

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

SINGLE AUDIT REPORT

YEAR ENDED DECEMBER 31, 2012

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

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SECTION 1

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

(OMB A-133 AUDIT)

DECEMBER 31, 2012

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

**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, 2012 and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management 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 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 organization’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 organization’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 LIRS as of December 31, 2012, 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 LIRS's 2011 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 12, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2013, on our consideration of LIRS's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LIRS's internal control over financial reporting and compliance.

Tait, Weller & Baker LLP

**Philadelphia, Pennsylvania
April 25, 2013**

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2012 And 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash	\$ 8,764,176	\$ 4,285,537
Investments, at market value (<i>Note 2</i>)	823,907	1,387,938
Accounts receivable		
U.S. Government	3,474,048	5,149,392
Miscellaneous	195,911	210,103
Loans receivable – refugees (<i>Note 3</i>)	8,442	101,112
Prepaid expenses and other assets	252,791	359,019
Investment in Lutheran Center Corporation (<i>Note 4</i>)	3,495,123	3,420,449
Funds held by trustee (<i>Note 5</i>)	<u>340,526</u>	<u>337,234</u>
	17,354,924	15,250,784
Furnishings and improvements, less accumulated depreciation and amortization of \$484,569 and \$956,025, respectively	<u>12,959</u>	<u>25,998</u>
Total assets	<u>\$ 17,367,883</u>	<u>\$ 15,276,782</u>
LIABILITIES		
Accounts payable and accrued expenses	\$ 7,300,437	\$ 5,427,259
Long-term debt (<i>Note 5</i>)	<u>2,508,044</u>	<u>2,598,858</u>
Total liabilities	<u>9,808,481</u>	<u>8,026,117</u>
NET ASSETS		
Unrestricted		
Undesignated	6,141,836	5,760,666
Designated	<u>1,181,106</u>	<u>1,104,926</u>
Total unrestricted net assets	<u>7,322,942</u>	<u>6,865,592</u>
Temporarily restricted (<i>Note 7</i>)	<u>236,460</u>	<u>385,073</u>
Total net assets	<u>7,559,402</u>	<u>7,250,665</u>
Total liabilities and net assets	<u>\$ 17,367,883</u>	<u>\$ 15,276,782</u>

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended December 31, 2012 With Summarized Information For 2011

	Unrestricted	Temporarily Restricted	Totals	
			2012	2011
Operating Activities				
Support and Revenue				
Participating Church Bodies				
Evangelical Lutheran Church in America	\$ 497,036	\$ 110,500	\$ 607,536	\$ 658,249
Lutheran Church – Missouri Synod	191,686	30,390	222,076	136,686
Latvian Evangelical Lutheran Church in America	3,500	-	3,500	3,500
Other church body support	-	36,376	36,376	-
	<u>692,222</u>	<u>177,266</u>	<u>869,488</u>	<u>798,435</u>
Other Support				
Foundations and other grants	33,595	14,829	48,424	39,940
Other contributions	381,066	33,297	414,363	435,187
In-kind contributions	7,791	-	7,791	4,849
	<u>422,452</u>	<u>48,126</u>	<u>470,578</u>	<u>479,976</u>
U.S. Government and State	<u>40,417,752</u>	-	<u>40,417,752</u>	<u>30,376,568</u>
Total support	<u>41,532,426</u>	<u>225,392</u>	<u>41,757,818</u>	<u>31,654,979</u>
Revenue				
Loan servicing fees (Note 3)	1,630,183	-	1,630,183	1,587,978
Miscellaneous	167,449	-	167,449	94,226
Total revenue	<u>1,797,632</u>	-	<u>1,797,632</u>	<u>1,682,204</u>
Net assets released from restrictions (Note 7)	<u>374,005</u>	<u>(374,005)</u>	-	-
Total support and revenue	<u>43,704,063</u>	<u>(148,613)</u>	<u>43,555,450</u>	<u>33,337,183</u>
Expenses				
Program Services				
U.S. Government funded activities	37,090,450	-	37,090,450	27,680,295
Other program activities	1,727,260	-	1,727,260	1,539,900
Total program services	<u>38,817,710</u>	-	<u>38,817,710</u>	<u>29,220,195</u>
Supporting Services				
Management and general	3,616,623	-	3,616,623	3,127,515
Fund-raising	823,935	-	823,935	643,271
Total supporting services	<u>4,440,558</u>	-	<u>4,440,558</u>	<u>3,770,786</u>
Total expenses	<u>43,258,268</u>	-	<u>43,258,268</u>	<u>32,990,981</u>
Change in net assets – operating activities	445,795	(148,613)	297,182	346,202
Non-operating Activities				
Investment earnings (Note 2)	11,555	-	11,555	69,727
Change in net assets	457,350	(148,613)	308,737	415,929
Net Assets				
Beginning of year	6,865,592	385,073	7,250,665	6,834,736
End of year	<u>\$ 7,322,942</u>	<u>\$ 236,460</u>	<u>\$ 7,559,402</u>	<u>\$ 7,250,665</u>

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2012 And 2011

	<u>2012</u>	<u>2011</u>
INCREASE (DECREASE) IN CASH		
<i>Net change in net assets</i>	\$ 308,737	\$ 415,929
<i>Adjustments to reconcile the net change in net assets to net cash (used for) provided by operating activities</i>		
Depreciation	13,039	14,699
Amortization	2,137	2,136
Unrealized losses (gains) on investments	(3,308)	1,454
Realized gains on investments	-	(50,873)
Equity in loss (gain) in Lutheran Center Corporation	(57,994)	63
(Increase) decrease in		
Accounts receivable		
U.S. Government	1,675,344	(108,963)
Miscellaneous	14,192	14,928
Loans receivable – refugees	92,670	27,029
Prepaid expenses and deposits	100,777	(241,993)
Funds held by trustee	(3,292)	(2,658)
Increase (decrease) in		
Accounts payable and accrued expenses	<u>1,873,178</u>	<u>(606,252)</u>
Net cash provided by (used for) operating activities	<u>4,015,480</u>	<u>(534,501)</u>
<i>Cash flows from investing activities</i>		
Investment in Lutheran Center Corporation, net	(16,680)	(38,768)
Purchases of furniture and equipment	-	(15,551)
Purchases of investments	(232,661)	(750,106)
Proceeds from sales of investments	<u>800,000</u>	<u>1,372,505</u>
Net cash provided by investing activities	<u>550,659</u>	<u>568,080</u>
<i>Cash flows from financing activities</i>		
Repayment of long-term debt	<u>(87,500)</u>	<u>(82,500)</u>
Net cash used for financing activities	<u>(87,500)</u>	<u>(82,500)</u>
Net increase (decrease) in cash	4,478,639	(48,921)
<i>Cash</i>		
Beginning of year	<u>4,285,537</u>	<u>4,334,458</u>
End of year	<u>\$ 8,764,176</u>	<u>\$ 4,285,537</u>

SUPPLEMENTAL DISCLOSURE

Total interest paid for the years ended December 31, 2012 and 2011 was \$131,316 and \$135,778, respectively.

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 And 2011

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND PURPOSE

Lutheran Immigration and Refugee Service, Inc. ("**LIRS**") is incorporated pursuant to the provisions of the Maryland Non-profit Corporation Act.

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.

CONCENTRATION OF CREDIT RISK

LIRS occasionally maintains deposits in excess of federally insured limits. 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

LIRS applies ASC 958, "**Not-for-Profit Entities.**" ASC 958 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 activity.

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.

FURNISHINGS AND IMPROVEMENTS

Furnishings and improvements 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 furniture and equipment over \$5,000. Depreciation on furniture and equipment is computed on the straight-line method over five and eight years, the estimated useful lives of the assets. Leasehold improvement costs are amortized over the lives of the leases.

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2012 And 2011

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 of LIRS and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations.

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. 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 as ***“net assets released from restrictions.”***

U.S. GOVERNMENT AWARDS

LIRS receives grant awards from 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 as expenses are incurred.

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 activity in the respective programs.

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 has reviewed the tax positions for each of the open tax years (2009 - 2011) or expected to be taken in LIRS's 2012 tax return and has concluded that there are not significant uncertain tax positions that would require recognition in the financial statements

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, 2011, from which the summarized information was derived.

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2012 And 2011

(2) INVESTMENTS

At December 31, 2012 and 2011 investments consisted of the following:

	<u>2012</u>		<u>2011</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Fixed Income				
Money Market, Certificates of Deposit and Church Mission Certificates	\$ 526,959	\$ 527,336	\$ 1,318,955	\$ 1,318,731
U.S. Government Agency Bond	45,000	45,000	45,000	45,000
Private Debt Obligation	224,569	224,569	-	-
Equities				
Lutheran-related Investment Pools	<u>23,171</u>	<u>27,002</u>	<u>23,083</u>	<u>24,207</u>
	<u>\$ 819,699</u>	<u>\$ 823,907</u>	<u>\$ 1,387,038</u>	<u>\$ 1,387,938</u>

At December 31, 2012 and 2011, investments had unrealized gains of \$4,208 and \$900, respectively.

Investment earnings for the years ended December 31, 2012 and 2011 are comprised of the following:

	<u>2012</u>	<u>2011</u>
Interest and dividends, net of investment fees of \$406 and \$1,077	\$ 8,247	\$ 20,308
Realized gains	-	50,873
Unrealized gains (losses)	<u>3,308</u>	<u>(1,454)</u>
	<u>\$ 11,555</u>	<u>\$ 69,727</u>

LIRS utilizes various methods to measure the fair value of its investments on a recurring basis. United States generally accepted accounting principles establishes a hierarchy that prioritizes inputs to valuation methods. The three levels of inputs are described below:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that the LIRS has the ability to access.
- Level 2 – Observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument on an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.
- Level 3 – Unobservable inputs for the asset or liability, to the extent relevant observable inputs are not available, representing the LIRS's own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available.

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2012 And 2011

The inputs methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The summary of inputs used to value LIRS's investments as of December 31, 2012 and 2011 is as follows:

	<u>2012</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Fixed Income			
Money Market, Certificates of Deposit and Church Mission Certificates	\$ 431,959	\$ 95,377	\$ 527,336
U.S. Government Agency Bond	-	45,000	45,000
Private Debt Obligation	-	224,569	224,569
Equities			
Lutheran-related Investment Pools	<u>-</u>	<u>27,002</u>	<u>27,002</u>
	<u>\$ 431,959</u>	<u>\$ 391,948</u>	<u>\$ 823,907</u>
	<u>2011</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Fixed Income			
Money Market, Certificates of Deposit and Church Mission Certificates	\$ 1,223,954	\$ 94,777	\$ 1,318,731
U.S. Government Agency Bond	-	45,000	45,000
Equities			
Lutheran-related Investment Pools	<u>-</u>	<u>24,207</u>	<u>24,207</u>
	<u>\$ 1,223,954</u>	<u>\$ 163,984</u>	<u>\$ 1,387,938</u>

There were no transfers between Level 1 and Level 2 during the years ended December 31, 2012 or 2011.

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2012 And 2011

(3) LOANS RECEIVABLE – REFUGEES

LIRS LOAN PROGRAMS

The loans receivable consist of the following as of December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Guam Refugee Loans	\$ 1,550	\$ 10,340
Refugee Loans – Other	<u>76,892</u>	<u>160,772</u>
	78,442	171,112
Less: Allowance for doubtful accounts	<u>(70,000)</u>	<u>(70,000)</u>
	<u>\$ 8,442</u>	<u>\$ 101,112</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. These loans are not included in the statement of financial position as they are not loans of LIRS. The activity for the transportation loans was as follows:

	<u>2012</u>	<u>2011</u>
Balance outstanding at beginning year	\$ 25,141,753	\$ 26,648,063
New loans, net of loans returned to IOM	10,058,967	8,524,217
Loan payments	(6,511,324)	(6,344,411)
Loans forgiven without prejudice	(608,949)	(517,668)
Loans transferred to IOM	<u>(2,162,403)</u>	<u>(3,168,448)</u>
Balance outstanding at end of year	<u>\$ 25,918,044</u>	<u>\$ 25,141,753</u>

(4) INVESTMENT IN LUTHERAN CENTER CORPORATION

LIRS occupies approximately 56% 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, Lutheran World Relief (“*LWR*”) and other organizations occupy. LIRS has a 50% interest in LCC and as such, carries its investment in LCC on the equity method. LIRS, LWR and other tenants are providing monthly payments to LCC under a partial cost sharing agreement which provides for reimbursement of costs, including interest and depreciation, 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, 2012 and 2011, LIRS has recorded occupancy expense of, approximately \$633,500 and \$621,500, 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, 2012 and 2011, LIRS’ equity in LCC was \$3,495,123 and \$3,420,449, respectively. At December 31, 2012, 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 the next 50 years, with four optional ten-year extensions.

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2012 And 2011

(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. In addition, 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 payoff 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. The covenant was met as of December 31, 2012 and 2011.

The 2007 Bonds were issued as Serial Bonds maturing April 1 in the years 2008 through 2029 and have annual mandatory sinking fund provisions which began in 2008. The 2007 Bonds bear interest at 5.25% per annum. Deferred loan costs in the amount of \$226,212 were incurred in connection with the issuance of the 2007 Bonds and 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, 2012 and 2011 is shown on the statement of financial position including unamortized bond premium of \$50,544 and \$53,858, respectively.

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

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

<u>Date</u>	<u>LWR Portion</u>	<u>LIRS Portion</u>	<u>Total</u>
April 1, 2013	\$ 92,500	\$ 92,500	\$ 185,000
April 1, 2014	100,000	100,000	200,000
April 1, 2015	102,500	102,500	205,000
April 1, 2016	107,500	107,500	215,000
April 1, 2017	112,500	112,500	225,000
April 1, 2018 and thereafter	<u>1,942,500</u>	<u>1,942,500</u>	<u>3,885,000</u>
	<u>\$ 2,457,500</u>	<u>\$ 2,457,500</u>	<u>\$ 4,915,000</u>

Interest on the 2007 Bonds for the years ended December 31, 2012 and 2011 amounted to \$130,167 and \$134,695, respectively. Payments of principal and interest are partially funded by other tenants in the Lutheran Center through allocation of building costs based upon space occupied (*See Note 4*).

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2012 And 2011

(6) LEASE COMMITMENTS

LIRS has a lease for office space that expires on April 30, 2018. As of December 31, 2012, future minimum lease obligations under this operating lease are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2013	\$ 30,015
2014	30,916
2015	31,843
2016	32,799
2017	33,783
Thereafter	<u>11,343</u>
	<u>\$ 170,699</u>

Rent expense was approximately \$38,000 and \$27,000 for the years ended December 31, 2012 and 2011, respectively.

(7) NET ASSETS

Temporarily restricted net assets at December 31, 2012 and 2011 were available for the following purposes:

	<u>2012</u>	<u>2011</u>
Asylum and Immigration	\$ -	\$ 120,996
The Swanson Fund	112,686	125,252
Synod and District Initiative	61,169	77,711
Haiti Relief	4,880	10,579
Other	<u>57,725</u>	<u>50,535</u>
	<u>\$ 236,460</u>	<u>\$ 385,073</u>

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

Asylum and Immigration	\$ 272,873
The Swanson Fund	12,666
Synod and District Initiative	16,542
Haiti Relief	20,528
Other	<u>51,396</u>
	<u>\$ 374,005</u>

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

NOTES TO FINANCIAL STATEMENTS – (Continued)

December 31, 2012 And 2011

(8) PENSION PLAN

Substantially all employees of LIRS are enrolled in the defined contribution pension plan made available and administered by the Board of Pensions of the Evangelical Lutheran Church in America. 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 \$343,000 and \$342,000, respectively, for the years 2012 and 2011.

(8) SUBSEQUENT EVENTS

Subsequent events after the balance sheet date through the date that the financial statements were available for issuance, April 25, 2013, have been evaluated in the preparation of the financial statements. Management has determined that there are no subsequent events that would require disclosure or adjustment in the financial statements

SUPPLEMENTAL INFORMATION

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2012

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Revenues</u>	<u>Expenditures</u>
U.S. Department of State				
U.S. Refugee Admissions Program: Reception and Placement	19.510	N/A	<u>\$21,256,895</u>	<u>\$21,256,895</u>
U.S. Department of Health and Human Services				
Refugee and Entrant Assistance – Voluntary Agency Programs:				
Matching Grant Program	93.567	N/A	9,385,702	9,385,702
Refugee and Entrant Assistance – Discretionary Grants:				
Preferred Communities – Creating New Communities	93.576	N/A	158,752	158,752
Preferred Communities – Microenterprise	93.576	N/A	187,374	187,374
Preferred Communities – Community Operations	93.576	N/A	223,551	223,551
Preferred Communities – Enhanced Cultural Orientation	93.576	N/A	38,452	38,452
Technical Assistance Employment Services	93.576	N/A	<u>218,941</u>	<u>218,941</u>
Total under CFDA No. 93.576			<u>827,070</u>	<u>827,070</u>
Assistance for Torture Victims: Treatment and Services for Torture Survivors	93.604	N/A	310,093	310,093
Unaccompanied Alien Children Program: Alien Unaccompanied Minors	93.676	N/A	<u>8,637,992</u>	<u>8,637,992</u>
Total U.S. Department of Health and Human Services			<u>19,160,857</u>	<u>19,160,857</u>
Total Federal Awards			<u>\$40,417,752</u>	<u>\$40,417,752</u>

* Excludes non-federal required matching expenditures of \$4,103,346.

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2012

(1) BASIS OF PRESENTATION

The accompanying schedule of Expenditures of Federal Awards includes the federal grant activity of Lutheran Immigration and Refugee Service, Inc. ("*LIRS*") and is presented using the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "*Audits of States, Local Governments, and Non-Profit Organizations.*" Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

(2) SUBRECIPIENTS

Of the federal expenditures presented in the schedule, LIRS provided \$33,663,217 of the federal awards to subrecipients.

SECTION 2

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Lutheran Immigration and Refugee Service, Inc. (*"LIRS"*), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 25, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered LIRS's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LIRS's internal control. Accordingly, we do not express an opinion on the effectiveness of LIRS's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control such that there is a reasonable possibility that material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance

As part of obtaining reasonable assurance about whether LIRS's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Board of Directors
Lutheran Immigration and Refugee Service, Inc.
Page Two**

Purpose of this Report

The purpose of this report is solely to describe the scope our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of LIRS's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LIRS's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Tait, Weller & Baker LLP

**Philadelphia, Pennsylvania
April 25, 2013**

SECTION 3

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Report on Compliance for Each Major Federal Program

We have audited Lutheran Immigration and Refugee Service, Inc.'s ("**LIRS**") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of LIRS's major federal programs for the year ended December 31, 2012. LIRS's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of LIRS's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about LIRS's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of LIRS's compliance.

Opinion on Each Major Federal Program

In our opinion, LIRS complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of LIRS is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered LIRS's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of LIRS's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Tait, Weller & Baker LLP

**Philadelphia, Pennsylvania
September 18, 2013**

SECTION 4

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2012

SECTION I: SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expressed an unmodified opinion on the financial statements of Lutheran Immigration Refugee Service, Inc. ("**LIRS**").
2. No significant deficiencies are reported with respect to LIRS' internal control over financial reporting.
3. Our audit disclosed no instances of noncompliance which are material to the financial statements of LIRS.
4. No significant deficiencies are reported with respect to LIRS' internal control over its major federal programs.
5. The auditor's report on compliance for the major federal award programs for LIRS expresses an unmodified opinion on all major federal programs.
6. Our audit disclosed no instances of noncompliance with requirements that could have a direct and material effect on each major program, which is required to be reported in accordance with OMB Circular A-133.
7. The major programs of LIRS are as follows:

<u>Federal Grant/Program Title</u>	<u>Federal CFDA Number</u>
U.S. Department of State U.S. Refugee Admissions Program: Reception and Placement	19.510
U.S. Department of Health and Human Services Refugee and Entrant Assistance – Voluntary Agency Programs Matching Grant Program	93.567

8. The dollar threshold used to distinguish a Type A program was \$1,212,533.
9. LIRS qualified as a low-risk auditee.

SECTION II

Financial Statement Findings

None

SECTION III

Federal Award Findings and Questioned Costs

None

SECTION 5

LUTHERAN IMMIGRATION AND REFUGEE SERVICE, INC.

PRIOR YEAR FINDINGS

December 31, 2012

Our audit for the year ended December 31, 2011 disclosed no areas of non-compliance.
