

**FINANCIAL STATEMENTS**  
**WITH INDEPENDENT AUDITOR'S REPORT**  
*JUNE 30, 2017*



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## Independent Auditor's Report

Board of Trustees  
The Lutheran Church–Missouri Synod Foundation  
St. Louis, Missouri

### Report on the Financial Statements

We have audited the accompanying financial statements of The Lutheran Church–Missouri Synod Foundation (the “Foundation”) which comprise the statements 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 Foundation'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 Foundation'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 Church–Missouri Synod Foundation as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Brown Smith Wallace, LLP*

St. Louis, Missouri  
September 13, 2017

# THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

## Statements of Financial Position

June 30, 2017 and 2016

(In Thousands)	2017	2016
<b>ASSETS</b>		
Cash and cash equivalents	\$ 10,633	\$ 7,943
Accrued interest and dividends receivable	1,368	1,308
Securities lending program	-	6,260
Investments	955,938	922,686
Real estate held for sale	4,890	5,739
Notes and loans receivable	666	778
Due from broker	-	88
Land, building, and equipment, net of accumulated depreciation and amortization	1,406	1,479
Beneficial interest in charitable trusts	1,188	1,161
Other assets	9,511	8,568
<b>TOTAL ASSETS</b>	<b>\$ 985,600</b>	<b>\$ 956,010</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 452	\$ 585
Securities lending program	-	6,260
Trust and other liabilities due to:		
Life Income	154,164	148,429
Gift Annuity	26,158	26,413
Held in: Endowment	128,236	113,299
Custodial	610,642	601,094
Agency	1,424	1,385
Total Trust and Other Liabilities	920,624	890,620
<b>Total Liabilities</b>	<b>921,076</b>	<b>897,465</b>
<b>Net Assets</b>		
Unrestricted	42,361	38,110
Temporarily restricted	8,196	5,987
Permanently restricted	13,967	14,448
<b>Total Net Assets</b>	<b>64,524</b>	<b>58,545</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 985,600</b>	<b>\$ 956,010</b>

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

# THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

## Statement of Activities

Year ended June 30, 2017

(In Thousands)	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support and Revenue:</b>				
Direct gifts	\$ 588	\$ -	\$ -	\$ 588
Gifts-new agreements	4,246	984	103	5,333
Fee revenue	6,656	-	-	6,656
Investment income	792	-	-	792
Other income	831	-	-	831
Net assets released from restrictions	173	(173)	-	-
<b>Total support and revenue</b>	<b>13,286</b>	<b>811</b>	<b>103</b>	<b>14,200</b>
<b>Operating Expenses:</b>				
President and administration	1,285	-	-	1,285
Customer support	1,689	-	-	1,689
Finance	2,309	-	-	2,309
Planned giving	3,077	-	-	3,077
Donor-advised, insurance policies and other	2,807	-	-	2,807
<b>Total operating expenses</b>	<b>11,167</b>	<b>-</b>	<b>-</b>	<b>11,167</b>
<b>NET OPERATING INCOME</b>	<b>2,119</b>	<b>811</b>	<b>103</b>	<b>3,033</b>
<b>Other Income (Loss):</b>				
Net realized and unrealized gains on investments and real estate	1,027	-	-	1,027
Change in value of irrevocable deferred gifts	1,105	1,398	(584)	1,919
<b>TOTAL OTHER INCOME (LOSS)</b>	<b>2,132</b>	<b>1,398</b>	<b>(584)</b>	<b>2,946</b>
<b>CHANGE IN NET ASSETS</b>	<b>4,251</b>	<b>2,209</b>	<b>(481)</b>	<b>5,979</b>
<b>Net assets at beginning of year</b>	<b>38,110</b>	<b>5,987</b>	<b>14,448</b>	<b>58,545</b>
<b>Net assets at end of year</b>	<b>\$ 42,361</b>	<b>\$ 8,196</b>	<b>\$ 13,967</b>	<b>\$ 64,524</b>

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

# THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

## Statement of Activities

Year ended June 30, 2016

(In Thousands)	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
<b>Support and Revenue:</b>				
Direct gifts	\$ 556	\$ -	\$ -	\$ 556
Gifts-new agreements	2,066	275	-	2,341
Fee revenue	6,734	-	-	6,734
Investment income	1,001	-	-	1,001
Other income	1,288	-	-	1,288
Net assets released from restrictions	1,507	(1,507)	-	-
<b>Total support and revenue</b>	<b>13,152</b>	<b>(1,232)</b>	<b>-</b>	<b>11,920</b>
<b>Operating Expenses:</b>				
President and administration	1,178	-	-	1,178
Customer support	1,573	-	-	1,573
Finance	2,596	-	-	2,596
Planned giving	3,016	-	-	3,016
Donor-advised, insurance policies and other	6,433	-	-	6,433
<b>Total operating expenses</b>	<b>14,796</b>	<b>-</b>	<b>-</b>	<b>14,796</b>
<b>NET OPERATING INCOME</b>	<b>(1,644)</b>	<b>(1,232)</b>	<b>-</b>	<b>(2,876)</b>
<b>Other Income (Loss):</b>				
Net realized and unrealized losses on investments and real estate	(476)	-	-	(476)
Change in value of irrevocable deferred gifts	161	(869)	83	(625)
<b>TOTAL OTHER INCOME (LOSS)</b>	<b>(315)</b>	<b>(869)</b>	<b>83</b>	<b>(1,101)</b>
<b>CHANGE IN NET ASSETS</b>	<b>(1,959)</b>	<b>(2,101)</b>	<b>83</b>	<b>(3,977)</b>
<b>Net assets at beginning of year</b>	<b>40,069</b>	<b>8,088</b>	<b>14,365</b>	<b>62,522</b>
<b>Net assets at end of year</b>	<b>\$ 38,110</b>	<b>\$ 5,987</b>	<b>\$ 14,448</b>	<b>\$ 58,545</b>

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

# THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

## Statements of Cash Flows

Years ended June 30, 2017 and 2016

(In Thousands)	2017	2016
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 5,979	\$ (3,977)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	154	143
Net realized and unrealized (gains) losses on investments	(1,028)	476
Changes in assets and liabilities:		
Accrued interest and dividends receivable	(60)	43
Investments	(30,820)	(79,127)
Real estate held for sale	849	1,375
Notes and loans receivable	10	12
Due from broker	88	(88)
Beneficial interest in charitable trusts	(27)	1,358
Other assets	(943)	(262)
Accounts payable and accrued expenses	(133)	(110)
Trust and other liabilities due to:		
Life income and gift annuities	5,479	(12,445)
Endowment, custodial, and agency accounts	24,524	92,365
<b>Net cash provided by (used in) operating activities</b>	<b>4,072</b>	<b>(237)</b>
<b>Cash flows from investing activities:</b>		
Net additions to capital assets	(81)	(92)
Decrease to notes and loans receivable	103	25
Purchase of investment securities	(3,779)	(6,173)
Proceeds from the sale or maturities of investment securities	2,375	7,779
<b>Net cash (used in) provided by investing activities</b>	<b>(1,382)</b>	<b>1,539</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>2,690</b>	<b>1,302</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>7,943</b>	<b>6,641</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 10,633</b>	<b>\$ 7,943</b>

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



# THE LUTHERAN CHURCH–MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements

June 30, 2017

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### Note A - Summary of Organization and Significant Accounting Policies

The Lutheran Church–Missouri Synod Foundation (the “Foundation”) assists individuals and church ministries by raising and managing gifts and assets to support Christ’s mission through The Lutheran Church–Missouri Synod (the “Synod”) and to accomplish personal and corporate stewardship goals. The Foundation is administered by a Board of Trustees that are elected by the members of the Foundation.

Within the Foundation organization, trust services, investment services, and gift planning services are provided to the Synod and related agencies and entities. Within customer support, trust services generate trustee fees. Investment services within the Finance Department receive management fees. Gift planning services operate on a partial cost reimbursement basis.

The Foundation carries out its investment management services through various common funds to invest the assets entrusted to the Foundation. A common fund pools the assets of numerous smaller accounts to provide for greater diversification and ease of investment management. Holders of a common fund are called participants. Participants buy and sell units of the common fund asset. In order to determine the price per unit of a common fund, all assets held by the common fund (which can include individual securities or units of other common funds) are valued as of the end of the month (the valuation date). This value is divided by the total number of units held by the participants in the common fund to determine the per unit value. Transactions in the common fund (either purchases or redemptions) are calculated based on the per unit value on the valuation date.

During the valuation process, the common funds accrue income and expenses for the valuation period. The net income to the funds is divided by the total number of units held by participants for the valuation period to establish the income per unit factor. Each participant receives an allocation of the net income determined by multiplying the income per unit factor times the number of units held by the participant of the common fund. Net realized and termination gains in Foundation common funds are also calculated and distributed annually to the participants.

The Foundation maintains a Statement of Investment Policies and Objectives that governs the overall investment policy, objectives, structure, and guidelines for the Foundation’s investments. Included in the guidelines are restrictions governing the management of all investments held in separate accounts specifically for the benefit of the Foundation. All investment managers are monitored for adherence to the Statement of Investment Policies and Objectives by the Foundation with the assistance of its investment consultant.

# THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements – Continued

June 30, 2017

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### Note A - Summary of Organization and Significant Accounting Policies (Continued)

#### **Basis of Accounting and Presentation**

The financial statements have been prepared using the accrual basis of accounting. Additionally, the financial statement presentation follows the requirements of Financial Accounting Standards Board Accounting Standards Codification (“FASB ASC”) 958-205-05. As such, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

#### **Unrestricted Net Assets**

Unrestricted net assets are neither permanently nor temporarily restricted by donor-imposed stipulations and include net revenue from fees, certain investment income, and all unrestricted gifts, grants, and contributions. Unrestricted amounts are those currently available at the discretion of the Board for use in the Foundation’s operations.

#### **Temporarily Restricted Net Assets**

Temporarily restricted net assets are primarily donor-restricted for specific purposes. The donor's temporary restriction is satisfied either by the passage of time or by occurrence of the event stipulated by the donor. Temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restriction upon satisfaction of the donor's restriction. Such net assets primarily represent the present value (discounted at 3.6% and 3.8% at June 30, 2017 and 2016 respectively) of future gifts from irrevocable trusts held by the Foundation which name the Foundation as beneficiary.

#### **Permanently Restricted Net Assets**

Permanently restricted net assets include perpetual endowments and other gifts established for the benefit of the Foundation. These donor-imposed restrictions stipulate that the original contribution be maintained permanently but permit the Foundation to expend part or all the income derived from the donated assets.

# THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements – Continued

June 30, 2017

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### Note A - Summary of Organization and Significant Accounting Policies (Continued)

#### **Basis of Accounting and Presentation (Continued)**

##### **Permanently Restricted Net Assets (Continued)**

Permanently restricted net assets also include the current value of a perpetual trust from which the Foundation is to receive the income in perpetuity. The principal is held in trust by a third party and will never revert to the Foundation. The perpetual stream of income is viewed by the Foundation as a promise to give by the individual who established the trust and has been recorded at the fair value of the trust at June 30, 2017 and 2016, which closely approximates the net present value of the income stream, in perpetuity. Given the nature of the promise, the Foundation recorded this contribution as permanently restricted net assets.

Income received is recorded based on the presence or absence of donor restrictions.

Expenses related to the daily administration and operations of the Foundation are recorded in unrestricted net assets. The proceeds from matured trust agreements that are held for the benefit of the Foundation or that are undesignated as to a specific beneficiary are transferred to unrestricted net assets. The Foundation also receives gifts and other undesignated income. After providing for operating expenses, the remainder is available for distribution at the direction of the Board of Trustees of the Foundation.

##### **Other Accounting Policies**

For financial statement purposes, the Foundation considers currency, demand deposits, and liquid investments with a maturity of three months or less to be cash equivalents.

Investments of the Foundation are held at a custodial bank. Investments include marketable fixed income and equity securities, as well as units in assorted mutual funds and/or commingled investment vehicles. All investments are stated at fair market value as determined by authorized pricing sources for the custodial bank. The custodial bank records transactions involving the Foundation's investments on the date the securities are purchased or sold. Income is accrued as earned and posted as collected by the custodial bank. Realized gains and losses on the sale of investments are the differences between the proceeds received and the cost of the securities sold. Gains and losses, both realized and unrealized, are recognized in the statements of activities for those assets owned by the Foundation.

# THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements – Continued

June 30, 2017

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### Note A - Summary of Organization and Significant Accounting Policies (Continued)

#### Other Accounting Policies (Continued)

Real estate is initially recorded at its appraised value at the date of the gift. Real estate is carried at the lower of appraised or market value.

Property and equipment is carried at cost. Major renewals and betterments over \$5,000 are capitalized, and maintenance and repairs which do not improve or extend the life of the respective assets are charged against operations in the current period.

The Foundation is the owner and beneficiary of certain insurance policies that have been gifted over a number of years. The policies are carried at fair value, which equates to current cash surrender value. The insurance policies are unrestricted gifts to the Foundation. They are accompanied by “letters of request” from the donors who request that the proceeds from the insurance policies go to specific ministries. The “letters of request” are not binding on the Foundation for the purpose of financial reporting. The insurance policies are reflected in the financial statements under other assets (Note E).

FASB ASC 825, *Financial Instruments*, requires disclosure of fair value information about financial instruments, whether or not recognized in the statement of financial position, for which it is practicable to estimate fair value. Financial instruments consisting of cash and cash equivalents, accrued interest and dividend receivable, investments, real estate held for sale, notes and loans receivable, real estate held for investment, and accounts payable are reported in the statements of financial position at carrying amounts which approximate fair value. Investments are reported at fair value as determined by authorized pricing sources for the custodial bank.

The trust and other liabilities due to donors and beneficiaries represents the liability necessary to meet agreed payments. The trust and other liabilities due to endowment, custodial, and agency accounts represents the liability for gifts received based on the original contribution plus earnings less reductions in the liability necessary to meet agreed payments.

Direct costs associated with the establishment of trust agreements are recognized as an expense of the trust as incurred. Trustee fees to cover continuing administrative expenses are charged to the trusts and recognized as revenue by the Foundation on a current basis.

# THE LUTHERAN CHURCH–MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements – Continued

June 30, 2017

### Note A - Summary of Organization and Significant Accounting Policies (Continued)

#### Other Accounting Policies (Continued)

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The Foundation follows accounting rules for uncertain tax positions. Those rules require financial statement recognition of the impact of a tax position if a position is more likely than not of being sustained on audit, based on the technical merits of the position. These rules also provide guidance on measurement, recognition, classification, interest and penalties, transition, and disclosure requirements for uncertain tax positions.

Management has evaluated all subsequent events and transactions through September 13, 2017.

### Note B - Investments

The Foundation's investments at fair value were as follows (in thousands):

<u>June 30, 2017</u>	<u>Operating</u>	<u>Life Income</u>	<u>Gift Annuity</u>	<u>Endowment</u>	<u>Agency and Custodial</u>	<u>Total</u>
Common funds of the Foundation	\$ 17,640	\$ 155,950	\$ -	\$ 147,284	\$ 601,212	\$ 922,086
LCEF notes	1	-	-	1,968	3,733	5,702
Corporate stock	-	-	-	33	12	45
Other	-	1,898	25,418	750	39	28,105
	<u>\$ 17,641</u>	<u>\$ 157,848</u>	<u>\$ 25,418</u>	<u>\$ 150,035</u>	<u>\$ 604,996</u>	<u>\$ 955,938</u>

  

<u>June 30, 2016</u>	<u>Operating</u>	<u>Life Income</u>	<u>Gift Annuity</u>	<u>Endowment</u>	<u>Agency and Custodial</u>	<u>Total</u>
Common funds of the Foundation	\$ 15,209	\$ 147,389	\$ -	\$ 131,169	\$ 594,715	\$ 888,482
LCEF notes	-	-	-	1,970	3,790	5,760
Corporate stock	-	-	-	-	8	8
Other	-	1,917	25,798	670	51	28,436
	<u>\$ 15,209</u>	<u>\$ 149,306</u>	<u>\$ 25,798</u>	<u>\$ 133,809</u>	<u>\$ 598,564</u>	<u>\$ 922,686</u>

# THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements – Continued

June 30, 2017

### Note B - Investments (Continued)

Investment income consists of the following (in thousands):

<u>June 30, 2017</u>	<u>Operating</u>	<u>Life Income</u>	<u>Gift Annuity</u>	<u>Endowment</u>	<u>Agency and Custodial</u>	<u>Total</u>
Interest and dividends	\$ 418	\$ 4,269	\$ 567	\$ 3,014	\$ 14,426	\$ 22,694
Capital gains distributed	294	2,360	22	3,226	7,855	13,757
Net realized/unrealized losses	<u>1,027</u>	<u>8,809</u>	<u>1,671</u>	<u>11,685</u>	<u>16,113</u>	<u>39,305</u>
	<u>\$ 1,739</u>	<u>\$ 15,438</u>	<u>\$ 2,260</u>	<u>\$ 17,925</u>	<u>\$ 38,394</u>	<u>\$ 75,756</u>

  

<u>June 30, 2016</u>	<u>Operating</u>	<u>Life Income</u>	<u>Gift Annuity</u>	<u>Endowment</u>	<u>Agency and Custodial</u>	<u>Total</u>
Interest and dividends	\$ 444	\$ 4,323	\$ 639	\$ 3,005	\$ 12,910	\$ 21,321
Capital gains distributed	430	2,564	13	3,654	8,776	15,437
Net realized/unrealized losses	<u>(476)</u>	<u>(5,911)</u>	<u>(165)</u>	<u>(5,285)</u>	<u>(13,199)</u>	<u>(25,036)</u>
	<u>\$ 398</u>	<u>\$ 976</u>	<u>\$ 487</u>	<u>\$ 1,374</u>	<u>\$ 8,487</u>	<u>\$ 11,722</u>

The common funds of the Foundation with Lutheran Church Extension Fund (LCEF) and Royal Alliance portfolios are as follows (in thousands):

	<u>June 30,</u>	
	<u>2017</u>	<u>2016</u>
Cash	\$ 7,268	\$ 15,474
Cash Equivalents	5,210	7,970
Municipal Bonds	20,012	13,197
Corporate Bonds	74,701	67,940
Convertible Bonds	88	123
Mortgage Pass Through Securities	28,426	50,684
Collateralized Mortgage Obligations	119,827	143,684
Other Bonds (Yankee)	13,287	4,578
Equity	69,417	50,526
Commingled Funds	<u>583,850</u>	<u>534,306</u>
	<u>\$ 922,086</u>	<u>\$ 888,482</u>

# THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements – Continued

June 30, 2017

### Note B - Investments (Continued)

The Foundation's assets are invested primarily in four asset classes, called Preference Funds. These funds are managed by 16 professional fund managers, with asset-class specific strategies. These Preference funds are included in the Foundation's Standard and Trust Funds, shown in the following schedule.

June 30, 2017

(in thousands)

	Domestic Equity	International Equity	High Yield Bonds	Core Bonds	Other Investments	Cash and Pending Trades	Total Common Funds
SF Fixed Income	\$ -	\$ -	\$ 20,145	\$ 80,633	\$ -	\$ 2,297	\$ 103,075
SF Equity	86,891	79,328	-	-	-	4,232	170,451
SF Conservative Balanced	2,435	2,129	2,646	10,577	-	279	18,066
SF Moderate Balanced	20,764	18,516	7,579	30,239	-	2,254	79,352
SF Aggressive Balanced	58,191	52,622	7,320	29,118	-	3,382	150,633
TF Income Short	-	-	302	2,706	-	126	3,134
TF Income Intermediate	585	499	3,145	2,792	-	(78)	6,943
TF Income Long	532	469	4,677	998	-	126	6,802
TF Total Return Short	1,258	1,052	3,606	8,277	-	194	14,387
TF Total Return Intermediate	11,254	9,907	8,271	12,249	-	(32)	41,649
TF Total Return Long	24,875	21,306	12,824	6,199	-	1,331	66,535
Pooled Trust 1	-	-	190	758	-	(9)	939
Pooled Trust 2	-	-	552	2,208	-	12	2,772
Pooled Trust 3	600	502	701	378	-	12	2,193
Individual Accounts-DEQ	15,048	-	-	-	-	11	15,059
Individual Accounts-IEQ	-	2,875	-	-	-	(1)	2,874
Individual Accounts-HY	-	-	4,561	-	-	3	4,564
Individual Accounts-CORE	-	-	-	12,348	-	214	12,562
Total Preference Funds	<u>222,433</u>	<u>189,205</u>	<u>76,519</u>	<u>199,480</u>	<u>-</u>	<u>14,353</u>	<u>701,990</u>
Thrivent Funds	-	-	-	-	9,609	50	9,659
Managed Portfolio	-	-	-	-	210,437	-	210,437
Total Other Funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>220,046</u>	<u>50</u>	<u>220,096</u>
<b>TOTAL COMMON FUNDS</b>	<u>\$ 222,433</u>	<u>\$ 189,205</u>	<u>\$ 76,519</u>	<u>\$ 199,480</u>	<u>\$ 220,046</u>	<u>\$ 14,403</u>	<u>\$ 922,086</u>

# THE LUTHERAN CHURCH–MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements – Continued

June 30, 2017

### Note B - Investments (Continued)

June 30, 2016

(in thousands)

	Domestic Equity	International Equity	High Yield Bonds	Core Bonds	Other Investments	Cash and Pending Trades	Total Common Funds
SF Fixed Income	\$ -	\$ -	\$ 19,991	\$ 80,482	\$ -	\$ 2,505	\$ 102,979
SF Equity	81,687	67,127	-	-	-	4,672	153,485
SF Conservative Balanced	2,694	2,113	2,910	11,798	-	(1,338)	18,178
SF Moderate Balanced	19,069	16,161	7,234	28,827	-	(3,227)	68,064
SF Aggressive Balanced	47,431	39,348	6,099	24,228	-	12,747	129,853
TF Income Short	-	-	352	3,211	-	239	3,802
TF Income Intermediate	551	458	3,180	2,804	-	(243)	6,751
TF Income Long	489	383	4,089	888	-	130	5,980
TF Total Return Short	1,197	947	3,447	8,015	-	118	13,724
TF Total Return Intermediate	11,077	8,765	8,007	12,174	-	878	40,901
TF Total Return Long	23,266	18,334	11,985	6,073	-	1,508	61,166
Pooled Trust 1	-	-	202	818	-	3	1,022
Pooled Trust 2	-	-	557	2,257	-	18	2,832
Individual Accounts-DEQ	12,878	-	-	-	-	30	12,908
Individual Accounts-IEQ	-	2,151	-	-	-	11	2,162
Individual Accounts-HY	-	-	4,136	-	-	2	4,138
Individual Accounts-CORE	-	-	-	11,673	-	20	11,693
<b>Total Preference Funds</b>	<u>200,341</u>	<u>155,787</u>	<u>72,188</u>	<u>193,249</u>	<u>-</u>	<u>18,072</u>	<u>639,638</u>
Thrivent Funds	-	-	-	-	9,290	76	9,366
Managed Portfolio	-	-	-	-	239,477	-	239,477
<b>Total Other Funds</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>248,767</u>	<u>76</u>	<u>248,843</u>
<b>TOTAL COMMON FUNDS</b>	<u>\$ 200,341</u>	<u>\$ 155,787</u>	<u>\$ 72,188</u>	<u>\$ 193,249</u>	<u>\$ 248,767</u>	<u>\$ 18,149</u>	<u>\$ 888,482</u>

### Securities Lending Program

The Foundation participates in a securities lending program with State Street, investment custodian, whereby securities in the Foundation's portfolio are loaned to select established brokerage firms for a fee. The purpose of this program is to increase investment income by safely lending securities at the highest premiums available. The market value of the collateral held for loaned securities is reported as securities lending program, and a corresponding obligation exists for repayment of such collateral upon settlement of the lending transactions.

Although on loan, these securities are reflected in the Foundation's statements of financial position. All loans are fully collateralized (105%) of the market value of the securities borrowed) by cash, or non-cash collateral consisting of following: irrevocable bank letters of credit or securities issued and fully guaranteed by the U.S. government. The loaned securities and collateral are priced daily, by the investment custodian, to ensure that the collateral exceeds the market value of securities on loan.



# THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements – Continued

June 30, 2017

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### Note B - Investments (Continued)

The market value of securities on loan under securities lending agreements (exclusive of collateral) was \$0 at June 30, 2017. The market value of securities on loan at June 30, 2016 was approximately \$6,153,000.

### Note C - Land, Building, and Equipment

Depreciation and amortization included in operating expenses was computed under the methods previously described and amounted to \$154,000 and \$143,000 for the years ended June 30, 2017 and 2016, respectively.

Land, building and equipment consists of the following at June 30: (in thousands):

	<u>2017</u>	<u>2016</u>
Land	\$ 140	\$ 140
Building and improvements	2,163	2,135
Office equipment	43	31
Computer equipment	343	343
Automobiles	<u>189</u>	<u>148</u>
	2,878	2,797
Less accumulated depreciation and amortization	<u>1,472</u>	<u>1,318</u>
Total	<u>\$ 1,406</u>	<u>\$ 1,479</u>

### Note D - Beneficial Interest in Charitable Trusts

The Foundation is a named beneficiary of irrevocable deferred gifts and will receive the principal at some future date. These amounts are held by the Foundation or third-party trustees and are included in temporarily or permanently restricted net assets by the Foundation. These amounts have been discounted to net present value as follows:

	<u>June 30,</u>	
(In Thousands)	<u>2017</u>	<u>2016</u>
Market value	\$ 1,188	\$ 1,159
Add: present value component	<u>-</u>	<u>2</u>
	<u>\$ 1,188</u>	<u>\$ 1,161</u>

# THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements – Continued

June 30, 2017

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### Note D - Beneficial Interest in Charitable Trusts (Continued)

The key assumptions utilized in calculating the present value of irrevocable deferred gifts are as follows:

	<u>June 30,</u>	
	<u>2017</u>	<u>2016</u>
Growth rates	0% to 6.0%	0% to 6.2%
Discount rate	3.60%	3.80%
Distribution rate	7%	7%

### Note E - Other Assets

Other assets consist of the following at:

(In Thousands)	<u>June 30,</u>	
	<u>2017</u>	<u>2016</u>
Insurance policies at cash surrender value	\$ 9,234	\$ 8,269
Prepaid insurance	124	122
Other assets	90	58
Accounts receivable	<u>63</u>	<u>119</u>
Total	<u>\$ 9,511</u>	<u>\$ 8,568</u>

### Note F - Trust and Other Liabilities

Trusts and other instruments are established by donors, beneficiaries, and related entities for the benefit of the Foundation, the Synod, related agencies, and donors. By donor or depositor type, trust and other liabilities represent the following:

#### Donors and Beneficiaries

These accounts are comprised of trusts and gift annuities.

The Foundation is the issuer of gift annuity agreements under which the Foundation, in exchange for a transfer of cash or other property, is obligated to pay an annuity to one or two individuals (annuitants) for their remaining lives. The Foundation recognizes the assets transferred upon issuance of the gift annuity at their fair value. The contribution is decreased by a fixed dollar amount paid to the annuitant(s) throughout their lifetime, and increased annually by earnings at a fixed rate of return based on the account balance. When the agreement terminates the account balance is distributed to ministry.

Trust accounts receive gifts of cash, securities, and real estate where the income earned is to be paid to the donor or a designee(s). At the death of the donor or successor(s), the remaining liability is paid in accordance with the trust agreement.

# THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements – Continued

June 30, 2017

### Note F - Trust and Other Liabilities (Continued)

#### Endowment

This account receives endowment gifts that are held by the Foundation primarily for other ministries of the Synod. Income is distributed to beneficiaries in accordance with donor instructions.

#### Custodial and Agency

These agency and custodial accounts are held by the Foundation for other ministries and organizations of the Synod. Refer to Note L for additional information on the entities with amounts held by the Foundation.

The details of activity in these donor trust and other liabilities for the year ended June 30, 2017, are as follows (in thousands):

	Life Income Fund	Gift Annuity Fund	Endowment Fund	Custodial Fund	Agency Fund	Total
<b>SUPPORT AND</b>						
<b>REALIZED REVENUES:</b>						
New agreements/deposits	\$ 8,880	\$ 2,510	\$ 8,190	\$ 115,511	\$ 12,080	\$ 147,171
Interest and dividends	4,269	2,255	3,014	14,412	14	23,964
Capital gains	2,360	22	3,226	7,848	7	13,463
Other	55	147	-	-	9	211
<b>Total support and revenues</b>	<b>15,564</b>	<b>4,934</b>	<b>14,430</b>	<b>137,771</b>	<b>12,110</b>	<b>184,809</b>
<b>LESS: DISTRIBUTIONS AND EXPENSES</b>						
Distributions	15,166	4,823	8,136	142,611	11,441	182,177
Operating expenses	2,419	2,039	1,443	1,787	569	8,257
<b>Total distributions and expenses</b>	<b>17,585</b>	<b>6,862</b>	<b>9,579</b>	<b>144,398</b>	<b>12,010</b>	<b>190,434</b>
Revenues over (under) expenses						
Change in value of deferred gifts	(1,053)	2	(1,600)	-	-	(2,651)
Net realized/unrealized losses	8,809	1,671	11,686	16,175	(61)	38,280
Net deductions	5,735	(255)	14,937	9,548	39	30,004
<b>TOTAL LIABILITY JUNE 30, 2016</b>	<b>148,429</b>	<b>26,413</b>	<b>113,299</b>	<b>601,094</b>	<b>1,385</b>	<b>890,620</b>
<b>TOTAL LIABILITY JUNE 30, 2017</b>	<b>\$ 154,164</b>	<b>\$ 26,158</b>	<b>\$ 128,236</b>	<b>\$ 610,642</b>	<b>\$ 1,424</b>	<b>\$ 920,624</b>

# THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements – Continued

June 30, 2017

### Note F - Trust and Other Liabilities (Continued)

The details of activity in these donor trust and other liabilities for the year ended June 30, 2016, are as follows (in thousands):

	Life Income Fund	Gift Annuity Fund	Endowment Fund	Custodial Fund	Agency Fund	Total
<b>SUPPORT AND</b>						
<b>REALIZED REVENUES:</b>						
New agreements/deposits	\$ 5,357	\$ 3,081	\$ 11,243	\$ 200,778	\$ 14,120	\$ 234,579
Interest and dividends	4,323	2,378	3,005	12,897	13	22,616
Capital gains	2,564	13	3,654	8,764	13	15,008
Other	-	300	-	-	-	300
Total support and revenues	<u>12,244</u>	<u>5,772</u>	<u>17,902</u>	<u>222,439</u>	<u>14,146</u>	<u>272,503</u>
<b>LESS: DISTRIBUTIONS</b>						
<b>AND EXPENSES</b>						
Distributions	14,438	5,541	7,430	120,590	12,734	160,733
Operating expenses	2,473	2,148	1,298	1,559	950	8,428
Total distributions and expenses	<u>16,911</u>	<u>7,689</u>	<u>8,728</u>	<u>122,149</u>	<u>13,684</u>	<u>169,161</u>
Revenues over (under) expenses						
Change in value of deferred gifts	67	148	922	-	-	1,137
Net realized/unrealized gains	<u>(5,911)</u>	<u>(165)</u>	<u>(5,285)</u>	<u>(13,298)</u>	<u>100</u>	<u>(24,559)</u>
Net additions (deductions)	<u>(10,511)</u>	<u>(1,934)</u>	<u>4,811</u>	<u>86,992</u>	<u>562</u>	<u>79,920</u>
TOTAL LIABILITY JUNE 30, 2015	<u>158,940</u>	<u>28,347</u>	<u>108,488</u>	<u>514,102</u>	<u>823</u>	<u>810,700</u>
TOTAL LIABILITY JUNE 30, 2016	<u>\$ 148,429</u>	<u>\$ 26,413</u>	<u>\$ 113,299</u>	<u>\$ 601,094</u>	<u>\$ 1,385</u>	<u>\$ 890,620</u>

### Note G - Gift Annuities

The Foundation maintains a segregated gift annuity reserve fund (the “Gift Annuity Fund”) consisting of assets set aside for the payment of annuity obligations to annuitants under charitable gift annuity agreements issued by the Foundation. Each year, the Gift Annuity Fund recognizes new agreements and deposits, the net gains or losses on gift values based on the investment income and market appreciation of invested assets, distributions to annuitants, releases of gift annuities and trustee fees to cover continuing investment, and administrative expenses of the Gift Annuity Fund.

# THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements – Continued

June 30, 2017

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### Note G - Gift Annuities (Continued)

#### **Investments**

Except for cash values of certain insurance policies of which the Foundation is both the owner and beneficiary and which have been designated by the Foundation as being held as part of the Gift Annuity Fund, the investments of the Gift Annuity Fund are mutual funds and are held at a custodial bank. All investments are stated at fair market value as determined by authorized pricing sources for the custodial bank based on quoted market prices. The custodial bank records transactions involving the Gift Annuity Fund's investments on the date the securities are purchased or sold. Income is accrued as earned and posted as collected by the custodial bank. Realized gains and losses on the sale of investments are the differences between the proceeds received and the cost of the securities sold. Gains and losses, both realized and unrealized, are recognized as changes in liability of the Gift Annuity Fund.

#### **Restrictions on Assets**

In accordance with the laws of California, the Gift Annuity Fund is required to maintain a reserve within investments sufficient enough to make payments to all outstanding annuitants residing in California. This reserve is equal to or greater than the reserve required by state law in California. In addition, although not required by law, separate investments are maintained for all outstanding annuitants in the state of Washington. The reserves held are sufficient to make payments to all annuitants.

#### **Gift Annuity Liability to Donors**

Liabilities for annuity obligations represent the actuarial present value of annuity payments that are expected to be paid to donors over the life of the annuity. These amounts are reviewed periodically by an actuary to determine their overall adequacy. Liabilities for future payments to donor-specified individuals are recorded using published actuarial life expectancies and interest rates credited to the individual accounts. These rates range from 3.25% to 6.5% as of both June 30, 2017 and 2016. At June 30, 2017 and 2016, the gift annuity liability to donors totaled \$26,122,113 and \$27,113,220, respectively.

# THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements – Continued

June 30, 2017

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### Note G - Gift Annuities (Continued)

The following is a summary of total assets in excess of accounts payable and accrued expenses and the annuity liability to donors at June 30, 2017:

Total Assets	\$ 32,566,877
Less: Accounts payable and accrued expenses	(21,944)
Annuity liability to donors	<u>(26,122,113)</u>
Excess of Assets	\$ <u>6,422,820</u>

The following is a summary of total assets in excess of accounts payable and accrued expenses and the annuity liability to donors at June 30, 2016:

Total Assets	\$ 32,706,895
Less: Accounts payable and accrued expenses	(22,078)
Annuity liability to donors	<u>(27,113,220)</u>
Excess of Assets	\$ <u>5,571,597</u>

### Note H - Temporarily Restricted Net Assets

Temporarily restricted net assets were restricted for the following at June 30 (in thousands):

	<u>2017</u>	<u>2016</u>
Life income	\$ 4,176	\$ 3,123
Endowment	4,001	2,813
Non-Foundation managed	19	40
Thrivent-transfer the blessing	<u>-</u>	<u>11</u>
Total temporarily restricted net assets	\$ <u>8,196</u>	\$ <u>5,987</u>
	<u>2017</u>	<u>2016</u>
Net assets released (in thousands) as of June 30 for:		
Life income	\$ 142	\$ 129
Non-Foundation managed	20	1,378
Thrivent-transfer the blessing	<u>11</u>	<u>-</u>
Total net assets released	\$ <u>173</u>	\$ <u>1,507</u>

# THE LUTHERAN CHURCH–MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements – Continued

June 30, 2017

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### Note I - Intentions to Give

At June 30, 2017 and 2016, the Foundation is a named beneficiary of revocable deferred gifts totaling \$2,282,000 and \$2,170,000, respectively. In accordance with the trust agreements, the donor has retained the option to change the named beneficiary. Therefore, no amounts have been recognized within these financial statements for the potential future benefits.

### Note J - Risks and Uncertainties

The Foundation invests in various investment securities. Investment securities are exposed to risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least 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.

### Note K - Pension Expense

The Foundation participates in the worker benefit plans of the Synod. Substantially all full-time employees are covered by these plans. The Foundation contributes a fixed percentage of each participant's salary to defined benefit plans known as Concordia Retirement Plan and the Concordia Disability and Survivorship Plan. Retirement program expense was \$360,000 and \$355,000, and disability program expense was \$84,000 and \$83,000 for the years ended June 30, 2017 and 2016, respectively.

### Note L - Related Party Transactions

#### Funds Held for Related Entities

The Foundation provides investment services to various Synodical entities. Included in the trust and other liabilities of the Foundation are the following (in thousands):

	<u>June 30,</u>	
	<u>2017</u>	<u>2016</u>
Lutheran Church Extension Fund	\$ 210,649	\$ 239,699
The Lutheran Church–Missouri Synod	34,799	32,826
Colleges and seminaries	196,088	180,221
Districts, auxiliaries, related service organizations, congregations, and other	<u>168,570</u>	<u>147,794</u>
	<u>\$ 610,106</u>	<u>\$ 600,540</u>

# THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements – Continued

June 30, 2017

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### Note M - Fair Value Measurements

The Foundation follows FASB ASC 820-10, *Fair Value Measurements and Disclosures*, which establishes a framework for measuring fair value and expands disclosures about fair value measurements.

FASB ASC 820-10 defines fair value as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. The standard also establishes a fair value hierarchy used to disclose the measurement of fair value based on levels of observable or unobservable inputs.

#### **Level 1**

Observable inputs that are derived from quoted prices (unadjusted) for identical assets or liabilities in an active market.

#### **Level 2**

Observable inputs based on quoted prices in non-active markets or in active markets for similar assets or liabilities. Inputs other than quoted prices that are observable, or inputs that are not directly observable, but are corroborated by observable market data.

#### **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 and reflect substantial management judgement or estimation utilizing available market data. Level 3 is comprised of real estate and LCEF notes. The fair values of real estate are determined using current appraised values and other market data for similar properties. The value of LCEF notes is the deposited account balances.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2017 and 2016.

**Mutual Funds:** Valued at the daily closing price as reported by the fund. Mutual funds held by the Foundation are open-end mutual funds that are registered with the U.S. Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price.

**Common Stocks:** Valued at the closing price reported on the active market on which the individual securities are traded.



# THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements – Continued

June 30, 2017

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### Note M - Fair Value Measurements (Continued)

Corporate Bonds: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available on identical or similar bonds, the securities are submitted for brokers to obtain quotes. As part of the pricing process, the appropriateness of each quote (i.e., as to whether the quote is based on observable market transactions or not) is assessed to determine the most appropriate estimate of fair value. Lastly, securities are priced using internal cash flow modeling techniques. These valuation methodologies commonly use the following inputs: reported trades, bids, offers, issuer spreads, benchmark yields, estimated prepayment speeds, and/or estimated cash flows.

Commingled Funds: Valued using the net asset value (NAV) per share, or its equivalent, as a practical expedient for fair value.

The Board of Trustees and their related committees, along with Management, determines the fair value measurement valuation policies and procedures, including those for Level 3 recurring and nonrecurring measurements. The Board of Trustees assesses and approves these policies and procedures. At least annually, the Board of Trustees: (1) determines if the current valuation techniques used in fair value measurements are still appropriate and (2) evaluates and adjusts the unobservable inputs used in the fair value measurements based on current market conditions and third-party information.

# THE LUTHERAN CHURCH–MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements – Continued

June 30, 2017

### Note M - Fair Value Measurements (Continued)

The Foundation recognizes transfers between levels in the fair value hierarchy at the end of the reporting period.

Fair values of assets measured on a recurring basis at June 30, 2017 are as follows (in thousands):

	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	\$ 10,633	\$ 10,633	\$ -	\$ -
Securities lending program	-	-	-	-
Beneficial interest in charitable trusts	1,188	-	1,188	-
Real estate held for sale	4,890	-	-	4,890
	<u>\$ 16,711</u>	<u>\$ 10,633</u>	<u>\$ 1,188</u>	<u>\$ 4,890</u>
<b>Investments</b>				
<b>Common funds</b>				
Cash	\$ 7,268	\$ 7,268	\$ -	\$ -
Cash equivalents	5,210	-	5,210	-
Municipal bonds	20,012	-	20,012	-
Corporate bonds	74,701	-	74,701	-
Convertible Bonds	88	-	88	-
Mortgage pass through securities	28,426	-	28,426	-
Collateralized Mortgage Obligations	119,827	-	119,827	-
Other Bonds (Yankee)	13,287	-	13,287	-
Equity funds	69,417	69,417	-	-
Commingled funds	583,850	60,415	523,435	-
Total common funds	<u>\$ 922,086</u>	<u>\$ 137,100</u>	<u>\$ 784,986</u>	<u>\$ -</u>
<b>Other investments</b>				
Equity	\$ 45	\$ 45	\$ -	\$ -
LCEF notes	5,702	-	-	5,702
Mutual funds-balanced	6	6	-	-
Mutual funds-equity	14,755	14,755	-	-
Mutual funds-fixed income	13,084	13,084	-	-
Mutual funds-tax exempt	19	19	-	-
Other	241	-	-	241
Total other investments	<u>33,852</u>	<u>27,909</u>	<u>-</u>	<u>5,943</u>
Total investments	<u>955,938</u>	<u>165,009</u>	<u>784,986</u>	<u>5,943</u>
<b>TOTAL</b>	<u>\$ 972,649</u>	<u>\$ 175,642</u>	<u>\$ 786,174</u>	<u>\$ 10,833</u>

# THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements – Continued

June 30, 2017

### Note M - Fair Value Measurements (Continued)

Changes in assets measured on a recurring basis using significant unobservable inputs (Level 3 inputs) (in thousands):

Level 3 inputs by category	Real Estate & Other	Congregational Mortgages	LCEF	Total
June 30, 2016	\$ 6,012	\$ -	\$ 5,760	\$ 11,772
Additions	4,340	-	8	4,348
Change in value	(868)	-	-	(868)
Sales or pay down of principal	(4,353)	-	(66)	(4,419)
June 30, 2017	\$ 5,131	\$ -	\$ 5,702	\$ 10,833

Fair values of assets measured on a recurring basis at June 30, 2016 are as follows (in thousands):

	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash	\$ 7,943	\$ 7,943	\$ -	\$ -
Securities lending program	6,260	6,260	-	-
Beneficial interest in charitable trusts	1,161	-	1,161	-
Real estate held for sale	5,739	-	-	5,739
	\$ 21,103	\$ 14,203	\$ 1,161	\$ 5,739
Investments				
Common funds				
Cash	\$ 15,474	\$ 15,474	\$ -	\$ -
Cash equivalents	7,970	-	7,970	-
Municipal bonds	13,197	-	13,197	-
Corporate bonds	67,940	-	67,940	-
Convertible Bonds	123	-	123	-
Mortgage pass through securities	50,684	-	50,684	-
Collateralized Mortgage Obligations	143,684	-	143,684	-
Other bonds (Yankee)	4,578	-	4,578	-
Commingled funds	534,306	51,968	482,338	-
Equity funds	50,526	50,526	-	-
Total common funds	\$ 888,482	\$ 117,968	\$ 770,514	\$ -
Other investments				
Equity	\$ 8	\$ 8	\$ -	\$ -
LCEF notes	5,760	-	-	5,760
Mutual funds-balanced	280	280	-	-
Mutual funds-equity	14,273	3,127	11,146	-
Mutual funds-fixed income	13,576	2,939	10,637	-
Mutual funds-tax exempt	34	34	-	-
Other	273	-	-	273
Total other investments	34,204	6,388	21,783	6,033
Total investments	922,686	124,356	792,297	6,033
TOTAL	\$ 943,789	\$ 138,559	\$ 793,458	\$ 11,772

# THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements – Continued

June 30, 2017

### Note M - Fair Value Measurements (Continued)

Changes in assets measured on a recurring basis using significant unobservable inputs (Level 3 inputs) (in thousands):

Level 3 inputs by category	Real Estate & Other	Congregational Mortgages	LCEF	Total
June 30, 2015	\$ 7,351	\$ 4,055	\$ 6,509	\$ 17,915
Additions	1,595	-	1,102	2,697
Change in value	159	-	-	159
Sales or pay down of principal	(3,093)	(4,055)	(1,851)	(8,999)
June 30, 2016	\$ <u>6,012</u>	\$ <u>-</u>	\$ <u>5,760</u>	\$ <u>11,772</u>

The following tables summarize investments measured at fair value based on NAV per share as of June 30, 2017 and 2016:

<b>2017</b>				
<b>Investment Name</b>	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Commingled funds	\$ <b>583,850</b>	-	Daily	Daily

  

<b>2016</b>				
<b>Investment Name</b>	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Commingled funds	\$ 534,306	-	Daily	Daily

### Note N - Endowments

The Foundation's endowments include both donor-restricted and board designated endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Trustees, are classified and reported based on the existence or absence of donor-imposed restrictions.

# THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements – Continued

June 30, 2017

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### Note N - Endowments (Continued)

#### Net Asset Classifications and Interpretation of Relevant Law

The Foundation is governed subject to its By-Laws. The Board of Trustees of the Foundation has interpreted the relevant Missouri state law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

#### Endowment Investment and Spending Policies

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a stable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment account. The Foundation's spending and investment policies work together to achieve this stated objective. The Foundation's established investment objectives are (a) to preserve the purchasing power of the endowment assets and the related revenue stream over time, (b) to manage the endowment assets in a single investment pool with equities being the dominant asset class, (c) to employ multiple funds to gain the diversification benefits of different asset classes, and (d) to earn an average annual real total return, after inflation and expenses, of at least 4.00% per year.

Change in Endowment Net Asset (in thousands):

<u>June 30, 2017</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 11,006	\$ 2,813	\$ 13,328	\$ 27,147
Interest and dividends, net of investment expenses	498	690	-	1,188
Net appreciation (depreciation)	993	1,295	(633)	1,655
Contributions	324	52	103	479
Amounts appropriated for expenditure	(687)	(849)	-	(1,536)
Change in endowment net assets	<u>1,128</u>	<u>1,188</u>	<u>(530)</u>	<u>1,786</u>
Endowment net assets, end of year	\$ <u>12,134</u>	\$ <u>4,001</u>	\$ <u>12,798</u>	\$ <u>28,933</u>

# THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

## Notes to Financial Statements – Continued

June 30, 2017

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### Note N - Endowments (Continued)

Change in Endowment Net Asset (in thousands):

<u>June 30, 2016</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 11,149	\$ 3,406	\$ 13,328	\$ 27,883
Interest and dividends, net of investment expenses	569	164	-	733
Net appreciation (depreciation)	(262)	(233)	-	(495)
Contributions	-	-	-	-
Amounts appropriated for expenditure	<u>(450)</u>	<u>(524)</u>	<u>-</u>	<u>(974)</u>
Change in endowment net assets	<u>(143)</u>	<u>(593)</u>	<u>-</u>	<u>(736)</u>
Endowment net assets, end of year	\$ <u>11,006</u>	\$ <u>2,813</u>	\$ <u>13,328</u>	\$ <u>27,147</u>

### Note O - Subsequent Event

Effective August 31, 2017, the Lutheran Church Extension Fund (LCEF) will no longer hold a custodial account with the Foundation. The assets from this account represent a material amount, but are very different from the Foundation's primary assets, which are investments related to gifts and endowments held on behalf of ministries and donors.