

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

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

DECEMBER 31, 2017

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Lutheran Immigration and Refugee Service, Inc. ("LIRS"), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to LIRS's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the LIRS's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lutheran Immigration and Refugee Service, Inc. as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

Report on Summarized Comparative Information

We have previously audited LIRS's 2016 financial statements and our report dated May 18, 2017 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Revenue, Expenses and Changes in Net Assets by Award for the year ended December 31, 2017, Schedule of Functional Expenses for the year ended December 31, 2017 with Summarized Information for 2016, and the Summary of Changes in Net Assets for the year ended December 31, 2017 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.

Tait, Weller & Baker LLP

**Philadelphia, Pennsylvania
May 8, 2018**

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2017 And 2016

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

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

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

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

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2017 And 2016

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

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017 And 2016

(1) ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND PURPOSE

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

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

ACCOUNTING ESTIMATES

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

CASH AND CASH EQUIVALENTS

LIRS considers money market funds, demand deposits with banks, and short-term investments with maturities of three months or less, to be cash equivalents.

CONCENTRATION OF CREDIT RISK

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

INVESTMENTS

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

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

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

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2017 And 2016

FIXED ASSETS

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

NET ASSETS

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

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

CONTRIBUTIONS

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

U.S. GOVERNMENT AWARDS

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

ALLOCATION OF EXPENSES

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

DEBT

LIRS applies the guidance in ASU 2013-04, *Liabilities (Topic 405)*, which requires an entity to measure obligations resulting from joint and several liability arrangements as the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors.

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2017 And 2016

INCOME TAXES

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

LIRS recognizes or derecognizes tax positions on a “more likely than not” threshold. This applies to positions taken or expected to be taken in a tax return. LIRS has reviewed the tax positions taken for each of the open tax years (2014 - 2016) or expected to be taken in LIRS’s 2017 tax return and has concluded it has no material uncertain tax positions. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

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

CONTINGENCY

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

PRIOR YEAR INFORMATION

The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the LIRS’s audited financial statements for the year ended December 31, 2016, from which the summarized information was derived.

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2017 And 2016

(2) INVESTMENTS

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

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

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

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

*Includes interest earned on the operating bank accounts

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

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

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

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

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

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2017 And 2016

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

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

(3) LOAN RECEIVABLE—REFUGEES

LIRS LOAN PROGRAMS

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

	2017	2016
Refugee loans – other	\$ 48,458	\$ 51,640
Less: allowance for doubtful accounts	<u>(50,000)</u>	<u>(50,000)</u>
	<u>\$ (1,542)</u>	<u>\$ 1,640</u>

TRANSPORTATION LOANS – IOM PROGRAM

LIRS acts as an agent for the collection of transportation loans for refugee resettlement through the International Organization for Migration (“IOM”). Collections are remitted to IOM net of servicing fees earned which are 25% of loan collections. Included in servicing fees, LIRS earned fees of \$1,909,088 and \$1,891,306 for the years ending December 31, 2017 and 2016, respectively. These loans are not included in the statement of financial position as they are not loans owned by LIRS. The activity for the transportation loans was as follows:

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

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2017 And 2016

(4) INVESTMENT IN LUTHERAN CENTER CORPORATION

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

For the years ended December 31, 2017 and 2016, LIRS has recorded occupancy expense of, approximately \$564,500 and \$594,000 respectively, based upon its proportionate share of LCC’s costs. Since LIRS has previously provided equity investments in LCC, any gain (loss) realized by LCC will increase (decrease) LIRS’ equity in LCC. At December 31, 2017 and 2016, LIRS’ equity in LCC was \$3,467,133 and \$3,650,169, respectively. At December 31, 2017, LCC assets consisted principally of the building. The building is subject to a ground lease which provides for LCC to pay rent of \$1 per year for 50 years beginning in 1999, with four optional ten-year extensions.

(5) DEBT

On July 26, 2007, LIRS and LWR borrowed \$5,805,000 through the issuance of Economic Development Revenue Bonds, Series 2007, (“2007 Bonds”) through the Maryland Economic Development Corporation. The 2007 Bonds were issued to advance refund the Maryland Economic Development Revenue Bonds, Series 2000 (“2000 Bonds”) issued by the Maryland Economic Development Corporation. Proceeds of the 2007 Bonds were used to pay a portion of the issuance costs of the 2007 Bonds. LIRS and LWR are jointly and severally liable for the 2007 Bonds and, as such, each has recorded 50% of the outstanding debt and related issue costs. In the event that either organization is unable to pay off their portion of the outstanding debt, the other organization will be liable. LCC, as owner of the Lutheran Center building, has guaranteed the repayment of the debt. LIRS and LWR must maintain a joint leverage ratio (cash and investments to annual debt service) of 5 to 1 or approximately \$2,250,000 in required cash and investments. As of December 31, 2017, and 2016, the covenant was met.

The 2007 Bonds, bearing interest at 5.25% per annum, were issued as Serial Bonds with annual principal payments due on April 1 each year through 2029. The 2007 Bonds also have annual mandatory sinking fund provisions. Deferred loan costs in the amount of \$226,212 were incurred in connection with the issuance of the 2007 Bonds. LIRS capitalized 50% of these costs which are being amortized on a straight-line basis over the life of the bonds. Long-term debt on the 2007 Bonds at December 31, 2017 and 2016 is shown on the statement of financial position net of unamortized bond premium of \$34,472 and \$37,536, respectively, and deferred loan costs of \$56,694 and \$61,733, respectively.

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

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2017 And 2016

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

	<u>LIRS</u> <u>Portion</u>	<u>LWR</u> <u>Portion</u>	<u>Total</u>
2018	\$ 120,000	\$ 120,000	\$ 240,000
2019	125,000	125,000	250,000
2020	132,500	132,500	265,000
2021	140,000	140,000	280,000
2022	147,500	147,500	295,000
Thereafter	<u>1,277,500</u>	<u>1,277,500</u>	<u>2,555,000</u>
	<u>\$ 1,942,500</u>	<u>\$ 1,942,500</u>	<u>\$ 3,885,000</u>

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

(6) LEASE COMMITMENTS

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

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

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

(7) NET ASSETS

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

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

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2017 And 2016

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

	<u>2017</u>	<u>2016</u>
The Swanson Refugee and Migrant Travel Fund	\$ 17,554	\$ 16,359
Detention Visitation	6,197	88,562
Rusk House of Hospitality	18,433	22,263
Central American Migrant Children and Families	49,595	15,377
NYC Syrian URM/Syrian Refugee	-	179,088
Refugee Protection and Family Strengthening	515,335	127,263
Other	<u>167,250</u>	<u>57,020</u>
	<u>\$774,364</u>	<u>\$505,932</u>

(8) PENSION PLAN

LIRS maintains a defined contribution pension plan for eligible employees. Contributions to this plan are based upon earnings for all eligible employees and are accrued and funded on a current basis. Pension expense was approximately \$503,000 and \$527,000, respectively, for the years 2017 and 2016.

(9) LETTER OF CREDIT

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

(10) SUBSEQUENT EVENTS

LIRS evaluated its December 31, 2017 financial statements for subsequent events through May 8, 2018, the date the financial statements were available to be issued. Management has determined that there are no events that would require disclosure or adjustments in the financial statements.

SUPPLEMENTAL INFORMATION

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

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

Year Ended December 31, 2017

Contract Award Fiscal Year	Refugee Reception And Placement			Matching Grant			
	SPRMCO16CA1002 2016	SPRMCO16CA1010 2017	SPRMCO18CA1003 2018	90RV0071/01 2015	90RV0071/02 2016	90RV0071/03 2017	1802MDRVMG 2018
Revenue							
U.S. Government Grants	\$ (29,210)	\$ 14,289,201	\$ 3,688,903	\$ —	\$ —	\$ 4,657,511	\$ 1,291,574
Expenses							
Program							
Personnel costs	—	786,870	238,708	—	—	141,953	44,298
Office operations	—	311,934	68,055	—	—	26,991	8,335
Travel and meetings	—	84,727	9,695	—	—	2,857	1,624
Supporting services – field operations	(276,890)	5,421,550	1,402,000	—	4,754	3,990,000	1,099,800
Refugee aid and other grants	250,787	6,435,000	1,577,250	—	—	—	—
Depreciation	—	2,406	899	—	—	407	164
Total program expenses	(26,103)	13,042,487	3,296,607	—	4,754	4,162,208	1,154,221
Management and General							
Administrative allocation and changes	(3,107)	1,246,714	392,296	—	566	495,303	137,353
Total expenses	(29,210)	14,289,201	3,688,903	—	5,320	4,657,511	1,291,574
Deficiency of revenue over expenses	—	—	—	—	(5,320)	—	—
Net Assets, beginning of year	—	—	—	146	(6,067)	(608)	—
Transfers	—	—	—	(146)	11,387	608	—
Net Assets, end of year	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

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

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

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

Year Ended December 31, 2017

Contract Award Fiscal Year	Preferred Communities Intensive Case Management			Employment Services Technical Assistance			TAG Baltimore
	90RP0101K/03	90RP0113/01	90RP0113/02	90RB0049/01	90RB0049/02	90RB0049/03	
	2016	2017	2018	2016	2017	2018	
Revenue							
U.S. Government Grants	\$ (64)	\$ 1,783,103	\$ 544,309	\$ (29,689)	\$ 193,163	\$ 43,173	\$ —
Expenses							
Program							
Personnel costs	—	232,174	81,728	(16,403)	124,982	29,942	—
Office operations	(58)	68,058	22,741	(9,901)	34,775	7,008	—
Travel and meetings	—	47,019	4,124	(202)	12,533	1,537	—
Supporting services – field operations	—	1,245,518	377,540	—	—	—	—
Refugee aid and other grants	—	—	—	—	—	—	—
Depreciation	—	710	292	(26)	331	95	—
Total program expenses	(58)	1,593,479	486,425	(26,532)	172,621	38,582	—
Management and General							
Administrative allocation and changes	(6)	189,624	57,884	(3,157)	20,542	4,591	—
Total expenses	(64)	1,783,103	544,309	(29,689)	193,163	43,173	—
Deficiency of revenue over expenses	—	—	—	—	—	—	—
Net Assets, beginning of year	—	(572)	—	—	—	—	(4,296)
Transfers	—	572	—	—	—	—	4,296
Net Assets, end of year	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

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LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

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

Year Ended December 31, 2017

Contract Award Fiscal Year	Foster Care Safe Release Support		Home Studies Post Release		Residential Shelter And Fingerprinting	Total
	90ZU0103/03 2016	90ZU0182/01 2017	90ZU0084/03 2016	90ZU0172/01 2017	90ZU0223/01 2017	
Revenue						
U.S. Government Grants	\$1,197,486	\$4,106,470	\$278,911	\$2,742,843	\$ 10,558,877	\$45,316,561
Expenses						
Program						
Personnel costs	93,528	297,057	62,774	376,394	381,132	2,875,137
Office operations	12,093	63,502	7,820	74,727	85,745	781,825
Travel and meetings	2,910	45,993	2,913	16,671	17,185	249,586
Supporting services – field operations	961,524	3,262,469	175,698	1,982,347	8,950,862	28,597,172
Refugee aid and other grants	—	—	—	—	—	8,263,037
Depreciation	85	747	45	1,017	1,071	8,243
Total program expenses	1,070,140	3,669,768	249,250	2,451,156	9,435,995	40,775,000
Management and General						
Administrative allocation and changes	127,346	436,702	29,661	291,687	1,122,882	4,776,135
Total expenses	1,197,486	4,106,470	278,911	2,742,843	10,558,877	45,321,881
Deficiency of revenue over expenses	—	—	—	—	—	(5,320)
Net Assets, beginning of year	—	—	—	—	—	(11,397)
Transfers	—	—	—	—	—	(16,717)
Net Assets, end of year	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

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

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

Year Ended December 31, 2017 With Summarized Information For 2016

	U.S. Government Funded Activities	Other Program Activities	Total Program Services	Management And General	Fund- Raising	Total Support Services	Totals	
							2017	2016
Personnel costs	\$ 2,875,137	\$ 1,411,844	\$ 4,286,981	\$ 3,500,326	\$ 650,109	\$ 4,150,435	\$ 8,437,416	\$ 9,294,224
Office operations	781,825	896,645	1,678,470	1,332,847	492,323	1,825,170	3,503,640	3,347,273
Travel and meetings	249,586	165,205	414,791	101,505	20,061	121,566	536,357	743,318
Supporting services – field operations	28,597,171	—	28,597,171	—	—	—	28,597,171	38,419,698
Refugee aid and other grants	8,263,037	563,299	8,826,336	98,250	—	98,250	8,924,586	16,956,994
Depreciation and amortization	<u>8,244</u>	<u>49,535</u>	<u>57,779</u>	<u>10,051</u>	<u>1,626</u>	<u>11,677</u>	<u>69,456</u>	<u>67,920</u>
	<u>\$ 40,775,000</u>	<u>\$ 3,086,528</u>	<u>\$ 43,861,528</u>	<u>\$ 5,042,979</u>	<u>\$ 1,164,119</u>	<u>\$ 6,207,098</u>	<u>\$ 50,068,626</u>	<u>\$ 68,829,427</u>

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

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

SUMMARY OF CHANGES IN NET ASSETS

Year Ended December 31, 2017

	Balance December 31, 2016	Additions (Including Inter-Fund Transfers)	Deductions	Balance December 31, 2017
Unrestricted Net Assets				
Undesignated, available for general activities	\$ 7,039,346	\$ 51,478,783	\$ 49,124,946	\$ 9,393,183
Designated				
Capital Reserve	591,003	—	—	591,003
Constituency and Resource Development	99,933	—	269,596	(169,663)
Partner Stabilization Fund	287,949	35,000	(117,000)	439,949
Friends of Refugees	6,087	13,458	16,720	2,825
Innovation Fund	341,827	—	—	341,827
	<u>1,326,799</u>	<u>48,458</u>	<u>169,316</u>	<u>1,205,941</u>
Total Unrestricted Net Assets	<u>\$ 8,366,145</u>	<u>\$ 51,527,241</u>	<u>\$ 49,294,262</u>	<u>\$ 10,599,124</u>
Temporarily Restricted Net Assets				
The Swanson Refugee and Migrant Travel Fund	98,827	600	17,554	81,873
Detention Visitation	—	6,197	6,197	—
Rusk House of Hospitality	227,458	8,109	18,433	217,134
Central American Migrant Children and Families	93,974	25,025	49,595	69,404
NYC Syrian URM/Syrian Refugee	198,906	1,268	—	200,174
Refugee Protection and Family Strengthening	61,600	456,300	515,335	2,565
Other	114,805	126,570	167,250	74,125
	<u>795,570</u>	<u>624,069</u>	<u>774,364</u>	<u>645,275</u>
Total Temporarily Restricted Net Assets	<u>\$ 795,570</u>	<u>\$ 624,069</u>	<u>\$ 774,364</u>	<u>\$ 645,275</u>

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