

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

FINANCIAL STATEMENTS
December 31, 2022 and 2021

INDEPENDENT AUDITOR'S REPORT

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

Honorable Members:

Opinion

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, 2022 and 2021, and the related Statements of Activities and Changes in Net Assets, Functional Expenses and Cash Flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lutheran Heritage Foundation as of December 31, 2022 and 2021, and the Changes in Net Assets and its Cash Flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Lutheran Heritage Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Lutheran Heritage Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Lutheran Heritage Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Lutheran Heritage Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the Lutheran Heritage Foundation's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 12, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.


CARABELL, LESLIE AND COMPANY
Professional Corporation
Certified Public Accountants

May 18, 2023

LUTHERAN HERITAGE FOUNDATION
(a Michigan not-for-profit organization)
STATEMENT OF FINANCIAL POSITION
December 31, 2022 and 2021

ASSETS

	December 31,	
	2022	2021
Current assets (Notes A and I):		
Cash and cash equivalents (Note K):		
Without donor restrictions	\$1,113,447	\$ 674,673
With donor restrictions	618,748	444,385
Contributions receivable:		
Without donor restrictions	41,500	7,500
With donor restrictions	93,500	97,635
Bequests receivable, without donor restrictions	31,250	2,300,000
Life insurance receivable:		
Without donor restrictions		2,087,470
With donor restrictions		231,941
Employee Retention Credit receivable		36,048
Prepaid expenses and other current assets	41,635	15,160
Total current assets	1,940,080	5,894,812
Property and equipment, net (Notes A and C)	1,535,067	1,536,407
Other assets (Notes A and B):		
Investments, without donor restrictions	5,393,024	1,827,987
Investments, with donor restrictions	275,791	75,171
Bequest receivable, without donor restrictions	380,447	449,895
Total assets	\$9,524,409	\$9,784,272

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable (Note A)	\$ 10,189	\$ 8,612
Total current liabilities	10,189	8,612
Net assets (Note A):		
Without donor restrictions	8,526,181	8,926,528
With donor restrictions (Note D)	988,039	849,132
Total net assets	9,514,220	9,775,660
Total liabilities and net assets	\$9,524,409	\$9,784,272

See accompanying notes.

LUTHERAN HERITAGE FOUNDATION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
 For the year ended December 31, 2022
 (with comparative totals for the year ended December 31, 2021)

	For the years ended December 31,			
	2022		2021	
	Without donor restrictions	With donor restrictions	Total	Total
Revenue and support:				
Contributions	\$2,366,290	\$410,283	\$2,776,573	\$4,565,443
Net realized and unrealized gain (loss) on investments	(409,264)	(45,431)	(454,695)	1,551,996
Interest and dividend income	72,016	15,750	87,766	106,864
Payroll Protection Program loan forgiveness				338,360
Employee Retention Credit				36,048
Miscellaneous income	<u>11,931</u>	<u> </u>	<u>11,931</u>	<u>10,280</u>
Total revenue and support	2,040,973	380,602	2,421,575	6,608,991
Net assets released from restrictions	<u>241,695</u>	(<u>241,695</u>)	<u> </u>	<u> </u>
Total revenue, support and net assets released from restrictions	<u>2,282,668</u>	<u>138,907</u>	<u>2,421,575</u>	<u>6,608,991</u>
Expenses:				
Program services	1,826,229		1,826,229	1,801,176
Support services:				
Management and general	507,620		507,620	470,338
Fund-raising	<u>349,166</u>	<u> </u>	<u>349,166</u>	<u>233,270</u>
Total expenses	<u>2,683,015</u>	<u> </u>	<u>2,683,015</u>	<u>2,504,784</u>
Increase (decrease) in net assets	(400,347)	138,907	(261,440)	4,104,207
Net assets, January 1,	<u>8,926,528</u>	<u>849,132</u>	<u>9,775,660</u>	<u>5,671,453</u>
Net assets, December 31,	<u>\$8,526,181</u>	<u>\$988,039</u>	<u>\$9,514,220</u>	<u>\$9,775,660</u>

See accompanying notes.

LUTHERAN HERITAGE FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2022

(with comparative totals for the year ended December 31, 2021)

	<u>For the year ended December 31, 2022</u>			
	<u>Program services</u>	<u>Supporting services</u>		
	<u>Translation & publishing services</u>	<u>Management and general</u>	<u>Fund-raising</u>	<u>Total supporting services</u>
Salaries	\$ 329,983	\$221,967	\$121,703	\$343,670
Employee benefits	92,847	49,178	22,831	72,009
Payroll taxes	<u>6,639</u>	<u>11,412</u>	<u>2,805</u>	<u>14,217</u>
Total salaries and related expenses	429,469	282,557	147,339	429,896
Independent representatives			22,354	22,354
Purchased services	11,281	56,864	62,318	119,182
Supplies		30,130	9,001	39,131
Maintenance and repairs	4,125	14,140	1,636	15,776
Communication and utilities	3,757	10,300	1,490	11,790
Rental and lease		5,174		5,174
Depreciation	15,808	43,336	6,269	49,605
Insurance	2,791	7,653	1,107	8,760
Travel	13,463	12,902	83,259	96,161
Property taxes		3,857		3,857
Translation and other overseas expense (Note E)	1,345,535			
Other	<u> </u>	<u>40,707</u>	<u>14,393</u>	<u>55,100</u>
Total functional expenses	<u>\$1,826,229</u>	<u>\$507,620</u>	<u>\$349,166</u>	<u>\$856,786</u>

See accompanying notes.

For the years ended	
December 31,	
<u>2022</u>	<u>2021</u>
<u>Total expenses</u>	
\$ 673,653	\$ 580,748
164,856	174,718
<u>20,856</u>	<u>19,147</u>
859,365	774,613
22,354	19,907
130,463	116,611
39,131	26,048
19,901	16,388
15,547	15,347
5,174	5,040
65,413	64,817
11,551	11,902
109,624	57,282
3,857	3,775
1,345,535	1,357,164
<u>55,100</u>	<u>35,890</u>
<u>\$2,683,015</u>	<u>\$2,504,784</u>

LUTHERAN HERITAGE FOUNDATION

STATEMENT OF CASH FLOWS

For the years ended December 31, 2022 and 2021

	For the years ended December 31,	
	<u>2022</u>	<u>2021</u>
Increase (decrease) in net assets	(\$ 261,440)	\$4,104,207
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	65,413	64,817
Donated equities and real estate included in contributions	(34,585)	
Unrealized and realized gain on investments	454,695	(1,551,996)
Payroll Protection Program loan forgiveness		(338,360)
Changes in operating assets and liabilities which provided (used) cash:		
Contributions receivable	(29,865)	(11,400)
Bequests receivable	2,338,198	(2,343,628)
Life insurance receivable	2,319,411	
Employee Retention Credit receivable	36,408	(36,408)
Prepaid expenses and other	(26,475)	2,293
Accounts payable	<u>1,578</u>	<u>(983)</u>
Net cash provided by (used in) operating activities	<u>4,863,338</u>	<u>(111,458)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(64,074)	(5,860)
Increase in cash surrender value or life insurance receivable		(6,000)
Net change in annuity	56,987	36,147
Purchase of investments	(4,968,579)	(406,986)
Proceeds from sale of investments	<u>725,465</u>	<u>370,339</u>
Net cash used in investing activities	<u>(4,250,201)</u>	<u>(12,360)</u>

LUTHERAN HERITAGE FOUNDATION

STATEMENT OF CASH FLOWS

(continued)

For the years ended December 31, 2022 and 2021

	For the years ended December 31,	
	<u>2022</u>	<u>2021</u>
Cash flows from financing activities, issuance of PNC Bank, PPP Loan	\$ _____	\$ 173,360
Net cash provided by financing activities	_____	173,360
Net increase in cash, cash equivalents, restricted cash and restricted cash equivalents	613,137	49,542
Cash, cash equivalents, restricted cash and restricted cash equivalents, January 1,	<u>1,119,058</u>	<u>1,069,516</u>
Cash, cash equivalents, restricted cash and restricted cash equivalents, December 31,	<u>\$1,732,195</u>	<u>\$1,119,058</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 year ended December 31, 2022.

Non-cash investing and financing activities for the year ended December 31, 2021 included forgiveness of two Paycheck Protection Program loans in the amount of \$338,360.

See accompanying notes.

LUTHERAN HERITAGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2022 and 2021

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 - For purposes of the Statement of Cash Flows, 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 was 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, 2022 and 2021, there was no established allowance for uncollectible accounts. All contributions receivable at December 31, 2022 and 2021 are deemed collectible within the next year.

Investments - Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized. Short-term investments consist of marketable securities and debt securities with original maturities of twelve months or less. Long-term investments consist of marketable securities and debt securities with original maturities greater than twelve months.

LUTHERAN HERITAGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

December 31, 2022 and 2021

NOTE A - Summary of Significant Accounting Policies (continued)

Property and equipment - Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, LHF reports expirations of donor restrictions when the donated or acquired assets are placed in service. LHF reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over estimated useful lives ranging from three years for furniture and fixtures to forty years for buildings.

Contributions - Contributions received are recorded as revenue without donor restrictions or with donor restrictions depending on the existence or nature of any donor restrictions.

Classification of net assets - Net assets of LHF are classified as without donor restrictions and with donor restrictions 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.

Board Designated Endowment Funds - The LHF Board of Directors has the authority to designate funds without donor imposed restrictions for endowment purposes. Under LHF endowment spending policy, LHF may use up to seventy-five percent of the realized gains generated from the previous calendar year's gifts without donor imposed restrictions and bequests in the endowment fund for such uses, missions, projects and programs recommended by the executive director and approved by a majority vote of the Board of Directors that are consistent with the general purposes set forth in the LHF bylaws. Funds designated by the Board of Directors for endowment purposes as of December 31, 2022 and 2021:

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Designated amounts	<u>\$1,589,397</u>	<u>\$1,832,317</u>

Functional allocation of expenses - The costs of providing the program and supporting 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 supporting 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.

LUTHERAN HERITAGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

December 31, 2022 and 2021

NOTE A - Summary of Significant Accounting Policies (continued)

Income Taxes - LHF is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

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.

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

Contributed Services - No amounts have been reflected in the financial statements for donated services. LHF generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist LHF but these services do not meet the criteria for recognition of contributed services. LHF has approximately 100 volunteers during the year working varying hours.

NOTE B - Investments

Other assets, investments consisted of the following at December 31, 2022 and 2021:

	<u>December 31, 2022</u>			<u>December 31, 2021</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>
Annuities	\$ 355,005	\$ 355,005	\$ -0-	\$ 411,991	\$ 411,991	\$ -0-
Equities	<u>5,440,525</u>	<u>5,313,810</u>	<u>(126,715)</u>	<u>1,289,262</u>	<u>1,491,167</u>	<u>201,905</u>
Total	<u>\$5,795,530</u>	<u>\$5,668,815</u>	<u>(\$126,715)</u>	<u>\$1,701,253</u>	<u>\$1,903,158</u>	<u>\$201,905</u>

LUTHERAN HERITAGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

December 31, 2022 and 2021

NOTE C - Property and Equipment

The details of property and equipment consisted of the following at December 31, 2022 and 2021:

	<u>December 31,</u>	
	<u>2022</u>	<u>2021</u>
Land	\$ 486,304	\$ 486,304
Building	2,052,167	2,009,899
Furniture and fixtures	<u>263,806</u>	<u>271,468</u>
Total	2,802,277	2,767,671
Accumulated depreciation	<u>(1,267,210)</u>	<u>(1,231,264)</u>
Net property and equipment	<u>\$1,535,067</u>	<u>\$1,536,407</u>

Depreciation expense for the years ended December 31, 2022 and 2021, was \$65,414, and \$64,817, respectively.

NOTE D - Net Assets with Donor Restrictions

Net Assets with Donor Restrictions at December 31, 2022 and 2021, restricted for specific projects or distributions to various locations are as follows:

	<u>December 31,</u>	
	<u>2022</u>	<u>2021</u>
Africa	\$267,169	\$241,202
Europe	145,193	77,431
Asia	174,541	180,519
North/Central America	19,502	5,228
South America	105,004	37,608
Papua New Guinea	<u>80</u>	<u> </u>
Total net assets with temporary donor restrictions	<u>\$711,489</u>	<u>\$541,988</u>

LUTHERAN HERITAGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

December 31, 2022 and 2021

NOTE D - Net Assets with Donor Restrictions (continued)

Net Assets with Donor Restrictions at December 31, 2022 and 2021, to be held in perpetuity are as follows:

	<u>December 31,</u>	
	<u>2022</u>	<u>2021</u>
Total net assets held in perpetuity	<u>\$ 276,550</u>	<u>\$ 307,144</u>

LHF may use up to seventy-five percent of the realized gains generated from the previous calendar year's gifts and bequests in the funds held in perpetuity for such uses, missions, projects and programs recommended by the executive director and approved by a majority vote of the Board of Directors that are consistent with the general purposes set forth in the LHF bylaws.

NOTE E - Translation and Other Overseas Expense

Translation and other overseas expense for the years ended December 31, 2022 and 2021, are summarized as follows:

	<u>For the years ended</u> <u>December 31,</u>	
	<u>2022</u>	<u>2021</u>
Africa	\$ 687,063	\$ 608,337
Europe	171,192	194,660
Asia	339,259	365,352
South America	104,783	98,423
North/Central America	34,238	56,827
Papua New Guinea	<u>9,000</u>	<u>33,565</u>
Total translation and other overseas expense	<u>\$1,345,535</u>	<u>\$1,357,164</u>

LUTHERAN HERITAGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

December 31, 2022 and 2021

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 LHF and totaled \$46,706, for the year ended December 31, 2022, and \$44,104 for the year ended December 31, 2021. 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 18, 2023, the date which the financial statements were available for issue.

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 2018 no longer remain subject to examination by the taxing authorities.

LUTHERAN HERITAGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

December 31, 2022 and 2021

NOTE I - Fair Value Measurement

Fair value of assets measured on a recurring basis at December 31, 2022 and 2021, 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>
Investments at December 31, 2022	<u>\$5,668,815</u>	<u>\$5,668,815</u>
Total	<u>\$5,668,815</u>	<u>\$5,668,815</u>
Investments at December 31, 2021	<u>\$1,903,158</u>	<u>\$1,903,158</u>
Total	<u>\$1,903,158</u>	<u>\$1,903,158</u>

NOTE J - Accounting Pronouncements

ASU 2021-10 *Government Assistance* (Topic 832) is effective for annual periods beginning after December 15, 2022. LHF is not early adopting this standard. This standard will not have a material impact on net assets or revenue.

ASU 2022-04 *Liabilities - Supplier Finance Programs* is effective for years beginning after December 15, 2022. LHF does not believe this standard will have a material impact on net assets or revenue of LHF.

ASU 2023-01 *Lease Arrangement* is effective for years beginning after December 15, 2023. LHF does not believe this standard will have a material impact on net assets or revenue.

LUTHERAN HERITAGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

December 31, 2022 and 2021

NOTE K - Cash and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents, restricted cash and restricted cash equivalents reported within the Statement of Financial Position that sum to the total of the same such amounts shown on the Statement of Cash Flows:

	<u>December 31,</u>	
	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$1,113,447	\$ 674,673
Restricted cash and restricted cash equivalents	<u>618,748</u>	<u>444,385</u>
Total cash, cash equivalents, restricted cash and restricted cash equivalents	<u>\$1,732,195</u>	<u>\$1,119,058</u>

NOTE L - Risks and Uncertainties

LHF invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect investment amounts reported in the Statement of Financial Position.