

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

FINANCIAL STATEMENTS
December 31, 2017 and 2016

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, 2017 and 2016, 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 as of December 31, 2017 and 2016, 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.

Report on Supplementary Information

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 15, 2018

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

STATEMENT OF FINANCIAL POSITION
December 31, 2017 and 2016

ASSETS		December 31,	
	2017	2016	
Current assets (Note A):			
Cash and cash equivalents:			
Unrestricted	\$ 622,738	\$ 493,870	
Temporarily restricted	678,004	526,043	
Certificates of deposit (Note B)	483,000	975,840	
Contributions receivable:			
Unrestricted		64,662	
Temporarily restricted	142,051	77,800	
Prepaid expenses and other current assets	45,261	40,096	
Total current assets	1,971,054	2,178,311	
Property and equipment, net (Notes A and C)	1,701,288	1,752,038	
Other assets, investments (Notes A and B)	2,346,926	2,146,222	
Total assets	\$6,019,268	\$6,076,571	
LIABILITIES AND NET ASSETS			
Current liabilities, accounts payable (Note A)	\$ 198,658	\$ 24,084	
Total current liabilities	198,658	24,084	
Net assets (Note A):			
Unrestricted	5,000,555	5,448,644	
Temporarily restricted (Note D)	820,055	603,843	
Total net assets	5,820,610	6,052,487	
Total liabilities and net assets	\$6,019,268	\$6,076,571	

See accompanying notes.

LUTHERAN HERITAGE FOUNDATION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the years ended December 31, 2017 and 2016

	For the years ended December 31,			
	2017			2016
	Unrestricted	Temporarily restricted	Total	Total
Revenue and support:				
Contributions	\$1,448,570	\$484,117	\$1,932,687	\$1,692,863
Net realized and unrealized gain on investments	62,652		62,652	20,847
Interest income	62,134		62,134	55,823
Miscellaneous income	<u>10,681</u>		<u>10,681</u>	<u>10,654</u>
Total revenue and support	1,584,037	484,117	2,068,154	1,780,187
Net assets released from restrictions	<u>267,905</u>	<u>(267,905)</u>		
Total revenue, support and net assets released from restrictions	<u>1,851,942</u>	<u>216,212</u>	<u>2,068,154</u>	<u>1,780,187</u>
Expenses:				
Program services	1,602,724		1,602,724	1,154,888
Support services:				
Management and general	343,254		343,254	353,726
Fund-raising	<u>354,053</u>		<u>354,053</u>	<u>349,277</u>
Total expenses	<u>2,300,031</u>		<u>2,300,031</u>	<u>1,857,891</u>
Increase (decrease) in net assets	(448,089)	216,212	(231,877)	(77,704)
Net assets, January 1,	<u>5,448,644</u>	<u>603,843</u>	<u>6,052,487</u>	<u>6,130,191</u>
Net assets, December 31,	<u>\$5,000,555</u>	<u>\$820,055</u>	<u>\$5,820,610</u>	<u>\$6,052,487</u>

See accompanying notes.

LUTHERAN HERITAGE FOUNDATION

SCHEDULE OF FUNCTIONAL EXPENSES

For the year ended December 31, 2017

(with comparative totals for the year ended December 31, 2016)

	For the year ended December 31, 2017			
	Program services	Management and general	Support services	
			Fund-raising	Total support services
Salaries	\$ 203,187	\$142,714	\$134,614	\$277,328
Employee benefits	45,656	36,619	28,444	65,063
Payroll taxes	4,278	9,610	3,646	13,256
Total salaries and related expenses	253,121	188,943	166,704	355,647
Independent representatives			17,200	17,200
Purchased services	10,822	61,385	64,697	126,082
Supplies		19,243	10,497	29,740
Maintenance and repairs	4,759	11,755	5,901	17,656
Communication and utilities	3,219	5,666	3,992	9,658
Rental and lease		5,264		5,264
Depreciation	13,345	23,787	16,548	40,335
Insurance	2,911	(3,850)	3,609	(241)
Travel	36,653	8,582	57,092	65,674
Property taxes		3,287		3,287
Translation and other overseas expense (Note E)	1,277,894			
Other		19,192	7,813	27,005
Total functional expenses	<u>\$1,602,724</u>	<u>\$343,254</u>	<u>\$354,053</u>	<u>\$697,307</u>

See accompanying notes.

For the years ended	
December 31,	
<u>2017</u>	<u>2016</u>
<u>Total expenses</u>	
\$ 480,515	\$ 502,241
110,719	119,644
<u>17,534</u>	<u>16,507</u>
608,768	638,392
17,200	13,700
136,904	121,826
29,740	31,740
22,415	19,514
12,877	13,565
5,264	5,273
53,680	55,177
2,670	981
102,327	109,920
3,287	3,267
1,277,894	815,987
<u>27,005</u>	<u>28,549</u>
<u>\$2,300,031</u>	<u>\$1,857,891</u>

LUTHERAN HERITAGE FOUNDATION

STATEMENT OF CASH FLOWS
For the years ended December 31, 2017 and 2016

	For the years ended December 31,	
	<u>2017</u>	<u>2016</u>
Decrease in net assets	(\$ 231,877)	(\$ 77,704)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation	53,680	55,177
Donated equity instruments included in contributions	(69,981)	(621)
Unrealized and realized gain on investments	(70,240)	(20,847)
Proceeds from sale of donated equity instruments	9,957	615
Changes in operating assets and liabilities which provided (used) cash:		
Contributions receivable	411	(132,962)
Prepaid expenses and other	(5,166)	(2,100)
Accounts payable	<u>174,574</u>	<u>15,833</u>
Net cash used in operating activities	<u>(138,642)</u>	<u>(162,609)</u>

LUTHERAN HERITAGE FOUNDATION

STATEMENT OF CASH FLOWS

(continued)

For the years ended December 31, 2017 and 2016

	For the years ended December 31,	
	<u>2017</u>	<u>2016</u>
Cash flows from investing activities:		
Purchase of property and equipment	(\$ 3,120)	(\$ 549)
Net change in certificates of deposit	492,840	736,160
Increase in cash surrender value, life insurance	(108,973)	(108,249)
Net change in annuity	53,897	(48,826)
Purchase of equities	(26,447)	(390,600)
Proceeds from sale of equities	<u>11,274</u>	<u> </u>
Net cash provided by investing activities	<u>419,471</u>	<u>187,936</u>
Net increase in cash and cash equivalents	280,829	25,327
Cash and cash equivalents, January 1,	<u>1,019,913</u>	<u>994,586</u>
Cash and cash equivalents, December 31,	<u>\$1,300,742</u>	<u>\$1,019,913</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, 2017 and 2016.

See accompanying notes.

LUTHERAN HERITAGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 and 2016

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 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, 2017 and 2016, there was no established allowance for uncollectible accounts. All contributions receivable at December 31, 2017 and 2016 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 debt securities with original maturities of twelve months or less. Long-term investments consist of debt securities with original maturities greater than twelve months.

LUTHERAN HERITAGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

December 31, 2017 and 2016

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 vehicles to forty years for buildings.

Contributions - Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence or nature of any donor restrictions.

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, 2017 and 2016, 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, 2017 or 2016. 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.

LUTHERAN HERITAGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

December 31, 2017 and 2016

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 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.

Summarized comparative information for the year ended December 31, 2016 - The financial information presented for comparative purposes for the year ended December 31, 2016, 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 2016 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, 2016 have been reclassified to correspond to classifications at December 31, 2017.

NOTE B - Investments and Certificates of Deposit

Certificates of deposit consisted of the following at December 31, 2017 and 2016:

	<u>December 31, 2017</u>			<u>December 31, 2016</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	\$ 483,000	\$ 483,000	\$ -0-	\$ 975,840	\$ 975,840	\$ -0-
Total	\$ 483,000	\$ 483,000	\$ -0-	\$ 975,840	\$ 975,840	\$ -0-

LUTHERAN HERITAGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

December 31, 2017 and 2016

NOTE B - Investments and Certificates of Deposit (continued)

Other assets, investments consisted of the following at December 31, 2017 and 2016:

	<u>December 31, 2017</u>			<u>December 31, 2016</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	\$ 824,807	\$ 824,807	\$ -0-	\$ 715,834	\$ 715,834	\$ -0-
Annuities	442,414	442,414	-0-	496,311	496,311	-0-
Equities	<u>1,000,774</u>	<u>1,079,705</u>	<u>78,931</u>	<u>919,172</u>	<u>934,077</u>	<u>14,905</u>
Total	<u>\$2,267,995</u>	<u>\$2,346,926</u>	<u>\$ 78,931</u>	<u>\$2,131,317</u>	<u>\$2,146,222</u>	<u>\$ 14,905</u>

NOTE C - Property and Equipment

The details of property and equipment consisted of the following at December 31, 2017 and 2016:

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
Land	\$ 486,304	\$ 486,304
Building	2,009,899	2,009,899
Furniture and fixtures	<u>216,536</u>	<u>213,606</u>
Total	2,712,739	2,709,809
Accumulated depreciation	(1,011,451)	(957,771)
Net property and equipment	<u>\$1,701,288</u>	<u>\$1,752,038</u>

Depreciation expense for the years ended December 31, 2017 and 2016, was \$53,680 and \$55,177, respectively.

LUTHERAN HERITAGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

December 31, 2017 and 2016

NOTE D - Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2017 and 2016, are restricted for specific projects or distributions to various locations as follows:

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
Africa	\$ 297,133	\$180,781
Europe	87,087	229,452
Asia	187,581	157,847
North/Central America	1,039	1,980
South America	221,810	
Papua New Guinea	<u>25,405</u>	<u>33,783</u>
Total temporarily restricted net assets	<u>\$ 820,055</u>	<u>\$603,843</u>

NOTE E - Translation and Other Overseas Expense

Translation and other overseas expense for the years ended December 31, 2017 and 2016, are summarized as follows:

	<u>For the years ended</u> <u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
Africa	\$ 507,206	\$360,745
Europe	303,338	187,660
Asia	254,418	218,332
South America	172,144	
North/Central America	17,375	25,195
Papua New Guinea	<u>23,413</u>	<u>24,055</u>
Total translation and other overseas expense	<u>\$1,277,894</u>	<u>\$815,987</u>

LUTHERAN HERITAGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

December 31, 2017 and 2016

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 \$34,476, for the year ended December 31, 2017, and \$33,294 for the year ended December 31, 2016. 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 15, 2018 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 2013 no longer remain subject to examination by the taxing authorities.

LUTHERAN HERITAGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

December 31, 2017 and 2016

NOTE I - Fair Value Measurement

Fair value of assets measured on a recurring basis at December 31, 2017 and 2016, 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, 2017		
Investments and certificates of deposit	<u>\$2,829,926</u>	<u>\$2,829,926</u>
Total	<u>\$2,829,926</u>	<u>\$2,829,926</u>
December 31, 2016		
Investments and certificates of deposit	<u>\$3,122,062</u>	<u>\$3,122,062</u>
Total	<u>\$3,122,062</u>	<u>\$3,122,062</u>

NOTE J - Upcoming Accounting Pronouncements

The FASB issued two new accounting standards addressing accounting and financial reporting for Not-For-Profit entities. Accounting Standards Update (ASU) 2016-14 *Presentation of Financial Statements of Not-For-Profit Entities* was issued in August 2016 effective for fiscal years beginning after December 15, 2017, early adoption is allowed. ASU 2016-18 *Restricted Cash, a Consensus of the FASB Emerging Issues Task Force*, was issued in November 2016 for fiscal years beginning after December 15, 2018, early adoption is allowed. LHF is currently evaluating the effect the adoption of the ASU's will have on the financial statements of the entity.