

LUTHERAN HERITAGE FOUNDATION
(a Michigan not-for-profit organization)

FINANCIAL STATEMENTS
December 31, 2015 and 2014



PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS
85 MACOMB PLACE
MOUNT CLEMENS, MI 48043
(586) 465-6285
FAX 465-6370
www.carabellleslie.com

ROBERT H. LESLIE, C.P.A.
JOSEPH R. CARABELL, C.P.A.
GREGORY A. FISCHER, C.P.A.
WILLIAM R. MCNEERAY II, C.P.A.
KEITH A. CARABELL, C.P.A.

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Lutheran Heritage Foundation
51474 Romeo Plank Rd.
Macomb, MI 48042

Honorable Members:

We have audited the accompanying financial statements of

LUTHERAN HERITAGE FOUNDATION (a Michigan not-for-profit organization)

which comprise the Statement of Financial Position as of December 31, 2015 and 2014, and the related Statements of Activities and Changes in Net Assets 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.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 Heritage Foundation at December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other-Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Functional Expenses on page 5 is presented for purposes of additional analysis and is 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.


CARABELL, LESLIE AND COMPANY
Professional Corporation
Certified Public Accountants

May 16, 2016

LUTHERAN HERITAGE FOUNDATION
(a Michigan not-for-profit organization)

STATEMENT OF FINANCIAL POSITION
December 31, 2015 and 2014

	ASSETS	
	<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>
Current assets (Note A):		
Cash and cash equivalents	\$ 994,586	\$ 842,554
Certificates of deposit (Note B)	1,712,000	1,481,765
Contributions receivable	9,500	122,550
Bequest receivable		1,120,935
Prepaid expenses and other current assets	<u>37,996</u>	<u>30,757</u>
Total current assets	2,754,082	3,598,561
Property and equipment, net (Notes A and C)	1,806,477	1,858,414
Other assets, investments (Notes A and B)	<u>1,577,883</u>	<u>764,163</u>
Total assets	<u>\$6,138,442</u>	<u>\$6,221,138</u>

LIABILITIES AND NET ASSETS

Current liabilities, accounts payable (Note A)	<u>\$ 8,251</u>	<u>\$ 11,389</u>
Total current liabilities	<u>8,251</u>	<u>11,389</u>
Net assets (Note A):		
Unrestricted	5,622,721	5,683,646
Temporarily restricted (Note D)	<u>507,470</u>	<u>526,103</u>
Total net assets	<u>6,130,191</u>	<u>6,209,749</u>
Total liabilities and net assets	<u>\$6,138,442</u>	<u>\$6,221,138</u>

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

LUTHERAN HERITAGE FOUNDATION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the years ended December 31, 2015 and 2014

	For the years ended December 31,			
	2015			2014
	Unrestricted	Temporarily restricted	Total	Total
Revenue and support:				
Contributions	\$1,576,735	\$318,172	\$1,894,907	\$3,184,981
Net realized and unrealized gain (loss) on investments	(12,590)		(12,590)	6,471
Interest income	41,045		41,045	23,881
Miscellaneous income	<u>10,817</u>		<u>10,817</u>	<u>10,630</u>
Total revenue and support	1,616,007	318,172	1,934,179	3,225,963
Net assets released from restrictions	<u>336,805</u>	(<u>336,805</u>)		
Total revenue, support and net assets released from restrictions	<u>1,952,812</u>	(<u>18,633</u>)	<u>1,934,179</u>	<u>3,225,963</u>
Expenses:				
Program services	1,336,776		1,336,776	1,176,498
Support services:				
Management and general	367,979		367,979	370,789
Fund-raising	<u>308,982</u>		<u>308,982</u>	<u>302,151</u>
Total expenses	<u>2,013,737</u>		<u>2,013,737</u>	<u>1,849,438</u>
Increase (decrease) in net assets	(60,925)	(18,633)	(79,558)	1,376,525
Net assets, January 1	<u>5,683,646</u>	<u>526,103</u>	<u>6,209,749</u>	<u>4,833,224</u>
Net assets, December 31	<u>\$5,622,721</u>	<u>\$507,470</u>	<u>\$6,130,191</u>	<u>\$6,209,749</u>

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

LUTHERAN HERITAGE FOUNDATION

SCHEDULE OF FUNCTIONAL EXPENSES

For the year ended December 31, 2015

(with comparative totals for the year ended December 31, 2014)

	For the year ended December 31, 2015			
	Program services	Support services		Total support services
		Management and general	Fund-raising	
Salaries	\$ 201,278	\$148,018	\$127,700	\$275,718
Employee benefits	57,708	42,210	31,463	73,673
Payroll taxes	3,014	9,434	3,041	12,475
	<u>262,000</u>	<u>199,662</u>	<u>162,204</u>	<u>361,866</u>
Total salaries and related expenses				
Independent representatives			12,700	12,700
Purchased services	6,098	54,232	36,435	90,667
Supplies		20,047	11,599	31,646
Maintenance and repairs	10,494	26,026	12,022	38,048
Communication and utilities	2,989	6,618	3,451	10,069
Rental and lease		5,273		5,273
Depreciation	12,584	27,978	14,417	42,395
Insurance	2,402	(1,799)	2,752	953
Travel	31,375	11,128	46,660	57,788
Property taxes		3,261		3,261
Translation and other overseas expense (Note E)	1,008,834			
Other		<u>15,553</u>	<u>6,742</u>	<u>22,295</u>
Total functional expenses	<u>\$1,336,776</u>	<u>\$367,979</u>	<u>\$308,982</u>	<u>\$676,961</u>

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

For the years ended	
December 31,	
<u>2015</u>	<u>2014</u>
<u>Total expenses</u>	
\$ 476,996	\$ 444,282
131,381	125,094
<u>15,489</u>	<u>16,266</u>
623,866	585,642
12,700	8,600
96,765	103,591
31,646	30,545
48,542	56,503
13,058	13,840
5,273	5,355
54,979	54,751
3,355	4,260
89,163	88,388
3,261	3,161
1,008,834	872,208
<u>22,295</u>	<u>22,594</u>
<u>\$2,013,737</u>	<u>\$1,849,438</u>

LUTHERAN HERITAGE FOUNDATION

STATEMENT OF CASH FLOWS

For the years ended December 31, 2015 and 2014

	For the years ended December 31,	
	<u>2015</u>	<u>2014</u>
Net increase (decrease) in net assets	(\$ 79,558)	\$1,376,525
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	54,979	54,751
Donated equity instruments included in contributions	(1,024)	(75,119)
Unrealized and realized (gain) loss on investments	12,590	(6,471)
Proceeds from sale of donated equity instruments	1,018	8,009
Changes in operating assets and liabilities which provided (used) cash:		
Contributions receivable	113,050	(10,940)
Bequests receivable	1,120,935	(1,120,935)
Refundable Health Care Credit		16,724
Prepaid expenses and other	(7,238)	(1,535)
Accounts payable	(3,138)	(17,477)
Net cash provided by operating activities	<u>1,211,614</u>	<u>223,532</u>

LUTHERAN HERITAGE FOUNDATION

STATEMENT OF CASH FLOWS

(continued)

For the years ended December 31, 2015 and 2014

	For the years ended December 31,	
	<u>2015</u>	<u>2014</u>
Cash flows from investing activities:		
Purchase of property and equipment	(\$ 3,043)	(\$ 3,955)
Net change in certificates of deposit	(230,235)	(252,778)
Proceeds from sales and maturities of investments		100,000
Increase in cash surrender value, life insurance	(107,140)	(106,267)
Purchase of annuity and increase in value	(257,741)	(189,936)
Purchase of equities	(461,423)	_____
Net cash used in investing activities	(1,059,582)	(452,936)
Net increase (decrease) in cash and cash equivalents	152,032	(229,404)
Cash and cash equivalents, January 1,	<u>842,554</u>	<u>1,071,958</u>
Cash and cash equivalents, December 31,	<u>\$ 994,586</u>	<u>\$ 842,554</u>
Supplemental disclosure of cash flow information -		
cash paid for interest	<u>\$ -0-</u>	<u>\$ -0-</u>

There were no non-cash investing and financing activities for the years ended December 31, 2015 and 2014.

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

LUTHERAN HERITAGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2015 and 2014

NOTE A - Summary of Significant Accounting Policies

Nature of organization - Lutheran Heritage Foundation (LHF) is a not-for-profit corporation organized to translate, publish, distribute and introduce historic Lutheran books and materials primarily used in the training of pastors, teachers and lay leaders.

Basis of accounting - The accompanying financial statements have been prepared on the accrual basis of accounting.

Cash equivalents - LHF considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. At times, such investments may be in excess of the FDIC insurance limits.

Contributions and bequests receivable - Bequests receivable are recorded upon determining the validity of a will or trust after the promise to give becomes unconditional. Contributions receivable are recorded at the amount promised less any allowance for uncollectible accounts. LHF uses the allowance method to account for uncollectible receivable balances. Under the allowance method, if needed, an estimate for uncollectible balances is made based upon specific account balances that are considered uncollectible. Factors used to establish an allowance for doubtful accounts include the credit quality of the obligor and whether the balance is significant. When a receivable balance is past due and unsuccessful attempts have been made to collect the receivable, the amount is considered uncollectible and is recorded as a bad debt. At December 31, 2015 and 2014, there was no established allowance for uncollectible accounts.

Investments - Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value on the statement of financial position. Investment income or loss (including gains and losses on investments, interest and dividends) is included in the statement of activities and changes in net assets.

Property and equipment - Property and equipment are recorded at cost when purchased or at fair value at the date of donation and are depreciated on a straight-line basis over their estimated useful lives. Costs of maintenance and repairs are charged to expense when incurred.

Contributions - Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue, measured at fair value. Donor promises to give in the future are recorded at the present value of estimated future cash flows.

LUTHERAN HERITAGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

December 31, 2015 and 2014

NOTE A - Summary of Significant Accounting Policies (continued)

Contributions (continued)

Contributions without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the same reporting period as the gift are reported as unrestricted support. Other restricted gifts are reported as restricted support and temporarily or permanently restricted net assets.

Classification of net assets - Net assets of LHF are classified as unrestricted, temporarily restricted, or permanently restricted depending on the presence and characteristics of donor-imposed restrictions limiting LHF's ability to use or dispose of contributed assets or the economic benefits embodied in those assets.

Donor-imposed restrictions that expire with the passage of time or may be removed by meeting certain requirements result in temporarily restricted net assets. Temporarily restricted net assets at December 31, 2015 and 2014, represent donor-restricted contributions to be distributed to specific countries or used for specific projects. Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. There were no permanently restricted net assets at December 31, 2015 or 2014. Earnings, gains and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law.

Functional allocation of expenses - The costs of providing the program and support services have been reported on a functional basis in the statement of activities and changes in net assets. Indirect costs have been allocated between the various programs and support services based on estimates, as determined by management. Although the methods of allocation used are considered reasonable, other methods could be used that would produce different amounts.

Federal Income Taxes - LHF is exempt from income tax under provisions of Internal Revenue Code Section 501(c)(3).

Use of estimates - 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 certain reported amounts and disclosures. Actual results may differ from those estimates.

LUTHERAN HERITAGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

December 31, 2015 and 2014

NOTE A - Summary of Significant Accounting Policies (continued)

Summarized comparative information for the year ended December 31, 2014 - The financial information presented for comparative purposes for the year ended December 31, 2014, is not intended to be a complete financial statement presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with LHF's 2014 financial statements, from which the summarized information was derived.

Interest and penalties - If incurred, interest and penalties assessed by taxing authorities are included in management and general expenses.

NOTE B - Investments and Certificates of Deposit

Certificates of deposit consisted of the following at December 31, 2015 and 2014:

	<u>December 31, 2015</u>			<u>December 31, 2014</u>		
	<u>Cost</u>	<u>Fair value</u>	<u>Unrealized appreciation (depreciation)</u>	<u>Cost</u>	<u>Fair value</u>	<u>Unrealized appreciation (depreciation)</u>
Certificates of deposit	<u>\$1,712,000</u>	<u>\$1,712,000</u>	<u>\$ -0-</u>	<u>\$1,481,765</u>	<u>\$1,481,765</u>	<u>\$ -0-</u>
Total	<u>\$1,712,000</u>	<u>\$1,712,000</u>	<u>\$ -0-</u>	<u>\$1,481,765</u>	<u>\$1,481,765</u>	<u>\$ -0-</u>

LUTHERAN HERITAGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

December 31, 2015 and 2014

NOTE B - Investments and Certificates of Deposit (continued)

Other assets, investments consisted of the following at December 31, 2015 and 2014:

	<u>December 31, 2015</u>			<u>December 31, 2014</u>		
	<u>Cost</u>	<u>Fair value</u>	<u>Unrealized appreciation (depreciation)</u>	<u>Cost</u>	<u>Fair value</u>	<u>Unrealized appreciation (depreciation)</u>
Cash surrender value, life insurance	\$ 607,585	\$ 607,585	\$ -0-	\$500,446	\$500,446	\$ -0-
Corporate bonds	-0-	-0-	-0-	-0-	-0-	-0-
Annuities	447,677	447,677	-0-	189,936	189,936	-0-
Equities	<u>528,572</u>	<u>522,621</u>	<u>(5,951)</u>	<u>67,149</u>	<u>73,781</u>	<u>6,632</u>
Total	<u>\$1,583,834</u>	<u>\$1,577,883</u>	<u>(\$5,951)</u>	<u>\$757,531</u>	<u>\$764,163</u>	<u>\$6,632</u>

NOTE C - Property and Equipment

The details of property and equipment consisted of the following at December 31, 2015 and 2014:

	<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>
Land	\$ 486,304	\$ 486,304
Building	2,009,899	2,009,899
Furniture and fixtures	<u>214,769</u>	<u>211,727</u>
Total	2,710,972	2,707,930
Accumulated depreciation	<u>(904,495)</u>	<u>(849,516)</u>
Net property and equipment	<u>\$1,806,477</u>	<u>\$1,858,414</u>

Depreciation expense for the years ended December 31, 2015 and 2014, was \$54,979 and \$54,751, respectively.

LUTHERAN HERITAGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

December 31, 2015 and 2014

NOTE D - Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2015 and 2014, are restricted for specific projects or distributions to various locations as follows:

	<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>
Africa	\$ 196,571	\$211,487
Europe	136,417	200,915
Asia	139,963	113,104
North/Central America	480	597
Papua New Guinea	<u>34,039</u>	<u>-0-</u>
Total temporarily restricted net assets	<u>\$ 507,470</u>	<u>\$526,103</u>

NOTE E - Translation and Other Overseas Expense

Translation and other overseas expense for the years ended December 31, 2015 and 2014, are summarized as follows:

	<u>For the years ended</u> <u>December 31,</u>	
	<u>2015</u>	<u>2014</u>
Africa	\$ 527,631	\$418,651
Europe	261,730	255,758
Asia	188,365	186,877
North/Central America	16,608	10,922
Papua New Guinea	<u>14,500</u>	<u>-0-</u>
Total translation and other overseas expense	<u>\$1,008,834</u>	<u>\$872,208</u>

LUTHERAN HERITAGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

December 31, 2015 and 2014

NOTE F - Employee Benefit Plan

LHF participates in the Lutheran Church - Missouri Synod, Concordia Retirement Plan, a defined benefit plan. The Plan is administered by Concordia Plan Services. Contributions are computed by the administrator based on information received from the LHF and totaled \$32,388 for the year ended December 31, 2015, and \$28,700 for the year ended December 31, 2014. In the event of a withdrawal from the Plan and under certain other conditions, a contributor to a multiemployer Plan may be liable to the Plan in accordance with formulas established by law.

NOTE G - Subsequent Events

Management has evaluated subsequent events through May 16, 2016 the date which the financial statements were available for issue. Management has determined that no material subsequent events are required to be disclosed.

NOTE H - Accounting For Uncertain Tax Positions

For financial statement purposes, tax benefits are recognized for tax positions taken or expected to be taken on a return, only when it is determined that the tax position will more likely than not be sustained upon examination by taxing authorities. LHF files tax returns in the U.S. Federal and State of Michigan jurisdictions. With few exceptions, tax years prior to 2011 no longer remain subject to examination by the taxing authorities.

LUTHERAN HERITAGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

December 31, 2015 and 2014

NOTE 1 - Fair Value Measurement

Fair value of assets measured on a recurring basis at December 31, 2015 and 2014, are as follows:

Fair value measurement at reporting date using:

	<u>Fair value</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>
December 31, 2015		
Investments	<u>\$3,289,883</u>	<u>\$3,289,883</u>
Total	<u>\$3,289,883</u>	<u>\$3,289,883</u>
December 31, 2014		
Investments	<u>\$2,245,928</u>	<u>\$2,245,928</u>
Total	<u>\$2,245,928</u>	<u>\$2,245,928</u>