LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

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

DECEMBER 31, 2016

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

TABLE OF CONTENTS

TAIT | WELLER
FOCUS. EXPERTISE. RESULTS.

CERTIFIED PUBLIC ACCOUNTANTS

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, 2016, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to 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, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Expenditures of Federal Awards for the year ended December 31, 2016, 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 2015 Summarized Comparative Information

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 18, 2017, 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 18, 2017

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

STATEMENT OF FINANCIAL POSITION

Years Ended December 31, 2016 and 2015

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

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

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

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

See notes to financial statements.

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2016 And 2015

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

(1) ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND PURPOSE

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

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

ACCOUNTING ESTIMATES

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

CASH AND CASH EQUIVALENTS

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

CONCENTRATION OF CREDIT RISK

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

INVESTMENTS

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

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

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

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 they estimated useful life of the asset 3 to 30 years. Leasehold improvements are amortized over the shorter of the improvements life or the remaining lease term.

NET ASSETS

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

- ***Unrestricted Net Assets* –** Net assets that are not subject to donor-imposed stipulations. As reflected in the accompanying statements of financial position, LIRS's Board of Directors has designated a portion of the unrestricted net assets of LIRS as board designated funds.

- ***Temporarily Restricted Net Assets* –** Net assets subject to donor-imposed stipulations that may or will be met either by actions of LIRS and/or the passage of time.

CONTRIBUTIONS

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

U.S. GOVERNMENT AWARDS

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

ALLOCATION OF EXPENSES

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

DEBT

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

INCOME TAXES

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

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

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

NEW ACCOUNTING STANDARD

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

PRIOR YEAR INFORMATION

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

RECLASSIFICATIONS

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

(2) INVESTMENTS

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

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

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

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

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.

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

	2016		
	Level 1	**Level 2**	**Total**
Fixed Income:			
Private debt obligation	$ —	$224,569	$224,569
Government Money Market Fund	6,824	—	6,824
Equities:			
Lutheran-related investment pools	—	31,096	31,096
	$ 6,824	$255,665	$262,489

	2015		
	Level 1	**Level 2**	**Total**
Fixed Income:			
Private debt obligation	$ —	$236,421	$236,421
Equities:			
Lutheran-related investment pools	—	28,945	28,945
	$ —	$265,366	$265,366

(3) LOAN RECEIVABLE—REFUGEES

LIRS LOAN PROGRAMS

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

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

TRANSPORTATION LOANS – IOM PROGRAM

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

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

(4) INVESTMENT IN LUTHERAN CENTER CORPORATION

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

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

(5) DEBT

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

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

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

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

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

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

(6) LEASE COMMITMENTS

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

2017	$71,455
2018	19,232
	$90,687

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

(7) NET ASSETS

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

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

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

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

(8) PENSION PLAN

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

(9) LETTER OF CREDIT

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

(10) DISPOSAL OF ASSET

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

(11) SUBSEQUENT EVENTS

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

SUPPLEMENTAL INFORMATION

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2016

Federal Grantor / Program Title	CFDA No.	Award Number	Federal Expenditures	Provided To Subrecipients
U.S. Department of State				
U.S. Refugee Admissions Program: Reception and Placement	19.510	SPRMCO16CA1002		
		SPRMCO17CA1010	$ 34,250,657	$ 30,072,375
U.S. Department of Health and Human Services				
Refugee and Entrant Assistance – Voluntary Agency Programs:				
Matching Grant Program	93.567	90RV0071	9,067,418	7,906,151
Refugee and Entrant Assistance – Discretionary Grants:				
Intensive Case Management	93.576	90RP0101/90RP0113	1,678,165	1,266,139
Technical Assistance Employment Services	93.576	90RB0049	202,981	—
Targeted Assistance – Passed through City of Baltimore	93.576	P533809	68,187	—
			1,949,333	1,266,139
Unaccompanied Alien Children Program: Alien Unaccompanied Minors				
Foster Care and Fingerprinting	93.676	90ZU0103	16,041,373	13,411,088
Family Reunification Services	93.676	90ZU0084	3,357,701	2,395,670
			19,399,074	15,806,750
Total U.S. Department of Health and Human Services			30,415,825	24,979,048
Total Federal Awards			$ 64,666,482	$ 55,051,423

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

(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.

(B) SUBRECIPIENTS

Of the federal expenditures presented in the schedule, LIRS provided $55,051,423 of the federal awards to subrecipients.

(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.

TAIT | WELLER
FOCUS. EXPERTISE. RESULTS.

CERTIFIED PUBLIC ACCOUNTANTS

INDPENDENT 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, 2016, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 18, 2017.

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. We did identify one deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency which is described in finding 2016-001.

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

LIRS's Response to Findings

LIRS's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. LIRS's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 18, 2017

TAIT | WELLER
FOCUS. EXPERTISE. RESULTS.
CERTIFIED PUBLIC ACCOUNTANTS

INDPENDENT 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 the compliance of Lutheran Immigration and Refugee Services, Inc. ("LIRS") 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, 2016. 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, 2016.

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 18, 2017

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?	Yes
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?	No
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
19.510	Refugee Admissions Program – Reception and Placement

Dollar threshold used to distinguish between Type A and B programs:	$1,939,994
Auditee qualified as low-risk auditee?	Yes

SECTION 2—FINANCIAL STATEMENT FINDINGS

2016-001 – Payroll

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

Criteria: Internal controls should be in place that provide reasonable assurance that payroll changes are appropriately authorized prior to posting to the financial statements.

Cause: There are no procedures in place to require Finance department personnel to approve changes to payroll after such changes are made.

Effect: Because procedures are not in place in the Finance department to determine adjustments to salary levels or other changes are appropriately authorized, a risk exists that payroll charged to various programs of LIRS may not be at authorized amounts.

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.

Views of Responsible Officials and Planned Corrective Actions: Management will address this deficiency by creating a process whereby all changes to staff salaries, status, positions, promotions, new hires, and terminations are reviewed and approved by the Finance department prior to posting payroll to the financial statements.

SECTION 3—FEDERAL AWARD FINDINGS

None reported.

Finding 2015-001: Allowable Costs

Federal Program:	U.S. Department of Health and Human Services Administration for Children and Families; CFDA 93.567 and CFDA 93.576
Condition:	Instances were noted where management charged unallowable costs to federal grant programs.
Recommendation:	The auditor recommended management strengthen its review of indirect costs charged to federal grant awards and further educate employees to ensure indirect costs are allowable under cost principles outlined in 2 CFR §200 Subpart E.
Current Status:	The recommendation was adopted in 2016. No similar findings were noted in the 2016 audit.