

Lutheran Social Services of Illinois and Subsidiary Corporations

Consolidated Financial Statements and
Supplementary Information

June 30, 2022 and 2021

Lutheran Social Services of Illinois and Subsidiary Corporations

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June 30, 2022 and 2021

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Independent Auditors' Report

To the Board of Directors of
Lutheran Social Services of Illinois and Subsidiary Corporations

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the 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, 2022 and 2021, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Organization as of June 30, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the 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 GAAS. 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 December 7, 2022 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 US, LLP

Milwaukee, Wisconsin
December 7, 2022

Lutheran Social Services of Illinois and Subsidiary Corporations

Consolidated Statements of Financial Position
June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 8,673,250	\$ 26,817,439
Accounts receivable	13,689,496	12,126,764
Unconditional promises to give, net	163,947	10,499
Prepaid expenses and other assets	1,097,391	1,433,444
Short-term investments	<u>17,543,547</u>	<u>8,048,080</u>
Total current assets	<u>41,167,631</u>	<u>48,436,226</u>
Investments Held for Long-Term Purposes	<u>2,561,415</u>	<u>2,962,147</u>
Property and Equipment		
Land	4,187,672	4,187,672
Buildings and other improvements	108,593,289	107,986,377
Furniture and equipment	18,052,263	17,643,528
Construction in progress	<u>246,003</u>	<u>140,265</u>
Property and equipment, at cost	131,079,227	129,957,842
Less allowance for depreciation	<u>(77,046,098)</u>	<u>(73,513,473)</u>
Property and equipment, net	<u>54,033,129</u>	<u>56,444,369</u>
Other Assets		
Unconditional promises to give, less current portion above	375,000	175,467
Escrow deposit accounts	8,720,665	8,336,947
Security deposits	80,995	80,476
Cash surrender value of life insurance contracts	<u>260,748</u>	<u>246,432</u>
Total other assets	<u>9,437,408</u>	<u>8,839,322</u>
Total assets	<u>\$ 107,199,583</u>	<u>\$ 116,682,064</u>

See notes to consolidated financial statements

Lutheran Social Services of Illinois and Subsidiary Corporations

Consolidated Statements of Financial Position

June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Liabilities and Net Assets		
Current Liabilities		
Refundable advance	\$ 9,985,367	\$ 9,985,367
Current maturities of long-term debt:		
Mortgages payable	238,297	234,860
Capital lease obligations	293,895	263,641
Accounts payable and other accrued expenses	6,407,509	6,772,706
Cash advances for special purposes	1,061,557	2,254,879
Accrued interest payable	36,125	30,918
Accrued salaries and wages	5,057,550	5,423,013
Accrued and withheld taxes	664,620	1,048,625
Deferred gain on sale of property, current	143,439	143,439
Deferred lease incentive, current	41,744	41,744
Residents' special deposits	41,916	35,247
Liability for pension benefits	-	1,964,894
	<u>23,972,019</u>	<u>28,199,333</u>
Long-Term Liabilities		
Long-term debt, less current maturities above:		
Mortgages payable	10,949,461	11,174,443
Capital lease obligations	3,475,765	3,781,611
Conditional capital advance agreements	39,472,662	39,472,662
Conditional assisted living conversion grant agreement	3,602,995	3,602,995
Conditional federal home loan agreements	66,004	66,004
Deferred gain on sale of property, less current portion	1,183,367	1,326,806
Deferred lease incentive, less current portion	344,386	386,130
Liability for split interest gift arrangements	468,451	483,928
Other long-term liabilities	1,223,823	1,125,216
Tenant security deposits held in trust	378,555	377,743
Due to HUD, residual receipts	348,742	429,584
	<u>61,514,211</u>	<u>62,227,122</u>
Total long-term liabilities	<u>61,514,211</u>	<u>62,227,122</u>
Total liabilities	<u>85,486,230</u>	<u>90,426,455</u>
Net Assets		
Without donor restrictions	12,704,606	19,428,223
With donor restrictions	9,008,747	6,827,386
	<u>21,713,353</u>	<u>26,255,609</u>
Total net assets	<u>21,713,353</u>	<u>26,255,609</u>
Total liabilities and net assets	<u>\$ 107,199,583</u>	<u>\$ 116,682,064</u>

See notes to consolidated financial statements

Lutheran Social Services of Illinois and Subsidiary Corporations

Consolidated Statement of Activities

Year Ended June 30, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and Revenue			
Public support:			
Lutheran church support	\$ 555,677	\$ -	\$ 555,677
United Way	49,887	-	49,887
Contributions	5,670,461	2,528,727	8,199,188
Bequests	177,273	50,000	227,273
	<u>6,453,298</u>	<u>2,578,727</u>	<u>9,032,025</u>
Total public support			
Other revenue:			
Fees and grants from government agencies	73,196,892	-	73,196,892
Program service fees	20,843,888	-	20,843,888
Public sales	48,389	-	48,389
Rents and investment return, net	(1,963,901)	(456,839)	(2,420,740)
Gain on disposal of property and equipment	148,002	-	148,002
Miscellaneous	437,063	-	437,063
	<u>92,710,333</u>	<u>(456,839)</u>	<u>92,253,494</u>
Total other revenue			
Net assets reclassified to with donor restrictions	<u>(121,307)</u>	<u>121,307</u>	<u>-</u>
Total public support and revenue			
	<u>99,042,324</u>	<u>2,243,195</u>	<u>101,285,519</u>
Expenses			
Program services	<u>92,308,593</u>	<u>-</u>	<u>92,308,593</u>
Supporting services:			
Management and general	9,134,169	-	9,134,169
Fundraising	1,863,269	-	1,863,269
	<u>10,997,438</u>	<u>-</u>	<u>10,997,438</u>
Total supporting services			
Total program and supporting services expenses			
	<u>103,306,031</u>	<u>-</u>	<u>103,306,031</u>
Change in net assets before other items			
	(4,263,707)	2,243,195	(2,020,512)
Other Items			
Actuarial loss on annuity obligations	-	(61,834)	(61,834)
Increase in actuarial pension costs	(2,459,910)	-	(2,459,910)
	<u>(6,723,617)</u>	<u>2,181,361</u>	<u>(4,542,256)</u>
Change in net assets			
	<u>19,428,223</u>	<u>6,827,386</u>	<u>26,255,609</u>
Net Assets, Beginning			
	<u>19,428,223</u>	<u>6,827,386</u>	<u>26,255,609</u>
Net Assets, Ending			
	<u>\$ 12,704,606</u>	<u>\$ 9,008,747</u>	<u>\$ 21,713,353</u>

See notes to consolidated financial statements

Lutheran Social Services of Illinois and Subsidiary Corporations

Consolidated Statement of Activities
Year Ended June 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and Revenue			
Public support:			
Lutheran church support	\$ 455,352	\$ 6,000	\$ 461,352
United Way	27,200	15,875	43,075
Contributions	4,854,706	420,225	5,274,931
Bequests	257,471	160,000	417,471
	<u>5,594,729</u>	<u>602,100</u>	<u>6,196,829</u>
Total public support			
Other revenue:			
Fees and grants from government agencies	85,339,395	-	85,339,395
Program service fees	20,705,515	-	20,705,515
Public sales	31,865	-	31,865
Rents and investment return, net	1,881,286	352,590	2,233,876
Loss on disposal of property and equipment	(150,463)	-	(150,463)
Miscellaneous	344,198	-	344,198
	<u>108,151,796</u>	<u>352,590</u>	<u>108,504,386</u>
Total other revenue			
Net assets released from restrictions	<u>259,598</u>	<u>(259,598)</u>	<u>-</u>
Total public support and revenue	<u>114,006,123</u>	<u>695,092</u>	<u>114,701,215</u>
Expenses			
Program services	<u>94,174,260</u>	<u>-</u>	<u>94,174,260</u>
Supporting services:			
Management and general	7,628,277	-	7,628,277
Fundraising	1,708,101	-	1,708,101
	<u>9,336,378</u>	<u>-</u>	<u>9,336,378</u>
Total supporting services			
Total program and supporting services expenses	<u>103,510,638</u>	<u>-</u>	<u>103,510,638</u>
Change in net assets before other items	10,495,485	695,092	11,190,577
Other Items			
Actuarial loss on annuity obligations	-	(59,055)	(59,055)
Decrease in actuarial pension costs	697,387	-	697,387
	<u>11,192,872</u>	<u>636,037</u>	<u>11,828,909</u>
Change in net assets			
Net Assets, Beginning	<u>8,235,351</u>	<u>6,191,349</u>	<u>14,426,700</u>
Net Assets, Ending	<u>\$ 19,428,223</u>	<u>\$ 6,827,386</u>	<u>\$ 26,255,609</u>

See notes to consolidated financial statements

Lutheran Social Services of Illinois and Subsidiary Corporations

Consolidated Statements of Cash Flows
Years Ended June 30, 2022 and 2021

	2022	2021
Cash Flows From Operating Activities		
Change in net assets	\$ (4,542,256)	\$ 11,828,909
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	4,094,071	4,252,401
Actuarial loss on annuity obligations	61,834	59,055
Amortization of prepaid debt financing costs	13,403	13,404
Contributions restricted for endowment	(1,565,000)	(81,180)
Loss (gain) on disposal of property and equipment	(148,002)	150,463
Reinvestment of investment income	(274,594)	(197,560)
Net realized and unrealized gain on investments	2,775,852	(1,977,887)
Decrease (increase) in cash surrender value of life insurance contracts	(14,316)	6,334
Increase (decrease) in actuarial pension costs	2,459,910	(697,387)
Provision for bad debt	30,478	33,273
Changes in assets and liabilities:		
Accounts receivable	(1,593,210)	(899,838)
Unconditional promises to give, net	(352,981)	(180,739)
Prepaid expenses and other assets	336,053	(756,977)
Accounts payable and other accrued expenses	(365,197)	1,714,782
Other current liabilities	(1,930,914)	2,256,367
Liability for pension benefits	(4,424,804)	(1,200,001)
Other long-term liabilities	(85,764)	108,162
Due to HUD, residual receipts	(80,842)	76,432
Net cash flows from operating activities	(5,606,279)	14,508,013
Cash Flows From Investing Activities		
Purchases of property and equipment	(1,534,829)	(1,513,951)
Purchases of investments	(12,203,125)	(2,196,840)
Proceeds from sales of investments	607,132	1,732,572
Net cash flows from investing activities	(13,130,822)	(1,978,219)
Cash Flows From Financing Activities		
Payments on split interest gift arrangements	(77,311)	(75,241)
Cash received for endowment	1,565,000	81,180
Repayment of debt and capital leases	(510,540)	(536,114)
Net cash flows from financing activities	977,149	(611,355)
Net change in cash and cash equivalents and restricted cash	(17,759,952)	11,999,619
Cash and Cash Equivalents and Restricted Cash, Beginning	35,234,862	23,235,243
Cash and Cash Equivalents and Restricted Cash, Ending	\$ 17,474,910	\$ 35,234,862

See notes to consolidated financial statements

Lutheran Social Services of Illinois and Subsidiary Corporations

Consolidated Statements of Cash Flows

Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Reconciliation of Cash and Cash Equivalents and Restricted Cash to the Statements of Financial Position		
Cash and cash equivalents	\$ 8,673,250	\$ 26,817,439
Escrow deposits	8,720,665	8,336,947
Security deposits	<u>80,995</u>	<u>80,476</u>
Total cash and cash equivalents and restricted cash	<u>\$ 17,474,910</u>	<u>\$ 35,234,862</u>
Supplemental Cash Flow Disclosures		
Cash paid for interest	<u>\$ 644,045</u>	<u>\$ 702,784</u>

See notes to consolidated financial statements

Lutheran Social Services of Illinois and Subsidiary Corporations

Consolidated Statements of Functional Expenses and Directly Related Program Services Revenue

Year Ended June 30, 2022

	Program Services						Subtotal Program Services
	Home and Community Services					Other Operating	
	Children's Community Services	Behavioral Health Services	Developmental Disabilities Services	Senior Community Services	Housing Services		
Functional Expenses							
Salaries	\$ 20,787,645	\$ 13,636,889	\$ 3,403,293	\$ 802,813	\$ 4,741,012	\$ -	\$ 43,371,652
Employee health and retirement benefits, payroll taxes, etc.	4,892,091	3,057,542	842,824	82,320	1,308,602	-	10,183,379
Total salaries and related expenses	25,679,736	16,694,431	4,246,117	885,133	6,049,614	-	53,555,031
Professional fees and contract service payments	11,968,759	1,621,671	855,927	448	391,303	3,480	14,841,588
Supplies	87,537	771,139	247,040	9,591	547,841	-	1,663,148
Communications	519,700	435,640	67,386	7,903	435,060	-	1,465,689
Occupancy	2,137,327	1,066,325	543,209	7,609	6,205,333	-	9,959,803
Advertising and printing	66,185	5,135	-	1,243	6,077	-	78,640
Local transportation	1,501,538	163,341	185,385	6,865	96,760	-	1,953,889
Meetings, seminars and education	8,821	15,720	10,712	-	7,012	-	42,265
Specific assistance to individuals	1,247,043	366,079	6,830	1,406	14,091	-	1,635,449
Elderly and congregate expenses	-	-	-	-	84,367	-	84,367
Equipment rental and maintenance	462,258	616,902	48,590	22,225	64,213	-	1,214,188
Miscellaneous and other operating	33,452	226,698	171,375	2,175	1,205,407	80,250	1,719,357
Interest expense	28,437	26,988	527	3,564	441,590	-	501,106
Total functional expenses	43,740,793	22,010,069	6,383,098	948,162	15,548,668	83,730	88,714,520
Depreciation	218,491	230,295	91,736	8,520	2,831,377	213,654	3,594,073
Total program and supporting services expenses	\$ 43,959,284	\$ 22,240,364	\$ 6,474,834	\$ 956,682	\$ 18,380,045	\$ 297,384	\$ 92,308,593
Directly Related Program Services Revenue							
Fees and grants from governmental agencies	\$ 47,251,560	\$ 10,929,680	\$ 6,300,656	\$ 262,234	\$ 8,452,762	\$ -	\$ 73,196,892
Program service fees	379,199	10,643,013	898,341	584,666	8,338,669	-	20,843,888
Public sales	42,452	-	-	-	5,937	-	48,389
Rents and investment return, net	2,329	103,115	-	-	6,100	(74,898)	36,646
Gain on disposal of property and equipment, net	2,723	-	1,840	-	-	143,439	148,002
Miscellaneous	28,810	54,346	23,400	-	293,970	10,942	411,468
Total directly related program services revenue	\$ 47,707,073	\$ 21,730,154	\$ 7,224,237	\$ 846,900	\$ 17,097,438	\$ 79,483	\$ 94,685,285

See notes to consolidated financial statements

Lutheran Social Services of Illinois and Subsidiary Corporations

Consolidated Statements of Functional Expenses and Directly Related Program Services Revenue

Year Ended June 30, 2022

	Supporting Services				Total
	Management and General	Resource Development	The Cornerstone Foundation, Inc.	Subtotal Fundraising	
Functional Expenses					
Salaries	\$ 4,777,294	\$ 1,095,057	\$ -	\$ 1,095,057	\$ 49,244,003
Employee health and retirement benefits, payroll taxes, etc.	889,839	239,749	-	239,749	11,312,967
Total salaries and related expenses	5,667,133	1,334,806	-	1,334,806	60,556,970
Professional fees and contract service payments	955,506	165,982	51,634	217,616	16,014,710
Supplies	87,222	5,820	-	5,820	1,756,190
Communications	256,709	17,245	160	17,405	1,739,803
Occupancy	260,506	30,213	-	30,213	10,250,522
Advertising and printing	288,529	87,852	96	87,948	455,117
Local transportation	28,023	22,483	-	22,483	2,004,395
Meetings, seminars and education	93,182	1,989	3,475	5,464	140,911
Specific assistance to individuals	4,845	-	-	-	1,640,294
Elderly and congregate expenses	-	-	-	-	84,367
Equipment rental and maintenance	535,633	13,799	-	13,799	1,763,620
Miscellaneous and other operating	377,808	72,048	-	72,048	2,169,213
Interest expense	117,422	17,320	-	17,320	635,848
Total functional expenses	8,672,518	1,769,557	55,365	1,824,922	99,211,960
Depreciation	461,651	38,347	-	38,347	4,094,071
Total program and supporting services expenses	<u>\$ 9,134,169</u>	<u>\$ 1,807,904</u>	<u>\$ 55,365</u>	<u>\$ 1,863,269</u>	<u>\$ 103,306,031</u>
Directly Related Program Services Revenue					
Fees and grants from governmental agencies	\$ -	\$ -	\$ -	\$ -	\$ 73,196,892
Program service fees	-	-	-	-	20,843,888
Public sales	-	-	-	-	48,389
Rents and investment return, net	7,291	-	(2,464,677)	(2,464,677)	(2,420,740)
Gain on disposal of property and equipment, net	-	-	-	-	148,002
Miscellaneous	25,595	-	-	-	437,063
Total directly related program services revenue	<u>\$ 32,886</u>	<u>\$ -</u>	<u>\$ (2,464,677)</u>	<u>\$ (2,464,677)</u>	<u>\$ 92,253,494</u>

See notes to consolidated financial statements

Lutheran Social Services of Illinois and Subsidiary Corporations

Consolidated Statements of Functional Expenses and Directly Related Program Services Revenue

Year Ended June 30, 2021

	Program Services						Subtotal Program Services
	Home and Community Services					Other Operating	
	Children's Community Services	Behavioral Health Services	Developmental Disabilities Services	Senior Community Services	Housing Services		
Functional Expenses							
Salaries	\$ 20,761,193	\$ 15,012,073	\$ 3,907,090	\$ 875,622	\$ 4,592,422	\$ -	\$ 45,148,400
Employee health and retirement benefits, payroll taxes, etc.	4,116,312	3,062,906	894,476	100,482	1,240,171	100,420	9,514,767
Total salaries and related expenses	24,877,505	18,074,979	4,801,566	976,104	5,832,593	100,420	54,663,167
Professional fees and contract service payments	12,320,547	1,435,351	549,578	21,004	582,348	3,545	14,912,373
Supplies	77,140	629,207	310,300	19,416	536,929	-	1,572,992
Communications	576,213	641,052	65,311	6,363	444,416	-	1,733,355
Occupancy	2,062,632	1,011,838	790,045	10,434	5,728,609	-	9,603,558
Advertising and printing	29,356	41,983	4,801	-	4,165	-	80,305
Local transportation	1,206,171	118,265	137,125	5,199	81,097	-	1,547,857
Meetings, seminars and education	38,442	14,918	3,478	745	21,998	-	79,581
Specific assistance to individuals	1,444,707	223,230	25,217	2,304	13,712	-	1,709,170
Elderly and congregate expenses	-	-	-	-	75,231	-	75,231
Equipment rental and maintenance	724,728	798,858	61,327	16,121	112,508	-	1,713,542
Miscellaneous and other operating	17,811	25,462	284,598	1,439	1,840,798	-	2,170,108
Interest expense	31,679	29,267	-	3,345	501,901	-	566,192
Total functional expenses	43,406,931	23,044,410	7,033,346	1,062,474	15,776,305	103,965	90,427,431
Depreciation	256,469	249,310	97,405	9,946	2,884,797	248,902	3,746,829
Total program and supporting services expenses	\$ 43,663,400	\$ 23,293,720	\$ 7,130,751	\$ 1,072,420	\$ 18,661,102	\$ 352,867	\$ 94,174,260
Directly Related Program Services Revenue							
Fees and grants from governmental agencies	\$ 46,999,300	\$ 18,321,378	\$ 7,468,012	\$ 899,186	\$ 9,084,717	\$ -	\$ 82,772,593
Program service fees	399,169	10,549,915	1,005,556	472,949	8,277,926	-	20,705,515
Public sales	31,865	-	-	-	-	-	31,865
Rents and investment return, net	13,800	(61,663)	-	-	7,198	205,959	165,294
Loss on disposal of property and equipment, net	(189,944)	(94,512)	(98)	(98)	(2,683)	-	(287,335)
Miscellaneous	65	217,916	44,181	7,865	30,723	1,250	302,000
Total directly related program services revenue	\$ 47,254,255	\$ 28,933,034	\$ 8,517,651	\$ 1,379,902	\$ 17,397,881	\$ 207,209	\$ 103,689,932

See notes to consolidated financial statements

Lutheran Social Services of Illinois and Subsidiary Corporations

Consolidated Statements of Functional Expenses and Directly Related Program Services Revenue

Year Ended June 30, 2021

	Supporting Services				Total
	Management and General	Resource Development	The Cornerstone Foundation, Inc.	Subtotal Fundraising	
Functional Expenses					
Salaries	\$ 3,878,222	\$ 1,021,982	\$ -	\$ 1,021,982	\$ 50,048,604
Employee health and retirement benefits, payroll taxes, etc.	693,085	197,270	-	197,270	10,405,122
Total salaries and related expenses	4,571,307	1,219,252	-	1,219,252	60,453,726
Professional fees and contract service payments	672,280	110,967	53,946	164,913	15,749,566
Supplies	44,456	7,876	-	7,876	1,625,324
Communications	165,846	11,563	36	11,599	1,910,800
Occupancy	475,926	35,914	-	35,914	10,115,398
Advertising and printing	336,624	127,909	2,807	130,716	547,645
Local transportation	21,247	3,318	-	3,318	1,572,422
Meetings, seminars and education	68,876	6,105	920	7,025	155,482
Specific assistance to individuals	-	20,000	-	20,000	1,729,170
Elderly and congregate expenses	-	-	-	-	75,231
Equipment rental and maintenance	389,815	14,009	630	14,639	2,117,996
Miscellaneous and other operating	289,064	35,199	230	35,429	2,494,601
Interest expense	126,392	18,292	-	18,292	710,876
Total functional expenses	7,161,833	1,610,404	58,569	1,668,973	99,258,237
Depreciation	466,444	39,128	-	39,128	4,252,401
Total program and supporting services expenses	<u>\$ 7,628,277</u>	<u>\$ 1,649,532</u>	<u>\$ 58,569</u>	<u>\$ 1,708,101</u>	<u>\$ 103,510,638</u>
Directly Related Program Services Revenue					
Fees and grants from governmental agencies	\$ 2,060,760	\$ 506,042	\$ -	\$ 506,042	\$ 85,339,395
Program service fees	-	-	-	-	20,705,515
Public sales	-	-	-	-	31,865
Rents and investment return, net	11,976	-	2,056,606	2,056,606	2,233,876
Gain (loss) on disposal of property and equipment, net	140,870	(3,998)	-	(3,998)	(150,463)
Miscellaneous	42,198	-	-	-	344,198
Total directly related program services revenue	<u>\$ 2,255,804</u>	<u>\$ 502,044</u>	<u>\$ 2,056,606</u>	<u>\$ 2,558,650</u>	<u>\$ 108,504,386</u>

See notes to consolidated financial statements

Lutheran Social Services of Illinois and Subsidiary Corporations

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

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 (ELCA). 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, 21 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% of that company. These subsidiary corporations are:

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

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

** 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 LSSI.

Services that the Organization provides include:

Children's Community Services

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.

Behavioral Health Services

Counseling, mental health and crisis intervention, drug and alcohol treatment for youth and adults and services for formerly incarcerated individuals.

Lutheran Social Services of Illinois and Subsidiary Corporations

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Senior and Disability Services

In-Home Services: Nonmedical assistance to older adults.

Housing and Assisted Living: Affordable housing and assisted living for older adults. Residential housing for adults with developmental 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 and Restricted Cash

The Organization defines cash equivalents as highly liquid, short-term investments with a maturity at the date of acquisition of three months or less. Restricted cash includes escrow deposits accounts and tenant deposits in trust. The Organization does not have the ability to use these funds for operations without HUD approval due to contractual requirements or HUD imposed regulations.

Accounts Receivable

Receivables consist of outstanding balances from contracts with patients and their caregivers, the government and other grants due to the Organization. Transactions are recorded at an amount that management expects to receive from the net transaction price. Balances are recorded net of contractual adjustments for Medicaid, Medicare and other third-party payors under terms of third-party reimbursement agreements in effect as well as any implied discounts. These receivables are uncollateralized funding source obligations, which generally are payable within 30 days from the invoice or billing date. Payments are applied to the specific invoices identified on the funding source's remittance advice or, if unspecified, to the earliest unpaid invoices. The Organization follows up on past due amounts to reduce its exposure to potential uncollectible accounts. At June 30, 2022 and 2021, the net realizable value of these receivables are \$3,157,365 and \$3,136,029, respectively. The adequacy of the Organization's estimate of net realizable receivable is reviewed on an ongoing basis, using historical payment trends, write-off experience, analysis of receivables by payor and aging of receivables, along with a review of specific accounts. Adjustments are made as necessary.

Receivables from the government and other grants due to the Organization are based upon costs incurred, services completed and terms identified in the grant awards. Management determines the need for an allowance for doubtful accounts based on historical collection experience and a review of current grants receivable balances. Accounts written-off are charged against the allowance. The allowance for doubtful accounts is \$960,701 and \$997,570 at June 30, 2022 and 2021, respectively. At June 30, 2022 and 2021, receivables from the government and other grants, net of the allowance for doubtful accounts, are \$10,532,131 and \$8,990,735, respectively.

Total accounts receivable, net at June 30, 2022 and 2021 are \$13,689,496, and \$12,126,764, respectively.

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.

Lutheran Social Services of Illinois and Subsidiary Corporations

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

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 are 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. There is no allowance for doubtful accounts at June 30, 2022 and 2021.

Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, whether received or made, are recognized only when the conditions on which they depend are met and the promises become unconditional. As of June 30, 2022, the Organization has several contracts in place to provide services during fiscal year 2023, but the amount of revenue to be received from these agreements depends on the volume of service provided by the Organization during fiscal year 2023.

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% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses derecognition, classification, interest and penalties on income taxes.

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 2018. 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 is included in other long-term liabilities as of June 30, 2022 and 2021 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 an estimate of fair 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 considers money market funds held for investment purposes to be investments on the consolidated statements of financial position.

Lutheran Social Services of Illinois and Subsidiary Corporations

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

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 asset allocation percentages as approved. Monitoring and rebalancing of the investment portfolio is conducted on an ongoing 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 \$3,000 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

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 through 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, 2022 and 2021. The capitalized cost, accumulated depreciation, future minimum lease payments and interest are included in Note 7.

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 2022 and 2021, \$143,439 was recognized in gain (loss) on disposal of property on the consolidated statements of activities. The total remaining deferred gain of \$1,326,806 and \$1,470,245 is reported as liabilities on the consolidated statements of financial position at June 30, 2022 and 2021, respectively.

Lutheran Social Services of Illinois and Subsidiary Corporations

Notes to Consolidated Financial Statements

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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. The lease incentive was used for construction and a leasehold improvement asset of \$500,925 was placed into service during 2020. A deferred lease incentive liability is reported in the consolidated financial statements. The deferred lease incentive is recognized straight-line over the life of the leased asset. The deferred lease incentive is \$386,130 and \$427,874 at June 30, 2022 and 2021, respectively.

Escrow Deposit Accounts

At June 30, 2022 and 2021, the Organization had restricted cash totaling \$8,720,665 and \$8,336,947, 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 on the repayment terms of residual receipts reserve balances. All amounts greater than \$250 per unit, totaling \$348,742 and \$429,584 at June 30, 2022 and 2021, respectively, are reflected as a liability.

Advertising

Nondirect advertising and promotion costs are charged to management and general when incurred and for the years ended June 30, 2022 and 2021 the amounts included were \$127,935 and \$180,740, respectively.

Conditional Capital Advance and Assisted Living Conversion Grant Agreement

The Organization recognizes unconditional contributions as revenue in the period the donation is received. Conditional contributions, that is, those with a measurable performance or other barriers, and a right of return, are recognized when they become unconditional, that is, when the conditions are met as required under Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The remaining grant revenue from the capital advance and assisted living conversion grants agreements with HUD will be recognized at the time all conditions are met.

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, 2022 and 2021, the Organization held investments of \$1,613,205 and \$1,931,953, 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 the obligations due to the annuitants and income beneficiaries. The present value was calculated based on life expectancies using discount rates determined at the date of the gift that range from 1.8% to 10.6%.

Lutheran Social Services of Illinois and Subsidiary Corporations

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

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. There were no net assets designated by the Board of Directors as of June 30, 2022 and 2021.

Net Assets With Donor Restrictions. Net assets that are 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 in perpetuity by the Organization.

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 Revenue

Contracts With Customers

Program service fees and certain fees from government agencies result from contracts with customers and are considered to be exchange transactions. Program service fees and certain government fees are reported at the amount that reflects the consideration the Organization expects to receive in exchange for the services provided.

Revenue under contracts with customers is recognized when the customer obtains control of the good or service and is recognized to depict the transfer of promised goods or services in an amount that reflects the consideration to which the Organization expects to be entitled in exchange for those goods or services.

A performance obligation is a distinct good, service or a bundle of goods and services promised in a contract. The Organization identifies performance obligations at the inception of a contract and allocates the transaction price to individual performance obligations to appropriately depict the Organization's performance in transferring control of the promised goods or services to the customer. Contracts with customers do not include a significant financing component.

Revenue from contracts with customers relate to the Organization's behavioral health, senior and disability services. The performance obligation is to perform the indicated services for the customers under the contract. Depending on the contract, revenues are recognized either at a point in time or over the time that services are provided to the customer, which are then billed by the Organization to the customer or third-party payor. Revenue from contracts with customers consist of contracts with individual patients and their caregivers that are mostly insured by Medicaid, Medicare or managed care organizations. The other contracts within program service fees are with commercially insured individuals and private pay individuals. The Organization reviewed contracts using a portfolio approach by payor and service type due to similarities in contracts.

The transaction prices are generally listed in the contracts or individual client agreements. The Organization determines the net transaction price based on contractual adjustments under terms of third-party reimbursement agreements, a review of patient balances and the likelihood of payment based on historical experience as well as specific patient circumstances. Revenue is recorded net of contractual allowances and implied price concessions.

Lutheran Social Services of Illinois and Subsidiary Corporations

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

There are no expressed or implied warranties. There is no revenue recognized for services performed in prior periods. There are no contract assets or liabilities with these revenue sources. Total revenues from contracts with customers were \$12,769,356 and \$13,270,171 for the year ending June 30, 2022 and 2021, respectively, and are included in program service fees and fees and grants from government agencies on the consolidated statements of activities.

Contributions and Grants

The Organization receives a significant portion of its operating funds from grants and awards. Grants are recognized as revenue in the period barriers are overcome. Grants where the conditions and restrictions are met simultaneously are presented as without donor restrictions on the consolidated statements of activities.

The Organization recognizes unconditional contributions received, including unconditional promises to give, as revenue in the period the promises are received at their fair values. Conditional contributions, that is, those with a measurable performance or other barrier, and a right of return, are recognized when they become unconditional, that is, when the conditions are met. As of June 30, 2022 and 2021, the Organization has one conditional contribution which is reflected as a refundable advance on the consolidated statements of financial position (see Note 6).

The Organization receives contributions through unconditional promises to give, bequests, 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 stipulations of the donor.

Contributions that are restricted by the donor are reported as contributions with donor restrictions. When a restriction expires, the net assets with donor restrictions are reclassified to net assets without donor restrictions.

Other Income

Investment income is presented net of fees. Investment income and realized and unrealized gains (losses) resulting from contributions are reported as with donor restrictions or without donor restrictions, as directed by the donor. Investment income and realized and unrealized gains (losses) 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 2022 and 2021 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.

Lutheran Social Services of Illinois and Subsidiary Corporations

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

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 and payroll taxes 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 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 2021 amounts have been reclassified to conform with classifications adopted in 2022. The reclassifications have no effect on reported amounts of net assets or change in net assets.

Lutheran Social Services of Illinois and Subsidiary Corporations

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Liquidity and Availability of Resources

The following reflects the Organization's financial assets as of June 30, 2022 and 2021, reduced by amounts not available for cash needs within one year for general use because of contractual or donor-imposed restrictions.

	<u>2022</u>	<u>2021</u>
Total assets, at year-end	\$ 107,199,583	\$ 116,682,064
Less nonfinancial assets:		
Property and equipment, net	(54,033,129)	(56,444,369)
Prepaid expenses and other assets	(1,097,391)	(1,433,444)
Cash surrender value for life insurance	<u>(260,748)</u>	<u>(246,432)</u>
Financial assets, at year-end	51,808,315	58,557,819
Less those unavailable for general expenditures within one year, due to:		
Restricted by donor with time or purpose restrictions	(4,213,722)	(3,916,412)
Investments held in annuity trust	(1,613,205)	(1,931,953)
Permanently endowed funds	(4,795,025)	(2,910,974)
Security deposits	(80,995)	(80,476)
Escrow deposits	<u>(8,720,665)</u>	<u>(8,336,947)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 32,384,703</u>	<u>\$ 41,381,057</u>

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, Developmental Disabilities Services and Senior Community Services fees 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. In the event of an unanticipated liquidity need, the Organization has up to \$6,250,000 available on an additional line of credit (see Note 5).

Adopted Accounting Pronouncements

During 2022, the Organization adopted FASB ASU No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU No. 2020-07 improves financial reporting by providing new presentation and disclosure requirements about contributed nonfinancial assets, including additional disclosure requirements for recognized contributed services. Adopting ASU No. 2020-07 did not have a significant impact on the Organization's consolidated financial statements.

During 2022, the Organization also adopted FASB ASU No. 2018-14, *Compensation - Retirement Benefits - Defined Benefit Plans (Subtopic 715-20)*. The ASU modifies the disclosure requirements on defined benefit pension or other postretirement plans. The adoption of FASB ASU No. 2018-14 did not have a significant impact on the consolidated financial statements of the Organization.

Lutheran Social Services of Illinois and Subsidiary Corporations

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

New Accounting Pronouncements

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)* that amends the treatment for leases. The new accounting model for leases capitalizes all leases greater than 12 months, both capital and operating, as assets and liabilities on the consolidated statement of financial position. The Organization will be required to apply the standard for annual periods beginning after December 15, 2021 (2023). Management is currently assessing the effect that ASU No. 2016-02 will have on its consolidated financial statements.

During June 2016, FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*. ASU No. 2016-13 requires financial assets measured at amortized cost to be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the reported amount. FASB has issued subsequent standards to clarify, correct errors in or improve the guidance. ASU No. 2016-13 (as amended) is effective for annual periods and interim periods within those annual periods beginning after December 15, 2022 (2024). Early adoption is permitted for annual and interim periods beginning after December 15, 2018. The Organization is currently assessing the effect that ASU No. 2016-13 (as amended) will have on its consolidated financial statements.

2. 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.

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.

Lutheran Social Services of Illinois and Subsidiary Corporations

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The table below presents the balances of assets at June 30, 2022 measured at fair value on a recurring basis by level within the hierarchy.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 18,028,550	\$ -	\$ -	\$ 18,028,550
Beneficial interest in funds held in trust	-	-	926,448	926,448
Other investments	-	-	21,711	21,711
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets measured at fair value	<u>\$ 18,028,550</u>	<u>\$ -</u>	<u>\$ 948,159</u>	18,976,709
Money market funds				<u>1,128,253</u>
Total investments				<u>\$ 20,104,962</u>

The table below presents the balances of assets at June 30, 2021 measured at fair value on a recurring basis by level within the hierarchy.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 9,297,507	\$ -	\$ -	\$ 9,297,507
Beneficial interest in funds held in trust	-	-	992,037	992,037
Other investments	-	-	38,106	38,106
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets measured at fair value	<u>\$ 9,297,507</u>	<u>\$ -</u>	<u>\$ 1,030,143</u>	10,327,650
Money market funds				<u>682,577</u>
Total investments				<u>\$ 11,010,227</u>

Mutual funds are measured at fair value using quoted market prices. They are classified as Level 1 as they are traded in an active market.

Beneficial interest in funds held in trust, funds that the Foundation 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. The fair value of the beneficial interest in ELCA endowment fund is based on information provided by ELCA. Net realized and unrealized gains (losses) included in the change in net assets are \$(65,589) and \$183,415 for the years ended June 30, 2022 and 2021, respectively. There were no deposits or withdrawals for the years ended June 30, 2022 and 2021.

Other investments consist of ownership of a nonpublicly traded company and is considered a Level 3 item as the valuation is based on significant unobservable inputs that is not corroborated by market data. The fair value of the other investments is based on information provided by the nonpublicly traded company. Net unrealized gains (losses) included in the change in net assets are \$(16,395) and \$(110,688) for the years ended June 30, 2022 and 2021, respectively.

The valuation of money market funds are determined using cost. As a result they are excluded from the fair value hierarchy level disclosures.

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3. Short-Term Investments

Investments and related unrealized appreciation (depreciation) as of June 30, 2022 are summarized as follows:

	<u>Cost or Gift Value</u>	<u>Unrealized Appreciation (Depreciation)</u>	<u>Total Investments at Fair Value</u>
LSSI funds:			
Mainstay Marketfield Fund	\$ 427,751	\$ 242,141	\$ 669,892
Foundation funds:			
Schwab Money Market Fund	1,066,931	-	1,066,931
American Funds EuroPacific Growth Fund	2,843,707	(320,278)	2,523,429
Vanguard Emerging Markets Stock Index	667,893	(58,886)	609,007
Baird Aggregate Bond Fund	3,274,618	(236,000)	3,038,618
Blackrock Strategic Income Opportunities Portfolio	1,772,988	(100,400)	1,672,588
Vanguard Total Stock Market Fund	<u>7,554,975</u>	<u>408,107</u>	<u>7,963,082</u>
Subtotal Foundation funds	<u>17,181,112</u>	<u>(307,457)</u>	<u>16,873,655</u>
Total short-term investments	<u>\$ 17,608,863</u>	<u>\$ (65,316)</u>	<u>\$ 17,543,547</u>

Investments and related unrealized appreciation (depreciation) as of June 30, 2021 are summarized as follows:

	<u>Cost or Gift Value</u>	<u>Unrealized Appreciation (Depreciation)</u>	<u>Total Investments at Fair Value</u>
LSSI funds:			
Mainstay Marketfield Fund	\$ 417,441	\$ 327,723	\$ 745,164
Foundation funds:			
Schwab Money Market Fund	666,715	-	666,715
American Funds EuroPacific Growth Fund	923,043	338,080	1,261,123
Vanguard Emerging Markets Stock Index	254,763	54,255	309,018
Baird Aggregate Bond Fund	1,509,309	9,253	1,518,562
Vanguard Total Stock Market Fund	<u>1,849,040</u>	<u>1,698,458</u>	<u>3,547,498</u>
Subtotal Foundation funds	<u>5,202,870</u>	<u>2,100,046</u>	<u>7,302,916</u>
Total short-term investments	<u>\$ 5,620,311</u>	<u>\$ 2,427,769</u>	<u>\$ 8,048,080</u>

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4. 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, 2022 are summarized as follows:

	<u>Cost</u>	<u>Unrealized Appreciation (Depreciation)</u>	<u>Fair Value</u>
Foundation investments related to life annuity contracts:			
Money market funds	\$ 61,322	\$ -	\$ 61,322
Bond mutual funds	770,298	(63,242)	707,056
Equity mutual funds	<u>715,357</u>	<u>129,470</u>	<u>844,827</u>
Subtotal	1,546,977	66,228	1,613,205
ELCA Endowment Fund	<u>833,276</u>	<u>93,172</u>	<u>926,448</u>
Other investments:			
Investment in partnership	40,000	(18,289)	21,711
Other mutual fund	<u>51</u>	<u>-</u>	<u>51</u>
Subtotal	<u>40,051</u>	<u>(18,289)</u>	<u>21,762</u>
Total investments held for long-term purposes	<u>\$ 2,420,304</u>	<u>\$ 141,111</u>	<u>\$ 2,561,415</u>

Investments and unrealized appreciation (depreciation) at June 30, 2021 are summarized as follows:

	<u>Cost</u>	<u>Unrealized Appreciation (Depreciation)</u>	<u>Fair Value</u>
Foundation investments related to life annuity contracts:			
Money market funds	\$ 15,862	\$ -	\$ 15,862
Bond mutual funds	700,526	20,720	721,246
Equity mutual funds	<u>825,129</u>	<u>369,716</u>	<u>1,194,845</u>
Subtotal	1,541,517	390,436	1,931,953
ELCA Endowment Fund	<u>833,276</u>	<u>158,761</u>	<u>992,037</u>
Other investments:			
Investment in partnership	40,000	(1,894)	38,106
Other mutual fund	<u>51</u>	<u>-</u>	<u>51</u>
Subtotal	<u>40,051</u>	<u>(1,894)</u>	<u>38,157</u>
Total investments held for long-term purposes	<u>\$ 2,414,844</u>	<u>\$ 547,303</u>	<u>\$ 2,962,147</u>

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

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividend income	\$ 264,053	\$ 53,430	\$ 317,483
Net realized and unrealized losses	(2,265,583)	(510,269)	(2,775,852)
Less fees	(16,610)	-	(16,610)
Total investment return, net	<u>\$ (2,018,140)</u>	<u>\$ (456,839)</u>	<u>\$ (2,474,979)</u>

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Interest and dividend income	\$ 206,469	\$ 36,364	\$ 242,833
Net realized and unrealized gains	1,661,661	316,226	1,977,887
Less fees	(8,541)	-	(8,541)
Total investment return, net	<u>\$ 1,859,589</u>	<u>\$ 352,590</u>	<u>\$ 2,212,179</u>

5. Line of Credit

The Organization has a line of credit with Mission Investment Fund Evangelical Lutheran Church in America with availability up to \$6,250,000. The line of credit is renewable annually. The line of credit has an interest rate of 4.25% and is due monthly. The line of credit is secured by properties located at 5517 N. Kenmore, Chicago, Illinois, 4840 W. Byron St., Chicago, Illinois, 675 Varsity Drive, Elgin, Illinois and 1640 W. Morse, Chicago, Illinois.

As of June 30, 2022 and 2021, the Organization's borrowing under the line was \$0. Interest expense on the line of credit was \$0 in 2022 and 2021.

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Notes to Consolidated Financial Statements

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6. Refundable Advance

In 2020, the Organization received proceeds in the amount of \$9,985,367 under the Paycheck Protection Program (PPP) which was established as part of the Coronavirus Aid, Relief and Economic Security (CARES) Act and is administered through the Small Business Administration (SBA). The PPP provides loans to qualifying nonprofit organizations in amounts up to 2.5 times their average monthly payroll expenses and was designed to provide a direct financial incentive for qualifying nonprofit organizations to keep their workforce employed during the Coronavirus crisis. PPP loans are uncollateralized and guaranteed by the SBA. Advances from the PPP are forgivable after a *covered period* (eight or 24 weeks) as long as the borrower maintains its payroll levels and uses the proceeds for eligible expenses, including payroll, benefits, mortgage interest, rent and utilities. The forgiveness amount will be reduced if the borrower terminates employees or reduces salaries and wages more than 25% during the covered period. The Organization initially recorded the funds as a refundable advance and will record the forgiveness in accordance with guidance for conditional contributions when there is no longer a measurable performance barrier or other barrier and no longer a right of return of the PPP loan, or when such conditions are explicitly waived. Any unforgiven portion is payable over 2 years if issued before, or 5 years if issued after, June 5, 2020 at an interest rate of 1% with payments deferred until the SBA remits the Organization's loan forgiveness amount to the lender or, if the Organization does not apply for forgiveness, 10 months after the end of the covered period. PPP loan terms provide for customary events of default, including payment defaults, breaches of representations and warranties and insolvency events and may be accelerated upon the occurrence of one or more of these events of default. Additionally, PPP loan terms do not include prepayment penalties.

As of June 30, 2022 and 2021, the Organization does not believe it has met all the conditions attached to the PPP funds, therefore, no grant revenue is recorded within its consolidated statements of activities for the years ending June 30, 2022 and 2021. The full amount of \$9,985,367 of PPP funds received are recorded as a refundable advance in the Organization's consolidated statements of financial position.

The SBA reserves the right to audit any PPP loan, regardless of size. These audits may occur after forgiveness has been granted. In accordance with the CARES Act, all borrowers are required to maintain their PPP loan documentation for six years after the PPP loan is issued and to provide that documentation to the SBA upon request. The Organization does not believe the results of any audits or reviews by the SBA would have a material impact on the consolidated financial statements.

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7. Long-Term Debt

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

	<u>2022</u>	<u>2021</u>
Mortgages payable:		
Mortgage payable to P/R Mortgage & Investment Corp. with monthly payments 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 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. (Salem Village III, Inc.)	\$ 6,950,229	\$ 7,081,324
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.)	4,616,264	4,715,110
Mortgage payable to 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. The mortgage payable was paid off in 2022. (DeKalb Housing for the Handicapped, Inc.)	-	5,007
Total mortgages payable	11,566,493	11,801,441
Less current maturities	<u>(238,297)</u>	<u>(234,860)</u>
Long-term portion of mortgages payable	11,328,196	11,566,581
Less loan costs, net of accumulated amortization	<u>(378,735)</u>	<u>(392,138)</u>
Total long-term portion of mortgages payable, net	<u>\$ 10,949,461</u>	<u>\$ 11,174,443</u>

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, which approximates the effective interest rate method. Amortization included in interest expense in the consolidated statements of activities for the years ended June 30, 2022 and 2021 was \$13,403 and \$13,404, respectively. At June 30, 2022 and 2021, the remaining net amount of debt issuance costs was \$378,735 and \$392,138, respectively.

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Notes to Consolidated Financial Statements

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

Years ending June 30:	
2023	\$ 238,297
2024	247,112
2025	256,225
2026	265,677
2027	275,479
Thereafter	<u>10,283,703</u>
Total	<u>\$ 11,566,493</u>

The Organization leased a building and certain equipment that qualify as capital leases. At June 30, 2022 and 2021, the gross value of these assets was \$5,481,161 and \$5,487,564, respectively, and the related accumulated amortization was \$2,152,565 and \$1,799,073, 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, 2022:

Years ending June 30:	
2023	\$ 448,581
2024	459,795
2025	471,290
2026	483,072
2027	495,149
Thereafter	<u>2,242,354</u>
Total future minimum lease payments	4,600,241
Less interest	<u>(830,581)</u>
Present value of future minimum lease payments	3,769,660
Less current portion	<u>(293,895)</u>
Long-term capital lease obligations	<u>\$ 3,475,765</u>

Total interest expense including amortization of debt issuance costs and other bank fees was \$635,848 and \$710,876 in 2022 and 2021, respectively.

8. 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, 2022 and 2021. 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 they relate remains available for low-income elderly or developmentally disabled persons in accordance with the appropriate regulations. The amount drawn at June 30, 2022 and 2021 was \$64,779,300. If the Organization does not comply with the terms of the agreements, the entire capital advance amount plus interest would be required to be paid back to HUD. The Organization will recognize the remaining revenue from the capital advance agreements at the time all conditions are met.

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The conditional capital advance agreement recorded at June 30, 2022 and 2021 consists of conditional capital advance agreements for the following HUD Projects:

	<u>Year of Expiration</u>	<u>Amount Drawn to Date</u>	<u>Grant Revenue Recognized Through June 30, 2022</u>	<u>Conditional Grant Revenue</u>
Assisi Homes-Downer Place, Inc.	2039	\$ 7,057,900	\$ 3,407,265	\$ 3,650,635
Our Savior's Senior Housing	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	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		<u>\$ 64,779,300</u>	<u>\$ 25,306,638</u>	<u>\$ 39,472,662</u>

9. 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. If the Organization does not comply with the terms of the agreements, the entire grant would be required to be paid back to One Mortgage Partners Corporation. The conditional federal home loan grant agreements recorded at June 30, 2022 and 2021 are \$66,004. The Organization will recognize the remaining revenue from the agreement at the time all conditions are met.

10. 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 Salem Village 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.

Funding of \$514,240 was recognized in prior years relating to temporary relocation costs, including vacancy losses. The conditional assisted living conversion grant agreement recorded at June 30, 2022 and 2021 was \$3,602,995. Salem Village will recognize the remaining revenue from the conversion grant at the time all conditions are met.

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11. 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 continued 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.

On May 14, 2021, the Board of Directors of the Organization executed a resolution to terminate the plan effective May 15, 2021. Upon termination of the Plan, the Organization directed Comerica Bank and Trust, N.A., the trustee, to pay all liabilities and expenses of the Plan. The Organization has the right to terminate the Plan subject to the provisions of the Employee Retirement Income Security Act (ERISA). Due to plan termination, all participants are 100% vested in their account balance.

On September 28, 2021, Principal Life Insurance Company (Principal) and the Organization agreed that Principal will provide a nonparticipating single premium group annuity contract in connection with the settlement of liabilities associated with certain benefits arising under the Pension Equity Plan for LSSI retired employees and the active and terminated employees who have elected to receive annuities under the Plan, for a premium amount of \$24,377,748. On October 1, 2021, monthly benefit payments of \$195,454 were distributed to participants from the Plan. On October 6, 2021 the premium amount was transferred from the Plan to Principal. On November 1, 2021, The Plan distributed monthly benefit payments of \$158,849 to participants as well as payments of \$8,215,086 for participants who elected to receive a lump sums. The Organization made a payment of \$923,619 to the Pension Guarantee Corporation in November 2021 for participants who could not be located. Beginning December 1, 2021, Principal began to distribute monthly benefit payments. The Organization contributed a total of \$4,424,804 to the Plan from September through December 2021 to fund remaining pension liabilities upon settlement.

Included in net assets without donor restrictions at June 30, 2022 and 2021 are the following amounts that have not yet been recognized in net periodic pension cost: unrecognized actuarial net losses of \$0 and \$8,347,022, respectively.

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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 as of June 30 (actuarial values of the benefit obligation were calculated as of June 30, 2022 and 2021, respectively).

	<u>2022</u>	<u>2021</u>
Change in benefit obligation:		
Accumulated benefit obligation at beginning of year	\$ 32,019,712	\$ 34,611,505
Provision for expenses	200,000	400,000
Interest cost	379,948	741,086
Actuarial (gain) loss	2,319,000	(1,061,658)
Settlements**	(33,629,645)	-
Benefits paid	(1,021,102)	(2,426,352)
Administrative expenses paid	(267,913)	(244,869)
	<u> </u>	<u> </u>
Accumulated benefit obligation at end of year	<u>\$ -</u>	<u>\$ 32,019,712</u>

The assumption changes to the benefit obligation are due to the changes in discount rates and adjustments to the mortality improvement scales provided by the Society of Actuaries in 2022 and 2021, as well as the termination and settlement of the plan in 2022.

Since benefit accruals have been frozen, the projected benefit obligation is equal to the accumulated benefit obligation at June 30, 2022 and 2021.

	<u>2022</u>	<u>2021</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 30,054,818	\$ 30,749,223
Actual return on assets	439,038	776,816
Employer contribution	4,424,804	1,200,000
Settlements**	(33,629,645)	-
Benefits paid	(1,021,102)	(2,426,352)
Administrative expenses paid	(267,913)	(244,869)
	<u> </u>	<u> </u>
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ 30,054,818</u>
Funded status of the plan	<u>\$ -</u>	<u>\$ (1,964,894)</u>

	<u>2022</u>	<u>2021</u>
Components of net periodic benefit costs:		
Provision for expense	\$ 200,000	\$ 400,000
Interest cost	379,948	741,086
Expected return on plan assets	(362,549)	(1,538,719)
Recognized actuarial loss	441,813	1,163,751
	<u> </u>	<u> </u>
Net periodic benefit costs	659,212	766,118
Cost for settlements**	10,147,720	-
	<u> </u>	<u> </u>
Total net periodic benefit costs	<u>\$ 10,806,932</u>	<u>\$ 766,118</u>

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** Settlements occurred during 2022 due to termination of the Plan. The total effect of the settlements on the projected benefit obligation and fair value of plan assets was \$33,629,645. A portion of the effect of the settlements must be recognized within net periodic benefit costs. The cost for settlements recognized within net periodic pension cost during 2022 was \$10,147,720. There were no settlements in 2021.

Service cost in 2022 and 2021 was \$0. The other components of the net periodic benefit cost are \$10,806,932 and \$766,118 in 2022 and 2021, respectively. The other components of the net periodic pension cost are included in increase (decrease) in actuarial pension costs on the consolidated statements of activities.

The underfunded status of the plan of \$0 and \$1,964,894 at June 30, 2022 and 2021, respectively, is recognized in the accompanying consolidated statements of financial position as liability for pension benefits.

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

	<u>2022</u>	<u>2021</u>
Discount rate	N/A	2.50 %

There were no participant contributions made to the plan during the years ended June 30, 2022 and 2021.

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

	<u>2022</u>	<u>2021</u>
Discount rate	2.50 %	2.25 %
Expected return on plan assets	2.40 %	5.40 %

The Organization's expected long-term return on plan assets assumption was 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 were 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 had no plan assets at June 30, 2022.

The Organization's plan assets at June 30, 2021, by asset category are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds measured at fair value	<u>\$ 28,872,813</u>	<u>\$ -</u>	<u>\$ -</u>	\$ 28,872,813
Cash and money market funds				<u>1,182,005</u>
Total investments				<u>\$ 30,054,818</u>

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Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Mutual Funds. These investments consisted of Vanguard Long-Term Investment Grade Fund, Vanguard Intermediate Term Corporate Fund and Vanguard Short-Term Corporate Fund and were measured at fair value using quoted market prices. They were classified as Level 1 as they are traded in an active market.

The valuation of cash and money market funds was determined using cost. As a result, they were excluded from the fair value hierarchy level disclosures.

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.

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.

12. 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, 2022 and 2021.

13. 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 \$1,086,886 and \$770,615 at June 30, 2022 and 2021, respectively. The estimated liability is classified as accounts payable and other accrued expenses on the consolidated statements of financial position.

14. Accrued Salaries and Wages

Accrued salaries and wages include accrued vacation pay of \$2,471,897 and \$2,474,279 at June 30, 2022 and 2021, respectively.

15. Accrued Unemployment

The Organization pays for Illinois unemployment compensation on a claims-made basis. At June 30, 2022 and 2021, \$33,736 and \$20,690, 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.

Lutheran Social Services of Illinois and Subsidiary Corporations

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

16. Net Assets

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:

	<u>2022</u>	<u>2021</u>
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	2,512,924	628,873
Leadership and awards	116,090	116,090
Older adults	267,875	267,875
Other programs	5,576	5,576
Services outside metropolitan Chicago	47,361	47,361
	<u>4,795,025</u>	<u>2,910,974</u>
Total net assets with donor restrictions to be held in perpetuity	<u>\$ 4,795,025</u>	<u>\$ 2,910,974</u>

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 or purposes as directed by the donors as of June 30:

	<u>2022</u>	<u>2021</u>
Adoption services	\$ 49,041	\$ 68,660
Administration	306,793	306,793
Behavioral health	462,576	165,701
Child and adolescent	602,837	218,464
Children and disabled individuals	790,249	703,489
Children and older adults	542,644	730,806
Disaster relief	622,387	850,060
Leadership and awards	111,280	134,374
Older adults	161,990	137,453
Other programs	563,925	600,612
	<u>4,213,722</u>	<u>3,916,412</u>
Total net assets with time and/or purpose restrictions	<u>\$ 4,213,722</u>	<u>\$ 3,916,412</u>

The total net assets with donor restrictions was \$9,008,747 and \$6,827,386 at June 30, 2022 and 2021, respectively.

Lutheran Social Services of Illinois and Subsidiary Corporations

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

17. Endowment Funds

The endowment is held at the Foundation. The Foundation 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 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.

The Foundation's endowment consists of 42 individual funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds. Any restricted contributions to be held in perpetuity received from donors are included in the donor-restricted endowment fund. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law. The Foundation 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 Foundation 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 Foundation 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 Foundation, and
7. The investment policies of the Foundation.

Endowment net asset composition consists of the following as of June 30, 2022:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>		<u>Total</u>
		<u>Time or Purpose</u>	<u>Held in Perpetuity</u>	
Donor-restricted endowment funds	\$ -	\$ 1,009,135	\$ 4,795,025	\$ 5,804,160

Endowment net asset composition consists of the following as of June 30, 2021:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>		<u>Total</u>
		<u>Time or Purpose</u>	<u>Held in Perpetuity</u>	
Donor-restricted endowment funds	\$ -	\$ 1,315,241	\$ 2,910,974	\$ 4,226,215

Lutheran Social Services of Illinois and Subsidiary Corporations

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

Changes in endowment net assets for the years ended June 30, 2022 are as follows:

	Without Donor Restrictions	With Donor Restrictions		Total
		Time or Purpose	Held in Perpetuity	
Endowment net assets, June 30, 2020	\$ -	\$ 1,315,241	\$ 2,910,974	\$ 4,226,215
Investment return:				
Investment income, net	-	36,650	-	36,650
Net depreciation realized and unrealized	-	(342,756)	-	(342,756)
Total investment return	-	(306,106)	-	(306,106)
Contributions	-	-	1,565,000	1,565,000
Reclassification of net assets*	-	-	319,051	319,051
Endowment net assets, June 30, 2021	\$ -	\$ 1,009,135	\$ 4,795,025	\$ 5,804,160

Changes in endowment net assets for the year ended June 30, 2021 are as follows:

	Without Donor Restrictions	With Donor Restrictions		Total
		Time or Purpose	Held in Perpetuity	
Endowment net assets, June 30, 2020	\$ -	\$ 1,082,284	\$ 2,829,794	\$ 3,912,078
Investment return:				
Investment income, net	-	25,831	-	25,831
Net appreciation realized and unrealized	-	207,126	-	207,126
Total investment return	-	232,957	-	232,957
Contributions	-	-	81,180	81,180
Endowment net assets, June 30, 2021	\$ -	\$ 1,315,241	\$ 2,910,974	\$ 4,226,215

* During 2022, the Foundation received contributions to the Foundation's endowment fund, including conditions for the Foundation to reclassify a portion of its net assets without donor restrictions. As a result of these conditions, the consolidated financial statements reflect a \$319,051 reclassification of net assets without donor restrictions to net assets with donor restrictions. This activity is shown in net assets released from restrictions on the consolidated statements of activities. There were no reclassifications of net assets during the year ended June 30, 2021.

Lutheran Social Services of Illinois and Subsidiary Corporations

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

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 Foundation to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted, deficiencies of this nature that are reported in net assets with donor restrictions were \$56,764 and \$0 as of June 30, 2022 and 2021, respectively. There were five funds with deficiencies at June 30, 2022 with total gifts to be held in perpetuity of \$1,668,379. These deficiencies resulted from unfavorable market fluctuations that occurred 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 Foundation 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 Foundation 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 Foundation 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 Foundation 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.

Spending Policy and How the Investment Objectives Relate to Spending Policy. The Foundation has a policy of appropriating for distribution each year up to 4-5% of the lower of its endowment fund's average fair value of applicable assets over the prior four or 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is appropriated. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of approximately 3% annually. This is consistent with the Foundation'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.

18. Lease Agreements

The Organization has entered into lease agreements for land and buildings, under which rental expense for 2022 and 2021 was \$1,417,893 and \$1,423,365, respectively.

Minimum future rental commitments for all operating leases in effect as of June 30, 2022 are summarized as follows:

Years ending June 30:	
2023	\$ 1,339,691
2024	869,657
2025	750,920
2026	690,838
2027	619,322
Thereafter	<u>626,245</u>
Total	<u>\$ 4,896,673</u>

Lutheran Social Services of Illinois and Subsidiary Corporations

Notes to Consolidated Financial Statements

June 30, 2022 and 2021

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, 2022, are not reasonably assured of being exercised.

19. 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.

Some 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.

20. Concentrations

Concentrations of Revenue and Support

The Organization receives a significant portion of its revenue and other support from several departments of the State of Illinois and various managed care organizations. If these providers terminated their support of the Organization, the Organization's ability to provide the services described in Note 1 could be significantly reduced.

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. The Organization also maintains cash deposits with Wintrust in a MaxSafe™ account, which disburses funds nightly below the federally insured limit of \$250,000 to each stand alone banking entity within the Wintrust banking system.

21. Subsequent Events

The Organization has evaluated subsequent events through December 7, 2022, 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.

**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

To the Board of Directors of
Lutheran Social Services of Illinois and Subsidiary Corporations

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 and Subsidiary Corporations (the Organization), which comprise the Organization's consolidated statement of financial position as of June 30, 2022, 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 December 7, 2022.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing 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 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 US, LLP

Milwaukee, Wisconsin
December 7, 2022

**Report on Compliance
for Each Major Federal Program and
Report on Internal Control Over Compliance
Required by the Uniform Guidance**

Independent Auditors' Report

To the Board of Directors of
Lutheran Social Services of Illinois

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Lutheran Social Services of Illinois' (LSSI) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of LSSI's major federal programs for the year ended June 30, 2022. LSSI's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, LSSI complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of LSSI and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of LSSI's compliance with the compliance requirements referred to above.

Other Matter – Federal Expenditures Not Included in the Compliance Audit

Lutheran Social Services of Illinois and Subsidiary Corporations' (the Organization) basic consolidated financial statements include the operations of the subsidiaries of the Organization, as identified in the notes to the schedule of expenditures of federal awards, which are not included in LSSI's schedule of expenditures of federal awards for the year ended June 30, 2022. Our compliance audit, described in the Opinion on Each Major Federal Program, does not include the operations of the subsidiaries because they have separate audits under Uniform Guidance or do not require an audit under the Uniform Guidance.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to LSSI's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on LSSI's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about LSSI's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding LSSI's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of LSSI's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 LSSI's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 US, LLP

Milwaukee, Wisconsin
March 31, 2023

Lutheran Social Services of Illinois and Subsidiary Corporations

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2022

Federal Grantor/Pass-Through Grantor/Program Title	Federal Assistance Listing Number	Pass-Through Grantor's Number	Federal Expenditures
U.S. Department of Health and Human Services			
Direct			
COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	93.498	Not applicable	\$ 927,599
Passed through the Illinois Department of Children and Family Services			
Promoting Safe & Stable Families	93.556	013005-905-2	285,781
Promoting Safe & Stable Families	93.556	013005-907-2	30,153
Promoting Safe & Stable Families	93.556	013005-909-2	45,527
Total ALN 93.556			361,461
Passed through the Illinois Department of Human Services			
Social Services Block Grant	93.667	FCSAR01028	248,061
Passed through the Illinois Department of Human Services			
Block Grants for Community Mental Health Services	93.958	45CAB00425	74,846
Block Grants for Community Mental Health Services	93.958	45CAB00426	156,369
Block Grants for Community Mental Health Services	93.958	45CAB04253	325,816
Total ALN 93.958			557,031
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	43CAZ03220	447,562
Block Grants for Prevention and Treatment of Substance Abuse	93.959	43CAC00181	788,751
Total ALN 93.959			1,236,313
Passed through the Illinois Department of Human Services - Office of Alcoholism and Substance Abuse			
Opioid STR	93.788	43CAC03592	590,411
Passed through Ann & Robert H. Lurie Children's Hospital of Chicago			
Integrated Care for Kids Model	93.378	2B2CMS331762-03	141,545
Total U.S. Department of Health and Human Services			4,062,421
U.S. Department of the Treasury			
Passed through the Illinois Department of Human Services			
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	45CAB04253	118,438
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	45CAB04479	302,256
Total U.S. Department of the Treasury			420,694
Total expenditures of federal awards			\$ 4,483,115

See accompanying notes to the schedule of expenditures of federal awards

Lutheran Social Services of Illinois and Subsidiary Corporations

Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2022

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Lutheran Social Services of Illinois (LSSI), under programs of the federal government for the year ended June 30, 2022. 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 LSSI, it is not intended to and does not present the financial position, changes in net assets or cash flows of LSSI.

Expenditures for the following consolidated subsidiaries of LSSI are not included to meet the requirements 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.	Luther Center, Inc.
Aurora Senior Housing, Inc.	Matins, Inc.
Batavia Council on Aging, Inc.	Northwest Chicago Group Homes, Inc.
The Cornerstone Foundation, Inc.	Our Savior's Senior Housing
Deer Creek Manor, Inc.	Rochelle Senior Housing, Inc.
Dekalb Housing for the Handicapped, Inc.	Rolling Meadows Senior Living, Inc.
Forsberg Christian Retirement Center, Inc.	Salem Village III, Inc.
Freeport Senior Housing, Inc.	Spring Ridge Housing for Seniors, Inc.
Freeport Senior Housing II, Inc.	Tabor Lutheran Senior Housing, Inc.
Fox Hill Senior Housing, Inc.	Vesper Management Corporation
LSSI Rockford Property, Inc.	Victorian Woods Senior Living

2. Summary of Significant Accounting Policies

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

3. Indirect Cost Rate

LSSI has elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

4. Federal Loan Programs

The awards presented in the Schedule do not include any federal loans administered by LSSI.

5. Noncash Assistance

LSSI did not receive any noncash federal awards.

6. Federal Insurance

The awards presented in the Schedule do not include any federal insurance for LSSI in effect during fiscal year 2022.

Lutheran Social Services of Illinois and Subsidiary Corporations

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2022

7. Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution

Provider Relief Funds of \$927,599 are included in fees and grants from government agencies on the consolidated statement of activities for the year ending June 30, 2021. Based on guidance from the U.S. Department of Health and Human Services, these funds are required to be included in the schedule of expenditures of federal awards for the year ending June 30, 2022.

Provider Relief Funds of \$220,951 are included in fees and grants from government agencies on the consolidated statement of activities for the year ending June 30, 2022. Based on guidance from the U.S. Department of Health and Human Services, these funds will be required to be included in the schedule of expenditures of federal awards for the year ending June 30, 2023.

Lutheran Social Services of Illinois and Subsidiary Corporations

Schedule of Findings and Questioned Costs
Year Ended June 30, 2022

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?	<u> </u> yes	<u> X </u> no
Significant deficiency(ies) identified?	<u> </u> yes	<u> X </u> none reported

Noncompliance material to financial statements noted?

	<u> </u> yes	<u> X </u> no
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Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?	<u> </u> yes	<u> X </u> no
Significant deficiency(ies) identified?	<u> </u> yes	<u> X </u> 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)?

	<u> </u> yes	<u> X </u> no
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Identification of major federal programs:

Assistance Listing Number

Name of Federal Program or Cluster

21.027

COVID-19 Coronavirus State and Local Fiscal Recovery Funds

93.498

COVID-19 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution

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

There were no findings or questioned costs.

Lutheran Social Services of Illinois and Subsidiary Corporations

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2022

The prior year single audit disclosed no findings, and therefore, no uncorrected or unresolved findings exist from prior single audits.