LUTHERAN SERVICES IN AMERICA, INCORPORATED
Washington, DC

FINANCIAL STATEMENTS
June 30, 2014 and 2013

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CliftonLarsonAllen LLP
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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, 2014 and 2013, 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.

Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of Lutheran Services In America, Incorporated as of June 30, 2014 and 2013, 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

Baltimore, Maryland
September 25, 2014

FINANCIAL STATEMENTS

LUTHERAN SERVICES IN AMERICA, INCORPORATED
STATEMENTS OF FINANCIAL POSITION
June 30, 2014 and 2013

	2014	2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 432,568	$ 774,445
Accounts receivable	5,045	9,879
Prepaid expenses	25,365	8,469
Total current assets	462,978	792,793
ASSETS LIMITED AS TO USE		
Cash held for managed networks	123,376	95,895
CERTIFICATES OF DEPOSIT	1,300,000	1,350,000
FIXED ASSETS		
Information technology	272,070	259,570
Less accumulated depreciation	260,075	256,575
Total fixed assets	11,995	2,995
TOTAL ASSETS	$ 1,898,349	$ 2,241,683
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 180,655	$ 158,210
Lease abandonment obligation	46,299	62,975
Deferred membership dues	180,486	208,759
Total current liabilities	407,440	429,944
DEPOSIT LIABILITIES		
Deposits held for managed networks	123,376	95,895
Total liabilities	530,816	525,839
NET ASSETS		
Unrestricted	1,124,707	1,220,096
Temporarily restricted	242,826	495,748
Total net assets	1,367,533	1,715,844
TOTAL LIABILITIES AND NET ASSETS	$ 1,898,349	$ 2,241,683

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

LUTHERAN SERVICES IN AMERICA, INCORPORATED
STATEMENTS OF ACTIVITIES
Years Ended June 30, 2014 and 2013

	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUES, CONTRIBUTIONS AND OTHER SUPPORT						
Membership dues	$ 732,234	$ -	$ 732,234	$ 703,453	$ -	$ 703,453
Events - conferences and training	343,853	-	343,853	311,145	-	311,145
Service fees and others	175,307	-	175,307	141,314	-	141,314
Investment income	21,356	-	21,356	26,698	-	26,698
Contributions - ELCA	385,600	-	385,600	388,100	-	388,100
Contributions - LCMS	140,000	-	140,000	140,000	-	140,000
Contributions - Other	47,458	-	47,458	47,439	-	47,439
Grants	73,980	1,020	75,000	85,927	137,293	223,220
	1,919,788	1,020	1,920,808	1,844,076	137,293	1,981,369
Net assets released from restrictions	253,942	(253,942)	-	70,896	(70,896)	-
Total revenues, contributions and other support	2,173,730	(252,922)	1,920,808	1,914,972	66,397	1,981,369
EXPENSES						
Program services	1,855,216	-	1,855,216	1,694,436	-	1,694,436
Management and general	413,903	-	413,903	438,597	-	438,597
Total expenses	2,269,119	-	2,269,119	2,133,033	-	2,133,033
CHANGES IN NET ASSETS	(95,389)	(252,922)	(348,311)	(218,061)	66,397	(151,664)
NET ASSETS, BEGINNING OF YEAR	1,220,096	495,748	1,715,844	1,438,157	429,351	1,867,508
NET ASSETS, END OF YEAR	$ 1,124,707	$ 242,826	$ 1,367,533	$ 1,220,096	$ 495,748	$ 1,715,844

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

LUTHERAN SERVICES IN AMERICA, INCORPORATED
STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2014 and 2013

	2014			2013		
	Program Services	**Management and General**	**Total Expenses**	**Program Services**	**Management and General**	**Total Expenses**
EXPENSES						
Staff compensation and benefits	$ 1,108,303	$ 189,395	$ 1,297,698	$ 1,045,928	$ 135,454	$ 1,181,382
Travel	58,970	38,869	97,839	51,317	26,425	77,742
Professional services purchased	190,956	103,186	294,142	67,494	172,033	239,527
Insurance, banking, and taxes	16,204	8,454	24,658	4,130	9,507	13,637
Depreciation	1,684	1,816	3,500	-	-	-
Event - facilities and programs	208,688	12,763	221,451	210,307	16,440	226,747
Office and related expenses	137,074	28,949	166,023	119,630	32,557	152,187
Communications and external relationships	105,809	20,940	126,749	118,618	30,601	149,219
Lease obligation expense	10,621	-	10,621	68,876	-	68,876
Other expenses	16,907	9,531	26,438	8,136	15,580	23,716
TOTAL EXPENSES	$ 1,855,216	$ 413,903	$ 2,269,119	$ 1,694,436	$ 438,597	$ 2,133,033

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

LUTHERAN SERVICES IN AMERICA, INCORPORATED
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (348,311)	$ (151,664)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	3,500	-
Effects of changes in operating assets and liabilities:		
Accounts receivable	4,834	10,431
Prepaid expenses	(16,896)	9,443
Accounts payable and accrued expenses	22,445	(48,896)
Deferred membership dues	(28,273)	57,489
Net cash used in operating activities	(362,701)	(123,197)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(12,500)	(2,995)
Purchase of certificates of deposit	-	(950,000)
Proceeds from certificates of deposit redeemed	50,000	950,000
Net cash provided by (used in) investing activities	37,500	(2,995)
CASH FLOWS FROM FINANCING ACTIVITIES		
Abandonment of lease	(16,676)	62,975
NET DECREASE IN CASH AND CASH EQUIVALENTS	(341,877)	(63,217)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	774,445	837,662
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 432,568	$ 774,445

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background

Lutheran Services in America, Incorporated (the Organization) was founded in 1997 as an alliance of the Evangelical Lutheran Church in America, The Lutheran Church - Missouri Synod, and their over 300 related health and human service organizations. The Organization creates opportunities with people in thousands of communities in all 50 states and the Caribbean. Working neighbor-to-neighbor through support of health care, aging, disability, community development, housing, and child and family strengthening initiatives, these organizations touch the lives of more than six million people every year – or one in fifty Americans.

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, 2014 and 2013.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable are related to unpaid invoices for consulting services and require payment within thirty days from the invoice date. Interest is not charged for late payment of invoices. 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, 2014 and 2013.

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, 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 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 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 $123,376 and $95,895 at June 30, 2014 and 2013, respectively.

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, 2014 and 2013.

The Organization files income tax returns in the U.S. federal jurisdiction. The federal income tax returns of the Organization for 2013, 2012 and 2011 are subject to examination by the IRS and state taxing authorities, generally for three years after they were filed.

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 1% of annual salary as of June 30, 2014. All contributions to the Plan are 100% vested immediately. The Organization recorded employer match expenses of $9,796 and $9,447 for the years ended June 30, 2014 and 2013, respectively.

Advertising

The Organization expenses advertising costs as incurred. Advertising expense totaled $2,349 and $2,123 for the years ended June 30, 2014 and 2013, respectively.

NOTE 2 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2014	2013
Board Development/Everson	$ 10,780	$ 10,780
OASIS	59,786	59,786
Community Development Collaboration/ELCA	3,053	3,053
Berg Memorial Fund for Leadership	-	1,070
Social Ministry Organization Capacity Building	20,719	20,719
Replication Initiative	-	30,654
Technology for Independence	42,798	41,778
LSEE Partnership	90,180	161,913
LSCE Resources & Opportunities	15,510	165,995
Total	$ 242,826	$ 495,748

NOTE 2 – TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

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 3 – NET ASSETS RELEASED FROM RESTRICTIONS

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

	2014	2013
OASIS	$ -	$ 1,236
Berg Memorial Fund for Leadership	1,070	-
Replication Initiative	-	18,970
LSEE Partnership	102,387	-
LSCE Resources & Opportunities	150,485	50,690
Total	$ 253,942	$ 70,896

NOTE 4 – PROGRAM SERVICES

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

	2014	2013
Lutheran Identity and Awareness	$ 415,819	$ 303,111
Leadership Development	438,847	512,636
Advocacy and Member Engagement	472,950	471,295
Creating Member Connections	413,953	334,952
Other	113,647	72,442
Total	$ 1,855,216	$ 1,694,436

NOTE 5 – LEASE COMMITMENT

The Organization leased its Baltimore operating facility on a month-to-month basis for $3,792, with annual escalation amounts of 3.5%. In March 2013, the Organization ended this lease with no penalties or fees.

The Organization leased its Washington, DC, C Street operating facility under an operating sublease. The lease provides for base monthly rentals of $2,876 through May 1, 2018, and is 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 they will 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. As of June 30, 2014, the Organization secured a sublease agreement with sublease income of $21,824 over the remainder of the lease term, for a net liability of $79,497. The difference between the estimated liability and actual of $10,621 was expenses in fiscal year 2014. At June 30, 2014 and 2013, the lease abandonment obligation was $46,299 and $62,975, respectively.

NOTE 5 – LEASE COMMITMENT (CONTINUED)

The Organization leases its Washington, DC operating facility under an operating lease. The lease provides for base monthly rentals of $7,942 through June 30, 2018, and is subject to annual escalation provisions.

Total rent expense, including all leases, for the years ended June 30, 2014 and 2013 was $111,165 and $64,260, 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, 2014 are as follows:

2015	$	93,600
2016		97,158
2017		100,858
2018		112,448
Total	$	404,064

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 $343,411 and $312,150 at June 30, 2014 and 2013, 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, 2014 and 2013, amount to $1,525,249 and $1,927,001, respectively.

NOTE 7 – RELATED PARTY RELIANCE

The Organization receives a major portion of its contributions from ELCA and LCMS. The amounts received during the current year are disclosed within the financial statements. A significant reduction in the level of this support, if this were to occur, may have a material effect on the Organization's programs and activities.

NOTE 9 – SUBSEQUENT EVENTS

Management evaluated subsequent events through September 25, 2014, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2014, but prior to September 25, 2014 that provided additional evidence about conditions that existed at June 30, 2014, have been recognized in the financial statements for the year ended June 30, 2014. Events or transactions that provided evidence about conditions that did not exist at June 30, 2014, 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, 2014.