u>(5,653)</u>
Total	<u>\$ 8,345</u>	<u>\$ (5,604)</u>

### 3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Buildings and improvements	\$ 2,496,524	\$ 2,426,558
Land	753,070	753,070
Furniture and equipment	<u>486,969</u>	<u>478,413</u>
	3,736,563	3,658,041
Accumulated depreciation	<u>(1,180,919)</u>	<u>(1,032,010)</u>
Net property and equipment	<u>\$ 2,555,644</u>	<u>\$ 2,626,031</u>

Land and building with cost basis of \$2,259,506 and accumulated depreciation of \$481,699 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 has a credit union line of credit of \$600,000, maturing May 2021. The line of credit is secured by all assets of the Entity. The interest rate is equal to Wall Street Journal Prime plus 1%. The rate will update daily through maturity, with a floor of 5.25% and ceiling of 26%. Interest payments on outstanding principal are due monthly. There was no outstanding balance at June 30, 2017. The line of credit had an outstanding balance of \$200,000 at June 30, 2016.

The Entity has a credit union line of credit of \$400,000, maturing May 2021. The line of credit is secured by all assets of the Entity. The interest rate is equal to Wall Street Journal Prime plus 1%. The rate will update daily through maturity, with a floor of 5.25% and ceiling of 26%. Interest payments on outstanding principal are due monthly. There was no outstanding balance at either June 30, 2017 or 2016, respectively.

## 5. DEBT

The Entity's debt obligations as of June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
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.	177,707	182,613
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.	<u>32,203</u>	<u>36,753</u>
Total	<u>\$ 209,910</u>	<u>\$ 219,366</u>

Future minimum principal payments as of June 30, 2017 are as follows:

2018	18,076
2019	27,116
2020	28,171
2021	29,267
2022	30,407
2023 and thereafter	<u>76,873</u>
Total	<u>\$ 209,910</u>

## 6. 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, 2017 are as follows:

<u>Year Ending June 30,</u>	
2018	\$ 217,389
2019	222,664
2020	182,278
2021	164,197
2022	169,118
2023 and thereafter	<u>338,248</u>
Total	<u>\$ 1,293,894</u>

The Entity entered into a sublease for a portion of office space described above. Rent income totaled \$18,000 during the year ended June 30, 2017. There was no rental income in 2016. The Entity's sublease expires in May 2024. Future minimum cash receipts due under the lease are as follows:

<u>Year Ending June 30,</u>	
2018	\$ 18,000
2019	18,000
2020	18,000
2021	18,000
2022	18,000
2023 and thereafter	<u>34,500</u>
Total	<u>\$ 124,500</u>

## 7. 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 employees 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, 2017 and 2016 were \$139,477 and \$124,968, respectively.



## 8. 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, 2017, the Entity had approximately \$1,539,000 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.

## 9. RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Use restrictions:		
Project Hope	\$ -	\$ 1,100
Disaster relief	6,800	22,059
Polk Street	15,708	15,708
Lutheran Hunger Network	16,611	12,052
Endowment	18,714	14,726
Youth leadership	26,216	26,216
Pilot program	186,105	61,901
Property	299,790	434,285
Total	<u>\$ 569,944</u>	<u>\$ 588,047</u>

The Entity's permanently restricted net assets 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, 2017 and 2016 are as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment balance at June 30, 2015	\$ 16,041	\$ 157,396	\$ 173,437
Investment loss	<u>(1,315)</u>	<u>-</u>	<u>(1,315)</u>
Endowment balance at June 30, 2016	14,726	157,396	172,122
Investment income	<u>3,988</u>	<u>-</u>	<u>3,988</u>
Endowment balance at June 30, 2017	<u>\$ 18,714</u>	<u>\$ 157,396</u>	<u>\$ 176,110</u>

## **10. RELATED PARTY TRANSACTIONS**

During the years ended June 30, 2017 and 2016, the Entity contracted with a company owned by an employee to provide daycare program assistance of approximately \$50,000 and \$50,000, respectively. There were no outstanding accounts payable to the company at June 30, 2017 or 2016, respectively.

## **11. 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, 2017**

<b>Federal Grantor Program Title/Pass-Through Grantor Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-through Number</b>	<b>Federal Expenditures</b>
<b>U.S. Department of Health and Human Services:</b>			
Community Services Block Grant - Passed through San Joaquin County Department of Human Assistance	93.674	SJ001-0000022919	<u>\$ 25,000</u>
HIV Emergency Relief Project Grants - Passed through the City and County of San Francisco Department of Public Health	93.914	DPHC17000863	562,715
HIV Emergency Relief Project Grants - Passed through the City and County of San Francisco Department of Public Health	93.914	DPHO17000416	<u>355,159</u>
Subtotal - HIV Emergency Relief Project Grants	93.914		<u>917,874</u>
Total U.S. Department of Health and Human Services			<u>\$ 942,874</u>
<b>U.S. Department of Housing and Urban Development:</b>			
Housing Opportunities for Persons with AIDS	14.241		<u>\$ 440,258</u>
Continuum of Care Program - Passed through City and County of San Francisco Department of Social Services	14.267	97-ISN	157,702

Continuum of Care Program - Passed through San Joaquin County Department of Human Assistance	14.267	CA0252L9T111507	395,414
Continuum of Care Program - Passed through Sacramento Steps Forward	14.267	CA0150L9T031609	479,183
Continuum of Care Program - Passed through Sacramento Steps Forward	14.267	CA0129L9T031508	462,116
Continuum of Care Program - Passed through Sacramento Steps Forward	14.267	CA0132L9T031609	351,492
Continuum of Care Program - Passed through Sacramento Steps Forward	14.267	CA0156L9T031508	181,921
Continuum of Care Program - Passed through Sacramento Steps Forward	14.267	CA0135L9T031609	254,245
Continuum of Care Program - Passed through Sacramento Steps Forward	14.267	CA0828L9T031604	294,481
Continuum of Care Program - Passed through Sacramento Steps Forward	14.267	CA1152L9T031504	311,352
Continuum of Care Program - Passed through Next Move	14.267	2017	<u>762,175</u>
Subtotal - Continuum of Care Program	14.267		<u>3,650,081</u>
Total U.S. Department of Housing and Urban Development			<u>\$ 4,090,339</u>
Total			<u>\$ 5,033,213</u>

# LUTHERAN SOCIAL SERVICES OF NORTHERN CALIFORNIA AND SUBSIDIARY

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2017

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

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes federal award activity of the Entity under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Entity, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Entity.

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

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



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the consolidated financial statements of Lutheran Social Services of Northern California and Subsidiary (a nonprofit organization) (the "Entity") which comprise the consolidated statement of financial position as of June 30, 2017, 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 December 1, 2017.

Internal Control Over Financial Reporting

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

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

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

## Compliance and Other Matters

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

## Purpose of this Report

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

*Harrison & Lane, a.c.*

Pleasanton, California  
December 1, 2017

**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, 2017. The Entity's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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



## Opinion on Each Major Federal Program

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

## Report on Internal Control Over Compliance

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

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

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

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

*Harrison & Lane, a.c.*

Pleasanton, California  
December 1, 2017

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2017**

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

**Financial Statements**

Type of auditors' report issued: **Unmodified**

Internal control over financial reporting:

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

**Federal Awards**

Internal control over major programs:

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

CDFA Number(s)  
14.267

Name of Federal Program or Cluster  
Continuum of Care Program

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

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
JUNE 30, 2017**

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**I. Financial Statement Findings**

None

**II. Federal Awards Findings**

None

**III. Prior Year Findings**

Not Applicable.