LUTHERAN SOCIAL SERVICES OF NEW YORK, INC.
AND RELATED ENTITIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

LUTHERAN SOCIAL SERVICES OF NEW YORK, INC.
AND RELATED ENTITIES

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MARCUM
ACCOUNTANTS ▲ ADVISORS

INDEPENDENT AUDITORS' REPORT

To The Board of Directors
Lutheran Social Services of New York, Inc. and Related Entities

Report on the Consolidated Financial Statements

We have audited the accompanying financial statements of Lutheran Social Services of New York, Inc. and Related Entities (the Consolidated Group), which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities and changes in net deficit, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Marcum LLP ▪ CityPlace I ▪ 185 Asylum Street ▪ 25th Floor ▪ Hartford, CT 06103 ▪ Phone 860.760.0600 ▪ Fax 860.760.0601 ▪ www.marcumllp.com

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lutheran Social Services of New York, Inc. and Related Entities at June 30, 2020 and 2019 and the consolidated changes in its net deficit and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Marcum LLP

Hartford, CT
March 25, 2021

LUTHERAN SOCIAL SERVICES OF NEW YORK, INC.
AND RELATED ENTITIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2020 AND 2019

	2020	2019
Assets		
Current Assets		
Cash	$ 3,277,728	$ 1,464,811
Restricted cash-tenant security deposits	80,282	84,729
Accounts receivable, net	10,585,037	6,173,325
Prepaid expenses and other current assets	498,148	461,432
Due from affiliates	252,779	322,206
Total Current Assets	14,693,974	8,506,503
Cash surrender value of annuity contract	1,141,877	1,116,729
Restricted funds-operating reserve	632,858	625,326
Restricted funds-replacement reserve	284,003	280,584
Property and equipment, net	27,434,894	28,308,286
Total Assets	$ 44,187,606	$ 38,837,428

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

LUTHERAN SOCIAL SERVICES OF NEW YORK, INC.
AND RELATED ENTITIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

JUNE 30, 2020 AND 2019

	2020	2019
Liabilities and Net Deficit		
Current Liabilities		
Accounts payable and accrued expenses	$ 3,305,757	$ 1,969,046
Accrued compensation	3,077,419	2,032,367
Advances from government agencies	934,830	361,250
Tenant security deposits	80,282	84,729
Deferred revenue	115,727	6,812
Payroll Protection Program loan payable, current maturities	344,794	--
Loans and notes payable, current maturities	427,628	403,748
Due to government agencies, current portion	4,819,995	2,103,784
Total Current Liabilities	13,106,432	6,961,736
Noncurrent Liabilities		
Accrued interest payable	863,719	868,949
Payroll Protection Program loan payable, net of current maturities	551,806	--
Loans and notes payable, net of current maturities	32,119,452	32,875,591
Due to government agencies, net of current portion	2,598,458	2,892,864
Total Noncurrent Liabilities	36,133,435	36,637,404
Total Liabilities	49,239,867	43,599,140
Net Assets (Deficit)		
Without donor restrictions	(5,090,761)	(4,825,212)
With donor restrictions	38,500	63,500
Total Net Deficit	(5,052,261)	(4,761,712)
Total Liabilities and Net Deficit	$ 44,187,606	$ 38,837,428

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

LUTHERAN SOCIAL SERVICES OF NEW YORK, INC.
AND RELATED ENTITIES

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET DEFICIT

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Activities Without Donor Restrictions:						
Operating Activities						
Support and revenue						
Government grants and contracts	$ 37,844,075	$ --	$ 37,844,075	$ 38,098,919	$ --	$ 38,098,919
Medical assurance and life care clinic fees	1,340,515	--	1,340,515	1,384,115	--	1,384,115
Tuition fees	6,523,980	--	6,523,980	7,145,534	--	7,145,534
Management fees	53,661	--	53,661	34,477	--	34,477
Parent fees	667,239	--	667,239	1,009,203	--	1,009,203
Contributions	344,264	--	344,264	256,167	--	256,167
Rental income	2,511,258	--	2,511,258	2,952,946	--	2,952,946
Other income	1,314,085	--	1,314,085	2,092,212	--	2,092,212
Net assets released from restrictions	50,000	--	50,000	--	--	--
Total Support and Revenue	50,649,077	--	50,649,077	52,973,573	--	52,973,573
Expenses						
Program services						
Early childhood services	17,163,503	--	17,163,503	21,873,110	--	21,873,110
Foster care and children's services	5,483,242	--	5,483,242	5,673,243	--	5,673,243
Clinical services	1,277,846	--	1,277,846	1,474,347	--	1,474,347
Residential services	8,587,126	--	8,587,126	7,328,878	--	7,328,878
Educational services	5,803,755	--	5,803,755	7,319,604	--	7,319,604
Community services and other programs	7,654,782	--	7,654,782	5,504,878	--	5,504,878
Total Program Services	45,970,254	--	45,970,254	49,174,060	--	49,174,060
Management and general	5,455,819	--	5,455,819	4,810,037	--	4,810,037
Total Expenses	51,426,073	--	51,426,073	53,984,097	--	53,984,097
Change in Net Deficit From Operations	(776,996)	--	(776,996)	(1,010,524)	--	(1,010,524)

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

LUTHERAN SOCIAL SERVICES OF NEW YORK, INC.
AND RELATED ENTITIES

CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET DEFICIT (CONTINUED)

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Nonoperating Activities						
Unrealized gain on investments and cash surrender value of annuity contract	$ 25,148	$ --	$ 25,148	$ 25,223	$ --	$ 25,223
Forgiveness of debt	486,299	--	486,299	486,299	--	486,299
Total Nonoperating Activities	511,447	--	511,447	511,522	--	511,522
Change in Net Deficit Without Donor Restrictions	(265,549)	--	(265,549)	(499,002)	--	(499,002)
Activities With Donor Restrictions:						
Restricted grants	--	25,000	25,000	--	25,000	25,000
Assets released from restriction	--	(50,000)	(50,000)	--	--	--
Change in Net (Deficit) Assets With Donor Restrictions	--	(25,000)	(25,000)	--	25,000	25,000
Change in Net (Deficit) Assets	(265,549)	(25,000)	(290,549)	(499,002)	25,000	(474,002)
Net (Deficit) Assets - Beginning	(4,825,212)	63,500	(4,761,712)	(4,326,210)	38,500	(4,287,710)
Net (Deficit) Assets - Ending	$ (5,090,761)	$ 38,500	$ (5,052,261)	$ (4,825,212)	$ 63,500	$ (4,761,712)

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

LUTHERAN SOCIAL SERVICES OF NEW YORK, INC.
AND RELATED ENTITIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2020

	Early Childhood Services	Foster Care and Children's Services	Clinical Services	Residential Services	Community Services and Other	Education Services	Total Program Services	Management and General	Total
Salaries and wages	$ 7,961,668	$ 2,131,312	$ 523,907	$ 4,112,404	$ 4,773,867	$ 3,830,746	$ 23,333,904	$ 2,357,645	$ 25,691,549
Fringe benefits and payroll taxes	1,830,490	496,719	118,549	944,314	1,058,152	1,011,820	5,460,044	443,373	5,903,417
Consultants and contractual services	466,295	210,821	381,250	768,737	10,527	302,110	2,139,740	358,887	2,498,627
Professional fees	--	58,819	--	27,931	--	--	86,750	216,642	303,392
Consumable supplies	275,611	70,763	2,512	277,195	100,701	53,399	780,181	5,895	786,076
Occupancy costs	416,122	628,967	161,744	500,949	529,411	94,192	2,331,385	229,485	2,560,870
Insurance	145,659	39,048	7,091	291,255	64,711	77,321	625,085	30,220	655,305
Equipment, leases and rental	150,703	96,158	5,607	293,579	316,584	162,274	1,024,905	60,277	1,085,182
Repairs and maintenance	98,638	30,794	--	267,111	49,294	54,316	500,153	17,571	517,724
Telephone	100,612	84,307	10,561	82,543	72,434	49,643	400,100	52,902	453,002
Travel, conferences and meetings	36,756	621	2,423	11,592	51,973	11,369	114,734	18,859	133,593
Interest and bank charges	--	--	--	102,982	--	--	102,982	745,687	848,669
Client expenses	5,504,093	1,580,234	22,572	354,342	591,692	71,013	8,123,946	34,847	8,158,793
Bad debt expense	--	--	--	7,815	--	20,403	28,218	--	28,218
Depreciation and amortization	--	--	--	468,967	--	6,372	475,339	502,006	977,345
Other expenses	176,856	54,679	41,630	75,410	35,436	58,777	442,788	381,523	824,311
	$ 17,163,503	$ 5,483,242	$ 1,277,846	$ 8,587,126	$ 7,654,782	$ 5,803,755	$ 45,970,254	$ 5,455,819	$ 51,426,073

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

LUTHERAN SOCIAL SERVICES OF NEW YORK, INC.
AND RELATED ENTITIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2019

	Early Childhood Services	Foster Care and Children's Services	Clinical Services	Residential Services	Community Services and Other	Education Services	Total Program Services	Management and General	Total
Salaries and wages	$ 10,351,744	$ 2,285,320	$ 628,715	$ 3,509,872	$ 3,285,058	$ 4,375,354	$ 24,436,063	$ 1,656,915	$ 26,092,978
Fringe benefits and payroll taxes	2,311,440	550,408	129,870	787,715	683,025	953,173	5,415,631	335,097	5,750,728
Consultants and contractual services	660,748	176,233	535,576	716,634	16,923	523,487	2,629,601	143,906	2,773,507
Professional fees	79,373	62,611	--	36,657	6,646	--	185,287	363,906	549,193
Consumable supplies	442,619	36,382	5,416	209,210	52,488	44,486	790,601	13,195	803,796
Occupancy costs	488,960	402,806	76,236	496,764	323,846	611,400	2,400,012	168,462	2,568,474
Insurance	177,472	32,714	5,512	125,493	41,744	67,392	450,327	17,104	467,431
Equipment, leases and rental	141,787	41,126	4,004	123,171	145,843	103,530	559,461	26,918	586,379
Repairs and maintenance	610,202	29,904	5,682	217,389	26,876	67,563	957,616	10,617	968,233
Telephone	129,708	56,031	5,368	71,005	62,293	41,142	365,547	33,045	398,592
Travel, conferences and meetings	83,306	--	6,754	24,306	21,340	12,727	148,433	28,571	177,004
Interest and bank charges	--	--	--	118,444	--	--	118,444	736,243	854,687
Client expenses	6,087,205	1,958,066	28,930	325,313	797,035	116,879	9,313,428	4,725	9,318,153
Bad debt expense	--	--	--	--	--	11,140	11,140	47,260	58,400
Depreciation and amortization	982	--	--	462,462	--	9,727	473,171	525,130	998,301
Other expenses	307,564	41,642	42,284	104,443	41,761	381,604	919,298	698,943	1,618,241
	$ 21,873,110	$ 5,673,243	$ 1,474,347	$ 7,328,878	$ 5,504,878	$ 7,319,604	$ 49,174,060	$ 4,810,037	$ 53,984,097

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

LUTHERAN SOCIAL SERVICES OF NEW YORK, INC.
AND RELATED ENTITIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
Cash Flows from Operating Activities		
Change in net deficit	$ (290,549)	$ (474,002)
Adjustments to reconcile change in net deficit to net cash provided by (used in) operating activities:		
Unrealized gain on investments and cash surrender value of annuity contract	(25,148)	(25,223)
Depreciation	977,345	998,301
Amortization of debt issuance costs included in interest expense	9,823	7,640
Forgiveness of debt	(486,299)	(486,299)
Provision for bad debt	28,218	11,140
Changes in assets (increase) decrease:		
Accounts receivable	(4,412,780)	3,818,189
Prepaid expenses and other current assets	(36,851)	(53,226)
Changes in liabilities increase (decrease):		
Accounts payable and accrued expenses	1,309,561	(1,600,702)
Accrued compensation	1,045,052	(292,251)
Advances from government agencies	573,580	(1,875,953)
Deferred revenue	108,915	(194,287)
Accrued interest payable	100,300	101,799
Due to government agencies	2,421,940	(3,247,494)
Net Cash Provided by (Used in) Operating Activities	1,323,107	(3,312,368)
Cash Flows from Investing Activities		
Purchase of property and equipment	(103,953)	(192,814)
Proceeds from sale of annuity contract assets	--	275,000
Net Cash (Used in) Provided by Investing Activities	(103,953)	82,186

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

LUTHERAN SOCIAL SERVICES OF NEW YORK, INC.
AND RELATED ENTITIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
Cash Flows from Financing Activities		
Proceeds from construction loan payable	$ --	$ 3,875,866
Proceeds from Paycheck Protection Loan Program	896,600	--
Payment of debt issuance costs	--	(19,540)
Payments to affiliates	69,427	89,877
Principal payments on loan payable	(361,313)	(282,791)
Net Cash Provided by Financing Activities	604,714	3,663,412
Net Increase in Cash and Restricted Cash	1,823,868	433,230
Cash and Restricted Cash - Beginning	2,370,721	1,937,491
Cash and Restricted Cash - Ending	$ 4,194,589	$ 2,370,721
Supplemental Cash Flow Information		
Cash paid for interest	$ 550,271	$ 628,407
Reconciliation of Cash and Restricted Cash to Amounts Reported in the Statements of Financial Position at the End of the Period		
Cash	$ 3,277,728	$ 1,464,811
Restricted Cash		
Operating Reserves	632,858	625,326
Capital Reserves	284,003	280,584
	$ 4,194,589	$ 2,370,721

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

NOTE 1 - NATURE OF ORGANIZATION AND LIQUIDITY

Lutheran Social Services of New York, Inc. (LSSNY) was formed to bring the gospel and the ministrations of Christian love and charity to those who come within or in contact with its sphere of service; to establish and operate social services and to provide assistance in identifying needs and resources, and setting of goals and sorting out priorities, for indigent individuals and persons in need of humanitarian assistance, including children, young people, families, the elderly, persons with special needs, immigrants and refugees, all of a charitable nature; and to afford services, in particular, administrative services, and to provide assistance, including the solicitation of funds for, and the making of gifts, grants, contributions or otherwise to other domestic and foreign corporations, funds and foundations that are organized and operated exclusively for charitable purposes. LSSNY is qualified as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the Code) and, accordingly, is exempt from federal income taxes.

Lutheran Social Services of Metropolitan New York, Inc. (LSSMNY) is a social services agency that, among other things, provides homes and case management services for children and families with intensive needs through kinship and family foster care, supportive maternity/infant foster care, preventive family services, and group care programs, provides immigration legal services; case management, shelter and foster boarding homes to immigrant minors; disaster relief case management; and a hunger prevention program, and provides early childhood education through ten preschools and a network of family daycare homes which promote learning, development and educational readiness. LSSMNY is supported primarily by government fees and contracts. LSSMNY is qualified as a tax-exempt organization under Section 501(c)(3) of the Code.

Lutheran Family and Community Services, Inc. (LFCS) was incorporated under the laws of the State of New York. It is a related entity of LSSMNY and shares a common Board of Directors. In addition, LFCS's programs are funded and directed by LSSMNY. LFCS is qualified as a tax-exempt organization under Section 501(c)(3) of the Code.

Lutheran Disaster Response of New York, Inc. (LDRNY) was incorporated under the laws of the State of New York. It is a related entity of LSSMNY and shares a common Board of Directors. In addition, LDRNY's programs are funded and directed by LSSMNY. LDRNY is qualified as a tax-exempt organization under Section 501(c)(3) of the Code.

NOTE 1 - NATURE OF ORGANIZATION AND LIQUIDITY (CONTINUED)

Muhlenberg Community Housing Development Fund Corporation (Muhlenberg) was formed as a New York State not-for-profit corporation for the purpose of developing and operating housing projects for persons with low income, the mentally ill and chronically homeless. The project is located in Brooklyn, New York and is supported primarily by government grants and contracts. Muhlenberg is qualified as a tax-exempt organization under Section 501(c)(3) of the Code and, accordingly, is exempt from federal income taxes.

334-336 Bergen Street Housing Development Fund Corporation (Bergen) is a New York State not-for-profit corporation that operates a low-income supportive housing project consisting of residential units (and common areas) that are leased to low income persons who are mentally ill and formerly chronically homeless. The project is located in Brooklyn, New York and is supported primarily by government grants, contracts and rental income. Bergen is qualified as a tax-exempt organization under Section 501(c)(3) of the Code and, accordingly, is exempt from federal income taxes.

The New LIFE School (the School) provides needed educational services to school-age students with disabilities in Grades 5 through 12. The School began operations in October 2005. The School is primarily supported by tuition fees and government grants. The School is a not-for-profit organization exempt from federal income tax under Section 501(c)(3) of the Code.

St. John's Community Housing Development Fund Corporation (St. John's) is a New York State not-for-profit corporation that operates a low-income supportive housing project with residential units (and common areas) that are leased to low income persons who are formerly chronically homeless, some of whom are mentally ill. The project is located in the Bronx, New York and is supported primarily by government grants, contracts and rental income. St. John’s is qualified as a tax-exempt organization under Section 501(c)(3) of the Code and, accordingly, is exempt from federal income taxes.

Center for Urban Education Ministries, Inc. (CUEM) began operations in 2015 to seed the development of innovative and effective faith-based and other not-for profit education ministries and programs that nurture health and hope in their communities and to assist schools (Pre K-12) to become or remain competitive and viable (1) through identifying, developing, and promoting educational models that would establish and promote best practices in serving children and their families in the context of their communities, (2) through identifying, developing, and promoting financial models of sustainability that would support a long-term viable school, and (3) through recruiting, training, connecting, and assisting community. CUEM is qualified as a tax-exempt organization under Section 501(c)(3) of the Code and, accordingly, is exempt from federal income taxes. CUEM is supported primarily by contributions.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of LSSNY and the accounts of related entities (the Consolidated Group) for which members of LSSNY's Board of Directors have direct control. Such affiliates include LSSMNY, Bergen, Muhlenberg, the New LIFE School, St. John's, CUEM, LFCS and LDRNY. Inter-entity transactions and balances have been eliminated in consolidation.

BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of the Consolidated Group's programs and supporting services. The Consolidated Group presents its consolidated financial statements on the accrual basis of accounting. Under the accrual basis of accounting, revenue is recognized when earned and expenses when the related liability for goods and services is incurred, regardless of the timing of the related cash flows.

USE OF ESTIMATES

The preparation of consolidated 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 at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

ACCOUNTS RECEIVABLE AND REVENUE

The Consolidated Group records receivables and revenue when earned based on established rates multiplied by the number of units of service provided. The Consolidated Group records rental property receivable and revenue based on terms contained in written tenant lease agreements. The Consolidated Group leases space to tenants under cancellable leases that are renewed annually. Government grants are recorded as receivables and revenues to the extent that expenses have been incurred for the purposes specified by the grantors. To the extent amounts received exceed amounts spent, the Consolidated Group establishes advances from government funders. Receivables are charged to the allowance for doubtful accounts when they are determined to be uncollectable based upon a periodic review of the accounts by management. Factors used to determine whether an allowance should be recorded include the age of the receivable and a review of payments subsequent to year-end. The Consolidated Group has established an allowance for doubtful accounts for accounts receivable of $162,268 and $134,068 at June 30, 2020 and 2019, respectively. Interest is not accrued or recorded on outstanding receivables.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CASH SURRENDER VALUE OF ANNUITY CONTRACT

Muhlenberg invests in an annuity contract, which is recorded at its cash surrender value in the accompanying consolidated statements of financial position. The full cash surrender value of the contract is available for withdrawal. The annuity contract earns income based on a fixed rate of 4.50%, adjustable annually on the anniversary date of the contract. The current rate of 2.25% is guaranteed through March 10, 2021 (Note 5).

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Consolidated Group follows the guidance set forth by the Financial Accounting Standards Board (FASB) in section Accounting Standards Codification (ASC) 820, which establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value, as follows. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identified assets or liabilities (Level 1) and the lowest priority to unobservable outputs (Level 3). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Consolidated Group has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

OPERATING AND REPLACEMENT RESERVES

The operating and replacement reserves were established upon transfer of the loans further described in Note 7 pursuant to a loan agreement between Muhlenberg and New York City Department of Housing Preservation and Development (HPD). These reserves are held by New York City Housing Development Corporation (HDC) on behalf of Muhlenberg in bank demand money market fund deposit accounts and are recorded at fair value. The reserves must be maintained throughout the terms of the loans, unless fully expensed for eligible purposes, upon prior written consent by HPD. Muhlenberg is required to make an annual contributions to operating and replacement reserves as established under the loan agreement.

PROPERTY AND EQUIPMENT, NET

Property and equipment is stated at cost, net of accumulated depreciation and amortization. Depreciation expense is calculated using the straight-line method over the estimated useful lives of the assets. Furniture and equipment are depreciated over 3 to 10 years, leasehold improvements are amortized over the shorter of the remaining lease term or the useful life of the improvement, buildings are depreciated over 40 years, and vehicles are depreciated over 7 years. The Consolidated Group capitalizes construction, insurance, interest, and other direct costs during the period of construction. Depreciation expense is not recorded for items included in construction-in-progress until they are placed into service. The Consolidated Group capitalizes all purchases of property and equipment in excess of $5,000 with a useful life of two or more years.

IMPAIRMENT OF LONG-LIVED ASSETS

If there is an event or a change in circumstances adversely impacting the recoverability of long-lived assets, the Consolidated Group's policy is to assess any impairment in value by making a comparison of the current and projected operating cash flows of the asset over its remaining useful life, on an undiscounted basis, to the carrying amount of the asset. Such carrying amounts would be adjusted, if necessary, to reflect an impairment in the value of the assets. If the operation is determined to be unable to recover the carrying amount of its assets, the long-lived assets are written down to fair value. Fair value is determined based on discounted cash flows or appraised values, depending on the nature of the assets. There were no impairment losses in 2020 or 2019.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DEBT ISSUANCE COSTS

Debt issuance cost, presented as a direct reduction from the carrying amount of the related debt in the financial statements, consists of direct costs incurred in connection with the loans discussed in Note 7. Debt issuance costs totaled $196,948 as of June 30, 2020 and 2019 and are being amortized over the life of the loans, which is 5 to 30 years. Accumulated amortization related to these debt issuance costs was $31,718 in 2020 and $21,895 in 2019. Amortization of debt issuance costs was $9,823 in 2020 and $7,640 in 2019 and is included in interest expense in the accompanying statements of activities and functional expenses.

CONTRIBUTIONS

Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is awarded. The gifts are reported as either with donor restriction support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of activities and changes in net deficit as net assets released from restrictions.

CONSOLIDATED FINANCIAL STATEMENT PRESENTATION

The classification of the Consolidated Group's net assets and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions on use that are placed by its donors, as follows:

> *Net Assets Without Donor Restrictions* – Net Assets without donor restrictions are resources available to support operations. The only limits on the use of these net assets are the broad limits resulting from the nature of the organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.
>
> *Net Assets With Donor Restrictions* – Net Assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature and the Organization must continue to use the resources in accordance with the donor's instructions.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONSOLIDATED FINANCIAL STATEMENT PRESENTATION (CONTINUED)

When a donor’s restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions. Net assets restricted for the acquisition of buildings or equipment (or less commonly, the contribution of those assets directly) are reported as assets with donor restrictions until the specified asset is placed in service by the Organization, unless the donor provides more specific directions about the period of its use.

EXPENSE RECOGNITION AND ALLOCATION

The costs of providing the Consolidated Group's various programs and other activities have been summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or service. Based on a study of indirect costs, beginning in fiscal 2020, the Organization utilized an overall indirect cost rate of 13.37%. For fiscal 2019, all overhead costs have been allocated from LSSNY through the following allocation methods, consistently applied as follows:

- Finance personnel costs are allocated using the number of accounting transactions of each program to the total number of accounting transactions of all programs of the LSSNY organization.
- Information technology, human resources and senior leadership personnel costs are allocated using the full-time equivalent (FTE) of each program to the total number of FTE’s served by all of the LSSNY programs.
- Legal and quality improvement personnel costs are allocated using the number of clients served by each program to the number of clients served by all of the LSSNY organizations.
- Non-personnel costs that are shared are generally allocated either based on square footage, FTE’s or clients served.

General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of LSSNY.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

OPERATING AND NONOPERATING ACTIVITIES

Operating revenues and expenses reflect activities in which the Consolidated Group engages in order to fulfill its mission. Nonoperating activities relate to expenses incurred and revenue received outside the program activities. Unrealized gains on investments and cash surrender value of annuity contract and forgiveness of debt are considered to be nonoperating.

IN-KIND CONTRIBUTIONS

LSSMNY receives donated goods and services, including legal and consulting services. In accordance with GAAP, LSSMNY records donated goods and services that meet the criteria for recognition as revenue and expense in the accompanying consolidated financial statements. For the years ended June 30, 2020 and 2019, revenue and expenses of $844,441 and $1,071,757, respectively was recognized for in-kind contributions.

OPERATING LEASES

Operating lease expense has been recorded on the straight-line basis over the life of the lease in accordance with accounting principles generally accepted in the United States of America (GAAP). A liability for deferred rent, when considered material, is recorded for the difference between the fixed payment per the lease agreement and rent expense required to be reported under GAAP.

INCOME TAXES

GAAP requires management to evaluate tax positions taken and recognize a tax liability (or asset) if the organization has taken an uncertain position that more likely than not would not be sustained upon examination by taxing authorities. Management has analyzed the tax positions taken and has concluded that as of June 30, 2020, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Consolidated Group is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods pending or in progress.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NEWLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This ASU provides clarification and guidance for contributions received and contributions made to assist entities in (1) evaluating whether a transaction should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as an exchange (reciprocal) transaction subject to other guidance and (2) determining whether a contribution is conditional. The Organization adopted this ASU during fiscal year 2020, which did not have a material impact on the consolidated statements of activities and changes in net assets.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash.* ASU 2016-18 requires restricted cash to be included within beginning and ending total cash amounts reported in the consolidated statements of cash flows. Disclosure of the nature of the restrictions on cash balances is required under the guidance. Amounts include in restricted cash represent those required to be set aside under the mortgage escrows for taxes and insurance and replacement reserves. In addition, restricted cash also represents cash restricted by donors. The beginning cash and restricted cash balance on the statement of cash flows has been formatted to reflect this ASU during fiscal year 2020, which did not have a material impact on the consolidated statements of cash flows.

UPCOMING ACCOUNTING PRONOUNCEMENT

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). This ASU replaces most existing revenue recognition guidance in U.S. GAAP and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. The standard requires disclosure of the aggregate amount of transaction price allocated to performance obligations that are partially satisfied at the end of the reporting period and adjustments of expected consideration for the effects of any financing components if significant. Management is currently evaluating the impact that the adoption will have on the recognition of revenues. The guidance in ASU 2014-09 will be adopted in the Organization’s consolidated financial statements for the year ending June 30, 2021.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECLASSIFICATIONS

Certain amounts relating to the prior year have been reclassified to conform to the current year's presentation. The reclassifications had no effect on net assets.

NOTE 3 - CONCENTRATION OF CREDIT RISK

The Consolidated Group maintains cash balances in several financial institutions, which are insured by the Federal Deposit Insurance Corporation (FDIC) for up to $250,000 per depositor per institution. From time to time, the Consolidated Group's balances may exceed these limits. However, the Consolidated Group has not experienced any losses to date.

For the years ended June 30, 2020 and 2019, approximately 67% and 74% of LSSMNY's revenue was derived from two government funding sources, respectively. At June 30, 2020 and 2019, approximately 77% and 45% of LSSMNY's receivables were derived from two government funding sources, respectively.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable, net consisted of the following at June 30:

	2020	2019
New York City Administration for Children's Services (ACS)	$ 2,880,969	$ 1,931,847
Department of Education (DOE)	3,325,932	--
New York City Department of Health and Mental Hygiene	1,667,598	959,032
New York City Department of Homeless Services	139,246	124,822
U.S. Department of Housing and Urban Development	56,139	106,692
New York State Education Department	736,146	794,708
Parent fees	534,926	512,556
Medicaid	233,652	189,862
Tenant rent receivables	75,919	40,101
Other receivables	1,096,796	1,647,773
	10,747,323	6,307,393
Less allowance for doubtful accounts	162,286	134,068
	$ 10,585,037	$ 6,173,325

NOTE 5 - FAIR VALUE MEASUREMENTS

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2020 and 2019.

RESTRICTED FUNDS – MONEY MARKET

Restricted funds – Money market accounts are valued at one dollar per share due to the highly liquid nature of the investment.

CASH SURRENDER VALUE OF ANNUITY CONTRACT

The cash surrender value of annuity contract is valued at fair value by the insurance company by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuer. Because the investors transact at contract value, fair value is determined annually for financial statement reporting purposes only. In determining the reasonableness of the methodology, management evaluates a variety of factors including review of existing contracts, economic conditions, industry and market developments, and overall credit ratings. Certain unobservable inputs are assessed through review of contract terms (for example, duration or payout date) while others are substantiated utilizing available market data (for example, swap curve rate).

The following table presents the Consolidated Group's assets that are measured at fair value on a recurring basis at June 30:

June 30, 2020	Total	Level 1	Level 2	Level 3
Investment				
Cash surrender value of annuity contract	$ 1,141,877	$ --	$ --	$ 1,141,877
Restricted funds - money market	916,861	916,861	--	--
Total Assets Measured at Fair Value	$ 2,058,738	$ 916,861	$ --	$ 1,141,877

NOTE 5 - FAIR VALUE MEASUREMENTS

CASH SURRENDER VALUE OF ANNUITY CONTRACT (CONTINUED)

June 30, 2019	Total	Level 1	Level 2	Level 3
Investment				
Cash surrender value of annuity contract	$ 1,116,729	$ --	$ --	$ 1,116,729
Restricted funds - money market	905,910	905,910	--	--
Total Assets Measured at Fair Value	$ 2,022,639	$ 905,910	$ --	$ 1,116,729

There were no transfers between levels of investments during the years ended June 30, 2020 and 2019.

The following table provides a summary of changes in the fair value of the Consolidated Group's Level 3 investments for the years ended June 30, 2020 and 2019:

Balance, July 1, 2018	$ 1,366,506
Withdrawals	(275,000)
Change in unrealized appreciation	25,223
Balance, June 30, 2019	1,116,729
Change in unrealized appreciation	25,148
Balance, June 30, 2020	$ 1,141,877

Unrealized gains from the annuity contract are included in non-operating activities on the statement of changes in net assets available for benefits in the accompanying financial statements.

NOTE 5 - FAIR VALUE MEASUREMENTS

QUANTITATIVE INFORMATION ABOUT SIGNIFICANT UNOBSERVABLE INPUTS USED IN LEVEL 3 FAIR VALUE MEASUREMENTS

The following table represents the Consolidated Group's level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments, and the significant unobservable inputs and the ranges of values for those inputs.

Instrument	Fair Value 2020	Fair Value 2019	Principal Valuation Technique	Unobservable Inputs	Range of Significant Input Values	Weighted Average
Cash surrender value of annuity contract	$ 1,141,877	$ 1,116,729	Discounted Cash Flow	Payout Date	7/26/42	
				Payout Percentage	3/11/20 - 3/10/21	2.25%

NOTE 6 - PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of the following at June 30:

	2020	2019
Land	$ 5,174,334	$ 5,174,334
Building and building improvements	30,460,520	30,349,850
Leasehold improvements	2,302,202	2,302,202
Furniture and equipment	965,126	965,126
Construction in progress	6,403	13,120
Vehicles	24,319	24,319
	38,932,904	38,828,951
Less accumulated amortization	11,498,010	10,520,665
	$ 27,434,894	$ 28,308,286

Depreciation expense related to property and equipment amounted to $977,345 and $998,301 for the years ended June 30, 2020 and 2019, respectively.

NOTE 7 - LOANS AND NOTES PAYABLE

Loans and notes payable consisted of the following at June 30:

	2020		
	Principal	Unamortized Debt Issuance Cost	Total
Note payable, Lutheran Church Extension Fund	$ 14,837,194	$ (86,865)	$ 14,750,329
Note payable, Lutheran Church Extension Fund	3,637,531	(14,004)	3,623,527
Note payable, Mission Investment Fund	937,976	--	937,976
Building Loan, Department of Housing Preservation and Development	1,015,386	--	1,015,386
Note payable, NYC Housing Development Corporation	484,205	--	484,205
Note payable, Department of Housing Preservation and Development	10,799,727	(64,361)	10,735,366
Construction loan payable, Department of Housing Preservation and Development	1,000,291	--	1,000,291
	$ 32,712,310	$ (165,230)	$ 32,547,080

	2019		
	Principal	Unamortized Debt Issuance Cost	Total
Note payable, Lutheran Church Extension Fund	$ 14,992,715	$ (90,097)	$ 14,902,618
Note payable, Lutheran Church Extension Fund	3,819,595	(17,913)	3,801,682
Note payable, Mission Investment Fund	961,704	--	961,704
Building Loan, Department of Housing Preservation and Development	1,396,155	--	1,396,155
Note payable, NYC Housing Development Corporation	484,205	--	484,205
Note payable, Department of Housing Preservation and Development	10,799,727	(67,043)	10,732,684
Construction loan payable, Department of Housing Preservation and Development	1,000,291	--	1,000,291
	$ 33,454,392	$ (175,053)	$ 33,279,339

NOTE 7 - LOANS AND NOTES PAYABLE (CONTINUED)

LSSMNY

Notes Payable - Lutheran Church Extension Fund

During 2017, LSSMNY refinanced its existing obligations with Public Finance Authority and entered into loan agreements on March 16, 2017 with the Lutheran Church Extension Fund-Missouri Synod (LCEF) including a promissory note payable for $15,400,000 (the Note) and a $1,000,000 line of credit (LOC) (Note 9).

The Note bears interest at a fixed rate of 3.375% for the first 5 years of the term at which point a variable rate as set forth in the agreement will be assessed on the fifth, tenth and fifteenth anniversaries of the loan. Principal and interest on the Note shall be payable in monthly installments (currently $58,509) through the maturity of the loan on May 16, 2047. During 2020, as a result of the COVID-19 pandemic, the lender agreed to defer two months payments and extend the maturity date by the same to July 16, 2047.

In January 2019, LSSMNY entered into a second loan agreement with LCEF for $3,895,370. The note bears interest at an initial variable rate of 4.625%. The rate is subject to change on each anniversary of the loan and is based on the lenders cost of funds then in effect plus three percentage points. Monthly principal and interest payments currently total $30,049 and are payable through the loans maturity date of January 9, 2024. The loan has certain financial and nonfinancial covenants. Management believes that LSSMNY is in compliance. Interest on the loan, totaling $175,676 for the year ended June 30, 2020, is recorded by LSSNY. The loan is collateralized by certain assets of the consolidated LSSNY organization.

The Notes and LOC are secured by land and building with a net book value of approximately $14.8 million as of June 30, 2020, as well as other assets specifically identified in the agreements. LSSNY is listed as Co-Borrower on the Note and LOC.

Note Payable - Mission Investment Fund

In March 2012, LSSMNY entered into a 30-year note payable with Mission Investment Fund in the amount of $1,076,648. The loan bears interest at a variable rate that resets quarterly based on the bond issue rate at Stern Brothers & Co., with a floor of 3.00% (4.875% at June 30, 2020). Payments on the note were interest-only through November 2014, at which time the monthly payment was re-amortized based on the remaining payment period of the loan. The balance outstanding at June 30, 2020 and 2019 was $937,976 and $961,704, respectively.

NOTE 7 - LOANS AND NOTES PAYABLE (CONTINUED)

Note Payable - Mission Investment Fund (Continued)

Interest expense relating to notes payable amounted to $570,011 and $635,385 for the years ended June 30, 2020 and 2019, including amortization of deferred finance costs of $7,141 and $4,958 in each of the years then ended.

ST. JOHN'S

St. John's entered into a building loan agreement in March 1992 with The City of New York, acting through the Department of Housing Preservation and Development (HPD) for a maximum of $1,946,790 of which $1,903,847 has been drawn down under the building loan agreement and expended for acquisition, renovations and rehabilitation. The building loan is secured by a mortgage on the premises and the improvements set forth in the building loan contract. No principal payments have been made on the loan at June 30, 2020 and 2019, which matures on January 1, 2023.

The loan bears interest at the rate of 1% per annum computed from the first day of the first month following the completion date (certificate of completion of the project), which was in 1993. Such interest shall accrue for a term of thirty years. No interest payments have been made at June 30, 2020 and 2019. Scheduled payments of principal and accrued interest will only be made from surplus funds when requested by HPD. Accrued unpaid interest on the loan was $281,414 and $386,944 at June 30, 2020 and 2019, respectively.

The City of New York shall reduce St. John's building loan payable and any accrued unpaid interest in equal annual decrements of 20% for five years commencing in March 2018, the twenty-sixth year after the initial occupancy date of the premises, provided that St. John's continues to utilize the premises as originally agreed upon with The City of New York as set forth in the mortgage. During the years ended June 30, 2020 and 2019, $380,769 of principal and $105,530 of accrued unpaid interest was forgiven and recorded as a component of non-operating revenue on the consolidated statement of activities.

NOTE 7 - LOANS AND NOTES PAYABLE (CONTINUED)

ST. JOHN'S (CONTINUED)

Future expected forgiveness of principal on the aforementioned loan payable is as follows:

Years ending June 30,	Principal	Interest	Total
2021	$ 380,769	$ 105,530	$ 486,299
2022	380,769	105,530	486,299
2023	253,848	70,354	324,202
	$ 1,015,386	$ 281,414	$ 1,296,800

MUHLENBERG

Muhlenberg assumed two loans from New York City (NYC) agencies in connection with the acquisition of the building from the former owner. The loans are secured by the building and property at 510 Atlantic Avenue, Brooklyn, New York and do not require any payments of principal and interest until the January 1, 2046 maturity date. Interest expense related to loans and notes payable amounted to $102,982 and $104,482 for the years ended June 30, 2020 and 2019, respectively, including amortization of deferred finance costs of $2,682 in 2020 and 2019.

On June 30, 2014, Muhlenberg entered into a construction loan agreement with HPD to fund rehabilitation work at the acquired building. A construction work plan was approved by HPD for the maximum amount funded of $1,000,291. Muhlenberg began construction and spent $240,300 in 2016, $601,452 in 2017 and $158,539 in 2018 for renovations. Pursuant to a loan agreement with HPD, the loan converted to a permanent loan with an interest rate of 1.00% per annum upon completion of the construction loan period as defined in the agreement. No payments are due until the January 1, 2046 maturity date. The loan is secured by the building and property at 510 Atlantic Avenue, Brooklyn, New York. The balance outstanding was $1,000,291 at June 30, 2020 and 2019.

NOTE 7 - LOANS AND NOTES PAYABLE (CONTINUED)

MUHLENBERG (CONTINUED)

The three loans are as follows:

- Note payable to NYC Housing Preservation and Development (HPD) totaling $10,799,727 at June 30, 2020 and 2019. The loan bears interest at 0.85% and is payable on January 1, 2046 including all accrued and unpaid interest.
- Note payable to NYC Housing Preservation and Development (HPD) totaling $1,000,291 at June 30, 2020 and 2019. The loan bears interest at 0.85% and is payable on January 1, 2046 including all accrued and unpaid interest.
- Note payable to NYC Housing Development Corporation (HDC) totaling $484,205 at June 30, 2020 and 2019. The loan bears interest at 0% and is payable January 1, 2046.

THE CONSOLIDATED GROUP

Future maturities of loans and notes payable for the Consolidated Group are as follows:

Years ending June 30,	
2021	$ 427,628
2022	443,755
2023	514,495
2024	3,333,518
2025	326,176
Thereafter	26,651,352
	$ 31,696,924

The table above does not reflect the St. John's loan with HPD as it is expected to be forgiven in full over a five-year period ending in March 2023.

NOTE 8 - PAYROLL PROTECTION PROGRAM LOAN PAYABLE

NEW LIFE SCHOOL

On June 1, 2020, the Company received a loan (the "PPP Loan") from Citibank, N.A. in the amount of $896,600 under the Paycheck Protection Program established by the Coronavirus Aid, Relief and Economic Security Act. Subject to potential forgiveness, as described below, the PPP Loan matures in two years on May 29, 2022, bears interest at a rate of 1.0% per year and is evidenced by a promissory note dated June 1, 2020 (the "Note"). Monthly payments of principal and interest are deferred until December 1, 2020 ("deferment period") and interest will continue to accrue during this deferment period. The Company may apply for forgiveness on the loan as described below.

The PPP Loan is unsecured and federally guaranteed. The Note contains customary events of default relating to, among other things, failure to make payments of principal and interest and breaches of representations and warranties. The Company may prepay the PPP Loan at any time prior to the maturity with no penalty.

All of a portion of the PPP Loan may be eligible to be forgiven by the U.S. Small Business Administration ("SBA") and the lender upon application by the Company, provided that the Company shall have used the loan proceeds for eligible purposes, including the payment of payroll, benefits, rent, mortgage interest and utilities, during the [24] week period beginning on the date of the funding of the loan (the "covered period"). Not more than 40% of the amount forgiven may be for non-payroll costs. The Company will be eligible to submit an application for forgiveness of the PPP Loan for a period of up to 10 months after the end of the covered period.

Consistent with the requirements of the PPP for loan forgiveness, the Company has been using the loan proceeds solely for payment of payroll and otherwise in a manner which it believes satisfy the requirements for loan forgiveness. However, no assurance can be given that any application for loan forgiveness that the Company may submit will be approved, in whole or in part.

NOTE 9 - LINE OF CREDIT

LSSMNY is party to $1,000,000 LOC with LCEF. The LOC bears interest at a variable rate as defined in the agreement. Interest on the LOC is payable in monthly installments with any accrued and unpaid accrued interest and principal due on the maturity date of November 8, 2020. LSSMNY did not draw any amounts under the LOC during the years ended June 30, 2020 and 2019.

NOTE 10 - RETIREMENT PLAN

Each entity in the Consolidated Group participates in the ELCA Master Institutional Retirement Plan (the Plan) intended to meet the requirements of a retirement income account within the meaning of the Internal Revenue Code (Code) Section 403(b)(9). The Plan is exempt from the Employee Retirement Income Securities Act (ERISA) because it meets the requirements of a church plan within the meaning of Code Section 414(e) and ERISA Section 3(33). The Plan covers all full-time employees who have completed two years of service as defined by the Plan. Participants are immediately fully vested in employer contributions. The employer contribution is 5% of eligible wages as determined by the Plan. Total employer contributions by the Consolidated Group under the Plan were $1,121,751 and $1,035,555 for the years ended June 30, 2020 and 2019, respectively.

NOTE 11 - NET ASSETS

Net assets with donor restrictions at June 30 are available for specific donor restricted purposes as follows:

	2020	2019
The Crumb Family Library	$ 38,500	$ 38,500
Career Development and Occupational Studies After-School Program	--	25,000
	$ 38,500	$ 63,500

NOTE 12 - COMMITMENTS AND CONTINGENCIES

The Consolidated Group has contracted with various funding agencies to perform services and receive reimbursements from state and city governments. Reimbursements received under these contracts and payments are subject to audit by the city and state governments. Upon audit, if discrepancies are discovered, the Consolidated Group could be held responsible for refunding the amounts in question. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered. These amounts are adjusted in future periods as adjustments become finalized or as the years are no longer subject to such audits, reviews, and investigations. The grant and contract provisions for the programs that the Consolidated Group participates in are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

NOTE 12 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Laws and regulations governing Medicaid and the other programs that LSSMNY participates in are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The Consolidated Group is involved in various legal proceedings and litigation arising in the ordinary course of business. Management believes that any potential damages would be covered by its insurance limits at June 30, 2020.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic which continues to spread throughout the United States. The Organization is monitoring the outbreak of COVID-19 and the related business and travel restrictions and changes to behavior intended to reduce its spread, and its impact on operations, financial position, cash flows, payments for services, and the industry in general, in addition to the impact on its employees. Due to the rapid development and fluidity of this situation, the magnitude and duration of the pandemic and its impact on the Organization’s operations and liquidity is uncertain as of the date of this report. While there could ultimately be a material impact on operations and liquidity of the Consolidated Group, at the time of issuance, the impact could not be determined.

LSSNY AND LSSMNY

LSSNY and LSSMNY are committed under various noncancellable operating leases for office and program space. The leases include provisions for escalations in rent and optional renewal periods. In addition, LSSNY and LSSMNY have various renewable leases, with terms of less than one year or that are cancellable with notice. Rent expense for both cancellable and noncancellable leases for the years ended June 30, 2020 and 2019 was $1,903,196 and $1,488,112, respectively.

NOTE 12 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

LSSNY AND LSSMNY (CONTINUED)

The noncancellable leases expire at various dates through June 2020 and provide for minimum annual rental payments as follows:

Years ending June 30,	
2021	$ 1,547,882
2022	1,400,200
2023	1,361,458
2024	1,381,633
2025	1,124,650
Thereafter	2,546,501
	$ 9,362,324

Certain lease agreements that LSSMNY is party to include provisions for cancellation with notice periods ranging from 30-180 days. These leases have been excluded from the table above.

ST. JOHN'S

St. John's entered into an agreement to fund operational deficits of St. John's II, LP (an uncontrolled affiliate). St. John's has guaranteed to fund operating deficit contributions in an amount necessary for the general partner to make required operating deficit contributions and fund an outside reserve contribution up to $35,000.

NEW LIFE SCHOOL

The School leases two real estate properties in the Bronx, New York from LSSMNY. Rent expense for each of the years ended June 30, 2020 and 2019 amounted to $522,111. The lease which expires in May 2022 is generally tied into the debt service payments of the obligation that LSSMNY has on the property. This amount is eliminated in the consolidated financial statements.

NOTE 13 - DUE TO GOVERNMENT AGENCIES

Due to government agencies consisted of the following at June 30:

	2020	2019
City of New York Administration for Children's Services	$ 5,007,077	$ 3,515,740
New York State Department of Health	11,461	2,860
Department of Education	1,568,023	87,797
New York State Education Department	828,707	1,386,931
Other	3,185	3,320
	$ 7,418,453	$ 4,996,648

LSSMNY

City of New York Administration for Children's Services (ACS)

At June 30, 2020 and 2019, LSSMNY had a total estimated liability to ACS of $5,007,077 and $3,515,740, respectively, related to its Foster Care program and Early Learn programs.

The Foster Care program liability represents net overpayments received by LSSMNY for all program years through 2016 as audited by ACS along with estimated potential adjustments for fiscal 2017 through 2020, yet to be audited. Through negotiations with ACS, ACS began recouping $2,000 per month, beginning in July 2015, and an additional $1,200 per month, beginning in November 2019. The combined $3,200 monthly payment will continue until the balance owed is paid in full. At June 30, 2020 and 2019, the liability for the Foster Care program totaled $2,275,395 and $2,289,659, respectively.

In 2018, ACS conducted a final closeout resulting in an initial payable of $2,765,490 for the Early Learn program; however, LSSMNY appealed $778,361 of disallowed expenses from this closeout resulting in a net liability of $1,987,129 for the years covered under that closeout. As of the date of this report, LSSMNY has not received a response to this appeal and there remains uncertainty if the appeal will be accepted. LSSMNY also has estimated amounts due from ACS for the remaining unaudited years of $761,047, resulting a net amount due to ACS of $1,226,082 at June 30, 2019. During 2020, ACS advanced an additional $1,505,600 to LSSMNY resulting in a total liability of $2,731,682 at June 30, 2020.

NOTE 13 - DUE TO GOVERNMENT AGENCIES (CONTINUED)

LSSMNY (CONTINUED)

New York State Department of Health (DOH)

The New York State Department of Health (DOH) performed a reconciliation with respect to its child care Medicaid program. The reconciliation resulted in a negative retroactive rate adjustment effective March 2014. As a result of the reconciliation, LSSMNY was require to repay DOH approximately $3.9 million. During 2019, LSSMNY obtained a loan from LCEF and used the proceeds to make the required payment (Note 7).

Department of Education (DOE)

At the end of 2019, LSSMNY entered into an agreement with The New York State Department of Education (DOE) for Early Life activities including Head Start and Child Care, replacing ACS funding for such activities at the start of 2020. At the beginning of fiscal year 2020, LSSMNY received a loan from DOE for $1,451,044 and an advance for $2,440,552. The loan will be recovered from future payments of future claims or upon the close out of the year, with no interest charged on the loan, while the advance was allocated to monthly claims as determined by DOE. As of June 30, 2020, LSSMNY has $1,451,044 outstanding on the loan and $29,181 remaining outstanding on the advance.

NEW LIFE SCHOOL

Due to government agencies for New Life School consists of an accrued rate overpayments from SED. As of June 30, 2019, the School has settled retroactive rate adjustments with SED through fiscal 2017 totaling $1,091,783. Through June 30, 2020, total payments of $663,526 have been made and $428,257 remains outstanding. Estimated reserves for 2018 through 2020 totaled $400,450. The total reserve for estimated or accrued rate overpayments was $828,707 and $1,386,931 as of June 30, 2020 and 2019, respectively.

NOTE 14 - LIQUIDITY AND AVAILABILITY OF RESOURCES

The Organization monitors its liquidity so that it is able to meet its operating needs and other contractual commitments. Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of June 30, 2020 are as follows:

Financial Assets	
Cash	$ 3,277,728
Cash - tenant security deposits	80,282
Accounts receivable, net	10,585,037
Cash surrender value of annuity contract	1,141,877
Operating reserves	632,858
Replacement reserves	284,003
Total financial assets	16,001,785
Less financial assets not available to meet general expenditures within one year	
Cash - tenant security deposits	(80,282)
Operating reserves	(632,858)
Replacement reserves	(284,003)
Total financial assets available to meet cash needs for general expenditures within one year	15,004,642
Less financial assets held to meet donor-imposed restrictions	(38,500)
Amount available for general expenditures within one year	$ 14,966,142

As discussed in Note 9, the Organization has an available line of credit of up to $1,000,000 that can be used to satisfy any additional cash needs. The tenant security deposits and the operating and replacement reserves shown above are shown as unavailable for general expenditures since their use is restricted to specific purposes.

NOTE 15 - SUBSEQUENT EVENTS

The Consolidated Group has evaluated all events or transactions that occurred after June 30, 2020 through March 25, 2021, which is the date that the consolidated financial statements were available to be issued. Except as described below, no events requiring recognition or disclosure in the consolidated financial statements were identified.

NOTE 15 - SUBSEQUENT EVENTS (CONTINUED)

LSSMNY was a victim of a cyber-theft from the period of July 2020 to August 2020 which resulted in a loss of $1.8 million. To date, the Organization has recovered $915,000. Management has enacted a plan to offset the remaining net loss through expense reductions and other operational changes over a three year period.