LUTHERAN SOCIAL SERVICES OF ILLINOIS AND SUBSIDIARY CORPORATIONS

Des Plaines, IL

CONSOLIDATED FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended June 30, 2019 and 2018

LUTHERAN SOCIAL SERVICES OF ILLINOIS
AND SUBSIDIARY CORPORATIONS

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Lutheran Social Services of Illinois
Des Plaines, Illinois

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Lutheran Social Services of Illinois and Subsidiary Corporations (the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities, cash flows and functional expenses and directly related program services revenue for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the Organization adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

Other Matters

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards and supplementary information identified in the table of contents on pages 52 - 59, as required by Title 2 U.S. *Code of Federal Regulations (CFR)* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2019 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 the Organization'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 the Organization's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Milwaukee, Wisconsin
November 21, 2019

LUTHERAN SOCIAL SERVICES OF ILLINOIS
AND SUBSIDIARY CORPORATIONS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of June 30, 2019 and 2018

ASSETS

	2019	2018
CURRENT ASSETS		
Cash and cash equivalents	$ 1,897,935	$ 1,180,571
Accounts receivable, net of allowance for doubtful accounts of $2,357,809 and $2,486,359 at June 30, 2019 and 2018, respectively	11,212,015	11,790,048
Current portion of unconditional promises to give, net of allowance for doubtful promises of $0 at June 30, 2019 and 2018	125,880	197,225
Prepaid expenses and other assets	191,953	903,130
Short-term investments	5,224,322	6,831,726
Short-term investments - pledged as collateral	11,004,119	11,041,030
Total Current Assets	29,656,224	31,943,730
INVESTMENTS HELD FOR LONG-TERM PURPOSES	2,519,171	2,603,609
PROPERTY AND EQUIPMENT		
Land	4,187,672	4,187,671
Buildings and other improvements	107,705,800	105,249,416
Furniture and equipment	22,787,311	22,952,538
Construction in progress	194,957	-
Property and Equipment, at cost	134,875,740	132,389,625
Less allowance for depreciation	(73,219,442)	(70,744,192)
Property and Equipment, net	61,656,298	61,645,433
OTHER ASSETS		
Unconditional promises to give, less current portion above	-	59,970
Escrow deposit accounts	9,114,940	8,848,888
Tenant deposits in trust	98,614	107,994
Cash surrender value of life insurance contracts	277,311	285,361
Total Other Assets	9,490,865	9,302,213
TOTAL ASSETS	$ 103,322,558	$ 105,494,985

See accompanying notes to consolidated financial statements.

LUTHERAN SOCIAL SERVICES OF ILLINOIS
AND SUBSIDIARY CORPORATIONS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (continued)
As of June 30, 2019 and 2018

LIABILITIES AND NET ASSETS

	2019	2018
CURRENT LIABILITIES		
Line of credit	$ 9,303,189	$ 3,999,000
Current maturities of long-term debt:		
Mortgages payable	370,417	655,826
Capital lease obligations	253,955	359,294
Accounts payable and other accrued expenses	4,817,625	5,781,943
Cash advances for special purposes	191,540	58,239
Accrued interest payable	16,119	16,408
Accrued salaries and wages	3,918,484	3,782,017
Accrued and withheld taxes	728,913	684,381
Deferred gain on sale of property - current	143,439	323,272
Deferred lease incentive - current	5,000	-
Residents' special deposits	31,573	50,286
Total Current Liabilities	19,780,254	15,710,666
LONG-TERM LIABILITIES		
Long-term debt, less current maturities above:		
Mortgages payable	11,627,046	11,984,058
Capital lease obligations	4,301,994	2,232,799
Deferred grant revenue from capital advance agreements	39,472,662	41,113,110
Deferred grant revenue from assisted living conversion grant agreement	3,602,995	3,783,151
Deferred grant revenue from federal home loan agreements	66,004	78,676
Deferred gain on sale of property	1,613,683	1,697,177
Deferred lease incentive	75,000	-
Liability for split interest gift arrangements	532,438	631,581
Liability for pension benefits	4,315,206	10,228,972
Other long-term liabilities	941,094	553,042
Tenant security deposits held in trust	380,505	360,124
Due to HUD - residual receipts	590,511	605,820
Total Long-Term Liabilities	67,519,138	73,268,510
Total Liabilities	87,299,392	88,979,176
NET ASSETS		
Without donor restrictions	9,813,906	9,713,448
With donor restrictions	6,209,260	6,802,361
Total Net Assets	16,023,166	16,515,809
TOTAL LIABILITIES AND NET ASSETS	$ 103,322,558	$ 105,494,985

See accompanying notes to consolidated financial statements.

LUTHERAN SOCIAL SERVICES OF ILLINOIS
AND SUBSIDIARY CORPORATIONS

CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2019

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Public Support:			
Lutheran church support	$ 424,322	$ 3,550	$ 427,872
United Way	18,706	60,615	79,321
Contributions	3,313,154	34,556	3,347,710
Bequests	469,784	-	469,784
Total Public Support	4,225,966	98,721	4,324,687
Other Revenue:			
Fees and grants from government agencies	57,915,063	-	57,915,063
Program service fees	17,978,961	-	17,978,961
Grant revenue from deferred grant agreements	1,833,276	-	1,833,276
Public sales	15,363	-	15,363
Rents and investment return, net	819,417	72,315	891,732
Gain on disposal of property and equipment, net	256,837	-	256,837
Miscellaneous	186,310	-	186,310
Total Other Revenue	79,005,227	72,315	79,077,542
Net assets released from restrictions	785,377	(785,377)	-
Total Public Support and Revenue	84,016,570	(614,341)	83,402,229
EXPENSES			
Program Services	75,903,128	-	75,903,128
Supporting Services:			
Management and general	6,573,285	-	6,573,285
Fundraising	1,580,670	-	1,580,670
Total Supporting Services	8,153,955	-	8,153,955
Total Program and Supporting Services Expense	84,057,083	-	84,057,083
CHANGE IN NET ASSETS BEFORE OTHER ITEMS	(40,513)	(614,341)	(654,854)
OTHER ITEMS			
Actuarial gain on annuity obligations	-	21,240	21,240
Decrease in actuarial pension costs	140,971	-	140,971
CHANGE IN NET ASSETS	100,458	(593,101)	(492,643)
NET ASSETS - Beginning of Year	9,713,448	6,802,361	16,515,809
NET ASSETS - END OF YEAR	$ 9,813,906	$ 6,209,260	$ 16,023,166

See accompanying notes to consolidated financial statements.

LUTHERAN SOCIAL SERVICES OF ILLINOIS AND SUBSIDIARY CORPORATIONS

CONSOLIDATED STATEMENT OF ACTIVITIES (continued)
For the Year Ended June 30, 2018

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Public Support:			
Lutheran church support	$ 588,779	$ -	$ 588,779
United Way	25,888	59,725	85,613
Contributions	2,795,954	164,345	2,960,299
Bequests	492,148	-	492,148
Total Public Support	3,902,769	224,070	4,126,839
Other Revenue:			
Fees and grants from government agencies	55,413,181	-	55,413,181
Program service fees	17,882,279	-	17,882,279
Grant revenue from deferred grant agreements	1,833,276	-	1,833,276
Public sales	59,490	-	59,490
Rents and investment return, net	710,594	87,052	797,646
Gain on disposal of property and equipment, net	227,966	-	227,966
Miscellaneous	185,548	-	185,548
Total Other Revenue	76,312,334	87,052	76,399,386
Net assets released from restrictions	252,389	(252,389)	-
Total Public Support and Revenue	80,467,492	58,733	80,526,225
EXPENSES			
Program Services	72,029,414	-	72,029,414
Supporting Services:			
Management and general	6,285,490	-	6,285,490
Fundraising	1,489,325	-	1,489,325
Total Supporting Services	7,774,815	-	7,774,815
Total Program and Supporting Services Expense	79,804,229	-	79,804,229
CHANGE IN NET ASSETS BEFORE OTHER ITEMS	663,263	58,733	721,996
OTHER ITEMS			
Actuarial loss on annuity obligations	-	(19,522)	(19,522)
Decrease in actuarial pension costs	3,271,477	-	3,271,477
CHANGE IN NET ASSETS	3,934,740	39,211	3,973,951
NET ASSETS - Beginning of Year	5,778,708	6,763,150	12,541,858
NET ASSETS - END OF YEAR	$ 9,713,448	$ 6,802,361	$ 16,515,809

See accompanying notes to consolidated financial statements.

LUTHERAN SOCIAL SERVICES OF ILLINOIS AND SUBSIDIARY CORPORATIONS

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ (492,643)	$ 3,973,951
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	4,537,185	4,523,996
Change in value of liability for split interest gift arrangements (including charitable annuity lead trust)	(21,240)	19,522
Amortization of deferred grant revenue from various agreements	(1,833,276)	(1,833,276)
Recognition of income on split interest gift arrangements	-	(24,860)
Amortization of prepaid debt financing costs	13,404	12,810
Gain on disposal of property and equipment	(256,837)	(227,966)
Reinvestment of investment income	(164,417)	(162,446)
Net realized and unrealized gain on investments	(246,100)	(390,451)
Increase in cash surrender value of life insurance	(18,200)	(9,881)
Decrease in actuarial pension costs	(140,971)	(3,271,477)
Provision for bad debt	382,930	753,562
Changes in assets and liabilities:		
Accounts receivable	195,103	(2,293,481)
Unconditional promises to give	131,315	96,475
Prepaid expenses and other assets	711,177	(381,764)
Restricted deposit accounts	(470,458)	(87,305)
Accounts payable and other accrued expenses	(925,779)	446,549
Other current liabilities	295,298	(971,596)
Pension benefits expense under contributions	(5,772,795)	(129,373)
Other long-term liabilities	408,433	(17,908)
Due to HUD - residual receipts	(15,309)	(89,650)
Net Cash Flows from Operating Activities	(3,683,180)	(64,569)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(2,206,224)	(1,835,793)
Proceeds from disposal of property and equipment	-	435,989
Purchases of investments	(1,537,981)	(1,805,461)
Proceeds from sales of investments	3,608,160	936,944
Proceeds from surrendering life insurance policies	26,250	45,422
Net withdrawals (deposits to) from residual receipts, replacement reserve, and minimum capital investment	213,786	(854,244)
Net Cash Flows from Investing Activities	103,991	(3,077,143)

See accompanying notes to consolidated financial statements.

LUTHERAN SOCIAL SERVICES OF ILLINOIS
AND SUBSIDIARY CORPORATIONS

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
Years Ended June 30, 2019 and 2018

	2019	2018
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from split interest agreements relinquished	$ 69,091	$ 245,164
Payments on split interest gift arrangements	(77,903)	(86,712)
Repayment of other debt	(998,824)	(916,229)
Net draws on line of credit	5,304,189	1,790,000
Net Cash Flows from Financing Activities	4,296,553	1,032,223
NET CHANGE IN CASH AND CASH EQUIVALENTS	717,364	(2,109,489)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,180,571	3,290,060
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,897,935	$ 1,180,571
Supplemental cash flow disclosures		
Cash paid for interest	$ 985,458	$ 429,692
Noncash investing and financing activities		
Property and equipment purchases financed by capital leases, capital advances and accounts payable	$ 2,320,983	$ 2,837,498
Leasehold improvements acquired with tenant lease incentive	$ 80,000	$ -
Deferred gain on sale and leaseback of property	$ -	$ 2,020,449
Proceeds from sale used to settle mortgage payable	$ -	$ 2,224,285
Accrued property taxes and rent settled with proceeds from sale	$ -	$ 118,782
Security deposits transferred with settlement of mortgage payable	$ -	$ 4,004

See accompanying notes to consolidated financial statements.

LUTHERAN SOCIAL SERVICES OF ILLINOIS AND SUBSIDIARY CORPORATIONS

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES AND DIRECTLY RELATED PROGRAM SERVICES REVENUE
For the Year Ended June 30, 2019

	2019							
	PROGRAM SERVICES							
		Home and Community Services						
	Children's Community Services	Behavioral Health Services	Senior Community Services	Housing Services	Other Operating	Matins, Inc.	Vesper Mgmt Corporation	Subtotal Program Services
FUNCTIONAL EXPENSES								
Salaries	$ 16,373,217	$ 14,406,823	$ 465,411	$ 4,377,061	$ -	$ -	$ -	$ 35,622,512
Employee health and retirement benefits, payroll taxes, etc.	4,092,274	3,285,866	79,437	1,311,626	-	-	-	8,769,203
Total salaries and related expenses	20,465,491	17,692,689	544,848	5,688,687	-	-	-	44,391,715
Professional fees and contract service payments	7,876,879	1,852,162	807	388,138	-	1,592	-	10,119,578
Supplies	220,655	821,405	755	370,947	-	-	-	1,413,762
Communications	420,573	452,808	4,028	401,415	-	-	-	1,278,824
Occupancy	2,175,442	1,241,833	1,494	4,200,170	-	-	-	7,618,939
Advertising and printing	5,476	3,824	895	4,483	-	-	-	14,678
Local transportation	1,944,041	580,073	24,115	123,923	-	-	-	2,672,152
Meetings, seminars and education	33,605	56,652	810	18,115	-	-	-	109,182
Specific assistance to individuals	761,620	77,406	-	4,492	-	-	-	843,518
Elderly and congregate expenses	-	-	-	163,704	-	-	-	163,704
Equipment rental and maintenance	195,314	371,048	11,424	140,434	-	-	-	718,220
Miscellaneous and other operating	16,253	175,759	2,448	1,585,933	-	-	-	1,780,393
Interest expense	134,145	199,129	1,351	557,818	-	-	-	892,443
Total functional expenses	34,249,494	23,524,788	592,975	13,648,259	-	1,592	-	72,017,108
Depreciation	283,183	388,688	32,421	2,838,415	-	-	343,313	3,886,020
Total Program and Supporting Services Expense	$ 34,532,677	$ 23,913,476	$ 625,396	$ 16,486,674	$ -	$ 1,592	$ 343,313	$ 75,903,128
DIRECTLY RELATED PROGRAM SERVICES REVENUE								
Fees and grants from governmental agencies	$ 36,796,444	$ 12,734,642	$ 316,787	$ 8,067,190	$ -	$ -	$ -	$ 57,915,063
Program service fees	379,832	9,787,112	189,918	7,622,099	-	-	-	17,978,961
Grant revenue from deferred grant agreements	-	-	-	1,833,276	-	-	-	1,833,276
Public sales	5,965	-	-	9,398	-	-	-	15,363
Rents and investment return, net	13,547	26	-	435,154	47,393	-	-	496,120
Loss on disposal of property and equipment, net	(434)	-	-	(6,056)	-	-	-	(6,490)
Miscellaneous	1,823	75,664	-	78,922	-	-	-	156,409
Total Directly Related Program Services Revenue	$ 37,197,177	$ 22,597,444	$ 506,705	$ 18,039,983	$ 47,393	$ -	$ -	$ 78,388,702

See accompanying notes to consolidated financial statements.

LUTHERAN SOCIAL SERVICES OF ILLINOIS AND SUBSIDIARY CORPORATIONS

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES AND DIRECTLY RELATED PROGRAM SERVICES REVENUE (continued)
For the Year Ended June 30, 2019

	2019				
	SUPPORTING SERVICES				
	Management and General	Resource Development	The Cornerstone Foundation, Inc.	Subtotal Fundraising	Total
FUNCTIONAL EXPENSES					
Salaries	$ 2,831,042	$ 906,251	$ -	$ 906,251	$ 39,359,805
Employee health and retirement benefits, payroll taxes, etc.	879,954	195,705	-	195,705	9,844,862
Total salaries and related expenses	3,710,996	1,101,956	-	1,101,956	49,204,667
Professional fees and contract service payments	285,801	206,787	42,242	249,029	10,654,408
Supplies	66,372	30,224	-	30,224	1,510,358
Communications	148,150	15,939	120	16,059	1,443,033
Occupancy	475,135	7,640	-	7,640	8,101,714
Advertising and printing	305,639	81,227	-	81,227	401,544
Local transportation	65,257	24,353	943	25,296	2,762,705
Meetings, seminars and education	64,569	4,175	2,455	6,630	180,381
Specific assistance to individuals	-	-	-	-	843,518
Elderly and congregate expenses	-	-	-	-	163,704
Equipment rental and maintenance	404,610	707	-	707	1,123,537
Miscellaneous and other operating	291,403	57,836	2,124	59,960	2,131,756
Interest expense	106,130	-	-	-	998,573
Total functional expenses	5,924,062	1,530,844	47,884	1,578,728	79,519,898
Depreciation	649,223	1,942	-	1,942	4,537,185
Total Program and Supporting Services Expenses	$ 6,573,285	$ 1,532,786	$ 47,884	$ 1,580,670	$ 84,057,083
DIRECTLY RELATED PROGRAM SERVICES REVENUE					
Fees and grants from governmental agencies	$ -	$ -	$ -	$ -	$ 57,915,063
Program service fees	-	-	-	-	17,978,961
Grant revenue from deferred grant agreements	-	-	-	-	1,833,276
Public sales	-	-	-	-	15,363
Rents and investment return, net	(1,725)	-	397,337	397,337	891,732
Gain on disposal of property and equipment, net	263,327	-	-	-	256,837
Miscellaneous	29,901	-	-	-	186,310
Total Directly Related Program Services Revenue	$ 291,503	$ -	$ 397,337	$ 397,337	$ 79,077,542

See accompanying notes to consolidated financial statements.

LUTHERAN SOCIAL SERVICES OF ILLINOIS AND SUBSIDIARY CORPORATIONS

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES AND DIRECTLY RELATED PROGRAM SERVICES REVENUE (continued)
For the Year Ended June 30, 2018

	2018							
	PROGRAM SERVICES							
		Home and Community Services						
	Children's Community Services	Behavioral Health Services	Senior Community Services	Housing Services	Other Operating	Matins, Inc.	Vesper Mgmt Corporation	Subtotal Program Services
FUNCTIONAL EXPENSES								
Salaries	$ 15,931,528	$ 12,234,918	$ 458,897	$ 4,403,779	$ -	$ -	$ -	$ 33,029,122
Employee health and retirement benefits, payroll taxes, etc.	4,151,558	2,890,241	64,308	1,439,318	-	-	-	8,545,425
Total salaries and related expenses	20,083,086	15,125,159	523,205	5,843,097	-	-	-	41,574,547
Professional fees and contract service payments	7,983,363	1,798,975	429	380,940	-	138	81,312	10,245,157
Supplies	270,419	754,349	619	387,199	-	-	3,229	1,415,815
Communications	432,658	540,745	5,497	388,002	-	-	2,944	1,369,846
Occupancy	2,495,648	1,174,575	3,547	3,869,739	-	-	116,715	7,660,224
Advertising and printing	42,525	7,544	160	4,016	-	-	-	54,245
Local transportation	1,708,547	438,659	11,741	120,416	-	-	-	2,279,363
Meetings, seminars and education	31,095	59,151	-	15,317	-	-	-	105,563
Specific assistance to individuals	510,227	135,446	-	4,648	-	-	-	650,321
Elderly and congregate expenses	-	-	-	142,533	-	-	-	142,533
Equipment rental and maintenance	180,783	333,207	10,743	40,036	-	-	-	564,769
Miscellaneous and other operating	27,410	240,565	3,062	1,277,813	-	115	100	1,549,065
Interest expense	39,778	53,139	345	287,913	-	-	32,159	413,334
Total functional expenses	33,805,539	20,661,514	559,348	12,761,669	-	253	236,459	68,024,782
Depreciation	230,125	408,071	20,955	2,951,941	-	-	393,540	4,004,632
Total Program and Supporting Services Expenses	$ 34,035,664	$ 21,069,585	$ 580,303	$ 15,713,610	$ -	$ 253	$ 629,999	$ 72,029,414
DIRECTLY RELATED PROGRAM SERVICES REVENUE								
Fees and grants from governmental agencies	$ 35,610,184	$ 11,680,331	$ 236,398	$ 7,879,601	$ -	$ -	$ -	$ 55,406,514
Program service fees	194,598	9,997,114	278,672	7,411,895	-	-	-	17,882,279
Grant revenue from deferred grant agreements	-	-	-	1,833,276	-	-	-	1,833,276
Public sales	42,786	-	-	16,704	-	-	-	59,490
Rents and investment return, net	34,653	19,852	-	140,831	42,126	-	12,336	249,798
Loss on disposal of property and equipment, net	-	-	-	(137)	-	-	(14,351)	(14,488)
Miscellaneous	4,303	101,348	255	36,484	-	6,618	13,409	162,417
Total Directly Related Program Services Revenue	$ 35,886,524	$ 21,798,645	$ 515,325	$ 17,318,654	$ 42,126	$ 6,618	$ 11,394	$ 75,579,286

See accompanying notes to consolidated financial statements.

LUTHERAN SOCIAL SERVICES OF ILLINOIS AND SUBSIDIARY CORPORATIONS

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES AND DIRECTLY RELATED PROGRAM SERVICES REVENUE (continued)
For the Year Ended June 30, 2018

	2018				
	SUPPORTING SERVICES				
	Management and General	Resource Development	The Cornerstone Foundation, Inc.	Subtotal Fundraising	Total
FUNCTIONAL EXPENSES					
Salaries	$ 2,727,222	$ 868,507	$ -	$ 868,507	$ 36,624,851
Employee health and retirement benefits, payroll taxes, etc.	703,046	206,071	-	206,071	9,454,542
Total salaries and related expenses	3,430,268	1,074,578	-	1,074,578	46,079,393
Professional fees and contract service payments	690,178	93,737	49,089	142,826	11,078,161
Supplies	50,870	42,993	-	42,993	1,509,678
Communications	141,892	14,518	2,391	16,909	1,528,647
Occupancy	451,848	1,891	-	1,891	8,113,963
Advertising and printing	207,077	94,730	639	95,369	356,691
Local transportation	87,097	27,671	927	28,598	2,395,058
Meetings, seminars and education	61,932	2,337	1,060	3,397	170,892
Specific assistance to individuals	-	-	-	-	650,321
Elderly and congregate expenses	-	-	-	-	142,533
Equipment rental and maintenance	334,376	1,688	-	1,688	900,833
Miscellaneous and other operating	238,765	25,908	52,727	78,635	1,866,465
Interest expense	74,264	-	-	-	487,598
Total functional expenses	5,768,567	1,380,051	106,833	1,486,884	75,280,233
Depreciation	516,923	2,441	-	2,441	4,523,996
Total Program and Supporting Services Expenses	$ 6,285,490	$ 1,382,492	$ 106,833	$ 1,489,325	$ 79,804,229
DIRECTLY RELATED PROGRAM SERVICES REVENUE					
Fees and grants from governmental agencies	$ -	$ 6,667	$ -	$ 6,667	$ 55,413,181
Program service fees	-	-	-	-	17,882,279
Grant revenue from deferred grant agreements	-	-	-	-	1,833,276
Public sales	-	-	-	-	59,490
Rents and investment return, net	4,749	-	543,099	543,099	797,646
Gain on disposal of property and equipment, net	242,454	-	-	-	227,966
Miscellaneous	23,131	-	-	-	185,548
Total Directly Related Program Services Revenue	$ 270,334	$ 6,667	$ 543,099	$ 549,766	$ 76,399,386

See accompanying notes to consolidated financial statements.

NOTE 1 - Summary of Significant Accounting Policies

Nature of Activities

Lutheran Social Services of Illinois ("LSSI"), including the subsidiary corporations included herein (the "Organization"), is a multi-functional social service organization which is the social ministry expression of the three Illinois Synods of the Evangelical Lutheran Church in America. It is a corporation organized under the laws of the State of Illinois pursuant to the provisions of the "General Not-For-Profit Corporation Act." It is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and is not a private foundation under Section 509(a)(2). The Organization receives a significant portion of its operating funds from public support, fees and grants from government agencies and program service fees. The Organization's fiscal year ends on June 30. Significant accounting policies followed by the Organization are presented below.

In accordance with authoritative accounting guidance related to reporting of related entities by not-for-profit organizations, twenty-two (22) affiliated not-for-profit corporations incorporated under the Illinois "General Not-For-Profit Corporation Act" are included as subsidiaries in the consolidated financial statements. These corporations are considered subsidiary corporations because LSSI has control over and an economic interest in these corporations. In addition, LSSI Rockford Property, Inc., which is a for-profit subsidiary, is also consolidated as the Organization owns 100 percent of that company. These subsidiary corporations are:

- Assisi Homes-Downer Place, Inc.
- Aurora Senior Housing, Inc.
- Batavia Council on Aging, Inc.
- The Cornerstone Foundation, Inc. ("Foundation")
- Deer Creek Manor, Inc.
- Dekalb Housing for the Handicapped, Inc.
- Forsberg Christian Retirement Center, Inc. ("Forsberg")*
- Freeport Senior Housing, Inc.
- Freeport Senior Housing II, Inc.
- Fox Hill Senior Housing, Inc.
- LSSI Rockford Property, Inc.
- Luther Center, Inc. **
- Matins, Inc.
- Northwest Chicago Group Homes, Inc.
- Our Savior's Senior Housing
- Rochelle Senior Housing, Inc.
- Rolling Meadows Senior Living, Inc.
- Salem Village III, Inc.
- Spring Ridge Housing for Seniors, Inc.
- Tabor Lutheran Senior Housing, Inc.
- Vesper Management Corporation
- Victorian Woods Senior Living, Inc.

* In 2016, the building that Forsberg operated from was sold and Forsberg did not have any activity after transferring the net proceeds to the Organization.

** In April 2017, the building Luther Center, Inc. operated was sold and Luther Center, Inc. did not have any activity after transferring the net proceeds to the Organization.

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Nature of Activities (cont.)

Services that the Organization provides include:

Children's Community Services:

Child Care Services: child care and Head Start programs designed to develop students' social skills and school readiness.

Foster Care Services: foster care placement and case management for children who have been removed from their birth families due to abuse and/or neglect, to achieve permanency through reunification with families or through adoption.

Home and Community Services:

Behavioral Health Services: counseling, mental health and crisis intervention, drug and alcohol treatment for youth and adults, support and housing for adults with developmental disabilities, and services for formerly incarcerated individuals.

Senior Community and Housing Services: Non-medical assistance to older adults in their homes, and affordable housing for older adults and people over the age of 18 with disabilities.

Consolidated Financial Statement Presentation

The accompanying consolidated financial statements include the accounts of the Organization. All significant transactions among these corporations have been eliminated.

Basis of Accounting

The consolidated financial statements have been prepared using the accrual basis of accounting.

Cash and Cash Equivalents

The Organization considers all liquid investments with a maturity of three months or less when purchased to be cash and cash equivalents.

Receivables

Accounts receivable are uncollateralized funding source obligations, which generally are payable within 30 days from the invoice or billing date. Accounts receivable are stated at the invoice amount.

Payments of accounts receivable are applied to the specific invoices identified on the funding source's remittance advice or, if unspecified, to the earliest unpaid invoices.

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Receivables (cont.)

The carrying amount of accounts receivable is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. The allowance for doubtful accounts is based on management's assessment of the collectibility of specific funding source accounts and the aging of accounts receivable. If actual write-offs are higher than the historical experience, management's estimates of the recoverability of amounts due to the Organization could be adversely affected. All accounts or portions thereof deemed to be uncollectible or require an excessive collection cost are written off to the allowance for doubtful accounts.

Unconditional Promises to Give

Unconditional promises to give are recognized as revenue in the period received and as assets or decreases in liabilities, depending on the form of the benefits to be received.

The carrying amount of unconditional promises to give is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. Amounts that are expected to be collected after one year have been discounted at the time the pledge is recorded. The allowance for uncollectible amounts is based on management's assessment of the collectibility of specific promises to give. All accounts or portions thereof deemed to be uncollectible or to require an excessive collection cost are written off to the allowance for doubtful promises to give. The Organization believes unconditional promises to give are fully collectible at June 30, 2019 and 2018 and no allowance has been established.

Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. There were no conditional promises to give as of June 30, 2019 and 2018.

Income Taxes

The Organization is recognized by the Internal Revenue Service as a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code and, except for taxes pertaining to unrelated business income, is exempt from federal and state income taxes.

The Organization follows current accounting guidance which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the consolidated financial statements. Under this guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization and various positions related to the potential sources of unrelated business income. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes.

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Income Taxes (cont.)

With few exceptions, the Organization is no longer subject to U.S. federal, state or local income tax examinations by tax authorities for the years before 2015. The Organization is not currently under examination by any taxing jurisdiction. It is the Organization's policy to recognize interest and penalties related to unrecognized tax expense when paid.

LSSI Rockford Property, Inc. has a tax year ending December 31. During 2010, LSSI Rockford Property, Inc. completed a sale that was treated for income tax purposes as an installment sale. The deferred tax liability of $520,475 was included in other long-term liabilities as of June 30, 2019 and 2018 in the consolidated statements of financial position.

Investments

Investments are generally recorded at fair value based upon quoted market prices, when available, or estimates of fair value with gains and losses, net of fees, included in the consolidated statements of activities. Donated securities are recorded at fair value on the date received or at nominal value when the fair value is not readily available. Investments in partnerships that the Organization does not control are recorded based on the equity method.

The Organization’s external investment advisors are engaged to monitor and report on portfolio performance and to make recommendations to the Foundation's investment committee as to investment manager selection and or replacement, and asset allocations. Once those recommendations are approved, Organization management executes the necessary transactions to cause the investment portfolio to conform to the use of investment managers and the asset allocation percentages as approved. Monitoring and rebalancing of the investment portfolio is conducted on an on-going basis by management subject to the tolerances within the approved investment policy.

Property and Equipment

Property and equipment are stated at cost, if purchased, or fair value at the date of the gift, if donated. All acquisitions of property and equipment generally in excess of $1,000 and all expenditures for repairs, maintenance, improvements and betterments that materially prolong the useful lives of assets are capitalized. Maintenance, repairs, and minor improvements are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in the change in net assets.

Property and equipment are depreciated using the straight-line method over their estimated useful lives as follows:

Buildings	25 - 40	years
Other improvements	5 - 25	years
Furniture and equipment	3 - 7	years

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Impairment of Long-Lived Assets

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or the fair value less costs to sell. To date, there have been no such losses recorded due to impairment.

Sale and Lease-Back of Property

In September 2017, the Organization entered an agreement to sell one of its properties and lease that property from the purchaser though September 2024. The lease of the property met the criteria for capitalization and is included in property on the consolidated statements of financial position at June 30, 2019 and 2018. The capitalized cost, accumulated depreciation, future minimum lease payments and interest are included in Note 8.

The sale price was $3,000,000 and resulted in a deferred gain of $2,262,902 at the time of the sale. The gain is recognized in proportion to the amortization of the leased asset. During 2019 and 2018, $263,327 and $242,454 was recognized in gain on sale of property on the consolidated statements of activities. The total remaining deferred gain of $1,757,122 and $2,020,449 is reported as a liability on the consolidated statements of financial position at June 30, 2019 and 2018, respectively.

In February 2019, the lease was amended to decrease the amount of space leased, extend the lease term, and adjust the lease payments. At the time of the amendment, the capitalized asset and related lease obligation were revalued to reflect the present value of the future minimum payments under the amended lease and a corresponding increase in the asset and liability was recorded of $2,306,855. In addition to amending the lease terms, the Organization received a lease incentive of $500,925 to be used for improvements of the leased property. Improvements of $80,000 are included in construction in progress at June 30, 2019 and a deferred lease incentive liability is reported in the consolidated financial statements. The remaining lease incentive is expected to be used in the next fiscal year. Once placed into service, the deferred lease incentive will be recognized straight-line over the life of the leased asset. The deferred lease incentive is $(80,000) at June 30, 2019.

Escrow Deposit Accounts

At June 30, 2019 and 2018, the Organization had restricted cash totaling $9,114,940 and $8,848,888, respectively, mainly related to replacement reserves, tenant security deposits, residual receipts and minimum capital investments required by the U.S. Department of Housing and Urban Development (“HUD”). HUD regulations require these funds be held in segregated accounts. HUD has provided guidance to the Organization and other housing units on the repayment terms of residual receipts reserve balances. All amounts greater than $250 per unit, totaling $590,511 and $605,820 at June 30, 2019 and 2018, respectively, are reflected as a liability.

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Advertising

Non-direct advertising and promotion costs are charged to management and general when incurred and for the years ended June 30, 2019 and 2018 the amounts included were $121,919 and $99,877, respectively.

Capital Advance and Assisted Living Conversion Grant Agreements

The deferred grant revenue from the capital advance and assisted living conversion agreements with HUD are being amortized over the terms of the agreements using the straight-line method.

Split Interest Gift Arrangements

The Organization has entered into split interest gift arrangements that are mainly comprised of gift annuities and charitable trusts. Gift annuities provide that the annuitants will receive payments for life. The payments will continue even if related assets have been exhausted. At the death of the annuitants, all remaining assets, if any, are directed in accordance with the related agreements.

Charitable trusts provide that the income beneficiaries will receive payments for life, so long as there are assets available in the trust. At the death of the income beneficiaries, all remaining assets are directed in accordance with the related agreements.

At June 30, 2019 and 2018, the Organization held investments of $1,645,844 and $1,734,297, respectively, associated with these split interest agreements, which are recorded as investments held for long-term purposes on the consolidated statements of financial position.

The liability for split interest gift arrangements represents the present value of these obligations due to the annuitants and income beneficiaries. The present value was calculated based upon life expectancies using discount factors determined at the date of the gift that range from 1.2% to 10.6%.

Net Assets

The Organization presents its consolidated financial statements in accordance with current accounting guidance, under which the Organization is required to report information regarding its financial position and activities according to classes of net assets as follows:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations or time restrictions. The Organization's Board of Directors has the ability to designate net assets without donor restrictions to be used by management for specific future projects or activities. These designations can be modified or removed by the Board of Directors at any time.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed stipulations that expire by passage of time, can be fulfilled and removed by actions of the Organization pursuant to those stipulations, or that they be maintained permanently by the Organization.

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Distributions

The Organization's regulatory agreements with HUD stipulate among other things, that the Organization will not make distributions of assets or income to any of its officers or directors.

Support and Revenues

Revenue is presented on the consolidated statements of activities net of billing adjustments.

The Organization receives a significant portion of its operating funds from grants and awards. These funds are reported as without donor restrictions as the grants reimburse the Organization for services provided.

The Organization records contributions in accordance with current authoritative accounting guidance relating to accounting for contributions received and contributions made. The Organization receives contributions through pledges, bequests, in-kind gifts, life insurance premium payments, split interest gift arrangements and outright cash gifts. Contributions are classified as with donor restrictions or without donor restrictions based on donor instructions. Split interest gift arrangement receipts are classified partially as contributions and partially as a liability for the present value of the obligation. Upon the death of the annuitants or income beneficiaries, the remaining amount is classified as with donor restrictions or without donor restrictions based on donor instructions.

Contributions that are restricted by the donor are reported as contributions in net assets with donor restrictions. When a restriction expires, the net assets with donor restrictions are reclassified to net assets without donor restrictions. Investment income and realized and unrealized gains (losses), net of fees, resulting from contributions are reported as net assets with or without donor restrictions, as instructed by the donor. Investment income and realized and unrealized gains (losses), net of fees, restricted by a donor are reported as increases (decreases) in net assets with donor restrictions and released when the restrictions are met.

Donated Services, Materials and Property

The Organization uses the services of volunteers who contribute their time and materials to provide services to the various programs. Volunteer hours utilized in 2019 and 2018 are not reflected in the consolidated financial statements as they generally do not require specialized skills.

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as support without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as support with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service.

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Functional Expense Allocation

Directly identifiable expenses are charged to program services, management and general, and fundraising. Salaries are allocated based on time and effort. Certain employee health and retirement benefits are allocated based on number of employees and direct labor costs. Occupancy is allocated based on square footage. Interest expense that is not directly charged is allocated based on square footage. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Operations

The Organization's operating revenues and expenses include all activities that are an integral part of its programs and supporting activities. The measure of operations excludes actuarial gains or losses on annuity obligations and increases or decreases in actuarial pension costs as nonoperating items on the consolidated statements of activities, because management does not consider them integral to its operations.

Estimates

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

Reclassification

For comparability, certain 2018 amounts have been reclassified to conform with classifications adopted in 2019. The reclassifications have no effect on reported amounts of net assets or change in net assets.

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Liquidity and Availability of Resources

The following reflects the Organization's financial assets as of June 30, 2019, reduced by amounts not available for cash needs within one year for general use because of contractual or donor-imposed restrictions.

Total assets, at year-end	$ 103,322,558
Less non-financial assets	
Property and equipment, net	(61,656,298)
Prepaid expenses and other assets	(191,953)
Cash surrender value for life insurance	(277,311)
Financial assets, at year-end	41,196,996
Less those unavailable for general expenditures within one year, due to:	
Restricted by donor with time or purpose restrictions	(2,848,528)
Investments held in annuity trust	(1,645,844)
Permanently endowed funds	(2,828,294)
Investment pledged as collateral	(9,303,189)
Tenant deposits	(98,614)
Escrow deposits	(9,114,940)
Board designations:	
Quasi-endowment fund, primarily for long term investing	(13,347,263)
Amounts available	2,010,324
Board designated net assets	13,347,263
Financial assets available to meet cash needs for general expenditures within one year	$ 15,357,587

The Organization's liquidity management practice is to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization is substantially supported by government contracts. The Organization has renewed all significant grants and contracts for the next fiscal year. Housing Services program subsidies and rent payments are received monthly. Children's Community Services receives funding monthly for children in care. Behavioral Health Services are billed for and paid on an ongoing basis throughout the year. Fundraising by the Organization and the Foundation is also used to support operations. As part of the Organization's liquidity management, the Organization invests cash in excess of daily requirements in short-term investments.

The Organization maintains $11,004,119 at a bank for general collateral on the line of credit that allows the Organization to draw up to $11,000,000; however, the Organization only reduced the financial assets available for use by the amount outstanding on the line of credit at June 30, 2019. In the event of an unanticipated liquidity need, the Organization has up to $3,000,000 available on an additional line of credit (Note 7). Additionally, the Board of Directors can remove the designations on the quasi-endowment fund at any time to support operations.

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Adopted Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for Profit Entities*. The Organization adopted ASU No. 2016-14 in 2019. The adoption of ASU No. 2016-14 was applied retrospectively and did not affect total net assets or change in net assets. The new standard changes the following aspects of the consolidated financial statements:

- The unrestricted net asset class has been renamed net assets without donor restrictions
- The temporarily and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions
- The consolidated financial statements include a disclosure about liquidity and availability of resources (Note 1) only at June 30, 2019, as allowed by the standard
- Investment expenses are included in rents and investment return, net
- ASU No. 2016-14 clarified how certain expenses should be classified as a program, management and general and fundraising. The 2018 consolidated statement of activities and statement of functional expenses and directly related program service revenues has been presented using the same methodology as 2019 based on the guidance in ASU No. 2016-14

New Accounting Pronouncements

In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU No. 2014-09 ("ASU No. 2014-09") establishes principles for recognizing revenue upon the transfer of promised goods or services to customers in an amount that reflects the expected consideration received in exchange for those goods or services. Additional updates defer the effective date of ASU No. 2014-09, clarify the implementation guidance on principal versus agent considerations, clarify the identification of performance obligations and the licensing implementation guidance and affect other narrow aspects of Topic 606. Topic 606 (as amended) is effective for annual periods beginning after December 15, 2018 (2020). The changes may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. Management is currently assessing the effect that Topic 606 (as amended) will have on its consolidated financial statements.

In June 2018, FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* ("ASU No. 2018-08"). The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in ASU No. 2018-08 should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU No. 2018-08 is effective for contributions received during annual periods beginning after December 15, 2018 (2020) and contributions made during annual periods beginning after December 15, 2019 (2021). Management is currently assessing the effect that ASU No. 2018-08 will have on its consolidated financial statements.

NOTE 1 - Summary of Significant Accounting Policies (cont.)

New Accounting Pronouncements (cont.)

FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* (“ASU No. 2016-18”). This standard will require cash flow statements to explain the change during a reporting period of the totals for cash, cash equivalents, restricted cash, and restricted cash equivalents. Amounts reported as restricted cash should be included with cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown on the statement of cash flows. The update also includes a requirement that the footnotes to the financial statements explain the nature of the restrictions. The Organization will be required to apply the standard for fiscal years beginning after December 15, 2018 (2020). The standard should be applied retrospectively upon adoption. Management is currently evaluating the impact ASU 2016-18 will have on the Organization's consolidated financial statements.

FASB issued ASU No. 2017-07, *Compensation Retirement Benefits (Topic 715) Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* ("ASU No. 2017-07"). The standard requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered during the period. Other components of the net benefit cost, as defined, are required to be presented in the statement of activities separately from the service cost component and outside a subtotal of income from operations, if one is presented. It must be clear where the other components are reported. The Organization will be required to apply the standard for fiscal years beginning after December 15, 2018 (2020). The standard should be applied retrospectively. Management is currently evaluating the impact of ASU No. 2017-07 on the Organization's consolidated financial statements.

In August 2018, FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement* ("ASU No. 2018-13"). ASU No. 2018-13 modifies the disclosure requirements for fair value measurements in Topic 820, Fair Value Measurement. The amendments are based on the concepts in the FASB Concepts Statement, *Conceptual Framework for Financial Reporting - Chapter 8: Notes to Financial Statements*, which FASB finalized on August 28, 2018. ASU No. 2018-13 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2019 (2021). Early adoption is permitted. Management is currently assessing the effect that ASU No. 2018-13 will have on its consolidated financial statements.

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)* ("ASU No. 2016-02") that amends the treatment for leases. The new accounting model for leases capitalizes all leases greater than twelve months, both capital and operating, as assets and liabilities on the consolidated statement of financial position. In October 2019, FASB deferred the implementation date one year for not-for-profit organizations that do not have conduit debt. The Organization will be required to apply the standard for annual periods beginning after December 15, 2020 (2022). Early adoption is permitted. Management is currently assessing the effect that ASU No. 2016-02 will have on its consolidated financial statements.

NOTE 2 - Management's Plan

The Organization experienced a positive change in net assets during fiscal year ended June 30, 2018.

For the fiscal year ended June 30, 2019, the Organization experienced a negative change in net assets. The Organization closely monitors programs and their performance to budget. As in years past, the Organization continues to evaluate the financial viability of programs experiencing a deficit or those not meeting budget. Some contracts that were operating at deficits were not renewed in fiscal year 2020.

The Organization also experienced negative cash flows from operating activities this year-end. The Organization is making a strategic business decision to fully fund the pension liability within the next few years. In an effort to do this, a large contribution was made towards the pension obligation during this fiscal year. If not for this large contribution, the Organization would have experienced positive cash flows from operating activities. The Organization continues to work towards improved cash flows from operations and meeting budget. The Organization has added key personnel to improve revenue cycle management with a focus on reducing receivables from Managed Care Organizations. The Organization anticipates positive and improved cash flows from operations for the coming fiscal year. Additionally, the Organization has added a $3 million line of credit (Note 7).

NOTE 3 - Unconditional Promises To Give

Unconditional promises to give at June 30 consist of the following:

	2019	2018
Receivable in less than one year	$ 125,880	$ 197,225
Receivable in one to five years	-	75,000
Total unconditional promises to give	125,880	272,225
Less unamortized discount	-	(15,030)
Net unconditional promises to give	$ 125,880	$ 257,195

NOTE 4 - Fair Value Measurements

The Organization follows authoritative accounting guidance relating to fair value measurements, which provides a framework for measuring, reporting and disclosing fair value under generally accepted accounting principles. This guidance applies to all assets and liabilities that are measured, reported and/or disclosed on a fair value basis.

NOTE 4 - Fair Value Measurements (cont.)

As defined in current authoritative guidance, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Organization uses various valuation methods including the market, income and cost approaches. The assumptions used in the application of these valuation methods are developed from the perspective of market participants pricing the asset or liability. Inputs used in the valuation methods can be either readily observable, market corroborated, or generally unobservable inputs. Whenever possible the Organization attempts to utilize valuation methods that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation methods the Organization is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Assets and liabilities measured, reported and/or disclosed at fair value will be classified and disclosed in one of the following three categories:

Level 1 - Quoted market prices in active markets for identical assets or liabilities.

Level 2 - Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3 - Unobservable inputs that are not corroborated by market data.

The table below presents the balances of assets at June 30, 2019 measured at fair value on a recurring basis by level within the hierarchy.

	June 30, 2019			
	Level 1	Level 2	Level 3	Total
Money market funds	$ -	$ 460,982	$ -	$ 460,982
Mutual funds	4,763,391	-	-	4,763,391
Beneficial interest in funds held in trust	-	-	833,276	833,276
Investments - pledged as collateral	-	11,004,119	-	11,004,119
Investments - trust accounts for split interest gift arrangements	1,612,114	33,730	-	1,645,844
Other investment	-	-	40,000	40,000
Total	$ 6,375,505	$ 11,498,831	$ 873,276	$ 18,747,612

The table below presents the balances of assets at June 30, 2018 measured at fair value on a recurring basis by level within the hierarchy.

NOTE 4 - Fair Value Measurements (cont.)

	June 30, 2018			
	Level 1	Level 2	Level 3	Total
Money market funds	$ -	$ 801,067	$ -	$ 801,067
Mutual funds	6,030,710	-	-	6,030,710
Beneficial interest in funds held in trust	-	-	829,261	829,261
Investments - pledged as collateral	-	11,041,030	-	11,041,030
Investments - trust accounts for split interest gift arrangements	929,938	804,359	-	1,734,297
Other investments	-	-	40,000	40,000
Total	$ 6,960,648	$ 12,646,456	$ 869,261	$ 20,476,365

Mutual funds and a majority of the investments - trust accounts for split interest gift arrangements - are measured at fair value using quoted market prices. They are classified as Level 1 as they are traded in an active market.

Money market funds, investments - pledged as collateral, and portions of the Charitable Bond mutual funds, Charitable Equity mutual funds and Tangible Assets mutual funds included within investments - trust accounts for split interest arrangements - are measured at fair value using multiple sources of information that are corroborated by market data and are considered Level 2 items.

Beneficial interest in funds held in trust - are trusts that the Organization is named as the beneficiary in which they are not the trustee of the assets are considered Level 3 items as the valuation is based on significant unobservable inputs that are not corroborated by market data.

Other investment - consists of ownership of a non-publicly traded company and is considered a Level 3 item as the valuation is based on significant unobservable inputs that are not corroborated by market data.

A determination to classify a financial instrument within Level 3 of the valuation hierarchy is based upon the significance of the unobservable factors to the overall fair value measurement. However, Level 3 financial instruments typically include, in addition to the unobservable or Level 3 components, observable components; accordingly, the gains and losses in the table below include changes in fair value due in part to observable factors that are included within the valuation methodology.

The changes in level 3 assets measured at fair value on a recurring basis are summarized below for the year ended June 30, 2019:

	Beneficial interest in funds held in trust	Other investment
Balance at June 30, 2018	$ 829,261	$ 40,000
Net realized and unrealized gains included in the change in net assets	4,015	-
Balance at June 30, 2019	$ 833,276	$ 40,000

NOTE 4 - Fair Value Measurements (cont.)

The changes in level 3 assets measured at fair value on a recurring basis are summarized below for the year ended June 30, 2018:

	Beneficial interest in funds held in trust	Other investment
Balance at June 30, 2017	$ 808,087	$ -
Net realized and unrealized gains included in the change in net assets	21,174	-
Purchases	-	40,000
Balance at June 30, 2018	$ 829,261	$ 40,000

The Organization's financial instruments, excluding investments, consist principally of cash, accounts receivable, unconditional promises to give, other assets, cash surrender value of life insurance, accounts payable, line of credit and other liabilities, all whose carrying value approximates fair value as they are short term in nature. Due to the special terms of the agreements, it is not practical to estimate the fair value of the HUD related long-term debt including mortgages payable, capital advances and assisted living conversion agreements.

NOTE 5 - Short-Term Investments and Investments Pledged as Collateral

Investments and related unrealized appreciation (depreciation) as of June 30, 2019 are summarized as follows:

	Cost or Gift Value	Unrealized Appreciation (Depreciation)	Total Investments at Fair Value
LSSI Funds:			
Mainstay Marketfield Fund	$ 406,956	$ 107,002	$ 513,958
Foundation Funds:			
Schwab Money Market Fund	460,982	-	460,982
MaxSafe Money Market Fund - pledged as collateral	11,004,119	-	11,004,119
Dodge and Cox Fund	175,705	49,808	225,513
DFA Emerging Market Fund	664,660	91,417	756,077
Vanguard Short Term Bond	1,384,713	(7,188)	1,377,525
Vanguard Total Stock Market Fund	1,327,289	562,978	1,890,267
Subtotal Foundation funds	15,017,468	697,015	15,714,483
Total short-term investments and short-term investments pledged as collateral	$ 15,424,424	$ 804,017	$ 16,228,441

NOTE 5 - Short-Term Investments and Investments Pledged as Collateral (cont.)

Investments and related unrealized appreciation (depreciation) as of June 30, 2018 are summarized as follows:

	Cost or Gift Value	Unrealized Appreciation (Depreciation)	Total Investments at Fair Value
LSSI Funds:			
Mainstay Marketfield Fund	$ 250,648	$ 156,308	$ 406,956
Foundation Funds:			
Schwab Money Market Fund	801,067	-	801,067
MaxSafe Money Market Fund - pledged as collateral	11,041,030	-	11,041,030
Dodge and Cox Fund	862,680	150,693	1,013,373
DFA Emerging Market Fund	209,303	62,774	272,077
Vanguard Short Term Bond	1,819,795	(61,654)	1,758,141
Vanguard Total Stock Market Fund	1,923,916	656,196	2,580,112
Subtotal Foundation funds	16,657,791	808,009	17,465,800
Total short-term investments and short-term investments pledged as collateral	$ 16,908,439	$ 964,317	$ 17,872,756

For the investments held within the Foundation, interest and dividend income and net realized and unrealized gains (losses), net of fees, are allocated monthly to net assets with or without donor restrictions based on the relationship of the net assets of each fund to the total net assets, as adjusted for additions to or deductions from those funds. All other investment earnings are recorded as increases (decreases) in net assets without donor restrictions.

NOTE 6 - Investments - Held for Long-Term Purposes

Investments related to life annuity contracts and for the Andrew E. Seaver Trust Fund are stated at fair value. Investments and unrealized appreciation (depreciation) at June 30, 2019 are summarized as follows:

	Cost	Unrealized Appreciation (Depreciation)	Fair Value
Foundation investments related to life annuity contracts			
Money market funds	$ 33,730	$ -	$ 33,730
Bond mutual funds	694,818	26,832	721,650
Equity mutual funds	815,695	74,769	890,464
Subtotal	1,544,243	101,601	1,645,844
ELCA Endowment Fund	621,728	211,548	833,276
Other investments			
Investment in partnership	40,000	-	40,000
Other mutual fund	51	-	51
Subtotal	40,051	-	40,051
Total Investments Held for Long-Term Purposes	$ 2,206,022	$ 313,149	$ 2,519,171

Investments and unrealized appreciation at June 30, 2018 are summarized as follows:

	Cost	Unrealized Appreciation (Depreciation)	Fair Value
Foundation investments related to life annuity contracts			
Money market funds	$ 67,925	$ -	$ 67,925
Charitable Bond mutual funds	555,300	(7,001)	548,299
Charitable Equity mutual funds	735,354	106,536	841,890
Tangible Assets mutual funds	75,318	(6,667)	68,651
Other funds	207,205	327	207,532
Subtotal	1,641,102	93,195	1,734,297
ELCA Endowment Fund	621,728	207,533	829,261
Other investments			
Investment in partnership	40,000	-	40,000
Other mutual fund	51	-	51
Subtotal	40,051	-	40,051
Total Investments Held for Long-Term Purposes	$ 2,302,881	$ 300,728	$ 2,603,609

NOTE 6 - Investments - Held for Long-Term Purposes (cont.)

The following schedules summarize the investment return, which includes interest on cash and cash equivalents, short-term and long-term investments, and its classification in the consolidated statements of activities:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividend income	$ 175,915	$ 30,136	$ 206,051
Net realized and unrealized gains	203,921	42,179	246,100
Less: fees	(7,261)	-	(7,261)
Total investment return, net	$ 372,575	$ 72,315	$ 444,890

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividend income	$ 165,717	$ 29,686	$ 195,403
Net realized and unrealized gains	333,085	57,366	390,451
Less: fees	(8,465)	-	(8,465)
Total investment return, net	$ 490,337	$ 87,052	$ 664,441

NOTE 7 - Line of Credit

The Organization has a revolving line of credit agreement with Wintrust Bank for borrowings up to $11,000,000 which expires on December 19, 2020. The line of credit is secured by a Foundation guaranty in a pledged asset account at Wintrust in a MaxSafe TM account. As of June 30, 2019 and 2018, the fair value of the assets in the pledged account was $11,004,119 and $11,041,030, respectively. Interest on the line is calculated at LIBOR (3.79% at June 30, 2019). As of June 30, 2019 and 2018, the Organization's borrowing under the line was $(9,303,189) and $(3,999,000), respectively.

The Organization entered into a line of credit agreement on June 17, 2019 with Mission Investment Fund Evangelical Lutheran Church in America with availability up to $3,000,000. The line of credit is renewable annually on June 1 and is secured by properties located at 5517 N. Kennmore Chicago, Illinois, and 4840 W. Byron St., Chicago, Illinois. The line of credit has an interest rate of 4.75% and interest is due monthly. As of June 30, 2019, the Organization's borrowing under the line was $0.

Interest expense on the lines of credit was $324,592 and $108,405 in 2019 and 2018, respectively.

NOTE 7 - Line of Credit (cont.)

The Organization and the Foundation are subject to certain covenants on both lines of credit. The Organization and the Foundation were in compliance as of June 30, 2019.

NOTE 8 - Long-Term Debt

Long-term debt at June 30 consists of the following:

	2019	2018
Mortgages Payable:		
Mortgage payable to P/R Mortgage & Investment Corp. with monthly payments of $64,828 including interest at 3.38%, until September 1, 2019. Starting October 1, 2019 payments are reduced to monthly payment of $30,697 including interest at 3.38%. Any remaining principal or interest is due July 1, 2052. The mortgage payable is secured by a mortgage on the Project's building and land, is insured by HUD under Section 223(f) of the National Housing Act and is subject to a prepayment penalty through July 2027. The Project also has a HUD funded interest subsidy which offset interest expense until August 2019. (Salem Village III, Inc.)	$ 7,398,469	$ 7,916,794
Mortgage payable with P/R Mortgage & Investment Corp. in the amount of $5,368,000. Monthly payments of $23,607, including interest at 3.95% were required beginning September 1, 2013, balance due August 1, 2048. The mortgage payable is secured by a mortgage on the rental property, is insured by HUD under section 223(f) of the National Housing Act and is subject to a prepayment penalty through August 2023. (Batavia Council on Aging, Inc.)	4,901,431	4,989,224
Mortgage payable with HUD with monthly payments of $5,056, including interest at 7.63%, due July 1, 2021, secured by land and building and cannot be prepaid. (Dekalb Housing for the Handicapped, Inc.)	116,509	166,216
Total Mortgages Payable	12,416,409	13,072,234
Less: Current Maturities	(370,417)	(655,826)
Long-Term Portion of Mortgages Payable	12,045,992	12,416,408
Less: loan costs, net of accumulated amortization	(418,946)	(432,350)
Total Long-Term Portion of Mortgages Payable, Net	$ 11,627,046	$ 11,984,058

NOTE 8 - Long-Term Debt (cont.)

Legal and accounting fees, printing costs, and other expenses associated with the issuance of debt held by the Organization are included in mortgages payable and are amortized over the term of the mortgages on a straight line basis. Amortization included in interest expense charged to the consolidated statements of activities for the years ended June 30, 2019 and 2018 was $13,404 and $12,810, respectively. At June 30, 2019 and 2018, the remaining net amount of debt issuance costs was $418,946 and $432,350, respectively.

The following annual principal maturities of the above mortgages for the next five years are as follows:

2020	$ 370,417
2021	280,751
2022	236,103
2023	239,610
2024	248,442
Thereafter	11,041,086
Total	$ 12,416,409

The Organization leases a building and certain equipment that qualify as capital leases during 2019 and 2018. At June 30, 2019 and 2018, the gross value of these assets was $5,526,277 and $3,335,171, respectively, and the related accumulated amortization was $1,113,401 and $781,225, respectively. The assets are included in property and equipment in the consolidated statements of financial position.

The following is a schedule of future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of June 30, 2019:

2020	$ 443,131
2021	436,475
2022	437,640
2023	448,581
2024	459,795
Thereafter	3,694,505
Total Future Minimum Lease Payments	5,920,127
Less: Interest	(1,364,178)
Present Value of Future Minimum Lease Payments	4,555,949
Less: Current Portion	(253,955)
Long-Term Capital Lease Obligations	$ 4,301,994

Total interest expense including amortization of debt issuance costs and other bank fees was $998,573 and $487,598 in 2019 and 2018, respectively.

NOTE 9 - Capital Advance Agreements

The Organization has funded the construction of various housing projects through capital advance agreements with HUD, which provided for borrowings not to exceed $64,779,300 at June 30, 2019 and 2018. The agreements are given to the HUD Projects in the form of mortgage notes and bear no interest and require no repayment provided that the housing to which it relates remains available for low-income elderly or developmentally disabled persons in accordance with the appropriate regulations. The amount drawn at June 30, 2019 and 2018 was $64,779,300. Grant revenue from the capital advance agreements is being recognized over the terms of the agreements on a straight-line basis. During the years ended June 30, 2019 and 2018, the Organization recognized revenue of $1,640,448 on these agreements.

The deferred grant revenue recorded at June 30 consists of capital advance agreements for the following HUD Projects:

	2019			
	Year of Expiration	Amount Drawn to Date	Grant Revenue Recognized to Date	Deferred Grant Revenue
Assisi Homes-Downer Place, Inc.	2039	$ 7,057,900	$ 3,407,265	$ 3,650,635
Our Savior's Senior Housing, Inc.	2035	6,059,600	3,623,088	2,436,512
Tabor Lutheran Senior Housing, Inc.	2038	5,884,600	2,903,488	2,981,112
Rochelle Senior Housing, Inc.	2036	3,531,400	2,005,184	1,526,216
Freeport Senior Housing, Inc.	2033	3,197,300	2,055,402	1,141,898
Northwest Chicago Group Homes, Inc.	2034	1,483,800	938,217	545,583
Freeport Senior Housing II, Inc.	2042	3,039,200	1,261,458	1,777,742
Aurora Senior Housing, Inc.	2040	3,895,500	1,755,390	2,140,110
Victorian Woods Senior Living, Inc.	2046	6,524,200	2,115,595	4,408,605
Spring Ridge Housing for Seniors, Inc.	2048	7,759,800	2,179,912	5,579,888
Rolling Meadows Senior Living, Inc.	2049	3,290,600	816,417	2,474,183
Deer Creek Manor, Inc.	2049	3,568,300	861,672	2,706,628
Fox Hill Senior Housing, Inc.	2053	9,487,100	1,383,550	8,103,550
Total		$ 64,779,300	$ 25,306,638	$ 39,472,662

NOTE 9 - Capital Advance Agreements (cont.)

	2018			
	Year of Expiration	Amount Drawn to Date	Grant Revenue Recognized to Date	Deferred Grant Revenue
Assisi Homes-Downer Place, Inc.	2039	$ 7,057,900	$ 3,224,733	$ 3,833,167
Our Savior's Senior Housing, Inc.	2035	6,059,600	3,471,600	2,588,000
Tabor Lutheran Senior Housing, Inc.	2038	5,884,600	2,747,944	3,136,656
Rochelle Senior Housing, Inc.	2036	3,531,400	1,916,720	1,614,680
Freeport Senior Housing, Inc.	2033	3,197,300	1,974,798	1,222,502
Northwest Chicago Group Homes, Inc.	2034	1,483,800	900,813	582,987
Freeport Senior Housing II, Inc.	2042	3,039,200	1,185,006	1,854,194
Aurora Senior Housing, Inc.	2040	3,895,500	1,655,082	2,240,418
Victorian Woods Senior Living, Inc.	2046	6,524,200	1,951,807	4,572,393
Spring Ridge Housing for Seniors, Inc.	2048	7,759,800	1,984,696	5,775,104
Rolling Meadows Senior Living, Inc.	2049	3,290,600	734,157	2,556,443
Deer Creek Manor, Inc.	2049	3,568,300	772,464	2,795,836
Fox Hill Senior Housing, Inc.	2053	9,487,100	1,146,370	8,340,730
Total		$ 64,779,300	$ 23,666,190	$ 41,113,110

NOTE 10 - Federal Home Loan Grant Agreements

The Organization received grants totaling $190,000 from One Mortgage Partners Corporation, a member of the Federal Home Loan Bank of Chicago, to partially fund the construction of two housing projects. The grants are in the form of mortgage notes which bear no interest and require no repayment provided that the housing to which they relate remains available for low-income elderly persons in accordance with the appropriate regulations and other grant requirements. Grant revenue from the agreements is being recognized over the terms of the agreements on a straight-line basis. During the years ended June 30, 2019 and 2018, the Organization recognized revenue of $12,672 on these agreements. The deferred revenue recorded at June 30, 2019 and 2018 is $66,004 and $78,676, respectively.

NOTE 11 - Assisted Living Conversion Grant Agreement

The Organization has funded the conversion of 56 units at Salem Village III, Inc. ("Salem Village") housing project to assisted living units through an Assisted Living Conversion Grant Agreement with HUD, which provided for borrowings not to exceed $6,339,159. This agreement provides funding for physical costs of the conversion, legal, architectural and consulting fees, and temporary relocation costs, including vacancy losses. The agreement requires no principal and interest payments as long as Salem Village is used for approved purposes until July 1, 2039. The agreement is secured by the related building. If the Project does not comply with the terms of the agreement, the entire assisted living conversion grant amount would be required to be paid back to HUD.

NOTE 11 - Assisted Living Conversion Grant Agreement (cont.)

Funding of $514,240 was recognized in prior years relating to vacancy losses. Remaining grant revenue of $5,824,919 from this agreement is being recognized over the term of the agreement on a straight-line basis, beginning with the in-service dates of all of the converted units. Revenue realized from the conversion costs for the years ended June 30, 2019 and 2018 was $180,156. The deferred revenue recorded at June 30, 2019 and 2018 was $3,602,995 and $3,783,151, respectively.

NOTE 12 - Pension Plan

Prior to January 1, 2010 the Organization was a participant in the retirement plan for employees of the United Way of Metropolitan Chicago and participating agencies, which covered substantially all employees hired prior to July 1, 2006. As of January 1, 2010, the Pension Equity Plan for employees of Lutheran Social Services of Illinois was separated from the United Way plan. This change had no effect on plan assets, liabilities, employee benefits or Organization funding requirements. The Organization uses a June 30 measurement date for the plan.

As of July 1, 2006, entry by new employees into the Organization's pension plan was frozen. All Organization employees who were hired prior to July 1, 2006 became eligible to participate in the pension plan in accordance with the terms of the plan, and all employees who were participants in the plan on July 1, 2006 shall continue as participants until their benefits are distributed in accordance with the terms of the plan.

During the year ended June 30, 2009, the Organization froze additional benefit accruals under the plan, resulting in a plan curtailment. Participants in the Organization's defined benefit plan became eligible for employer contributions under the Organization's defined contribution plan effective January 1, 2009.

Included in net assets without donor restrictions at June 30, 2019 and 2018 are the following amounts that have not yet been recognized in net periodic pension cost: unrecognized actuarial net losses of $10,717,441 and $10,858,429, respectively. The actuarial loss included in net assets without donor restrictions and expected to be recognized in net periodic pension costs during the fiscal year ending June 30, 2020 is $937,720.

The table below presents details about the Organization's plan including the changes in accumulated benefit obligations, the fair value of plan assets, and funded status for the years ended June 30 (actuarial values of the benefit obligation were calculated as of June 30, 2019 and 2018, respectively).

	2019	2018
Change in benefit obligation		
Accumulated benefit obligation at beginning of year	$ 35,801,520	$ 39,821,444
Provision for expenses	600,000	500,000
Interest cost	1,365,895	1,383,396
Actuarial loss (gain)	1,796,496	(2,612,317)
Benefits paid	(2,264,775)	(2,653,030)
Administrative expenses paid	(394,617)	(637,973)
Accumulated benefit obligation at end of year	$ 36,904,519	$ 35,801,520

NOTE 12 - Pension Plan (cont.)

Since benefit accruals have been frozen, the projected benefit obligation is equal to the accumulated benefit obligation at June 30, 2019 and 2018.

	2019	2018
Change in plan assets		
Fair value of plan assets at beginning of year	$ 25,572,548	$ 26,191,622
Actual return on assets	2,581,157	1,283,929
Employer contribution	7,095,000	1,388,000
Benefits paid	(2,264,775)	(2,653,030)
Administrative expenses paid	(394,617)	(637,973)
Fair value of plan assets at end of year	$ 32,589,313	$ 25,572,548
Funded status of the plan	$ (4,315,206)	$ (10,228,972)

	2019	2018
Components of net periodic benefit costs		
Provision for expense	$ 600,000	$ 500,000
Interest cost	1,365,895	1,383,396
Expected return on plan assets	(1,451,355)	(1,773,724)
Recognized actuarial loss	807,682	1,148,955
Total net periodic benefit costs	$ 1,322,222	$ 1,258,627

The underfunded status of the plan of $4,315,206 and $10,228,972 at June 30, 2019 and 2018, respectively, is recognized in the accompanying consolidated statements of financial position as long-term liability for pension benefits.

The following are weighted average assumptions used to determine benefit obligations at June 30:

	2019	2018
Discount rate	3.20%	4.00%

There were no participant contributions made to the plan during the years ended June 30, 2019 and 2018.

NOTE 12 - Pension Plan (cont.)

The following are weighted-average assumptions used to determine net periodic benefit cost for the years ended June 30:

	2019	2018
Discount rate	4.00%	3.60%
Expected return on plan assets	5.40%	6.50%

The Organization's expected long-term return on plan assets assumption is based on a periodic review and modeling of the plan's asset allocation over a long-term horizon. Expectations of returns for each asset class are the most important of the assumptions used in the review and modeling and are based on comprehensive reviews of historical data and economic/financial market theory. The expected long-term rate of return on assets was selected from within the reasonable range of rates determined by historical real returns for the asset classes covered by the investment policy.

The Organization's plan assets at June 30, 2019, by asset category are as follows:

	Level 1	Level 2	Level 3	Total
Cash and money market funds	$ -	$ 4,779,403	$ -	$ 4,779,403
Mutual funds	24,591,288	3,218,622	-	27,809,910
Total	$ 24,591,288	$ 7,998,025	$ -	$ 32,589,313

The Organization's plan assets at June 30, 2018, by asset category are as follows:

	Level 1	Level 2	Level 3	Total
Cash and money market funds	$ -	$ 1,492,984	$ -	$ 1,492,984
Mutual funds	21,132,751	2,946,813	-	24,079,564
Total	$ 21,132,751	$ 4,439,797	$ -	$ 25,572,548

Cash and money market funds - These investments are measured at fair value using multiple sources of information that are corroborated by market data and are considered Level 2 items.

Mutual funds - These investments consist of Vanguard Long-Term Investment Grade Fund, Vanguard Intermediate Term Corporate Fund, American Funds Euro Pacific Growth Fund, and DFA Emerging Markets Value Fund, and are measured at fair value using quoted market prices. They are classified as Level 1 as they are traded in an active market. In addition, the Organization is invested in the Comerica U.S. All Cap Composite Equity Index Fund, which is not actively traded and is considered a Level 2 item.

The Organization's investment policy includes various guidelines and procedures designed to ensure assets are invested in a manner necessary to meet expected future benefits earned by participants. The investment guidelines consider a broad range of economic conditions.

NOTE 12 - Pension Plan (cont.)

The objectives of the target allocations are to maintain investment portfolios that diversify risk through prudent asset allocation parameters, achieve asset returns that meet or exceed the plan's actuarial assumptions, and achieve asset returns that are competitive with like institutions employing similar investment strategies.

The investment policy is periodically reviewed by the Organization. The policy is established and administered in a manner so as to comply at all times with applicable government regulations.

The estimated net periodic benefit cost for 2020 is:

Provision for expense	$ 400,000
Interest cost	1,125,536
Expected return on assets	(1,687,016)
Amortization of net loss	1,099,200
Estimated net periodic benefit costs	$ 937,720

The following pension benefit payments are expected to be paid:

2020	$ 3,463,062
2021	2,507,730
2022	2,519,663
2023	2,359,233
2024	2,328,632
2025-2030	11,575,855

The Organization plans to make contributions of $1,200,000 to the plan in fiscal year 2020.

The discount rate and expected rate of return on plan assets are critical assumptions which significantly affect pension accounting. Even relatively small changes in these rates would significantly change the recorded pension expense and accrued liability. The expected return on plan assets is computed based on an asset valuation method which recognizes gains/losses over a period of five years. Management believes the discount rate and expected rate of return on plan assets used in determining its year-end pension accounting are reasonable based on currently available information. However, it is at least reasonably possible that these assumed rates will be revised in the near term, based on future events and changes in circumstances.

NOTE 13 - Defined Contribution Retirement Plan

The Organization has adopted a defined contribution retirement plan ("Plan") under Internal Revenue code section 403(b). All Organization employees (except temporary employees) who have completed one year of service are eligible to participate in the Plan. All such eligible employees, who are at least age 21, may elect to make contributions to the Plan through salary deductions. There is no minimum service requirement to make employee contributions to the Plan. Under the Plan, the Organization may make a discretionary annual employer contribution to eligible participants. There was no Organization contribution to the Plan for the years ending June 30, 2019 and 2018.

NOTE 14 - Worker's Compensation Trust

The Organization has a self-funded Worker's Compensation Trust (the "Trust") which is organized and operated under the provisions of the Illinois Religious and Charitable Risk Pooling Trust Act. The trustees of the Trust are appointed by the Organization.

The Organization makes monthly contributions to the Trust. The Organization has recorded a liability for unpaid contributions, which includes unpaid claims and claims incurred but not reported, of $727,518 and $1,103,353 at June 30, 2019 and 2018, respectively. The estimated liability is classified as accounts payable and other accrued expenses on the consolidated statements of financial position.

NOTE 15 - Accrued Salaries and Wages

Accrued salaries and wages include accrued vacation pay of $1,858,580 and $1,797,939 at June 30, 2019 and 2018, respectively.

NOTE 16 - Accrued Unemployment

The Organization pays for Illinois unemployment compensation on a claims-made basis. At June 30, 2019 and 2018, $32,755 and $23,105, respectively, was accrued as the estimated liability for these claims. These amounts are classified as accounts payable and other accrued expenses on the consolidated statements of financial position.

NOTE 17 - Net Assets

Net assets without donor restrictions at year end are composed of:

	2019	2018
Designated for endowment fund	$ 13,347,263	$ 13,579,004
Undesignated (deficit)	(3,533,357)	(3,865,556)
Totals	$ 9,813,906	$ 9,713,448

NOTE 17 - Net Assets (cont.)

Net assets have been received to be held in perpetuity for several programs. The amounts of these net assets as of June 30 are shown below by program:

	2019	2018
Adoption services	$ 131,736	$ 131,736
Behavioral health	16,248	16,248
Child and adolescent	203,223	203,223
Children and disabled individuals	302,802	302,802
Children and older adults	1,191,190	1,191,190
Endowment for general use	546,194	546,194
Leadership and awards	116,090	116,090
Older adults	267,875	267,875
Other programs	5,575	5,575
Services outside metropolitan Chicago	47,361	47,361
Total Net Assets With Donor Restrictions to be Held in Perpetuity	$ 2,828,294	$ 2,828,294

The income from these assets must be used in support of the aforementioned programs and purposes.

Net assets with donor restrictions are available for the following programs, purposes and periods as directed by the donors as of June 30:

	2019	2018
Adoption services	$ 51,686	$ 48,894
Administration	306,793	306,793
Behavioral health	150,791	256,345
Child and adolescent	182,359	310,164
Children and disabled individuals	618,254	604,232
Children and older adults	568,012	541,231
Disaster relief	916,121	975,809
Leadership and awards	114,394	111,106
Older adults	152,300	178,624
Other programs	320,256	640,869
Total Net Assets With Time and Purpose Restrictions	$ 3,380,966	$ 3,974,067

The total net assets with donor restrictions was $6,209,260 and $6,802,361 at June 30, 2019 and 2018, respectively.

NOTE 18 - Endowment Funds

The Organization follows current authoritative accounting guidance relating to endowments of not-for-profit organizations and enhanced disclosures for all endowment funds. Guidance is provided on classifying net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of Uniform Prudent Management of Institutional Funds Act ("UPMIFA"). UPMIFA governs the treatment for donor restricted endowment funds. A key component of the guidance and UPMIFA is a requirement to classify the portion of a donor-restricted endowment fund that is not yet appropriated as net assets with donor restrictions until appropriated for expenditure. Another key component of the guidance is a requirement for expanded disclosures about all endowment funds.

The Organization’s endowment consists of approximately 40 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees of the Foundation to function as endowment. Any contributions with donor restrictions received from donors are included in the donor restricted endowment fund. Any other named fund or special purpose fund that donors have established are included in board-designated endowment and any restrictions are reflected in the endowment. As required by accounting principles generally accepted in the United States of America ("GAAP"), net assets associated with endowment funds, including funds designated by the Foundation's Board of Trustees to function as endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation considers a portion of the funds due from LSSI to be a part of the endowment. The Foundation has advanced LSSI a significant portion of the "Board-designated" endowment funds without interest, during the years ended June 30, 2019 and 2018. The amount loaned to LSSI was $2,200,391 and $1,026,581 at June 30, 2019 and 2018, respectively, and the balance is eliminated on the consolidated financial statements. A significant portion of the Foundation's investments are pledged as collateral on the Organization's line of credit (Note 7).

Interpretation of Relevant Law -The Organization classifies as net assets with donor restrictions (a) the original value of the gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Organization
7. The investment policies of the Organization

NOTE 18 - Endowment Funds (cont.)

Endowment net asset composition by type of fund consists of the following as of June 30, 2019:

	2019			
		With Donor Restrictions		
	Without Donor Restrictions	Time or Purpose	Held in Perpetuity	Total
Donor-restricted endowment funds	$ -	$ 1,039,805	$ 2,828,294	$ 3,868,099
Board-designated endowment funds	13,347,263	1,981,200	-	15,328,463
Total endowment funds	$ 13,347,263	$ 3,021,005	$ 2,828,294	$ 19,196,562

Endowment net asset composition by type of fund consists of the following as of June 30, 2018:

	2018			
		With Donor Restrictions		
	Without Donor Restrictions	Time or Purpose	Held in Perpetuity	Total
Donor-restricted endowment funds	$ -	$ 993,134	$ 2,828,294	$ 3,821,428
Board-designated endowment funds	13,579,004	2,030,330	-	15,609,334
Total endowment funds	$ 13,579,004	$ 3,023,464	$ 2,828,294	$ 19,430,762

Changes in endowment net assets for the years ended June 30 are as follows:

	2019			
		With Donor Restrictions		
	Without Donor Restrictions	Time or Purpose	Held in Perpetuity	Total
Endowment net assets, June 30, 2018	$ 13,579,004	$ 3,023,464	$ 2,828,294	$ 19,430,762
Investment return				
Investment income, net	119,030	30,136	-	149,166
Net appreciation realized and unrealized	147,451	42,179	-	189,630
Total investment return	266,481	72,315	-	338,796
Contributions*	435,323	-	-	435,323
Appropriation for expenditure	(933,545)	(74,774)	-	(1,008,319)
Endowment net assets, June 30, 2019	$ 13,347,263	$ 3,021,005	$ 2,828,294	$ 19,196,562

NOTE 18 - Endowment Funds (cont.)

Changes in endowment net assets for the year ended June 30, 2018 are as follows:

	2018			
		With Donor Restrictions		
	Without Donor Restrictions	Time or Purpose	Held in Perpetuity	Total
Endowment net assets, June 30, 2017	$ 13,721,271	$ 3,043,412	$ 2,828,294	$ 19,592,977
Investment return				
Investment income, net	111,358	29,686	-	141,044
Net appreciation realized and unrealized	210,292	57,366	-	267,658
Total investment return	321,650	87,052	-	408,702
Contributions*	482,281	-	-	482,281
Appropriation for expenditure	(946,198)	(107,000)	-	(1,053,198)
Endowment net assets, June 30, 2018	$ 13,579,004	$ 3,023,464	$ 2,828,294	$ 19,430,762

*Contributions include other deposits into the Board-designated endowment funds of $155,909 and $328,294 in 2019 and 2018, respectively.

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature that are reported in net assets with donor restrictions. There were no funds with deficiencies at June 30, 2019 and 2018. These deficiencies would result from unfavorable market fluctuations that occur after the investment of new contributions to be held in perpetuity. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in net assets with donor restrictions.

Return Objectives and Risk Parameters - The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream for funding programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the governing board, the endowment assets are invested in a manner that is intended to produce results that exceed 5% annually while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

NOTE 18 - Endowment Funds (cont.)

Spending Policy and How the Investment Objectives Relate to Spending Policy - The Organization has a policy of appropriating for distribution each year 4-5% of its endowment fund's average fair value of applicable assets over the lower of the prior 4 or 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is appropriated. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to grow at an average of approximately 3% annually. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

NOTE 19 - Lease Agreements

The Organization has entered into lease agreements for land and buildings, under which rental expense for 2019 and 2018 was $1,506,140 and $1,556,971, respectively.

Minimum future rental commitments for all operating leases in effect as of June 30, 2019 are summarized as follows:

2020	$ 1,270,582
2021	1,169,548
2022	837,240
2023	452,750
2024	138,779
Total	$ 3,868,899

Significant clauses contained in the lease agreements include the following:

- Escalation clauses not exceeding 5% on any given lease,
- Sharing of operation and maintenance costs,
- Ability to cancel a lease if funding for the related program is insufficient,
- Various options to extend the lease term, and
- Liability insurance requirements.

Minimum lease payments exclude rentals under renewal options which, as of June 30, 2019, are not reasonably assured of being exercised.

NOTE 20 - Contingencies

The Organization is a defendant in various lawsuits. The final results of such litigation cannot be determined at this time. In the opinion of management, any ultimate liability in these lawsuits would either be within insurance limits or would have no adverse effect on the consolidated financial statements.

As an employer, the Organization is subject to allegations of violation of various laws relating to employment. The Organization's attorneys have advised management that, relative to currently pending complaints, no judgment can be formed as to the likelihood of an unfavorable outcome. Management expects no material liability will be incurred as a result of these complaints.

The grants received by the Organization are subject to audit, and the Organization could become liable for any expenditures disallowed upon audit. Management believes, however, that such disallowance, if any, would not be material.

NOTE 21 - Certain Concentrations

Receivables

As of June 30, the Organization's accounts receivable include amounts due from all sources as follows:

	2019	2018
Illinois Department of Public Aid	$ 1,048,111	$ 1,015,584
Illinois Department of Children and Family Services	4,727,163	4,623,921
Illinois Department on Aging	65,031	73,815
Illinois Department of Human Services	2,125,495	1,792,574
Chicago Department of Human Services	377,299	252,899
Managed HUD Projects	310,432	437,465
Medicare	142,097	136,359
Private Pay - Other Client Fees	482,884	708,863
Insurance - Managed Care	4,166,217	5,030,354
Other	125,095	204,573
Total	13,569,824	14,276,407
Less: Allowance for doubtful accounts	(2,357,809)	(2,486,359)
Accounts receivable, net of allowance	$ 11,212,015	$ 11,790,048

The Organization receives a significant portion of its revenue and other support from several government units. If these government units terminated their support of the Organization, the Organization's ability to provide the services described in Note 1 could be significantly reduced.

NOTE 21 - Certain Concentrations (cont.)

Concentrations of Credit

The Organization maintains its cash deposits at several financial institutions which, at times, may exceed federally insured limits of $250,000. The Organization has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on these deposits.

NOTE 22 - Subsequent Events

The Organization has evaluated subsequent events through November 21, 2019, which is the date that the consolidated financial statements were available to be issued, for events requiring disclosure or recording in the consolidated financial statements.

OTHER INDEPENDENT AUDITORS' REPORTS

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*

INDEPENDENT AUDITORS' REPORT

Board of Directors
Lutheran Social Services of Illinois
Des Plaines, Illinois

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Lutheran Social Services of Illinois (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, cash flows and functional expenses and directly related program services revenue for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 21, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Baker Tilly Virchow Krause, LLP

Milwaukee, Wisconsin
November 21, 2019

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

INDEPENDENT AUDITORS' REPORT

Board of Directors
Lutheran Social Services of Illinois
Des Plaines, Illinois

Report on Compliance for the Major Federal Program

We have audited Lutheran Social Services of Illinois' (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended June 30, 2019. The Organization's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The Organization's basic consolidated financial statements include the operations of subsidiaries of the Organization, as identified in the notes to the schedule of expenditures of federal awards, which expended federal awards that are not included in the Organization's schedule of expenditures of federal awards during the year ended June 30, 2019. Our audit, described below, did not include the operations of those entities because they have separate audits under the Uniform Guidance or do not require an audit under the Uniform Guidance.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Organization's major federal program 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 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 the Organization'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 the Organization's compliance.

Opinion on the Major Federal Program

In our opinion, the Organization 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 June 30, 2019.

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 described in the accompanying schedule of findings and questioned costs as item 2019-001. Our opinion on the major federal program is not modified with respect to this matter.

The Organization's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization'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 the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization'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 the Organization'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 a 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2019-002, that we consider to be a significant deficiency.

The Organization's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Baker Tilly Virchow Krause, LLP

Milwaukee, Wisconsin
March 27, 2020

SUPPLEMENTARY INFORMATION

LUTHERAN SOCIAL SERVICES OF ILLINOIS
AND SUBSIDIARY CORPORATIONS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2019

Federal Awards Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures	Subrecipient Awards
U.S. DEPARTMENT OF AGRICULTURE				
Passed through the Illinois State Board of Education				
School Breakfast Program	10.553	05-016-120P-00	$ 5,389	$ -
National School Lunch Program	10.555	05-016-120P-00	8,878	-
Total of Child Nutrition Cluster			14,267	-
Passed through the Illinois State Board of Education				
Child and Adult Care Food Program	10.558	05-016-120P-00	73,117	-
Total U.S. Department of Agriculture			87,384	-
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Passed through the Illinois Department of Children and Family Services				
Promoting Safe & Stable Families	93.556	013005-905-8	19,483	-
Promoting Safe & Stable Families	93.556	013005-905-9	149,345	-
Promoting Safe & Stable Families	93.556	013005-907-8	15,497	-
Promoting Safe & Stable Families	93.556	013005-907-9	22,143	-
Promoting Safe & Stable Families	93.556	013005-909-8	14,389	-
Promoting Safe & Stable Families	93.556	013005-909-9	22,431	-
Total of CFDA 93.556			243,288	-
Passed through the Illinois Department of Human Services				
Child Care Development Block Grant	93.575	Unknown	22,014	-
Total of CCDF Cluster			22,014	-
Passed through City of Chicago Department of Family and Support Services				
Head Start	93.600	32008	138,838	-
Head Start	93.600	33351	716,072	-
Total CFDA 93.600			854,910	-

See accompanying notes to schedule of expenditures of federal awards.

LUTHERAN SOCIAL SERVICES OF ILLINOIS
AND SUBSIDIARY CORPORATIONS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)
For the Year Ended June 30, 2019

Federal Awards Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures	Subrecipient Awards
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)				
Passed through the Illinois Department of Human Services				
Social Services Block Grant	93.667	FCSXR01028	$ 214,805	$ -
Passed through the Illinois Department of Human Services				
Block Grants for Community Mental Health Services	93.958	45CXB00426	156,369	-
Block Grants for Community Mental Health Services	93.958	45CXB00425	74,845	-
Total CFDA 93.958			231,214	-
Passed through the Illinois Department of Human Services - Office of Alcoholism and Substance Abuse				
Block Grants for Prevention and Treatment of Substance Abuse **	93.959	43CXC00181	1,113,089	-
Block Grants for Prevention and Treatment of Substance Abuse **	93.959	43CXZ03220	173,661	-
Total CFDA 93.959			1,286,750	-
Total U.S. Department of Health and Human Services			2,852,981	-
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE				
Direct				
Retired and Senior Volunteer Program	94.002	N/A	144,349	-
Passed through the Illinois Department of Public Health				
AmeriCorps	94.006	87380011F	28,121	-
AmeriCorps	94.006	97380011G	62,431	-
Total of CFDA number 94.006			90,552	-
Total Corporation for National and Community Service			234,901	-
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 3,175,266	$ -

** Indicates program tested as a major program in 2019.

See accompanying notes to schedule of expenditures of federal awards.

Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "schedule") includes the federal award activity of Lutheran Social Services of Illinois (the "Organization"), except as noted below, under programs of the federal government for the year ended June 30, 2019. 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 operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

Expenditures for the following consolidated subsidiaries of the Organization are not included to meet the requirements of the cost principles contained in the Uniform Guidance because they have separate audits or are not required to have an audit under Uniform Guidance:

Assisi Homes - Downer Place, Inc.
Aurora Senior Housing, Inc.
Batavia Council on Aging, Inc.
The Cornerstone Foundation, Inc.
Deer Creek Manor, Inc.
Dekalb Housing for the Handicapped, Inc.
Forsberg Christian Retirement Center, Inc.
Fox Hill Senior Housing, Inc.
Freeport Senior Housing, Inc.
Freeport Senior Housing II, Inc.
LSSI Rockford Property, Inc.
Luther Center, Inc.
Matins, Inc.
Northwest Chicago Group Homes, Inc.
Our Savior's Senior Housing
Rochelle Senior Housing, Inc.
Rolling Meadows Senior Living, Inc.
Salem Village III, Inc.
Spring Ridge Housing for Seniors, Inc.
Tabor Lutheran Senior Housing, Inc.
Vesper Management Corporation
Victorian Woods Senior Living, Inc.

Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the cash 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. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

Indirect Cost Rate

The Organization has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Federal Loan Programs

The awards presented in the schedule do not include any federal loans administered by the Organization.

Non-Cash Assistance

The Organization did not receive any non-cash federal awards.

Federal Insurance

The awards presented in the schedule do not include any federal insurance in effect during fiscal year 2019.

LUTHERAN SOCIAL SERVICES OF ILLINOIS
AND SUBSIDIARY CORPORATIONS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2019

Section I: Summary of Auditors' Results

Financial Statements

Type of report the auditors issued on whether the financial statements audited were prepared in accordance with GAAP:	unmodified			
Internal control over financial reporting:				
Material weakness(es) identified?	______	yes	X	no
Significant deficiency(ies) identified?	______	yes	X	none reported
Noncompliance material to financial statements noted?	______	yes	X	no

Federal Awards

Internal control over major federal programs:				
Material weakness(es) identified?	______	yes	X	no
Significant deficiency(ies) identified	X	yes	______	none reported
Type of auditors' report issued on compliance for major federal programs:	unmodified			
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	X	yes	______	no

Identification of major federal programs:

CFDA Number	Name of Federal Program or Cluster
93.959	Block Grants for Prevention and Treatment of Substance Abuse

Dollar threshold used to distinguish between Type A and Type B programs	$ 750,000			
Auditee qualified as low-risk auditee?	X	yes	______	no

Section II: Financial Statement Findings

There were no findings.

Section III: Federal Findings and Questioned Costs

2019-001
Agency: U.S. Department of Health and Human Services passed through City of Chicago Department of Family and Support Services
CFDA Number and Program Name: 93.600 - Head Start
Criteria: The grantor requires the Organization to comply with the requirements of the program which include the requirement that 10% of funded Head Start enrollment be provided to children with disabilities.
Statement of Condition: The Organization did not comply with the requirement that 10% of funded Head Start enrollment must be provided to children with disabilities. In December 2017, the contract for the period December 2017 through November 2018 was amended and the Organization did exceed the 10% requirement. In December 2018, the contract was renewed to accommodate larger enrollment, and the Organization was unable to meet the 10% requirement for the remainder of the fiscal year.
Questioned Costs: The amount of questioned costs cannot be determined.
Context: Management identified that the Organization was not in compliance. As a result, management submitted reports to the funder communicating that the requirement was not met and requested a waiver. The waiver was not granted by the agency.
Effect: The Organization was not in compliance with the earmarking requirement of the grant for a portion of the fiscal year.
Cause: The Organization was not able to enroll enough participants with disabilities to meet the 10% requirement for a portion of the year.
This is a repeat finding (prior years 2018-001, 2017-001, and 2016-001).
Recommendation: We recommend management continue to monitor its compliance with the requirement through the end of the contract.
Management's Response: As of June 30, 2019, management determined that the Organization will no longer operate the Head Start program. The Organization completed the remainder of the contract which ended November 30, 2019. The business manager of the Head Start program is responsible for the wind down and corrective action.

Section III: Federal Findings and Questioned Costs (cont.)

2019-002
Agency: U.S. Department of Health and Human Services passed through Illinois Department of Human Services - Office of Alcoholism and Substance Abuse
CFDA Number and Program Name: 93.959 - Block Grants for Prevention and Treatment of Substance Abuse
Criteria: The Uniform Guidance requires that the Organization have controls in place to ensure the Organization complied with the compliance requirements of the contract. Specifically, earmarking controls should monitor compliance with thresholds of budgeted line items, and reporting controls should ensure submitted reports are accurate and agree to the underlying accounting records.
Statement of Condition: The Organization did not have an employee perform a review at the appropriate level of detail of the cost reports to ensure the Organization was in compliance with earmarking and reporting requirements.
Questioned Costs: There were no questioned costs.
Context: The Organization submits twelve monthly reports regarding compliance with earmarking and reporting.
Effect: We identified certain areas within the control system surrounding compliance that could lead to noncompliance not being immediately identified.
Cause: A senior manager reviewed the financial results of the addiction prevention program, however, this review was not at the necessary detailed level to verify compliance with all the grants requirements.
Recommendation: We recommend that management review current internal controls surrounding report preparation and consider implementing a control where an employee performs a detailed review, including monitoring compliance with thresholds of budgeted line items and that the reports are accurate and agree to the underlying accounting records prior to submission of the reports.
Management's Response: The Organization's management reviewed internal controls surrounding report preparation and implemented a control by which an employee will review monthly cost reports to verify the Organization is in compliance with the earmarking and reporting requirements prior to submission of those cost reports. The business manager and director of business services are responsible for this corrective action.

2018-001
Agency: U.S. Department of Health and Human Services passed through City of Chicago Department of Family and Support Services
CFDA Number and Program Name: 93.600 - Head Start
Criteria: The grantor requires the Organization to comply with the requirements of the program which include the requirement that 10% of funded Head Start enrollment be provided to children with disabilities.
Statement of Condition: The Organization did not comply with the requirement that 10% of funded Head Start enrollment must be provided to children with disabilities for the period July 2017 through November 2017. In December, the contract was amended and the Organization did exceed the 10% requirement for the period December 2017 through June 2018.
Questioned Costs: The amount of questioned costs cannot be determined.
Context: Management identified that the Organization was not in compliance. As a result, management submitted reports to the funder communicating that the requirement was not met and amended the contract during the year which led to the Organization being in compliance.
Effect: The Organization was not in compliance with the earmarking requirement of the grant for a portion of the fiscal year.
Cause: The Organization was not able to enroll enough participants with disabilities to meet the 10% requirement for a portion of the year.
This is a repeat finding (prior years 2017-001 and 2016-001).
Recommendation: We recommend management continue to monitor its compliance with the requirement of the contract.
Management's Response: The Organization's Head Start program is committed to providing care and services to all eligible families and children, including those with disabilities. Management has corrected this finding but will continue the following plan to maintain compliance:

- LSSI staff will continue to work with the Chicago Public Schools (CPS) and families to identify children in need.
- LSSI's Quality and Compliance Manager will continue to monitor screening, referral and submission process of all enrolled children.
- LSSI will continue contracted services with a translation company to support children and families with diverse languages.
- LSSI will continue to use recruitment letters to reach out to organizations and schools with families of special needs children to develop partnerships.

This finding has been repeated as finding 2019-001.

2018-002
Agency: U.S. Department of Health and Human Services passed through City of Chicago Department of Family and Support Services
CFDA Number and Program Name: 93.600 - Head Start
Criteria: The Uniform Guidance requires that the Organization have controls over the period of performance compliance requirement to ensure expenditures are recorded and charged to the funder in the proper period.
Statement of Condition: The Organization has controls over payroll and other expenditures to ensure allowable costs are recorded in the proper period of performance. We found the controls surrounding non-payroll expenses not occurring as designed to confirm costs were charged in the correct period.
Questioned Costs: There were no questioned costs.
Context: Not applicable.
Effect: We identified certain areas within the control system surrounding compliance that could lead to noncompliance not being immediately identified.
Cause: Employee turnover and lack of training led to certain oversight controls not consistently occurring at the beginning of the contract period.
Recommendation: We recommend that management review current internal controls surrounding month end close to accurately capture and record expenditures in the correct period. Additional training could also be advisable.
Management's Response: LSSI management will review current internal controls related to recording expenses in correct financial and contractual periods. LSSI management will refresh program and business staff on the importance of reviewing expenses prior to the close of financial and contractual periods, follow up with vendors for timely submission of invoices, and accrue expenses when invoices are not submitted timely.

This finding was addressed in 2019.

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Summary Schedule of Audit Findings
For Year Ended June 30, 2019

Finding 2019-001
93.600 Head Start
– The organization did not comply with requirement that 10% of funded Head Start enrollment must be provided to children with disabilities from July 1, 2018 – November 30, 2018.

Status – Corrective Action in Progress
Anticipate Completion Date – November 30, 2019
Corrective Action – LSSI was not able to achieve the 10% funding provision for children with disabilities requirement. As of June 30, 2019 the majority of the program was closed and the only remaining portion of the Head Start program was being serviced by our partner agency, Asian Human Services (AHS). LSSI in conjunction with the City of Chicago and its partner agency AHS worked together to set up a transition and closure of the program by November 30, 2019. As the program winds down, LSSI will strive to do so in a manner that meets contract requirements but with an understanding that the focus of any remaining program staff is to wrap-up outstanding services. The business manager of the Head Start program is responsible for the wind down and corrective action.

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Summary Schedule of Audit Findings
For Year Ended June 30, 2019

Finding 2019-002
<u>93.959 Block Grants for Prevention and Treatment of Substance Abuse</u>
– The Organization did not comply with the Uniform Guidance requirement to have controls over the earmarking and reporting performance to ensure expenditures do not exceed certain thresholds of the budgeted line items and to verify that reports are accurate and agree to underlying accounting records.

Status – Correction Action in Progress
Anticipated Completion Date – December 31, 2019
Corrective Action – the Organization is committed to meeting our compliance obligations. The action plan is as follows:

- LSSI management will review internal controls surrounding report preparation and review.
- LSSI management will implement a control by which an employee will review monthly cost reports to verify the Organization is in compliance with the earmarking and reporting requirements prior to submission of those cost reports.

The business manager and director of business services are responsible for this corrective action.

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Summary Schedule of Prior Year Audit Findings
For Year Ended June 30, 2019

Finding 2018-001
<u>93.600 Head Start</u>

– The organization did not comply with requirement that 10% of funded Head Start enrollment must be provided to children with disabilities from July 1, 2017 – November 30 2017.

Status – Corrective Action is Complete
Completion Date – November 30, 2019

<u>Status Update: March 9, 2019</u>

LSSI's Head Start program was committed to providing care and services to all eligible families and children, including those with disabilities. The follow-up to the submitted plan to address the enrollment deficiency of 10% of children with disabilities was as follows:

- In September of 2017 DFSS made a city wide slot reduction. This slot reduction began in the LSSI contract starting December 1, 2017. LSSI was in compliance under the contract from December 1, 2017 through November 30, 2018 after the slot reduction.

- For the contract period beginning December 1, 2018 the program was again unable to meet the disability enrollment requirement. The program facilitator requested a disability waiver from the City of Chicago however it was not granted.

- As of June 30, 2019 LSSI determined it would no longer operate Head Start programs. The organization continues to operate the remainder of the contract in conjunction with its partner agency Asian Human Services. As of November 30, 2019 the organization will not be renewing the Head Start contract with the City of Chicago.

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Summary Schedule of Prior Year Audit findings
For Year Ended June 30, 2019

Finding 2018-002
<u>93.600 Head Start</u>

– The Organization did not comply with the Uniform Guidance requirement to have controls over the period of performance compliance requirement to ensure expenditures are recorded and charged to the funder in the proper period.

Status – Corrective Action is Complete
Date Completed: June 30, 2019

<u>Status Update: March 9, 2020</u>

LSSI's Head Start program was committed to meeting our compliance obligations. The follow-up to the plan to address controls over the period of performance compliance requirement to ensure expenditures are recorded and charged to the funder in the proper period is as follows:

LSSI reviewed controls related to recording expense in correct financial and contractual periods. We reviewed with program and business staff to follow up with vendors for timely submission of invoices. We asked business staff to work with program staff in identifying costs incurred but invoices not received, so to ensure the accrual of those expenses.

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