

**LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.**

***FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT  
REPORTS IN COMPLIANCE WITH THE UNIFORM GUIDANCE***

**DECEMBER 31, 2017**

# LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

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## **INDEPENDENT AUDITORS' REPORT**

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

### **Report On the Financial Statements**

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, 2017, 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 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 Immigration and Refugee Service, Inc. as of December 31, 2017, 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 Expenditures of Federal Awards for the year ended December 31, 2017, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Cost Principles and Audit Requirements for Federal Awards, 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 2016 Summarized Comparative Information*

The financial statements of Lutheran Immigration and Refugee Service, Inc. as of December 31, 2016 were audited by other auditors whose report dated May 18, 2017, 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, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated May 8, 2018, on our consideration of LIRS's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering LIRS's internal control over financial reporting and compliance.

*Tait, Weller & Baker LLP*

**Philadelphia, Pennsylvania  
May 8, 2018**

# LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

## STATEMENT OF FINANCIAL POSITION

Years Ended December 31, 2017 And 2016

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 13,039,690	\$ 11,792,689
Investments, at market value (Note 2)	267,448	262,489
Accounts receivable		
U.S. government	2,871,212	6,781,346
Miscellaneous	556,080	461,079
Prepaid expenses and other assets	214,547	274,802
Investment in Lutheran Center Corporation (Note 4)	3,467,133	3,650,169
Funds held by trustee (Note 5)	<u>341,354</u>	<u>334,940</u>
<b>Total Current Assets</b>	<u>20,757,464</u>	<u>23,557,514</u>
Fixed assets, less accumulated depreciation and amortization of \$564,424 and \$563,958 at 2017 and 2016, respectively	<u>709,935</u>	<u>524,632</u>
<b>Total Assets</b>	<u>\$ 21,467,399</u>	<u>\$ 24,082,146</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 8,302,722	\$ 12,889,627
Long-term debt, current portion (Note 5)	<u>120,000</u>	<u>112,500</u>
<b>Total Current Liabilities</b>	<u>8,422,722</u>	<u>13,002,127</u>
Long-term Obligations, net of current portion (Note 5)	<u>1,800,278</u>	<u>1,918,304</u>
<b>Total Liabilities</b>	<u>10,223,000</u>	<u>14,920,431</u>
<b>Net Assets</b>		
Unrestricted		
Undesignated	9,393,183	7,039,346
Designated	<u>1,205,941</u>	<u>1,326,799</u>
<b>Total unrestricted net assets</b>	<u>10,599,124</u>	<u>8,366,145</u>
Temporarily restricted (Note 7)	<u>645,275</u>	<u>795,570</u>
<b>Total Net Assets</b>	<u>11,244,399</u>	<u>9,161,715</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 21,467,399</u>	<u>\$ 24,082,146</u>

# LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

## STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended December 31, 2017 With Summarized Comparative Totals For 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	
			<u>2017</u>	<u>2016</u>
<b>Operating Activities</b>				
<b>Support and Revenue</b>				
<b>Support</b>				
Church bodies	\$ 638,440	\$ 33,484	\$ 671,924	\$ 985,328
Foundations and corporations	214,764	31,760	246,524	230,353
Other contributions	2,944,399	96,651	3,041,050	1,285,702
In-kind contributions	<u>2,257</u>	<u>456,300</u>	<u>458,557</u>	<u>66,030</u>
	<u>3,799,860</u>	<u>618,195</u>	<u>4,418,055</u>	<u>2,567,413</u>
<b>U.S. Government and State</b>	<u>45,316,561</u>	<u>—</u>	<u>45,316,561</u>	<u>64,666,482</u>
<b>Total support</b>	<u>49,116,421</u>	<u>618,195</u>	<u>49,734,616</u>	<u>67,233,895</u>
<b>Revenue</b>				
Servicing fees	2,086,622	1,630	2,088,252	2,063,736
Miscellaneous	<u>247,241</u>	<u>4,244</u>	<u>251,485</u>	<u>83,919</u>
<b>Total revenue</b>	<u>2,333,863</u>	<u>5,874</u>	<u>2,339,737</u>	<u>2,147,655</u>
<b>Net assets released from restrictions (Note 7)</b>	<u>774,364</u>	<u>(774,364)</u>	<u>—</u>	<u>—</u>
<b>Total support and revenue</b>	<u>52,224,648</u>	<u>(150,295)</u>	<u>52,074,353</u>	<u>69,381,550</u>
<b>Expenses</b>				
<b>Program Services</b>				
U.S. government funded activities	40,775,000	—	40,775,000	59,388,511
Other program activities	<u>3,086,528</u>	<u>—</u>	<u>3,086,528</u>	<u>2,581,249</u>
<b>Total program services</b>	<u>43,861,528</u>	<u>—</u>	<u>43,861,528</u>	<u>61,969,759</u>
<b>Supporting Services</b>				
Management and general	5,042,979	—	5,042,979	5,693,231
Fund-raising	<u>1,164,119</u>	<u>—</u>	<u>1,164,119</u>	<u>1,166,437</u>
<b>Total supporting services</b>	<u>6,207,098</u>	<u>—</u>	<u>6,207,098</u>	<u>6,859,668</u>
<b>Total Expenses</b>	<u>50,068,626</u>	<u>—</u>	<u>50,068,626</u>	<u>68,829,427</u>
<b>Change in Net Assets – Operating Activities</b>	2,156,022	(150,295)	2,005,727	552,123
<b>Non-operating Activities</b>				
Investment earnings (Note 2)	76,957	—	76,957	39,594
Loss on disposal of asset	<u>—</u>	<u>—</u>	<u>—</u>	<u>(149,172)</u>
<b>Change in Net Assets</b>	2,232,979	(150,295)	2,082,684	442,545
<b>Net Assets, beginning of year</b>	<u>8,366,145</u>	<u>795,570</u>	<u>9,161,715</u>	<u>8,719,170</u>
<b>Net Assets, end of year</b>	<u>\$ 10,599,124</u>	<u>\$ 645,275</u>	<u>\$ 11,244,399</u>	<u>\$ 9,161,715</u>

See notes to financial statements.

# LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

## STATEMENTS OF CASH FLOWS

Years Ended December 31, 2017 And 2016

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 2,082,684	\$ 442,545
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	69,941	66,909
Amortization	1,975	1,975
Unrealized gain on investments	(4,396)	(1,987)
Loss in Lutheran Center Corporation investment	183,036	99,461
Loss on disposal of assets	—	149,172
Changes in assets and liabilities:		
Accounts receivable		
U.S. government	3,910,134	(2,450,562)
Miscellaneous	(95,001)	(102,740)
Prepaid expenses and deposits	60,255	(16,087)
Funds held by trustee	(6,414)	1,185
Accounts payable and accrued expenses	<u>(4,586,905)</u>	<u>4,631,923</u>
<b>Net Cash Provided by Operating Activities</b>	<u>1,615,309</u>	<u>2,821,794</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of furniture, fixtures and equipment	(255,245)	(107,590)
Leasehold improvements	—	(16,052)
Investment in Lutheran Center Corporation	—	—
Purchases of investments	(14,204)	(13,817)
Proceeds from sales of investments	<u>13,641</u>	<u>18,682</u>
<b>Net Cash Used In Investing Activities</b>	<u>(255,808)</u>	<u>(118,777)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of long-term debt	<u>(112,500)</u>	<u>(107,500)</u>
<b>Net Cash Used in Financing Activities</b>	<u>(112,500)</u>	<u>(107,500)</u>
<b>Net Increase in Cash and Cash Equivalents</b>	1,247,001	2,595,517
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning of year	<u>11,792,689</u>	<u>9,197,172</u>
<b>End of year</b>	<u>\$13,039,690</u>	<u>\$11,792,689</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Interest paid	<u>\$ 104,934</u>	<u>\$ 110,709</u>

# LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2017 And 2016

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### (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 money market funds, demand deposits with banks, and short-term investments with maturities 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, 2017 And 2016

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### **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, *Liabilities (Topic 405)*, 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, 2017 And 2016

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### *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 (2014 - 2016) or expected to be taken in LIRS’s 2017 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.

### *CONTINGENCY*

Under the terms of the U.S. Government grants, which are made based upon the acceptance by the U.S. Government of the program proposals submitted by LIRS, amounts are stipulated for both direct program costs and administrative overhead costs. The administrative overhead rate used by LIRS, while provisionally approved, is subject to review and final approval by the U.S. Government. The administrative overhead rate has been approved through December 31, 2016. Management believes that any adjustment to the 2017 administrative overhead rate used in recording U.S. Government grant activity in the 2017 financial statements, if any, will not have a material effect on the financial position or operating results of LIRS.

### *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, 2016, from which the summarized information was derived.

# LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

## NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2017 And 2016

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### (2) INVESTMENTS

At December 31, 2017 and 2016 investments consisted of the following:

	<u>2017</u>		<u>2016</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
<b>Fixed Income:</b>				
Private debt obligation	\$ 224,569	\$ 224,569	\$ 224,569	\$ 224,569
Government Money Market Fund	6,825	6,825	6,824	6,824
<b>Equities:</b>				
Lutheran-related investment pools	<u>24,906</u>	<u>36,054</u>	<u>24,344</u>	<u>31,096</u>
	<u>\$256,300</u>	<u>\$267,448</u>	<u>\$255,737</u>	<u>\$262,489</u>

Investment earnings for the years ended December 31, 2017 and 2016 are comprised of the following:

	<u>2017</u>	<u>2016</u>
Interest and dividends*	\$72,894	\$38,062
Realized loss	—	(10)
Unrealized gain (loss)	4,396	1,987
Investment fees	<u>(333)</u>	<u>(445)</u>
	<u>\$76,957</u>	<u>\$39,594</u>

\*Includes interest earned on the operating bank accounts

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, 2017 And 2016

The following table presents the investments carried at market value as of December 31, 2017 and December 31, 2016, by caption on the statement of financial position by the valuation hierarchy defined above:

	<u>2017</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
<b>Fixed Income:</b>			
Private debt obligation	\$ —	\$224,569	\$224,569
Government Money Market Fund	6,825	—	6,825
<b>Equities:</b>			
Lutheran-related investment pools	—	36,054	36,054
	<u>\$6,825</u>	<u>\$260,623</u>	<u>\$267,448</u>
	<u>2016</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
<b>Fixed Income:</b>			
Private debt obligation	\$ —	\$224,569	\$224,569
Government Money Market Fund	6,824	—	6,824
<b>Equities:</b>			
Lutheran-related investment pools	—	31,096	31,096
	<u>\$6,824</u>	<u>\$255,665</u>	<u>\$262,489</u>

### (3) LOAN RECEIVABLE—REFUGEES

#### **LIRS LOAN PROGRAMS**

The loans receivable, which is included in prepaid expenses and other assets on the Statement of Financial Position, consists of the following as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Refugee loans – other	\$ 48,458	\$ 51,640
Less: allowance for doubtful accounts	<u>(50,000)</u>	<u>(50,000)</u>
	<u>\$ (1,542)</u>	<u>\$ 1,640</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 \$1,909,088 and \$1,891,306 for the years ending December 31, 2017 and 2016, respectively. These loans are not included in the statement of financial position as they are not loans owned by LIRS. The activity for the transportation loans was as follows:

	<u>2017</u>	<u>2016</u>
<b>Balance outstanding at beginning year</b>	\$29,362,791	\$32,744,284
New loans	11,136,016	14,191,526
Loan payments	(7,635,163)	(7,564,106)
Loans forgiven without prejudice	(326,524)	(252,712)
Loans transferred to IOM	<u>(2,390,441)</u>	<u>(9,756,201)</u>
<b>Balance outstanding at end of year</b>	<u>\$30,146,679</u>	<u>\$29,362,791</u>

# LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

## NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2017 And 2016

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### (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, 2017 and 2016, LIRS has recorded occupancy expense of, approximately \$564,500 and \$594,000 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, 2017 and 2016, LIRS’ equity in LCC was \$3,467,133 and \$3,650,169, respectively. At December 31, 2017, 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, 2017, and 2016, the covenant was met.

The 2007 Bonds, bearing interest at 5.25% per annum, were issued as Serial Bonds with annual principal payments due on April 1 each year through 2029. The 2007 Bonds also have annual mandatory sinking fund provisions. 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, 2017 and 2016 is shown on the statement of financial position net of unamortized bond premium of \$34,472 and \$37,536, respectively, and deferred loan costs of \$56,694 and \$61,733, respectively.

In conjunction with the issuance of the 2007 Bonds, a Debt Service Reserve Fund (the “Reserve Fund”) was established. LIRS has ownership to 50% of the value held in the Reserve Fund which is included within Funds held by Trustee on the statement of financial position. Funds in the Debt Service Reserve Fund may be withdrawn by the Trustee to make the principal or interest payments required in the event that the other funds available for the purpose are inadequate. The Debt Service Reserve Fund balance at December 31, 2017 and 2016 was \$225,549 and \$225,696, respectively. Additionally, Funds held by Trustee on the statement of financial position includes LIRS’s 50% ownership in the debt service principal and interest accounts it contributes to funding which amounted to \$115,805, and \$109,244 as of December 31, 2017, and 2016, respectively.

# LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

## NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2017 And 2016

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

	<b><u>LIRS</u></b> <b><u>Portion</u></b>	<b><u>LWR</u></b> <b><u>Portion</u></b>	<b><u>Total</u></b>
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
2022	147,500	147,500	295,000
Thereafter	<u>1,277,500</u>	<u>1,277,500</u>	<u>2,555,000</u>
	<u>\$ 1,942,500</u>	<u>\$ 1,942,500</u>	<u>\$ 3,885,000</u>

Interest expense on the 2007 Bonds for the years ended December 31, 2017 and 2016 was approximately \$107,000 and \$111,000, respectively.

### (6) LEASE COMMITMENTS

LIRS has two operating leases for office space that expire at various times through January 31, 2025. As of December 31, 2017, future minimum lease obligations under these operating leases are as follows:

2018	\$ 65,000
2019	63,000
2020	66,000
2021	68,000
2022	71,000
Thereafter	<u>157,000</u>
	<u>\$ 490,000</u>

Rent expense was approximately \$73,000 and \$114,000 for the years ended December 31, 2017 and 2016, respectively.

### (7) NET ASSETS

Temporarily restricted net assets at December 31, 2017 and 2016 were available for the following purposes:

	<b><u>2017</u></b>	<b><u>2016</u></b>
The Swanson Refugee and Migrant Travel Fund	\$ 81,873	\$ 98,827
Rusk House of Hospitality	217,134	227,458
Central American Migrant Children and Families	69,405	93,974
NYC Syrian URM/Syrian Refugee	200,175	198,906
Refugee Protection and Family Strengthening	2,565	61,600
Other	<u>74,123</u>	<u>114,805</u>
	<u>\$ 645,275</u>	<u>\$ 795,570</u>

# LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

## NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2017 And 2016

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During 2017, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes, as follows:

	<u>2017</u>
The Swanson Refugee and Migrant Travel Fund	\$ 17,554
Detention Visitation	6,197
Rusk House of Hospitality	18,433
Central American Migrant Children and Families	49,595
Refugee Protection and Family Strengthening	515,335
Other	<u>167,250</u>
	<u>\$774,364</u>

### (8) PENSION PLAN

LIRS maintains a defined contribution pension plan for eligible employees. 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 \$503,000 and \$527,000, respectively, for the years 2017 and 2016.

### (9) LETTER OF CREDIT

LIRS maintains a letter of credit to benefit the State of Maryland for unemployment payments. The amount available under this arrangement as of December 31, 2017 was \$54,782. As of December 31, 2017, LIRS had no outstanding advances.

### (10) SUBSEQUENT EVENTS

LIRS evaluated its December 31, 2017 financial statements for subsequent events through May 8, 2018, 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 EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2017

<u>Federal Grantor / Program Title</u>	<u>CFDA No.</u>	<u>Award Number</u>	<u>Federal Expenditures</u>	<u>Provided To Subrecipients</u>
<b>U.S. Department of State</b>				
U.S. Refugee Admissions Program: Reception and Placement	19.510	SPRMC016CA1002 SPRMC017CA1010 SPRMC018CA1003	\$ 17,948,894	\$ 14,809,697
<b>U.S. Department of Health and Human Services</b>				
Refugee and Entrant Assistance – Voluntary Agency Programs: Matching Grant Program	93.567	90RV0071/1802MDRVMG	<u>5,949,085</u>	<u>5,094,554</u>
Refugee and Entrant Assistance – Discretionary Grants:				
Technical Assistance Employment Services	93.576	90RB0049	206,647	—
Intensive Case Management	93.576	90RP0101/90RP0113	<u>2,327,348</u>	<u>1,623,058</u>
			<u>2,533,995</u>	<u>1,623,058</u>
Unaccompanied Alien Children Program: Alien Unaccompanied Minors				
Foster Care and Fingerprinting	93.676	90ZU0103/90ZU0182	5,303,956	4,223,993
Residential Shelter and Fingerprinting	93.676	90ZU0223	10,558,877	8,950,862
Family Reunification Services	93.676	90ZU0084/90ZU0172	<u>3,021,754</u>	<u>2,158,045</u>
			18,884,587	15,332,900
<b>Total U.S. Department of Health and Human Services</b>			<u>27,367,667</u>	<u>22,050,512</u>
<b>Total Federal Awards</b>			<u>\$ 45,316,561</u>	<u>\$ 36,860,209</u>

*The accompanying notes to the supplemental schedule of expenditures of federal awards is an integral part of the schedule.*

# LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

December 31, 2017

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### (A) BASIS OF PRESENTATION

The accompanying schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Lutheran Immigration and Refugee Service, Inc. ("LIRS") under programs of the Federal government for the year ended December 31, 2017. The information in this Schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of LIRS, it is not intended to and does not present the financial position, changes in net assets or cash flows of LIRS.

### (B) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), wherein certain types of expenditures are not allowable or are limited as to reimbursement.

### (C) INDIRECT COST RATE

LIRS has a negotiated indirect cost rate; as such, LIRS did not elect to use the 10% de minimis indirect cost rate.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the 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 the financial statements of Lutheran Immigration and Refugee Service, Inc. ("LIRS") (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, 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, and have issued our report thereon dated May 8, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered LIRS's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LIRS's internal control. Accordingly, we do not express an opinion on the effectiveness of the LIRS's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether LIRS's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

**Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose

*Tait, Weller & Baker LLP*

**Philadelphia, Pennsylvania  
May 8, 2018**

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

**Report on Compliance for Each Major Federal Program**

We have audited Lutheran Immigration and Refugee Services, Inc.'s ("LIRS") compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of LIRS's major federal programs for the year ended December 31, 2017. LIRS's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of LIRS's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about LIRS's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of LIRS's compliance.

**Opinion on Each Major Federal Program**

In our opinion, LIRS complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

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

### **Report on Internal Control over Compliance**

Management of LIRS is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered LIRS's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of LIRS's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Tait, Weller & Baker LLP*

**Philadelphia, Pennsylvania  
May 8, 2018**

# LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2017

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### SECTION 1—SUMMARY OF AUDITOR’S RESULTS

#### Financial Statements

Type of auditor’s report issued	Unmodified
Internal control over financial reporting	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None reported
Noncompliance material to the financial statements noted?	No

#### Federal Awards

Internal control over major program:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None reported
Type of auditor’s report issued on compliance for major program?	Unmodified
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance, Section 516(a)?	No

Identification of major program:

#### CFDA Number

#### Name of Federal Program

93.576	Refugee and Entrant Assistance – Discretionary Grants
93.676	Unaccompanied Alien Children Program: Alien Unaccompanied Minors

Dollar threshold used to distinguish between Type A and B programs:	\$1,359,497
Auditee qualified as low-risk auditee?	Yes

**LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.**

***SCHEDULE OF FINDINGS AND QUESTIONED COSTS – (Continued)***

**Year Ended December 31, 2017**

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**SECTION 2—FINANCIAL STATEMENT FINDINGS**

None

**SECTION 3—FEDERAL AWARD FINDINGS**

None

# LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

## *SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS*

**Year Ended December 31, 2017**

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### **Finding 2016-001: Allowable Costs**

**Condition:** The Human Resources department is responsible for adding and making changes to new and existing personnel profiles. These payroll changes were not reviewed by the Finance department to ensure adjustments to salary levels or other changes were supported by appropriate authorizations.

**Recommendation:** Prior to posting salary to the financial statements, payroll changes as noted on the Payroll Change Report accompanying each period's payroll, should be reviewed and signed off by a management level employee in the Finance Department.

**Current Status:** The recommendation was adopted in 2017. No similar findings were noted in the 2017 audit.