
Lutheran Education Foundation, Inc.
Financial Statements
June 30, 2019

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ULLMANN & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

Board of Directors
Lutheran Education Foundation, Inc.
Phoenix, AZ

We have reviewed the accompanying statements of Lutheran Education Foundation, Inc. (a non-profit corporation), which comprise the statement of assets, liabilities and net assets – income tax basis as of June 30, 2019, and the related statements of support, revenue and expenses – income tax basis and functional expenses – income tax basis for the year then ended, and the related notes to financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Organization management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the income tax basis of accounting; this includes determining that the basis of accounting the Organization uses for income tax purposes is an acceptable basis for the preparation of financial statements in the circumstances. Management is also responsible for 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.

Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with the income tax basis of accounting. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with the income tax basis of accounting.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the income tax basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our conclusion is not modified with respect to this matter.

A handwritten signature in cursive script that reads "Ullmann & Company".

ULLMANN & COMPANY, P.C.
Certified Public Accountants

December 6, 2019

LUTHERAN EDUCATION FOUNDATION, INC.

Statement of Assets, Liabilities and Net Assets – Income Tax Basis

June 30, 2019

ASSETS

Cash and cash equivalents	\$ <u>119,144</u>
	\$ <u>119,144</u>

LIABILITIES

Liabilities	\$ <u>-</u>
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NET ASSETS

Net assets without donor restrictions:	
Designated by the Board of Directors for scholarships	\$ 140,428
Undesignated (deficit)	<u>(21,284)</u>
	\$ <u>119,144</u>

See independent accountants' review report
The accompanying notes are an integral part of these financial statements

LUTHERAN EDUCATION FOUNDATION, INC.

Statement of Support, Revenue and Expenses – Income Tax Basis

Year ended June 30, 2019

Support and revenue:	
Arizona tax credit contributions:	
Original Individual Income Tax Credit Program	\$ 71,167
Switcher Individual Income Tax Credit Program	<u>37,683</u>
Total Arizona tax credit contributions	108,850
Other contributions	91
Interest	<u>11</u>
Total support and revenue	<u>108,952</u>
Expenses:	
Program services – tuition scholarships	153,839
Supporting services:	
General and administrative	5,755
Fundraising	<u>-</u>
Total expenses	<u>159,594</u>
Decrease in net assets without donor restrictions	(50,642)
Net assets without donor restrictions at June 30, 2018	<u>169,786</u>
Net assets without donor restrictions at June 30, 2019	\$ <u>119,144</u>

See independent accountants' review report
The accompanying notes are an integral part of these financial statements

LUTHERAN EDUCATION FOUNDATION, INC.

Statement of Functional Expenses – Income Tax Basis

Year ended June 30, 2019

	Program Services - Tuition <u>Scholarships</u>	<u>Supporting Services</u>		
		General and <u>Administrative</u>	Fund- <u>Raising</u>	<u>Total</u>
Tuition scholarships	\$ 153,839	-	-	-
Professional services	-	3,143	-	3,143
Credit card service charge	-	2,281	-	2,281
FAIR	-	213	-	213
Post office box rent	<u>-</u>	<u>118</u>	<u>-</u>	<u>118</u>
	\$ <u>153,839</u>	<u>5,755</u>	<u>-</u>	<u>5,755</u>

See independent accountants' review report
The accompanying notes are an integral part of these financial statements

LUTHERAN EDUCATION FOUNDATION, INC.

Notes to Financial Statements

June 30, 2019

(1) Operations and Summary of Significant Accounting Policies

Lutheran Education Foundation, Inc. was incorporated in 1997 as an Arizona non-profit school tuition organization (“STO”). Arizona legislation permits individuals to reduce their Arizona income tax liability for contributions to STO’s. In turn, the STO must award each year at least 90% of Arizona tax credit contributions received to students attending qualified private elementary and secondary Arizona schools. During the current year, the Foundation awarded scholarships to forty-seven students attending seven schools in the Phoenix and Yuma metropolitan areas. The Foundation is certified by the Arizona Department of Revenue to participate in both the individual and corporate tax programs. During the current year, the Foundation participated in the individual tax program only and did not participate in the corporate tax programs.

The individual tax programs consist of the Original Individual Income Tax Credit Program and the Switcher Individual Income Tax Credit Program. The Switcher program differs from the Original program primarily in limiting the awarding of scholarships to only those students switching from or who have switched from a public school to a private school. Donors may contribute to the Switcher program only if they have reached the tax credit limit for contributions to the Original program. During the year ended June 30, 2019, \$71,167 was contributed to the Original program and \$37,683 was contributed to the Switcher program.

The Foundation’s activities must comply with a number of legislative and administrative requirements governing STO’s. All STO’s must award at least 90% of annual contributions to students at more than one school and consider financial need. Failure to observe these and other requirements will subject the STO to losing its STO certification from the Arizona Department of Revenue.

The Foundation does not have members. Its activities are governed by a Board of Directors who are independent of the participating schools and scholarship recipients.

In August 2016, the Financial Accounting Standards Board (FASB) issued a new pronouncement (ASU 2016-14), which changed the presentation of financial statements of not-for-profit entities. The changes are intended to enhance the disclosure of the entity’s financial resources and activities. Included in the changes was the combination of temporarily restricted and permanently restricted net asset classes into a single net asset class called *net assets with donor restrictions*, and the renaming of the unrestricted net asset class to *net assets without donor restrictions*. Additional disclosures about liquidity and availability of resources are now also required. The accompanying financial statements reflect the requirements of this FASB pronouncement. The unrestricted net assets class has been renamed net assets without donor restrictions (total net assets reclassified were \$169,786).

See independent accountants’ review report

LUTHERAN EDUCATION FOUNDATION, INC.

Notes to Financial Statements

June 30, 2019

(1) Operations and Summary of Significant Accounting Policies (continued)

Significant accounting policies are as follows:

(a) Income Tax Basis

The financial statements are prepared on the basis of accounting used by the Foundation for income tax purposes, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

(b) Estimates

Management necessarily uses estimates and assumptions in preparing financial statements on the income tax basis of accounting. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported support, revenue and expenses. Actual amounts could vary from these estimates and assumptions.

(c) Basis of Presentation

The Foundation reports information regarding its financial position and activities according to two classes of net assets: with and without donor restrictions.

Restrictions placed by the donor may be either temporary or permanent. Temporary restrictions may expire upon the passage of time or other events specified by the donor. The expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions. Permanent restrictions are perpetual in nature and do not expire. The Foundation did not have any donor-restricted net assets at June 30, 2019.

Net assets without donor restrictions are resources available to support the Foundation's overall operations. The Board of Directors may designate a portion of net assets without donor restrictions for specific purposes. At June 30, 2019, the Board of Directors designated \$140,428 for scholarships.

(d) Contributions Income Recognition

Contributions of cash or other assets, including promises to give, without donor restrictions are recognized as income when received. Contributions with donor restrictions are recorded as an increase in net assets with restrictions when received. The Foundation did not receive any promises to give or contributions with donor restrictions during the current year.

(e) Tuition Scholarships

The Foundation prohibits donor recommendation of students. Contributions received during the calendar year are awarded for the subsequent school year and are disbursed in July of the school year to which the scholarship applies. The amount of the tuition scholarship is based on financial need, as determined by an independent evaluation service.

See independent accountants' review report

LUTHERAN EDUCATION FOUNDATION, INC.

Notes to Financial Statements

June 30, 2019

(1) Operations and Summary of Significant Accounting Policies (continued)

(e) Tuition Scholarships (continued)

Scholarships are not awarded for multiple school years. Unused amounts refunded by the recipient to the Foundation are typically awarded to other eligible students within the same school year. Tuition scholarships expense for the year ended June 30, 2019 consisted of the following:

Scholarships awarded and disbursed for the school year 2018-19:	
Original Individual Income Tax Credit Program	\$ 86,636
Switcher Individual Income Tax Credit Program	<u>67,203</u>
	\$ <u>153,839</u>

(f) Donated Services, Materials and Facilities

Essentially all of the Foundation's activities are performed by members of the Board of Directors and other unpaid volunteers. Office space, equipment usage and supplies are also donated. The value of these services, facilities and supplies has not been recorded as support and expense in the financial statements as the value cannot be reasonably determined.

(g) Cash and Cash Equivalents

The Foundation considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

(h) Advertising Costs

Advertising costs are expensed as incurred. There were no advertising costs incurred during the year.

(i) Concentrations of Credit Risk

Credit risk consists primarily of cash and cash equivalents on deposit with banks. Deposits in excess of amounts insured by the FDIC are exposed to loss in the event of nonperformance. At June 30, 2019 amounts on deposit did not exceed FDIC limits.

(j) Expense Allocation

The costs of providing the tuition scholarship program and supporting services are summarized in the Statement of Functional Expenses – Income Tax Basis. Directly identifiable expenses are charged to either the scholarship program or to supporting services. Expenses not directly identifiable are allocated among the program and supporting services benefited. All expenses incurred during the current year were directly identifiable with specific program or supporting services and an allocation of expenses among the functional categories was not required. General and administrative expenses represent expenses that are not directly identifiable with the scholarship program or fund-raising but provide for the overall support and direction of the Foundation. There were no fund-raising expenses incurred during the current year.

See independent accountants' review report

LUTHERAN EDUCATION FOUNDATION, INC.

Notes to Financial Statements

June 30, 2019

(1) Operations and Summary of Significant Accounting Policies (continued)

(k) Income Taxes

The financial statements do not reflect a provision for income taxes as the Foundation is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code on income related to its exempt purpose. The financial effects of any tax position taken or expected to be taken are recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Interests and penalties, if any, are separately stated as interest and penalties expense in the financial statements. There were no interest or penalties incurred during the year.

(2) Designated Net Assets

Assets designated by the Board of Directors at June 30, 2019 consisted of the following:

Scholarships awarded by the Foundation in July 2019, to be disbursed in July 2019	\$ 111,200
Ninety-percent of the total (\$32,475) contributions received during the period January 1, 2019 through June 30, 2019, to be awarded in July 2020 and disbursed in July 2020	<u>29,228</u>
	\$ <u>140,428</u>

(3) Annual Activity Report Reconciliation

A reconciliation of amounts reported by the Foundation on the Arizona School Tuition Organization Annual Activity Report for Fiscal Year 2018/2019 for each program with the accompanying statement of support, revenue and expenses – income tax basis follows:

Total contributions:

Annual Activity Report-	
Original Individual Income Tax Credit Program	\$ 71,167
Switcher Individual Income Tax Credit Program	<u>37,683</u>
	<u>108,850</u>

Statement of support, revenue and expenses – income tax basis \$ 108,850

Total scholarships:

Annual Activity Report-	
Original Individual Income Tax Credit Program	\$ 86,636
Switcher Individual Income Tax Credit Program	<u>67,203</u>
	<u>153,839</u>

Statement of support, revenue and expenses – income tax basis \$ 153,839

See independent accountants' review report

LUTHERAN EDUCATION FOUNDATION, INC.

Notes to Financial Statements

June 30, 2019

(4) Income Tax Positions

The Foundation has taken the following income tax positions with respect to preparing its exempt organization tax returns and financial statements:

- The Foundation continues to qualify as an exempt 501(c)(3) organization
- There are no unrelated business income activities, subject to income tax
- The Foundation has not engaged in prohibited transactions subject to penalties

In the opinion of management, these positions are reasonable and comply with income tax rules and regulations. All of these positions are subject to review by federal, state and local taxing authorities.

(5) Regulatory Risk

The Foundation operates in accordance with Arizona legislation that enables school tuition organizations. This legislation has been subjected to litigation and to legislative amendment activity since the date enacted. Such generally adverse activity is expected to continue into the foreseeable future. In addition, various government officials have expressed intent to either reduce or abolish Arizona state income tax or to expand other Arizona programs which provide financial assistance for private school tuition. Should any of these litigation or legislative efforts be successful, the Foundation's operations would be severely curtailed.

(6) Liquidity

The Foundation's total assets of \$119,144 at June 30, 2019 are without donor restrictions and are available for general use. Net assets of \$140,428 were designated by the Board of Directors to be awarded as scholarships. The board designation exceeds total assets by \$21,284. This obligation is expected to be met primarily by anticipated refunds of scholarships awarded in July 2019 and by 10% of contributions permitted to be retained for general use.

Of the board designated restriction, \$29,228 relates to contributions received during the period January 1, 2019 through June 30, 2019 and will not be disbursed until July 2020 (see Note 2). In the event the 90% scholarship disbursement requirement is not met for any fiscal year ended June 30, the Foundation is permitted to extend complying with this requirement through the end of a two-year period.

The Foundation invests cash in excess of daily requirements in a demand bank savings account.

(7) Subsequent Events Evaluation

Management has evaluated subsequent events occurring through the report availability date of December 6, 2019 and appropriate recognition or disclosure has been made in the financial statements.

See independent accountants' review report