

LUTHERAN SOCIAL SERVICES OF THE VIRGIN ISLANDS, INC.  
FINANCIAL STATEMENTS  
AND  
REPORT ON FEDERAL AWARDS IN ACCORDANCE  
WITH THE UNIFORM GUIDANCE  
SEPTEMBER 30, 2019  
*(Together With Independent Auditor's Report)*

**LUTHERAN SOCIAL SERVICES OF THE VIRGIN ISLANDS, INC.**  
**FINANCIAL STATEMENTS**  
**AND**  
**REPORTS REQUIRED BY THE UNIFORM GUIDANCE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**

**TABLE OF CONTENTS**

INDEPENDENT AUDITOR’S REPORT.....	1-2
FINANCIAL STATEMENTS	
Statement of Financial Position.....	3
Statement of Activities and Changes in Net Assets.....	4
Statement of Functional Expenses.....	5
Statement of Cash Flows.....	6
Notes to Financial Statements.....	7-15
REPORTS REQUIRED BY THE UNIFORM GUIDANCE	
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	16-17
Independent Auditor’s Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by The Uniform Guidance.....	18-19
Schedule of Expenditures of Federal Awards.....	20
Notes to Schedule of Expenditures of Federal Awards.....	21
Schedule of Findings and Questioned Costs.....	22-24



## INDEPENDENT AUDITOR'S REPORT

1090 Vermont Ave., NW  
Suite 920  
Washington, DC 20005  
PO Box 2478  
Kingshill, VI 00851  
111 South Calvert St.  
Suite 2700  
Baltimore, MD 21202

The Board of Directors  
Lutheran Social Services of the Virgin Islands, Inc.  
St. Croix, U.S. Virgin Islands

### Report on the Financial Statements

We have audited the accompanying financial statements of Lutheran Social Services of the Virgin Islands, Inc. (Lutheran Social Services), a Virgin Islands Not-for-Profit entity, which comprise the statement of financial position as of September 30, 2019, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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



## Opinion

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

## Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards on page 20, as required by *Title 2 U.S. Code of Federal Regulations Part 20*, Uniform Administration Requirement, Cost Principles and Audit Requirements for Federal Awards are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## Report on Summarized Comparative Information

We have previously audited Lutheran Social Services' 2018 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated May 3, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2018, as described in Note 10 Comparative Totals, is consistent in all material respects, with the audited financial statements from which it has been derived.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 10, 2020 on our consideration of Lutheran Social Services' 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 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 Lutheran Social Services' internal control over financial reporting and compliance.



St. Croix, U.S. Virgin Islands  
June 10, 2020

**LUTHERAN SOCIAL SERVICES OF THE VIRGIN ISLANDS, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**AS OF SEPTEMBER 30, 2019**  
*(With Comparative Totals for 2018)*

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 1,875,916	\$ 1,727,778
Governmental Receivable - Federal	130,454	275,799
Governmental Receivable - Local	651,234	2,331,611
Other Receivables	11,483	1,070
Due from Affiliates	-	12,174
Prepaid Expenses	174,720	51,896
<b>Total Current Assets</b>	<u>2,843,807</u>	<u>4,400,328</u>
<b>Noncurrent Assets</b>		
Property and Equipment, net	1,944,504	1,786,504
Investments	5,273,187	2,184,296
Deposits	3,158	2,698
<b>Total Noncurrent Assets</b>	<u>7,220,849</u>	<u>3,973,498</u>
<b>Total Assets</b>	<u><u>\$ 10,064,656</u></u>	<u><u>\$ 8,373,826</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts Payable	\$ 349,236	\$ 207,409
Accrued Expenses	224,489	264,577
Due to Affiliate	312,104	-
Deferred Revenue and Insurance Recoveries	1,478,113	986,703
<b>Total Liabilities</b>	<u>2,363,942</u>	<u>1,458,689</u>
<b>Net Assets</b>		
Without Donor restrictions	6,983,823	6,189,537
With Donor Restrictions	716,891	725,600
<b>Total Net Assets</b>	<u>7,700,714</u>	<u>6,915,137</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 10,064,656</u></u>	<u><u>\$ 8,373,826</u></u>

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

**LUTHERAN SOCIAL SERVICES OF THE VIRGIN ISLANDS, INC.**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**  
*(With Comparative Totals for 2018)*

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>TOTAL</b>	
			<b>2019</b>	<b>2018</b>
<b>Revenues and Support</b>				
Federal Government	\$ 2,217,518	\$ -	\$ 2,217,518	\$ 1,974,666
Local Government	2,851,377	-	2,851,377	2,755,342
Contributions	729,533	5,000	734,533	1,620,512
Fundraising	87,247	-	87,247	13,895
Service Fees	154,529	-	154,529	206,503
Disaster Grants and Other Income	296,543	1,357,336	1,653,879	707,512
Bad Debt Recovered	411,873	-	411,873	-
Investment Income	134,332	16,582	150,914	33,269
Net Assets Released from Restrictions				
<i>Satisfaction of Purpose Restrictions</i>	1,387,627	(1,387,627)	-	-
<b>Total Revenues and Support</b>	<u>8,270,579</u>	<u>(8,709)</u>	<u>8,261,870</u>	<u>7,311,699</u>
<b>Expenses</b>				
Program Services	6,668,247	-	6,668,247	5,524,015
Fundraising	166,201	-	166,201	81,539
Management and General	641,845	-	641,845	566,685
<b>Total Expenses</b>	<u>7,476,293</u>	<u>-</u>	<u>7,476,293</u>	<u>6,172,239</u>
<b>Change in Net Assets</b>	794,286	(8,709)	785,577	1,139,460
<b>Net Assets, Beginning of the Year</b>	<u>6,189,537</u>	<u>725,600</u>	<u>6,915,137</u>	<u>5,775,677</u>
<b>Net Assets, End of the Year</b>	<u>\$ 6,983,823</u>	<u>\$ 716,891</u>	<u>\$ 7,700,714</u>	<u>\$ 6,915,137</u>

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



**LUTHERAN SOCIAL SERVICES OF THE VIRGIN ISLANDS, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2019**  
*(With Comparative Totals for 2018)*

	Program Services										Support Services Management & General	Fundraising		Totals	
	Special Program	Housing Management	Queen Louise Home	Sister Emma's Cottage	Yellow Cedar	Ginger Thomas	Early Head Start	Lutheran Disaster Response	Department of Health	Total Program Services		Public Relation Development	2019	2018	
Salaries	\$122,867	\$ 130,179	\$635,682	\$336,357	\$331,418	\$428,940	\$1,041,572	\$ 393,149	\$ 50,970	\$3,471,134	\$ 403,574	\$ 71,110	\$3,945,818	\$3,322,417	
Contract Labor	-	-	1,344	511	-	-	5,205	-	-	7,060	300	-	7,360	14,375	
Employee Benefits	19,349	41,813	147,914	99,016	61,857	91,658	254,896	68,797	10,021	795,321	93,234	12,941	901,496	799,483	
Other Expenses	141,310	22,514	81,299	17,494	40,232	23,294	226,154	856,020	5,256	1,413,573	130,399	47,851	1,591,823	761,142	
Supplies	-	-	82,093	59,958	49,983	85,839	124,577	739	-	403,189	1,063	49	404,301	430,403	
Utilities	3,640	-	15,025	6,913	-	-	11,101	1,735	-	38,414	10,083	-	48,497	71,198	
Building, Equipment, and Vehicles	-	2,202	69,951	28,667	64	974	115,215	28,764	-	245,837	2,106	-	247,943	479,949	
Client Care	-	5,676	17,014	45,034	12,771	26,161	-	-	-	106,656	-	-	106,656	119,142	
Fundraising	-	-	332	-	-	-	-	-	-	332	-	34,250	34,582	230	
Depreciation	-	12,557	40,255	17,108	2,960	-	82,458	31,393	-	186,731	1,086	-	187,817	173,900	
Total Expenditures	\$287,166	\$ 214,941	\$1,090,909	\$611,058	\$499,285	\$656,866	\$1,861,178	\$1,380,597	\$ 66,247	\$6,668,247	\$ 641,845	\$ 166,201	\$7,476,293	\$6,172,239	

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

**LUTHERAN SOCIAL SERVICES OF THE VIRGIN ISLANDS, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**  
*(With Comparative Totals for 2018)*

	<u>2019</u>	<u>2018</u>
<b><i>Cash Flows from Operating Activities</i></b>		
Change in Net Assets	\$ 785,577	\$ 1,139,460
<i>Adjustments to Reconcile Change in Net Assets to Net Cash Provided By Operating Activities:</i>		
Depreciation	187,817	173,900
Net Unrealized Loss on Investments	31,060	525
 (Increase) Decrease in Assets:		
Governmental Receivable	1,825,722	(1,433,855)
Accounts Receivable	(10,413)	2,938
Due to (from) Affiliates	12,174	(45,448)
Prepaid Expenses	(122,824)	(19,373)
Deposits	(460)	-
 Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	101,739	65,173
Due to (from) Affiliates	312,104	-
Deferred Revenue	491,410	986,703
<b>Net Cash Provided By Operating Activities</b>	<u>3,613,906</u>	<u>870,023</u>
 <b><i>Cash Flows from Investing Activities</i></b>		
Proceeds from the Sale of Investments	3,514,785	4,030,488
Purchase of Investments	(6,634,736)	(4,255,886)
Purchase of Fixed Assets	(345,817)	(90,837)
<b>Net Cash Used in Investing Activities</b>	<u>(3,465,768)</u>	<u>(316,235)</u>
 <b>Increase in Cash and Cash Equivalents</b>	148,138	553,788
 <b>Cash and Cash Equivalents, Beginning of Year</b>	<u>1,727,778</u>	<u>1,173,990</u>
 <b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 1,875,916</u></u>	<u><u>\$ 1,727,778</u></u>

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



**LUTHERAN SOCIAL SERVICES OF THE VIRGIN ISLANDS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**

**NOTE 1      ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

- ***Nature of Organization:*** Lutheran Social Services of the Virgin Islands, Inc. (Lutheran Social Services) is a multi-service organization dedicated to serving the needs of the Virgin Islands community. The services provided by the organization include two 24 hour residential facilities at the Queen Louise Home Campus -- a home for abused, abandoned and neglected children and a home for children with severe developmental and physical disabilities, two 24 hour residential care facilities for the physically and mentally disabled, an Early Head Start Program, which caters to at-risk infants, toddlers and pregnant women, seven affordable housing locations for low-income elders and adults with disabilities, the AmeriCorps volunteer program that provides support services for seniors and the developmentally and physically disabled, and a disaster response program.
- ***Program and Support Services:*** The Lutheran Social Services' operations consist of the following programs and support services:
  - ***Queen Louise Home for Children:*** A 24-hour residential foster care program for children who have been abused, abandoned or neglected. Access to medical support, counseling, education services, recreational and other programs are provided for all children that reside in the home.
  - ***Sister Emma Cottage:*** A 24-hour residential foster care program on the campus of Queen Louise Home for Children that provides care for children with severe physical and developmental disabilities and special needs. The program also provides medical support services, physical therapy, education services, recreational and other services.
  - ***Ginger Thomas Residence:*** A 24-hour residential program that provides care, supervision, health and supportive services to assist twelve (12) developmentally or physically disabled residents in their daily needs and growth toward greater independence.
  - ***Yellow Cedar Residence:*** A 24-hour residential program that provides care, supervision, health and supportive services for low income developmentally disabled adults. The program also assists "higher level" residents in learning to live independently.
  - ***Housing Management Division:*** The Division manages the low-income housing facilities and provides support services for seniors and persons with disabilities who are capable of independent living; four (4) of the housing communities are on St. Croix and one (1) on St. Thomas; with a total of 139 apartments. The division also manages housing and assisted living for individuals who are developmentally or physically disabled; one group home is on St. Croix and one on St. Thomas.
  - ***Early Head Start Program:*** The program which serves 120 families was designed specifically to serve at-risk families with children from birth to age three. The program engages all members of the family in a positive and productive model that emphasizes the importance of order, organization, and social interaction to foster school readiness. The Program has three segments – Pregnant Women which focuses on providing support services to pregnant women; Home-Based Program which focuses on encouraging and supporting each child's development at home and the Center-Based Program which operates classrooms that are developmentally appropriate for children from birth to three years old.



- **AmeriCorps Program:** A program of the Corporation for National & Community Service. AmeriCorps members service the residents at several of the program sites with the mission of improving their lives and strengthening the community.
  - **Disaster Response Program:** This program provides immediate and long-term relief to the community in times of disasters with assistance from the National Lutheran Disaster Response Program.
- **Basis of Accounting:** The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenue is recognized when earned and expenses when incurred.

... **Net assets without donor restrictions:** Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Project's management and the board of directors. This class also includes assets previously restricted where restrictions have expired or been met.

... **Net assets with donor restrictions:** Net assets that are subject to stipulations imposed by donor and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Project or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Earnings related to restricted net assets will be included in net assets without donor restrictions unless otherwise specifically required to be included in donor-restricted net assets by the donor. At September 30, 2019, the organization's net assets were net assets with donor restrictions and without donor restrictions.

- **Contributions:** Lutheran Social Services reports gifts of cash and other assets as donor restricted 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, donor restricted net assets are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.
- **Investments:** Investments in equity securities are reported at fair value. Investment income, including realized and unrealized gains and losses, as well as interest and dividends, are recognized as revenue and reported in the statement of activities and changes in net assets as increases or decreases in the unrestricted net assets, unless their use is temporarily or permanently restricted by the donor.
- **Property and Equipment:** Lutheran Social Services capitalizes all property and equipment valued over \$5,000. The property and equipment are recorded at cost and are depreciated on the straight-line basis over the estimated service lives of the assets.

Maintenance and repairs are charged to operations in the period incurred. The estimated useful lives of the assets are as follows:

Building and Improvements	25-35 years
Machinery and Equipment	5-10 years
Furniture and Fixtures	7 years
Land Improvements	5 years
Vehicles	3-5 years



- **Cash and Cash Equivalents:** Cash and cash equivalents includes all monies in the bank and on hand and highly liquid investments with original maturities of three months or less. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.
- **Deferred Revenue:** Hurricane insurance proceeds and Disaster Grants received for fiscal year 2019 are recognized as deferred revenue to the extent the process has not been completed.
- **Functional Allocation of Expenses:** The costs of providing Lutheran Social Services various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefitted. Expenses are mostly allocated based on direct charges and some estimated percentages for administrative and general functions. The expenses that are allocated include the following:
  - Salaries and Benefit – Time and Effort
  - Contract Labor – Time and Effort
  - Building – Square Footage
  - Utilities – Square Footage
  - Ground Maintenance – Square Footage
  - Client Care – Time and Effort
- **Tax Exempt Status:** Lutheran Social Services is exempt from Federal income taxes under Internal Revenue Code Section 501(c)(3) and, therefore, has made no provision for federal income taxes.

Financial Accounting Standards Board (FASB), Accounting Standards Codification 740, *Income Taxes* (ASC 740) requires that a tax position be recognized or derecognized based on a “more-likely-than-not” threshold. This applies to positions taken or expected to be taken in a tax return. As of September 30, 2019, management has assessed its various tax positions and it believes there are no liabilities for uncertain tax positions.

Lutheran Social Services’ tax returns are subject to examination by the Internal Revenue Service, generally for three years after they are filed.

- **Recently Adopted Accounting Pronouncements:** On August 18, 2016, FASB issued ASU-2016-14, Not-for-Profit Entities (Subtopic 958): Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. LSS has adjusted the presentation of these statements, accordingly. The ASU has been applied retrospectively to all periods presented.
- **Use of Estimates:** The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that directly affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of financial statements. Accordingly, actual results could differ from those estimates.
- **Comparative Information:** The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail or reclassifications to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Lutheran Social Services’ financial statements for the year ended September 30, 2018 from which the summarized information was derived.



## NOTE 2      AVAILABILITY AND LIQUIDITY

The following table represents LSVI's financial assets at September 30, 2019:

Financial assets at year-end:	
Cash and Cash Equivalents	\$ 1,875,916
Grants and Other Receivables	<u>793,171</u>
	2,669,087
Less those unavailable for general expenditure within one year due to:	
Donor Contributions for Specific Purposes	<u>1,478,113</u>
Financial assets available to meet cash needs for General expenditures within one year	<u>\$ 1,190,974</u>

## NOTE 3      CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following at September 30, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Cash and Cash Equivalents	\$ 564,009	\$ 1,311,907	\$ 1,875,916

**Donor Restricted Cash and Cash Equivalents.** The restricted cash and cash equivalents at September 30, 2019 consisted of the following:

Capital Campaign Fund	\$ 66,764
Edouard Foundation Fund	62,266
Lutheran Disaster Response	562,895
St. Thomas Recovery Teams	<u>619,982</u>
	<u>\$ 1,311,907</u>

## NOTE 4      CONCENTRATION OF CREDIT RISK

Lutheran Social Services maintains its cash in four financial institutions. Accounts at each financial institution are insured by the Federal Deposit Insurance Corporation up to \$250,000 and Securities Investors Protection Corporation up to \$500,000. At September 30, 2019, the uninsured cash balance in financial institutions totaled \$2,087,652.

**NOTE 5 DUE (TO)/FROM AFFILIATES**

Lutheran Social Services engages in various transactions with several affiliate organizations. The organization and its affiliates share employees. Lutheran Social Services is also the management agent for the entities listed below. At September 30, 2019, Due from (to) Affiliates consisted of the following:

<b>Due (to) from Affiliates</b>	<b>Project</b>	<b>Balance</b>
Lutheran Gardens Apartments, Inc.	Bougainvillea	\$ 33,266
Lutheran Housing Association for the Developmentally Disabled, Inc.	Danish Gardens	2,027
St. Croix Services for Developmentally Disabled, Inc.	Prince Street Residence	4,636
Lutheran Housing Association for the Elderly of the V.I.	Flambouyant Gardens	13,845
St. Croix Elderly Housing, Inc.	Genip Gardens	5,667
St. Thomas-St. John Division of Lutheran Housing Association for the Elderly of the Virgin Islands, Inc.	Ebenezer Gardens	68,988
St. Thomas-St. John Services for the Developmentally Disabled, Inc.	Yellow Cedar	3,387
Total Due From Housing Affiliates		131,816
Due to LSS - Magens Junction LLC (Phases 1 and 2)		(443,920)
<b>Due to (from) Affiliates</b>		<b>\$ (312,104)</b>

**LSS – MAGENS JUNCTION**

In fiscal year 2016 Lutheran Social Services (LSS) entered into a joint venture agreement with Jackson Development Company (JDC) to develop a 48-unit Low Income Housing Tax Credit (LIHTC) project in Estate Lovenlund, St. Thomas. Phase 1 of the project is anticipated to consist of 48 one and two bedroom apartments, 100% affordable as contemplated under the IRS Code, Section 42.

Additionally, in 2018, LSS entered into a Memorandum of Understanding (the Agreement) with Jackson Development Company (JDC) to develop Phase 2 of the Magens Junction Project. The project is anticipated to consist of 68 one and two bedroom apartments, 100% affordable as contemplated under the IRS Code, Section 42.

LSS or its affiliates agreed to work with and cooperate with JDC in completing and submitting the LIHTC application to the Virgin Islands Housing Finance Authority. LSS responsibilities will include the design, the implementation and operation of programs that will deliver supportive social services to the residents of the project.

LSS is a co-general partner with a 51% share of the general partner's interest (51% of .01%). The projects will be funded from conditional reservation of LIHTC from VIHFA as follows:

Phase I:	
2015 Credits Reserved	\$1,648,170
2016 Credits Reserved	658,783
Phase II:	
2018 Credits Reserved	1,989,396
2019 Credits Reserved	1,731,604
Total Allocated and Reserved	<u>\$6,027,953</u>



## NOTE 6 FAIR VALUE MEASUREMENTS

In accordance with ASC No. 820-10, Lutheran Social Services' assets and liabilities are reported at fair value. ASC No. 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at a measurement date. ASC No. 820-10 also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy consists of the following three broad levels:

- Level 1** Quoted market prices for identical assets or liabilities in active markets. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2** Quoted market prices for similar assets or liabilities in active markets; quoted prices for identical or similar instruments in markets that are not active; or other than quoted prices in which significant inputs and significant value drivers are observable in active markets either directly or indirectly.
- Level 3** Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are not observable.

Assets measured at fair value are based on one or more of three valuation techniques described below.

- (a) *Market Approach* – Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
- (b) *Cost Approach* – Amounts that would be required to replace the service capacity of an asset (replacement cost).
- (c) *Income Approach* – Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, options pricing, and excess earnings models).

The market approach is used to measure the Lutheran Social Services' assets. There were no transfers among Levels 1 and 2 during the fiscal year.

The fair value of the Lutheran Social Services' assets measured on a recurring basis is as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>
<i>Assets:</i>			
<b>Short Term Investments</b>			
Cash Equivalents	<u>\$ 836,219</u>	<u>\$ -</u>	<u>\$ 836,219</u>
<b>Long Term Investments</b>			
Certificate of Deposits	\$ 4,198,724		\$ 4,198,724
Mutual Funds:			
Debt Securities	873,058	-	873,058
Equity Securities	178,469	178,469	-
Other	22,936	-	22,936
Total Long-Term Investments	<u>\$ 5,273,187</u>	<u>\$ 178,469</u>	<u>\$ 5,094,718</u>



**NOTE 7        INVESTMENTS**

Lutheran Social Services' investments are with one financial institution and are as follows:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Cash Equivalents	\$ 761,077	\$ 75,142	\$ 836,219
Mutual Funds	705,200	369,263	1,074,463
Certificate of Deposits	4,198,724	-	4,198,724
	<u>\$ 5,665,001</u>	<u>\$ 444,405</u>	<u>\$6,109,406</u>

The following schedule summarizes Lutheran Social Services' investment return for the year ended September 30, 2019:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Interest and Dividends	\$ 99,728	\$ 8,622	\$ 108,350
Realized Gain	9,009	4	9,013
Unrealized Gain (Loss)	25,718	8,018	33,736
Other Adjustments	(123)	(62)	(185)
Total	<u>\$ 134,332</u>	<u>\$ 16,582</u>	<u>\$ 150,914</u>

In 2019, Lutheran Social Services recognized Realized/Unrealized Gain (Loss) from its investments of \$42,749.

**NOTE 8        PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at September 30, 2019:

Land	\$ 245,903
Land Improvements	159,492
Building and Improvements	2,667,327
Construction in Progress	20,806
Vehicles	571,019
Furniture	13,224
Equipment	370,568
Total Property and Equipment	<u>4,048,339</u>
Less: Accumulated Depreciation	<u>(2,103,835)</u>
Property and Equipment, net	<u>\$1,944,504</u>

Depreciation expense for the year ended September 30, 2019 totaled \$187,817

**NOTE 9 DONOR RESTRICTED NET ASSETS**

Net assets with donor restrictions at September 30, 2019, consisted of the following:

	<b>2019</b>
Capital Campaign	\$ 374,829
Edouard Foundation Fund	62,266
Lutheran Disaster Response	279,796
Total	<u>\$ 716,891</u>

**NOTE 10 GOVERNMENTAL FUNDING**

Lutheran Social Services receives a substantial portion of its revenue from federal and local government grants. Approximately 98% of all receivables were collected in fiscal year 2020. At September 30, 2019, Lutheran Social Services' federal and local government receivables and revenues were as follows:

<u>Agency</u>	<u>Program</u>	<u>Receivable</u>	<u>Revenue</u>
<i><b>Federal</b></i>			
U.S. Department of Health and Human Services	Early Head Start	\$ 46,056	\$1,902,894
National Corporation for Community Services	AmeriCorps	84,398	314,624
Total Federal		<u>130,454</u>	<u>2,217,518</u>
V.I. Department of Education	School Lunch	4,846	100,899
V.I. Department of Human Services	Ginger Thomas	195,559	782,235
	Early Head Start	-	19,525
	Yellow Cedar	123,891	495,564
	Queen Louise Home	164,063	736,250
	Sister Emma's Cottage	154,875	619,500
V.I. Department of Health	Fiduciary Service Fees	8,000	31,583
	Crisis Consulting	-	65,821
Total Local Government		<u>651,234</u>	<u>2,851,377</u>
Total Federal and Local Government Receivable and Revenue		<u>\$781,688</u>	<u>\$5,068,895</u>

**NOTE 11 AGENCY FUNDS**

Lutheran Social Services acts as a fiduciary for the Virgin Islands Department of Health Infants and Toddlers program by providing financial administration and account management services. Program funds received are considered as a liability and when disbursed are considered as a reduction in the liability. Agency Funds of \$1,121 is included in accounts payable in the statement of financial position.

**NOTE 12 EMPLOYEE BENEFIT PLAN**

Lutheran Social Services has a qualified pension plan under Section 403(b) of the Internal Revenue Code. All full-time employees are eligible to participate in the plan. The plan provides that any full-time employee upon hiring is eligible to participate in the plan. Lutheran Social Services provides a matching contribution up to 3% of the employee's salary. Pension expense for the year ended September 30, 2019 totaled \$53,104.

**NOTE 13      DEFERRED REVENUE AND DEFERRED INSURANCE RECOVERIES**

The Virgin Islands sustained substantial damages from hurricanes Irma and Maria, as a result Lutheran Disaster Response, a program of the organization, was reactivated. Deferred revenue consisted of Grants received for fiscal years 2019 to 2021 for long-term recovery under this program. Additionally, the Organization sustained damages to Queen Louise Home and Early Head Start programs. These two cost centers received an insurance settlement for the hurricane damages, reported as deferred insurance recoveries in the financial statements. Deferred revenue and deferred insurance recoveries consisted of the following at September 30, 2019:

	<b>2019</b>
Deferred Revenue	\$ 1,218,998
Deferred Insurance Recoveries	259,115
Total Deferred Revenue and Insurance Recoveries	<u>\$ 1,478,113</u>

**NOTE 14      SUBSEQUENT EVENTS**

The Organization's management has evaluated subsequent events through June 10, 2020, the date the financial statements were available to be issued. The accompanying financial statements recognize the effects of subsequent events that provided evidence about conditions that exist at the balance sheet date, including the estimates inherent in the process of preparing financial statements. The accompanying financial statements do not recognize the effect of subsequent events that did not exist at the balance sheet date, but disclosures of such events, if any, are included in the accompanying notes.

The United States has been impacted by the Novel Coronavirus (COVID-19), an aggressive and potent pandemic. This pandemic is considered a non-recognized subsequent event, that is, an event that did not exist at the date of the statement of position. The financial impact of the event is unknown, and no adjustment has been recorded in the financial statements. In April 2020, the Organization applied and was granted a federal loan under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) Paycheck Protection Program. The loan was in the amount of \$541,587. Management believes that the Organization will satisfy the forgiveness provisions in full.



---

## **REPORTS ON COMPLIANCE AND INTERNAL CONTROL**

---



1090 Vermont Ave., NW  
Suite 920  
Washington, DC 20005  
PO Box 2478  
Kingsthill, VI 00851  
111 South Calvert St  
Suite 2700  
Baltimore, MD 21202

**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON A AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

The Board of Directors  
Lutheran Social Services of the Virgin Islands, Inc.  
St. Croix, VI

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lutheran Social Services of the Virgin Islands, Inc. (Lutheran Social Services), which comprise the statement of financial position as of September 30, 2019, and the related statement of activities, statement of functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 10, 2020.

**Internal Control over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

*Bart Smith & Co.*

St. Croix, U.S. Virgin Islands  
June 10, 2020





1090 Vermont Ave., NW  
Suite 920  
Washington, DC 20005  
P.O. Box 2478  
Kingshill, VI 00851  
111 South Calvert St  
Suite 2700  
Baltimore, MD 21202

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

The Board of Directors  
Lutheran Social Services of the Virgin Islands, Inc.  
St. Croix, VI

**Report on Compliance for Each Major Federal Program**

We have audited Lutheran Social Services of the Virgin Islands, Inc. (Lutheran Social Services) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Lutheran Social Services' major federal programs for the year ended September 30, 2019. Lutheran Social Services' major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Lutheran Social Services' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lutheran Social Services' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Lutheran Social Services' compliance.

**Opinion on Each Major Federal Program**

In our opinion, Lutheran Social Services complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2019.

## Report on Internal Control Over Compliance

Management of Lutheran Social Services is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Lutheran Social Services' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lutheran Social Services' internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Bart Smith & Co.*

St. Croix, U.S. Virgin Islands  
June 10, 2010

**LUTHERAN SOCIAL SERVICES OF THE VIRGIN ISLANDS, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**

<b><u>Federal Grantor/Program Title</u></b>	<b><u>Federal CFDA Number</u></b>	<b><u>Federal Expenditures</u></b>
<i>U.S. Department of Health and Human Services</i>		
Early Head Start Program	93.600	\$ 1,902,935
<i>Corporation for National and Community Service</i>		
AmeriCorps Program	94.006	<u>314,624</u>
<b>Total Expenditures of Federal Awards</b>		<b><u>\$ 2,217,559</u></b>

*The accompanying notes are an integral part of this schedule.*



**LUTHERAN SOCIAL SERVICES OF THE VIRGIN ISLANDS, INC.**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**

**NOTE 1   BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of Lutheran Social Services of the Virgin Islands, Inc. (Lutheran Social Services) under programs of the federal government for the year ended September 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Lutheran Social Services, it is not intended to and does not present the financial position, changes in net assets or cash flows of Lutheran Social Services.

**NOTE 2   SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE 3   INDIRECT COST RATE**

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

**LUTHERAN SOCIAL SERVICES OF THE VIRGIN ISLANDS, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**

**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of auditor’s report issued:	Unmodified
Internal control over financial reporting:	
• Material Weakness(es) identified?	No
• Significant Deficiency(ies) identified?	None Reported
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major federal programs:	
• Material Weakness(es) identified?	No
• Significant Deficiency(ies) identified?	None Reported
Type of auditor’s report issued on compliance for major federal programs.	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a)?	No

**Identification of Major Federal Programs:**

93.600	Early Head Start Program	
Dollar threshold used to distinguish between Type A and Type B programs:		\$750,000
Auditee qualified as a low-risk auditee?		No

**LUTHERAN SOCIAL SERVICES OF THE VIRGIN ISLANDS, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**

**Section II – Financial Statement Findings**

None Reported.



**LUTHERAN SOCIAL SERVICES OF THE VIRGIN ISLANDS, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2019**

**Section III – Federal Award Findings and Questioned Costs**

None Reported.