

**LUTHERAN ELEMENTARY  
SCHOOL ASSOCIATION**

**AUDITED FINANCIAL STATEMENTS**

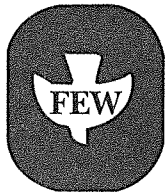
**JUNE 30, 2018**

LUTHERAN ELEMENTARY SCHOOL ASSOCIATION

CONTENTS

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	<u>Pages</u>
Independent Auditors' Report	
Financial Statements	
Statement of Financial Position	1
Statement of Activities	2
Statement of Cash Flows	3
Notes to Financial Statements	4-10
Supplemental Schedule of Functional Expenses	11



# *Fick, Eggemeyer & Williamson*

Certified Public Accountants, PC



MEMBERS OF THE  
AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Lutheran Elementary School Association

We have audited the accompanying financial statements of Lutheran Elementary School Association (a non-profit corporation), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities 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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Elementary School Association as of June 30, 2018, 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.

## **Report on Summarized Comparative Information**

We have previously audited Lutheran Elementary School Association's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 3, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

## **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedule of functional expenses on page 11 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.



Fick, Eggemeyer, & Williamson, CPA's

Saint Louis, Missouri

September 12, 2018

LUTHERAN ELEMENTARY SCHOOL ASSOCIATION  
STATEMENT OF FINANCIAL POSITION

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June 30,	2018	2017
<u>ASSETS</u>		
Cash and cash equivalents	\$ 660,070	\$ 550,498
Investments	7,600,187	7,189,599
Grants receivable	67,000	157,500
Other assets	71,044	66,942
	<u>8,398,301</u>	<u>7,964,539</u>
Total current assets		
Property and equipment	9,875	8,882
Accumulated depreciation and amortization	(7,841)	(7,230)
	<u>2,034</u>	<u>1,652</u>
Total property and equipment		
Total assets	<u>\$ 8,400,335</u>	<u>\$ 7,966,191</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts payable	\$ 4,465	\$ -
Payroll taxes payable	8,503	5,640
Deferred income	15,654	-
Other liabilities	199	3,492
Unearned grants	67,000	112,500
	<u>95,821</u>	<u>121,632</u>
Total current liabilities		
Total liabilities	<u>95,821</u>	<u>121,632</u>
<u>NET ASSETS</u>		
Unrestricted	1,446,410	1,305,704
Temporarily restricted	681,256	362,007
Permanently restricted	6,176,848	6,176,848
	<u>8,304,514</u>	<u>7,844,559</u>
Total net assets		
Total liabilities and net assets	<u>\$ 8,400,335</u>	<u>\$ 7,966,191</u>

See accompanying notes and independent auditors' report

LUTHERAN ELEMENTARY SCHOOL ASSOCIATION  
STATEMENT OF ACTIVITIES

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For the years ended June 30,				2018	2017
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Support and revenue					
Contributions	\$ 2,997	\$ 337,303	\$ -	\$ 340,300	\$ 868,679
Dues income	36,855	-	-	36,855	34,913
Fundraising income	312,519	-	-	312,519	277,940
Total support and revenue	352,371	337,303	-	689,674	1,181,532
Net assets released from restrictions	231,208	(231,208)	-	-	-
Total	583,579	106,095	-	689,674	1,181,532
Program expenses	835,777	-	-	835,777	820,622
Total program expenses	835,777	-	-	835,777	820,622
Support services					
Administration	87,903	-	-	87,903	82,356
Fundraising	138,455	-	-	138,455	97,102
Total support services	226,358	-	-	226,358	179,458
Total expenses	1,062,135	-	-	1,062,135	1,000,080
Changes in net assets from operations	(478,556)	106,095	-	(372,461)	181,452
Investment activities					
Dividend and interest income	1,467	213,154	-	214,621	139,661
Realized gain/(loss) on securities	233,010	-	-	233,010	90,882
Unrealized gain/(loss) on securities	384,785	-	-	384,785	818,211
Total investment activity	619,262	213,154	-	832,416	1,048,754
Changes in net assets	140,706	319,249	-	459,955	1,230,206
Net assets, beginning of year	1,305,704	362,007	6,176,848	7,844,559	6,614,353
Net assets, end of year	<u>\$ 1,446,410</u>	<u>\$ 681,256</u>	<u>\$ 6,176,848</u>	<u>\$ 8,304,514</u>	<u>\$ 7,844,559</u>

See accompanying notes and independent auditors' report

LUTHERAN ELEMENTARY SCHOOL ASSOCIATION  
STATEMENT OF CASH FLOWS

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For the years ended June 30,	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 459,955	\$ 1,230,206
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	612	605
Net unrealized (gain)/loss on investments	(384,785)	(160,196)
Net realized (gain)/loss on sales	(233,010)	(748,897)
Changes in assets and liabilities:		
Fixed asset purchases	(994)	(2,065)
(Increase) decrease in grants receivable	90,500	(16,500)
(Increase) decrease in other assets	(4,102)	(3,110)
Increase (decrease) in accounts payable	4,465	(55)
Increase (decrease) in payroll taxes payable	2,863	(75)
Increase (decrease) in other liabilities	(3,293)	1,397
Increase (decrease) in unearned grants	(45,500)	(28,500)
Net cash provided by (used in) operating activities	<u>(113,289)</u>	<u>272,810</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net of purchases and proceeds from investments	<u>222,861</u>	<u>(271,551)</u>
Net cash provided by (used in) investing activities	<u>222,861</u>	<u>(271,551)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
None	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	<u>109,572</u>	<u>1,259</u>
Cash and cash equivalents - beginning of year	<u>550,498</u>	<u>549,239</u>
Cash and cash equivalents - end of year	<u>\$ 660,070</u>	<u>\$ 550,498</u>

See accompanying notes and independent auditors' report

LUTHERAN ELEMENTARY SCHOOL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

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June 30, 2018

**Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Nature of Organization

The Lutheran Elementary School Association (the Association) is a Recognized Service Organization, designated by the Board of Congregational Services of The Lutheran Church-Missouri Synod. The Scholarship Fund serves the Metropolitan St. Louis Area by providing funding to support scholarships for under-privileged youth to attend private metro-area schools. The Association's support comes primarily from individual donors' contributions and various religious and social agency grants.

Basis of Accounting

The financial statements of the Association have been prepared on the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Financial Statement Presentation

These financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities. Income is recognized when earned and expenses are recognized when incurred.

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards *Financial Statements of Not-for-Profit Organizations*. Under *Financial Statements of Not-for-Profit Organizations*, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted Net Assets - represent resources over which the Board of Directors has unlimited discretionary control to carry out the activities of the Association in accordance with the Articles of Incorporation and By-Laws.

Temporarily Restricted Net Assets - represent resources whose use is limited by donor-imposed restrictions that will be met either by actions of the Association or by the passage of time.

Permanently Restricted Net Assets - are subject to donor-imposed stipulations that the net assets be retained and invested permanently.



LUTHERAN ELEMENTARY SCHOOL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

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June 30, 2018

**Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Promises to Give

Contributions and grants are recognized when the donor makes a promise to give to the Association that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions or grants are recognized. All other donor-restricted contributions and grants are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Income Taxes

The Association is exempt from income taxes pursuant to section 501(c)(3) of the Internal Revenue Service Code. Therefore, no provision is made for taxes on income.

The Association adopted the provisions of Accounting for Uncertainty in Income Taxes on July 1, 2010. The adoption of that guidance resulted in no change to the financial statements for prior periods. As of June 30, 2018, no amounts have been recognized for uncertain tax positions. The Association's tax returns filed prior to fiscal 2015 are closed.

Allowance for Doubtful Accounts

The Association considers grants receivable to be fully collectable; accordingly, the allowance for doubtful accounts balance is \$0.

Use of Estimates in Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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

The Association considers all highly liquid investments and certificates of deposit with a maturity of three months or less to be cash equivalents.

LUTHERAN ELEMENTARY SCHOOL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

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June 30, 2018

**Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Property and Equipment

Property and equipment are capitalized at cost. It is the Association's policy to capitalize expenditures for these items in excess of \$500. Lesser amounts are expensed. Equipment and furniture are being depreciated over estimated useful lives of five to seven years. Software is amortized over a three year period, on the straight-line basis.

**Note 2 - GRANTS RECEIVABLE**

The following grants were receivable at June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Serving Children Through Lutheran Schools 2018-2019	\$ 67,000	\$ 100,000
Eugene and Linda Lehr Revocable Trust	-	45,000
The Dana Brown Charitable Trust	-	<u>12,500</u>
	<u>\$ 67,000</u>	<u>\$ 157,500</u>

**Note 3 - DONATED SERVICES**

The Association receives a significant amount of donated services from unpaid volunteers who assist in fund-raising and special projects. No amounts have been recognized in the statement of activities because the criteria for recognition have not been satisfied.

**Note 4 - PROPERTY AND EQUIPMENT**

The following is a summary of property and equipment as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Computer equipment	\$ 7,805	\$ 6,812
Office furniture and equipment	2,070	2,070
Software	-	-
Total property and equipment	<u>8,882</u>	<u>8,882</u>
Less: accumulated depreciation and amortization	<u>(7,841)</u>	<u>(7,230)</u>
Total	<u>\$ 2,034</u>	<u>\$ 1,652</u>

Depreciation expense for fiscal 2018 and 2017 were \$612 and \$605, respectively.

# LUTHERAN ELEMENTARY SCHOOL ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

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June 30, 2018

### **Note 5 - CONCENTRATION OF CREDIT RISK**

Financial instruments that potentially subject the Association to credit risk consist principally of cash and investments. The Association places its cash and investments with quality institutions and attempts to limit the amount of credit exposure. The Association had cash deposits and securities in a brokerage account with United Missouri Bank of \$2,604,202 as of June 30, 2018. This balance is in excess of the Securities Investor Protection Corporation insurance limit of \$500,000 per investor.

The Association had cash deposits totaling \$217,670 with the Lutheran Church Extension Fund as of June 30, 2018. Deposits with the Lutheran Church Extension Fund are not insured.

The Association also held investments, totaling \$4,863,309, with Lutheran Legacy Foundation, Inc. and \$164,859 with YouthBridge Community Foundation as of June 30, 2018. Investments at the Lutheran Legacy Foundation and the YouthBridge Community Foundation are not insured.

### **Note 6 - INVESTMENTS**

#### Fair Value Measurements

Financial Accounting Standards Board Statement *Fair Value Measurements* establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy under *Fair Value Measurements* are described below:

*Level 1*- Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Association has the ability to access.

*Level 2*- Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

*Level 3*- Inputs to the valuation methodology are unobservable and significant to the fair value measurement

LUTHERAN ELEMENTARY SCHOOL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

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June 30, 2018

**Note 6 - INVESTMENTS (Continued)**

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used for fiscal 2018.

Mutual, equity, and fixed income funds: Valued at the net asset value of shares held by the Association at year end.

Common stocks, exchange-traded funds, corporate bonds and U.S. government securities: Valued at the closing price reported on the active market on which the individual securities are traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Association believes its valuation methods are appropriate and consistent, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Funds held by the Lutheran Legacy Foundation (LLF) and YouthBridge Community Foundation (YB) are pooled with other investor accounts and invested jointly. LLF and YB both value the investment pools based on published closing prices of various securities on active exchanges.

The following table sets forth by level, within the fair value hierarchy, the Association's assets at fair value as of June 30, 2018 and 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>2018 Total</u>	<u>2017 Total</u>
Equity Funds	\$ 658,720	\$ -	\$ -	\$ 658,720	\$ 554,173
Fixed Income Funds	718,940	-	-	718,940	462,470
Exchange-Traded Funds	-	-	-	-	29,131
Common Stocks	1,144,701	-	-	1,144,701	996,382
Corporate Bonds	49,658	-	-	49,658	154,024
Securities held by LLF	-	-	4,863,309	4,863,309	4,863,028
Securities held by YB	-	-	164,859	164,859	130,390
Total at fair value	<u>\$2,572,019</u>	<u>\$ -</u>	<u>\$ 5,028,168</u>	<u>\$ 7,600,187</u>	<u>\$ 7,189,599</u>

LUTHERAN ELEMENTARY SCHOOL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

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June 30, 2018

**Note 6 - INVESTMENTS (Continued)**

The tables below set forth a summary of changes in the fair value of the Association's level 3 assets for the year ended June 30, 2018 and 2017:

	2018	2017
	<u>Securities held by LLF</u>	<u>Securities held by LLF</u>
Balance, beginning of year	\$ 4,863,028	\$ 4,002,663
Realized gains/(losses)	102,909	38,118
Unrealized gains/(losses) relating to instruments still held at the reporting date	232,773	612,638
Interest/dividends	148,551	81,779
Investment fees	(48,952)	(44,423)
Purchases, sales, issuances, and settlements (net)	(435,000)	172,253
Balance, end of year	<u>\$ 4,863,309</u>	<u>\$ 4,863,028</u>

	<u>Securities held by YB</u>	
	2018	2017
Balance, beginning of year	\$ 130,390	\$ 67,898
Realized gains/(losses)	2,659	1,362
Unrealized gains/(losses) relating to instruments still held at the reporting date	3,406	7,635
Interest/dividends	3,255	2,503
Investment fees	(746)	(581)
Purchases, sales, issuances, and settlements (net)	25,895	51,573
Balance, end of year	<u>\$ 164,859</u>	<u>\$ 130,390</u>

LUTHERAN ELEMENTARY SCHOOL ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

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June 30, 2018

**Note 7 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS**

At June 30, 2018 and 2017 the following restricted activity balances comprised:

Temporarily Restricted Net Assets	<u>2018</u>	<u>2017</u>
LESA investment endowment		
Restricted for scholarships	\$ 299,989	\$ 205,000
Future operations and programs	<u>381,267</u>	<u>157,007</u>
Total	<u>\$ 681,256</u>	<u>\$ 362,007</u>
Permanently Restricted Net Assets		
LESA investment endowment	<u>\$ 6,176,848</u>	<u>\$ 6,176,848</u>

**Note 8 - FUNCTIONAL ALLOCATION OF EXPENSES**

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Costs are allocated between administration, fundraising, and the appropriate program based on evaluations of the related benefits. Administration expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Association.

**Note 9 - SUBSEQUENT EVENTS**

Management has evaluated subsequent events through September 12, 2018, the date which the financial statements were available for issue, and noted no reportable events.

LUTHERAN ELEMENTARY SCHOOL ASSOCIATION  
SUPPLEMENTAL SCHEDULE OF FUNCTIONAL EXPENSES

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For the years ended June 30, 2018 and 2017

	Program Expenses	Administration	Fundraising	2018 Total	2017 Total
Salaries	\$ 194,095	7,516	26,467	\$ 228,078	\$ 211,261
Payroll taxes	10,188	575	1,468	12,231	11,748
Employee benefits	29,152	1,131	3,975	34,258	36,280
Scholarships	474,000	-	-	474,000	471,193
Fundraising	-	-	68,557	68,557	58,894
Joint marketing expense	34,004	344	-	34,348	26,940
Rent	18,386	2,322	2,507	23,215	18,402
Office supplies	1,292	163	176	1,631	2,884
Telephone	2,267	286	309	2,862	2,807
Administrative development	10,878	308	333	11,519	18,274
Postage and printing	2,863	362	390	3,615	9,542
Professional fees	4,029	509	550	5,088	4,570
Depreciation	484	61	67	612	605
Insurance	2,617	330	357	3,304	3,605
Travel	3,242	409	442	4,093	3,727
Teacher expenses	16,982	-	-	16,982	18,034
Counseling expense	12,596	-	-	12,596	26,125
Investment fees	-	72,035	-	72,035	62,056
Other expenses	45,973	920	890	47,783	4,408
Computer Maintenance	4,013	632	683	5,328	8,725
<b>TOTAL</b>	<b>\$ 867,061</b>	<b>\$ 87,903</b>	<b>\$ 107,171</b>	<b>\$ 1,062,135</b>	<b>\$ 1,000,080</b>

See accompanying notes and independent auditors' report