
Lutheran Education Foundation, Inc.
Financial Statements
June 30, 2016

Lutheran Education Foundation, Inc.
Financial Statements
June 30, 2016

Table of Contents

	<u>Page</u>
Independent Accountants' Review Report	1
Statement of Assets, Liabilities and Net Assets – Income Tax Basis	2
Statement of Support, Revenue and Expenses – Income Tax Basis	3
Statement of Functional Expenses - Income Tax Basis	4
Notes to Financial Statements	5 - 9

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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

We have reviewed the accompanying financial statements of Lutheran Education Foundation, Inc. (a non-profit corporation), which comprise the statement of assets, liabilities and net assets – income tax basis of as of June 30, 2016 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 the 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 the financial statements in accordance with the income tax basis of accounting; 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.

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 conformity with the income tax basis of accounting, as described in Note 1.



ULLMANN & COMPANY, P.C.
Certified Public Accountants

December 14, 2016

LUTHERAN EDUCATION FOUNDATION, INC.

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

June 30, 2016

ASSETS

Cash and cash equivalents	\$ <u>155,148</u>
	\$ <u>155,148</u>

LIABILITIES

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

NET ASSETS

Unrestricted net assets:	
Designated by the Board of Directors for scholarships	138,632
Undesignated	<u>16,516</u>
	\$ <u>155,148</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, 2016

Support and revenue:	
Arizona tax credit contributions:	
Original Individual Income Tax Credit Program	\$ 82,244
Switcher Individual Income Tax Credit Program	<u>34,699</u>
Total Arizona tax credit contributions	116,943
Interest	<u>57</u>
Total support and revenue	<u>117,000</u>
Expenses:	
Program services – tuition scholarships	98,234
Supporting services:	
General and administrative	4,790
Fund raising	<u>-</u>
Total expenses	<u>103,024</u>
Increase in unrestricted net assets	13,976
Unrestricted net assets at June 30, 2015	<u>141,172</u>
Unrestricted net assets at June 30, 2016	\$ <u>155,148</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, 2016

	Program Services - Tuition <u>Scholarships</u>	<u>Supporting Services</u>		<u>Total</u>
		<u>General and Administrative</u>	<u>Fund Raising</u>	
Tuition scholarships	\$ 98,234	-	-	-
Professional services	-	2,716	-	2,716
Credit card service charge	-	1,992	-	1,992
Post office box rent	-	<u>82</u>	-	<u>82</u>
	\$ <u>98,234</u>	<u>4,790</u>	<u>-</u>	<u>4,790</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, 2016

(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-two students attending eight 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 programs 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 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, 2016, \$82,244 was contributed to the Original program and \$34,699 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.

The Foundation presents its financial statements in accordance with the requirements of the Financial Accounting Standards Board for not-for-profit organizations. Significant accounting policies follow:

(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.

See independent accountants’ review report

LUTHERAN EDUCATION FOUNDATION, INC.

Notes to Financial Statements

June 30, 2016

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

(c) Basis for Presentation

Information regarding assets, liabilities, support and revenue is reported according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Support received is recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restrictions expire in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of support, revenue and expenses – income tax basis as net assets released from restrictions. The Foundation did not have any temporarily or permanently restricted net assets at June 30, 2016. Contributions of unrestricted net assets with an economic life in excess of one year are recorded as increases in support and unrestricted net assets in the year received.

(d) Contributions and Tuition Scholarships

The Foundation prohibits donor recommendation of students. There were no promises to give at June 30, 2016 that met the criteria for recording in the financial statements. Contributions received during the calendar year are awarded for the subsequent school year and are disbursed in July and January 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.

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, 2016 consisted of the following:

Scholarships awarded and disbursed for the school year 2015-16:	
Original Individual Income Tax Credit Program	\$ 76,199
Switcher Individual Income Tax Credit Program	<u>22,035</u>
	\$ <u>98,234</u>

See independent accountants' review report

LUTHERAN EDUCATION FOUNDATION, INC.

Notes to Financial Statements

June 30, 2016

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

(e) 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.

(f) 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.

(g) Advertising Costs

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

(h) 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, 2016 amounts on deposit did not exceed FDIC limits.

(i) 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. Interest 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, 2016 consisted of the following:

Contributions received in calendar year 2015, awarded by the Foundation in July 2016, to be disbursed as scholarships in July 2016 and January 2017	\$ 98,200
Ninety-percent of the total (\$44,924) contributions received during the period January 1, 2016 through June 30, 2016, to be awarded in July 2017 and disbursed in July 2017 and in January 2018	<u>40,432</u>
	\$ <u>138,632</u>

See independent accountants' review report

LUTHERAN EDUCATION FOUNDATION, INC.

Notes to Financial Statements

June 30, 2016

(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 2015/2016 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, Part 2, Line 6	\$ 82,244
Switcher Individual Income Tax Credit Program, Part 2, Line 6	<u>34,699</u>

116,943

Statement of support, revenue and expenses – income tax basis	\$ <u>116,943</u>
---	-------------------

Total scholarships:

Annual Activity Report-

Original Individual Income Tax Credit Program, Part 3, Line 8	\$ 76,199
Switcher Individual Income Tax Credit Program, Part 3, Line 8	<u>22,035</u>

98,234

Statement of support, revenue and expenses – income tax basis	\$ <u>98,234</u>
---	------------------

(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. The tax returns of the Foundation have never been audited by any taxing authority and are subject to examination for all open years.

See independent accountants' review report

LUTHERAN EDUCATION FOUNDATION, INC.

Notes to Financial Statements

June 30, 2016

(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) Subsequent Events Evaluation

Management has evaluated subsequent events occurring through the report availability date of December 14, 2016 and appropriate recognition or disclosure has been made in the financial statements.

See independent accountants' review report