



Financial Statements, Independent Auditors' Report and  
Reports in Compliance with the Uniform Guidance

**Lutheran Immigration and Refugee Service, Inc.**

December 31, 2015

(With Summarized Comparative Information for  
December 31, 2014)

# **Lutheran Immigration and Refugee Service, Inc.**

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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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### 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, 2015, 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 audit. We did not audit the equity-method investment in Lutheran Center Corporation which reflect assets constituting 20% of total assets as of December 31, 2015, and 0% of total revenues for the years then ended. This amount was audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for LIRS, is based solely on the report of the other auditors. We conducted our audit 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 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, 2015, 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.

### **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, 2015, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, 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 supplementary 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. These additional procedures included comparing and reconciling the 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 supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

#### *Report On 2014 Summarized Comparative Information*

We have previously audited LIRS's 2014 financial statements (not presented herein), and we expressed an unmodified audit opinion on those audited financial statements in the report dated May 26, 2015. In our opinion, the accompanying summarized comparative information as of and for the year ended December 31, 2014 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 13, 2016, 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 the effectiveness of 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.



Baltimore, Maryland  
May 13, 2016

# Lutheran Immigration and Refugee Service, Inc.

## Statements of Financial Position

Year ended December 31, 2015 (With Summarized Comparative Totals as of December 31, 2014)	2015	2014
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 9,197,172	7,654,504
Investments, at market value (Note B)	265,366	710,627
Accounts receivable		
U.S. government	4,330,784	5,751,406
Miscellaneous	358,339	519,174
Loans receivable – refugees (Note C)	3,786	4,571
Prepaid expenses and other assets	321,703	169,567
Investment in Lutheran Center Corporation (Note D)	3,749,630	3,669,353
Funds held by trustee (Note E)	336,125	366,064
<b>Total Current Assets</b>	<b>18,562,905</b>	<b>18,845,266</b>
Fixed assets, less accumulated depreciation and amortization of \$520,192 and \$493,223 at 2015 and 2014, respectively	617,070	289,493
<b>Total Assets</b>	<b>\$ 19,179,975</b>	<b>19,134,759</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 8,257,704	8,104,766
Long-term debt, current portion (Note E)	107,500	102,500
<b>Total Current Liabilities</b>	<b>8,365,204</b>	<b>8,207,266</b>
<b>Long-term Obligations, net of current portion (Note E)</b>	<b>2,095,601</b>	<b>2,206,415</b>
<b>Total Liabilities</b>	<b>10,460,805</b>	<b>10,413,681</b>
<b>Net Assets</b>		
Unrestricted		
Undesignated	6,557,123	6,148,674
Designated	1,470,633	1,747,164
Total unrestricted net assets	8,027,756	7,895,838
Temporarily restricted (Note G)	691,414	825,240
<b>Total Net Assets</b>	<b>8,719,170</b>	<b>8,721,078</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 19,179,975</b>	<b>19,134,759</b>

The accompanying notes are an integral part of these consolidated statements.

# Lutheran Immigration and Refugee Service, Inc.

## Statements of Activities and Changes in Net Assets

Year ended December 31, 2015 <i>(With Summarized Comparative Totals for the year ended December 31, 2014)</i>	Unrestricted	Temporarily restricted	Totals	
			2015	2014
<b>Operating Activities</b>				
<b>Support and Revenue</b>				
<b>Support</b>				
Church bodies	\$ 881,560	246,300	1,127,860	1,437,836
Foundations and corporations	112,878	136,926	249,804	286,505
Other contributions	685,039	191,486	876,525	812,047
In-kind contributions	3,916	—	3,916	132,004
	1,683,393	574,712	2,258,105	2,668,392
<b>U.S. Government and State</b>	51,606,235	—	51,606,235	55,341,275
<b>Total support</b>	53,289,628	574,712	53,864,340	58,009,667
<b>Revenue</b>				
Servicing fees	1,970,951	—	1,970,951	1,859,495
Miscellaneous	158,207	11,226	169,433	195,846
<b>Total revenue</b>	2,129,158	11,226	2,140,384	2,055,341
<b>Net assets released from restrictions (Note G)</b>	719,764	(719,764)	—	—
<b>Total support and revenue</b>	56,138,550	(133,826)	56,004,724	60,065,008
<b>Expenses</b>				
<b>Program Services</b>				
U.S. government funded activities	47,250,957	—	47,250,957	51,356,580
Other program activities	2,997,191	—	2,997,191	2,579,606
<b>Total program services</b>	50,248,148	—	50,248,148	53,936,186
<b>Supporting Services</b>				
Management and general	4,767,574	—	4,767,574	4,439,719
Fund-raising	1,014,533	—	1,014,533	1,185,748
<b>Total supporting services</b>	5,782,107	—	5,782,107	5,625,467
<b>Total Expenses</b>	56,030,255	—	56,030,255	59,561,653
<b>Change in Net Assets – Operating Activities</b>	108,295	(133,826)	(25,531)	503,355
<b>Non-operating Activities</b>				
Investment earnings (Note B)	23,623	—	23,623	8,068
<b>Change in Net Assets</b>	131,918	(133,826)	(1,908)	511,423
<b>Net Assets, beginning of year</b>	7,895,838	825,240	8,721,078	8,209,655
<b>Net Assets, end of year</b>	\$ 8,027,756	691,414	8,719,170	8,721,078

*The accompanying notes are an integral part of these consolidated statements.*

# Lutheran Immigration and Refugee Service, Inc.

## Statements of Cash Flows

<i>Year ended December 31,</i>	<b>2015</b>	<b>2014</b>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ (1,908)	\$ 511,423
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	26,969	6,710
Amortization	2,136	2,136
Unrealized loss on investments	2,487	368
(Gain) loss in Lutheran Center Corporation investment	(47,163)	18,621
Changes in assets and liabilities:		
Accounts receivable		
U.S. government	1,420,622	1,328,583
Miscellaneous	160,835	(311,590)
Loans receivable – refugees	785	3,033
Prepaid expenses and deposits	(155,550)	30,269
Funds held by trustee	29,939	(15,668)
Accounts payable and accrued expenses	152,938	(506,409)
<b>Net Cash Provided by Operating Activities</b>	<b>1,592,090</b>	<b>1,067,476</b>
<b>Cash Flows from Investing Activities</b>		
Purchase of furniture, fixtures and equipment	(354,546)	(16,987)
Purchase of building improvements	—	(8,200)
Investment in Lutheran Center Corporation	(33,114)	(17,134)
Purchases of investments	(14,451)	(145,388)
Proceeds from sales of investments	455,189	269,271
<b>Net Cash Provided by Investing Activities</b>	<b>53,078</b>	<b>81,562</b>
<b>Cash Flows from Financing Activities</b>		
Repayment of long-term debt	(102,500)	(100,000)
<b>Net Cash Used in Financing Activities</b>	<b>(49,422)</b>	<b>(18,438)</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>1,542,668</b>	<b>1,049,038</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<b>7,654,504</b>	<b>6,605,466</b>
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 9,197,172</b>	<b>\$ 7,654,504</b>
<b>Supplemental Cash Flow Information</b>		
Interest paid	\$ 116,222	\$ 121,538

*The accompanying notes are an integral part of these consolidated statements.*

# Lutheran Immigration and Refugee Service, Inc.

## Notes to Financial Statements

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December 31, 2015 and 2014

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### NOTE A—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.

#### *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. As of December 31, 2015, balances held in accounts in excess of the FDIC insurable limit were \$4,475,043. Management does not consider this to be a significant credit risk.

#### *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

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December 31, 2015 and 2014

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## NOTE A—ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES— Continued

### *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.

# Lutheran Immigration and Refugee Service, Inc.

Notes to Financial Statements—Continued

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*December 31, 2015 and 2014*

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## **NOTE A—ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES— Continued**

### ***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 adopted 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. The adoption of ASU 2013-04 did not have a material effect on the financial statements.

### ***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 (2012 - 2015) or expected to be taken in LIRS’s 2015 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.

# Lutheran Immigration and Refugee Service, Inc.

Notes to Financial Statements—Continued

December 31, 2015 and 2014

## NOTE A—ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES— Continued

### *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, 2014, from which the summarized information was derived.

## NOTE B—INVESTMENTS

At December 31, 2015 and 2014 investments consisted of the following:

	2015		2014	
	Cost	Market	Cost	Market
<b>Fixed income:</b>				
Money market, certificates of deposit and church mission certificates	\$ —	\$ —	\$ 410,189	\$ 410,189
U.S. Government Agency Bond	—	—	45,000	45,000
Private debt obligation	236,421	236,421	224,569	224,569
<b>Equities:</b>				
Lutheran-related investment pools	24,180	28,945	23,627	30,869
	<u>\$ 260,601</u>	<u>\$ 265,366</u>	<u>\$ 703,385</u>	<u>\$ 710,627</u>

As of December 31, 2014 a balance of \$127,787 held in UBS Money Fund was included in Money Market, certificates of deposit and church mission certificates investments; during 2015 the UBS Money Fund has been reclassified to Cash and Cash Equivalent. Investments in 2014 has been restated to reflect the reclassification of the UBS Money fund.

# Lutheran Immigration and Refugee Service, Inc.

## Notes to Financial Statements—Continued

December 31, 2015 and 2014

### NOTE B—INVESTMENTS—Continued

Investment earnings for the years ended December 31, 2015 and 2014 are comprised of the following:

	2015	2014
Interest and dividends	\$ 26,750	\$ 8,996
Realized (loss)	(182)	(96)
Unrealized (loss)	(2,487)	(368)
Investment fees	(458)	(464)
	<u>\$ 23,623</u>	<u>\$ 8,068</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, 2015 and 2014

## NOTE B—INVESTMENTS—Continued

The following table presents the investments carried at market value as of December 31, 2015 and December 31, 2014, by caption on the statement of financial position by the valuation hierarchy defined above:

	2015		
	Level 1	Level 2	Total
<b>Fixed income:</b>			
Private debt obligation	\$ —	\$ 236,421	\$ 236,421
<b>Equities:</b>			
Lutheran-related investment pools	—	28,945	28,945
	\$ —	\$ 265,366	\$ 265,366

  

	2014		
	Level 1	Level 2	Total
<b>Fixed income:</b>			
Money market, certificates of deposit and church mission certificates	\$ 410,189	\$ —	\$ 410,189
U.S. Government Agency Bond	—	45,000	45,000
Private debt obligation	—	224,569	224,569
<b>Equities:</b>			
Lutheran-related investment pools	—	30,869	30,869
	\$ 410,189	\$ 300,438	\$ 710,627

# Lutheran Immigration and Refugee Service, Inc.

Notes to Financial Statements—Continued

December 31, 2015 and 2014

## NOTE C—LOANS RECEIVABLE—REFUGEES

### *LIRS Loan Programs*

The loans receivable consist of the following as of December 31, 2015 and 2014:

	2015	2014
Refugee loans – other	\$ 53,786	\$ 74,571
Less: allowance for doubtful accounts	(50,000)	(70,000)
	<u>\$ 3,786</u>	<u>\$ 4,571</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 \$1,907,678 and \$1,817,755 as of December 31, 2015 and 2014, 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:

	2015	2014
<b>Balance outstanding at beginning year</b>	\$ 30,861,578	\$ 28,043,264
New loans	11,101,411	13,055,954
Loan payments	(7,626,832)	(7,260,957)
Loans forgiven without prejudice	(259,201)	(236,530)
Loans transferred to IOM	(1,332,672)	(2,740,153)
	<u>\$ 32,744,284</u>	<u>\$ 30,861,578</u>

## Lutheran Immigration and Refugee Service, Inc.

Notes to Financial Statements—Continued

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*December 31, 2015 and 2014*

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### NOTE D—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 and depreciation, 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, 2015 and 2014, LIRS has recorded occupancy expense of, approximately \$767,000 and \$776,000 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, 2015 and 2014, LIRS’ equity in LCC was \$3,749,630 and \$3,669,353, respectively. At December 31, 2015, 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.

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### NOTE E—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, 2015 and 2014, the covenant was met.

# Lutheran Immigration and Refugee Service, Inc.

## Notes to Financial Statements—Continued

December 31, 2015 and 2014

### NOTE E—DEBT—Continued

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, 2015 and 2014 is shown on the statement of financial position including unamortized bond premium of \$40,601 and \$43,915, 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, 2015 and 2014 was \$232,105 and \$229,480, respectively.

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

	<b>LWR Portion</b>	<b>LIRS Portion</b>	<b>Total</b>
2016	\$ 107,500	\$ 107,500	\$ 215,000
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
Thereafter	1,565,000	1,565,000	3,130,000
	<u>\$ 2,162,500</u>	<u>\$ 2,162,500</u>	<u>\$ 4,325,000</u>

Interest on the 2007 Bonds for the years ended December 31, 2015 and 2014 amounted to \$116,222 and \$121,538, respectively.



# Lutheran Immigration and Refugee Service, Inc.

Notes to Financial Statements—Continued

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*December 31, 2015 and 2014*

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## NOTE F—LEASE COMMITMENTS

LIRS has two leases for office space that expire on March 31, 2017 and May 1, 2018. As of December 31, 2015, future minimum lease obligations under these operating leases are as follows:

2016	\$ 113,614
2017	71,455
2018	<u>19,232</u>
	<u>\$ 204,301</u>

Rent expense was approximately \$112,000 and \$105,000 for the years ended December 31, 2015 and 2014, respectively.

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## NOTE G—NET ASSETS

Temporarily restricted net assets at December 31, 2015 and 2014 were available for the following purposes:

	<u>2015</u>	<u>2014</u>
Immigration Community Support/Alternatives to Detention	\$ —	\$ 42,524
The Swanson Refugee and Migrant Travel Fund	114,586	113,986
Synod/District, Congregational Support Initiative	—	13,950
Detention Visitation	42,197	47,751
Rusk House of Hospitality	239,471	241,449
Central American Migrant Children and Families	93,717	266,837
Refugee Mentoring	7,704	27,156
Syrian Refugee	87,526	—
Other	<u>106,213</u>	<u>71,587</u>
	<u>\$ 691,414</u>	<u>\$ 825,240</u>

# Lutheran Immigration and Refugee Service, Inc.

Notes to Financial Statements—Continued

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*December 31, 2015 and 2014*

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## NOTE G—NET ASSETS—Continued

During 2015, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes, as follows:

	<b>2015</b>
Immigration Community Support/Alternatives to Detention	\$ 102,524
Synod and District Initiative	13,950
Detention-Visitation	106,594
Rusk House of Hospitality	12,128
Central American Migrant Children and Families	210,466
Refugee Mentoring	19,452
Family Placement Alternatives	119,656
Other	134,995
	<u>\$ 719,764</u>

During 2014, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes, as follows:

	<b>2014</b>
Immigration Community Support/Alternatives to Detention	\$ 68,156
Synod and District Initiative	47,219
Detention-Visitation	12,249
Rusk House of Hospitality	35,180
Central American Migrant Children and Families	64,743
Refugee Mentoring	50,344
Other	91,611
	<u>\$ 369,502</u>

# **Lutheran Immigration and Refugee Service, Inc.**

Notes to Financial Statements—Continued

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*December 31, 2015 and 2014*

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## **NOTE H—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 \$547,000 and \$483,000, respectively, for the years 2015 and 2014.

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## **NOTE I—LETTER OF CREDIT**

As of December 31, 2015, LIRS had not drawn upon its letter of credit, which was originally issued during 2015 in the maximum amount of \$70,000 for Maryland unemployment payments.

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## **NOTE J—SUBSEQUENT EVENTS**

LIRS evaluated its December 31, 2015 financial statements for subsequent events through May 13, 2016, 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, 2015*

Federal Grantor/ Program Title	CFDA No.	Award Number	Federal Expenditures	Provided to Subrecipients
<b>U.S. Department of State</b>				
U.S. Refugee Admissions Program: Reception and Placement	19.510	SPRMCO09CA081, SPRMCO14CA1006, SPRMCO15CA1014, SPRMCO16CA1002	\$ 23,500,012	\$ 20,156,979
<b>U.S. Department of Health and Human Services</b>				
Refugee and Entrant Assistance – Voluntary Agency Programs: Matching Grant Program	93.567	90RV0062, 90RV0071	8,895,682	7,800,278
<b>Refugee and Entrant Assistance – Discretionary Grants:</b>				
Preferred Communities – Enhanced Cultural Orientation	93.576	90RP0090	174,370	109,711
Intensive Case Management	93.576	90RP0101	1,380,401	1,072,290
Technical Assistance Employment Services	93.576	90RB0045, 90RB0049	189,195	—
Targeted Assistance - Baltimore City	93.576	P533809	23,813	—
			<u>1,767,779</u>	<u>1,182,001</u>
Assistance for Torture Victims: Treatment and Services for Torture Survivors	93.604	90ZT0126	337,229	169,997
<b>Unaccompanied Alien Children Program: Alien Unaccompanied Minors</b>				
Foster Care and Fingerprinting	93.676	90ZU0103	14,813,453	12,416,506
Family Reunification Services	93.676	90ZU0084	2,292,080	1,406,639
			<u>17,105,533</u>	<u>13,823,145</u>
<b>Total U.S. Department of Health and Human Services</b>			<u>28,106,223</u>	<u>22,975,421</u>
<b>Total Federal Awards</b>			<u>\$ 51,606,235</u>	<u>\$ 43,132,400</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

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*December 31, 2015*

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### **NOTE A—BASIS OF PRESENTATION**

The accompanying schedule of Expenditures of Federal Awards includes the federal grant activity of Lutheran Immigration and Refugee Service, Inc. (“LIRS”) and is presented using the accrual basis of accounting. 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. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

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### **NOTE B—SUBRECIPIENTS**

Of the federal expenditures presented in the schedule, LIRS provided \$43,132,400 of the federal awards to subrecipients.

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS REQUIRED BY  
GOVERNMENT AUDITING STANDARDS**

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Board of Directors  
Lutheran Immigration and Refugee Service

We have audited, 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, the financial statements of Lutheran Immigration and Refugee Service, Inc. (“LIRS”) which comprise the statement of financial position as of December 31, 2015, and the related statement 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 13, 2016.

Our report includes a reference to other auditors who audited the equity-method investment in Lutheran Center Corporation, as described in our report on LIRS’s financial statements. This report does not include the results of the other auditors’ testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**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 design 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 internal control. Accordingly, we do not express an opinion on the effectiveness of 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 LIRS’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. Given these limitations, during our audit we did not identify any

deficiencies in LIRS's 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*.

### **Intended Purpose**

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 LIRS's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LIRS's internal control and compliance. Accordingly, this report is not suitable for any other purpose.



Baltimore, Maryland  
May 13, 2016



**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON  
COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE  
UNIFORM GUIDANCE**

Board of Directors  
Lutheran Immigration and Refugee Service

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

We have audited the compliance of Lutheran Immigration and Refugee Services, Inc. (“LIRS”) with the types of compliance requirements described in the U.S. Office of Management and Budget’s *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015. 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 the requirements of laws, regulations, contracts, and grants applicable to LIRS’s 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 Title 2 *U.S. Code of Federal Regulations (CFR) Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

The above-mentioned 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, 2015.

## Report On Internal Control over Compliance

Management of LIRS is responsible for designing, implementing, 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 compliance requirements that could have a direct and material effect on each major federal program to design audit 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 a 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. Given these limitations, during our audit we did not identify any deficiencies in LIRS's internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

We identified a deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2015-001 that we consider to be a significant deficiency in LIRS's internal control over compliance.

LIRS's response to our finding on internal control over compliance, which is described in the accompanying schedule of findings and questioned costs, was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the LIRS's response.

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.



Baltimore, Maryland  
May 13, 2016

# Lutheran Immigration and Refugee Service, Inc.

## Schedule of Findings and Questioned Costs

Year ended December 31, 2015

### 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?	Yes
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
93.567	Refugee and Entrant Assistance Voluntary Agency Programs
93.576	Refugee and Entrant Assistance Discretionary Grants

Dollar threshold used to distinguish between Type A and B programs:	\$ 1,548,187
Auditee qualified as low-risk auditee?	Yes

### Section 2—Financial Statement Findings

None reported.

# Lutheran Immigration and Refugee Service, Inc.

## Schedule of Findings and Questioned Costs

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*Year ended December 31, 2015*

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### **Finding 2015-001 – Allowable Costs**

*Program:* 93.567 Refugee and Entrant Assistance - Agency Programs  
93.576 Refugee and Entrant Assistance - Discretionary Grants

*Criteria:* Federal award recipients must comply with the cost principles outlined in 2 CFR §200 Subpart E. These principles must be used in determining the allowable costs of work performed by a non-Federal entity under Federal awards. These principles apply whether or not a particular item of cost is properly treated as direct cost or indirect cost.

*Condition:* We noted instances where management charged unallowable costs to Federal grant programs.

*Questioned Costs:* \$0

*Context:* We selected a sample of twenty-five indirect costs for testing the organization's compliance with allowable costs. For two of the items tested, we noted the costs were unallowable per 2 CFR §200.423 (Alcoholic beverages) and 2 CFR §200.426 (Bad debts). We expanded our sample by an additional thirty-five costs noting no additional exceptions.

*Effect:* The organization did not comply with all of the cost principles outlined in 2 CFR §200 Subpart E.

*Cause:* The organization has a process whereby indirect costs are reviewed by supervisors familiar with the cost principles prior to being charged to the organization's Federal award indirect cost pool. The alcoholic beverages charged totaled \$341.45 and were part of a larger invoice that included allowable costs. The supervisor's review of the invoice did not identify the unallowable costs. Additionally, the supervisor who reviewed the write-off of \$3,727.86 charged to the indirect cost pool was not aware that bad debts were not allowable.

*Recommendation:* We recommended management strengthen its review of indirect costs charged to Federal grant awards and further educate employees to ensure indirect costs are allowable under the cost principles outlined in 2 CFR §200 Subpart E.

*Views of responsible officials:* Refer to Corrective Action Plan.

# Lutheran Immigration and Refugee Service, Inc.

## Corrective Action Plan

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*Year ended December 31, 2015*

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### **Finding 2015-001 – Allowable Costs**

LIRS will increase the training opportunities for all staff to ensure that everyone is clear on government guidelines and LIRS policies. LIRS will provide user-friendly tools to assist all staff implementing the policies correctly. Specific guidelines will be developed for those areas that have unique situations that do not relate to the rest of the organization. Special tools will be developed to assist accounting staff in their reviews of expense coding. The review of all expenses will be enhanced by isolating all items without clear documentation for review by the Controller and performing a quarterly test of travel expenses.

*Corrective action/status contact:* Jane Anthon, Chief Financial Officer, Phone 410-230-2733, Email [JAnthon@lirs.org](mailto:JAnthon@lirs.org)

# Lutheran Immigration and Refugee Service, Inc.

## Summary Schedule of Prior Year Findings and Questioned Costs

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*Year ended December 31, 2015*

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### **Finding 2014-001 – Reporting**

*Information on the Federal Program:* U.S. Department of Health and Human Services, CFDA 93.676

*Condition:* We noted instances where management either had not submitted information within the required timeframe or that the FFATA report submission receipt did not include evidence of the date submitted or contract number.

*Corrective action/status:* LIRS enhanced its procedure for FFATA reporting to require monthly written approval of the award spreadsheets tracking the amount of subgrants by contractor and the printed receipt proving a timely submission by the supervisor of the LIRS employee responsible for preparing and submitting the reports. In addition, to enable timely reporting in cases where a subcontractor's award may exceed \$25,000, LIRS will not issue a sub-award until a valid DUNS number is submitted by all subcontractors. As a result management believes this matter has been addressed.

*Corrective action/status contact:* Jane Anthon, Chief Financial Officer, Phone 410-230-2733, Email [JAnthon@lirs.org](mailto:JAnthon@lirs.org)