

**LUTHERAN SERVICES IN AMERICA,
INCORPORATED**

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2016 AND 2015

LUTHERAN SERVICES IN AMERICA, INCORPORATED
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2016 AND 2015

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	3
STATEMENTS OF ACTIVITIES	4
STATEMENTS OF FUNCTIONAL EXPENSES	5
STATEMENTS OF CASH FLOWS	6
NOTES TO FINANCIAL STATEMENTS	7

INDEPENDENT AUDITORS' REPORT

Board of Directors
Lutheran Services In America, Incorporated
Washington, DC

Report on the Financial Statements

We have audited the accompanying statements of financial position of Lutheran Services In America, Incorporated (the Organization) as of June 30, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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.

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

Board of Directors
Lutheran Services in America, Incorporated

Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2016 and 2015, and the changes in its net assets, functional expenses, and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Baltimore, Maryland
August 19, 2016

LUTHERAN SERVICES IN AMERICA, INCORPORATED
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 538,045	\$ 343,924
Accounts Receivable	84,076	73,133
Prepaid Expenses	29,784	56,204
Total Current Assets	<u>651,905</u>	<u>473,261</u>
ASSETS LIMITED AS TO USE		
Cash Held for Managed Networks	180,525	98,921
Restricted Cash Held for Grant	395,817	-
Total Assets Limited as to Use	<u>576,342</u>	<u>98,921</u>
CERTIFICATES OF DEPOSIT	<u>1,300,000</u>	<u>1,300,000</u>
FIXED ASSETS		
Information Technology	272,070	272,070
Less Accumulated Depreciation	267,071	263,573
Total Fixed Assets	<u>4,999</u>	<u>8,497</u>
Total Assets	<u>\$ 2,533,246</u>	<u>\$ 1,880,679</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 182,132	\$ 257,593
Lease Abandonment Obligation	27,786	37,884
Deferred Revenue:		
Deferred Dues Revenue	369,977	123,030
Deferred Grant Revenue	317,545	-
Total Current Liabilities	<u>897,440</u>	<u>418,507</u>
DEPOSIT LIABILITIES		
Deposits Held for Managed Networks	<u>180,525</u>	<u>98,921</u>
Total Liabilities	<u>1,077,965</u>	<u>517,428</u>
NET ASSETS		
Unrestricted	1,253,609	1,247,975
Temporarily Restricted	201,672	115,276
Total Net Assets	<u>1,455,281</u>	<u>1,363,251</u>
Total Liabilities and Net Assets	<u>\$ 2,533,246</u>	<u>\$ 1,880,679</u>

See accompanying Notes to Financial Statements.

LUTHERAN SERVICES IN AMERICA, INCORPORATED
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2016 AND 2015

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUES, CONTRIBUTIONS AND OTHER SUPPORT						
Membership Dues	\$ 951,660	\$ -	\$ 951,660	\$ 901,742	\$ -	\$ 901,742
Events - Conferences and Training	382,209	-	382,209	304,564	-	304,564
Service Fees and Others	238,112	-	238,112	211,095	-	211,095
Investment Income	18,605	2,466	21,071	20,285	-	20,285
Contributions - ELCA	385,767	-	385,767	431,433	-	431,433
Contributions - LCMS	126,000	-	126,000	140,000	-	140,000
Contributions - Other	125,794	250	126,044	154,897	-	154,897
Grants	-	952,805	952,805	(150)	285,150	285,000
	<u>2,228,146</u>	<u>955,521</u>	<u>3,183,667</u>	<u>2,163,866</u>	<u>285,150</u>	<u>2,449,016</u>
Net Assets Released from Restrictions	869,125	(869,125)	-	412,700	(412,700)	-
Total Revenues, Contributions and Other Support	<u>3,097,271</u>	<u>86,396</u>	<u>3,183,667</u>	<u>2,576,566</u>	<u>(127,550)</u>	<u>2,449,016</u>
EXPENSES						
Program Services	2,348,962	-	2,348,962	1,917,166	-	1,917,166
Management and General	566,949	-	566,949	536,132	-	536,132
Fundraising	175,726	-	175,726	-	-	-
Total Expenses	<u>3,091,637</u>	<u>-</u>	<u>3,091,637</u>	<u>2,453,298</u>	<u>-</u>	<u>2,453,298</u>
CHANGES IN NET ASSETS	5,634	86,396	92,030	123,268	(127,550)	(4,282)
Net Assets - Beginning of Year	<u>1,247,975</u>	<u>115,276</u>	<u>1,363,251</u>	<u>1,124,707</u>	<u>242,826</u>	<u>1,367,533</u>
NET ASSETS - END OF YEAR	<u>\$ 1,253,609</u>	<u>\$ 201,672</u>	<u>\$ 1,455,281</u>	<u>\$ 1,247,975</u>	<u>\$ 115,276</u>	<u>\$ 1,363,251</u>

See accompanying Notes to Financial Statements.

LUTHERAN SERVICES IN AMERICA, INCORPORATED
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2016 AND 2015

	2016				2015			
	Program Services	Management and General	Fundraising	Total Expenses	Program Services	Management and General	Total Expenses	
EXPENSES								
Staff Compensation and Benefits	\$ 1,073,891	\$ 274,745	\$ 129,014	\$ 1,477,650	\$ 1,194,766	\$ 190,449	\$ 1,385,215	
Travel	61,927	51,891	2,868	116,686	53,916	41,224	95,140	
Professional Services Purchased	151,656	111,895	22,486	286,037	219,177	190,018	409,195	
Financial Expenses	12,283	10,358	1,321	23,962	15,549	9,575	25,124	
Event - Facilities and Programs	256,523	3,050	10,000	269,573	225,296	2,445	227,741	
Office and Related Expenses	63,500	47,355	6,144	116,999	86,652	22,827	109,479	
External Communications	27,014	38,548	1,300	66,862	47,537	13,840	61,377	
Printing and Mailing	22,555	4,281	47	26,883	17,771	8,067	25,838	
Telecom and Information Technology	25,385	23,545	2,364	51,294	54,729	56,078	110,807	
Programmatic Subgrants to Members	649,470	-	-	649,470	-	-	-	
Other Expenses	4,757	1,281	182	6,220	1,773	1,609	3,382	
Total Expenses	\$ 2,348,962	\$ 566,949	\$ 175,726	\$ 3,091,637	\$ 1,917,166	\$ 536,132	\$ 2,453,298	

See accompanying Notes to Financial Statements.

LUTHERAN SERVICES IN AMERICA, INCORPORATED
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 92,030	\$ (4,282)
Adjustments to Reconcile Change in Net Assets to Net		
Cash Provided (Used) by Operating Activities:		
Depreciation	3,498	3,498
Effects of Changes in Operating Assets and Liabilities:		
Accounts Receivable	(10,943)	(68,088)
Prepaid Expenses	26,420	(30,839)
Accounts Payable and Accrued Expenses	(75,461)	76,938
Deferred Revenue:		
Membership Dues	246,947	(57,456)
Future Year Grant Revenue	317,545	-
Net Cash Provided (Used) by Operating Activities	<u>600,036</u>	<u>(80,229)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Change in Restricted Cash	<u>(395,817)</u>	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments for Abandonment of Lease	<u>(10,098)</u>	<u>(8,415)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	194,121	(88,644)
Cash and Cash Equivalents - Beginning of Year	<u>343,924</u>	<u>432,568</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 538,045</u></u>	<u><u>\$ 343,924</u></u>

See accompanying Notes to Financial Statements.

LUTHERAN SERVICES IN AMERICA, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background

Lutheran Services in America, Incorporated (the Organization) is one of the largest health and human services networks in the country, representing more than 300 Lutheran nonprofit organizations throughout the United States and the Caribbean. The Organization works to connect and empower its member organizations, which collectively provide a broad range of critical services, such as health care to children, family services, senior services, disaster relief, refugee services, disability support, housing, and employment support, to one in every fifty Americans annually. The Organization is affiliated with the Evangelical Lutheran Church in America (ELCA) and The Lutheran Church-Missouri Synod (LCMS).

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Basis of Presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities. The financial statement presentation is in accordance with FASB ASC 958, *Not-for-Profit Entities*. Under ASC 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted net assets are the net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that either expire by the passage of time or used for specified purposes.

Permanently restricted net assets result from contributions whose use is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by the Organization's actions. The Organization has no permanently restricted net assets at June 30, 2016 and 2015.

The term "fiscal year" or "FY" is used at times in these financial statements. Such reference refers to the year in which June 30 falls.

Cash and Cash Equivalents

The Organization considers all short-term investments which are to be used for operations and have a maturity of three months or less when purchased to be cash equivalents.

LUTHERAN SERVICES IN AMERICA, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable are primarily pledges by individual and non-member organizations to the LSA 20-500 Fund campaign, royalties, and amounts due from member and affiliated organizations. The Organization provides for losses on accounts receivable using the allowance method. The allowance is based on experience and other circumstances which may affect the ability of customers to meet their obligations. No allowance was considered necessary at June 30, 2016 and 2015.

Certificates-of-Deposit

The investment in certificates-of-deposit are with the Mission Investment Fund of the ELCA with original maturities from one to four years as deemed appropriate by management to provide the necessary cash management flexibility. The certificates-of-deposit can be redeemed prior to maturity upon incurrence of a penalty. Certificates are stated at cost-basis which approximates fair value.

Fixed Assets

All individual acquisitions of equipment in excess of \$2,000 and all expenditures for repairs, maintenance, renewals and betterments that materially prolong the useful lives of assets are capitalized. Information technology consists of computer equipment and software applications. These assets are depreciated on the straight-line method over their estimated useful lives, which is 3 years. Purchased equipment is carried at cost. Donated equipment is carried at fair value at the date of donation, if sufficient fair market value can be evidenced.

Revenue Recognition

Membership dues, grant revenue, event revenue, service fees and other contributions are recognized as revenue in the fiscal year to which they relate. Membership dues that are received in advance are recorded as deferred revenue. Grant revenue that is received in advance is recorded as deferred grant revenue.

All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets in the reporting period in which the revenue is recognized, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions.

Managed Networks

The Organization facilitates collaboration among its members for the purpose of advancing the ministries of the members. The collaborative groups are called Networks. The Organization provides fiscal agent services for some of these Networks, which are referred to as Managed Networks in the financial statements. Cash held for managed networks and the related deposit liability was \$180,525 and \$98,921 at June 30, 2016 and 2015, respectively.

LUTHERAN SERVICES IN AMERICA, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2). The Organization is required to report unrelated business income to the IRS and Maryland, as well as pay certain other taxes to local jurisdictions. The Organization did not have any unrelated business income for the years ended June 30, 2016 and 2015.

Retirement Plan

The Organization has established a 403(b) Retirement Plan. Employees who work 20 or more hours a week and have attained age 18 are eligible to participate in the Plan. Employees may make contributions to the Plan up to the maximum amount allowed by the Internal Revenue Service. The Organization provides a matching contribution of 100% of participant contributions, up to 3% of annual salary as of June 30, 2016. All contributions to the Plan are 100% vested immediately. The Organization recorded employer match expenses of \$36,588 and \$23,809 for the years ended June 30, 2016 and 2015, respectively.

NOTE 2 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2016	2015
OASIS	\$ 59,786	\$ 59,786
ELCA LSCE - CYF	36,775	-
ELCA LSEE	36,738	-
Margaret A. Cargill Foundation	28,721	-
ELCA LSCE -Experiential Innovation Tour	-	20,938
Social Ministry Organization Capacity Building	20,719	20,719
Board Development	10,780	10,780
Annie E. Casey Foundation	4,850	-
Twin Lakes Berg Memorial Fund	250	-
ELCA Community Development	3,053	3,053
Total	<u>\$ 201,672</u>	<u>\$ 115,276</u>

Donors typically do not provide specific timeframes in which to use contributions, but the Organization anticipates that the majority of its temporarily restricted assets will be released over the next twelve to thirty-six months.

LUTHERAN SERVICES IN AMERICA, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 3 NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from temporary donor restrictions were as follows during the years ended June 30:

	2016	2015
Annie E. Casey Foundation	\$ 1,750	\$ -
ELCA LSCE - Children Youth and Family	38,225	-
ELCA LSCE -Experiential Innovation Tour	20,938	64,062
ELCA LSCE - Resources & Opportunities	-	15,510
ELCA LSEE - Partnership Grant	-	90,180
ELCA LSEE - Post Acute Care	-	150,000
ELCA LSEE - Senior Services Project	63,262	-
LCF Technology for Independence	-	42,798
Margaret A. Cargill Foundation	712,450	-
The Arc	2,500	-
Twin Lakes Berg Memorial Fund	30,000	50,150
Total	<u>\$ 869,125</u>	<u>\$ 412,700</u>

NOTE 4 PROGRAM SERVICES

The Organization conducted the following programs during the years ended June 30:

	2016	2015
Raising Visibility for Lutheran Social Ministry	\$ 244,626	\$ 409,827
Leadership Development and Convenings	691,573	472,568
LSA Advocacy/Public Policy	172,509	202,589
Creating Member Solutions	1,240,254	832,182
Total	<u>\$ 2,348,962</u>	<u>\$ 1,917,166</u>

NOTE 5 LEASE COMMITMENT

The Organization previously leased an office in Washington, DC, under an operating sublease. The lease provided for base monthly rentals of \$2,876 through May 1, 2018, and was subject to annual escalation provisions. In March 2013, the Organization terminated this lease and negotiated the maximum termination liability of \$101,321 for the remainder of the lease term with the lessor. As of June 30, 2013, the Organization estimated that it would be able to supplement this liability with sublease income of \$32,445 over the remainder of lease term, for a net liability of \$68,876. This amount was expensed during fiscal year 2013. During the fiscal year 2014, however, the Organization was only able to arrange a sublease agreement with sublease income of \$21,824 over the remainder of the lease term, for a net liability of \$79,497. The \$10,621 difference between the estimated and actual liability was expensed in fiscal year 2014. At June 30, 2016 and 2015, the lease abandonment obligation was \$27,280 and \$37,884, respectively.

LUTHERAN SERVICES IN AMERICA, INCORPORATED
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 5 LEASE COMMITMENT (CONTINUED)

The Organization leases its Washington, DC operating facility under a five year lease that commenced July 1, 2013. The lease provides for base monthly rentals of \$7,942 through June 30, 2018, and is subject to annual escalation provisions. Effective March 1, 2015 the Organization entered into a one year sublease for an additional space at a monthly rental of \$1,206.

Total rent expense, including all leases, for the years ended June 30, 2016 and 2015 was \$105,630 and \$95,301, respectively.

Future minimum rental payments required under non-cancellable operating leases having initial or remaining lease terms in excess of one year at June 30, 2016 are as follows:

2017	\$	100,858
2018		112,448
Total	\$	<u>213,306</u>

NOTE 6 CONCENTRATION OF CREDIT RISK

The Organization maintains its cash in one commercial bank. Balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to specified limits. Balances in excess of FDIC limits are uninsured. The balance on deposit was \$500,185 and \$170,468 at June 30, 2016 and 2015, respectively.

Cash equivalents and certificate of deposits are maintained with the Lutheran Church Extension Fund of The Lutheran Church - Missouri Synod, and the Mission Investment Fund of the ELCA. These accounts are uninsured. The balances on deposit with these entities as of June 30, 2016 and 2015, amount to \$2,005,125 and \$1,722,363, respectively.

NOTE 7 RELATED PARTY RELIANCE

Contributions to the Organization from ELCA and LCMS accounted for 16 percent of total revenues in 2016 and 23 percent of revenue in 2015. The amounts received during the current year are disclosed within the financial statements.

NOTE 9 SUBSEQUENT EVENTS

Management evaluated subsequent events through August 19, 2016, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2016, but prior to August 19, 2016 that provided additional evidence about conditions that existed at June 30, 2016, have been recognized in the financial statements for the year ended June 30, 2016. Events or transactions that provided evidence about conditions that did not exist at June 30, 2016, but arose before the financial statements were available to be issued, have not been recognized in the financial statements for the year ended June 30, 2016.