Lutheran Social Services
National Capital Area
Financial Statements and
Reporting Required Under
Government Auditing Standards and
The Uniform Guidance and
Supplementary Information
For the Year Ended September 30, 2020
(With Summarized Comparative Totals for the Year Ended September 30, 2019)

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Independent Auditor's Report

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

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 statement of financial position as of September 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.

Auditor's 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 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, 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.

Other Matters

Report on Summarized Comparative Information

We have previously audited Lutheran Social Services – National Capital Area's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 17, 2020. In our opinion, the summarized comparative information presented herein, as of and for the year ended December 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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, shown on Page 21, 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 December 9, 2021, 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
New York, New York
December 9, 2021

Lutheran Social Services – National Capital Area
Statement of Financial Position
September 30, 2020
(With Comparative Totals for 2019)

		2020		2019
Assets				
Cash and cash equivalents	**$**	**680,534**	$	538,948
Investments		**757,178**		745,595
Contract, grant and pledges receivable, net		**1,388,107**		1,497,580
Prepaid expenses		**49,585**		33,945
Deposits		**7,860**		1,360
Property, plant and equipment, net		**333,821**		383,702
Total assets	**$**	**3,217,085**	$	3,201,130
Liabilities and net assets				
Liabilities				
Accounts payable	**$**	**143,665**	$	104,690
Accrued expenses		**313,889**		293,409
Deferred revenue		**582,714**		50,595
Capital lease payable		**6,090**		16,000
Line of credit		**300,000**		300,000
Long-term debt		**1,496,086**		1,561,778
Total liabilities		**2,842,444**		2,326,472
Net assets				
Without donor restrictions		**5,444**		505,461
Without donor restrictions – board designated		**369,197**		369,197
Total net assets without donor restrictions		**374,641**		874,658
Total liabilities and net assets	**$**	**3,217,085**	$	3,201,130

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

Lutheran Social Services – National Capital Area
Statement of Activities
Year Ended September 30, 2020
(With Summarized Comparative Totals for 2019)

		2020		2019
Support and revenue				
Government contracts and grants	**$**	**4,930,119**	$	4,476,785
Contributions		**398,635**		1,672,368
Donated goods and services		**212,643**		317,723
United Way		**17,948**		30,417
Rental income		**30,716**		122,063
Adoption fees		**34,796**		61,179
Investment income (loss)		**37,826**		(8,085)
Other		**16,190**		8,584
Total support and revenue		**5,678,873**		6,681,034
Expenses				
Program expenses				
Foster care services		**1,281,094**		1,455,907
Refugee and immigration		**3,720,820**		2,972,226
Community services		**29,633**		21,821
Total program expenses		**5,031,547**		4,449,954
Supporting services				
Management and general		**896,962**		1,269,179
Fundraising		**250,381**		232,621
Total supporting services		**1,147,343**		1,501,800
Total expenses		**6,178,890**		5,951,754
Change in net assets		**(500,017)**		729,280
Net assets, without donor restrictions, beginning of year		**874,658**		145,378
Net assets, without donor restrictions, end of year	**$**	**374,641**	$	874,658

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
(With Summarized Comparative Totals for 2019)

	2020								2019
	Program Services				Supporting Services				
	Foster Care Services	Refugee and Immigration	Community Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total	Total
Salaries and related expenses									
Salaries	$ 585,627	$ 1,283,160	$ 26,651	$ 1,895,438	$ 384,523	$ 174,201	$ 558,724	**$ 2,454,162**	$ 2,701,303
Payroll taxes and benefits	94,435	186,883	1,707	283,025	53,181	25,350	78,531	**361,556**	456,816
Total salaries and related expenses	680,062	1,470,043	28,358	2,178,463	437,704	199,551	637,255	**2,815,718**	3,158,119
Other expenses									
Stipends	283,209	-	-	283,209	-	-	-	**283,209**	277,936
Assistance to individuals	23,966	1,419,418	-	1,443,384	-	-	-	**1,443,384**	1,040,195
Professional services	135,647	247,915	-	383,562	181,899	-	181,899	**565,461**	345,929
Donated goods and services	34	212,610	-	212,644	-	-	-	**212,644**	317,773
Depreciation and amortization	2,046	6,985	-	9,031	40,814	-	40,814	**49,845**	59,264
Telephone and communication	20,788	56,508	-	77,296	12,835	3,411	16,246	**93,542**	120,562
Interest expense	14,221	-	-	14,221	63,650	1,770	65,420	**79,641**	85,973
Insurance	17,420	36,472	-	53,892	26,441	1,646	28,087	**81,979**	71,759
Utilities and other occupancy	20,275	24,259	982	45,516	69,434	2,025	71,459	**116,975**	129,508
Rent	35,533	55,743	-	91,276	-	-	-	**91,276**	40,660
Supplies	3,663	17,858	-	21,521	2,926	409	3,335	**24,856**	30,999
Summer camp	2,012	-	-	2,012	-	13,554	13,554	**15,566**	19,006
Pre-employment expense	3,686	3,948	-	7,634	681	-	681	**8,315**	10,351
Vehicle expense	3,134	14,549	-	17,683	2,005	40	2,045	**19,728**	12,513
Travel	5,977	28,477	293	34,747	827	26	853	**35,600**	41,274
Bank service charges/other fees	4,528	15,915	-	20,443	12,410	2,499	14,909	**35,352**	37,289
Printing and copying	1,648	7,088	-	8,736	8,350	1,645	9,995	**18,731**	24,450
Postage	114	1,581	-	1,695	2,586	110	2,696	**4,391**	2,950
Equipment leases	-	368	-	368	1,507	-	1,507	**1,875**	1,890
Equipment	7,287	50,511	-	57,798	19,361	18,276	37,637	**95,435**	20,534
Staff development	5,427	1,421	-	6,848	-	-	-	**6,848**	7,087
Advertising	4,000	-	-	4,000	-	-	-	**4,000**	30
Dues and subscriptions	1,250	-	-	1,250	1,939	174	2,113	**3,363**	18,768
Meetings	1,049	2,074	-	3,123	1,243	1,008	2,251	**5,374**	8,314
Other	4,118	47,077	-	51,195	10,350	4,237	14,587	**65,782**	17,946
Bad debt	-	-	-	-	-	-	-	-	50,675
Total expenses	$ 1,281,094	$ 3,720,820	$ 29,633	$ 5,031,547	$ 896,962	$ 250,381	$ 1,147,343	$ 6,178,890	$ 5,951,754

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

Lutheran Social Services – National Capital Area

Statement of Cash Flows
Year Ended September 30, 2020
(With Comparative Totals for 2019)

	2020	2019
Cash flows from operating activities		
Change in net assets	**$ (500,017)**	$ 729,280
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	**49,845**	59,264
Unrealized (gain) loss on investments	**(15,071)**	30,939
Change in allowance for doubtful accounts	**-**	50,675
Disposal of property, plant and equipment	**36**	1,095
Decrease (increase) in assets		
Contract, grant and pledges receivable, net	**109,473**	(476,582)
Prepaid expenses	**(15,640)**	20,300
Deposits	**(6,500)**	-
Increase (decrease) in liabilities		
Accounts payable	**38,975**	(294,929)
Accrued expenses	**20,480**	16,841
Deferred revenue	**532,119**	41,126
Net cash provided by operating activities	**213,700**	178,009
Cash flows from investing activities		
Proceeds from sale of investments	**26,243**	543,791
Purchases of investments	**-**	(300,000)
Reinvested interest and dividends	**(22,755)**	(17,820)
Net cash provided by investing activities	**3,488**	225,971
Cash flows from financing activities		
Payments on the line of credit	**-**	(99,700)
Payments under capital lease payable	**(9,910)**	(16,550)
Principal payments on long-term debt	**(65,692)**	(63,142)
Net cash used in financing activities	**(75,602)**	(179,392)
Net increase in cash and cash equivalents	**141,586**	224,588
Cash and cash equivalents, beginning of year	**538,948**	314,360
Cash and cash equivalents, end of year	**$ 680,534**	$ 538,948
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	**$ 76,767**	$ 86,765

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. These net assets may be used at the discretion of LSS-NCA's management and board of directors.

- 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 has no net assets with donor restrictions at September 30, 2020.

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 are 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, Grant and Pledges Receivables
Contract and grant receivables are generated from service fees, and prime and subgrant arrangements with governmental agencies and private foundations. The amounts represent invoices that have been prepared and sent to the customer. Pledges receivable are recognized as revenues upon notification of unconditional promise to give. The provision for doubtful accounts is based on management's evaluation of the collectability of receivables. Contract and grant receivables are considered past due if the invoice has been outstanding for more than 30 days. LSS-NCA does not charge interest on outstanding balances.

Property, Plant and Equipment
Property, plant and equipment are recorded at cost 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.

Deferred Financing Costs
Deferred financing costs relate to debt issuance costs incurred in connection with obtaining debt. These costs are being amortized over the respective loan periods. The unamortized balance is reported as a reduction of long-term debt. Amortization of debt issuance costs was $2,874 for each of the years ended September 30, 2020 and 2019, and is included in interest expense.

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.

Note 2 Summary of Significant Accounting Policies (continued)

Support and Revenue
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. However, if a restriction is fulfilled in the same period in which the support is received, LSS-NCA reports the support as net assets without donor restrictions.

LSS-NCA reports gifts of equipment as without donor restrictions unless explicit stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as with donor restricted support. Absent explicit stipulations about how long those long-lived assets must be maintained, LSS-NCA reports expirations of restrictions when the assets are placed in service.

Government Contracts and Grants
LSS-NCA has contracts with U.S. Government agencies, as well as with state and local governments and private sources, in exchange for services. Revenue from these contracts 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. Revenue from foster care and other service fees is recognized as the services are performed.

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, 2020 and 2019, LSS-NCA recognized $212,643 and $317,723, respectively, as in-kind goods and services.

Note 2 Summary of Significant Accounting Policies (continued)

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, 2020 and 2019.

Management has analyzed the tax positions taken and has concluded that as of September 30, 2020, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. LSS-NCA is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods pending or in progress. LSS-NCA has not incurred any unrelated business income.

LSS-NCA files its information returns for Federal, Virginia, and Maryland reporting purposes. LSS-NCA is not currently under audit by any tax jurisdiction.

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. Management believes that no significant concentration of credit risk exists as of September 30, 2020 and 2019.

Note 3 New Accounting Standards

Accounting standards pending adoption

Revenue Recognition
In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers* (Topic 606), which provides a comprehensive new revenue recognition model that requires a company to recognize revenue in an amount that reflects the consideration it expects to receive for the transfer of promised goods or services to its customers. The standard, including subsequent amendments, was codified as Topic 606 and requires additional disclosure regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Topic 606 was deferred one year and will be effective for annual periods beginning after December 15, 2019. The ASU is to be applied retrospectively or using a cumulative effect transition method.

Note 3 New Accounting Standards (continued)

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 these pronouncements will have on its financial statements and related disclosures.

Recently adopted accounting standards

Contributions Received and Made
In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* (Topic 958). The new guidance clarifies what is an exchange transaction, of which revenue would be reported under Topic 606, and what is a contribution reported under Topic 958.

The new guidance presents three key considerations for the not-for-profit to walk through in order to determine what type of transaction transpired: 1. Determine if the transaction is an exchange, third-party payer, or a contribution. An exchange is where commensurate value is received by the resource provider and a recipient. 2. If the not-for-profit has determined the transaction is a contribution, it has to determine if it is conditional or unconditional. 3. If a contribution is unconditional, determine if it is restricted or unrestricted. Entities should apply the changes due to ASU 2018-08 for transactions in which the entity serves as the resource recipient to annual periods beginning after December 15, 2018. ASU 2018-08 was adopted on a modified retrospective basis in 2020 and did not have a material impact on LSS-NCA’s change in net assets, cash flows or financial position.

Note 4 Contract, Grant and Pledges Receivable

The pledges due over future periods have been discounted using discount rates ranging between 1.62% - 2.50%. The provision for doubtful accounts is based on management's evaluation of the collectability of the pledges.

	2020	2019
Contract and grant receivables	**$ 1,176,009**	$ 1,244,585
Pledge receivables	**256,728**	319,386
Less:		
Allowance for doubtful accounts	**(37,322)**	(60,200)
Discount on promises to give	**(7,308)**	(6,191)
	$ 1,388,107	$ 1,497,580

The contract and grant receivables are due within one year. The anticipated collections of the pledges based upon the stated payment terms are as follows:

Years Ending September 30,	
2021	$ 112,567
2022	97,570
2023	36,534
2024	5,426
2025	4,019
Thereafter	612
	$ 256,728

Note 5 Investments

Investments consists of the following as of September 30:

	2020	2019
Money market funds	**$ 11,445**	$ 156,279
Certificate of deposit	**300,000**	300,000
Equities	**83,441**	41,800
Mutual funds	**362,292**	247,516
	$ 757,178	$ 745,595

Note 5 Investments (continued)

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

	2020	2019
Unrealized gain (loss)	$ 15,071	$ (30,939)
Interest and dividends	22,755	22,854
	$ 37,826	$ (8,085)

Note 6 Property, Plant and Equipment

Property, plant and equipment, and accumulated depreciation consists of the following at September 30, 2020 and 2019 are as follows:

Asset Category	Estimated Useful	2020	2019
Land	-	$ 201,691	$ 201,691
Buildings	25 years	892,449	892,449
Office and computer equipment	3 to 10 years	217,071	217,107
Leasehold improvements	10 to 25 years	296,755	296,755
Vehicles	5 years	153,474	153,474
		1,761,440	1,761,476
Less: accumulated depreciation		(1,427,619)	(1,377,774)
Property, plant and equipment, net		$ 333,821	$ 383,702

Note 7 Line of Credit

LSS-NCA has a line of credit in the amount of $300,000. The line of credit is secured by a deed of trust, and assignment of rents and security agreements. Borrowings accrue interest at the financial institution's prime rate plus 0.5%. This line of credit was available until February 26, 2016 and was subsequently renewed on February 1, 2016, with an expiration date of December 31, 2016. The line of credit was subsequently renewed until December 30, 2021 with the financial institution. The line of credit is secured by accounts receivable, investments, and furniture and fixtures owned and acquired by LSS-NCA. The market rate of interest at September 30, 2020 and 2019 was 3.75% and 5.50% per annum, respectively. The outstanding balance on the line of credit was $300,000 for each of the years ended September 30, 2020 and 2019.

Note 8 Mortgage Payable

On April 17, 2006, LSS-NCA entered into a modified promissory note agreement with a principal balance of $1,880,000. This mortgage note was payable in monthly installments of principal and interest of $15,042. All remaining principal and interest was due and payable on April 15, 2016. This note bore interest at the one-month LIBOR plus 2%. The mortgage was collateralized by a first deed of trust on property located at 4406 Georgia Avenue, NW, Washington, DC. On March 30, 2016, the mortgage note was refinanced to extend the maturity date to March 30, 2026. The extended note has an interest rate of 4% and is payable in monthly installments of principal and interest payments of $10,965. The mortgage is collateralized by a first deed of trust on property located at 4406 Georgia Avenue NW, Washington, DC.

The scheduled future principal payments under the mortgage payable at September 30, 2020 are as follows:

Year Ending September 30,	
2021	$ 71,576
2022	74,532
2023	74,613
2024	80,676
2025	84,153
Thereafter	1,126,342
Total long-term debt	1,511,892
Deferred financing costs	(15,806)
Long-term debt	$ 1,496,086

Note 9 Capital Lease Payable

LSS-NCA entered into lease agreements for copier equipment. The leases are interest free and payable in 60 monthly installments ranging from $200 to $775, with various maturities, through February 2021.

The cost of equipment under capital leases included in property and equipment was $82,500 at both September 30, 2020 and 2019. Accumulated depreciation of the leased equipment was $33,950 for each of the years ended September 30, 2020 and 2019. Total depreciation expense on the equipment under capital leases was $16,000 for each of the years ended September 30, 2020 and 2019.

Note 9 Capital Lease Payable (continued)

The future minimum lease payments under these capital leases are as follows:

Year Ending September 30,		
2021	$	6,090
Total capital lease payable	$	6,090

Note 10 Without Donor Restricted Net Assets - Board Designated

Without Donor Restricted Net Assets - Board Designated represent amounts established 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.

Note 11 401(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 $18,156 and $40,196 for the years ended September 30, 2020 and 2019, respectively and is included as a component of payroll taxes and benefits on the statement of functional expenses.

Note 12 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 13 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.

Note 13 Risks and Contingencies (continued)

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 DHHS and from the Maryland Office of Refugees and Asylees (MORA) of the Department of Human Resources 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 14 Lease Commitments

LSS-NCA leases office space in Bowie, Maryland. The monthly rent in fiscal year 2020 under this lease was $417. Either party may request a termination of this relationship at any time with a 90-day written notice to the other.

LSS-NCA leases office space in Hyattsville, Maryland. The monthly rent in fiscal year 2020 under this lease was $3,005. 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 leases office space in Woodbridge, Virginia. The monthly rent in fiscal year 2020 was calculated at $35/days used. Either party may request a termination of this relationship at any time with a 60-day written notice to the other.

LSS-NCA also has 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, 2020 and 2019 was $30,716 and $122,063, respectively. There is no future minimum rental income under these lease arrangements, as they may be terminated upon providing sufficient notice.

Total rent charged to operations for the years ended September 30, 2020 and 2019 was $91,276 and $40,660, respectively.

Note 15 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:

- Level 1 – Inputs to the valuation methodology are quoted in an active market or exchanges for identical assets and liabilities.

Note 15 Fair Value Measurement (continued)

- 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 table below present LSS-NCA assets and liabilities measured at fair value on a recurring basis as of September 30, 2020 and 2019, aggregated by the level in the fair value hierarchy within which those measurements fall:

	Total	Fair Value Measurements Using		
	2020	(Level 1)	(Level 2)	(Level 3)
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**	**$ -**	**$ -**

	Total	Fair Value Measurements Using		
	2019	(Level 1)	(Level 2)	(Level 3)
Money market funds	$ 156,279	$ 156,279	$ -	**$ -**
Equities	41,800	41,800	-	**-**
Fixed income	247,516	247,516	-	**-**
Total investments at fair value	$ 445,595	$ 445,595	$ -	**$ -**

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.

- 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.

Note 16 Liquidity

As of September 30, 2020 and 2019, LSS-NCA's liquidity resources and financial assets available within one year for general expenditure, such as operating expenses, were as follows:

	2020	2019
Financial assets		
Cash and cash equivalents	**$ 680,534**	$ 538,948
Investments	**757,178**	745,595
Contract, grant and pledges receivable, net	**1,388,107**	1,497,580
Prepaid expenses	**49,585**	33,945
Deposits	**7,860**	1,360
Financial assets available to meet general expenditures within one year	**2,883,264**	2,817,428
Less amount not available within one year for general expenditures		
Non-current pledges receivable, net	**144,161**	179,345
	144,161	179,345
Financial assets available to meet general expenditures within one year	**$ 2,739,103**	$ 2,638,083

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.

Note 17 Uncertainties

LSS-NCA is located in Washington, DC and our employees and facility had been partially shut down related to the outbreak of the Coronavirus (COVID-19). The U.S. Center for Disease Control, or the CDC, had reported known cases of COVID-19 in Washington, DC area and specifically in our county. The spread of COVID-19 resulted in losses in revenue for the fiscal year ended September 30, 2020.

Note 18 Subsequent Events

LSS-NCA evaluates events occurring after the date of the financial statements to consider whether or not the impact of such events needs to be reflected and/or disclosed in the financial statements. Such evaluation is performed through the date the financial statements are available for issuance, which was December 9, 2021 for these financial statements.

Supplementary Information

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE OR CLUSTER TITLE	FEDERAL AL 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	2002MDRVMG	$ -	$ 691,429
Administration for Children and Families, Office of Refugee Resettlement				
Pass-through from Lutheran Immigration and Refugee Services:				
Preferred Communities Supplemental	93.576	90RP0113-04-00	-	66,692
Preferred Communities Supplemental	93.576	90RP0113-04-02		58,229
Commonwealth of Virginia, Department of Social Services, Division of				
Community and Volunteer Services, Office of Newcomer Services:				
Virginia Refugee School Achievement Program	93.576	CVS-17-072-02	-	44,012
Refugee Health Education & Outreach Program	93.576	CVS-17-072-02		10,127
Administration for Children and Families, Office of Refugee Resettlement				
Pass-through from Lutheran Immigration and Refugee Services:				
Safe Release Support Fingerprinting Services	93.676	90ZU0318-01-00	-	189,257
Refugee and Entrant Assistance State Administered Programs: Pass-through				
from the Commonwealth of Virginia Department of Social Services,				
Office of Newcomer Services:				
Employment services for refugees in Baltimore Area	93.566	FIA/ORA-20-498	-	183,660
Mentoring Youth in Virginia	93.566	CVS-17-072-02		37,035
Public & Private Partnership - Refugee Transitional Cash Assistance	93.566	FIA/RTCA-20-505		152,927
Extensive Case Management Program	93.566	FIA/ECMP-20-516		61,210
Refugee Youth Mentoring Program	93.566	FIA/RYMP-20-521		57,144
Virginia Refugee Preventive Health	93.566	CVS-17-072-02	-	40,509
Refugee Social Services Employment Program	93.566	CVS-17-072-02	-	366,650
Pass-through from the State of Maryland, Department of Human Resources,				
Office for New Americans:				
Employment services for refugees in the Baltimore area	93.566	FIA/ORA-20-477	-	132,409
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	SPRMCO19CA0030	-	1,431,595
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ -	$ 3,522,885

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, 2020. 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.

PragerMetis

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, 2020, and the related statements of activities and changes in net assets, 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 December 9, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered LSS-NCA 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 internal control. Accordingly, we do not express an opinion on the effectiveness of LSS-NCA 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 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 internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Prager Metis CPAs, LLC

Prager Metis CPAs, LLC
New York, New York
December 9, 2021

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

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

Report on Compliance for Each 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 each of LSS-NCA's major federal programs for the year ended September 30, 2020. LSS-NCA's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the 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 each of 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 (CFR)* 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 each 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 each of its major federal programs for the year ended September 30, 2020.

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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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
New York, New York
December 9, 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 Numbers	Name of Federal Program or Cluster
19.510	Refugee Reception and Placement Program

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

During our audit, we noted no material findings for the year ended September 30, 2020.

Section III - Federal Awards Findings and Questioned Costs

During our audit, we noted no material instances of noncompliance, and none of the costs reported in the federal financially assisted programs are questioned or recommended to be disallowed.

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.

There were no prior audit findings and therefore no corrective action plan required.