



PragerMetis

**Lutheran Social Services
National Capital Area
Financial Statements and
Reporting Required Under
Government Auditing Standards and
The Uniform Guidance and
Supplementary Information
September 30, 2021 and
September 30, 2020**

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Independent Auditor's Report

To the Board of Directors of
Lutheran Social Services – National Capital Area

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Report on the Financial Statements

We have audited the accompanying financial statements of Lutheran Social Services – National Capital Area (“LSS-NCA”) (a non-profit organization), which comprise the statements of financial position as of September 30, 2021 and 2020, 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 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 audits 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 – National Capital Area as of September 30, 2021 and 2020, 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.

Other Matters

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2022, on our consideration of LSS-NCA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of LSS-NCA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LSS-NCA's internal control over financial reporting and compliance.

Prager Metis CPAs, LLC

Prager Metis CPAs, LLC
McLean, Virginia
June 30, 2022

Lutheran Social Services – National Capital Area
 Statements of Financial Position
 September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Cash and cash equivalents	\$ 2,336,910	\$ 680,534
Investments	839,703	757,178
Contract and grant receivables, net of allowance for doubtful accounts of \$100,000 for 2021 and \$37,322 for 2020.	2,059,663	1,388,107
Prepaid expenses	59,910	49,585
Deposits	26,669	7,860
Cash and cash equivalents restricted for board designated endowment	1,007,000	-
Property and equipment, net	29,071	333,821
Total assets	\$ 6,358,926	\$ 3,217,085
Liabilities and net assets		
Liabilities		
Accounts payable	\$ 253,726	\$ 143,665
Accrued expenses	216,160	313,889
Deferred revenue	700	32,119
Capital lease payable	-	6,090
Paycheck Protection Program loan	560,295	550,595
Line of credit	-	300,000
Mortgage payable	-	1,496,086
Total liabilities	1,030,881	2,842,444
Net assets		
Without donor restrictions	2,199,927	5,444
Without donor restrictions – board designated	1,376,197	369,197
Total net assets without donor restrictions	3,576,124	374,641
With donor restrictions	1,751,921	-
Total net assets	5,328,045	374,641
Total liabilities and net assets	\$ 6,358,926	\$ 3,217,085

The accompanying notes are an integral part of these financial statements.

Lutheran Social Services – National Capital Area
 Statements of Activities
 Years Ended September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Changes in net assets without donor restrictions		
Support, revenue, and gains		
Government contracts and grants	\$ 6,786,685	\$ 4,930,119
Contributions	738,705	416,583
Donated goods and services	157,408	212,643
Paycheck Protection Program loan forgiveness	550,595	-
Adoption fees	23,278	34,796
Investment income, net	111,954	37,826
Gain on sale of property	3,128,570	-
Other	101,475	46,906
Total support, revenue and gains	<u>11,598,670</u>	<u>5,678,873</u>
Expenses		
Program expenses		
Foster care services	2,055,014	1,281,094
Refugee and immigration	4,512,630	3,720,820
Community services	61,315	29,633
Total program expenses	<u>6,628,959</u>	<u>5,031,547</u>
Supporting services		
Management and general	1,463,602	896,962
Fundraising	304,626	250,381
Total supporting services	<u>1,768,228</u>	<u>1,147,343</u>
Total expenses	<u>8,397,187</u>	<u>6,178,890</u>
Increase (decrease) in net assets without donor restrictions	<u>3,201,483</u>	<u>(500,017)</u>
Changes in net assets with donor restrictions		
Contributions	<u>1,751,921</u>	<u>-</u>
Increase in net assets with donor restrictions	<u>1,751,921</u>	<u>-</u>
Change in net assets	4,953,404	(500,017)
Net assets, beginning of year	<u>374,641</u>	<u>874,658</u>
Net assets, end of year	<u>\$ 5,328,045</u>	<u>\$ 374,641</u>

The accompanying notes are an integral part of these financial statements.

Lutheran Social Services – National Capital Area
Statement of Functional Expenses
Year Ended September 30, 2021

	Program Services				Supporting Services			Total
	Foster Care Services	Refugee and Immigration	Community Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries and related expenses								
Salaries	\$ 1,116,573	\$ 1,855,072	\$ 53,103	\$ 3,024,748	\$ 542,336	\$ 154,505	\$ 696,841	\$ 3,721,589
Payroll taxes and benefits	169,370	268,122	4,672	442,164	136,013	22,741	158,754	600,918
Total salaries and related expenses	1,285,943	2,123,194	57,775	3,466,912	678,349	177,246	855,595	4,322,507
Other expenses								
Stipends	306,051	-	-	306,051	-	-	-	306,051
Assistance to individuals	40,538	1,687,521	2,283	1,730,342	-	-	-	1,730,342
Professional services	163,344	130,040	-	293,384	252,727	37,625	290,352	583,736
Donated goods and services	223	157,186	-	157,409	-	-	-	157,409
Depreciation and amortization	-	3,183	-	3,183	35,692	-	35,692	38,875
Telephone and communication	27,148	57,908	-	85,056	11,599	2,978	14,577	99,633
Interest expense	6,838	-	-	6,838	52,675	1,337	54,012	60,850
Insurance	17,802	35,960	-	53,762	36,775	569	37,344	91,106
Utilities and other occupancy	27,452	36,410	506	64,368	50,101	1,617	51,718	116,086
Rent	76,694	70,395	-	147,089	15,017	2,860	17,877	164,966
Supplies	12,507	15,768	747	29,022	9,921	487	10,408	39,430
Summer camp	15,346	-	-	15,346	-	16,309	16,309	31,655
Pre-employment expense	5,184	7,301	-	12,485	21,023	285	21,308	33,793
Vehicle expense	3,072	11,406	-	14,478	5,086	-	5,086	19,564
Travel	6,156	43,394	4	49,554	1,432	-	1,432	50,986
Bank service charges/other fees	4,923	17,469	-	22,392	161,008	2,854	163,862	186,254
Printing and copying	3,334	8,430	-	11,764	5,369	11,383	16,752	28,516
Postage	161	2,994	-	3,155	3,382	1,277	4,659	7,814
Equipment leases	-	369	-	369	1,418	-	1,418	1,787
Equipment	28,529	83,909	-	112,438	51,333	13,600	64,933	177,371
Staff development	12,395	3,288	-	15,683	255	1,595	1,850	17,533
Advertising	5,516	-	-	5,516	-	-	-	5,516
Dues and subscriptions	1,250	3,270	-	4,520	2,446	-	2,446	6,966
Meetings	114	6,899	-	7,013	3,415	16	3,431	10,444
Other	4,494	6,336	-	10,830	1,901	3,292	5,193	16,023
Bad debt	-	-	-	-	62,678	29,296	91,974	91,974
Total expenses	\$ 2,055,014	\$ 4,512,630	\$ 61,315	\$ 6,628,959	\$ 1,463,602	\$ 304,626	\$ 1,768,228	\$ 8,397,187

The accompanying notes are an integral part of these financial statements.

Lutheran Social Services – National Capital Area
Statement of Functional Expenses
Year Ended September 30, 2020

	Program Services				Supporting Services			Total
	Foster Care Services	Refugee and Immigration	Community Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries and related expenses								
Salaries	\$ 585,627	\$ 1,283,160	\$ 26,651	\$ 1,895,438	\$ 384,523	\$ 174,201	\$ 558,724	\$ 2,454,162
Payroll taxes and benefits	94,435	186,883	1,707	283,025	53,181	25,350	78,531	361,556
Total salaries and related expenses	680,062	1,470,043	28,358	2,178,463	437,704	199,551	637,255	2,815,718
Other expenses								
Stipends	283,209	-	-	283,209	-	-	-	283,209
Assistance to individuals	23,966	1,419,418	-	1,443,384	-	-	-	1,443,384
Professional services	135,647	247,915	-	383,562	181,899	-	181,899	565,461
Donated goods and services	34	212,610	-	212,644	-	-	-	212,644
Depreciation and amortization	2,046	6,985	-	9,031	40,814	-	40,814	49,845
Telephone and communication	20,788	56,508	-	77,296	12,835	3,411	16,246	93,542
Interest expense	14,221	-	-	14,221	63,650	1,770	65,420	79,641
Insurance	17,420	36,472	-	53,892	26,441	1,646	28,087	81,979
Utilities and other occupancy	20,275	24,259	982	45,516	69,434	2,025	71,459	116,975
Rent	35,533	55,743	-	91,276	-	-	-	91,276
Supplies	3,663	17,858	-	21,521	2,926	409	3,335	24,856
Summer camp	2,012	-	-	2,012	-	13,554	13,554	15,566
Pre-employment expense	3,686	3,948	-	7,634	681	-	681	8,315
Vehicle expense	3,134	14,549	-	17,683	2,005	40	2,045	19,728
Travel	5,977	28,477	293	34,747	827	26	853	35,600
Bank service charges/other fees	4,528	15,915	-	20,443	12,410	2,499	14,909	35,352
Printing and copying	1,648	7,088	-	8,736	8,350	1,645	9,995	18,731
Postage	114	1,581	-	1,695	2,586	110	2,696	4,391
Equipment leases	-	368	-	368	1,507	-	1,507	1,875
Equipment	7,287	50,511	-	57,798	19,361	18,276	37,637	95,435
Staff development	5,427	1,421	-	6,848	-	-	-	6,848
Advertising	4,000	-	-	4,000	-	-	-	4,000
Dues and subscriptions	1,250	-	-	1,250	1,939	174	2,113	3,363
Meetings	1,049	2,074	-	3,123	1,243	1,008	2,251	5,374
Other	4,118	47,077	-	51,195	10,350	4,237	14,587	65,782
Total expenses	\$ 1,281,094	\$ 3,720,820	\$ 29,633	\$ 5,031,547	\$ 896,962	\$ 250,381	\$ 1,147,343	\$ 6,178,890

The accompanying notes are an integral part of these financial statements.

Lutheran Social Services – National Capital Area
 Statements of Cash Flows
 Years Ended September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Change in net assets	\$ 4,953,404	\$ (500,017)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	38,875	49,845
Net realized and unrealized gains on investments	(94,604)	(15,071)
Forgiveness of Paycheck Protection Program loan	(550,595)	-
Gain on sale of property	(3,128,570)	36
Decrease (increase) in assets		
Contract and grant receivables	(671,556)	109,473
Prepaid expenses	(10,325)	(15,640)
Deposits	(18,809)	(6,500)
Increase (decrease) in liabilities		
Accounts payable	110,061	38,975
Accrued expenses	(97,729)	20,480
Deferred revenue	(31,419)	(18,476)
Net cash provided by (used in) operating activities	<u>498,733</u>	<u>(336,895)</u>
Cash flows from investing activities		
Proceeds from sale of investments	199,340	26,243
Purchases of investments	(187,261)	(22,755)
Proceeds from sale of property	1,898,359	-
Net cash provided by investing activities	<u>1,910,438</u>	<u>3,488</u>
Cash flows from financing activities		
Payments on the line of credit	(300,000)	-
Payments under capital lease payable	(6,090)	(9,910)
Proceeds from Paycheck Protection Program loan	560,295	550,595
Principal payments on long-term debt	-	(65,692)
Net cash provided by financing activities	<u>254,205</u>	<u>474,993</u>
Net increase in cash and cash equivalents and board designated cash and cash equivalents	<u>2,663,376</u>	<u>141,586</u>
Cash and cash equivalents and board designated cash and cash equivalents, beginning of year	<u>680,534</u>	<u>538,948</u>
Cash and cash equivalents and board designated cash and cash equivalents, end of year	<u>\$ 3,343,910</u>	<u>\$ 680,534</u>
Reconciliation of cash and cash equivalents		
Cash and cash equivalents	\$ 2,336,910	\$ 680,534
Cash and cash equivalents restricted for board designated endowment	1,007,000	-
	<u>\$ 3,343,910</u>	<u>\$ 680,534</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ 60,850</u>	<u>\$ 76,767</u>
Noncash disclosure of financing activities		
Satisfaction of mortgage note payable during sale of property	<u>\$ 1,496,086</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

Note 1 Nature of Organization

Lutheran Social Services – National Capital Area (“LSS-NCA”) is a not-for-profit organization which provides professional social services to individuals and families, and assists congregations in responding to community needs through a variety of programs. These activities are funded primarily through government grants and contracts.

Note 2 Summary of Significant Accounting Policies

Basis of Presentation

LSS-NCA presents its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Under the accrual basis of accounting, revenue is recognized when earned and expenses when the related liability for goods and services is incurred, regardless of the timing of the related cash flows.

Financial Statement Presentation

GAAP requires LSS-NCA to report information regarding its financial position and activities according to the following net asset classifications:

- Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. Assets restricted solely through the actions of the board are reported as net assets without donor restrictions – board designated.
- Net assets with donor restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of LSS-NCA or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. LSS-NCA’s net assets with donor restrictions at September 30, 2021 are restricted for Afghan Refugees and Asylees.

Cash and Cash Equivalents

LSS-NCA considers demand deposits and money market funds to be cash and cash equivalents. However, cash and money market funds held by a national investment brokerage company, in accordance with LSS-NCA's investment policy, are excluded from cash and cash equivalents as reported in the financial statements.

Investments and Investment Income

Investments in equities and mutual funds with readily determinable values are measured at fair value, based on quoted market prices in the statement of financial position. Donated investments are recorded at fair value at the date of receipt. Certificates of deposit are considered other investments and carried at cost. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in without donor restrictions unless income or loss is restricted by donor or law.

Note 2 Summary of Significant Accounting Policies (continued)

Contract and Grant Receivables

Contract and grant receivables are generated from and prime and subgrant arrangements with governmental agencies and private foundations. The provision for doubtful accounts is based on management's evaluation of the collectability of receivables. LSS-NCA does not charge interest on outstanding balances.

Property and Equipment

Property and equipment are recorded at cost or at fair value if donated and are depreciated using the straight-line method over their estimated useful lives which range from 3 years to 25 years. LSS-NCA capitalizes all property and equipment purchased with a cost of \$3,000 or more.

When an asset is sold or retired, the cost and accumulated depreciation are removed from the respective accounts. Maintenance and repairs are charged to operations as incurred.

Deferred Revenue

Amounts collected in advance of performing services under contracts for which the revenue has not been earned are recorded as deferred revenue.

Financial Risk

LSS-NCA invests and manages a portfolio that may contain certificate of deposit, equities and mutual funds. Such investments are exposed to various risks, such as interest rate, market volatility and credit risks. Due to the level of risks associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

Support

Contributions received are recorded as with donor restricted or without donor restricted revenue, depending on the existence and/or nature of any donor restrictions.

All donor-restricted revenue is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose of the restriction is accomplished), 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.

Government Contracts and Grants

LSS-NCA has grants with U.S. Government agencies, as well as with state and local governments and private sources. Revenue from these grants is recognized as costs are incurred, on the basis of direct costs plus allowable indirect costs, subject to certain limitations based on stipulated level of effort requirements. Revenue recognized on grants that are unpaid is reflected as receivables in the accompanying statement of financial position.

Note 2 Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses

The costs of providing the various programs and other activities of LSS-NCA have been summarized on a functional basis in the accompanying statement of functional expenses. Costs that can be identified with a particular program or support function are charged directly to that program or function. LSS-NCA allocates utilities, telephone and building expenses based on the square footage used by each program, and supporting services based on units of service or total program costs.

Indirect Costs

Indirect costs are allocated to U.S. Government contracts and all other LSS-NCA programs based on direct program costs.

Donated Goods and Services

LSS-NCA receives donated goods and services. Donated goods are recorded as contributions at their estimated fair value at the date of donation. LSS-NCA recognizes contribution revenue for certain contributed services received at the fair value of those services, based upon the requirements of GAAP. During the years ended September 30, 2021 and 2020, LSS-NCA recognized \$157,408 and \$212,643, respectively, as in-kind goods and services.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts 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. Actual results could differ from those estimates.

Income Taxes

LSS-NCA is generally exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. In addition, LSS-NCA qualifies for charitable contribution deductions and has been classified as an organization that is not a private foundation. Income which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. LSS-NCA did not have any unrelated business income for the years ended September 30, 2021 and 2020.

Management has analyzed the tax positions taken and has concluded that there are no uncertain positions taken or expected to be taken that would require recognition or disclosure in the financial statements.

Reclassifications

Certain items in the 2020 financial statements have been reclassified to conform to the current year presentation. These reclassifications had no impact on the previously stated change in net assets.

Note 2 Summary of Significant Accounting Policies (continued)

Concentration of Credit Risk

LSS-NCA maintains its cash, cash equivalents, and investment balances in accounts at two financial institutions. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) or the Securities Investor Protection Corporation (SIPC) up to specified limits by each institution. At times throughout the year, the cash, cash equivalents and investment balances may exceed these limits. However, LSS-NCA has not experienced any losses with respect to balances in excess of the FDIC or SIPC coverage.

Note 3 New Accounting Standards Not Yet Adopted

Leases

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842), which requires the recognition of a “right to use” asset and a lease liability, initially measured at the present value of the lease payments, on the statement of financial position for all of LSS-NCA’s lease obligations. Topic 842 was deferred one year and will be effective for annual periods beginning after December 15, 2021.

LSS-NCA is currently evaluating the impact and effect that this pronouncement will have on its financial statements and related disclosures.

Note 4 Investments

Investments consists of the following as of September 30:

	<u>2021</u>	<u>2020</u>
Money market funds	\$ 12,372	\$ 11,445
Certificate of deposit	313,434	300,000
Equities	79,996	83,441
Fixed income	43,478	-
Mutual funds	390,423	362,292
	<u>\$ 839,703</u>	<u>\$ 757,178</u>

Investment income, including interest and dividends, consists of the following at September 30:

	<u>2021</u>	<u>2020</u>
Realized and unrealized gain, net	94,604	\$ 15,071
Interest and dividends	17,350	22,755
	<u>\$ 111,954</u>	<u>\$ 37,826</u>

Note 5 Property and Equipment

Property and equipment, and accumulated depreciation consists of the following at September 30:

Asset Category	Lives	2021	2020
Land	-	\$ -	\$ 201,691
Buildings	25 years	-	892,449
Office and computer equipment	3 to 10 years	131,028	217,071
Leasehold improvements	10 to 25 years	10,940	296,755
Vehicles	5 years	153,474	153,474
		295,442	1,761,440
Less: accumulated depreciation		(266,371)	(1,427,619)
Property and equipment, net		\$ 29,071	\$ 333,821

Note 6 Without Donor Restricted Net Assets - Board Designated

Board Designated Net Assets

The board has designated \$369,197 for the Stronger Together Centennial Investment Fund (“Centennial Fund”). The general purpose of the Centennial Fund is to help ensure the long-term financial viability of LSS-NCA and to enable it to continuously carry out its mission.

Board Designated Endowments

During 2021 the board approved the creation of two board designated endowment funds. \$807,000 has been designated by the board for investment in new opportunities, program start-up costs, and/or evaluations as recommended by the program committee of the board of directors. \$200,000 has been designated by the board for the establishment of the Norm Lambert Scholarship Endowment. The board is in the process of establishing the spending and investment policies of these board designated endowments.

Note 7 Line of Credit

LSS-NCA has a line of credit in the amount of \$300,000. The line of credit bears interest at Wall Street Journal Prime (3.25% at September 30, 2021 and 2020) plus .50%. The line of credit is secured by accounts receivable, investments, and furniture and fixtures owned by LSS-NCA and matures January 2023.

Note 8 Mortgage Payable

LSS-NCA had a mortgage note with an interest rate of 4% payable in monthly installments of principal and interest of \$10,965. The mortgage note was collateralized by a first deed of trust on property located in Washington, D.C. During 2021, the property was sold and the mortgage note was paid in full.

Note 9 Paycheck Protection Program Loan

In 2021, LSS-NCA obtained a loan in the amount of \$560,295 pursuant to the Paycheck Protection Program (“PPP”). The PPP, established as part of the Coronavirus Aid, Relief and economic Security Act (“CARES Act”), provides for loans to qualifying businesses. Under the terms of the PPP, certain amounts of the loan may be forgiven if they are used for qualifying expenses as described in the CARES Act. LSS-NCA believes they have used the proceeds for the purposes consistent with the PPP.

During 2021, LSS-NCA’s PPP loan in the amount of \$550,595 received in 2020 was forgiven and recognized as PPP loan forgiveness in the accompanying statement of activities.

Note 10 401(k) Plan

LSS-NCA sponsors a 401(k) plan that covers its full-time employees. Under the plan, employees may make elective deferrals into the plan on the first of the month following the date of hire. For employees who make elective deferrals, LSS-NCA may make a discretionary match. The discretionary match is calculated after the close of the plan year, which runs from July 1st to June 30th. To be eligible to receive the match, an employee must have been employed for one year and must have worked 1,000 hours.

There is a three-year vesting schedule for the employer match portion. Vesting is attained at 33^{1/3}% per annum for each of the three years. Contribution expense totaled \$75,703 and \$18,156 for the years ended September 30, 2021 and 2020, respectively and is included as a component of payroll taxes and benefits on the statement of functional expenses.

Note 11 Major Grantors

LSS-NCA receives a significant amount of its federal awards from three grantors. If a significant reduction in the level of this support should occur, it may have an adverse effect on LSS-NCA programs.

Note 12 Risks and Contingencies

Federal Awards

LSS-NCA participates in a number of federally funded programs which are subject to financial and compliance audits by federal agencies or their representatives. Management does not anticipate any significant adjustments as a result of such audits.

Department of Health and Human Services (DHHS)

LSS-NCA has acquired certain equipment for use in its programs with funding obtained as a pass-through from the Maryland Office of Refugees and Asylees (MORA) of the State of Maryland. Under the grant agreement, title of any assets purchased by LSS-NCA using the funds received from MORA over \$50 will be vested in MORA, while a listing of these assets has to be submitted to MORA at the conclusion of the grant. MORA may require LSS-NCA to deliver these assets to MORA. The assets purchased using these grant proceeds are included in the accompanying statement of functional expenses under the caption “Equipment.”

Note 13 Lease Commitments

LSS-NCA leases office space under a cancellable agreement in Hyattsville, Maryland. The monthly rent under this lease was \$3,155. There is an annual review performed by the landlord of each space rented. Either party may request a termination of this relationship at any time with a 30-day written notice to the other.

LSS-NCA leased office space in Washington, D.C. through June 30, 2021. The monthly rent was \$2,700.

LSS-NCA leases office space under a noncancellable agreement in Laurel, Maryland that expires in 2023. The monthly rent under this lease is \$3,300.

During 2021, LSS-NCA entered into a noncancelable lease agreement in Washington, D.C. for office space over a term of 65 months. Monthly rent is \$19,263.

Total rent for the years ended September 30, 2021 and 2020 was \$164,966 and \$91,276, respectively.

Future minimum lease payments under the noncancellable leases noted above are as follows:

<u>Year Ending September 30,</u>	
2022	\$ 278,709
2023	278,709
2024	231,158
2025	231,158
2026	231,158
Thereafter	19,263
	<u>\$ 1,270,155</u>

LSS-NCA also had lease arrangements with tenants to lease space from LSS-NCA in its main office building. The total rental income for the years ended September 30, 2021 and 2020 was \$0 and \$30,716, respectively. There is no future minimum rental income under these lease arrangements, as the main office building was sold during 2021.

Note 14 Fair Value Measurement

In accordance with GAAP, LSS-NCA has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Investments recorded in the statement of financial position are categorized based on the inputs to the valuation technique as follows:

Note 14 Fair Value Measurement (continued)

- Level 1 – Inputs to the valuation methodology are quoted in an active market or exchanges for identical assets and liabilities.
- Level 2 – Significant other observable inputs, which may include, but are not limited to, quoted prices for similar assets or liabilities in markets that are active, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for assets and liabilities, or other market corroborated inputs.
- Level 3 – Significant unobservable inputs based on the best information available in the circumstances to the extent observable inputs are not available, which may include assumptions made by the board of directors or persons acting at their direction that are used in determining the fair market value of the asset or liability.

The tables below present LSS-NCA’s assets measured at fair value on a recurring basis as of September 30, 2021 and 2020, aggregated by the level in the fair value hierarchy within which those measurements fall:

	Total	Fair Value Measurements Using		
	2021	Level 1	Level 2	Level 3
Assets				
Money market funds	\$ 12,372	\$ 12,372	\$ -	\$ -
Equities	79,996	79,996	-	-
Fixed income	43,478	43,478	-	-
Mutual funds	390,423	390,423	-	-
Total investments at fair value	\$ 526,269	\$ 526,269	\$ -	\$ -

	Total	Fair Value Measurements Using		
	2020	Level 1	Level 2	Level 3
Assets				
Money market funds	\$ 11,445	\$ 11,445	\$ -	\$ -
Equities	83,441	83,441	-	-
Fixed income	362,292	362,292	-	-
Total investments at fair value	\$ 457,178	\$ 457,178	\$ -	\$ -

LSS-NCA used the following methods and significant assumptions to estimate fair value for investments recorded at fair value:

- Money market funds – Fair value is based on the quoted daily net asset value of the invested funds. Where quoted prices are available in an active market, investments are classified as Level 1. Money market funds are traded on a major exchange and, therefore, disclosed in the Level 1 hierarchy.

Note 14 Fair Value Measurement (continued)

- Equities and fixed income – Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Stocks and mutual funds are traded on a major exchange. Accordingly, such investments are disclosed in Level 1 of the hierarchy.
- Mutual funds – Mutual funds are valued at the daily closing price as reported by the fund. Mutual funds held by LSS-NCA are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily net asset value and to transact at that price.

Note 15 Liquidity

As of September 30, 2021 and 2020, LSS-NCA’s liquidity resources and financial assets available within one year for general expenditure, such as operating expenses, were as follows:

	<u>2021</u>	<u>2020</u>
Financial assets		
Cash and cash equivalents	\$ 2,336,910	\$ 680,534
Investments	839,703	757,178
Contract and grant receivables, net of allowance	2,059,663	1,388,107
Financial assets available to meet general expenditures within one year	<u>5,236,276</u>	<u>2,825,819</u>
Less amount not available within one year for general expenditures		
Non-current pledges receivable, net	-	144,161
Board designated net assets	369,197	-
	<u>369,197</u>	<u>144,161</u>
Financial assets available to meet general expenditures within one year	<u>\$ 4,867,079</u>	<u>\$ 2,681,658</u>

LSS-NCA has a policy to structure its financial assets to be available as general expenditures, liabilities and other obligations become due. Management continually evaluates the timing of estimated collections of accounts receivable and manages cash disbursements to ensure the availability of cash to meet its operating needs. To help manage unanticipated liquidity needs, LSS-NCA has a committed line of credit of \$300,000 that it could draw upon. Additionally, LSS-NCA has board designated net assets without donor restrictions that could be made available for current operations, if necessary, even if LSS-NCA does not intend to spend these for purposes other than those identified.

Note 16 Subsequent Events

Management has evaluated subsequent events through June 30, 2022, the date which the financial statements were available to be issued.

Supplementary Information

Lutheran Social Services – National Capital Area
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2021

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE OR CLUSTER TITLE	FEDERAL ASSISTANCE LISTING NUMBER	PASS-THROUGH IDENTIFYING NUMBER	PASS-THROUGH TO SUB- RECIPIENTS	TOTAL FEDERAL EXPENDITURES
U.S. Department of Health and Human Services:				
Maryland Office of Refugees & Asylees: Pass-through from Lutheran Immigration and Refugee Services – Matching grant program	93.567	2102MDRVMG	\$ -	\$ 506,194
Administration for Children and Families, Office of Refugee Resettlement Pass-through from Lutheran Immigration and Refugee Services: Preferred Communities Supplemental	93.576	90RP0113-05-00	-	85,417
Administration for Children and Families, Office of Refugee Resettlement Pass-through from Lutheran Immigration and Refugee Services: Safe Release Support Fingerprinting Services	93.676	90ZU0318-02-00	-	218,384
Refugee and Entrant Assistance State Administered Programs: Pass-through from the Commonwealth of Virginia Department of Social Services, Office of Newcomer Services:				
Mentoring Youth in Virginia	93.566	CVS-20-090-02	-	55,855
Public & Private Partnership - Refugee Transitional Cash Assistance	93.566	FIA/RTCA-21-505	-	210,616
Extensive Case Management Program	93.566	FIA/ECMP-20-516	-	57,717
Refugee Youth Mentoring Program	93.566	FIA/RYP-21-521	-	62,032
Virginia Refugee Health Liaison	93.566	CVS-20-090-02	-	63,292
Refugee Social Services Employment Program	93.566	CVS-20-090-02	-	489,603
Unaccompanied Refugee Minors	93.566	CVS-20-110	-	305,453
Refugee School Achievement Program	93.566	CVS-20-090-02	-	54,773
RSS Supplemental Allocation for COVID-19	93.566	CVS-20-176-02	-	70,009
Pass-through from the State of Maryland, Department of Human Resources, Office for New Americans:				
Employment services for refugees	93.566	FIA/RSS-21	-	233,347
Employment services for refugees	93.566	FIA/RSS-21-526	-	57,663
Immigrant Health Care Connection Services	93.566	FIA/ORA-21-477	-	136,188
Pass-through from District of Columbia Child and Family Service Agency Unaccompanied Refugee Minors	93.566	DCRL-2017-R-0049	-	1,168,440
Total Assistance Listing 93.566				2,964,988
Administration for Children and Families LSSNCA's Love Notes Sexual Risk Avoidance EBP	93.060	90SR0092-01-00	-	393,481
Total U.S. Department of Health and Human Services				4,168,464
U.S. Department of State:				
U.S. Refugee Admissions Program: Pass-through from Lutheran Immigration and Refugee Services –				
Refugee Reception and Placement Program	19.510	SPRMC021CA3007	-	1,672,512
Refugee Reception and Placement Program	19.510	SPRMC021CA3290	-	26,986
Total Assistance Listing 19.510				1,699,498
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ -	\$ 5,867,962

See accompanying notes to schedule of expenditures of federal awards.

Note A Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity of LSS-NCA under programs of the federal government for the year ended September 30, 2021. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”). Because the schedule presents only a selected portion of the operation of LSS-NCA, it is not intended to and does not present the financial position, changes in net assets, or cash flows of LSS-NCA.

Note B Summary of Significant Accounting Policies

Expenditures reported on the schedule of expenditures of federal awards are presented on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note C Indirect Cost Rate

Lutheran Social Services – National Capital Area has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

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

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To the Board of Directors
Lutheran Social Services – National Capital Area

We have audited, 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, the financial statement of Lutheran Social Services – National Capital Area (“LSS-NCA”) (a non-profit organization), which comprise the statement of financial position as of September 30, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 30, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered LSS-NCA’s internal control over financial reporting (“internal control”) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LSS-NCA’s internal control. Accordingly, we do not express an opinion on the effectiveness of LSS-NCA’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 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 LSS-NCA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Prager Metis CPAs, LLC

Prager Metis CPAs, LLC
McLean, Virginia
June 30, 2022

INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors
Lutheran Social Services – National Capital Area

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Report on Compliance for the Major Federal Program

We have audited Lutheran Social Services – National Capital Area's ("LSS-NCA") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on LSS-NCA's major federal program for the year ended September 30, 2021. LSS-NCA's major federal program is 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 federal statutes, regulations, and terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for LSS-NCA's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about LSS-NCA'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 the major federal program. However, our audit does not provide a legal determination of LSS-NCA's compliance.

Opinion on the Major Federal Program

In our opinion, LSS-NCA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2021.



Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is disclosed in the accompanying schedule of findings and questioned costs as item 2021-001. Our opinion on the major federal program is not modified with respect to this matter.

LSS-NCA's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. LSS-NCA's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of LSS-NCA 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 LSS-NCA's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 LSS-NCA'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.

Prager Metis CPAs, LLC

Prager Metis CPAs, LLC
McLean, Virginia
June 30, 2022

Lutheran Social Services – National Capital Area
 Schedule of Findings and Questioned Costs
 Year Ended September 30, 2021

Section I - Summary of Auditor's Results

Financial Statements

Type of report the auditors issued on whether the financial statements audited were prepared in accordance with GAAP

Unmodified Opinion

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None Reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None Reported

Type of auditor's report issued on compliance for major federal Programs:

Unmodified Opinion

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

Identification of major federal program:

AL Number

93.566

Name of Federal Program or Cluster

Refugee and Entrant Assistance
 State Administered Programs

Dollar threshold used to distinguish between Type A and Type B programs \$750,000

Auditee qualified as low-risk auditee? Yes No

Section II - Financial Statement Findings

None reported.

Section III - Federal Awards Findings and Questioned Costs

Finding # 2021-001

U.S. Department of Health and Human Services
93.566 Refugee and Entrant Assistance State Administered Programs

Criteria: LSS-NCA is required to maintain documentation supporting the refugee status of individuals served under the Refugee and Entrant Assistance State Administered Programs.

Condition: In 1 out of 40 items, LSS-NCA was unable to provide documentation supporting the refugee status of the individual receiving aid.

Cause: At the time of serving the individual, LSS-NCA used paper forms to document verification of eligibility. The forms for the selected individual were lost during a period of employee turnover.

Effect: LSS-NCA could have provided aid to an ineligible individual and has not maintained supporting documentation to prove the individual was eligible for services under the program.

Questioned Costs: None.

Context: Of the 40 items randomly selected for testing, 1 did not have support to determine eligibility. This appears to be an isolated incident when the case manager serving this individual left abruptly due to a family emergency and did not return. The paper files were misplaced or potentially destroyed. No other issues were noted during our testing.

Identification of Repeat Finding: This is not a repeat finding.

Recommendation: We recommend that LSS-NCA examine how cases are transferred during periods of employee turnover to ensure that eligibility documentation is properly maintained.

Views of Responsible Officials: Management agrees with the finding and has implemented the recommendation. During the year under audit, LSS-NCA was only keeping physical copies of documentation. The staff person responsible for obtaining the documentation had a family emergency and quit without notice or finishing assigned work. LSS-NCA began keeping both physical and electronic copies of client eligibility documentation.

Section I – Prior Year Financial Statement Findings

There were no prior audit findings.

Section II - Prior Year Federal Awards Findings and Questioned Costs

There were no prior audit findings.

Corrective Action Plan

Finding Number Federal Programs Audit	Responsible Person	Management Views	Corrective Action	Anticipated Completion Date
2021-001	Sarah Cady, Executive Director for Refugee and Immigrant Services (RIS)	Management agrees with the finding and has implemented the recommendation. During the year audited, we were just keeping physical copies of documentation. The staff person responsible for obtaining the documentation had a family emergency and quit without notice. We are unable to find her file.	We began keeping both physical and electronic copies of client eligibility documentation. This ensures we have back up stored on our electronic drive.	This has already been implemented.