

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

FINANCIAL STATEMENTS
December 31, 2016 and 2015

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, 2016 and 2015, 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, 2016 and 2015, 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 12, 2017

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

STATEMENT OF FINANCIAL POSITION
December 31, 2016 and 2015

ASSETS		December 31,	
	2016	2015	
Current assets (Note A):			
Cash and cash equivalents:			
Unrestricted	\$ 493,870	\$ 487,116	
Temporarily restricted	526,043	507,470	
Certificates of deposit (Note B)	975,840	1,712,000	
Contributions receivable	142,462	9,500	
Prepaid expenses and other current assets	40,096	37,996	
Total current assets	2,178,311	2,754,082	
Property and equipment, net (Notes A and C)	1,752,038	1,806,477	
Other assets, investments (Notes A and B)	2,146,222	1,577,883	
Total assets	\$6,076,571	\$6,138,442	
LIABILITIES AND NET ASSETS			
Current liabilities, accounts payable (Note A)	\$ 24,084	\$ 8,251	
Total current liabilities	24,084	8,251	
Net assets (Note A):			
Unrestricted	5,448,644	5,622,721	
Temporarily restricted (Note D)	603,843	507,470	
Total net assets	6,052,487	6,130,191	
Total liabilities and net assets	\$6,076,571	\$6,138,442	

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, 2016 and 2015

	For the years ended December 31,			
	2016		2015	
	Unrestricted	Temporarily restricted	Total	Total
Revenue and support:				
Contributions	\$1,357,284	\$335,579	\$1,692,863	\$1,894,907
Net realized and unrealized gain (loss) on investments	20,847		20,847	(12,590)
Interest income	55,823		55,823	41,045
Miscellaneous income	10,654		10,654	10,817
Total revenue and support	1,444,608	335,579	1,780,187	1,934,179
Net assets released from restrictions	239,206	(239,206)		
Total revenue, support and net assets released from restrictions	1,683,814	96,373	1,780,187	1,934,179
Expenses:				
Program services	1,154,888		1,154,888	1,336,776
Support services:				
Management and general	353,726		353,726	367,979
Fund-raising	349,277		349,277	308,982
Total expenses	1,857,891		1,857,891	2,013,737
Increase (decrease) in net assets	(174,077)	96,373	(77,704)	(79,558)
Net assets, January 1	5,622,721	507,470	6,130,191	6,209,749
Net assets, December 31	\$5,448,644	\$603,843	\$6,052,487	\$6,130,191

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

For the years ended	
December 31,	
<u>2016</u>	<u>2015</u>
<u>Total expenses</u>	
\$ 502,241	\$ 476,996
119,644	131,381
<u>16,507</u>	<u>15,489</u>
638,392	623,866
13,700	12,700
121,826	96,765
31,740	31,646
19,514	48,542
13,565	13,058
5,273	5,273
55,177	54,979
981	3,355
109,920	89,163
3,267	3,261
815,987	1,008,834
<u>28,549</u>	<u>22,295</u>
<u>\$1,857,891</u>	<u>\$2,013,737</u>

LUTHERAN HERITAGE FOUNDATION

STATEMENT OF CASH FLOWS

For the years ended December 31, 2016 and 2015

	For the years ended December 31,	
	<u>2016</u>	<u>2015</u>
Net decrease in net assets	(\$ 77,704)	(\$ 79,558)
Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities:		
Depreciation	55,177	54,979
Donated equity instruments included in contributions	(621)	(1,024)
Unrealized and realized (gain) loss on investments	(20,847)	12,590
Proceeds from sale of donated equity instruments	615	1,018
Changes in operating assets and liabilities which provided (used) cash:		
Contributions receivable	(132,962)	113,050
Bequests receivable		1,120,935
Prepaid expenses and other	(2,100)	(7,238)
Accounts payable	<u>15,833</u>	<u>(3,138)</u>
Net cash provided by (used in) operating activities	<u>(162,609)</u>	<u>1,211,614</u>

LUTHERAN HERITAGE FOUNDATION

STATEMENT OF CASH FLOWS

(continued)

For the years ended December 31, 2016 and 2015

	For the years ended December 31,	
	<u>2016</u>	<u>2015</u>
Cash flows from investing activities:		
Purchase of property and equipment	(\$ 549)	(\$ 3,043)
Net change in certificates of deposit	736,160	(230,235)
Increase in cash surrender value, life insurance	(108,249)	(107,140)
Purchase of annuity and increase in value	(48,826)	(257,741)
Purchase of equities	(390,600)	(461,423)
Net cash provided by (used in) investing activities	<u>187,936</u>	<u>(1,059,582)</u>
Net increase in cash and cash equivalents	25,327	152,032
Cash and cash equivalents, January 1,	<u>994,586</u>	<u>842,554</u>
Cash and cash equivalents, December 31,	<u>\$1,019,913</u>	<u>\$ 994,586</u>
Supplemental disclosure of cash flow information - cash paid for:		
Interest, net of amount capitalized	<u>\$ -0-</u>	<u>\$ -0-</u>
Income taxes	<u>\$ -0-</u>	<u>\$ -0-</u>

There were no non-cash investing and financing activities for the years ended December 31, 2016 and 2015.

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

LUTHERAN HERITAGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

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, 2016 and 2015, there was no established allowance for uncollectible accounts. All contributions receivable at December 31, 2016 and 2015 are deemed collectible within the next year.

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, 2016 and 2015

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, 2016 and 2015, 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, 2016 or 2015. Earnings, gains and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law.

gram and support services have changes in net assets. port services based on f allocation used are fferent 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, 2016 and 2015

NOTE A - Summary of Significant Accounting Policies (continued)

Summarized comparative information for the year ended December 31, 2015 - The financial information presented for comparative purposes for the year ended December 31, 2015, 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 2015 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.

Reclassification - Certain amounts at December 31, 2015 have been reclassified to correspond to classifications at December 31, 2016.

NOTE B - Investments and Certificates of Deposit

Certificates of deposit consisted of the following at December 31, 2016 and 2015:

	<u>December 31, 2016</u>			<u>December 31, 2015</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>\$975,840</u>	<u>\$975,840</u>	<u>\$ -0-</u>	<u>\$1,712,000</u>	<u>\$1,712,000</u>	<u>\$ -0-</u>
Total	<u>\$975,840</u>	<u>\$975,840</u>	<u>\$ -0-</u>	<u>\$1,712,000</u>	<u>\$1,712,000</u>	<u>\$ -0-</u>

LUTHERAN HERITAGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

December 31, 2016 and 2015

NOTE B - Investments and Certificates of Deposit (continued)

Other assets, investments consisted of the following at December 31, 2016 and 2015:

	<u>December 31, 2016</u>			<u>December 31, 2015</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	\$ 715,834	\$ 715,834	\$ -0-	\$ 607,585	\$ 607,585	\$ -0-
Annuities	496,311	496,311	-0-	447,677	447,677	-0-
Equities	<u>919,172</u>	<u>934,077</u>	<u>14,905</u>	<u>528,572</u>	<u>522,621</u>	<u>(5,951)</u>
Total	<u>\$2,131,317</u>	<u>\$2,146,222</u>	<u>\$14,905</u>	<u>\$1,583,834</u>	<u>\$1,577,883</u>	<u>(\$5,951)</u>

NOTE C - Property and Equipment

The details of property and equipment consisted of the following at December 31, 2016 and 2015:

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
Land	\$ 486,304	\$ 486,304
Building	2,009,899	2,009,899
Furniture and fixtures	<u>213,606</u>	<u>214,769</u>
Total	2,709,809	2,710,972
Accumulated depreciation	<u>(957,771)</u>	<u>(904,495)</u>
Net property and equipment	<u>\$1,752,038</u>	<u>\$1,806,477</u>

Depreciation expense for the years ended December 31, 2016 and 2015, was \$55,177, and \$54,979, respectively.

LUTHERAN HERITAGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

December 31, 2016 and 2015

NOTE D - Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2016 and 2015, are restricted for specific projects or distributions to various locations as follows:

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
Africa	\$180,781	\$ 196,571
Europe	229,452	136,417
Asia	157,847	139,963
North/Central America	1,980	480
Papua New Guinea	<u>33,783</u>	<u>34,039</u>
Total temporarily restricted net assets	<u>\$603,843</u>	<u>\$ 507,470</u>

NOTE E - Translation and Other Overseas Expense

Translation and other overseas expense for the years ended December 31, 2016 and 2015, are summarized as follows:

	<u>For the years ended</u> <u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
Africa	\$360,745	\$ 527,631
Europe	187,660	261,730
Asia	218,332	188,365
North/Central America	25,195	16,608
Papua New Guinea	<u>24,055</u>	<u>14,500</u>
Total translation and other overseas expense	<u>\$815,987</u>	<u>\$1,008,834</u>

LUTHERAN HERITAGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

December 31, 2016 and 2015

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 \$33,294, for the year ended December 31, 2016, and \$32,388 for the year ended December 31, 2015. 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 12, 2017 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 2012 no longer remain subject to examination by the taxing authorities.

LUTHERAN HERITAGE FOUNDATION
 NOTES TO FINANCIAL STATEMENTS
 (continued)
 December 31, 2016 and 2015

NOTE I - Fair Value Measurement

Fair value of assets measured on a recurring basis at December 31, 2016 and 2015, 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, 2016		
Investments	<u>\$3,122,062</u>	<u>\$3,122,062</u>
Total	<u>\$3,122,062</u>	<u>\$3,122,062</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>