LUTHERAN SERVICES IN AMERICA, INCORPORATED

Washington, DC

FINANCIAL STATEMENTS

June 30, 2015 and 2014

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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, 2015 and 2014, 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, 2015 and 2014, 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 22, 2015

FINANCIAL STATEMENTS

LUTHERAN SERVICES IN AMERICA, INCORPORATED
STATEMENTS OF FINANCIAL POSITION
June 30, 2015 and 2014

	2015	2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 343,924	$ 432,568
Accounts receivable	73,133	5,045
Prepaid expenses	56,204	25,365
Total current assets	473,261	462,978
ASSETS LIMITED AS TO USE		
Cash held for managed networks	98,921	123,376
CERTIFICATES OF DEPOSIT	1,300,000	1,300,000
FIXED ASSETS		
Information technology	272,070	272,070
Less accumulated depreciation	263,573	260,075
Total fixed assets	8,497	11,995
TOTAL ASSETS	$ 1,880,679	$ 1,898,349
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 257,593	$ 180,655
Lease abandonment obligation	37,884	46,299
Deferred membership dues	123,030	180,486
Total current liabilities	418,507	407,440
DEPOSIT LIABILITIES		
Deposits held for managed networks	98,921	123,376
Total liabilities	517,428	530,816
NET ASSETS		
Unrestricted	1,247,975	1,124,707
Temporarily restricted	115,276	242,826
Total net assets	1,363,251	1,367,533
TOTAL LIABILITIES AND NET ASSETS	$ 1,880,679	$ 1,898,349

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

LUTHERAN SERVICES IN AMERICA, INCORPORATED
STATEMENTS OF ACTIVITIES
Years Ended June 30, 2015 and 2014

	2015			2014		
	Unrestricted	**Temporarily Restricted**	**Total**	**Unrestricted**	**Temporarily Restricted**	**Total**
REVENUES, CONTRIBUTIONS AND OTHER SUPPORT						
Membership dues	$ 901,742	$ -	$ 901,742	$ 732,234	$ -	$ 732,234
Events - conferences and training	304,564	-	304,564	343,853	-	343,853
Service fees and others	211,095	-	211,095	175,307	-	175,307
Investment income	20,285	-	20,285	21,356	-	21,356
Contributions - ELCA	431,433	-	431,433	385,600	-	385,600
Contributions - LCMS	140,000	-	140,000	140,000	-	140,000
Contributions - Other	154,897	-	154,897	47,458	-	47,458
Grants	264,062	20,938	285,000	73,980	1,020	75,000
	2,428,078	20,938	2,449,016	1,919,788	1,020	1,920,808
Net assets released from restrictions	148,488	(148,488)	-	253,942	(253,942)	-
Total revenues, contributions and other support	2,576,566	(127,550)	2,449,016	2,173,730	(252,922)	1,920,808
EXPENSES						
Program services	1,917,166	-	1,917,166	1,855,216	-	1,855,216
Management and general	536,132	-	536,132	413,903	-	413,903
Total expenses	2,453,298	-	2,453,298	2,269,119	-	2,269,119
CHANGES IN NET ASSETS	123,268	(127,550)	(4,282)	(95,389)	(252,922)	(348,311)
NET ASSETS, BEGINNING OF YEAR	1,124,707	242,826	1,367,533	1,220,096	495,748	1,715,844
NET ASSETS, END OF YEAR	$ 1,247,975	$ 115,276	$ 1,363,251	$ 1,124,707	$ 242,826	$ 1,367,533

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

LUTHERAN SERVICES IN AMERICA, INCORPORATED
STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended June 30, 2015 and 2014

	2015			2014		
	Program Services	Management and General	Total Expenses	Program Services	Management and General	Total Expenses
EXPENSES						
Staff compensation and benefits	$ 1,194,766	$ 190,449	$ 1,385,215	$ 1,108,303	$ 189,395	$ 1,297,698
Travel	53,916	41,224	95,140	58,970	38,869	97,839
Professional services purchased	219,177	190,018	409,195	194,943	103,896	298,839
Financial expenses	15,549	9,575	25,124	17,888	10,270	28,158
Event - facilities and programs	225,296	2,445	227,741	208,688	12,763	221,451
Office and related expenses	86,652	22,827	109,479	125,609	10,184	135,793
External communications	47,537	13,840	61,377	33,878	9,486	43,364
Printing and mailing	17,771	8,067	25,838	25,928	5,059	30,987
Telecom and information technology	54,729	56,078	110,807	68,089	25,160	93,249
Other expenses	1,773	1,609	3,382	12,920	8,821	21,741
TOTAL EXPENSES	$ 1,917,166	$ 536,132	$ 2,453,298	$ 1,855,216	$ 413,903	$ 2,269,119

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

LUTHERAN SERVICES IN AMERICA, INCORPORATED
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (4,282)	$ (348,311)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	3,498	3,500
Effects of changes in operating assets and liabilities:		
Accounts receivable	(68,088)	4,834
Prepaid expenses	(30,839)	(16,896)
Accounts payable and accrued expenses	76,938	22,445
Deferred membership dues	(57,456)	(28,273)
Net cash used in operating activities	(80,229)	(362,701)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	-	(12,500)
Proceeds from certificates of deposit redeemed	-	50,000
Net cash provided by investing activities	-	37,500
CASH FLOWS FROM FINANCING ACTIVITIES		
Abandonment of lease	(8,415)	(16,676)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(88,644)	(341,877)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	432,568	774,445
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 343,924	$ 432,568

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) 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, 2015 and 2014.

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 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, 2015 and 2014.

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 $98,921 and $123,376 at June 30, 2015 and 2014, 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, 2015 and 2014.

The Organization files income tax returns in the U.S. federal jurisdiction. The federal income tax returns of the Organization for 2014, 2013 and 2012 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 3% of annual salary as of June 30, 2015 (1% as of June 30, 2014). All contributions to the Plan are 100% vested immediately. The Organization recorded employer match expenses of $23,809 and $9,796 for the years ended June 30, 2015 and 2014, respectively.

NOTE 2 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	2015	2014
Board Development	$ 10,780	$ 10,780
OASIS	59,786	59,786
ELCA Community Development	3,053	3,053
ELCA LSCE Experimental Innovation Tour	20,938	-
Social Ministry Organization Capacity Building	20,719	20,719
Technology for Independence	-	42,798
LSEE Partnership	-	90,180
LSCE Resources & Opportunities	-	15,510
Total	$ 115,276	$ 242,826

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:

	2015	**2014**
Berg Memorial Fund for Leadership	$ -	$ 1,070
LCF Technology and Independence	42,798	-
LSEE Partnership	90,180	102,387
LSCE Resources & Opportunities	15,510	150,485
Total	$ 148,488	$ 253,942

NOTE 4 – PROGRAM SERVICES

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

	2015	**2014**
Raising Visibility for Lutheran Social Ministry	$ 409,827	$ 415,819
Leadership Development and Convenings	472,568	438,847
LSA Advocacy/Public Policy	202,589	472,950
Creating Member Solutions	832,182	413,953
Other	-	113,647
Total	$ 1,917,166	$ 1,855,216

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, 2015 and 2014, the lease abandonment obligation was $37,884 and $46,299, respectively.

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, 2015 and 2014 was $95,301 and $111,165, 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, 2015 are as follows:

2016	$	97,158
2017		100,858
2018		112,448
Total	$	310,464

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 $170,468 and $343,411 at June 30, 2015 and 2014, 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, 2015 and 2014, amount to $1,722,363 and $1,525,249, respectively.

NOTE 7 – RELATED PARTY RELIANCE

Contributions to the Organization from ELCA and LCMS accounted for 23 percent of total revenues in 2015 and 27 percent of revenue in 2014. The amounts received during the current year are disclosed within the financial statements.

NOTE 9 – SUBSEQUENT EVENTS

Management evaluated subsequent events through September 22, 2015, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2015, but prior to September 22, 2015 that provided additional evidence about conditions that existed at June 30, 2015, have been recognized in the financial statements for the year ended June 30, 2015. Events or transactions that provided evidence about conditions that did not exist at June 30, 2015, 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, 2015.