

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

FINANCIAL STATEMENTS
December 31, 2019 and 2018



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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, 2019 and 2018, 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, 2019 and 2018, 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 21, 2020

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

STATEMENT OF FINANCIAL POSITION
December 31, 2019 and 2018

ASSETS	December 31,	
	2019	2018
Current assets (Notes A and I):		
Cash and cash equivalents (Note K):		
Without donor restrictions	\$ 239,691	\$ 141,578
With donor restrictions	629,834	504,089
Certificates of deposit (Note B)	57,488	790,438
Contributions receivable:		
Without donor restrictions	7,750	41,750
With donor restrictions	38,135	124,302
Bequests receivable, without donor restrictions	546,303	
Prepaid expenses and other current assets	24,875	34,319
Total current assets	1,544,076	1,636,476
Property and equipment, net (Notes A and C)	1,623,265	1,653,429
Other assets (Notes A and B):		
Investments without donor restrictions	2,531,089	2,330,084
Investments with donor restrictions	59,975	48,933
Bequest receivable without donor restrictions	192,250	
Total assets	\$5,950,655	\$5,668,922
LIABILITIES AND NET ASSETS		
Current liabilities, accounts payable (Note A)	\$ 40,442	\$ 13,473
Total current liabilities	40,442	13,473
Net assets (Note A):		
Without donor restrictions	5,182,269	4,978,125
With donor restrictions (Note D)	727,944	677,324
Total net assets	5,910,213	5,655,449
Total liabilities and net assets	\$5,950,655	\$5,668,922

See accompanying notes.

LUTHERAN HERITAGE FOUNDATION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the years ended December 31, 2019 and 2018

	For the years ended December 31,			
	2019		2018	
	Without donor restrictions	With donor restrictions	Total	Total
Revenue and support:				
Contributions	\$2,238,553	\$274,524	\$2,513,077	\$2,321,061
Net realized and unrealized gain (loss) on investments	124,030	6,928	130,958	(58,225)
Interest and dividend income	84,753	2,767	87,520	43,570
Miscellaneous income	11,655		11,655	11,800
Total revenue and support	2,458,991	284,219	2,743,210	2,318,206
Net assets released from restrictions	233,599	(233,599)		
Total revenue, support and net assets released from restrictions	2,692,590	50,620	2,743,210	2,318,206
Expenses:				
Program services	1,622,218		1,622,218	1,668,195
Support services:				
Management and general	434,739		434,739	397,028
Fund-raising	431,489		431,489	418,144
Total expenses	2,488,446		2,488,446	2,483,367
Increase (decrease) in net assets	204,144	50,620	254,764	(165,161)
Net assets, January 1,	4,978,125	677,324	5,655,449	5,820,610
Net assets, December 31,	\$5,182,269	\$727,944	\$5,910,213	\$5,655,449

See accompanying notes.

LUTHERAN HERITAGE FOUNDATION
SCHEDULE OF FUNCTIONAL EXPENSES
For the year ended December 31, 2019
(with comparative totals for the year ended December 31, 2018)

	For the year ended December 31, 2019			
	Program services	Supporting services		
	Translation & publishing services	Management and general	Fund-raising	Total supporting services
Salaries	\$ 271,422	\$209,066	\$173,632	\$382,698
Employee benefits	75,572	49,894	52,544	102,438
Payroll taxes	<u>4,831</u>	<u>13,179</u>	<u>3,179</u>	<u>16,358</u>
Total salaries and related expenses	351,825	272,139	229,355	501,494
Independent representatives			20,600	20,600
Purchased services	9,258	48,865	74,215	123,080
Supplies	220	19,497	14,055	33,552
Maintenance and repairs	5,711	15,778	5,039	20,817
Communication and utilities	3,279	7,973	2,893	10,866
Rental and lease		5,180		5,180
Depreciation	12,253	29,793	10,812	40,605
Insurance	2,701	(2,187)	2,383	196
Travel	46,471	6,711	58,966	65,677
Property taxes		3,524		3,524
Translation and other overseas expense (Note E)	1,190,500			
Other	<u> </u>	<u>27,466</u>	<u>13,171</u>	<u>40,637</u>
Total functional expenses	<u>\$1,622,218</u>	<u>\$434,739</u>	<u>\$431,489</u>	<u>\$866,228</u>

See accompanying notes.

For the years ended	
December 31,	
<u>2019</u>	<u>2018</u>
<u>Total expenses</u>	
\$ 654,120	\$ 567,967
178,010	144,881
<u>21,189</u>	<u>19,017</u>
853,319	731,865
20,600	26,439
132,338	141,595
33,772	33,716
26,528	35,198
14,145	14,897
5,180	5,268
52,858	53,521
2,897	5,180
112,148	146,966
3,524	3,723
1,190,500	1,219,251
<u>40,637</u>	<u>65,748</u>
<u>\$2,488,446</u>	<u>\$2,483,367</u>

LUTHERAN HERITAGE FOUNDATION

STATEMENT OF CASH FLOWS
For the years ended December 31, 2019 and 2018

	For the years ended December 31,	
	<u>2019</u>	<u>2018</u>
Increase (decrease) in net assets	\$ 254,764	(\$ 165,161)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation	52,858	53,521
Donated equities and real estate included in contributions	(30,196)	(431,996)
Unrealized and realized (gain) loss on investments	(130,958)	58,225
Changes in operating assets and liabilities which provided (used) cash:		
Contributions receivable	120,167	(24,001)
Bequests receivable	(738,553)	
Prepaid expenses and other	9,444	10,942
Accounts payable	<u>26,969</u>	<u>(185,185)</u>
Net cash used in operating activities	<u>(435,505)</u>	<u>(683,655)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(22,693)	(5,663)
Net change in certificates of deposit	732,950	(307,438)
Increase in cash surrender value, life insurance	(8,754)	(12,494)
Net change in annuity	(28,183)	(2,166)
Purchase of equities	(199,397)	(839,121)
Proceeds from sale of investments	<u>185,440</u>	<u>1,195,462</u>
Net cash provided by investing activities	<u>659,363</u>	<u>28,580</u>

LUTHERAN HERITAGE FOUNDATION

STATEMENT OF CASH FLOWS

(continued)

For the years ended December 31, 2019 and 2018

	For the years ended December 31,	
	<u>2019</u>	<u>2018</u>
Net increase (decrease) in cash, cash equivalents, restricted cash and restricted cash equivalents	\$ 223,858	(\$ 655,075)
Cash, cash equivalents, restricted cash and restricted cash equivalents, January 1,	<u>645,667</u>	<u>1,300,742</u>
Cash, cash equivalents, restricted cash and restricted cash equivalents, December 31,	<u>\$ 869,525</u>	<u>\$ 645,667</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, 2019 and 2018.

See accompanying notes.

LUTHERAN HERITAGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

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, 2019 and 2018, there was no established allowance for uncollectible accounts. All contributions receivable at December 31, 2019 and 2018 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, 2019 and 2018

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 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, 2019 and 2018:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Designated amounts	<u>\$1,710,493</u>	<u>\$1,566,382</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, 2019 and 2018

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, 2018 - The financial information presented for comparative purposes for the year ended December 31, 2018, 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 2018 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.

Contributed Services - No amounts have been reflected in the financial statement 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 and Certificates of Deposit

Certificates of deposit consisted of the following at December 31, 2019 and 2018:

	<u>December 31, 2019</u>			<u>December 31, 2018</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	\$ 57,488	\$ 57,488	\$ -0-	\$ 790,438	\$ 790,438	\$ -0-
Total	\$ 57,488	\$ 57,488	\$ -0-	\$ 790,438	\$ 790,438	\$ -0-

LUTHERAN HERITAGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

December 31, 2019 and 2018

NOTE B - Investments and Certificates of Deposit (continued)

Other assets, investments consisted of the following at December 31, 2019 and 2018:

	<u>December 31, 2019</u>			<u>December 31, 2018</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	\$ 846,055	\$ 846,055	\$ -0-	\$ 837,301	\$ 837,301	\$ -0-
Annuities	472,763	472,763	-0-	444,580	444,580	-0-
Equities	<u>1,155,798</u>	<u>1,272,246</u>	<u>116,448</u>	<u>1,111,645</u>	<u>1,097,136</u>	<u>(14,509)</u>
Total	<u>\$2,474,616</u>	<u>\$2,591,064</u>	<u>\$116,448</u>	<u>\$2,393,526</u>	<u>\$2,379,017</u>	<u>(\$ 14,509)</u>

NOTE C - Property and Equipment

The details of property and equipment consisted of the following at December 31, 2019 and 2018:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Land	\$ 486,304	\$ 486,304
Building	2,009,899	2,009,899
Furniture and fixtures	<u>240,631</u>	<u>219,867</u>
Total	2,736,834	2,716,070
Accumulated depreciation	<u>(1,113,569)</u>	<u>(1,062,641)</u>
Net property and equipment	<u>\$1,623,265</u>	<u>\$1,653,429</u>

Depreciation expense for the years ended December 31, 2019 and 2018, was \$52,858, and \$53,521, respectively.

LUTHERAN HERITAGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

December 31, 2019 and 2018

NOTE D - Net Assets with Donor Restrictions

Net Assets with Donor Restrictions at December 31, 2019 and 2018, restricted for specific projects or distributions to various locations as follows:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Africa	\$ 268,552	\$271,812
Europe	63,646	49,442
Asia	179,967	181,481
North/Central America	-0-	1,396
South America	133,939	100,771
Papua New Guinea	<u>21,669</u>	<u>21,862</u>
Total net assets with temporary donor restrictions	<u>\$ 667,773</u>	<u>\$626,764</u>

Net Assets with Donor Restrictions at December 31, 2019 and 2018, to be held in perpetuity are as follows:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Total net assets held in perpetuity	<u>\$ 60,171</u>	<u>\$ 50,560</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.

LUTHERAN HERITAGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

December 31, 2019 and 2018

NOTE E - Translation and Other Overseas Expense

Translation and other overseas expense for the years ended December 31, 2019 and 2018, are summarized as follows:

	For the years ended December 31,	
	<u>2019</u>	<u>2018</u>
Africa	\$ 631,410	\$ 606,197
Europe	223,210	217,909
Asia	319,348	337,069
South America	2,059	21,906
North/Central America	11,398	25,670
Papua New Guinea	<u>3,075</u>	<u>10,500</u>
Total translation and other overseas expense	<u>\$1,190,500</u>	<u>\$1,219,251</u>

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 \$46,988, for the year ended December 31, 2019, and \$41,409 for the year ended December 31, 2018. 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 21, 2020 the date which the financial statements were available for issue. On May 6, 2020 LHF obtained a \$165,000 loan under the Payroll Protection Program of the U.S. Small Business Administration. If certain provisions are met under the guidelines established by the Program, this amount may be partially or fully forgiven.

LUTHERAN HERITAGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

December 31, 2019 and 2018

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 2015 no longer remain subject to examination by the taxing authorities.

NOTE I - Fair Value Measurement

Fair value of assets measured on a recurring basis at December 31, 2019 and 2018, 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 and certificates of deposit at December 31, 2019	<u>\$2,648,552</u>	<u>\$2,648,552</u>
Total	<u>\$2,648,552</u>	<u>\$2,648,552</u>
Investments and certificates of deposit at December 31, 2018	<u>\$3,169,455</u>	<u>\$3,169,455</u>
Total	<u>\$3,169,455</u>	<u>\$3,169,455</u>

NOTE J - Accounting Pronouncements

The FASB issued accounting standards addressing accounting and financial reporting for Not-For-Profit entities. 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 adopted ASU 2016-18 for the years ended December 31, 2019 and 2018.

LUTHERAN HERITAGE FOUNDATION

NOTES TO FINANCIAL STATEMENTS

(continued)

December 31, 2019 and 2018

NOTE J - Accounting Pronouncements (continued)

ASU 2018-08 *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* effective for fiscal years beginning after December 15, 2019. LHF is not early adopting this standard and LHF does not believe this standard will have a material impact on net assets or revenue.

ASU 2019-03 *Updating the Definition of Collections* is effected for fiscal years beginning after December 15, 2019. LHF is not early adopting this standard and LHF does not believe this standard will have a material effect on net assets or revenue.

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>2019</u>	<u>2018</u>
Cash and cash equivalents	\$239,691	\$141,578
Restricted cash and restricted cash equivalents	<u>629,834</u>	<u>504,089</u>
Total cash, cash equivalents, restricted cash and restricted cash equivalents	<u>\$869,525</u>	<u>\$645,667</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.