LUTHERAN SERVICES IN AMERICA, INCORPORATED

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2017 AND 2016

LUTHERAN SERVICES IN AMERICA, INCORPORATED
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2017 AND 2016

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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, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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, 2017 and 2016, 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
September 11, 2017

LUTHERAN SERVICES IN AMERICA, INCORPORATED
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 677,982	$ 688,045
Short-term Certificates of Deposit	550,000	750,000
Pledges Receivable	27,334	17,101
Accounts Receivable	24,911	66,125
Prepaid Expenses	19,149	29,784
Total Current Assets	1,299,376	1,551,055
ASSETS LIMITED AS TO USE		
Cash Held for Managed Networks	112,825	180,525
Restricted Cash Held for Grant	695,404	395,817
Total Assets Limited as to Use	808,229	576,342
LONG-TERM CERTIFICATES OF DEPOSIT	600,000	400,000
PLEDGES RECEIVABLE, NET OF CURRENT PORTION	63,666	850
FIXED ASSETS		
Information Technology	272,070	272,070
Less Accumulated Depreciation	269,571	267,071
Total Fixed Assets	2,499	4,999
Total Assets	$ 2,773,770	$ 2,533,246
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	$ 221,825	$ 182,131
Grants Payable	316,562	-
Lease Abandonment Obligation	17,688	27,786
Deferred Revenue:		
Deferred Dues Revenue	206,383	369,977
Deferred Grant Revenue	276,949	317,545
Total Current Liabilities	1,039,407	897,439
DEPOSIT LIABILITIES		
Deposits Held for Managed Networks	112,825	180,525
Total Liabilities	1,152,232	1,077,964
NET ASSETS		
Unrestricted	1,457,973	1,253,610
Temporarily Restricted	163,565	201,672
Total Net Assets	1,621,538	1,455,282
Total Liabilities and Net Assets	$ 2,773,770	$ 2,533,246

See accompanying Notes to Financial Statements.

LUTHERAN SERVICES IN AMERICA, INCORPORATED
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2017 AND 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUES, CONTRIBUTIONS AND OTHER SUPPORT						
Membership Dues	$ 988,577	$ -	$ 988,577	$ 951,660	$ -	$ 951,660
Events - Conferences and Training	367,344	-	367,344	382,209	-	382,209
Service Fees and Others	361,832	-	361,832	238,112	-	238,112
Investment Income	14,781	7,875	22,656	18,604	2,466	21,070
Contributions - ELCA	400,000	-	400,000	385,767	-	385,767
Contributions - LCMS	39,000	-	39,000	126,000	-	126,000
Contributions - Other	246,891	-	246,891	125,794	250	126,044
Grants	-	1,072,246	1,072,246	-	952,805	952,805
	2,418,425	1,080,121	3,498,546	2,228,146	955,521	3,183,667
Net Assets Released from Restrictions	1,118,228	(1,118,228)	-	869,125	(869,125)	-
Total Revenues, Contributions and Other Support	3,536,653	(38,107)	3,498,546	3,097,271	86,396	3,183,667
EXPENSES						
Program Services	2,610,387	-	2,610,387	2,348,961	-	2,348,961
Supporting Services:						
Management and General	537,473	-	537,473	566,949	-	566,949
Fundraising	184,430	-	184,430	175,726	-	175,726
Total Supporting Services	721,903	-	721,903	742,675	-	742,675
Total Expenses	3,332,290	-	3,332,290	3,091,636	-	3,091,636
CHANGES IN NET ASSETS	204,363	(38,107)	166,256	5,635	86,396	92,031
Net Assets - Beginning of Year	1,253,610	201,672	1,455,282	1,247,975	115,276	1,363,251
NET ASSETS - END OF YEAR	$ 1,457,973	$ 163,565	$ 1,621,538	$ 1,253,610	$ 201,672	$ 1,455,282

See accompanying Notes to Financial Statements.

LUTHERAN SERVICES IN AMERICA, INCORPORATED
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2017 AND 2016

	2017					2016				
		Supporting Services					Supporting Services			
	Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses	Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
EXPENSES										
Staff Compensation and Benefits	$ 1,115,904	$ 221,849	$ 139,116	$ 360,965	$ 1,476,869	$ 1,073,891	$ 274,745	$ 129,014	$ 403,759	$ 1,477,650
Travel	52,896	25,851	3,924	29,775	82,671	61,927	51,891	2,868	54,759	116,686
Professional Services Purchased	219,506	147,974	21,851	169,825	389,331	151,656	111,895	22,486	134,381	286,037
Financial Expenses	8,181	15,404	729	16,133	24,314	12,283	10,358	1,321	11,679	23,962
Event - Facilities and Programs	233,555	11,287	-	11,287	244,842	256,523	3,050	10,000	13,050	269,573
Office and Related Expenses	21,844	96,634	2,200	98,834	120,678	63,500	47,355	6,144	53,499	116,999
External Communications	24,822	46,900	1,609	48,509	73,331	27,014	38,548	1,300	39,848	66,862
Printing and Mailing	15,487	15,099	2,573	17,672	33,159	22,555	4,281	47	4,328	26,883
Telecom and Information Technology	25,648	39,342	1,035	40,377	66,025	25,385	23,545	2,364	25,909	51,294
Programmatic Subgrants to Members	796,270	-	-	-	796,270	649,470	-	-	-	649,470
Other Expenses	21,191	2,758	851	3,609	24,800	4,757	1,281	182	1,463	6,220
Allocated	75,083	(85,625)	10,542	(75,083)	-	-	-	-	-	-
Total Expenses	$ 2,610,387	$ 537,473	$ 184,430	$ 721,903	$ 3,332,290	$ 2,348,961	$ 566,949	$ 175,726	$ 742,675	$ 3,091,636

See accompanying Notes to Financial Statements.

LUTHERAN SERVICES IN AMERICA, INCORPORATED
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 166,256	$ 92,031
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	2,500	3,498
Effects of Changes in Operating Assets and Liabilities:		
Pledges Receivable	(73,049)	17,089
Accounts Receivable	41,214	(28,032)
Prepaid Expenses	10,635	26,420
Accounts Payable and Accrued Expenses	39,694	(75,462)
Grants Payable	316,562	-
Deferred Revenue:		
Dues Revenue	(163,594)	246,947
Grant Revenue	(40,596)	317,545
Net Cash Provided by Operating Activities	299,622	600,036
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Investments	-	-
Net Change in Restricted Cash	(299,587)	(395,817)
Net Cash Used by Investing Activities	(299,587)	(395,817)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments for Abandonment of Lease	(10,098)	(10,098)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(10,063)	194,121
Cash and Cash Equivalents - Beginning of Year	688,045	493,924
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 677,982	$ 688,045

See accompanying Notes to Financial Statements.

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).

Basis of Accounting and 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 that are subject to donor-imposed stipulations that require passage of time, the performance of a specified program, or the occurrence of a specific event. When conditions of the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Contributions received and unconditional pledges receivable are measured at their fair values and are reported as an increase in net assets.

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, 2017 and 2016.

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.

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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Cash and cash equivalents include $150,000 of certificates of deposits that were previously longer term as of June 30, 2017 and 2016.

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.

Pledges Receivable

Unconditional pledges receivable are recognized as revenue or gains in the period acknowledged. Conditional pledges are only recognized when the conditions on which they depend are substantially met. Unconditional pledges receivable are carried at fair value less an estimate made for doubtful pledges based on a review of all outstanding pledges on an annual basis. Management determines the allowance for doubtful pledges by using the historical experience applied to an aging of pledges. Pledges are written off when deemed uncollectible. No allowance was considered necessary at June 30, 2017 and 2016.

Accounts Receivable

Accounts receivable are primarily receivables for 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 members and others to meet their obligations. No allowance was considered necessary at June 30, 2017 and 2016.

Assets Limited as to Use

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 $112,825 and $180,525 at June 30, 2017 and 2016, respectively.

Cash Held for Grant: The Organization has set up a separate bank account to segregate from other revenue sources the money it has received related to a grant from the Margaret A. Cargill Philanthropies.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Grants Payable

Grant commitments are charged to operations at the time the grants are approved. Grants are cancelled at the time of authorized action.

Revenue Recognition

Membership dues, 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.

Contributions and grants that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions and grants 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.

Functional Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Statements of Activities.

Reclassifications

Certain prior year amounts have been reclassified for consistency with the current period presentation.

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) as an organization, which is not a private foundation. The Organization is generally exempt from federal and state income taxes. Unrelated business income may be subject to federal and state income taxes. Management believes that it has no material uncertain tax positions that would require recognition under the accounting codification guidance.

NOTE 2 FAIR VALUE MEASUREMENTS

The Fair Value Topic of the FASB Codification (the Codification) defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access at the measurement date.

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 observable quoted prices 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.

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

The asset or liability's 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 used must maximize the use of observable inputs and minimize the use of unobservable inputs.

In determining the appropriate levels, the Organization performs a detailed analysis of the assets and liabilities that are subject to the fair value disclosures of the Codification.

Following is a description of the valuation methodologies used for assets measured at fair value at June 30, 2017 and 2016.

Certificates of Deposit - Valued using identical assets or liabilities in less active markets, such as dealer or broker markets, or survey of the dealer community by obtaining broker/dealer quotes on a daily basis.

NOTE 2 FAIR VALUE MEASUREMENTS (CONTINUED)

The following summarizes the Organization's investments using fair value measurements at June 30, 2017:

	Level 1	Level 2	Level 3
Certificates of Deposit	$ -	$ 1,150,000	$ -

The following summarizes the Organization's investments using fair value measurements at June 30, 2016:

	Level 1	Level 2	Level 3
Certificates of Deposit	$ -	$ 1,150,000	$ -

NOTE 3 PLEDGES RECEIVABLE

Pledges receivable are due to be collected in the following periods:

	2017	2016
Less Than One Year	$ 27,334	$ 17,101
One to Five Years	63,666	850
Total	$ 91,000	$ 17,951

NOTE 4 MARGARET A. CARGILL PHILANTHROPIES GRANT

In August 2015, LSA received a grant from Margaret A. Cargill Philanthropies (MACP) to support the Great Plains Senior Services Cooperative. The grant provided a maximum of $2,535,000 in funding over three years, beginning October 1, 2015, in which each year's funding is dependent upon the acceptance by MACP of LSA's annual report for the previous grant year. Recognizing that its review process may not be completed by the beginning of a grant year, MACP prefunds a portion of the next year's grant, which is currently recorded as Deferred Grant Revenue on the Statement of Financial Position.

Additionally, LSA has sub-grants with two other organizations to conduct major programmatic elements of the grant on behalf of LSA. As of June 30, 2017 and 2016, $316,562 and $0, respectively, of budget funding for the subsequent year of the grant had not yet been disbursed to these sub-grantees and is currently recorded as Grants Payable on the Statement of Financial Position.

NOTE 5 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2017	2016
OASIS	$ 59,786	$ 59,786
LSCE: Children Youth & Family & RBLI	33,061	-
LSEE: Home & Community Support	23,019	-
Social Ministry Organization Capacity Building	20,719	20,719
Board Development	10,780	10,780
Margaret A. Cargill Philanthropies	9,248	28,721
ELCA Community Development	3,053	3,053
Annie E. Casey Foundation	2,453	4,850
ECLA: Reformation	1,196	-
Twin Lakes Berg Memorial Fund	250	250
ELCA LSCE - CYF	-	36,775
ELCA LSEE	-	36,738
Total	$ 163,565	$ 201,672

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.

NOTE 6 NET ASSETS RELEASED FROM RESTRICTIONS

All net assets released from temporary donor restrictions were for programmatic purposes, and the amounts were as follows during the years ended June 30:

	2017	2016
Margaret A. Cargill Philanthropies	$ 912,943	$ 712,450
LSEE: Home & Community Support	56,982	-
ELCA LSCE - CYF	36,775	-
ELCA LSEE	36,738	-
LSCE: Children Youth & Family & RBLI	26,939	-
ELCA: Reformation	19,304	-
LCMS: Advocacy Support	16,000	-
Twin Lakes Berg Memorial Fund	10,150	30,000
Annie E. Casey Foundation	2,397	1,750
ELCA LSCE: Children Youth and Family	-	38,225
ELCA LSCE: Experiential Innovation Tour	-	20,938
ELCA LSEE: Senior Services Project	-	63,262
The ARC	-	2,500
Total	$ 1,118,228	$ 869,125

NOTE 7 PROGRAM SERVICES

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

	2017	2016
Creating Member Solutions	$ 1,612,057	$ 1,240,254
Leadership Development and Convenings	553,381	691,572
LSA Advocacy/Public Policy	272,282	172,509
Raising Visibility for Lutheran Social Ministry	172,667	244,626
Total	$ 2,610,387	$ 2,348,961

NOTE 8 LEASE COMMITMENTS

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. At June 30, 2017 and 2016, the lease abandonment obligation was $17,688 and $27,786, respectively.

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, 2017 and 2016 was $107,810 and $105,630, respectively.

NOTE 9 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 IRS. The Organization provides a matching contribution of 100% of participant contributions, up to 3% of annual salary as of June 30, 2017. All contributions to the Plan are 100% vested immediately. The Organization recorded employer match expenses of $33,877 and $36,588 for the years ended June 30, 2017 and 2016, respectively.

NOTE 10 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 $289,164 and $500,185 at June 30, 2017 and 2016, respectively.

NOTE 10 CONCENTRATION OF CREDIT RISK (CONTINUED)

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, 2017 and 2016, amount to $2,401,247 and $2,005,125, respectively.

NOTE 11 CONCENTRATION OF REVENUE

Contributions to the Organization from ELCA and LCMS accounted for 17 percent of total revenues in 2017 and 16 percent of revenue in 2016. The amounts received during the current year are disclosed within the financial statements.

NOTE 12 SUBSEQUENT EVENTS

Management evaluated subsequent events through September 11, 2017, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2017, but prior to September 11, 2017 that provided additional evidence about conditions that existed at June 30, 2017, have been recognized in the financial statements for the year ended June 30, 2017. Events or transactions that provided evidence about conditions that did not exist at June 30, 2017, 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, 2017.