

LANGHAM PARTNERSHIP USA, INC., NFP

**FINANCIAL STATEMENTS
AS OF JUNE 30, 2016 AND 2015**

TOGETHER WITH AUDITOR'S REPORT

Dugan & Lopatka

Certified Public Accountants & Consultants
A Professional Corporation
104 East Roosevelt Road
Wheaton, Illinois 60187
(630) 665-4440
Fax (630) 665-5030
www.duganlopatka.com
e-mail: info@duganlopatka.com

Karen M. Olson
Hugh E. Elliott
Ronald A. Marklund

Michael J. Dugan
Jerry L. Lopatka
Mark F. Schultz
Peter J. Zich
Leo M. Misdorn

Gwen S. Henry

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Langham Partnership USA, Inc., NFP:

We have audited the accompanying financial statements of Langham Partnership USA, Inc., NFP which comprise the statement of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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.

To the Board of Directors of
Langham Partnership USA, Inc., NFP
Page two

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Langham Partnership USA, Inc., NFP as of June 30, 2016 and 2015, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.


DUGAN & LOPATKA

Wheaton, Illinois
October 11, 2016

LANGHAM PARTNERSHIP USA, INC., NFP
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

<u>ASSETS</u>	<u>2016</u>	<u>2015</u>
CURRENT ASSETS:		
Cash and cash equivalents - Unrestricted	\$ 982,927	\$ 1,008,652
- Restricted	163,771	71,475
Accounts receivable	10,387	30,238
Promises to give - Restricted	100,000	93,422
Prepaid expenses	20,385	26,174
Investments - Unrestricted	1,200,333	1,459,857
Total current assets	<u>2,477,803</u>	<u>2,689,818</u>
PROPERTY AND EQUIPMENT:		
Building and improvements	750,000	750,000
Less - Accumulated depreciation	<u>300,000</u>	<u>281,250</u>
Net property and equipment	<u>450,000</u>	<u>468,750</u>
	<u>\$ 2,927,803</u>	<u>\$ 3,158,568</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
CURRENT LIABILITIES:		
Accounts payable	<u>\$ 13,879</u>	<u>\$ 22,965</u>
NET ASSETS:		
Unrestricted - Operating	2,200,153	2,501,955
- Equity in building	<u>450,000</u>	<u>468,750</u>
Total unrestricted	2,650,153	2,970,705
Temporarily restricted	<u>263,771</u>	<u>164,898</u>
Total net assets	<u>2,913,924</u>	<u>3,135,603</u>
	<u>\$ 2,927,803</u>	<u>\$ 3,158,568</u>

The accompanying notes are an integral part of this statement.

LANGHAM PARTNERSHIP USA, INC., NFP
STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CHANGES IN UNRESTRICTED NET ASSETS:		
Public support and revenue -		
Contributions	\$ 1,952,746	\$ 2,076,868
Investment income	12,953	54,164
Other revenue	2,523	723
Total unrestricted public support and revenue	<u>1,968,222</u>	<u>2,131,755</u>
Net assets released from restrictions -		
Satisfaction of program restrictions	<u>1,260,218</u>	<u>1,020,799</u>
Net unrestricted public support and revenue	<u>3,228,440</u>	<u>3,152,554</u>
FUNCTIONAL EXPENSES:		
Program	2,277,805	2,005,269
Management and general	324,425	309,345
Fundraising	946,762	929,926
Total functional expenses	<u>3,548,992</u>	<u>3,244,540</u>
Change in unrestricted net assets	<u>(320,552)</u>	<u>(91,986)</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Public support and revenue -		
Scholars Program	445,225	331,613
Literature Program	227,461	324,727
Francophone Africa Project	58,500	5,000
Langham Corps	42,950	46,250
Preaching Program	105,979	199,990
Monitoring and Evaluation	257,585	6,600
Global Cloud Accounting	110,000	-
Other	111,391	5,000
Total temporarily restricted public support and revenue	<u>1,359,091</u>	<u>919,180</u>
Net assets released from restrictions -		
Satisfaction of program restrictions	<u>(1,260,218)</u>	<u>(1,020,799)</u>
Change in temporarily restricted net assets	<u>98,873</u>	<u>(101,619)</u>
CHANGE IN TOTAL NET ASSETS	(221,679)	(193,605)
NET ASSETS, Beginning of year	<u>3,135,603</u>	<u>3,329,208</u>
NET ASSETS, End of year	<u>\$ 2,913,924</u>	<u>\$ 3,135,603</u>

The accompanying notes are an integral part of this statement.

LANGHAM PARTNERSHIP USA, INC., NFP
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from public support and revenue	\$ 3,325,110	\$ 3,083,546
Cash paid for programs services, employees and supplies	(3,531,016)	(3,421,547)
Interest and dividends received	28,279	26,534
	<u> </u>	<u> </u>
Net cash (used in) operating activities	(177,627)	(311,467)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net sales of investments	244,198	19,863
	<u> </u>	<u> </u>
CHANGE IN CASH AND CASH EQUIVALENTS	66,571	(291,604)
CASH AND CASH EQUIVALENTS, Beginning of year	<u>1,080,127</u>	<u>1,371,731</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 1,146,698</u>	<u>\$ 1,080,127</u>
 RECONCILIATION OF CHANGE IN TOTAL NET ASSETS TO NET CASH (USED IN) OPERATING ACTIVITIES:		
Change in total net assets	\$ (221,679)	\$ (193,605)
Adjustments to reconcile change in net assets to net cash (used in) operating activities:		
Depreciation	18,750	18,750
Net realized and unrealized (gain) loss on investments	15,326	(27,630)
(Increase) decrease in accounts receivable	19,851	(6,650)
(Increase) decrease in promises to give	(6,578)	93,425
(Increase) decrease in prepaid expenses	5,789	(21,059)
(Decrease) in accounts payable	(9,086)	(174,698)
	<u> </u>	<u> </u>
Net cash (used in) operating activities	<u>\$ (177,627)</u>	<u>\$ (311,467)</u>

The accompanying notes are an integral part of this statement.

LANGHAM PARTNERSHIP USA, INC., NFP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Langham Partnership USA, Inc., NFP (LPUSA), the U.S. member of Langham Partnership International, has been working for over 40 years alongside Christian leaders around the world, especially in the global east and south, to equip them with skills and tools for growing the church with depth and maturity. LPUSA's vision is to see churches in the Majority World equipped for mission and growing to maturity in Christ through the ministry of pastors and leaders who believe, teach and live by the Word of God.

The mission of Langham Partnership International is to pursue its vision by equipping a new generation of Bible teachers through three integrated programs:

Langham Scholars Program: Provides financial support for evangelical doctoral students from the Majority World so they may train Christian pastors and leaders - usually at seminary or university level - with sound biblical teaching.

Langham Literature Program: Provides evangelical resources in multiple languages through grants and distribution, and fosters the indigenous creation of resources through sponsored editing and writing and publisher development.

Langham Preaching Program: Partners with national leaders to nurture indigenous preaching movements for pastors and lay preachers all around the world. This partnership provides practical on-site support for preachers, organizing training seminars, providing resources, encouraging preachers' groups, and building a local movement committed to Bible exposition.

The financial statements were available to be issued on October 11, 2016, with subsequent events being evaluated through this date.

Accounting Method -

The financial statements of LPUSA have been prepared using the accrual basis of accounting, which recognizes revenues as they are earned and expenses as they are incurred.

Basis of Presentation -

Financial statement presentation follows the Accounting Standards Codification. LPUSA is required to report information regarding three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets were currently available for ministry purposes under the direction of the board of directors, those designated by the board for specific uses and those invested in building and improvements. At June 30, 2016 and 2015, unrestricted net assets are \$2,650,153 and \$2,970,705, respectively.

Temporarily restricted net assets were those contributed with donor stipulations for specific programs, those with time restrictions, and those not currently available for use until commitments regarding their use have been fulfilled. At June 30, 2016 and 2015, temporarily restricted net assets of \$263,771 and \$164,898, respectively, are restricted for specific program projects and activities.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Basis of Presentation - (Continued)

Permanently restricted net assets. At June 30, 2016 and 2015, there were no permanently restricted net assets.

Estimates -

LPUSA prepares its financial statements in conformity with accounting principles generally accepted in the United States of America, which requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

Cash and Cash Equivalents -

For the purpose of the statement of cash flows, all highly liquid instruments with an original maturity of three months or less are considered to be cash equivalents.

Concentration of Risk -

Financial instruments that potentially subject LPUSA to credit risk consist primarily of mutual funds and common stocks. These investments are managed by an independent professional financial manager. The equity holdings are diversified among a number of different industries.

Investments -

LPUSA invests in various mutual funds and stocks. Investment securities, in general, are exposed to various risks, such as interest risk, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position. Investments in marketable securities are stated at fair value based on quoted market prices.

Property and Equipment -

Property and equipment are stated at cost. Capital expenditures of \$1,000 (\$5,000 for computers) or greater and with a useful life of three or more years are capitalized. Depreciation is computed on the straight-line method over the estimated useful lives of the assets of 3 to 40 years. Donated fixed assets are recorded at fair market value on the date received. Fixed assets given to scholars to keep beyond their scholarship period are ministry expenses and are not capitalized.

The asset (building and improvements) on the statement of financial position is a house located in London, England. This house is the residence and office of the International Ministries Director. The land on which the house is situated is not owned by LPUSA due to laws in England regarding the ownership of land. The purchase price of the building includes the right to use the land for a period of 86 years.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Restricted Resources -

LPUSA reports gifts of cash and other assets as restricted revenue 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 reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

LPUSA reports gifts of land, buildings and equipment as unrestricted revenue unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted revenue. Absent explicit donor stipulations about how long those long-lived assets must be maintained, LPUSA reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Donated Services -

A substantial number of unpaid volunteers have made significant contributions of their time to LPUSA. These volunteers have a significant impact on making the ministry effective. However, the value of these services is not reflected in the financial statements, because they do not meet the definition of donated services under the Accounting Standards Codification.

Functional Allocation of Expenses -

The costs of providing program and supporting activities (management and general and fundraising) have been summarized in the statement of activities. Certain costs have been allocated among the program and supporting activities based on management estimates. The allocation of functional expenses for 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Program	64.2%	61.8%
Management and general	9.1%	9.5%
Fundraising	26.7%	28.7%

Income Taxes -

LPUSA is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code and state laws. Accordingly, no provision for income taxes has been established.

LPUSA files income tax returns in the U.S. federal jurisdiction, Illinois, and California. With few exceptions, LPUSA is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2012. LPUSA does not expect a material net change in unrecognized tax benefits in the next twelve months.

Reclassifications -

Certain prior year amounts have been reclassified to conform to the current year presentation.

(2) PROMISES TO GIVE:

Unconditional promises to give as of June 30, 2016 and 2015 are summarized as follows:

	<u>2016</u>	<u>2015</u>
Receivable in less than one year	\$ 100,000	\$ 93,422
Receivable in more than one year	<u>-</u>	<u>-</u>
Total unconditional promises to give	100,000	93,422
Less - Discount to net present value	<u>-</u>	<u>-</u>
Net unconditional promises to give	<u>\$ 100,000</u>	<u>\$ 93,422</u>

(3) INVESTMENTS:

	<u>2016</u>	<u>2015</u>
Investments consist of the following:		
Mutual funds	\$ 777,485	\$ 734,516
Common stocks	<u>422,848</u>	<u>725,341</u>
	<u>\$ 1,200,333</u>	<u>\$ 1,459,857</u>
Investment income includes:		
Interest and dividends	\$ 28,279	\$ 26,534
Net realized and unrealized gains	<u>(15,326)</u>	<u>27,630</u>
	<u>\$ 12,953</u>	<u>\$ 54,164</u>

Interest and dividends are net of investment management fees of \$11,547 and \$11,401 for the years ended June 30, 2016 and 2015, respectively.

(4) FAIR VALUE MEASUREMENTS:

The Accounting Standards Codification for Fair Value measurements establishes a single definition of fair value and a framework for measuring fair value, sets out a fair value hierarchy to be used to classify the source of information used in fair value measurement and expands disclosures about fair value measurements required under other accounting pronouncements. It does not change existing guidance as to whether or not an instrument is carried at fair value.

The standard established market and observable inputs as the preferred source of values, followed by assumptions based on hypothetical transaction in the absence of market inputs.

The valuation techniques are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect LPUSA's market assumptions. These two types of inputs create the following fair value hierarchy:

Level 1. Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

(4) FAIR VALUE MEASUREMENTS: (Continued)

Level 2. Observable inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly; through corroboration with observable market data, such as quoted market prices for similar markets or quoted market prices that are not active.

Level 3. Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at June 30, 2016 and 2015.

Mutual Funds: Valued at the net asset value of shares held at year end.

Government Bonds, Corporate Bonds and Common Stocks: Valued at the closing price reported on the active market on which the individual securities are traded.

Real Estate: Valued on the basis of comparable assets.

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 LPUSA believes its valuation methods are appropriate and consistent with other market participants, 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 June 30, 2016.

Fair values of assets measured on a recurring basis at June 30, 2016 and 2015 are as follow:

	<u>Assets at Fair Value as of June 30, 2016</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 777,485	\$ -	\$ -	\$ 777,485
Common stocks	<u>422,848</u>	<u>-</u>	<u>-</u>	<u>422,848</u>
	<u>\$ 1,200,333</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,200,333</u>

	<u>Assets at Fair Value as of June 30, 2015</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 734,516	\$ -	\$ -	\$ 734,516
Common stocks	<u>725,341</u>	<u>-</u>	<u>-</u>	<u>725,341</u>
	<u>\$ 1,459,857</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,459,857</u>

(5) EMPLOYEE RETIREMENT PLAN:

LPUSA provides a 403(b)(7) retirement plan for eligible employees. LPUSA contributes six percent of full-time employees' compensation to the plan. LPUSA made contributions to the plan of \$43,506 and \$36,889 in 2016 and 2015, respectively.

(6) LEASE COMMITMENT:

LPUSA rents office space in Milpitas, California under a month-to-month lease. The lease requires payments of \$250 per month.

Rental expense for the years ended June 30, 2016 and 2015 amounted to \$3,662 and \$2,892, respectively.

(7) RELATED PARTY TRANSACTIONS:

LPUSA is the U.S. member of the Langham Partnership International. As such, LPUSA grants funds to its partner in the U.K. to carry out portions of the Literature, Scholars and Preaching programs. These grants represented 32% and 27% of LPUSA's total expenses in 2016 and 2015, respectively. The funds were distributed as follows:

	<u>2016</u>	<u>2015</u>
Literature Program	\$ 470,175	\$ 438,193
Preaching Program	243,907	238,087
Scholars Program	<u>432,736</u>	<u>212,032</u>
	<u>\$ 1,146,818</u>	<u>\$ 888,312</u>

Dugan & Lopatka

Certified Public Accountants & Consultants
A Professional Corporation
104 East Roosevelt Road
Wheaton, Illinois 60187
(630) 665-4440
Fax (630) 665-5030
www.duganlopatka.com
e-mail: info@duganlopatka.com

Karen M. Olson
Hugh E. Elliott
Ronald A. Marklund

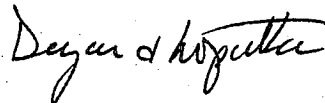
Gwen S. Henry

Michael J. Dugan
Jerry L. Lopatka
Mark F. Schultz
Peter J. Zich
Leo M. Misdorn

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION

To the Board of Directors of
Langham Partnership USA, Inc., NFP:

We have audited the financial statements of Langham Partnership USA, Inc., NFP as of and for the years ended June 30, 2016 and 2015, and our report thereon dated October 11, 2016, which expressed an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses 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 taken as a whole.



DUGAN & LOPATKA

Wheaton, Illinois
October 11, 2016

LANGHAM PARTNERSHIP USA, INC., NFP
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016
(with comparative totals for 2015)

	Program	Management and General	Fundraising	2016 Total	2015 Total
Scholarships and program expenses	\$ 1,488,283	\$ 800	-	\$ 1,489,083	\$ 1,390,748
Salaries	299,304	85,986	294,467	679,757	661,348
Benefits	74,447	25,936	66,751	167,134	178,518
Lodging/meals/travel	83,481	46,033	154,193	283,707	212,962
Professional fees	33,797	50,732	13,685	98,214	55,573
Consulting fees	217,092	43,299	119,039	379,430	158,557
Reimbursed to contractor	1,111	-	35	1,146	-
Printing and duplication	7,601	6,631	107,367	121,599	169,137
Technical services	-	-	-	-	15,757
Conferences and meetings	29,223	3,953	16,392	49,568	9,457
Rent	462	-	2,892	3,354	2,892
Office supplies and equipment	3,282	4,742	13,632	21,656	38,981
Other expenses	26,301	4,409	146	30,856	69,166
Property and directors' insurance	-	14,587	-	14,587	10,423
Depreciation	-	18,750	-	18,750	18,750
Postage	197	2,018	12,501	14,716	32,011
Marketing	10,087	-	141,421	151,508	195,560
Bank and payroll service charges	97	14,903	-	15,000	15,835
Fax/telephone	3,040	1,646	4,241	8,927	8,865
Total functional expenses	<u>\$ 2,277,805</u>	<u>\$ 324,425</u>	<u>\$ 946,762</u>	<u>\$ 3,548,992</u>	<u>\$ 3,244,540</u>