

**LUTHERAN SOCIAL SERVICES OF  
THE SOUTHWEST**

**YEARS ENDED JUNE 30, 2017 AND 2016**

**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST**

**YEARS ENDED JUNE 30, 2017 AND 2016**

**CONTENTS**

	Page
Independent auditors' report	1 - 2
Financial statements:	
Statements of financial position	3
Statement of activities - 2017	4
Statement of activities - 2016	5
Statement of functional expenses - 2017	6
Statement of functional expenses - 2016	7
Statements of cash flows	8
Notes to financial statements	9 - 17

Independent Auditors' Report

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

We have audited the accompanying financial statements of Lutheran Social Services of the Southwest (the Organization), which comprise the statement of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses and cash flows for the years then ended and the related notes to the financial statements.

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

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

**Auditors' Responsibility**

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

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

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

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lutheran Social Services of the Southwest as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated January 17, 2018, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

*Beach Fleishman PC*

Phoenix, Arizona  
January 17, 2018



**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST**

**STATEMENTS OF FINANCIAL POSITION**

**JUNE 30, 2017 AND 2016**

<b>ASSETS</b>		<u>2017</u>	<u>2016</u>
Current assets:			
Cash and cash equivalents	\$	716,758	\$ 224,587
Accounts receivable, net of \$58,412 allowance for doubtful accounts		1,379,806	1,743,481
Pledges receivable, current portion		26,367	57,118
Other receivables		47,122	29,885
Prepaid expenses and deposits		<u>137,684</u>	<u>105,262</u>
Total current assets		2,307,737	2,160,333
Property and equipment, net		326,744	408,413
Pledges receivable, net of current portion		301,784	109,143
Other assets		<u>57,796</u>	<u>67,224</u>
	\$	<u><u>2,994,061</u></u>	<u><u>\$ 2,745,113</u></u>
<b>LIABILITIES AND NET ASSETS</b>			
Current liabilities:			
Current portion of long-term debt	\$	45,847	\$ 58,671
Current portion of capital lease obligations		3,559	4,320
Accounts payable		408,577	453,186
Accrued expenses		564,252	514,733
Deferred revenue		<u>166,563</u>	<u>43,575</u>
Total current liabilities		1,188,798	1,074,485
Long-term debt, net of current portion		161,804	207,628
Capital lease obligations, net of current portion		<u>1,564</u>	<u>5,163</u>
		<u><u>1,352,166</u></u>	<u><u>1,287,276</u></u>
Commitments and contingencies			
Net assets:			
Unrestricted:			
Undesignated		1,313,253	1,057,883
Net invested in property and equipment		<u>113,970</u>	<u>132,631</u>
		1,427,223	1,190,514
Temporarily restricted		207,578	260,229
Permanently restricted		<u>7,094</u>	<u>7,094</u>
		<u><u>1,641,895</u></u>	<u><u>1,457,837</u></u>
	\$	<u><u>2,994,061</u></u>	<u><u>\$ 2,745,113</u></u>

See notes to financial statements.

**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST**

**STATEMENT OF ACTIVITIES**

**YEAR ENDED JUNE 30, 2017**

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues and support:				
Contracts with governmental and other agencies	\$ 15,368,992	\$ -	\$ -	\$ 15,368,992
Program fees	209,224	-	-	209,224
Churches	236,954	-	-	236,954
Corporate	53,708	527	-	54,235
Individuals	681,774	139,110	-	820,884
United Way	44,108	-	-	44,108
Donated goods and services	62,215	-	-	62,215
Other revenue	70,452	-	-	70,452
Net assets released from restrictions	<u>192,288</u>	<u>(192,288)</u>	<u>-</u>	<u>-</u>
	<u>16,919,715</u>	<u>(52,651)</u>	<u>-</u>	<u>16,867,064</u>
Expenses:				
Program services	14,716,443	-	-	14,716,443
Supporting services	<u>1,971,248</u>	<u>-</u>	<u>-</u>	<u>1,971,248</u>
	<u>16,687,691</u>	<u>-</u>	<u>-</u>	<u>16,687,691</u>
Changes in net assets before nonoperating activities	<u>232,024</u>	<u>(52,651)</u>	<u>-</u>	<u>179,373</u>
Nonoperating revenue:				
Interest income	82	-	-	82
Gain on disposal of assets	<u>4,603</u>	<u>-</u>	<u>-</u>	<u>4,603</u>
	<u>4,685</u>	<u>-</u>	<u>-</u>	<u>4,685</u>
Increase (decrease) in net assets	236,709	(52,651)	-	184,058
Net assets, beginning	<u>1,190,514</u>	<u>260,229</u>	<u>7,094</u>	<u>1,457,837</u>
Net assets, ending	<u><u>\$ 1,427,223</u></u>	<u><u>\$ 207,578</u></u>	<u><u>\$ 7,094</u></u>	<u><u>\$ 1,641,895</u></u>

See notes to financial statements.

**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST**

**STATEMENT OF ACTIVITIES**

**YEAR ENDED JUNE 30, 2016**

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Revenues and support:				
Contracts with governmental and other agencies	\$ 14,206,887	\$ -	\$ -	\$ 14,206,887
Program fees	266,479	-	-	266,479
Churches	233,922	-	-	233,922
Corporate	17,680	6,000	-	23,680
Individuals	257,118	103,566	-	360,684
United Way	34,270	-	-	34,270
Donated goods and services	31,378	-	-	31,378
Other revenue	22,599	-	-	22,599
Net assets released from restrictions	<u>77,551</u>	<u>(77,551)</u>	-	-
	<u>15,147,884</u>	<u>32,015</u>	-	<u>15,179,899</u>
Expenses:				
Program services	13,620,718	-	-	13,620,718
Supporting services	<u>1,706,806</u>	-	-	<u>1,706,806</u>
	-	-	-	-
	<u>15,327,524</u>	-	-	<u>15,327,524</u>
Changes in net assets before nonoperating activities	<u>(179,640)</u>	<u>32,015</u>	-	<u>(147,625)</u>
Nonoperating revenue:				
Interest income	106	-	-	106
Gain on disposal of assets	<u>2,062</u>	-	-	<u>2,062</u>
	<u>2,168</u>	-	-	<u>2,168</u>
Increase (decrease) in net assets	(177,472)	32,015	-	(145,457)
Net assets, beginning	<u>1,367,986</u>	<u>228,214</u>	<u>7,094</u>	<u>1,603,294</u>
Net assets, ending	<u><u>\$ 1,190,514</u></u>	<u><u>\$ 260,229</u></u>	<u><u>\$ 7,094</u></u>	<u><u>\$ 1,457,837</u></u>

See notes to financial statements.

**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST**

**STATEMENT OF FUNCTIONAL EXPENSES**

**YEAR ENDED JUNE 30, 2017**

	Program services					Supporting services			
	Aging and disability services	Partners in caring	Children and family services	Refugee focus	Total program services	Management and general	Fundraising/marketing	Total supporting services	Total expenses
Salaries	\$ 4,722,794	\$ 107,276	\$ 807,505	\$ 1,950,289	\$ 7,587,864	\$ 841,864	\$ 258,712	\$ 1,100,576	\$ 8,688,440
Employee benefits	694,084	12,736	133,119	308,213	1,148,152	140,390	48,013	188,403	1,336,555
	5,416,878	120,012	940,624	2,258,502	8,736,016	982,254	306,725	1,288,979	10,024,995
Occupancy	96,272	15,510	48,281	340,965	501,028	113,943	13,907	127,850	628,878
Telephone	35,806	6,182	22,341	19,279	83,608	23,455	2,771	26,226	109,834
Travel	22,813	1,716	51,692	13,814	90,035	20,170	31,013	51,183	141,218
Transportation	43,802	11,721	12,990	108,834	177,347	6,868	4,393	11,261	188,608
Supplies (including in-kind \$62,215)	39,579	3,862	55,153	70,789	169,383	61,125	11,057	72,182	241,565
Contractual	134,487	26,888	976,900	209,825	1,348,100	241,183	102,416	343,599	1,691,699
Training	12,344	20	766	9,383	22,513	1,773	1,149	2,922	25,435
Supportive services	266,671	113,009	627,982	2,338,901	3,346,563	-	-	-	3,346,563
Interest	715	-	1,048	118	1,881	15,967	38	16,005	17,886
Depreciation and amortization	26,776	3,956	17,331	46,958	95,021	26,332	4,709	31,041	126,062
Bad debts	102,558	-	40,302	2,088	144,948	-	-	-	144,948
	<u>\$ 6,198,701</u>	<u>\$ 302,876</u>	<u>\$ 2,795,410</u>	<u>\$ 5,419,456</u>	<u>\$ 14,716,443</u>	<u>\$ 1,493,070</u>	<u>\$ 478,178</u>	<u>\$ 1,971,248</u>	<u>\$ 16,687,691</u>

See notes to financial statements.

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2016

	Program services					Supporting services			
	Aging and disability services	Partners in caring	Children and family services	Refugee focus	Total program services	Management and general	Fundraising/marketing	Total supporting services	Total expenses
Salaries	\$ 4,631,205	\$ 87,001	\$ 734,235	\$ 1,818,669	\$ 7,271,110	\$ 714,114	\$ 217,435	\$ 931,549	\$ 8,202,659
Employee benefits	679,192	9,611	106,576	298,873	1,094,252	100,668	41,321	141,989	1,236,241
	5,310,397	96,612	840,811	2,117,542	8,365,362	814,782	258,756	1,073,538	9,438,900
Occupancy	82,938	12,476	50,308	313,268	458,990	109,727	13,191	122,918	581,908
Telephone	35,665	6,585	26,661	33,909	102,820	24,206	3,920	28,126	130,946
Travel	29,319	4,700	48,370	23,160	105,549	25,643	11,279	36,922	142,471
Transportation	44,433	11,478	13,488	104,315	173,714	4,072	3,967	8,039	181,753
Supplies (including in-kind \$31,378)	77,745	5,423	72,273	151,542	306,983	62,394	9,095	71,489	378,472
Contractual	120,796	18,673	781,032	104,737	1,025,238	294,741	32,465	327,206	1,352,444
Training	4,143	-	1,480	7,740	13,363	220	1,163	1,383	14,746
Supportive Services	289,508	31,982	576,910	1,835,756	2,734,156	142	-	142	2,734,298
Interest	1,006	108	844	213	2,171	9,056	126	9,182	11,353
Depreciation and amortization	26,875	4,551	13,705	53,953	99,084	23,271	4,590	27,861	126,945
Bad debts	231,913	-	-	1,375	233,288	-	-	-	233,288
	<u>\$ 6,254,738</u>	<u>\$ 192,588</u>	<u>\$ 2,425,882</u>	<u>\$ 4,747,510</u>	<u>\$ 13,620,718</u>	<u>\$ 1,368,254</u>	<u>\$ 338,552</u>	<u>\$ 1,706,806</u>	<u>\$ 15,327,524</u>

See notes to financial statements.

**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST**

**STATEMENTS OF CASH FLOWS**

**YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 184,058	\$ (145,457)
Adjustments to reconcile Increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	126,062	126,945
Bad debts	144,947	233,288
Gain on disposal of assets	(4,603)	(2,062)
Changes in operating assets and liabilities:		
Accounts receivable	218,728	(292,002)
Pledges receivable	(161,890)	(18,718)
Other receivables	(17,237)	5,914
Prepaid expenses and deposits	(32,422)	(4,224)
Other assets	1,916	(85)
Accounts payable	(44,609)	148,206
Accrued expenses	49,519	15,293
Deferred revenue	122,988	(218)
Net adjustments	<u>403,399</u>	<u>212,337</u>
Net cash provided by operating activities	<u>587,457</u>	<u>66,880</u>
Cash flows from investing activities:		
Purchases of property and equipment	(36,881)	(118,452)
Proceeds from disposal of assets	<u>4,603</u>	<u>3,000</u>
Net cash used in investing activities	<u>(32,278)</u>	<u>(115,452)</u>
Cash flows from financing activities:		
Principal payments on long-term debt	(58,648)	(53,642)
Proceeds from long-term debt	-	150,000
Principal payments on capital lease obligations	(4,360)	(16,195)
Borrowings on note payable, bank	400,000	125,000
Repayments on note payable, bank	<u>(400,000)</u>	<u>(300,000)</u>
Net cash used in financing activities	<u>(63,008)</u>	<u>(94,837)</u>
Net increase (decrease) in cash and cash equivalents	492,171	(143,409)
Cash and cash equivalents, beginning	<u>224,587</u>	<u>367,996</u>
Cash and cash equivalents, ending	<u>\$ 716,758</u>	<u>\$ 224,587</u>

See notes to financial statements.

# LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST

## NOTES TO FINANCIAL STATEMENTS

### YEARS ENDED JUNE 30, 2017 AND 2016

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

Organization:

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

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

Estimates:

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

Financial statement presentation:

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. Resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets that have similar characteristics are combined into similar categories as follows:

- Unrestricted - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.
- Temporarily restricted - Net assets whose use by the Organization is subject to donor-imposed stipulations that are fulfilled by actions of the Organization pursuant to those stipulations or that expire through the passage of time.
- Permanently restricted - Net assets that are subject to donor-imposed stipulations that assets be maintained permanently by the Organization. The donors of these assets permit the Organization to use all or part of the investment return of these assets on continuing operations which may be subject to certain restrictions. These have been classified and reported based on the existence or absence of donor-imposed restrictions.

**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED JUNE 30, 2017 AND 2016**

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

Revenues and support:

Revenues from governmental and other pass-through agency contracts are reported as exchange transactions based on the contract provisions. Revenues derived from contracts that are based on units of service and fee-for-service are recorded in the period in which the service is provided to eligible recipients. Revenues resulting from cost reimbursement contracts are recorded in the period in which allowable costs are incurred.

Program service revenue is recognized when services are provided.

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Endowment contributions are reported as additions to permanently restricted net assets.

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

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

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

Cash and cash equivalents:

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

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

Accounts receivable:

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



**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED JUNE 30, 2017 AND 2016**

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

Accounts receivable (continued):

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

Pledges receivable:

Unconditional pledges receivable are recognized as revenues at their estimated net realizable value in the period received. Pledges receivable that are collectible over future periods are discounted to their net present value. The provision for uncollectible pledges is based on management's estimate of the collectibility of specific accounts. Pledges are periodically reviewed for collectibility and written off to the provision at the time of such determination. At June 30, 2017 and 2016, pledges receivable are considered fully collectible, therefore, no allowance for uncollectible pledges has been provided.

Property, equipment, depreciation and amortization:

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

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

Deferred revenue:

Deferred revenue represents funding received primarily from the Organization's refugee programs. Revenues are recognized in the period when the related expenses are incurred.

Program expense allocations:

Expenses that can be identified with a specific program are charged directly to the program according to their natural expense classification. Costs incurred that share a common purpose are allocated to programs based on their most current negotiated indirect cost rate.

**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED JUNE 30, 2017 AND 2016**

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

Tax exempt status:

The Organization is exempt from income taxes under both federal (Internal Revenue Code Section 501(c)(3)) and Arizona income tax laws, and is classified as other than private foundation. Accordingly, no provision for federal and state income taxes is made. Income from certain activities not directly related to the Organization's tax-exempt purpose, however, may be subject to taxation as unrelated business taxable income (UBTI).

GAAP requires management to perform an evaluation of all tax positions taken or expected to be taken in the course of preparing the Organization's tax returns to determine whether the tax positions meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorities. This evaluation is required to be performed for all open tax years, as defined by the various statutes of limitations, for federal and state purposes.

The Organization is only subject to income taxes on UBTI. As a result, the Organization is required to file informational returns for federal and state purposes and, if it has UBTI, federal and state income tax returns. Management has performed its evaluation of tax positions taken on all open tax returns and has determined that there were no positions taken that do not meet the "more likely than not" standard.

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

Subsequent events:

The Organization's management has evaluated the events that have occurred subsequent to June 30, 2017 through January 17, 2018, the date that the financial statements were available to be issued. Management has no responsibility to update these financial statements for events and circumstances occurring after this date.

2. Pledges receivable:

Pledges receivable consist of pledges from corporations and individual donors. Long-term pledges are discounted to their present value using a rate of 4.38% at June 30, 2017 and 2016. At June 30, 2017 and 2016, pledges receivable are as follows:

	<u>2017</u>	<u>2016</u>
Pledges receivable in less than one year	\$ 26,367	\$ 57,118
Pledges receivable in one to five years	353,491	137,848
Less unamortized discount to present value	<u>(51,707)</u>	<u>(28,705)</u>
	328,151	166,261
Less current portion	<u>26,367</u>	<u>57,118</u>
Noncurrent portion	<u><u>\$ 301,784</u></u>	<u><u>\$ 109,143</u></u>

LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2017 AND 2016

3. Property and equipment:

	<u>2017</u>	<u>2016</u>
Artwork	\$ 15,000	\$ 15,000
Equipment	98,736	98,736
Leasehold improvements	19,298	19,298
Software	120,900	120,900
Vehicles	<u>827,134</u>	<u>831,631</u>
	1,081,068	1,085,565
Less accumulated depreciation and amortization	<u>754,324</u>	<u>677,152</u>
	<u>\$ 326,744</u>	<u>\$ 408,413</u>

4. Note payable, bank:

LSS-SW has a \$500,000 revolving line of credit with Lutheran Church Extension Fund - Missouri Synod, which matures in February 2018. Interest is payable monthly at 4.38% at June 30, 2017 and 2016. The line is collateralized by substantially all assets of the Organization. At June 30, 2017 and 2016, there was no outstanding balance on the line of credit.

5. Accrued expenses:

	<u>2017</u>	<u>2016</u>
Payroll and payroll taxes	\$ 423,407	\$ 364,548
Paid time off	117,211	93,869
Retirement	21,834	21,453
Workers compensation	-	33,063
Other	<u>1,800</u>	<u>1,800</u>
	<u>\$ 564,252</u>	<u>\$ 514,733</u>

**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED JUNE 30, 2017 AND 2016**

6. Long-term debt:

	<u>2017</u>	<u>2016</u>
Note payable, Central Arizona Special Services, Inc., payable in monthly installments of \$1,148, without interest, through October 2017, unsecured.	\$ 3,446	\$ 17,226
Notes payable, Nissan Motor Acceptance Corporation, payable in aggregate monthly installments totaling \$3,263, including interest ranging from 0% to 3.99%, expiring at various dates through May 2021, collateralized by vehicles.	73,815	106,141
Note payable, Lutheran Church Extension Fund - Missouri Synod, payable in monthly installments of \$1,545, including interest at 4.375%, through November 2025, collateralized by substantially all assets of the Organization.	<u>130,390</u>	<u>142,932</u>
	207,651	266,299
Less current portion	<u>45,847</u>	<u>58,671</u>
	<u>\$ 161,804</u>	<u>\$ 207,628</u>

Future maturities of long-term debt are as follows:

Year ending <u>June 30,</u>	
2018	\$ 45,847
2019	42,538
2020	26,648
2021	18,489
2022	15,604
Thereafter	<u>58,525</u>
	<u>\$ 207,651</u>

7. Capital lease obligations:

The Organization leases vehicles and office equipment under various capital lease agreements payable in monthly installments through April 2019. The Organization has recorded asset costs of \$46,087 and accumulated amortization of \$37,720 and \$29,977 at June 30, 2017 and 2016 related to these obligations.

**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED JUNE 30, 2017 AND 2016**

7. Capital lease obligations (continued):

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

Year ending		
<u>June 30,</u>		
2018	\$	3,914
2019		<u>2,032</u>
		5,946
Less amounts representing interest		<u>823</u>
Present value of net minimum payments under capital leases		5,123
Less current portion		<u>3,559</u>
	\$	<u><u>1,564</u></u>

8. Temporarily restricted net assets:

	2017			
	Beginning balance	Contributions/ increases	Releases	Ending balance
Fund development	\$ 8,625	\$ -	\$ -	\$ 8,625
Refugee and immigration services	180,677	139,110	(182,688)	137,099
Partners in caring	<u>70,927</u>	<u>527</u>	<u>(9,600)</u>	<u>61,854</u>
	<u>\$ 260,229</u>	<u>\$ 139,637</u>	<u>\$ (192,288)</u>	<u>\$ 207,578</u>

  

	2016			
	Beginning balance	Contributions/ increases	Releases	Ending balance
Fund development	\$ 8,625	\$ -	\$ -	\$ 8,625
Refugee and immigration services	143,880	103,066	(66,269)	180,677
Partners in caring	<u>75,709</u>	<u>6,500</u>	<u>(11,282)</u>	<u>70,927</u>
	<u>\$ 228,214</u>	<u>\$ 109,566</u>	<u>\$ (77,551)</u>	<u>\$ 260,229</u>

**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED JUNE 30, 2017 AND 2016**

9. Commitments:

Operating leases:

The Organization leases offices and equipment under noncancelable operating leases expiring at various dates through July 2021. Rent expense for 2017 and 2016 was \$569,060 and \$523,630.

Future minimum lease payments under operating leases are as follows:

Year ending <u>June 30,</u>	
2018	\$ 434,629
2019	307,849
2020	119,478
2021	<u>11,861</u>
	<u>\$ 873,817</u>

10. Contingencies:

Funding:

The Organization receives a substantial amount (91% and 94% in 2017 and 2016) of its support from governmental and other pass-through agencies. A significant reduction in the level of this support, if it were to occur, would have a material effect on the programs and activities of the Organization. The governmental funding is subject to compliance audits by the respective governmental agencies. Assessments from such audits, if any, are recorded when the amounts of such assessments are reasonably determinable. Additionally, the Organization contracts with various agencies that require compliance of the service contract terms. Management believes that they have recorded all contract liabilities at June 30, 2017 and 2016.

11. Concentrations:

For 2017 and 2016, three agencies comprised 37% and two agencies comprised 27% of total revenue. At June 30, 2017, five agencies accounted for 70% of accounts receivable.

**LUTHERAN SOCIAL SERVICES OF THE SOUTHWEST**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED JUNE 30, 2017 AND 2016**

12. Program matching revenues:

As part of its grant obligations to Lutheran Immigration and Refugee Services, Church World Services and Episcopal Migration Ministries, and the U.S. Department of Health and Human Services, the Organization is required to obtain in-kind and cash matching dollars. The in-kind contributions do not meet the GAAP reporting requirements and, therefore, are not included in the statement of activities. For 2017 and 2016, the Organization's program participants received \$847,889 and \$734,035 in total matching contributions.

13. Related party transactions:

The Organization receives contributions from various related party organizations. During the years ended June 30, 2017 and 2016, the Organization received \$15,540 and \$10,925 from the English District and Pacific Southwest District of the Lutheran Church Missouri Synod (LCMS) and \$80,210 and \$81,793 from the Grand Canyon Synod of the Evangelical Lutheran Church of America (ELCA). The Bishop of the ELCA Synods and the President of the LCMS Synods appoint or recommend some of the Organization's Board of Directors. During 2017 and 2016, the Organization also received contributions from Lutheran congregations in the amount of \$85,555 and \$92,705 from the ELCA congregations and \$300 and \$8,755 from the LCMS congregations.

14. Retirement plan:

LSS-SW has a 401(k) retirement plan for its eligible employees. Eligible employees may make contributions to the 401(k) plan not to exceed specified annual ceiling amounts. The Plan can make discretionary matching contributions approved each year by the Board of Directors. The Organization's matching contribution expense was \$17,140 and \$12,753 for 2017 and 2016.

15. Statement of cash flows:

Supplemental disclosure of cash flow information:

Cash paid for interest was \$17,888 and \$11,354 for 2017 and 2016.

Noncash investing and financing information:

During 2016, the Organization acquired vehicles with debt totaling \$18,036.

16. Reclassifications:

The 2016 financial statements have been reclassified in order to conform to the 2017 financial statement presentation. The reclassifications had no effect on net assets at June 30, 2016 or on changes in net assets for the year then ended.