

THE LUTHERAN HIGH SCHOOL ASSOCIATION OF GREATER MILWAUKEE

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

(With Summarized Totals for the Year Ended June 30, 2015)

THE LUTHERAN HIGH SCHOOL ASSOCIATION OF GREATER MILWAUKEE

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Independent Auditor's Report

Board of Directors
The Lutheran High School Association of Greater Milwaukee

We have audited the accompanying financial statements of The Lutheran High School Association of Greater Milwaukee (a nonprofit organization) which comprise the balance sheet as of June 30, 2016, 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.

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 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 purposes 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 The Lutheran High School Association of Greater Milwaukee as of June 30, 2016, 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.

Ritz Holman LLP
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Board of Directors
The Lutheran High School Association of Greater Milwaukee

Report on Summarized Comparative Information

We have previously audited The Lutheran High School Association of Greater Milwaukee's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 17, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.



RITZ HOLMAN LLP
Certified Public Accountants

Milwaukee, Wisconsin
September 26, 2016

THE LUTHERAN HIGH SCHOOL ASSOCIATION OF GREATER MILWAUKEE
BALANCE SHEET
JUNE 30, 2016
(With Summarized Totals for June 30, 2015)

	2016			2015
	Unrestricted	Temporarily Restricted	Total	Total
ASSETS				
CURRENT ASSETS				
Cash	\$ 1,448,020	\$ 691,304	\$ 2,139,324	\$ 1,473,071
Accounts Receivable - Net	52,494	---	52,494	105,486
Pledges Receivable	---	25,000	25,000	80,000
Prepaid Expenses	8,128	---	8,128	1,500
Total Current Assets	\$ 1,508,642	\$ 716,304	\$ 2,224,946	\$ 1,660,057
FIXED ASSETS				
Land	\$ 1,994,305	\$ ---	\$ 1,994,305	\$ 1,994,305
Land Improvements	3,421,688	---	3,421,688	2,969,771
Building and Building Improvements	34,251,194	---	34,251,194	33,864,871
Furniture, Fixtures and Equipment	1,206,581	---	1,206,581	1,085,179
Vehicles	110,115	---	110,115	40,968
Total Fixed Assets	\$ 40,983,883	\$ ---	\$ 40,983,883	\$ 39,955,094
Accumulated Depreciation	(13,093,735)	---	(13,093,735)	(12,116,815)
Net Fixed Assets	\$ 27,890,148	\$ ---	\$ 27,890,148	\$ 27,838,279
LONG-TERM ASSETS				
Pledges Receivable - Net	\$ ---	\$ 323,589	\$ 323,589	\$ 498,023
Total Long-Term Assets	\$ ---	\$ 323,589	\$ 323,589	\$ 498,023
OTHER ASSETS				
Life Insurance Cash Surrender Value	\$ 1,934	\$ ---	\$ 1,934	\$ 85,108
Security Deposit	15,000	---	15,000	15,650
Other Assets	8,338	---	8,338	2,008
Total Other Assets	\$ 25,272	\$ ---	\$ 25,272	\$ 102,766
TOTAL ASSETS	\$ 29,424,062	\$ 1,039,893	\$ 30,463,955	\$ 30,099,125
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts Payable	\$ 289,358	\$ 20,408	\$ 309,766	\$ 404,823
Accrued Payroll	785,022	---	785,022	650,796
Deferred Revenue	1,253,426	---	1,253,426	847,547
Current Portion of Retiree Benefits	---	---	---	5,208
Total Current Liabilities	\$ 2,327,806	\$ 20,408	\$ 2,348,214	\$ 1,908,374
LONG-TERM LIABILITIES				
Mortgages Payable	\$ 15,000,000	\$ ---	\$ 15,000,000	\$ 14,734,351
Accrued Payroll	695,465	---	695,465	659,896
Retiree Benefits	---	---	---	5,208
Less: Current Portion of Retiree Benefits	---	---	---	(5,208)
Student Activities - Auxiliary	318,036	(318,036)	---	---
Due to/Due from Foundation	---	---	---	551,051
Total Long-Term Liabilities	\$ 16,013,501	\$ (318,036)	\$ 15,695,465	\$ 15,945,298
Total Liabilities	\$ 18,341,307	\$ (297,628)	\$ 18,043,679	\$ 17,853,672
NET ASSETS				
Unrestricted				
Operating	\$ 11,082,755	\$ ---	\$ 11,082,755	\$ 10,675,867
Temporarily Restricted	---	1,337,521	1,337,521	1,569,586
Total Net Assets	\$ 11,082,755	\$ 1,337,521	\$ 12,420,276	\$ 12,245,453
TOTAL LIABILITIES AND NET ASSETS	\$ 29,424,062	\$ 1,039,893	\$ 30,463,955	\$ 30,099,125

The accompanying notes are an integral part of these financial statements.

THE LUTHERAN HIGH SCHOOL ASSOCIATION OF GREATER MILWAUKEE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016
(With Summarized Totals for the Year Ended June 30, 2015)

	2016			2015
	Unrestricted Operating Funds	Temporarily Restricted Funds	Total	Total
REVENUE				
Donations	\$ 782,416	\$ 850,946	\$ 1,633,362	\$ 1,133,341
Capital Campaign	33,226	---	33,226	183,921
Grants	158,347	---	158,347	129,350
Tuition				
High School	12,069,060	---	12,069,060	10,680,165
College Credit	25,435	---	25,435	34,660
Fees				
Sports Fees	176,123	---	176,123	74,018
Class Fees	18,417	---	18,417	25,947
Other Fees	73,721	---	73,721	16,270
Food Sales	479,760	---	479,760	429,175
International Student Program	669,850	---	669,850	618,645
Summer Programs	107,039	---	107,039	104,513
Instrument Rentals	200	---	200	575
Partnership Income	1,146,790	---	1,146,790	1,334,029
Ad Revenue	2,683	---	2,683	9,917
Rent	132,175	---	132,175	123,046
Special Events	29,190	---	29,190	15,725
Interest Income	17,588	1,363	18,951	23,772
Other Income	551,674	29,608	581,282	634,787
In-Kind Revenue	21,154	---	21,154	47,688
Net Assets Released from Restrictions	1,113,982	(1,113,982)	---	---
Total Revenue	\$ 17,608,830	\$ (232,065)	\$ 17,376,765	\$ 15,619,544
EXPENSES				
Instructional and Student Activities	\$ 8,101,709	\$ ---	\$ 8,101,709	\$ 7,409,595
Administration and Building Maintenance	8,600,410	---	8,600,410	7,578,190
Fundraising	499,823	---	499,823	782,015
Total Expenses	\$ 17,201,942	\$ ---	\$ 17,201,942	\$ 15,769,800
CHANGE IN NET ASSETS	\$ 406,888	\$ (232,065)	\$ 174,823	\$ (150,256)
Net Assets, Beginning of Year	10,675,867	1,569,586	12,245,453	12,395,709
NET ASSETS, END OF YEAR	\$ 11,082,755	\$ 1,337,521	\$ 12,420,276	\$ 12,245,453

The accompanying notes are an integral part of these financial statements.

THE LUTHERAN HIGH SCHOOL ASSOCIATION OF GREATER MILWAUKEE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016
(With Summarized Totals for the Year Ended June 30, 2015)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 174,823	\$ (150,256)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities		
Depreciation	976,919	964,687
(Increase) Decrease in Accounts Receivable	52,992	67,065
(Increase) Decrease in Pledges Receivable	229,434	37,557
(Increase) Decrease in Prepaid Expenses	(6,627)	905
(Increase) Decrease in Life Insurance Cash Surrender Value	83,174	17,823
(Increase) Decrease in Security Deposit	650	(15,000)
(Increase) Decrease in Other Asset	(6,330)	(319)
Increase (Decrease) in Accounts Payable	(95,057)	(33,726)
Increase (Decrease) in Accrued Payroll	169,795	74,630
Increase (Decrease) in Deferred Revenue	405,879	(117,946)
Increase (Decrease) in Retiree Benefits	(5,208)	(4,794)
Increase (Decrease) in Due to Foundation	(551,051)	(22,737)
	\$ 1,429,393	\$ 817,889
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	\$ (1,028,789)	\$ (412,647)
	\$ (1,028,789)	\$ (412,647)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Mortgages	\$ (14,734,351)	\$ (304,385)
Proceeds from Mortgages	15,000,000	---
Payments on Line of Credit	(400,000)	(200,000)
Proceeds from Line of Credit	400,000	100,000
	\$ 265,649	\$ (404,385)
Net Increase in Cash and Cash Equivalents	\$ 666,253	\$ 857
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,473,071	1,472,214
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 2,139,324	\$ 1,473,071
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest Paid	\$ 415,193	\$ 477,898

The Association received shares of stock from various donors. The total fair market value was \$94,347. Once received, the stocks are immediately sold. The gain or loss of the sales are included in the amount noted above.

The accompanying notes are an integral part of these financial statements.

THE LUTHERAN HIGH SCHOOL ASSOCIATION OF GREATER MILWAUKEE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

THE LUTHERAN HIGH SCHOOL ASSOCIATION OF GREATER MILWAUKEE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE A - Summary of Significant Accounting Policies

Association

The Lutheran High School Association of Greater Milwaukee (Association) is a group of premier schools dedicated to sharing Jesus and developing future leaders by providing relevant, rigorous academics and life preparation from a Christian worldview.

Accounting Method

The accompanying financial statements of The Lutheran High School Association of Greater Milwaukee have been prepared on the accrual basis of accounting.

Basis of Presentation

The Association reports information regarding its financial position and activities according to two classes of net assets: unrestricted net assets and temporarily restricted net assets. Assets of the restricted classes are created only by donor-imposed restrictions.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include all highly liquid debt instruments with original maturities of three months or less. The cash equivalents of investments are included in the total of investments.

Fixed Assets

Fixed assets are recorded at cost. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. The Association capitalizes assets with an original cost of \$5,000 or greater.

Agency Accounts and Student Activities

The cash of auxiliary groups and student organizations is included on the financial statements of The Lutheran High School Association of Greater Milwaukee because the accounts are held in the Association's name. Additionally, the revenue and expenses are also included in the Association's financial statements as these activities are now under the control of the Association.

Deferred Revenue

Deferred revenue consists of tuition and summer program income that has been prepaid for the 2016 - 2017 year.

Contributions

All contributions are considered available for the Association's general programs unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor are reported as temporarily restricted support and increase the respective class of net assets. Contributions received with temporary restrictions that are met in the same reporting period are reported as unrestricted support and increase unrestricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Investment income that is limited to specific uses by donor restrictions is reported as increases in unrestricted net assets if the restrictions are met in the same reporting period as the income is recognized. Contributions of donated property are recorded at their fair market value at the date of donation.

**THE LUTHERAN HIGH SCHOOL ASSOCIATION OF GREATER MILWAUKEE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE A - Summary of Significant Accounting Policies (continued)

Estimates

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 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.

NOTE B - Comparative Financial Information

The financial information shown for 2015 in the accompanying financial statements is included to provide a basis of comparison with 2016 and presents summarized totals only. The comparative information is summarized by total only, not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity to generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

NOTE C - Concentration of Risk

The Association maintains its cash balances at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2016, the Association's uninsured cash balances totaled \$2,027,519.

NOTE D - Accounts Receivable - Net

Accounts receivable - net consists of the following as of June 30, 2016:

<u>Source</u>	<u>Amount</u>
Tuition	\$ 575,957
Partnership	60,098
Other	6,473
Band	3,662
Allowance for Uncollectible Accounts	<u>(593,696)</u>
Net Accounts Receivable	<u>\$ 52,494</u>

THE LUTHERAN HIGH SCHOOL ASSOCIATION OF GREATER MILWAUKEE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE E - Net Pledges Receivable

Net pledges receivable consists of the following as of June 30, 2016:

Current Gross Pledges Receivable	\$ 25,000
Long-Term Gross Pledges Receivable	<u>614,200</u>
Total Pledges Receivable	\$ 639,200
Less: Present Value Discount	(222,611)
Less: Allowance for Doubtful Accounts	<u>(68,000)</u>
Total Net Pledges Receivable	<u>\$ 348,589</u>

Gross pledges receivable are expected to be collected as follows:

<u>In the Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 25,000
2018	25,000
2019	25,000
2020	25,000
2021	25,000
2022 and thereafter	<u>514,200</u>
Total Gross Pledges Receivable	<u>\$ 639,200</u>

The long-term pledges have been discounted at an average rate of 3.875%.

NOTE F - Line of Credit

The Association has a \$1,500,000 revolving line of credit bearing a variable rate, which was 3.875%, due on September 30, 2018. As of June 30, 2016, the balance on the line of credit was \$-0-. The line of credit is secured by the Association's real estate.

NOTE G - Due to Foundation

The Board authorized a \$1,000,000 loan from the endowment fund in the fiscal year 2006 - 2007 to be used for general operations, to be paid back from the campaign funds over 15 years. The Board also authorized repayment of a previously made \$250,000 loan from the endowment fund for computers, to be paid back from the campaign funds under the same terms. Interest on the balance is calculated using the annual 120% mid-term Applicable Federal Interest Rate. The interest on the loan was \$5,601 for the year ended June 30, 2016. The balance of the amount due to the Foundation for the endowment fund was \$-0- at June 30, 2016.

**THE LUTHERAN HIGH SCHOOL ASSOCIATION OF GREATER MILWAUKEE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE H - Mortgages Payable

The Association entered into a long-term mortgage loan commitment for \$15,000,000. The loan requires monthly interest only payments beginning on October 30, 2015, and continuing through September 30, 2017. Starting October 30, 2017, the loan requires monthly interest and principal payments with the loan maturity on September 30, 2035. Payments are due monthly for 20 years with a final balloon payment while the loan is amortized over 30 years. The loan is secured by the Association's real estate.

Interest expense for the year ended June 30, 2016, was \$409,783.

Future principal payments are as follows:

<u>Year</u>	<u>Amount</u>
2017	\$ ---
2018	249,087
2019	339,829
2020	348,857
2021	358,126
Thereafter	<u>13,704,101</u>
Total Future Payments	<u>\$15,000,000</u>

NOTE I - Operating Leases

The Association leases three vehicles with monthly payments ranging from \$273 - \$459. The lease expense for the year ended June 30, 2016, totaled \$11,632.

The Association leases eleven copiers with monthly payments totaling \$3,498. The lease expense for the year ended June 30, 2016, totaled \$43,836.

The Association leases three postage meters with monthly payments totaling \$454. The lease expense for the year ended June 30, 2016, totaled \$4,486.

In July 2016, the Association signed a lease and sublease agreement for additional office space. The sublease begins September 1, 2016, and ends March 31, 2020. The lease continues from April 1, 2020, through March 31, 2025.

THE LUTHERAN HIGH SCHOOL ASSOCIATION OF GREATER MILWAUKEE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE I - Operating Leases (continued)

Future payments are as follows:

<u>Year</u>	<u>Amount</u>
2017	\$ 64,061
2018	72,012
2019	73,327
2020	74,254
2021	80,918
Thereafter	<u>309,493</u>
Total Future Payments	<u>\$ 674,065</u>

NOTE J - Deferred Revenue

Deferred revenue consists of the following at June 30, 2016:

<u>Source</u>	<u>Amount</u>
Tuition	\$1,151,119
Summer Programs	19,843
Sports Fees	<u>82,284</u>
Total	<u>\$1,253,246</u>

NOTE K - Rental Income

The Association leases space to other organizations in the buildings that it owns. Rental income for the year ended June 30, 2016, totaled \$132,175, with monthly payments between \$360 and \$1,673.

Future premium payments will consist of the following for the year ended June 30:

<u>Year</u>	<u>Amount</u>
2017	<u>\$ 9,338</u>
Total Future Payments	<u>\$ 9,338</u>

NOTE L - Long-Term Accrued Payroll

Long-term accrued payroll consists of banked benefit days and paid time off accrual. The value of banked benefit days and paid time off accrual was \$695,465 at June 30, 2016.

THE LUTHERAN HIGH SCHOOL ASSOCIATION OF GREATER MILWAUKEE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE M - Temporarily Restricted Net Assets

The Association had \$348,589 of temporarily time-restricted net assets and \$988,932 of temporarily purpose-restricted net assets, which consists of the following:

Pledges Receivable	\$ 348,589
R3 Campaign	46,127
Heartland Teacher Award	11,926
Vocational Tech Program	503,894
Student Activities- Auxiliary	318,036
50K Project	62,243
Lake Country Lutheran Transportation	29,608
Other	<u>17,098</u>
 Total Temporarily Restricted Net Assets	 <u>\$1,337,521</u>

NOTE N - In-Kind Donations

The Association received \$21,154 of donated goods and services, which consisted of the following for the year ended June 30, 2016:

<u>Source</u>	<u>Amount</u>
Food	\$ 2,100
Band Equipment	2,910
Furniture and Equipment	15,025
Miscellaneous	<u>1,119</u>
 Total	 <u>\$ 21,154</u>

NOTE O - Retirement Plans

The Association participates in Concordia Retirement Plan which is a multi-employer defined benefit plan operated by a related party, Concordia Plan Services. This plan includes the Concordia Retirement Plan (CRP) with Retiree Medical Supplement (RMS). Plan assets for the Concordia Retirement Plan are not segregated or restricted on a chapter-by-chapter basis. If a chapter withdraws from the pension plan, the pension obligations for its employees are retained by the pension plan, as opposed to being allocated to the withdrawing chapter. The certified zone status of the plan is green (at least 80% funded as of the most recent date available).

THE LUTHERAN HIGH SCHOOL ASSOCIATION OF GREATER MILWAUKEE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE O - Retirement Plans (continued)

Employees are eligible for the plan if they are hired to work over 20 hours per week for more than five consecutive months. Pension benefits are based on years of service and compensation. Employees are vested in the retirement plan after five years. Employees are eligible to receive the RMS benefit upon retirement if he/she completed 15 years or more of credible service and the employee is either age 60 or older or the employee's age plus years of creditable service equals or exceeds 85. Concordia Plan Services determines the percentage of salary for eligible workers that the Association is required to pay into the plan. Contributions for the defined benefit plan are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future.

The Association also participates in Concordia Retirement Savings Plan (CRSP) which is a defined contribution plan. Employees are eligible to contribute to the plan if they are hired to work over 20 hours per week for more than five consecutive months. The Association matches 50% of an employee's contribution to the plan, not to exceed 1% of the employee's regular, annual compensation.

The total retirement expense for the Concordia Plans were \$647,583 for the year ended June 30, 2016. No amounts were due to/from Concordia Plan Services as of June 30, 2016.

NOTE P - Income Taxes

The Association is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and is classified as other than a private foundation. Management has reviewed all tax positions taken in previous fiscal years and those expected to be taken in future fiscal years. As of June 30, 2016, the Association had no amounts related to unrecognized income tax benefits and no amounts related to accrued interest and penalties. The Association does not anticipate any significant changes to unrecognized income tax benefits over the next year.

NOTE Q - Subsequent Events

The Association has evaluated events and transactions occurring after June 30, 2016, through September 26, 2016, the date the financial statements are available to be issued, for possible adjustments to the financial statements or disclosures. The Association has determined that the following subsequent event needs to be disclosed:

In July 2016, the Association signed a lease and sublease for office space (see Note I).