

LUTHERAN SOCIAL SERVICES, INC.

Independent Auditor's Report and Financial Statements
December 31, 2019 and 2018

Lutheran Social Services, Inc.
December 31, 2019 and 2018

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Independent Auditor's Report

Board of Directors
Lutheran Social Services, Inc.
Fort Wayne, Indiana

We have audited the accompanying financial statements of Lutheran Social Services, Inc., which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lutheran Social Services, Inc. as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

Fort Wayne, Indiana
May 4, 2020

Lutheran Social Services, Inc.

Statements of Financial Position

December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Cash	\$ 58,097	\$ 112,508
Grants receivable from foundations (net)	945,000	1,010,243
Contract fees receivable from Government agencies	132,710	121,875
Fees for service receivable	67,195	21,559
Prepaid expenses and other assets	80,668	62,262
Investments	3,536,434	3,080,277
Property and equipment, net	408,263	431,630
Beneficial interest in perpetual trusts	689,720	701,740
	<u>5,918,087</u>	<u>5,542,094</u>
Total assets	<u>\$ 5,918,087</u>	<u>\$ 5,542,094</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 70,722	\$ 80,252
Accrued wages and benefits	157,309	159,016
Line of credit	200,000	30,000
Total liabilities	<u>428,031</u>	<u>269,268</u>
Net Assets		
Without donor restrictions	3,440,976	3,173,971
With donor restrictions	2,049,080	2,098,855
Total net assets	<u>5,490,056</u>	<u>5,272,826</u>
Total liabilities and net assets	<u>\$ 5,918,087</u>	<u>\$ 5,542,094</u>

Lutheran Social Services, Inc.

Statement of Activities Year Ended December 31, 2019

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues			
Contributions	\$ 237,431	\$ -	\$ 237,431
Grants from foundations	343,915	788,896	1,132,811
Contract fees from Government agencies	1,142,984	-	1,142,984
Fees for service	1,151,695	-	1,151,695
Miscellaneous	34,992	-	34,992
Net assets released from restrictions	826,651	(826,651)	-
Total revenues	3,737,668	(37,755)	3,699,913
Expenses			
ECHO	160,733	-	160,733
Children's Village	1,216,656	-	1,216,656
Cup of Kindness	194,182	-	194,182
Gear Up	196,665	-	196,665
Network for safe families	733,670	-	733,670
Family and child services	421,142	-	421,142
LSSI Works	317,434	-	317,434
Recovery Team Care	37,694	-	37,694
Program expenses	3,278,176	-	3,278,176
Management and general	594,627	-	594,627
Fundraising	216,678	-	216,678
Total expenses	4,089,481	-	4,089,481
Change in Net Assets Before Other Activities	(351,813)	(37,755)	(389,568)
Investment gain	618,818	-	618,818
Change in value of perpetual trusts	-	(12,020)	(12,020)
Change in Net Assets	267,005	(49,775)	217,230
Net Assets, Beginning of Year	3,173,971	2,098,855	5,272,826
Net Assets, End of Year	\$ 3,440,976	\$ 2,049,080	\$ 5,490,056

Lutheran Social Services, Inc.

Statement of Activities Year Ended December 31, 2018

	2018		
	Unrestricted	With Donor Restrictions	Total
Revenues			
Contributions	\$ 281,686	\$ -	\$ 281,686
Grants from foundations	264,500	688,019	952,519
Contract fees from Government agencies	1,196,578	-	1,196,578
Fees for service	937,703	-	937,703
Miscellaneous	15,913	-	15,913
Net assets released from restrictions	946,401	(946,401)	-
Total revenues	3,642,781	(258,382)	3,384,399
Expenses			
ECHO	176,137	-	176,137
Children's Village	1,218,981	-	1,218,981
Cup of Kindness	188,570	-	188,570
Gear Up	193,494	-	193,494
Network for safe families	654,968	-	654,968
Family and child services	264,522	-	264,522
LSSI Works	396,045	-	396,045
Balance Works	162,351	-	162,351
Program expenses	3,255,068	-	3,255,068
Management and general	523,901	-	523,901
Fundraising	235,716	-	235,716
Total expenses	4,014,685	-	4,014,685
Change in Net Assets Before Other Activities	(371,904)	(258,382)	(630,286)
Investment loss	(190,736)	-	(190,736)
Change in value of perpetual trusts	-	37,800	37,800
Change in Net Assets	(562,640)	(220,582)	(783,222)
Net Assets, Beginning of Year	3,736,611	2,319,437	6,056,048
Net Assets, End of Year	\$ 3,173,971	\$ 2,098,855	\$ 5,272,826

Lutheran Social Services, Inc.

Statement of Functional Expenses Year Ended December 31, 2019

	Program Expenses	Management and General	Fundraising	Total
Employment Expenses				
Salaries and wages	\$ 1,818,240	\$ 377,946	\$ 93,686	\$ 2,289,872
Payroll taxes and benefits	416,956	80,617	14,653	512,226
Total employment expenses	<u>2,235,196</u>	<u>458,563</u>	<u>108,339</u>	<u>2,802,098</u>
Occupancy				
Utilities	38,112	1,055	1,206	40,373
Rent	117,624	-	-	117,624
Building maintenance	75,315	2,864	6,258	84,437
Insurance	40,140	5,820	4,942	50,902
Total occupancy	<u>271,191</u>	<u>9,739</u>	<u>12,406</u>	<u>293,336</u>
Administration				
Small equipment and maintenance	6,899	378	460	7,737
Postage and supplies	42,962	4,903	6,572	54,437
Printing	34,088	2,849	10,092	47,029
Travel and conferences	33,048	9,209	2,116	44,373
Professional fees	188,347	69,682	21,300	279,329
Staff development	87,345	21,641	2,660	111,646
Telephone and communications	43,142	3,952	1,517	48,611
Total administration	<u>435,831</u>	<u>112,614</u>	<u>44,717</u>	<u>593,162</u>
Activities and Services				
Individual assistance	140,909	-	-	140,909
Individual program costs	136,051	595	1,058	137,704
Total activities and services	<u>276,960</u>	<u>595</u>	<u>1,058</u>	<u>278,613</u>
Other				
Miscellaneous	7,119	4,855	834	12,808
Special events	-	-	46,159	46,159
Total other	<u>7,119</u>	<u>4,855</u>	<u>46,993</u>	<u>58,967</u>
Depreciation				
	<u>51,879</u>	<u>8,261</u>	<u>3,165</u>	<u>63,305</u>
Total expenses	<u>\$ 3,278,176</u>	<u>\$ 594,627</u>	<u>\$ 216,678</u>	<u>\$ 4,089,481</u>

Lutheran Social Services, Inc.

Statement of Functional Expenses Year Ended December 31, 2018

	Program Expenses	Management and General	Fundraising	Total Expenses
Employment Expenses				
Salaries and wages	\$ 1,838,257	\$ 338,265	\$ 113,808	\$ 2,290,330
Payroll taxes and benefits	388,388	70,025	15,345	473,758
Total employment expenses	<u>2,226,645</u>	<u>408,290</u>	<u>129,153</u>	<u>2,764,088</u>
Occupancy				
Utilities	35,211	941	1,076	37,228
Rent	113,617	15	15	113,647
Building maintenance	67,907	2,456	5,073	75,436
Insurance	43,383	4,715	4,715	52,813
Total occupancy	<u>260,118</u>	<u>8,127</u>	<u>10,879</u>	<u>279,124</u>
Administration				
Small equipment and maintenance	8,146	349	433	8,928
Postage and supplies	65,688	7,595	3,562	76,845
Printing	30,451	3,577	5,539	39,567
Travel and conferences	32,579	7,482	3,583	43,644
Professional fees	182,932	61,311	17,732	261,975
Staff development	85,489	12,116	3,712	101,317
Telephone and communications	40,930	3,501	1,917	46,348
Total administration	<u>446,215</u>	<u>95,931</u>	<u>36,478</u>	<u>578,624</u>
Activities and Services				
Individual assistance	120,358	-	600	120,958
Individual program costs	133,454	596	247	134,297
Total activities and services	<u>253,812</u>	<u>596</u>	<u>847</u>	<u>255,255</u>
Other				
Miscellaneous	8,299	2,410	891	11,600
Special events	-	-	53,848	53,848
Total other	<u>8,299</u>	<u>2,410</u>	<u>54,739</u>	<u>65,448</u>
Depreciation				
	<u>59,979</u>	<u>8,547</u>	<u>3,620</u>	<u>72,146</u>
Total expenses	<u>\$ 3,255,068</u>	<u>\$ 523,901</u>	<u>\$ 235,716</u>	<u>\$ 4,014,685</u>

Lutheran Social Services, Inc.
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Activities		
Change in net assets	\$ 217,230	\$ (783,222)
Items not requiring (providing) operating activities cash flows		
Depreciation	63,305	72,146
Realized/unrealized (gain) loss on investments	(527,047)	295,254
Contributions received restricted for acquisition of long-lived assets	(35,086)	(33,197)
Changes in		
Grants receivable from foundations	65,243	309,793
Contract fees receivable from Government agencies	(10,835)	78,358
Fees for service receivable	(45,636)	(16,660)
Prepaid expenses and other assets	(18,406)	7,788
Accounts payable	(9,530)	(8,403)
Beneficial interest in perpetual trust	12,020	(37,800)
Accrued wages and benefits	(1,707)	(5,877)
Net cash used in operating activities	<u>(290,449)</u>	<u>(121,820)</u>
Investing Activities		
Purchase of property and equipment	(39,938)	(20,119)
Purchase of investments	(1,635,441)	(1,116,642)
Proceeds from sale of investments	1,706,331	1,179,711
Net cash provided by investing activities	<u>30,952</u>	<u>42,950</u>
Financing Activity		
Proceeds from borrowing on line of credit	300,000	30,000
Payments on line of credit	(130,000)	-
Proceeds from contributions restricted for acquisition of long-lived assets	35,086	33,197
Net cash provided by financing activities	<u>205,086</u>	<u>63,197</u>
Decrease in Cash	(54,411)	(15,673)
Cash, Beginning of Year	<u>112,508</u>	<u>128,181</u>
Cash, End of Year	<u>\$ 58,097</u>	<u>\$ 112,508</u>

Lutheran Social Services, Inc.

Notes to Financial Statements December 31, 2019 and 2018

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Lutheran Social Services, Inc. (Organization), was founded in 1901 in Fort Wayne, Indiana. The Organization is a not-for-profit voluntary health and welfare organization whose mission is to express the love of Jesus Christ for all people through services that empower individuals and families to move toward social, emotional and spiritual wholeness. The Organization maintains affiliation with the Evangelical Lutheran Church in America and is a recognized service organization by the Lutheran Church-Missouri Synod. The Organization provides service in Northern Indiana to families in poverty using a holistic approach.

The Organization operates primarily on contributions, grants from foundations, investment return and fee income from certain programs.

The Organization's Teen Parenting services (known as Education Creates Hope and Opportunity, or ECHO) use a case management model to assist teen parents to complete high school and to develop post-high school goals. Additionally, ECHO helps prepare students for entrance into a post-secondary education program so they can work toward a livable wage with a certificate or an associates or bachelor's degree. This program has consistently achieved a graduation rate above 95 percent, while nationally only 40 percent of teen parents graduated.

The Child Care program, known as Children's Village Early Learning Center, serves children ages six weeks to six years old from low income families whose parents attend school or are employed and are working toward greater self-sufficiency. The center is located on the campus of Lutheran Life Villages in Fort Wayne, Indiana, and provides daily intergenerational activities that benefit both the seniors and children.

The Basic Needs Assistance program, known as Cup of Kindness and Pastor's Fund, provides direct assistance, case management services and financial literacy lessons to eligible individuals and families for utilities, rent or mortgage payments, and other life necessities. The financial literacy curriculum offers clients an opportunity to understand and better manage their finances as they take steps to create a more stable financial future for themselves and their families. The topics include budgeting, expense tracking, managing credit cards and becoming an informed consumer. Each lesson can stand alone or be taken in a series. The financial literacy curriculum is built into every program that the Organization offers.

Through a subprovider agreement with SCAN, Inc., (SCAN) the Organization's Network for Safe Families and Community Partners programs offer in-home case management services that assist families to set and attain goals in areas from housing stabilization and employment to family-management and parenting skills.

In 2014, the Organization partnered with SCAN to create a new program providing families with necessary safety items for their homes. These safety items may include outlet covers, baby locks, helmets, life jackets or pack-n-plays; whatever is needed to ensure that their home is a safe place for their children. In addition, staff will help with the installation of the safety materials and provide education/training on the safety topics identified by the family.

Lutheran Social Services, Inc.

Notes to Financial Statements December 31, 2019 and 2018

The Family and Child Services program is the result of a contract with the Department of Child Services to provide family preservation services in Allen and surrounding counties. The Organization works in conjunction with other local service providers to offer home-based, family-centered services. The goal is to help families meet necessary goals through a strength-focused model and achieve family reunification. Additional services are provided to assist and support parents by teaching and demonstrating proper parenting and homemaking functions.

LSSI (Lasting Stability and Success for Individuals) Works is a workforce initiative of the Organization providing students personal and professional skills to help them find a career, not just a job. We do this through a simulated workplace environment, intentional community building, and focusing initially on the student's personal barriers to employment, such as lack of confidence, lack of conflict management skills and unhealthy definitions of love and forgiveness. After the initial four weeks, referred to as Foundations, is completed, a student remains with us until employed as an Advanced Student, where they continue to learn professional skills and identify their skills and passions. Once employed in a sustainable position, LSSI Works staff remain engaged in supported employment with the student for an entire calendar year, to help ensure long-term success.

Balance Works, a mental health initiative by Lutheran Social Services, is Northeast Indiana's faith-based mental-health provider offering proven integrated mind-body-spirit therapy for children and adults. We empower individuals to overcome barriers, conquer traumatic experiences, and live life freely. Balance Works provides several different office-based therapy services for individuals, couples, and families within a broad network of support. We specialize in EMDR (Eye Movement Desensitization and Reprocessing) therapy.

Use of 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 amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash

From time to time, the Organization's deposits are in excess of the FDIC insured amount.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Investment return includes dividend, interest and other investment income, and realized and unrealized gains and losses on investments carried at fair value.

Lutheran Social Services, Inc.

Notes to Financial Statements December 31, 2019 and 2018

Grants Receivable From Foundations

The Organization recognizes contributions as public support in the year the promise is made. The present value of these estimated future cash flows is recorded as a receivable. Management considers all grants receivable from foundations to be fully collectible and, therefore, has not established an allowance for uncollectible contributions.

Contract Fees Receivable From Government Agencies

Contract fees receivable represent amounts owed from various government agencies as reimbursement of program services and are stated at the amount of consideration from customers of which the Organization has an unconditional right to payment. The Organization considers these accounts to be fully collectible and, therefore, has not established an allowance for uncollectible accounts.

Fees for Service Receivable

Fees for service receivable are stated at the amount of consideration from customers of which the Organization has an unconditional right to payment. The Organization considers the need for an allowance for doubtful accounts. The receivables are considered past due based on their individual contract terms. The amount of the allowance is based on management's evaluation of the collectability of the accounts, including the credit concentrations, trends in historical loss experience, specific impaired accounts and economic conditions. Management of the Organization has not provided an allowance for uncollectible accounts because the estimate of any loss is deemed to be immaterial to the financial statements.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation, except donated assets which are recorded at fair value as of the date of the gift. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset. Upon sale or retirement of land, buildings and equipment, the cost and related accumulated depreciation are eliminated from the respective accounts, and resulting gain or loss is included in the statements of activities. All purchases in excess of \$2,500 are capitalized, while lesser amounts are charged to expense.

Long-lived Asset Impairment

The Organization evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended December 31, 2019 and 2018.

Lutheran Social Services, Inc.

Notes to Financial Statements December 31, 2019 and 2018

Contributions

Contributions are provided to the Organization either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on the Organization overcoming a donor imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> , the donor imposed barrier is met
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present value discount is amortized using the level-yield method.

When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Gifts and investment income having donor stipulations which are satisfied in the period the gift is received are recorded as revenue with donor restrictions and then released from restriction.

Conditional contributions having donor stipulations which are satisfied in the period the gift is received are recorded as revenue with donor restrictions and then released from restriction.

Gifts-in-kind are recorded at the fair value of the goods or service received and similarly increase expense by a like amount. Total gifts-in-kind for 2019 and 2018 were \$68,111 and \$64,812, respectively.

Lutheran Social Services, Inc.

Notes to Financial Statements December 31, 2019 and 2018

Net Assets – Basis of Presentation

Net assets, revenue, expenses, gains and losses are classified based on the existence or absence of donor or grantor imposed restrictions. The definitions used to clarify and report net assets are as follows:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor imposed stipulations and are available for use in general operations or are part of what's invested in property, plant and equipment (net of related debt). However, the governing board may designate any of these funds for specific purposes (*i.e.*, specific purpose reserves or endowments). The Board has designated \$50,000 for specific purposes at December 31, 2019 and 2018.

Net Assets With Donor Restrictions – Net assets subject to donor imposed stipulations (1) that will be met either by actions of the Organization or the passage of time or (2) that are to be permanently maintained by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code; however, the Organization is subject to federal income tax on any unrelated business taxable income.

Functional Allocation of Expenses

Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Note 2: Change in Accounting Principle

Revenue Recognition

As of January 1, 2019, the Organization adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), (ASU 2014-09) using a modified retrospective method of adoption to all contracts with customers not completed at January 1, 2019.

The core guidance in ASU 2014-09 is to recognize revenue to depict the transfer of promised goods or services to customers in amounts that reflect the consideration to which the Organization expects to be entitled in exchange for those goods or services.

The amount to which the Organization expects to be entitled is calculated as the transaction price and recorded as revenue in exchange for providing goods or services.

Adoption of ASU 2014-09 resulted in additional disclosures in the notes to the financial statements.

Lutheran Social Services, Inc.

Notes to Financial Statements December 31, 2019 and 2018

The adoption has no impact on overall change in net assets or net cash provided by operating activities.

Contributions Received and Contributions Made

As of January 1, 2019, the Organization adopted the FASB ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, (ASU 2018-08) using a modified prospective method of adoption to all agreements that were not completed as of January 1, 2019.

The intent of ASU 2018-08 is to assist an organization in evaluating whether transactions are considered nonreciprocal transactions and should be accounted for as contributions, or if the transactions are considered reciprocal and should be accounted for as exchange transactions. Additionally, the revised guidance helps entities evaluate whether a contribution is conditional or unconditional.

The adoption has no impact on overall change in net assets or net cash provided by operating activities.

Note 3: Revenue From Contracts With Customers

Contract Fees From Government Agencies

Contract fees from government agencies generally include revenue from contracts for providing social services to those in need, as well as certain expense reimbursement programs. These amounts are generally due from various government agencies and are calculated based on contractual rates.

The Organization records revenue at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for those services. Revenue is recognized for performance obligations satisfied over time as the service has been provided based on the contract. Generally, the Organization bills for these services subsequent to the service being performed.

Fees for Service

Fees for service generally include revenue from contracts for providing social services to those in need, as well as certain expense reimbursement programs. These amounts are generally due from individuals and families receiving the services, as well as other private foundations.

The Organization records revenue at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for those services. Revenue is recognized for performance obligations satisfied at a point in time when the service has been provided based on the contract. Generally, the Organization bills for these services subsequent to the service being performed.

Lutheran Social Services, Inc.

Notes to Financial Statements December 31, 2019 and 2018

The Organization has determined that the nature, amount and timing and uncertainty of revenue and cash flows are affected by the different services provided and the payers that have different reimbursement and payment strategies.

Note 4: Grants Receivable From Foundations

Grants receivable from foundations include unconditional promises to give as follows:

	2019	2018
Lutheran Foundation	\$ 695,000	\$ 600,000
Foellinger Foundation	215,000	415,000
Other	35,000	1,500
	<u>945,000</u>	<u>1,016,500</u>
Less discount (at 3.25%) to net present value	-	(6,257)
	<u>945,000</u>	<u>1,010,243</u>

Grants receivable are due as follows:

	2019	2018
Due within one year	\$ 945,000	\$ 801,500
Due in one to five years	-	215,000
	<u>945,000</u>	<u>1,016,500</u>

Note 5: Investments and Investment Return

Investments at December 31 consisted of the following:

	2019	2018
Money market funds	\$ 175,960	\$ 134,920
Mutual funds	659,736	590,039
Exchange-traded funds	100,420	118,967
Common stocks	2,182,515	1,794,281
Bonds and notes	417,803	442,070
	<u>3,536,434</u>	<u>3,080,277</u>

Lutheran Social Services, Inc.

Notes to Financial Statements December 31, 2019 and 2018

Total investment return (loss) is comprised of the following:

	<u>2019</u>	<u>2018</u>
Interest and dividend income	\$ 91,771	\$ 104,518
Net realized and unrealized gains (losses) on investments	<u>527,047</u>	<u>(295,254)</u>
	<u>\$ 618,818</u>	<u>\$ (190,736)</u>

Note 6: Beneficial Interest in Assets Held by the Community Foundations

The Organization has a beneficiary interest in certain assets held by the Community Foundation of Greater Fort Wayne (Community Foundation). The purpose of this fund is to support the Organization and it is funded by donations received from unrelated third parties. Variance power of these funds is retained by the Community Foundation and distributions of these funds are received by the Organization at the discretion of the Community Foundation. The fair value of these funds was \$32,701 and \$22,406 at December 31, 2019 and 2018, respectively. As the Organization does not have variance power over these funds, an asset is not reflected in the statements of financial position, and revenue is recorded as distributions are received.

Note 7: Beneficial Interest in Perpetual Trust

The Organization is a beneficiary of a perpetual trust held by a third-party trustee. Under the terms of the agreement, the Organization receives 7.15 percent of the trust's required annual distributions. Although the Organization has no control over the administration or investment of the funds held in the trust, the estimated fair value of the Organization's share of the trust is recorded as a net asset with donor restrictions at the present value of future estimated payments, calculated using a discount rate of 5 percent. The estimated fair value of the beneficial interest in the perpetual trust amounted to \$689,720 and \$701,740 at December 31, 2019 and 2018, respectively. Distributions received were \$35,086 in 2019 and were recorded as revenue with donor restrictions based on the donor's stipulations. There were no distributions received in 2018. Increases or decreases in the fair value of the trust assets are recorded in the statements of activities as changes in net assets with donor restrictions.

Lutheran Social Services, Inc.

Notes to Financial Statements December 31, 2019 and 2018

Note 8: Property and Equipment

	<u>2019</u>	<u>2018</u>
Land	\$ 97,244	\$ 97,244
Buildings	406,699	406,699
Building improvements	505,061	505,061
Vehicles	24,122	24,122
Office equipment, furniture and computers	553,923	499,843
Construction in progress	-	14,142
	<u>1,587,049</u>	<u>1,547,111</u>
Less accumulated depreciation	<u>(1,178,786)</u>	<u>(1,115,481)</u>
Total	<u>\$ 408,263</u>	<u>\$ 431,630</u>

Note 9: Line of Credit

On January 12, 2017, the Organization entered into an agreement with a bank for a \$200,000 line of credit. In September 2019, the authorized amount of the line of credit was increased to \$500,000. The line bears interest at an annual rate of LIBOR (2.43 percent and 2.51 percent at December 31, 2019 and 2018, respectively) plus 2.32 percent. There was an outstanding balance of \$200,000 and \$30,000 drawn on the line of credit at December 31, 2019 and 2018, respectively. The line of credit is due September 27, 2020.

Lutheran Social Services, Inc.

Notes to Financial Statements December 31, 2019 and 2018

Note 10: Net Assets

Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes or periods:

	2019	2018
Subject to passage of time	\$ 932,896	\$ 1,031,639
Subject to expenditure for specified purpose		
Capital expenditures and reduction of debt	312,882	277,796
Child care	9,376	11,369
ECHO Program	20,000	1,500
Other	30,510	21,115
	372,768	311,780
Investments in perpetuity, the income from which is expendable for restricted or unrestricted purposes based upon the stipulations of the donor	53,696	53,696
Beneficial interest in perpetual trust	689,720	701,740
	\$ 2,049,080	\$ 2,098,855

Net Assets Released From Restrictions

Net assets were released from restrictions due to the following:

	2019	2018
Passage of time restriction	\$ 800,000	\$ 880,000
Child care	2,993	11,401
Organizational effectiveness	-	2,500
ECHO Program	1,500	2,000
LSSI Works	-	50,000
Other	22,158	500
	\$ 826,651	\$ 946,401

Lutheran Social Services, Inc.

Notes to Financial Statements December 31, 2019 and 2018

Note 11: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2019 and 2018:

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2019				
Investments				
Money market funds	\$ 175,960	\$ 175,960	\$ -	\$ -
Mutual funds	659,736	659,736	-	-
Exchange-traded funds	100,420	100,420	-	-
Common stocks	2,182,515	2,182,515	-	-
Bonds and notes	417,803	-	417,803	-
Beneficial Interest in Perpetual Trust	689,720	-	-	689,720

Lutheran Social Services, Inc.

Notes to Financial Statements December 31, 2019 and 2018

	<u>Fair Value Measurements Using</u>			
	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
December 31, 2018				
Investments				
Money market funds	\$ 134,920	\$ 134,920	\$ -	\$ -
Mutual funds	590,039	590,039	-	-
Exchange-traded funds	118,967	118,967	-	-
Common stocks	1,794,281	1,794,281	-	-
Bonds and notes	442,070	-	442,070	-
Beneficial Interest in Perpetual Trust	701,740	-	-	701,740

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2019. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Beneficial Interest in Perpetual Trust

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreement. Due to the nature of the valuation inputs, the interest is classified within Level 3 of the hierarchy.

Fair value determinations for Level 3 measurements of assets are the responsibility of the Business Office. The Business Office obtains valuation information and inputs as needed to generate fair value estimates. The Business Office challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States of America.

Lutheran Social Services, Inc.

Notes to Financial Statements December 31, 2019 and 2018

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying statements of financial position using significant unobservable (Level 3) inputs:

	Beneficial Interest in Perpetual Trusts
Balance, January 1, 2018	\$ 663,940
Total realized and unrealized gains included in change in net assets	37,800
Balance, December 31, 2018	701,740
Total realized and unrealized losses included in change in net assets	(12,020)
Balance, December 31, 2019	\$ 689,720

The following tables present quantitative information about unobservable inputs used in recurring Level 3 fair value measurements at December 31, 2019 and 2018:

Unobservable (Level 3) Inputs

	Fair Value at December 31, 2019	Valuation Technique	Unobservable Inputs	Rate
Beneficial interest in perpetual trust	\$ 689,720	Discounted cash flows	Discount rate	5%

	Fair Value at December 31, 2018	Valuation Technique	Unobservable Inputs	Rate
Beneficial interest in perpetual trust	\$ 701,740	Discounted cash flows	Discount rate	5%

Lutheran Social Services, Inc.

Notes to Financial Statements December 31, 2019 and 2018

Note 12: Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	<u>2019</u>	<u>2018</u>
Cash	\$ 58,097	\$ 112,508
Grants receivable from foundation	945,000	801,500
Contract fees receivable from government agencies	132,710	121,875
Fees for service receivable	67,195	21,559
Investments	3,072,074	2,643,405
	<u>\$ 4,275,076</u>	<u>\$ 3,700,847</u>

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing mission-related activities, as well as the conduct of service undertaken to support those activities, to be general expenditures.

The Organization has various sources of liquidity at its disposal, including cash, marketable debt and equity securities and a line of credit (Note 9).

Note 13: Retirement Plan

The Organization sponsors a defined contribution plan for the benefit of all full-time employees who are at least 21 years of age and have one year of service. Contributions to the plan are at the discretion of the Board of Directors. The Organization contributed \$51,481 and \$53,391 in 2019 and 2018, respectively.

Note 14: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Contributions

Approximately 25 percent and 22 percent of all contributions were received from one donor in 2019 and 2018, respectively.

Lutheran Social Services, Inc.

Notes to Financial Statements December 31, 2019 and 2018

Grants From Foundations

Approximately 77 percent and 87 percent of all grants from foundations were received from two foundations in 2019 and 2018, respectively.

Investments

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying statements of financial position.

Note 15: Subsequent Events

Subsequent events have been evaluated through May 4, 2020, which is the date the financial statements were available to be issued.

As a result of the spread of the SARS-CoV-2 virus and the incidence of COVID-19, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of the Organization. There has been significant volatility in the investment market both nationally and globally since December 31, 2019, resulting in an overall market decline in certain market segments which has resulted in a decline in the value of our investment portfolio. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

Other Information

Independent Auditor's Report on Other Information

Board of Directors
Lutheran Social Services, Inc.
Fort Wayne, Indiana

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The schedules of program expenses for the years ended December 31, 2019 and 2018, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Fort Wayne, Indiana
May 4, 2020

Lutheran Social Services, Inc.
Schedule of Program Expenses
Year Ended December 31, 2019

	ECHO	Children's Village	Cup of Kindness	Gear Up	Network for Safe Families	Family and Child Services	LSSI Works	Recovery Team Care	Total
Employment Expenses									
Salaries and wages	\$ 87,401	\$ 695,897	\$ 73,051	\$ 63,827	\$ 440,035	\$ 272,950	\$ 153,630	\$ 31,449	\$ 1,818,240
Payroll taxes and benefits	22,073	180,162	15,504	15,696	83,143	61,197	37,272	1,909	416,956
Total employment expenses	109,474	876,059	88,555	79,523	523,178	334,147	190,902	33,358	2,235,196
Occupancy									
Utilities	1,490	24,938	1,281	1,794	5,002	2,298	1,309	-	38,112
Rent	-	60,000	-	2,825	9,700	-	45,099	-	117,624
Building maintenance	2,782	48,417	2,713	1,895	8,152	3,044	8,312	-	75,315
Insurance	4,622	7,466	4,942	2,773	11,093	4,622	4,622	-	40,140
Total occupancy	8,894	140,821	8,936	9,287	33,947	9,964	59,342	-	271,191
Administration									
Small equipment and maintenance	350	2,794	412	243	1,320	316	1,464	-	6,899
Postage and supplies	2,247	16,750	5,205	1,719	7,766	4,155	5,064	56	42,962
Printing	2,755	6,717	2,318	5,126	8,894	4,903	2,844	531	34,088
Travel and conferences	2,981	3,764	3,871	2,372	10,862	3,617	5,536	45	33,048
Professional fees	17,612	25,499	16,056	22,526	48,552	39,260	17,980	862	188,347
Staff development	5,450	5,057	1,756	12,087	49,932	8,793	2,617	1,653	87,345
Telephone and communications	4,301	7,268	2,691	2,887	13,636	6,215	5,590	554	43,142
Total administration	35,696	67,849	32,309	46,960	140,962	67,259	41,095	3,701	435,831
Activities and Services									
Individual assistance	631	7,573	50,895	58,464	22,755	50	516	25	140,909
Individual program costs	1,955	112,328	9,653	10	1,775	4,295	5,614	421	136,051
Total activities and services	2,586	119,901	60,548	58,474	24,530	4,345	6,130	446	276,960
Other									
	834	980	834	500	2,002	835	1,134	-	7,119
Depreciation									
	3,249	11,046	3,000	1,921	9,051	4,592	18,831	189	51,879
Total Expenses	\$ 160,733	\$ 1,216,656	\$ 194,182	\$ 196,665	\$ 733,670	\$ 421,142	\$ 317,434	\$ 37,694	\$ 3,278,176

Lutheran Social Services, Inc.
Schedule of Program Expenses
Year Ended December 31, 2018

	ECHO	Children's Village	Cup of Kindness	Gear Up	Network for Safe Families	Family and Child Services	LSSI Works	Balance Works	Total
Employment Expenses									
Salaries and wages	\$ 103,416	\$ 703,907	\$ 69,024	\$ 71,404	\$ 403,437	\$ 167,260	\$ 200,195	\$ 119,614	\$ 1,838,257
Payroll taxes and benefits	23,544	164,334	14,598	15,580	75,180	44,804	35,059	15,289	388,388
Total employment expenses	<u>126,960</u>	<u>868,241</u>	<u>83,622</u>	<u>86,984</u>	<u>478,617</u>	<u>212,064</u>	<u>235,254</u>	<u>134,903</u>	<u>2,226,645</u>
Occupancy									
Utilities	1,329	24,175	1,143	1,601	3,745	1,368	1,167	683	35,211
Rent	15	60,015	15	2,634	7,206	10	43,717	5	113,617
Building maintenance	2,629	46,298	2,545	1,880	5,815	1,968	5,789	983	67,907
Insurance	4,413	7,097	4,715	2,648	10,590	4,413	9,507	-	43,383
Total occupancy	<u>8,386</u>	<u>137,585</u>	<u>8,418</u>	<u>8,763</u>	<u>27,356</u>	<u>7,759</u>	<u>60,180</u>	<u>1,671</u>	<u>260,118</u>
Administration									
Small equipment and maintenance	320	4,486	384	227	1,189	193	1,255	92	8,146
Postage and supplies	2,550	34,464	4,976	2,135	11,188	1,729	6,103	2,543	65,688
Printing	3,216	4,599	2,048	3,564	8,317	2,216	4,052	2,439	30,451
Travel and conferences	2,060	3,484	3,222	1,944	8,650	2,558	8,805	1,856	32,579
Professional fees	16,577	20,756	16,707	16,458	45,180	19,949	36,803	10,502	182,932
Staff development	4,781	6,899	4,102	11,076	44,441	6,718	4,641	2,831	85,489
Telephone and communications	3,886	6,216	2,600	3,177	13,050	5,571	5,521	909	40,930
Total administration	<u>33,390</u>	<u>80,904</u>	<u>34,039</u>	<u>38,581</u>	<u>132,015</u>	<u>38,934</u>	<u>67,180</u>	<u>21,172</u>	<u>446,215</u>
Activities and Services									
Individual assistance	1,000	5,241	53,422	55,672	3,574	-	1,399	50	120,358
Individual program costs	1,890	114,818	3,958	822	2,382	846	5,092	3,646	133,454
Total activities and services	<u>2,890</u>	<u>120,059</u>	<u>57,380</u>	<u>56,494</u>	<u>5,956</u>	<u>846</u>	<u>6,491</u>	<u>3,696</u>	<u>253,812</u>
Other									
	<u>891</u>	<u>1,001</u>	<u>1,491</u>	<u>535</u>	<u>2,139</u>	<u>754</u>	<u>1,191</u>	<u>297</u>	<u>8,299</u>
Depreciation									
	<u>3,620</u>	<u>11,191</u>	<u>3,620</u>	<u>2,137</u>	<u>8,885</u>	<u>4,165</u>	<u>25,749</u>	<u>612</u>	<u>59,979</u>
Total expenses	<u>\$ 176,137</u>	<u>\$ 1,218,981</u>	<u>\$ 188,570</u>	<u>\$ 193,494</u>	<u>\$ 654,968</u>	<u>\$ 264,522</u>	<u>\$ 396,045</u>	<u>\$ 162,351</u>	<u>\$ 3,255,068</u>