

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

***FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT***

DECEMBER 31, 2016

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

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INDEPENDENT AUDITORS' REPORT

**Board of Directors
Lutheran Immigration and Refugee Service, Inc.
Baltimore, Maryland**

We have audited the accompanying financial statements of Lutheran Immigration and Refugee Service, Inc. ("LIRS"), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and changes in net assets and cash flows for the year 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 LIRS'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 LIRS'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 Immigration and Refugee Service, Inc. as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Board of Directors
Lutheran Immigration and Refugee Service, Inc.
Baltimore, Maryland**

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Revenue, Expenses and Changes in Net Assets by Award for the year ended December 31, 2016, Schedule of Functional Expenses for the year ended December 31, 2016 with Summarized Information for 2015, and the Summary of Changes in Net Assets for the year ended December 31, 2016 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.

Report on 2015 Summarized Comparative Information

The financial statements of Lutheran Immigration and Refugee Service, Inc. as of December 31, 2015 were audited by other auditors whose report dated May 13, 2016, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Tait, Weller & Baker LLP

**Philadelphia, Pennsylvania
May 18, 2017**

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2016 and 2015

	ASSETS	<u>2016</u>	<u>2015</u>
Current Assets			
Cash and cash equivalents		\$ 11,792,689	\$ 9,197,172
Investments, at market value (Note 2)		262,489	265,366
Accounts receivable			
U.S. government		6,781,346	4,330,784
Miscellaneous		461,079	358,339
Loans receivable – refugees (Note 3)		1,640	3,786
Prepaid expenses and other assets		273,162	254,930
Investment in Lutheran Center Corporation (Note 4)		3,650,169	3,749,630
Funds held by trustee (Note 5)		<u>334,940</u>	<u>336,125</u>
Total Current Assets		<u>23,557,514</u>	<u>18,496,132</u>
Fixed assets, less accumulated depreciation and amortization of \$563,958 and \$520,192 at 2016 and 2015, respectively		<u>524,632</u>	<u>617,070</u>
Total Assets		<u>\$ 24,082,146</u>	<u>\$ 19,113,202</u>
	LIABILITIES AND NET ASSETS		
Current Liabilities			
Accounts payable and accrued expenses		\$ 12,889,627	\$ 8,257,704
Long-term debt, current portion (Note 5)		<u>112,500</u>	<u>107,500</u>
Total Current Liabilities		<u>13,002,127</u>	<u>8,365,204</u>
Long-term Obligations, net of current portion (Note 5)		<u>1,918,304</u>	<u>2,028,828</u>
Total Liabilities		<u>14,920,431</u>	<u>10,394,032</u>
Net Assets			
Unrestricted			
Undesignated		7,039,346	6,557,123
Designated		<u>1,326,799</u>	<u>1,470,633</u>
Total unrestricted net assets		<u>8,366,145</u>	<u>8,027,756</u>
Temporarily restricted (Note 7)		<u>795,570</u>	<u>691,414</u>
Total Net Assets		<u>9,161,715</u>	<u>8,719,170</u>
Total Liabilities and Net Assets		<u>\$ 24,082,146</u>	<u>\$ 19,113,202</u>

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended December 31, 2016 With Summarized Comparative Totals For 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	
			<u>2016</u>	<u>2015</u>
Operating Activities				
Support and Revenue				
Support				
Church bodies	\$ 825,328	\$ 160,000	\$ 985,328	\$ 1,127,860
Foundations and corporations	100,978	129,375	230,353	249,804
Other contributions	1,030,448	255,254	1,285,702	876,525
In-kind contributions	<u>7,167</u>	<u>58,863</u>	<u>66,030</u>	<u>3,916</u>
	<u>1,963,921</u>	<u>603,492</u>	<u>2,567,413</u>	<u>2,258,105</u>
U.S. Government and State	<u>64,666,482</u>	<u>—</u>	<u>64,666,482</u>	<u>51,606,235</u>
Total support	<u>66,630,403</u>	<u>603,492</u>	<u>67,233,895</u>	<u>53,864,340</u>
Revenue				
Servicing fees	2,063,656	80	2,063,736	1,970,951
Miscellaneous	<u>77,403</u>	<u>6,516</u>	<u>83,919</u>	<u>169,433</u>
Total revenue	<u>2,141,059</u>	<u>6,596</u>	<u>2,147,655</u>	<u>2,140,384</u>
Net assets released from restrictions (Note 7)	<u>505,932</u>	<u>(505,932)</u>	<u>—</u>	<u>—</u>
Total support and revenue	<u>69,277,394</u>	<u>104,156</u>	<u>69,381,550</u>	<u>56,004,724</u>
Expenses				
Program Services				
U.S. government funded activities	59,388,511	—	59,388,511	47,250,957
Other program activities	<u>2,581,248</u>	<u>—</u>	<u>2,581,249</u>	<u>2,997,191</u>
Total program services	<u>61,969,759</u>	<u>—</u>	<u>61,969,759</u>	<u>50,248,148</u>
Supporting Services				
Management and general	5,693,231	—	5,693,231	4,767,574
Fund-raising	<u>1,166,437</u>	<u>—</u>	<u>1,166,437</u>	<u>1,014,533</u>
Total supporting services	<u>6,859,668</u>	<u>—</u>	<u>6,859,668</u>	<u>5,782,107</u>
Total Expenses	<u>68,829,427</u>	<u>—</u>	<u>68,829,427</u>	<u>56,030,255</u>
Change in Net Assets – Operating Activities	447,967	104,156	552,123	(25,531)
Non-operating Activities				
Investment earnings (Note 2)	39,594	—	39,594	23,623
Loss on disposal of asset (Note 10)	<u>(149,172)</u>	<u>—</u>	<u>(149,172)</u>	<u>—</u>
Change in Net Assets	338,389	104,156	442,545	(1,908)
Net Assets, beginning of year	<u>8,027,756</u>	<u>691,414</u>	<u>8,719,170</u>	<u>8,721,078</u>
Net Assets, end of year	<u>\$ 8,366,145</u>	<u>\$ 795,570</u>	<u>\$ 9,161,715</u>	<u>\$ 8,719,170</u>

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2016 And 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 442,545	\$ (1,908)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	66,908	26,969
Amortization	1,976	2,136
Unrealized (gain) loss on investments	(1,987)	2,487
Loss (gain) in Lutheran Center Corporation investment	99,461	(47,163)
Loss on disposal of assets	149,172	—
Changes in assets and liabilities:		
Accounts receivable		
U.S. government	(2,450,562)	1,420,622
Miscellaneous	(102,740)	160,835
Loans receivable – refugees	2,146	785
Prepaid expenses and deposits	(18,233)	(155,550)
Funds held by trustee	1,185	29,939
Accounts payable and accrued expenses	<u>4,631,923</u>	<u>152,938</u>
Net Cash Provided by Operating Activities	<u>2,821,794</u>	<u>1,592,090</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of furniture, fixtures and equipment	(107,590)	(354,546)
Leasehold improvements	(16,052)	—
Investment in Lutheran Center Corporation	—	(33,114)
Purchases of investments	(13,817)	(14,451)
Proceeds from sales of investments	<u>18,682</u>	<u>455,189</u>
Net Cash Provided by (Used In) Investing Activities	<u>(118,777)</u>	<u>53,078</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	<u>(107,500)</u>	<u>(102,500)</u>
Net Cash Used in Financing Activities	<u>(107,500)</u>	<u>(102,500)</u>
Net Increase in Cash and Cash Equivalents	2,595,517	1,542,668
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>9,197,172</u>	<u>7,654,504</u>
End of year	<u>\$11,792,689</u>	<u>\$9,197,172</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	<u>\$ 110,709</u>	<u>\$ 116,222</u>

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 And 2015

(1) ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND PURPOSE

Lutheran Immigration and Refugee Service, Inc. ("**LIRS**") is incorporated in Maryland as a non-stock corporation.

Witnessing to God's love for all people, the mission of LIRS is to stand with and advocate for migrants and refugees, transforming communities through ministries of service and justice.

ACCOUNTING ESTIMATES

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

LIRS considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

CONCENTRATION OF CREDIT RISK

LIRS occasionally maintains cash deposits in excess of federally insured limits of \$250,000. Accounting Standards Codification ("ASC") 825, "Financial Instruments" identifies these items as a concentration of credit risk requiring disclosure, regardless of the degree of risk. The risk is managed by monitoring the financial institutions in which deposits are made.

INVESTMENTS

Accounting Standards Codification ("ASC") 958, "Not-for-profit Entities" establishes standards for accounting for certain investments held by not-for-profit organizations and requires that investments in securities be recorded at fair market value with the resulting gains and losses reported in the statement of activities.

The fair market value of investments traded on a securities exchange is determined based on quoted market prices for those investments.

As part of its investment policy, LIRS is prohibited from investing in specific companies as identified by the two primary supporting Church bodies and to the extent such prohibitions are communicated to LIRS.

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2016 And 2015

FIXED ASSETS

Fixed assets purchased by LIRS are recorded at cost, or if donated, at fair market value on the date of donation. LIRS follows the practice of capitalizing all expenditures for fixed assets over \$5,000. Depreciation on furniture, equipment, computer software and buildings is computed on the straight-line method over their estimated useful life of the asset 3 to 30 years. Leasehold improvements are amortized over the shorter of the improvements life or the remaining lease term.

NET ASSETS

LIRS's net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- **Unrestricted Net Assets** – Net assets that are not subject to donor-imposed stipulations. As reflected in the accompanying statements of financial position, LIRS's Board of Directors has designated a portion of the unrestricted net assets of LIRS as board designated funds.
- **Temporarily Restricted Net Assets** – Net assets subject to donor-imposed stipulations that may or will be met either by actions of LIRS and/or the passage of time.

CONTRIBUTIONS

LIRS reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. Contributions of assets are recorded at fair value. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are classified to unrestricted net assets and reported in the statement of activities and changes in net assets as "net assets released from restrictions".

U.S. GOVERNMENT AWARDS

LIRS receives grant awards funded by the U.S. Government for the resettlement of and other services to refugees and to other migrants in federal custody. LIRS records revenues under these awards depending on the terms of the award, either as expenses are incurred or as revenues are earned.

ALLOCATION OF EXPENSES

The expenses for staff personnel, facilities and related costs incurred in the operations are allocated to the various programs and contracts based on the level of effort in the respective programs.

DEBT

LIRS applies the guidance in ASU 2013-04, Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date, which requires an entity to measure obligations resulting from joint and several liability arrangements as the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors.

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2016 And 2015

INCOME TAXES

LIRS has been granted exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the “Code”), and has been classified as an organization, which is not a private foundation under Section 509(a) of the Code.

LIRS recognizes or derecognizes tax positions on a “more likely than not” threshold. This applies to positions taken or expected to be taken in a tax return. LIRS has reviewed the tax positions taken for each of the open tax years (2013 - 2015) or expected to be taken in LIRS’s 2016 tax return and has concluded it has no material uncertain tax positions. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

LIRS follows the accounting guidance that creates a single model to address uncertainty in tax positions and clarifies accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in its financial statements. Under the requirements of this guidance, organizations could now be required to record an obligation as the result of tax positions they have historically taken on various tax exposure items. LIRS is not required to record such an obligation.

NEW ACCOUNTING STANDARD

In April 2015, the FASB issued ASU 2015-003, Interest – Imputation of Interest (Topic 835-30): *Simplifying the Presentation of Debt Issuance Costs*. This ASU was issued as a result of feedback received relating to the different balance sheet presentation requirements for debt issuance costs and debt discounts and premiums. To simplify presentation of debt issuance costs, the amendments in this ASU requires that debt issuance costs related to a recognized debt liability be presented in the Statement of Financial Position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. ASU 2015-03 is effective for LIRS in 2016. The guidance is retrospective and the adoption of this ASU did not have a significant impact on LIRS’ financial position or results of operations. The adoption of ASU 2015-03 caused the prepaid expenses and other assets in the December 31, 2015 Statement of Financial Position to decrease by \$66,773 and the long-term obligations to decrease by \$66,773.

PRIOR YEAR INFORMATION

The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the LIRS’s audited financial statements for the year ended December 31, 2015, from which the summarized information was derived.

RECLASSIFICATIONS

Certain reclassifications were made to the 2015 financial statements to conform to the 2016 presentation.

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2016 And 2015

(2) INVESTMENTS

At December 31, 2016 and 2015 investments consisted of the following:

	<u>2016</u>		<u>2015</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Fixed Income:				
Private debt obligation	\$ 224,569	\$ 224,569	\$ 236,421	\$ 236,421
Government Money Market Fund	6,824	6,824	—	—
Equities:				
Lutheran-related investment pools	<u>24,344</u>	<u>31,096</u>	<u>24,180</u>	<u>28,945</u>
	<u>\$ 255,737</u>	<u>\$ 262,489</u>	<u>\$ 260,601</u>	<u>\$ 265,366</u>

Investment earnings for the years ended December 31, 2016 and 2015 are comprised of the following:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$38,062	\$26,750
Realized loss	(10)	(182)
Unrealized gain (loss)	1,987	(2,487)
Investment fees	<u>(445)</u>	<u>(458)</u>
	<u>\$39,594</u>	<u>\$23,623</u>

The following describes the hierarchy of inputs used to measure market value and the primary valuation methodologies used by LIRS for investments measured at market value on a recurring basis. An investment's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the market value measurement. The three levels of inputs are as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities. Market price data is generally obtained from exchange or dealer markets.

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities. Inputs are obtained from various sources including market participants, dealers, and brokers.

Level 3 - Pricing inputs are unobservable and include situations where there is little, if any, market activity for the investment.

The methods described above may produce a market value calculation that may not be indicative of net realizable value or reflective of future market values. Furthermore, LIRS believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the market value of certain investments could result in a different estimate of market value.

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2016 And 2015

The following table presents the investments carried at market value as of December 31, 2016 and December 31, 2015, by caption on the statement of financial position by the valuation hierarchy defined above:

	2016		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Fixed Income:			
Private debt obligation	\$ —	\$224,569	\$224,569
Government Money Market Fund	6,824	—	6,824
Equities:			
Lutheran-related investment pools	—	31,096	31,096
	<u>\$ 6,824</u>	<u>\$255,665</u>	<u>\$262,489</u>
	2015		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Fixed Income:			
Private debt obligation	\$ —	\$236,421	\$236,421
Equities:			
Lutheran-related investment pools	—	28,945	28,945
	<u>\$ —</u>	<u>\$265,366</u>	<u>\$265,366</u>

(3) LOAN RECEIVABLE—REFUGEES

LIRS LOAN PROGRAMS

The loans receivable consist of the following as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Refugee loans – other	\$ 51,640	\$ 53,786
Less: allowance for doubtful accounts	<u>(50,000)</u>	<u>(50,000)</u>
	<u>\$ 1,640</u>	<u>\$ 3,786</u>

TRANSPORTATION LOANS – IOM PROGRAM

LIRS acts as an agent for the collection of transportation loans for refugee resettlement through the International Organization for Migration (“IOM”). Collections are remitted to IOM net of servicing fees earned which are 25% of loan collections. Included in servicing fees, LIRS earned fees of \$1,891,306 and \$1,907,678 for the years ending December 31, 2016 and 2015, respectively. These loans are not included in the statement of financial position as they are not loans of LIRS. The activity for the transportation loans was as follows:

	<u>2016</u>	<u>2015</u>
Balance outstanding at beginning year	\$32,744,284	\$30,861,578
New loans	14,191,526	11,101,411
Loan payments	(7,564,106)	(7,626,832)
Loans forgiven without prejudice	(252,712)	(259,201)
Loans transferred to IOM	<u>(9,756,201)</u>	<u>(1,332,672)</u>
Balance outstanding at end of year	<u>\$29,362,791</u>	<u>\$32,744,284</u>

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2016 And 2015

(4) INVESTMENT IN LUTHERAN CENTER CORPORATION

LIRS occupies approximately 57% of the office space and common space in the Lutheran Center owned by Lutheran Center Corporation (“LCC”). LCC, a non-profit organization, was organized to construct and operate the office building which LIRS and Lutheran World Relief (“LWR”) occupy. LIRS has a 50% interest in LCC and as such, carries its investment in LCC on the equity method. LIRS and LWR provide monthly payments to LCC under a partial cost sharing agreement which provides for reimbursement of costs, including interest in operating the building based upon space occupied. The agreement is for 30 years commencing September 1, 1999 through August 31, 2029 with six renewal options of 10 years each.

For the years ended December 31, 2016 and 2015, LIRS has recorded occupancy expense of, approximately \$594,000 and \$767,000 respectively, based upon its proportionate share of LCC’s costs. Since LIRS has previously provided equity investments in LCC, any gain (loss) realized by LCC will increase (decrease) LIRS’ equity in LCC. At December 31, 2016 and 2015, LIRS’ equity in LCC was \$3,650,169 and \$3,749,630, respectively. At December 31, 2016, LCC assets consisted principally of the building. The building is subject to a ground lease which provides for LCC to pay rent of \$1 per year for 50 years beginning in 1999, with four optional ten-year extensions.

(5) DEBT

On July 26, 2007, LIRS and LWR borrowed \$5,805,000 through the issuance of Economic Development Revenue Bonds, Series 2007, (“2007 Bonds”) through the Maryland Economic Development Corporation. The 2007 Bonds were issued to advance refund the Maryland Economic Development Revenue Bonds, Series 2000 (“2000 Bonds”) issued by the Maryland Economic Development Corporation. Proceeds of the 2007 Bonds were used to pay a portion of the issuance costs of the 2007 Bonds. LIRS and LWR are jointly and severally liable for the 2007 Bonds and as such, each has recorded 50% of the outstanding debt and related issue costs. In the event that either organization is unable to pay off their portion of the outstanding debt, the other organization will be liable. LCC, as owner of the Lutheran Center building, has guaranteed the repayment of the debt. LIRS and LWR must maintain a joint leverage ratio (cash and investments to annual debt service) of 5 to 1 or approximately \$2,250,000 in required cash and investments. As of December 31, 2016 and 2015, the covenant was met.

The 2007 Bonds, bearing interest at 5.25% per annum, were issued as Serial Bonds maturing April 1 in the years 2008 through 2029 and have annual mandatory sinking fund provisions which began in 2008. Deferred loan costs in the amount of \$226,212 were incurred in connection with the issuance of the 2007 Bonds. LIRS capitalized 50% of these costs which are being amortized on a straight-line basis over the life of the bonds. Long-term debt on the 2007 Bonds at December 31, 2016 and 2015 is shown on the statement of financial position net of unamortized bond premium of \$37,536 and \$40,601, respectively, and deferred loan costs of \$61,733 and \$66,773, respectively.

In conjunction with the issuance of the 2007 Bonds, a Debt Service Reserve Fund was created in the amount of \$449,138. LIRS has recorded 50% of these funds as Funds held by Trustee. Funds in the Debt Service Reserve Fund may be withdrawn by the Trustee to make the principal or interest payments of the 2007 Bonds in the event that the other funds available for the purpose are inadequate. The Debt Service Reserve Fund balance at December 31, 2016 and 2015 was \$225,696 and \$232,105, respectively.

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2016 And 2015

Principal payments under the terms of the 2007 Bond indenture are as follows:

	<u>LWR Portion</u>	<u>LIRS Portion</u>	<u>Total</u>
2017	\$ 112,500	\$ 112,500	\$ 225,000
2018	120,000	120,000	240,000
2019	125,000	125,000	250,000
2020	132,500	132,500	265,000
2021	140,000	140,000	280,000
Thereafter	<u>1,425,000</u>	<u>1,425,000</u>	<u>2,850,000</u>
	<u>\$2,055,000</u>	<u>\$2,055,000</u>	<u>\$4,110,000</u>

Interest expense on the 2007 Bonds for the years ended December 31, 2016 and 2015 amounted to \$109,298 and \$116,222, respectively.

(6) LEASE COMMITMENTS

LIRS has two leases for office space that expire on March 31, 2017 and May 1, 2018. As of December 31, 2016, future minimum lease obligations under these operating leases are as follows:

2017	\$71,455
2018	<u>19,232</u>
	<u>\$90,687</u>

Rent expense was approximately \$114,000 and \$112,000 for the years ended December 31, 2016 and 2015, respectively.

(7) NET ASSETS

Temporarily restricted net assets at December 31, 2016 and 2015 were available for the following purposes:

	<u>2016</u>	<u>2015</u>
The Swanson Refugee and Migrant Travel Fund	\$ 98,827	\$114,586
Detention Visitation	—	42,197
Rusk House of Hospitality	227,458	239,471
Central American Migrant Children and Families	93,974	93,716
NYC Syrian URM/Syrian Refugee	198,906	87,526
Refugee Protection and Family Strengthening	61,600	—
Other	<u>114,805</u>	<u>113,918</u>
	<u>\$795,570</u>	<u>\$691,414</u>

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2016 And 2015

During 2016, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes, as follows:

	<u>2016</u>
The Swanson Refugee and Migrant Travel Fund	\$ 16,359
Detention Visitation	88,562
Rusk House of Hospitality	22,263
Central American Migrant Children and Families	15,377
NYC Syrian URM/Syrian Refugee	179,088
Refugee Protection and Family Strengthening	127,263
Other	<u>57,020</u>
	<u>\$505,932</u>

(8) PENSION PLAN

Substantially all employees of LIRS are enrolled in the defined contribution pension plan made available and administered by Portico Benefit Services. Contributions to this plan are based upon earnings for all eligible employees and are accrued and funded on a current basis. Pension expense was approximately \$527,000 and \$547,000, respectively, for the years 2016 and 2015.

(9) LETTER OF CREDIT

A letter of credit was originally issued during 2015 in the maximum amount of \$70,000 for Maryland unemployment payments. Based on a current evaluation, the amount of \$70,000 was deemed adequate and the letter of credit was extended until September 2018. As of December 31, 2016, LIRS had not drawn upon it.

(10) DISPOSAL OF ASSET

Luminate Constituent Relationship Management Software was purchased in 2015 for \$172,314 and placed in service in December 2015. In August of 2016, due to functionality issues, the asset was disposed resulting in a loss of \$149,172 which equates to the net book value of the asset.

(11) SUBSEQUENT EVENTS

LIRS evaluated its December 31, 2016 financial statements for subsequent events through May 18, 2017, the date the financial statements were available to be issued. Management has determined that there are no events that would require disclosure or adjustments in the financial statements.

SUPPLEMENTAL INFORMATION

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

SCHEDULE OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS BY AWARD

Year Ended December 31, 2016

Contract Award Fiscal Year	Refugee Reception And Placement		Matching Grant		
	SPRMCO16CA1002	SPRMCO16CA1010	90RV0071/01	90RV0071/02	90RV0071/03
	2016	2017	2015	2016	2017
Revenue					
U.S. Government Grants	\$ 24,552,384	\$ 9,698,273	\$ 66,239	\$ 6,926,333	\$ 2,074,846
Expenses					
Program					
Personnel costs	868,891	329,768	—	163,985	69,478
Office operations	210,030	88,737	—	43,229	13,444
Travel and meetings	137,828	19,123	—	44,348	4,892
Supporting services – field operations	9,533,300	3,907,350	60,164	6,050,487	1,795,500
Refugee aid and other grants	12,004,600	4,627,125	—	—	—
Depreciation	770	445	—	133	94
Total program expenses	22,755,419	8,972,548	60,164	6,302,182	1,883,408
Management and General					
Administrative allocation and changes	1,796,965	725,725	5,929	630,218	192,046
Total expenses	24,552,384	9,698,273	66,093	6,932,400	2,075,454
Excess (deficiency) of revenue over expenses	—	—	146	(6,067)	(608)
Net Assets, beginning of year	—	—	—	—	—
Transfers	—	—	—	—	—
Net Assets, end of year	\$ —	\$ —	\$ 146	\$ (6,067)	\$ (608)

This schedule should be read in conjunction with the accompanying report of independent certified public accountants and the financial statements and notes thereto.

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

SCHEDULE OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS BY AWARD – (Continued)

Year Ended December 31, 2016

Contract Award Fiscal Year	Preferred Communities Intensive Case Management		Employment Services Technical Assistance		TAG Baltimore
	90RP0101/03	90RP0113/01	90RB0049/01	90RB0049/02	P533809
	2016	2017	2016	2017	2016
Revenue					
U.S. Government Grants	\$ 1,377,965	\$ 300,200	\$ 184,800	\$ 18,181	\$ 68,187
Expenses					
Program					
Personnel costs	157,621	31,575	126,382	11,750	54,187
Office operations	43,515	6,103	37,318	3,962	9,775
Travel and meetings	19,359	1,179	4,163	763	1,879
Supporting services – field operations	1,032,050	234,089	—	—	—
Refugee aid and other grants	—	—	—	—	—
Depreciation	150	40	137	23	53
Total program expenses	1,252,695	272,986	168,000	16,498	65,894
Management and General					
Administrative allocation and changes	125,270	27,786	16,800	1,683	6,589
Total expenses	1,377,965	300,772	184,800	18,181	72,483
Deficiency of revenue over expenses	—	(572)	—	—	(4,296)
Net Assets, beginning of year	—	—	—	—	—
Transfers	—	—	—	—	—
Net Assets, end of year	\$ —	\$ (572)	\$ —	\$ —	\$ (4,296)

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LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

SCHEDULE OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS BY AWARD – (Continued)

Year Ended December 31, 2016

Contract Award Fiscal Year	Alien Unaccompanied Minors – Family Reunification	Alien Unaccompanied Minors – Foster Care	Total
	90ZU0084/03 2016	90ZU0103/03 2016	
Revenue			
U.S. Government Grants	\$ 3,357,701	\$ 16,041,373	\$ 64,666,482
Expenses			
Program			
Personnel costs	511,938	858,685	3,184,260
Office operations	116,808	206,021	778,942
Travel and meetings	30,916	106,577	371,027
Supporting services – field operations	2,395,670	13,411,088	38,419,698
Refugee aid and other grants	—	—	16,631,725
Depreciation	319	695	2,859
Total program expenses	3,055,651	14,583,066	59,388,511
Management and General			
Administrative allocation and changes	302,050	1,458,307	5,289,368
Total expenses	3,357,701	16,041,373	64,677,879
Deficiency of revenue over expenses	—	—	(11,397)
Net Assets, beginning of year			
Transfers	—	—	—
Net Assets, end of year	\$ —	\$ —	\$ (11,397)

This schedule should be read in conjunction with the accompanying report of independent certified public accountants and the financial statements and notes thereto.

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

Year Ended December 31, 2016 With Summarized Information For 2015

	U.S. Government Funded Activities	Other Program Activities	Total Program Services	Management And General	Fund- Raising	Total Support Services	Totals	
							2016	2015
Personnel costs	\$ 3,184,260	\$ 1,371,750	\$ 4,556,010	\$ 4,237,639	\$ 500,575	\$ 4,738,214	\$ 9,294,224	\$ 8,367,935
Office operations	778,942	747,210	1,526,152	1,229,041	592,080	1,821,121	3,347,273	3,140,883
Travel and meetings	371,027	122,559	493,586	180,160	69,572	249,732	743,318	842,624
Supporting services – field operations	38,419,698	—	38,419,698	—	—	—	38,419,698	31,702,828
Refugee aid and other grants	16,631,725	292,233	16,923,958	33,036	—	33,036	16,956,994	11,947,286
Depreciation and amortization	<u>2,859</u>	<u>47,496</u>	<u>50,355</u>	<u>13,355</u>	<u>4,210</u>	<u>17,565</u>	<u>67,920</u>	<u>28,699</u>
	<u>\$ 59,388,511</u>	<u>\$ 2,581,248</u>	<u>\$ 61,969,759</u>	<u>\$ 5,693,231</u>	<u>\$ 1,166,437</u>	<u>\$ 6,859,668</u>	<u>\$ 68,829,427</u>	<u>\$ 56,030,255</u>

This schedule should be read in conjunction with the accompanying report of independent certified public accountants and the financial statements and notes thereto.

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

SUMMARY OF CHANGES IN NET ASSETS

Year Ended December 31, 2016

	Balance December 31, 2015	Additions (Including Inter-Fund Transfers)	Deductions	Balance December 31, 2016
Unrestricted Net Assets				
Undesignated, available for general activities	\$ 6,557,123	\$ 68,637,569	\$ 68,155,346	\$ 7,039,346
Designated				
Capital Reserve	591,003	—	—	591,003
Constituency and Resource Development	144,589	—	44,656	99,933
Partner Stabilization Fund	382,449	22,500	117,000	287,949
Friends of Refugees	10,421	1,815	6,149	6,087
Innovation Fund	342,171	—	344	341,827
	<u>1,470,663</u>	<u>24,315</u>	<u>168,149</u>	<u>1,326,799</u>
Total Unrestricted Net Assets	<u>\$ 8,027,756</u>	<u>\$ 68,661,884</u>	<u>\$ 68,323,495</u>	<u>\$ 8,366,145</u>
Temporarily Restricted Net Assets				
The Swanson Refugee and Migrant Travel Fund	114,586	600	16,359	98,827
Detention Visitation	42,197	46,365	88,562	—
Rusk House of Hospitality	239,471	10,250	22,263	227,458
Central American Migrant Children and Families	93,716	15,635	15,377	93,974
NYC Syrian URM/Syrian Refugee	87,526	290,468	179,088	198,906
Refugee Protection and Family Strengthening	—	188,863	127,263	61,600
Other	113,918	57,907	57,020	114,805
	<u>691,414</u>	<u>610,088</u>	<u>505,932</u>	<u>795,570</u>
Total Temporarily Restricted Net Assets	<u>\$ 691,414</u>	<u>\$ 610,088</u>	<u>\$ 505,932</u>	<u>\$ 795,570</u>

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