

LANGHAM PARTNERSHIP USA, INC., NFP

**FINANCIAL STATEMENTS
AS OF JUNE 30, 2017 AND 2016**

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

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

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

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, 2017 and 2016, 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, 2017 and 2016, 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
November 2, 2017

LANGHAM PARTNERSHIP USA, INC., NFP
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
CURRENT ASSETS:		
Cash and cash equivalents - Unrestricted	\$ 220,496	\$ 982,927
- Restricted	226,989	163,771
Accounts receivable	48,266	10,387
Promises to give - Restricted	-	100,000
Prepaid expenses	51,384	20,385
Land held for sale	100,000	-
Investments - Unrestricted	1,302,289	1,200,333
Total current assets	<u>1,949,424</u>	<u>2,477,803</u>
PROPERTY AND EQUIPMENT:		
Building and improvements	750,000	750,000
Less - Accumulated depreciation	<u>318,750</u>	<u>300,000</u>
Net property and equipment	<u>431,250</u>	<u>450,000</u>
	<u>\$ 2,380,674</u>	<u>\$ 2,927,803</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	<u>\$ 88,628</u>	<u>\$ 13,879</u>
NET ASSETS:		
Unrestricted - Operating	1,633,807	2,200,153
- Equity in building and land	<u>431,250</u>	<u>450,000</u>
Total unrestricted	2,065,057	2,650,153
Temporarily restricted	<u>226,989</u>	<u>263,771</u>
Total net assets	<u>2,292,046</u>	<u>2,913,924</u>
	<u>\$ 2,380,674</u>	<u>\$ 2,927,803</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, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
CHANGES IN UNRESTRICTED NET ASSETS:		
Public support and revenue -		
Contributions	\$ 1,950,052	\$ 1,952,746
Land donation	100,000	-
Investment income	148,625	12,953
Other revenue	10,749	2,523
Total unrestricted public support and revenue	<u>2,209,426</u>	<u>1,968,222</u>
Net assets released from restrictions -		
Satisfaction of program restrictions	<u>1,320,870</u>	<u>1,260,218</u>
Net unrestricted public support and revenue	<u>3,530,296</u>	<u>3,228,440</u>
FUNCTIONAL EXPENSES:		
Program	2,447,285	2,277,805
Management and general	361,628	324,425
Fundraising	<u>1,306,479</u>	<u>946,762</u>
Total functional expenses	<u>4,115,392</u>	<u>3,548,992</u>
Change in unrestricted net assets	<u>(585,096)</u>	<u>(320,552)</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Public support and revenue -		
Scholars Program	341,854	445,225
Literature Program	355,830	227,461
Francophone Africa Project	171,000	58,500
Langham Corps	44,555	42,950
Preaching Program	198,049	105,979
Monitoring and Evaluation	172,800	257,585
Global Cloud Accounting	-	110,000
Other	-	111,391
Total temporarily restricted public support and revenue	<u>1,284,088</u>	<u>1,359,091</u>
Net assets released from restrictions -		
Satisfaction of program restrictions	<u>(1,320,870)</u>	<u>(1,260,218)</u>
Change in temporarily restricted net assets	<u>(36,782)</u>	<u>98,873</u>
CHANGE IN TOTAL NET ASSETS	(621,878)	(221,679)
NET ASSETS, Beginning of year	<u>2,913,924</u>	<u>3,135,603</u>
NET ASSETS, End of year	<u>\$ 2,292,046</u>	<u>\$ 2,913,924</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, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from public support and revenue	\$ 3,308,250	\$ 3,325,110
Cash paid for programs services, employees and supplies	(4,062,312)	(3,531,016)
Interest and dividends received	30,271	28,279
	<u>(723,791)</u>	<u>(177,627)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net sales of investments	24,578	244,198
	<u>(699,213)</u>	<u>66,571</u>
CHANGE IN CASH AND CASH EQUIVALENTS		
CASH AND CASH EQUIVALENTS, Beginning of year	<u>1,146,698</u>	<u>1,080,127</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 447,485</u>	<u>\$ 1,146,698</u>
RECONCILIATION OF CHANGE IN TOTAL NET ASSETS TO NET CASH (USED IN) OPERATING ACTIVITIES:		
Change in total net assets	\$ (621,878)	\$ (221,679)
Adjustments to reconcile change in net assets to net cash (used in) operating activities:		
Depreciation	18,750	18,750
Land donation	(100,000)	-
Net realized and unrealized (gain) loss on investments	(126,534)	15,326
(Increase) decrease in accounts receivable	(37,879)	19,851
(Increase) decrease in promises to give	100,000	(6,578)
(Increase) decrease in prepaid expenses	(30,999)	5,789
Increase (decrease) in accounts payable	74,749	(9,086)
	<u>\$ (723,791)</u>	<u>\$ (177,627)</u>

The accompanying notes are an integral part of this statement.

LANGHAM PARTNERSHIP USA, INC., NFP
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

(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 November 2, 2017, 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, 2017 and 2016, unrestricted net assets are \$2,065,057 and \$2,650,153, 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, 2017 and 2016, temporarily restricted net assets of \$226,989 and \$263,771, 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, 2017 and 2016, 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 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Program	59.5%	64.2%
Management and general	8.8%	9.1%
Fundraising	31.7%	26.7%

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 2013. 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, 2017 and 2016 are summarized as follows:

	<u>2017</u>	<u>2016</u>
Receivable in less than one year	\$ -	\$ 100,000
Receivable in more than one year	<u>-</u>	<u>-</u>
Total unconditional promises to give	-	100,000
Less - Discount to net present value	<u>-</u>	<u>-</u>
Net unconditional promises to give	<u>\$ -</u>	<u>\$ 100,000</u>

(3) INVESTMENTS:

	<u>2017</u>	<u>2016</u>
Investments consist of the following:		
Mutual funds	\$ 880,572	\$ 777,485
Common stocks	<u>421,717</u>	<u>422,848</u>
	<u>\$ 1,302,289</u>	<u>\$ 1,200,333</u>
Investment income includes:		
Interest and dividends	\$ 30,270	\$ 28,279
Net realized and unrealized gains (loss)	<u>118,355</u>	<u>(15,326)</u>
	<u>\$ 148,625</u>	<u>\$ 12,953</u>

Interest and dividends are net of investment management fees of \$9,420 and \$11,547 for the years ended June 30, 2017 and 2016, 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:

(4) FAIR VALUE MEASUREMENTS: (Continued)

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.

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, 2017 and 2016.

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.

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, 2017.

Fair values of assets measured on a recurring basis at June 30, 2017 and 2016 are as follow:

	<u>Assets at Fair Value as of June 30, 2017</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 880,572	\$ -	\$ -	\$ 880,572
Common stocks	<u>421,717</u>	<u>-</u>	<u>-</u>	<u>421,717</u>
	<u>\$ 1,302,289</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,302,289</u>

	<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>

(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 \$46,525 and \$43,506 in 2017 and 2016, 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. LPUSA also rents office space in Colorado Springs, Colorado. The lease requires payments of \$595 per month and expires in October, 2017. Rental expense for the years ended June 30, 2017 and 2016 amounted to \$8,684 and \$3,662, respectively.

Future minimum lease payments are as follow:

2018	\$	2,975
------	----	-------

(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 2017 and 2016, respectively. The funds were distributed as follows:

	<u>2017</u>	<u>2016</u>
Literature Program	\$ 501,412	\$ 470,175
Preaching Program	326,300	243,907
Scholars Program	<u>626,316</u>	<u>432,736</u>
	<u>\$ 1,454,028</u>	<u>\$ 1,146,818</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

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

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

Gwen S. Henry

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, 2017 and 2016, and our report thereon dated DATE, 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
DATE

LANGHAM PARTNERSHIP USA, INC., NFP
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017
(with comparative totals for 2016)

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>2017 Total</u>	<u>2016 Total</u>
Scholarships and program expenses	\$ 1,760,033	\$ -	\$ 3,967	\$ 1,764,000	\$ 1,489,083
Salaries	326,990	94,693	388,595	810,278	679,757
Benefits	86,721	31,772	92,111	210,604	167,134
Lodging/meals/travel	58,835	47,935	161,816	268,586	283,707
Professional fees	108,427	103,603	127,395	339,425	98,214
Consulting fees	82,878	-	106,115	188,993	379,430
Reimbursed to contractor	-	-	-	-	1,146
Printing and duplication	3,196	6,162	109,917	119,275	121,599
Conferences and meetings	-	13,004	169,935	182,939	49,568
Rent	393	3,662	8,684	12,739	3,354
Office supplies and equipment	2,359	2,516	13,893	18,768	21,656
Other expenses	687	4,115	15,363	20,165	30,856
Property and directors' insurance	-	13,069	252	13,321	14,587
Depreciation	-	18,750	-	18,750	18,750
Postage	77	5,518	28,513	34,108	14,716
Marketing	14,345	119	74,317	88,781	151,508
Bank and payroll service charges	63	15,172	732	15,967	15,000
Fax/telephone	2,281	1,538	4,874	8,693	8,927
	<u>\$ 2,447,285</u>	<u>\$ 361,628</u>	<u>\$ 1,306,479</u>	<u>\$ 4,115,392</u>	<u>\$ 3,548,992</u>
Total functional expenses	<u>\$ 2,447,285</u>	<u>\$ 361,628</u>	<u>\$ 1,306,479</u>	<u>\$ 4,115,392</u>	<u>\$ 3,548,992</u>