

**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST**

**YEAR ENDED JUNE 30, 2020**

**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST**

**YEAR ENDED JUNE 30, 2020**

**CONTENTS**

	Page
Independent auditors' report	1 - 2
Financial statements:	
Statement of financial position	3
Statement of activities	4
Statement of functional expenses	5
Statement of cash flows	6
Notes to financial statements	7 - 17

Independent Auditors' Report

Board of Directors and Management  
Lutheran Social Services of the Southwest  
Phoenix, Arizona

We have audited the accompanying financial statements of Lutheran Social Services of the Southwest (the Organization), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the financial statements.

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

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

**Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 financial statements are free from material misstatement.

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

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lutheran Social Services of the Southwest as of June 30, 2020, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 1 to the financial statements, the Organization adopted Accounting Standards Update ("ASU") No. 2018-08, "Not-for-Profit Entities (Topic 958)" effective July 1, 2019. Topic 958 was adopted under the full retrospective approach, with beginning net assets at July 1, 2019 adjusted for the cumulative effect of the new standard. Our opinion is not modified with respect to that matter.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued a report dated January 20, 2021, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.



Phoenix, Arizona  
January 20, 2021

**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST**

**STATEMENT OF FINANCIAL POSITION**

**JUNE 30, 2020**

**ASSETS**

Current assets:

Cash and cash equivalents	\$ 2,403,128
Restricted cash and cash equivalents	70,272
Accounts receivable, net of \$32,537 of allowance for doubtful accounts	1,682,971
Pledges receivable, current portion	220,262
Other receivables	929
Prepaid expenses and deposits	<u>131,240</u>

Total current assets 4,508,802

Property and equipment, net 150,705

Pledges receivable, net of current portion 291,697

Other assets 7,391

Total assets \$ 4,958,595

**LIABILITIES AND NET ASSETS**

Current liabilities:

Note payable, LCEF	\$ 508,434
Current portion of long-term debt	44,963
Current portion of capital lease obligations	13,896
Accounts payable	363,954
Accrued expenses	910,841
Deferred revenue	42,281
Deferred support	<u>1,688,500</u>

Total current liabilities 3,572,869

Long-term debt, net of current portion 265,794

Capital lease obligations, net of current portion 34,093

Deferred rent 125,598

Total liabilities 3,998,354

Commitments and contingencies

Net assets:

Without donor restrictions:

Undesignated 780,734

Net invested in property and equipment 68,033

848,767

With donor restrictions 111,474

Total net assets 960,241

Total liabilities and net assets \$ 4,958,595

See notes to financial statements.

**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST**

**STATEMENT OF ACTIVITIES**

**YEAR ENDED JUNE 30, 2020**

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Revenues and support:			
Contracts with governmental and other agencies	\$ 11,474,581	\$ -	\$ 11,474,581
Grants from governmental and other agencies	3,230,544	-	3,230,544
Program fees	181,179	-	181,179
Churches	208,803	-	208,803
Corporate	35,388	-	35,388
Individuals	1,057,323	421,206	1,478,529
United Way	35,772	-	35,772
Donated goods and services	93,436	-	93,436
Other revenue	47,408	-	47,408
Gain on disposal of assets	4,340	-	4,340
Net assets released from restrictions	<u>428,676</u>	<u>(428,676)</u>	<u>-</u>
	<u>16,797,450</u>	<u>(7,470)</u>	<u>16,789,980</u>
Expenses:			
Program services	13,743,788	-	13,743,788
Supporting services	<u>3,213,238</u>	<u>-</u>	<u>3,213,238</u>
	<u>16,957,026</u>	<u>-</u>	<u>16,957,026</u>
Change in net assets	(159,576)	(7,470)	(167,046)
Net assets, beginning (restated)	<u>1,008,343</u>	<u>118,944</u>	<u>1,127,287</u>
Net assets, ending	<u>\$ 848,767</u>	<u>\$ 111,474</u>	<u>\$ 960,241</u>

See notes to financial statements.

**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST**

**STATEMENT OF FUNCTIONAL EXPENSES**

**YEAR ENDED JUNE 30, 2020**

	Program services				Supporting services			Total expenses	
	Aging and disability services	Emergency services	Children and family services	Refugee & immigration services	Total program services	Management and general	Fundraising/marketing		Total supporting services
Salaries	\$ 4,586,987	\$ 265,155	\$ 1,765,025	\$ 1,456,033	\$ 8,073,200	\$ 1,312,494	\$ 331,328	\$ 1,643,822	\$ 9,717,022
Employee benefits	<u>683,022</u>	<u>29,291</u>	<u>303,551</u>	<u>252,197</u>	<u>1,268,061</u>	<u>307,890</u>	<u>222,862</u>	<u>530,752</u>	<u>1,798,813</u>
	5,270,009	294,446	2,068,576	1,708,230	9,341,261	1,620,384	554,190	2,174,574	11,515,835
Bad debts	-	-	-	-	-	-	9,910	9,910	9,910
Contractual	101,383	44,770	1,639,356	206,664	1,992,173	292,594	23,688	316,282	2,308,455
Depreciation and amortization	9,613	6,063	20,950	37,944	74,570	4,457	66,318	70,775	145,345
Donations	-	-	-	73	73	-	-	-	73
Interest	2,005	-	817	550	3,372	24,360	18,876	43,236	46,608
Occupancy	84,655	24,474	114,968	161,554	385,651	239,074	62,634	301,708	687,359
Scholarships	-	-	-	146	146	-	-	-	146
Supplies (including in-kind \$38,242)	57,425	6,876	70,037	111,630	245,968	72,539	149,669	222,208	468,176
Supportive services	510,291	66,038	249,503	514,483	1,340,315	78	640	718	1,341,033
Telephone	19,621	6,403	40,233	14,019	80,276	27,874	12,246	40,120	120,396
Training	1,495	-	13,294	1,108	15,897	1,268	(409)	859	16,756
Transportation	25,436	21,993	65,701	106,978	220,108	11,195	4,663	15,858	235,966
Travel	<u>3,661</u>	<u>5,795</u>	<u>28,092</u>	<u>6,430</u>	<u>43,978</u>	<u>13,145</u>	<u>3,845</u>	<u>16,990</u>	<u>60,968</u>
	<u>\$ 6,085,594</u>	<u>\$ 476,858</u>	<u>\$ 4,311,527</u>	<u>\$ 2,869,809</u>	<u>\$ 13,743,788</u>	<u>\$ 2,306,968</u>	<u>\$ 906,270</u>	<u>\$ 3,213,238</u>	<u>\$ 16,957,026</u>

See notes to financial statements.

**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST**

**STATEMENT OF CASH FLOWS**

**YEAR ENDED JUNE 30, 2020**

Cash flows from operating activities:	
Change in net assets	\$ (167,046)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	145,345
Bad debts	9,910
Gain on disposal of assets	(4,340)
Changes in operating assets and liabilities:	
Accounts receivable	(296,659)
Pledges receivable	(20,525)
Other receivables	9,896
Prepaid expenses and deposits	81,800
Accounts payable	(53,233)
Accrued expenses	337,119
Deferred revenue	(35,542)
Deferred support	1,688,500
Deferred rent	<u>20,671</u>
Net adjustments	<u>1,882,942</u>
Net cash provided by operating activities	<u>1,715,896</u>
Cash flows from investing activities:	
Purchases of property and equipment	(1,251)
Proceeds from disposal of assets	<u>4,340</u>
Net cash provided by investing activities	<u>3,089</u>
Cash flows from financing activities:	
Principal payments on long-term debt	(43,909)
Proceeds from long-term debt	200,000
Principal payments on capital lease obligations	(8,392)
Repayments on note payable, LCE Fund	(872,929)
Borrowings on note payable, bank	<u>655,870</u>
Net cash used in financing activities	<u>(69,360)</u>
Net increase in cash, cash equivalents, and restricted cash and cash equivalents	1,649,625
Cash, cash equivalents, restricted cash and restricted cash equivalents beginning	<u>823,775</u>
Cash, cash equivalents, restricted cash and restricted cash equivalents ending	<u>\$ 2,473,400</u>
Summary of cash and cash equivalents:	
Cash and cash equivalents	\$ 2,403,128
Restricted cash and cash equivalents	<u>70,272</u>
	<u>\$ 2,473,400</u>

See notes to financial statements.



# LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST

## NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2020

1. Description of organization and summary of significant accounting policies:

Organization:

Lutheran Social Services of the Southwest (LSS-SW or Organization) is a nonprofit organization committed to providing quality human care services that build and strengthen individuals, families and communities. In pursuit of this goal, the Organization offers a multitude of programs and services. *Aging and Disability Services* and *Refugee & Immigration Services* are the Organization's two largest programs. Other programs serve community members by providing employment services, various senior services, comprehensive case management and basic needs assistance, which consist of distributing food boxes and financial assistance.

The Organization uses a variety of methods to fund its many programs. Sources of revenue include contributions from congregations, federal and state contracts, fees for service and contributions from individuals, foundations corporations and the United Way.

Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Net assets:

Net assets, support, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- *Net assets without donor restrictions* - Net assets available for use in general operations and not subject to donor restrictions.
- *Net assets with donor restrictions* - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. We report contributions restricted by donors as increases in net assets without donor restrictions if restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2020**

1. Description of organization and summary of significant accounting policies (continued):

Adoption of new accounting policy:

In June 2018, the FASB issued ASU No. 2018-08, "Not-for-Profit Entities (Topic 958)". The update clarifies the scope and accounting guidance for contributions received and contributions made. Effective July 1, 2019, the Organization adopted ASU 2018-08 utilizing the full retrospective method. The Organization's revenue recognition practices for contributions under Topic 958 resulted in certain changes from prior practices. The cumulative effect of applying the standard was recognized at July 1, 2019. The differences between the recognition criteria under Topic 958 and the Organization's previous contribution recognition practices was recognized through a cumulative effect adjustment of approximately \$108,000 that was made to increase the opening balance of net assets with donor restrictions.

Revenues and support:

Revenues from governmental and other agency contracts are reported as exchange transactions based on the contract provisions. Revenues derived from contracts that are based on units of service and fee-for-services are recorded in the period in which the service is provided to eligible recipients. Revenues resulting from cost reimbursement contracts are recorded in the period in which allowable costs are incurred. Amounts received prior to incurring qualifying expenditures are reported as refundable advances and included in deferred revenue in the statement of financial position.

The Organization receives grants from governmental, nonprofit organizations and private companies for various programs and projects. All grants are nonexchange transactions. Support derived from grants, which are conditioned upon certain performance requirements or other barrier, is recognized when the conditions on which they depend have been substantially met in compliance with specific grant provisions. Amounts received prior to meeting the conditions are reported as deferred support in the statement of financial position.

Program service revenue is recognized when services are provided.

Contributions are considered nonexchange transactions and are recognized in the appropriate category of net assets in the period received. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift.

Support arising from donated goods and services is recognized in the financial statements at its fair value. Donated services are recognized when the services received meet one of the following criteria:

- (a) create or enhance nonfinancial assets
- (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2020**

1. Description of organization and summary of significant accounting policies (continued):

Revenues and support (continued):

Although the Organization utilizes the services of outside volunteers to perform a variety of tasks that assist the Organization, the fair value of all these services may not be reflected in the financial statements because the above criteria are not met.

Cash and cash equivalents:

All highly liquid debt instruments purchased with a maturity of three months or less are considered to be cash equivalents.

All cash and cash equivalents are placed with various credit institutions. At times, such amounts may be in excess of the FDIC insurance limits; however, management does not believe they are exposed to any significant credit risk on cash and cash equivalents.

Restricted cash and cash equivalents consist of amounts required to be set aside by a contractual agreement for the payment of state unemployment claims. The restrictions are temporary in nature and will lapse when the funds are spent on the related restricted cash purposes.

Accounts receivable:

LSS-SW grants unsecured credit under contracts to its resource providers that are primarily governmental and nonprofit agencies. LSS-SW considers accounts over 30 days to be past due.

LSS-SW provides an allowance for doubtful accounts based upon prior experience and management's assessment of the collectability of existing specific accounts. Doubtful accounts are periodically reviewed for collectability and written off to the allowance when management determines that all reasonable collection efforts were exhausted.

Pledges receivable:

Unconditional pledges receivable are recognized as revenues at their estimated net realizable value in the period received. Pledges receivable that are collectable over future periods are discounted to their net present value. The provision for uncollectable pledges is based on management's estimate of the collectability of specific accounts. Pledges are periodically reviewed for collectability and written off to the provision at the time of such determination. At June 30, 2020, pledges receivable are considered fully collectable, therefore, no allowance for uncollectable pledges has been provided.

**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2020**

1. Description of organization and summary of significant accounting policies (continued):

Property, equipment, depreciation, and amortization:

Property and equipment are stated at cost except for donated equipment, which is recorded at its fair market value at the date of gift. Property and equipment with a value of greater than or equal to \$5,000 and a useful life of more than one year is capitalized. Property and equipment under capital leases are stated at cost or the assets' net present value of future lease payments at the date of the lease. Depreciation and amortization are calculated using the straight-line method over the following estimated useful lives of the assets:

Furniture, fixtures and equipment	3 - 5 years
Software	3 - 5 years
Vehicles	3 - 10 years

Functional expense allocations:

The financial statements report certain categories of expenses that are attributable to one or more program or supporting services of the Organization. Those expenses include salaries and related employee benefits, occupancy, telephone, transportation, and contractual services. Salaries and related employee benefits, telephone and transportation are allocated based on the employee time and cost study of where efforts are made (i.e., the employee work plan). Occupancy is allocated based on space utilization and percentage of time from the employee work plan. Contractual services that are not assigned to specific programs are included in the indirect cost pool and allocated based on a percentage of total program costs to total Organization's costs.

Self insurance:

The Organization is self insured for its unemployment insurance for employees. The Organization is liable for unemployment claims to eligible past LSS-SW employees who are unemployed through no fault of their own. The estimated expense for incurred but not reported or paid claims is recorded by charges to operations based on claims experience and pending claims.

Because of inherent uncertainties in estimating claims, it is at least reasonably possible that the estimates used will change within the near term. Management believes that the provisions, included in accrued expenses, are sufficient to cover all estimated claims, including claims incurred but not reported.

The Organization uses a third party administrator (TPA) to administer unemployment insurance claims and payments made to former employees. At inception, the TPA created a trust for contributions received from the Organization less any claims and expenses paid out. The trust's balance was \$70,272 at June 30, 2020. This amount is included in restricted cash and cash equivalents.

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2020

1. Description of organization and summary of significant accounting policies (continued):

Tax exempt status:

The Organization is exempt from income taxes under both federal (Internal Revenue Code Section 501(c)(3)) and Arizona income tax laws, and is classified as other than private foundation under Internal Revenue Code Section 509(a)(1). Income from certain activities not directly related to the Organization's tax-exempt purpose, however, may be subject to taxation as unrelated business taxable income (UBTI).

From time to time, the Organization may be subject to penalties and interest assessed by various taxing authorities, which are classified as management and general expenses, if they occur.

Subsequent events:

The Organization's management has evaluated the events that have occurred subsequent to June 30, 2020 through January 20, 2021, the date that the financial statements were available to be issued. Management has no responsibility to update these financial statements for events and circumstances occurring after this date.

2. Liquidity and availability of financial assets:

The following reflects the Organization's financial assets as of the statement of financial position date, reduced by amounts not available for general use within one year of the statement of financial position date because of contractual or donor-imposed restrictions.

Cash and cash equivalents	\$ 2,403,128
Restricted cash and cash equivalents	70,272
Accounts receivable	1,682,971
Pledges receivable	511,959
Other receivables	<u>929</u>
Total financial assets	4,669,259
Pledges receivable scheduled to be collected in more than one year	(291,697)
Contractual or donor-imposed restrictions:	
Endowment fund	(7,094)
Other donor restrictions	(104,380)
Funds restricted by lender as collateral	(784,508)
Restricted cash and cash equivalents	<u>(70,272)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,411,308</u>

**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2020**

2. Liquidity and availability of financial assets (continued):

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, the Organization has a committed line of credit in the amount of \$1 million, which it could draw upon. At June 30, 2020, the Organization could draw upon an additional \$491,566.

3. Pledges receivable:

Pledges receivable consist of pledges from corporations and individual donors. Long-term pledges are discounted to their present value using an aggregate rate of 4.39% at June 30, 2020. At June 30, 2020, pledges receivable are as follows:

Pledges receivable in less than one year	\$ 220,262
Pledges receivable in one to five years	418,835
Less unamortized discount to present value	<u>(127,138)</u>
	511,959
Less current portion	<u>220,262</u>
Noncurrent portion	<u><u>\$ 291,697</u></u>

4. Property and equipment:

Artwork	\$ 15,000
Furniture, fixtures and equipment	138,989
Software	71,489
Vehicles	<u>794,584</u>
	1,020,062
Less accumulated depreciation and amortization	<u>869,357</u>
	<u><u>\$ 150,705</u></u>

5. Note payable, LCE Fund:

LSS-SW has a \$1,000,000 revolving line of credit with Lutheran Church Extension Fund - Missouri Synod, which matures in May 2021. Interest is payable monthly at 4.625% at June 30, 2020. The interest is variable and is calculated based on the lender's cost of funds plus up to an additional 3% at the change date determined by the lender. The line is collateralized by substantially all assets of the Organization. At June 30, 2020, the balance on the line of credit was \$508,434.

**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2020**

6.	Accrued expenses:	
	Paid time off	\$ 336,377
	Payroll and payroll taxes	439,175
	Retirement	508
	Unemployment insurance	133,647
	Other	<u>1,134</u>
		<u>\$ 910,841</u>

7.	Long-term debt:	
	Notes payable, Nissan Motor Acceptance Corporation, payable in aggregate monthly installments totaling \$1,307, including interest ranging from 3.99% to 5.99%, expiring at various dates through December 2023, collateralized by vehicles.	\$ 34,683
	Note payable, Lutheran Church Extension Fund - Missouri Synod, payable in monthly installments of \$1,546, including interest at 4.875%, through November 2025, collateralized by substantially all assets of the Organization.	87,935
	Note payable, Lutheran Church Extension Fund - Missouri Synod, payable in monthly installments of \$2,109, including interest at 4.875%, through September 2029, collateralized by substantially all assets of the Organization.	<u>188,139</u>
		310,757
	Less current portion	<u>44,963</u>
		<u>\$ 265,794</u>

Future maturities of long-term debt are as follows:

	Year ending	
	<u>June 30,</u>	
	2021	\$ 44,963
	2022	43,503
	2023	41,367
	2024	36,285
	2025	37,836
	Thereafter	<u>106,803</u>
		<u>\$ 310,757</u>

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEAR ENDED JUNE 30, 2020

8. Capital lease obligations:

The Organization leases vehicles under various capital lease agreements payable in aggregate monthly installments of \$1,158 through December 2024. The Organization has recorded asset costs of \$65,998 and accumulated amortization of \$16,534 at June 30, 2020 related to these leases.

Future minimum annual payments under these capital leases are as follows:

Year ending <u>June 30,</u>	
2021	\$ 13,896
2022	13,896
2023	13,896
2024	11,415
2025	<u>2,331</u>
	55,434
Less amounts representing interest	<u>7,445</u>
Present value of net minimum payments under capital leases	47,989
Less current portion	<u>13,896</u>
	<u>\$ 34,093</u>

9. Paycheck Protection Program (PPP) loan:

In April 2020, the Organization was granted an unsecured PPP loan from MidFirst Bank in the amount of \$2,122,500, pursuant to the CARES Act and the PPP Flexibility Act (the Acts). The loan bears interest at a rate of 1%. The Acts defer repayment of principal and interest to the earlier of the date of loan forgiveness or ten months after the last day of the chosen covered period. Under the terms of the PPP, certain amounts of the loan may be forgiven if they are used for covered expenses as described in the Acts. The Organization plans to use the entire loan amount for covered expenses. Under the PPP program, the Small Business Administration (SBA) may undertake an audit of a loan of any size; however, loans in excess of \$2,000,000 will be subjected to a mandatory audit. The audit will include the loan forgiveness application, as well as whether the Organization met the eligibility requirements of the program and received the proper loan amount. The Organization has applied for forgiveness as of January 20, 2021. The timing and outcome of any SBA audit is not known.



**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2020**

9. Paycheck Protection Program (PPP) loan (continued):

The Organization accounts for the PPP loan as a conditional grant in accordance with ASC 958-605. The grant is conditional based on the Organization incurring covered expenses, maintaining employee count, and limiting salary reductions. During 2020, the Organization recorded \$500,000 as support based on their assessment of conditions that have been substantially met. The remaining portion of the PPP loan is recorded as deferred support at June 30, 2020 and will be recognized as support when the remaining conditions are considered substantially met.

10. Net assets with donor restrictions:

Subject to expenditure for specified purpose:

Aging and disability services	\$ 5,344
Emergency services	4,394
Refugee and immigration services	<u>94,642</u>
	104,380

Endowment:

General use	<u>7,094</u>
	<u><u>\$ 111,474</u></u>

11. Commitments:

Operating leases:

The Organization leases offices and equipment under noncancelable operating leases expiring at various dates through June 2026. At June 30, 2020, aggregate minimum monthly rental payments were \$2,156. Deferred rent related to these leases was \$125,598. Rent expense for 2020 was \$558,118.

Future minimum lease payments under operating leases are as follows:

Year ending	
<u>June 30,</u>	
2021	\$ 307,721
2022	295,387
2023	299,639
2024	300,030
2025	303,144
Thereafter	<u>87,512</u>
	<u><u>\$ 1,593,433</u></u>

**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2020**

12. Contingencies:

COVID-19 pandemic:

The COVID-19 outbreak in the United States has caused business disruption. The extent of the COVID-19 impact on operational and financial performance will depend on certain developments, including duration and spread of the outbreak, impact on customers, donors, other funding sources, employees and vendors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact the financial statements is uncertain.

Funding:

The Organization receives a substantial amount (37% in 2020) of its support from governmental agencies. A significant reduction in the level of this support, if it were to occur, would have a material effect on the programs and activities of the Organization. The governmental funding is subject to compliance audits by the respective governmental agencies. Assessments from such audits, if any, are recorded when the amounts of such assessments are reasonably determinable.

13. Concentrations:

For 2020, two agencies comprised 48% of total revenue. At June 30, 2020, three agencies accounted for 59% of accounts receivable.

14. Program matching revenues:

As part of its grant obligations to Lutheran Immigration and Refugee Services and Episcopal Migration Ministries, and the U.S. Department of Health and Human Services, the Organization is required to obtain in-kind and cash matching dollars. The in-kind contributions do not meet the GAAP reporting requirements and, therefore, are not included in the statement of activities. For 2020, the Organization's program participants received \$164,615 in total matching contributions.

15. Related party transactions:

The Organization receives contributions from various related party organizations. During the year ended June 30, 2020, the Organization received \$16,653 from the English District and Pacific Southwest District of the Lutheran Church Missouri Synod (LCMS) and \$73,300 from the Grand Canyon Synod of the Evangelical Lutheran Church of America (ELCA). The Bishop of the ELCA Synods and the President of the LCMS Synods appoint or recommend some of the Organization's Board of Directors. During 2020, the Organization also received contributions from Lutheran congregations in the amount of \$109,922 from the ELCA congregations and \$1,360 from the LCMS congregations.

**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEAR ENDED JUNE 30, 2020**

16. Retirement plan:

LSS-SW has a 401(k) retirement plan for its eligible employees. Eligible employees may make contributions to the 401(k) plan not to exceed specified annual ceiling amounts. The Plan can make discretionary matching contributions approved each year by the Board of Directors. The Organization's matching contribution expense was \$23,024 for 2020.

17. Statement of cash flows:

Supplemental disclosure of cash flow information:

Cash paid for interest was \$46,609 for 2020.

Noncash investing and financing information:

During 2020, the Organization acquired vehicles with capital lease financing totaling \$31,747.

18. Pending pronouncements:

In May 2014, the FASB issued ASU 2014-09 "Revenue from Contracts with Customers." ASU 2014-09 applies to contracts with customers, excluding, most notably, insurance and leasing contracts. ASU 2014-09 prescribes a framework in accounting for revenues from contracts within its scope, including (a) identifying the contract, (b) identifying the performance obligations under the contract, (c) determining the transaction price, (d) allocating the transaction price to the identified performance obligations and (e) recognizing revenues as the identified performance obligations are satisfied. ASU 2014-09 also prescribes additional financial statement presentations and disclosures. ASU 2014-09 is effective for reporting periods beginning after December 15, 2019, with early adoption permitted.

In February 2016, the FASB issued ASU 2016-02 "Leases." ASU 2016-02 requires a lessee to recognize in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term, along with additional qualitative and quantitative disclosures. ASU 2016-02 is effective for reporting periods beginning after December 15, 2021, with early adoption permitted.

Management is currently evaluating the effect that these standards will have on the financial statements.