



# Lutheran World Relief, Incorporated

Consolidated Financial Statements  
Years Ended September 30, 2018 and 2017

# **Lutheran World Relief, Incorporated**

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Consolidated Financial Statements  
Years Ended September 30, 2018 and 2017

# Lutheran World Relief, Incorporated

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Tel: 703-893-0600  
Fax: 703-893-2766  
www.bdo.com

8401 Greensboro Drive  
Suite 800  
McLean, VA 22102

## Independent Auditor's Report

To Board of Directors  
**Lutheran World Relief, Incorporated**  
Baltimore, Maryland

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of **Lutheran World Relief, Incorporated**, which comprise the consolidated statements of financial position as of September 30, 2018, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

#### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of **Lutheran World Relief, Incorporated** as of September 30, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Other Matter*

*Other Information - Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of Area Support and Consolidated Program Service Expenses is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information as described above is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

*Other information - 2017 Consolidated Financial Statements*

The 2017 consolidated financial statements of **Lutheran World Relief, Incorporated** were audited by other auditors, whose report dated February 14, 2018, expressed an unmodified opinion on those consolidated financial statements.

**BDO USA, LLP**

January 17, 2019

## Consolidated Financial Statements

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**Lutheran World Relief, Incorporated**  
**Consolidated Statements of Financial Position**

<i>September 30,</i>	2018	2017
<b>Assets</b>		
Cash	\$ 1,386,363	\$ 1,784,716
Investments (Notes 3 and 5)	26,347,558	34,769,747
Grants and contributions receivable, net (Note 4)	1,910,593	1,265,463
Inventory of materials for distribution (Note 2)	4,989,200	5,030,387
Cash surrender value of life insurance contracts (Note 2)	391,433	365,215
Other investments (Note 7)	3,598,281	3,679,220
Charitable trusts (Note 5)	2,116,448	2,030,437
Monetization receivable (Note 2)	6,367,835	-
Other receivables and prepaid expenses	1,787,501	1,791,081
Other assets	643,563	630,482
Property and equipment, net (Note 6)	404,239	484,547
<b>Total assets</b>	<b>\$ 49,943,014</b>	<b>\$ 51,831,295</b>
<b>Liabilities and net assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 4,289,850	\$ 4,962,440
Advances for program purposes	3,004,817	6,318,381
Monetization liability (Note 2)	6,367,835	-
Long-term debt (Note 8)	1,801,979	1,919,934
<b>Total liabilities</b>	<b>15,464,481</b>	<b>13,200,755</b>
<b>Commitments and contingencies (Notes 11 and 12)</b>		
<b>Net assets</b>		
Unrestricted		
General	26,559,133	29,266,101
Board-designated funds for impact investing	780,000	1,000,000
<b>Total unrestricted net assets</b>	<b>27,339,133</b>	<b>30,266,101</b>
Temporarily restricted (Note 9)	6,866,661	8,100,701
Permanently restricted (Notes 9 and 10)	272,739	263,738
<b>Total net assets</b>	<b>34,478,533</b>	<b>38,630,540</b>
<b>Total liabilities and net assets</b>	<b>\$ 49,943,014</b>	<b>\$ 51,831,295</b>

*See accompanying notes to the consolidated financial statements.*

# Lutheran World Relief, Incorporated

## Consolidated Statements of Activities

<i>Year ended September 30, 2018</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support and Revenue:</b>				
Support:				
Church body support:				
Evangelical Lutheran Church in America	\$ 50,000	\$ 1,158,898	\$ -	\$ 1,208,898
Lutheran Church - Missouri Synod	-	50,000	-	50,000
	50,000	1,208,898	-	1,258,898
Individuals and congregations:				
Contributions	14,102,978	3,688,008	9,001	17,799,987
Bequests	3,012,804	116,576	-	3,129,380
	17,115,782	3,804,584	9,001	20,929,367
Institutional donors:				
U.S. Government grants	6,830,918	-	-	6,830,918
Foundation grants	3,312,032	10,000	-	3,322,032
Multilateral and bilateral grants	1,033,912	-	-	1,033,912
Corporate and other grants	190,608	-	-	190,608
Contracts	789,053	-	-	789,053
	12,156,523	10,000	-	12,166,523
Other revenue	50,654	-	-	50,654
<b>Total support</b>	<b>29,372,959</b>	<b>5,023,482</b>	<b>9,001</b>	<b>34,405,442</b>
Donated goods and services:				
Donated material resources	13,418,854	-	-	13,418,854
Contributed services	604,128	-	-	604,128
<b>Total donated goods and services</b>	<b>14,022,982</b>	<b>-</b>	<b>-</b>	<b>14,022,982</b>
Net assets released from restrictions (Note 9):				
Satisfaction of program and time restrictions	6,278,055	(6,278,055)	-	-
<b>Total support and revenue</b>	<b>49,673,996</b>	<b>(1,254,573)</b>	<b>9,001</b>	<b>48,428,424</b>
<b>Expenses:</b>				
Program services	45,604,130	-	-	45,604,130
Supporting services:				
Management and general	5,983,396	-	-	5,983,396
Fundraising	3,238,625	-	-	3,238,625
<b>Total supporting services</b>	<b>9,222,021</b>	<b>-</b>	<b>-</b>	<b>9,222,021</b>
<b>Total expenses</b>	<b>54,826,151</b>	<b>-</b>	<b>-</b>	<b>54,826,151</b>
Changes in net assets before investment return	(5,152,155)	(1,254,573)	9,001	(6,397,727)
Investment return	2,225,187	20,533	-	2,245,720
Total change in net assets	(2,926,968)	(1,234,040)	9,001	(4,152,007)
Net assets, beginning of year	30,266,101	8,100,701	263,738	38,630,540
<b>Net assets, end of year</b>	<b>\$ 27,339,133</b>	<b>\$ 6,866,661</b>	<b>\$ 272,739</b>	<b>\$ 34,478,533</b>

*See accompanying notes to the consolidated financial statements.*

# Lutheran World Relief, Incorporated

## Consolidated Statements of Activities

<i>Year ended September 30, 2017</i>	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support and Revenue:</b>				
Support:				
Church body support:				
Evangelical Lutheran Church in America	\$ -	\$ 1,882,626	\$ -	\$ 1,882,626
Lutheran Church - Missouri Synod	7,500	199,947	-	207,447
North American Lutheran Church	10,651	-	-	10,651
	18,151	2,082,573	-	2,100,724
Individuals and congregations:				
Contributions	13,375,343	3,940,850	13,000	17,329,193
Bequests	5,326,077	262,795	-	5,588,872
	18,701,420	4,203,645	13,000	22,918,065
Institutional donors:				
U.S. Government grants	7,312,376	-	-	7,312,376
Foundation grants	3,578,866	-	-	3,578,866
Multilateral and bilateral grants	1,223,902	-	-	1,223,902
Corporate and other grants	715,589	-	-	715,589
Contracts	1,271,701	-	-	1,271,701
	14,102,434	-	-	14,102,434
Other revenue	68,666	830	-	69,496
<b>Total support</b>	<b>32,890,671</b>	<b>6,287,048</b>	<b>13,000</b>	<b>39,190,719</b>
Donated goods and services:				
Donated material resources	13,930,222	-	-	13,930,222
Contributed services	441,098	-	-	441,098
<b>Total donated goods and services</b>	<b>14,371,320</b>	<b>-</b>	<b>-</b>	<b>14,371,320</b>
Net assets released from restrictions (Note 9):				
Satisfaction of program and time restrictions	6,079,141	(6,079,141)	-	-
<b>Total support and revenue</b>	<b>53,341,132</b>	<b>207,907</b>	<b>13,000</b>	<b>53,562,039</b>
<b>Expenses:</b>				
Program services	43,903,137	-	-	43,903,137
Supporting services:				
Management and general	4,410,538	-	-	4,410,538
Fundraising	3,599,535	-	-	3,599,535
<b>Total supporting services</b>	<b>8,010,073</b>	<b>-</b>	<b>-</b>	<b>8,010,073</b>
<b>Total expenses</b>	<b>51,913,210</b>	<b>-</b>	<b>-</b>	<b>51,913,210</b>
Changes in net assets before investment return	1,427,922	207,907	13,000	1,648,829
Investment return	2,626,021	23,284	-	2,649,305
<b>Total changes in net assets</b>	<b>4,053,943</b>	<b>231,191</b>	<b>13,000</b>	<b>4,298,134</b>
<b>Net assets, beginning of year</b>	<b>26,212,158</b>	<b>7,869,510</b>	<b>250,738</b>	<b>34,332,406</b>
<b>Net assets, end of year</b>	<b>\$ 30,266,101</b>	<b>\$ 8,100,701</b>	<b>\$ 263,738</b>	<b>\$ 38,630,540</b>

*See accompanying notes to the consolidated financial statements.*

# Lutheran World Relief, Incorporated

## Consolidated Statements of Functional Expenses

Year Ended September 30, 2018	Program Services						Supporting Services			Total Expenses
	Agriculture	Emergencies and Material Resources	Climate Change	Constituent Engagement	Impact Investing	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries	\$ 4,812,343	\$ 2,012,106	\$ 983,927	\$ 696,937	\$ 402,175	\$ 8,907,488	\$ 2,726,351	\$ 944,191	\$ 3,670,542	\$ 12,578,030
Employee benefits and payroll taxes	1,783,478	686,109	385,970	221,835	124,932	3,202,324	918,234	300,643	1,218,877	4,421,201
<b>Total salaries and related expenses</b>	<b>6,595,821</b>	<b>2,698,215</b>	<b>1,369,897</b>	<b>918,772</b>	<b>527,107</b>	<b>12,109,812</b>	<b>3,644,585</b>	<b>1,244,834</b>	<b>4,889,419</b>	<b>16,999,231</b>
Retained services	814,468	676,403	150,546	289,519	315,602	2,246,538	1,320,377	678,885	1,999,262	4,245,800
Program materials and other supplies	246,078	59,409	74,180	4,226	4,811	388,704	36,125	2,338	38,463	427,167
Communications and postage	257,879	64,739	29,422	72,391	4,166	428,597	67,618	357,154	424,772	853,369
Occupancy costs, HQ and overseas	460,308	149,905	99,110	61,859	29,590	800,772	43,693	54,295	97,988	898,760
Insurance	23,798	5,383	4,690	-	90	33,961	55,805	-	55,805	89,766
Cost of equipment, supplies and maintenance	237,558	100,568	39,696	29,706	10,028	417,556	237,412	36,924	274,336	691,892
Travel and meetings	1,102,603	445,580	250,116	71,348	121,208	1,990,855	304,055	109,555	413,610	2,404,465
Printing, publications and film	36,951	12,287	8,552	59,915	869	118,574	40,276	446,491	486,767	605,341
Membership fees	49,592	33,051	11,441	15,596	11,767	121,447	9,156	10,654	19,810	141,257
Bank and merchant fees	1,035	600	532	70	83	2,320	121,706	253,678	375,384	377,704
Material resources:										
Donated materials (blankets and quilts, medical, etc.)	-	13,458,689	-	-	-	13,458,689	-	-	-	13,458,689
Purchased materials and cash-related costs	275	1,519,964	64	28	18	1,520,349	-	-	-	1,520,349
Grants	3,618,968	4,097,538	1,022,043	3,896	2,576	8,745,021	-	-	-	8,745,021
Program expenses	2,120,167	342,441	540,266	-	292	3,003,166	-	-	-	3,003,166
Miscellaneous	-	27,644	2,276	30,255	40,891	101,066	85,878	26,788	112,666	213,732
<b>Total of expenses before depreciation</b>	<b>15,565,501</b>	<b>23,692,416</b>	<b>3,602,831</b>	<b>1,557,581</b>	<b>1,069,098</b>	<b>45,487,427</b>	<b>5,966,686</b>	<b>3,221,596</b>	<b>9,188,282</b>	<b>54,675,709</b>
Depreciation of equipment	(2,444)	41,411	13,215	4,009	60,512	116,703	16,710	17,029	33,739	150,442
<b>Total expenses</b>	<b>\$ 15,563,057</b>	<b>\$ 23,733,827</b>	<b>\$ 3,616,046</b>	<b>\$ 1,561,590</b>	<b>\$ 1,129,610</b>	<b>\$ 45,604,130</b>	<b>\$ 5,983,396</b>	<b>\$ 3,238,625</b>	<b>\$ 9,222,021</b>	<b>\$ 54,826,151</b>

*See accompanying notes to the consolidated financial statements.*

# Lutheran World Relief, Incorporated

## Consolidated Statements of Functional Expenses

<i>Year Ended September 30, 2017</i>	Program Services						Supporting Services			Total Expenses
	Agriculture	Emergencies and Material Resources	Climate Change	Constituent Engagement	Impact Investing	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries	\$ 3,991,115	\$ 1,914,982	\$ 805,045	\$ 597,230	\$ 178,425	\$ 7,486,797	\$ 2,228,854	\$ 1,006,084	\$ 3,234,938	\$ 10,721,735
Employee benefits and payroll taxes	1,536,146	668,652	338,175	187,974	50,701	2,781,648	706,959	316,218	1,023,177	3,804,825
<b>Total salaries and related expenses</b>	<b>5,527,261</b>	<b>2,583,634</b>	<b>1,143,220</b>	<b>785,204</b>	<b>229,126</b>	<b>10,268,445</b>	<b>2,935,813</b>	<b>1,322,302</b>	<b>4,258,115</b>	<b>14,526,560</b>
Retained services	1,704,522	605,411	212,139	295,190	309,753	3,127,015	668,276	648,315	1,316,591	4,443,606
Program materials and other supplies	445,362	123,060	41,719	1,709	2,395	614,245	12,916	3,794	16,710	630,955
Communications and postage	169,145	62,798	19,939	86,114	950	338,946	16,491	348,938	365,429	704,375
Occupancy costs, HQ and overseas	530,697	175,053	82,554	65,276	12,672	866,252	245,572	70,717	316,289	1,182,541
Insurance	29,531	18,364	8,022	-	471	56,388	48,135	964	49,099	105,487
Cost of equipment, supplies and maintenance	587,949	107,715	52,137	10,376	5,004	763,181	112,524	(37,493)	75,031	838,212
Travel and meetings	932,647	439,718	160,388	73,759	33,856	1,640,368	197,645	188,600	386,245	2,026,613
Printing, publications and film	33,968	14,424	5,315	44,146	313	98,166	17,340	501,000	518,340	616,506
Membership fees	50,430	39,077	10,495	21,807	7,102	128,911	11,893	15,692	27,585	156,496
Bank and merchant fees	991	-	343	-	-	1,334	117,611	251,046	368,657	369,991
Material resources:										
Donated materials (blankets and quilts, medical, etc.)	-	13,219,486	-	-	-	13,219,486	-	-	-	13,219,486
Purchased materials and cash-related costs	-	1,518,585	-	-	-	1,518,585	-	-	-	1,518,585
Grants	3,087,417	5,344,730	1,087,880	4,080	1,861	9,525,968	-	-	-	9,525,968
Program expenses	1,026,175	131,239	184,073	1,539	94	1,343,120	-	-	-	1,343,120
Miscellaneous	53,257	50,290	5,444	123,012	604	232,607	11,664	219,492	231,156	463,763
<b>Total of expenses before depreciation</b>	<b>14,179,352</b>	<b>24,433,584</b>	<b>3,013,668</b>	<b>1,512,212</b>	<b>604,201</b>	<b>43,743,017</b>	<b>4,395,880</b>	<b>3,533,367</b>	<b>7,929,247</b>	<b>51,672,264</b>
Depreciation of equipment	57,003	40,120	9,082	52,824	1,091	160,120	14,658	66,168	80,826	240,946
<b>Total expenses</b>	<b>\$14,236,355</b>	<b>\$24,473,704</b>	<b>\$3,022,750</b>	<b>\$ 1,565,036</b>	<b>\$605,292</b>	<b>\$ 43,903,137</b>	<b>\$ 4,410,538</b>	<b>\$3,599,535</b>	<b>\$8,010,073</b>	<b>\$51,913,210</b>

*See accompanying notes to the consolidated financial statements.*

# Lutheran World Relief, Incorporated

## Statements of Cash Flows

<i>Years Ended September 30,</i>	2018	2017
<b>Cash flows from operating activities</b>		
Change in net assets	\$ (4,152,007)	\$ 4,298,134
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Support in-kind	(13,418,854)	(13,930,222)
Material aid in-kind shipped	13,460,041	13,219,486
(Decrease) increase in allowance for doubtful accounts and discounts on grants and contributions receivable	(7,361)	5,617
Contributions restricted for long-term investment	(9,001)	(13,000)
Amortization of bond premium and deferred loan costs	2,045	2,047
Depreciation	150,442	240,946
Loss of disposition of property	69,590	237,392
Loss in equity investment in Lutheran Center Corporation	80,939	168,907
Realized gains on sale of investments	(2,088,836)	(359,169)
Unrealized losses (gains) on investments	443,268	(1,777,730)
<b>(Increase) decrease in assets:</b>		
Grants and contributions receivable	(637,769)	1,620,284
Other receivables and prepaid expenses, cash surrender value of life insurance contracts and charitable trusts	(108,649)	(270,920)
Other assets	(13,081)	(122,887)
Monetization receivable	(6,367,835)	-
Purchased inventory	-	17,500
<b>Increase (decrease) in liabilities:</b>		
Accounts payable and accrued expenses	(672,590)	987,438
Monetization liability	6,367,835	-
Advances for program purposes	(3,313,564)	4,621,849
<b>Net cash (used in) provided by operating activities</b>	<b>(10,215,387)</b>	<b>8,945,672</b>
<b>Cash flows from investing activities:</b>		
Purchase of equipment and fixed assets	(139,724)	(68,067)
Purchase of investments	(79,777,666)	(50,334,768)
Proceeds from maturities and sales of investments	89,845,423	42,314,749
<b>Net cash providing by (used in) investing activities</b>	<b>9,928,033</b>	<b>(8,088,086)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from contributions restricted for long-term investment	9,001	13,000
Principal payments on long-term debt	(120,000)	(112,500)
<b>Net cash used in financing activities</b>	<b>(110,999)</b>	<b>(99,500)</b>
<b>Net increase in cash and cash equivalents</b>	<b>(398,353)</b>	<b>758,086</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>1,784,716</b>	<b>1,026,630</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,386,363</b>	<b>\$ 1,784,716</b>
<b>Supplemental disclosure of cash flow information:</b>		
Cash payments for interest	\$ 101,981	\$ 107,888

*See accompanying notes to the consolidated financial statements.*

# Lutheran World Relief, Incorporated

## Notes to the Consolidated Financial Statements

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### 1. Organization

#### About Lutheran World Relief

Lutheran World Relief (LWR) is a nonprofit organization incorporated in 1945 in the State of New York. LWR's headquarters is located in Baltimore, Maryland. In 1945, World War II left an estimated one-fifth of the world's Lutherans homeless. Here in the United States, Lutheran churches in at least 20 states mobilized to help in Europe through a new agency called LWR. Today, LWR operates in East and West Africa, Latin America, Asia and the Middle East, helping some of the world's poorest communities build the resilience they need to thrive.

#### Mission

Affirming God's love for all people, LWR works with Lutherans and partners around the world to end poverty, injustice and human suffering.

#### Organization Operating Structure

LWR's operational structure includes the following program and supporting services, which are included in the accompanying consolidated statements of activities and functional expenses:

#### Program Services

**Agriculture** programs are focused on coffee and cocoa projects that engages farmers to improve their agricultural production and incomes. Strengthening rural economies by improved agricultural practices and increased food security LWR creates lasting impact in poverty reduction, community stability and resilience.

**Emergencies and Material Resources** help communities experiencing poverty and marginalization cope with and recover from emergencies in ways that promote lasting improvements in people's living conditions. LWR's humanitarian work responds to both natural disaster and complex emergencies involving conflict. LWR engages in emergency response and material resources projects and our partners conduct distributions of LWR quilts or kits to reach people in need around the world.

**Climate Change** programs help communities adapt to changing climates, which is a key element to building resilient communities and strong local economies. Increasing variability in weather patterns lead to increase in frequency and severity of natural disasters, negatively impacting food production and resilience of economic and environmental systems.

**Constituent Engagement** is LWR's work with U.S. Lutheran Congregations and individuals to put faith into action by helping neighbors in need overseas. Lutherans engage with LWR by making quilts and kits for overseas distribution, buying and selling Farmers Market coffee, fair trade chocolate and eco-palms, and educating others to raise awareness of hunger and the role of smallholder farmers' value in supply chains.

**Impact Investing** is an enterprise-based approach to development. LWR will reduce poverty by engaging workers, their households, and communities to sustain and raise incomes, build assets, increase resilience and ultimately access pathways out of poverty. This is done by

# Lutheran World Relief, Incorporated

## Notes to the Consolidated Financial Statements

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the establishment, support, and investment in locally based for-profit businesses that seek to deliver needed goods and services in a commercially sustainable manner and create positive social impact and value for impoverished communities.

### Supporting Services

The **Management and General** category includes the functions necessary to provide core mission support and proper administrative functioning of LWR's governing board and leadership.

**Fundraising** includes expenditures which provide the structure necessary to encourage and secure contributed financial resources for LWR's worldwide operations and programs.

The consolidated financial statements include Ground Up Investing, LLC, a wholly owned for-profit affiliate, formed as a Delaware limited liability company in April, 2017. The purpose of this entity is to establish, support and invest in for-profit businesses that seek to deliver needed goods and services to the poor in a commercially sustainable manner and create positive social impact and value for impoverished communities. All significant intercompany transactions are eliminated. See note 7 for further details of the investment.

## 2. Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies followed by LWR in the preparation of these consolidated financial statements:

### Basis of accounting

The accompanying consolidated financial statements of LWR are presented in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) and have been prepared on the accrual basis of accounting, whereby, revenue is recognized when earned and expenses are recognized when incurred.

### Basis of presentation

LWR 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.

Accordingly, net assets of LWR and changes therein are classified and reported as follows:

#### Unrestricted net assets

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

#### Temporarily restricted net assets

Net assets subject to donor-imposed stipulations that may or will be met either by actions of LWR and/or the passage of time.

# Lutheran World Relief, Incorporated

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### Permanently restricted net assets

Net assets subject to donor-imposed stipulations that they be maintained permanently by LWR. Generally, the donors of these assets permit LWR to use all or part of the income earned on related investments for general or specific purposes.

### Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

### Risks and Uncertainties

LWR maintains its cash in bank deposit accounts which, at times, may exceed federally-insured limits. LWR has not experienced any losses in such accounts in the past. LWR believes it is not exposed to any significant financial risk related to cash. LWR manages financial risk by monitoring the financial institutions in which deposits are made.

LWR invests in professionally managed portfolios that may include mutual funds, common stock, fixed income instruments and certain alternative investments. Such investments are exposed to various risks, such as market volatility and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near-term could materially affect investment balances and the amounts reported in the consolidated financial statements.

LWR has operations in many countries throughout the world, many of which have politically and economically volatile environments. As a result, LWR may have financial and operational risk associated with these operations which could negatively impact LWR.

### Cash equivalents

For purposes of reporting cash flows, LWR considers all highly-liquid investments with a maturity of three months or less to be cash equivalents. Any cash held by investment managers is considered investments, regardless of maturity. For the years ended September 30, 2018 and 2017, there were no cash equivalents.

### Grants and contributions receivable

Grants receivable are comprised of allowable expenses incurred in excess of cumulative reimbursements on federal and foundation grants. Recoverable costs from federal grants are billable when qualifying expenditures are incurred. As these amounts are mainly due from the U.S. Government and foundations, it is anticipated that all receivables are collectible. There was no provision for uncollectible balances on grants receivable as of September 30, 2018 and 2017.

Contributions are recognized when the donor makes a pledge to LWR that is unconditional. Contributions receivable to be received in a future period are discounted to their net present value at the time the contribution is recorded. An allowance for uncollectible promises to give is provided based on management's evaluation of potential uncollectible contributions receivable at year end.

# Lutheran World Relief, Incorporated

## Notes to the Consolidated Financial Statements

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### Investments

Investments are reflected at fair market value. Certain other investments which are not carried at fair value are segregated for presentation purposes (see Note 7). LWR's non-segregated investments include some amounts for investment pools which are valued at fair value based on the applicable percentage ownership of the underlying pools' net assets as of the measurement date, as determined by the manager and reviewed by LWR after considering various sources of information. LWR values securities and other financial instruments on a fair value basis of accounting. The fair value of LWR's investment in such investment pools generally represents the amount LWR would expect to receive if it were to liquidate its investment excluding any redemption charges that may apply. However, the estimated fair values of the assets underlying this investment may include securities for which prices are not readily available and are determined by the fund manager, and, therefore, may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. LWR may adjust the respective manager's valuation when circumstances support such an adjustment. No such adjustments have been deemed necessary by management at September 30, 2018 and 2017.

### Cash surrender value of life insurance contracts

LWR has entered into life insurance contracts on various individuals. LWR makes premium payments to fund the life insurance policies. The policy holders assigned the cash surrender value and proceeds from death benefits of the policies to LWR.

### Charitable trusts

Charitable trusts consist of charitable remainder unitrust agreements where LWR is not the trustee. These agreements call for LWR to receive a certain percentage of the trust when the trustee agreement has terminated. LWR records the estimated present value of the beneficial interest using risk-adjusted discount rates. The estimated present value of the beneficial interest of the charitable trusts are recorded in the year the existence and information to compute the beneficial interest first become known. Permanently restricted or temporarily restricted support is recognized based on the restrictions of the trusts.

### Property and equipment

Property and equipment purchased by LWR are recorded at cost, or if donated, at the estimated fair market value on the date of donation. LWR follows the practice of capitalizing all expenditures for property and equipment over \$5,000. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, which are three to ten years for furniture and equipment and five years for overseas transportation and other equipment.

In accordance with contractual disposition guidelines, certain property and equipment acquired for direct use in programs is expensed in the year of acquisition, as disposition is determined by the grantor upon program termination. If the property and equipment is transferred to LWR upon program termination, the asset is stated at fair market value.

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### Inventory of materials for distribution

The inventory consists of donated materials for distribution. The fair value of all the materials (blankets, quilts and various kits) is reviewed and adjusted as needed. Fair value is determined through an annual market study which consists of surveys of purchased prices of similar items at various outlets. The value of inventory is adjusted annually based on the results of the market study. Donated materials are valued at their estimated fair value at the date of receipt and are removed from inventory at the time of distribution at carrying value as of the date of distribution. Inventory balances consist of undistributed items on hand.

### Revenue recognition

#### Contributions

Unconditional contributions, including church body support, are recorded in the year received. All donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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 consolidated statement of activities as net assets released from restrictions.

LWR records unconditional promises to give (pledges) as a receivable and revenue in the year pledged. Contributions receivable that are expected to be collected within one year are recorded at fair value. Contributions receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows.

Conditional contributions are recognized in the financial statements when conditions are met.

#### Exchange transactions

LWR receives grants from U.S. Government agencies and other funders where there is a reciprocal benefit to each party. Under these transactions, LWR recognizes revenue when the related expenses are incurred. Amounts received in excess of expenses incurred are recorded as advances for program purposes.

#### Contract revenue

Revenue from fixed-price type contracts is recognized based on deliverables met or percentage of completion. Under this method, individual contract revenue earned is based upon the percentage relationship that contract costs incurred bear to management's estimate of total contract costs. LWR records a provision for all known or anticipated losses on contracts when amounts can be estimated.

#### Donated goods and services

Donated goods and services revenue is recognized as revenue in circumstances in which LWR has sufficient discretion over the use and disposition of the items to recognize a contribution. Accordingly, the recognition of gifts-in-kind revenue is limited to

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circumstances in which LWR takes constructive possession of the gifts-in-kind and LWR is the recipient of the gift, rather than an agent or intermediary. LWR receives in-kind contributions from individuals and faith-based non-governmental organizations, of handmade quilts and kits. These in-kind contributions are recorded at the estimated fair value at the date of receipt by LWR, which is the cost an individual would pay for the items in stores in the United States.

LWR also recognizes revenue for specialized professional services donated to LWR. A corresponding expense is also recorded for the same amount. The revenue and expense for these contributed services are recorded at fair market value at the time of receipt.

### Donated agricultural commodities

Under U.S. Public Law 480, Title II Food Aid of the Agricultural Trade Development and Assistance Act of 1954, the United States Department of Agriculture (USDA) has donated agricultural commodities to LWR for the purpose of promoting food security and agricultural market development under the Food for Progress Program (the Program). Those commodities are sold and proceeds are used by LWR to carry out activities under the Program. Uncollected sales proceeds are recorded by LWR as monetization receivable with an offsetting monetization liability in the accompanying consolidated statements of financial position.

### Grant expenses

Grant expenses are recognized when the expense is incurred by the grantee and LWR receives the request for reimbursement for these expenses.

### Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statement of activities. Direct expenses are charged to the respective program or supporting activity. Certain costs have been allocated among the programs and supporting services, based on management's estimate of each program's share of the allocable cost.

### Foreign currency translation

The functional currency of LWR is the U.S. Dollar. The consolidated financial statements and transactions of LWR's foreign operations are generally maintained in the relevant local currency. Where local currencies are used, assets and liabilities are remeasured at the statement of financial position date using the spot rate as of September 30, 2018. For revenue and expense items, translation is performed using the monthly average rate of exchange in effect at approximately the date of transaction.

### Income taxes

LWR is generally exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. In addition, LWR qualifies for charitable contributions deductions and has been classified as an organization that is not a private foundation. Income, which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes.

# Lutheran World Relief, Incorporated

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For the year ended September 30, 2018, LWR has unrelated business income of \$29,309. LWR had no unrelated business income for the year ended September 30, 2017.

Management has evaluated LWR's tax positions and has concluded that LWR has taken no uncertain tax positions that require adjustment to the consolidated financial statements to comply with U.S. GAAP. With few exceptions, LWR is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2015.

### New Accounting Pronouncements to be Adopted

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09 (ASU 2014-09), *Revenue from Contracts with Customers (Topic 606)*. The update establishes a comprehensive revenue recognition standard for virtually all industries including those that previously followed industry specific guidance. The update requires that revenue should be recognized to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for LWR's fiscal year beginning October 1, 2018. Management continues to evaluate the potential impact of ASU 2014-09 on LWR's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02 (ASU 2016-02), *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statements of activities. ASU 2016-02 is effective for LWR's fiscal year beginning October 1, 2020. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. LWR is currently evaluating the impact of ASU 2016-02 on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14 (ASU 2016-14), *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct internal investment expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. ASU 2016-14 is effective for LWR's consolidated financial statements for fiscal year beginning October 1, 2018. Early adoption is permitted. The provisions of ASU 2016-14 must be applied on a retrospective basis for all years presented although certain optional practical expedients are available for periods prior to adoption. LWR is currently evaluating the impact of ASU 2016-14 on its consolidated financial statements.

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In June 2018, the FASB issued ASU No. 2018-08 (ASU 2018-08), *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 was issued to standardize how grants and other contracts received and made are classified across the sector, as either an exchange transaction or a contribution. ASU 2018-08 provides guidance to assist in the determination of whether a transaction is a contribution or an exchange transaction. If the transaction is deemed to be a contribution the guidance provides factors to consider with regard to whether the contribution is conditional or unconditional. For contributions received, if determined to be an unconditional contribution, the determination will then need to be made as to whether the contribution is restricted. ASU 2018-08 will assist in the determination of the nature of the transaction which will then govern the revenue and expense recognition methodology and timing of the transaction. ASU 2018-08 is effective for transactions in which the entity serves as the resource recipient to annual periods beginning after December 15, 2018. LWR is currently evaluating the impact of ASU 2018-08 on its consolidated financial statements

**Reclassifications**

Certain reclassifications were made to the 2017 consolidated financial statements to conform to the 2018 presentation. These reclassifications have no effect on previously reported net assets or change in net assets.

**3. Investments**

Investments at September 30, 2018 and 2017, consist of the following, at market value:

	2018	2017
Money market funds and cash equivalents	\$ 2,755,722	\$ 8,490,636
U.S. Treasury and municipal obligations	1,228,996	384,847
U.S. Government agency bonds	2,566,759	6,655,351
Corporate and foreign bonds	2,686,160	1,863,251
Common equity securities	3,346,378	4,934,893
Mutual funds	9,950,028	9,022,484
Commingled investments	2,354,596	2,066,018
Investment pools	1,458,919	1,352,267
<b>Total investments</b>	<b>\$ 26,347,558</b>	<b>\$ 34,769,747</b>

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Investment return for the years ended September 30, 2018 and 2017, consists of the following:

	2018	2017
Interest and dividends	\$ 600,152	\$ 512,406
Net realized gains	2,088,836	359,169
Net unrealized (losses) gains	(443,268)	1,777,730
<b>Investment return</b>	<b>\$ 2,245,720</b>	<b>\$ 2,649,305</b>

Investment expenses for the years ended September 30, 2018 and 2017, were \$77,455 and \$73,034, respectively and are included in management and general in the accompanying consolidated statement of activities.

#### 4. Receivables

Receivables at September 30, 2018 and 2017, consist of the following:

	2018	2017
Contributions receivable:		
General	\$ 761,655	\$ 310,101
Less allowance for doubtful pledges	(26,159)	(33,520)
	735,496	276,581
Grants receivables - U.S. Government	1,175,097	988,882
<b>Total grants and contributions receivable</b>	<b>\$ 1,910,593</b>	<b>\$ 1,265,463</b>

Contributions receivable at September 30, 2018 and 2017, were expected to be received within twelve months.

#### 5. Fair Value Measurements

LWR defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined under the guidance as assumptions that market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy under the guidance are described below:

**Level 1:** Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Listed equities and holdings in mutual funds are types of investments included in Level 1.

**Level 2:** Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly; Level 2 includes the use of models or other valuation methodologies.

# Lutheran World Relief, Incorporated

## Notes to the Consolidated Financial Statements

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Investments which are generally included in this category include corporate loans, less liquid, restricted equity securities and certain corporate bonds, and over-the-counter derivatives.

**Level 3:** Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. LWR's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

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The following table presents LWR's fair value hierarchy for those assets reflected in the consolidated statement of financial position, measured at fair value on a recurring basis as of September 30, 2018:

<i>Description</i>	2018			
	Level 1	Level 2	Level 3	Total
U.S. Government agency bonds	\$ -	\$ 2,566,759	\$ -	\$ 2,566,759
Corporate and foreign bonds	-	2,686,160	-	2,686,160
U.S. Treasury obligations	-	1,145,305	-	1,145,305
Municipal obligations	-	83,691	-	83,691
Money market funds	2,755,722	-	-	2,755,722
Readily marketable securities:				
Financial	487,229	-	-	487,229
Information technology	883,896	-	-	883,896
Healthcare	437,848	-	-	437,848
Consumer discretionary	474,228	-	-	474,228
Energy	176,370	-	-	176,370
Telecommunication services	183,546	-	-	183,546
Materials	72,314	-	-	72,314
Industrials	392,572	-	-	392,572
Utilities	53,524	-	-	53,524
Consumer staples	184,851	-	-	184,851
Mutual Funds:				
Aggressive allocation	2,031,505	-	-	2,031,505
Domestic equity	5,478,490	-	-	5,478,490
International funds	2,440,033	-	-	2,440,033
	<b>\$ 16,052,128</b>	<b>\$ 6,481,915</b>	<b>\$ -</b>	<b>\$ 22,534,043</b>
Investment pools:				
Pooled trust fund (a)				1,458,919
Commingled investment vehicle (a)				2,354,596
Total investments				<b>\$ 26,347,558</b>
Charitable trusts	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,116,448</b>	<b>\$ 2,116,448</b>

(a) In accordance with Subtopic 820-10 as amended by ASU 2015-07, certain investments that were measured at Net Asset Value (NAV) per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of financial position.

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**Notes to the Consolidated Financial Statements**

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The following table presents LWR's fair value hierarchy for those assets reflected in the consolidated statement of financial position, measured at fair value on a recurring basis as of September 30, 2017:

<i>Description</i>	2017			
	Level 1	Level 2	Level 3	Total
U.S. Government agency bonds	\$ -	\$ 6,655,351	\$ -	\$ 6,655,351
Corporate and foreign bonds	-	1,863,251	-	1,863,251
U.S. Treasury obligations	-	345,078	-	345,078
Municipal obligations	-	39,769	-	39,769
Money market funds	6,492,317	-	-	6,492,317
Readily marketable securities:				
Financial	931,231	-	-	931,231
Information technology	1,044,072	-	-	1,044,072
Healthcare	730,088	-	-	730,088
Consumer discretionary	420,832	-	-	420,832
Energy	346,766	-	-	346,766
Telecommunication services	117,214	-	-	117,214
Materials	154,601	-	-	154,601
Industrials	663,261	-	-	663,261
Utilities	193,530	-	-	193,530
Consumer staples	333,298	-	-	333,298
Mutual Funds:				
Foreign large blend	2,139,628	-	-	2,139,628
Aggressive allocation	2,051,482	-	-	2,051,482
Domestic equity	4,831,374	-	-	4,831,374
	<u>\$ 20,449,694</u>	<u>\$ 8,903,449</u>	<u>\$ -</u>	<u>\$ 29,353,143</u>
Cash equivalents				1,998,319
Investment pools:				
Pooled trust fund (a)				1,352,267
Commingled investment vehicle (a)				2,066,018
Total investments				<u>\$ 34,769,747</u>
Charitable trusts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,030,437</u>	<u>\$ 2,030,437</u>

(a) In accordance with Subtopic 820-10 as amended by ASU 2015-07, certain investments that were measured at Net Asset Value (NAV) per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of financial position.

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Mutual funds, equities and money market funds are classified as Level 1 instruments, as they are actively traded on public exchanges and valued based on quoted market prices.

U.S. Government agency bonds, corporate and foreign bonds, U.S. Treasury and Municipal obligations are included in Level 2 assets as identical assets are not actively traded. The fair market values are based on quoted prices for similar assets in active markets or quoted prices for identical assets in markets that are not active.

**Pooled trust fund**

In this class, the fund's endeavor is to achieve long-term return objectives within prudent risk constraints by investing the assets in a diversified portfolio that places a greater emphasis on equity-based and fixed-income investments.

**Commingled investment vehicle**

In this class, the Series 1 fund employs a low volatility equity strategy with the objective of earning equity market returns over the long term with lower volatility than the market index. The investment universe consists of U.S. large cap equity securities (approximately 1,000 largest) as identified by major index providers such as Russell Investments and Standard & Poor's, including projected additions to the Russell 1000 and/or S&P 500 indices. Securities in this universe trade in the U.S., but some securities may be incorporated in other countries. Exchange traded funds representing U.S. large cap equity securities may be used to a limited extent to equitize cash, generally not to exceed 5% of the portfolio. Cash equivalents will be invested in a short-term investment fund vehicle (STIF) managed by the Custodian.

The charitable trusts are classified as Level 3 instruments, as there is no market for LWR's interest in the trusts. Further, LWR's asset is the right to receive cash flows from the trusts, not the assets of the trusts themselves. Although the trust assets may be investments for which quoted prices in an active market are available, LWR does not control those investments.

Changes in Level 3 assets for the years ended September 30, 2018 and 2017, were as follows:

	2018	2017
Balance, beginning of year	\$ 2,030,437	\$ 1,971,491
Net realized and unrealized gains	86,011	58,946
Balance, end of year	\$ 2,116,448	\$ 2,030,437

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For fair value measurements categorized within Level 3 of the fair value hierarchy, a presorting entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. The following table provides the required information for LWR:

Type	Fair Value at September 30		Valuation Technique	Unobservable Inputs	Range
	2018	2017			
Charitable trusts	\$ 2,116,448	\$ 2,030,437	Present Value	Discount Rate	2%- 4.25%

LWR performs due diligence reviews of the NAV or its equivalent to determine the fair value of certain investments. LWR has assessed factors including, but not limited to, managers' compliance with fair value measurements standards, price transparency and valuation procedures in place, the ability to redeem at NAV at the measurement date and the existence of certain redemption restrictions at the measurement date.

The table below details LWR's ability to redeem investment funds valued at NAV or its equivalent as of September 30, 2018 and 2017:

	2018	2017	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Pooled trust fund	\$ 1,458,919	\$ 1,352,267	-	Daily	N/A
Commingled invest vehicle	2,354,596	2,066,018	-	Monthly	N/A
	<b>\$ 3,813,515</b>	<b>\$ 3,418,285</b>	-		

## 6. Property and Equipment

Property and equipment consists of the following at September 30:

	2018	2017
Office furniture and equipment - headquarters	\$ 615,589	\$ 613,463
Transportation and other equipment - overseas operations	889,261	821,254
Office building - overseas	104,775	104,775
Software	309,166	309,166
	<b>1,918,791</b>	<b>1,848,658</b>
Less: accumulated depreciation	<b>(1,514,552)</b>	<b>(1,364,111)</b>
Property and equipment, net	<b>\$ 404,239</b>	<b>\$ 484,547</b>

Depreciation and amortization expense was \$150,442 and \$240,946 for the years ended September 30, 2018 and 2017, respectively.

**Lutheran World Relief, Incorporated**  
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**7. Other Investments**

LWR occupies approximately 50% of the office space and common space in the Lutheran Center owned by Lutheran Center Corporation (LCC). LCC, a nonprofit organization, was organized to construct and operate the office building, which LWR and Lutheran Immigration and Refugee Service (LIRS) occupy. LWR has a 50% interest in LCC and, as such, carries its investment in LCC on the equity method. LWR and LIRS are providing monthly payments to LCC under a partial cost sharing agreement, which provides for reimbursement of costs, including interest and depreciation, in operating the building based upon space occupied. The Agreement is for 30 years commencing September 1, 1999, through August 31, 2029, with six renewal options of ten years each. Since LWR occupies less than 50% of the total space, repayment of LWR's portion of debt and related interest is funded by LIRS' cost share contributions based upon its percentage of space occupied. For the years ended September 30, 2018 and 2017, LWR has recorded occupancy expense of \$521,945 and \$527,572, respectively. The recording of depreciation expense as part of the cost share reduces the investment in LCC since LWR has previously provided equity investments in LCC. At September 30, 2018 and 2017, LWR's equity in LCC was \$3,433,278 and \$3,514,217, respectively. At September 30, 2018 and 2017, LCC assets consisted principally of the building and LCC liabilities were insignificant. The building is subject to a ground lease, which provides for LCC to pay rent of \$1 per year for the 50 years to the Christ Lutheran Church, with four optional ten-year extensions.

LWR has an investment in Divine Chocolate, Ltd. (a foreign corporation based in the United Kingdom). As the world's first farmer-owned fair trade chocolate company, the investment in Divine Chocolate is an integral component of LWR's program relating to fair trade activities. LWR accounts for this investment, in which ownership is less than 20%, by the cost method of accounting. Under the cost method of accounting, any distributions received by LWR are recorded as revenue in the period received. At September 30, 2018 and 2017, the investment was valued at \$165,003, which is net of cumulative impairments of \$221,637 for both years, due to recurring losses incurred that are deemed to be permanent in nature.

On April 4, 2017 Ground Up Investing LLC (GUI) was formed as a wholly owned subsidiary of LWR. Its mission is to reduce poverty through an enterprise-based approach of engaging workers, their households and communities to sustain and raise incomes, build assets, increase resilience and ultimately access pathways out of poverty. This is done by the establishment, support and investment in for-profit businesses that seek to deliver needed goods and services in a commercially sustainable manner and create positive social impact and value for impoverished communities.

Below are the financial results of GUI included in LWR's 2018 and 2017 consolidated statements of activities. The expenses of GUI represents costs paid by LWR on behalf of GUI.

	2018	2017
Salaries and benefits	\$ 179,451	\$ 166,644
Travel	67,536	25,147
Legal fees (in-kind)	274,986	238,294
Other program expenses	244,316	71,790
<b>Total expenses</b>	<b>\$ 766,289</b>	<b>\$ 501,875</b>

At September 30, 2018, total assets of GUI included cash of \$34,537. There were no assets at September 30, 2017. There were no liabilities at September 30, 2018 and 2017.

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During the year ended September 30, 2018, GUI made an equity investment of \$30,000 in Mountain Harvest - SMC Limited (MH). MH is a wholly owned coffee production company of GUI in Uganda that engages in small scale trade of organic, fair trade and Rainforest Alliance certified coffee while providing terms to farmers which are more favorable than otherwise available. MH is considered a disregarded entity of LWR. The consolidated statements of activities of LWR for 2018 includes the following operating results of MH:

	2018
Revenue from export of coffee	\$ 736,126
Cost of goods sold	(481,284)
Other operating expenses	(327,205)
Interest and taxes	(24,173)
<b>Net loss</b>	<b>\$ (96,536)</b>

At September 30, 2018, total assets of MH were \$437,613 comprised mainly of cash and property and equipment. At September 30, 2018 the total liabilities of MH were \$134,149 mainly comprised of accounts payable.

## 8. Long Term Debt

On July 26, 2007, LWR and LIRS borrowed \$5,805,000 through the issuance of Economic Development Revenue Bonds, Series 2007 (2007 Bonds) through the Maryland Economic Development Corporation. The 2007 Bonds were issued to advance refund the Maryland Economic Development Revenue Bonds, Series 2000 (2000 Bonds) issued by the Maryland Economic Development Corporation. In addition, proceeds of the 2007 Bonds were used to pay a portion of the issuance costs of the 2007 Bonds. LWR and LIRS are jointly and severally liable for the 2007 Bonds and as such, each has recorded 50% of the outstanding debt and related issue costs. In the event that LIRS is unable to pay off their portion of the outstanding debt, LWR will be liable. LCC, as owner of Lutheran Center, has guaranteed the repayment of the debt. LWR and LIRS must maintain a joint leverage ratio (cash and investments to annual debt service) of 5 to 1 or approximately \$2,250,000.

The 2007 Bonds were issued as Serial Bonds maturing April 1 in the years 2008 through 2029 and have annual mandatory sinking fund provisions, which began in 2008. The 2007 Bonds bear interest at 5.25% per annum. Deferred loan costs in the amount of \$113,106 were incurred in connection with the issuance of the 2007 Bonds, and LWR capitalized 50% of these costs, which are being amortized on a straight-line basis over the life of the bonds. Long-term debt on the 2007 Bonds at September 30, 2018 and 2017, is shown on the statements of financial position, net of unamortized bond premium of \$34,360 and \$37,535, respectively, and deferred loan costs of \$54,881 and \$60,101, respectively.

In conjunction with the issuance of the 2007 Bonds, a Debt Service Reserve Fund was created in the amount of \$476,792 and LWR has recorded 50% of these funds. Funds in the Debt Service Reserve Fund may be withdrawn by the Trustee to make the principal or interest payments of the 2007 Bonds in the event that the other funds available for the purpose are inadequate. Included in other assets at September 30, 2018 and 2017, is \$227,794 and \$225,126, respectively, for LWR's 50% interest in the Debt Service Reserve Fund.

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Bonds payable, net of bond issue costs, at September 30, 2018 and 2017, consist of the following:

	2018	2017
Bond payable, including unamortized premium	\$ 1,856,860	\$ 1,980,035
Bond issuance costs, net	(54,881)	(60,101)
	\$ 1,801,979	\$ 1,919,934

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

<i>Date</i>	LWR Portion	LIRS Portion	Total
April 1, 2019	\$ 125,000	\$ 125,000	\$ 250,000
April 1, 2020	132,500	132,500	265,000
April 1, 2021	140,000	140,000	280,000
April 1, 2022	147,500	147,500	295,000
April 1, 2023 and thereafter	1,277,500	1,277,500	2,555,000
Bond premium	34,360	34,360	68,720
	\$ 1,856,860	\$ 1,856,860	\$ 3,713,720

Interest on the 2007 Bonds for the years ended September 30, 2018 and 2017, amounted to \$101,981 and \$107,888, respectively. Payments of principal and interest are partially funded by the other tenant in the Lutheran Center through allocation of building costs based upon space occupied (see Note 7).

## 9. Net Assets

Temporarily restricted net assets at September 30, 2018 and 2017, are available for the following purposes:

	2018	2017
Use in future periods - pledges receivable and deferred gifts	\$ 2,743,580	\$ 2,659,192
Nepal Earthquake Response	1,226,834	1,600,354
World of Good (Global Emergency Fund)	412,998	-
Hurricane Matthew	313,031	845,421
2017 Caribbean Hurricanes	349,360	-
Nepal Livelihood Recovery Support	258,850	641,304
Impact Investing	250,000	75,000
Other temporarily restricted funds	1,312,008	2,279,430
	\$ 6,866,661	\$ 8,100,701

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Temporarily restricted net assets were released from restrictions, during the years ended September 30, 2018 and 2017, by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors, as follows:

	2018	2017
ELCA Project Funding	\$ 750,361	\$ 1,275,000
Quilt & Kit Shipping Fund	639,590	618,655
Middle East Program	585,180	246,780
Typhoon Haiyan	547,865	231,730
Hurricane Matthew	544,640	628,846
International programs - general	530,007	543,170
2017 Caribbean Hurricanes	484,629	-
Nepal Livelihood Recovery Project	382,458	-
Nepal Earthquake Response	374,895	542,826
Bihar Partnership (India)	270,981	256,974
World of Good (Global Emergency Fund)	255,558	-
CARE (Kenya)	194,781	197,372
Bethlehem Fund: School Outcomes in High Andes	181,417	298,004
Other international programs, relief and development	535,693	1,239,784
	<b>\$ 6,278,055</b>	<b>\$ 6,079,141</b>

Permanently restricted net assets at September 30, 2018 and 2017, consist of the following endowment funds:

	2018	2017
Endowment Fund For General Operations	\$ 136,965	\$ 136,965
Kathryn F. Wolford Global Fund For Women	123,274	116,773
Gisela I. Hellert Endowment For General Operations	12,500	10,000
	<b>\$ 272,739</b>	<b>\$ 263,738</b>

## 10. Endowment Funds

The Board of Directors of LWR has interpreted the New York-enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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, LWR 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 applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets, until those amounts are appropriated for expenditures by LWR in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with

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UPMIFA, LWR considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- a. The duration and preservation of the fund
- b. The purposes of LWR and the donor-restricted endowment fund
- c. General economic conditions
- d. The possible effects of inflation and deflation
- e. The expected total return from income and the appreciation of investments
- f. Other resources of LWR
- g. The investment policies of LWR

LWR has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets.

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires LWR to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in unrestricted net assets. There was no funding deficiency as of September 30, 2017 and 2018.

Earnings on the endowment fund are considered temporarily restricted and may be subsequently released from restriction at management's discretion up to a spending rate of 7%, as permitted by New York UPMIFA. Amounts earned but not released remain classified as temporarily restricted.

LWR's endowment funds at September 30, 2018 and 2017, consist of the following:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ -	\$ 5,477	\$ 272,739	\$ 278,216
Total funds	\$ -	\$ 5,477	\$ 272,739	\$ 278,216
	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ -	\$ 4,251	\$ 263,738	\$ 267,989
Total funds	\$ -	\$ 4,251	\$ 263,738	\$ 267,989

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Endowment fund activity for the years ended September 30, 2018 and 2017, consists of the following:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 4,251	\$ 263,738	\$ 267,989
Investment income	-	20,318	-	20,318
Endowment draw	-	(19,092)	-	(19,092)
Contributions	-	-	9,001	9,001
<b>Total funds</b>	<b>\$ -</b>	<b>\$ 5,477</b>	<b>\$ 272,739</b>	<b>\$ 278,216</b>

  

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ (571)	\$ -	\$ 250,738	\$ 250,167
Investment income	-	23,284	-	23,284
Endowment draw	-	(18,462)	-	(18,462)
Contributions	-	-	13,000	13,000
Quasi adjustments for underwater endowment	571	(571)	-	-
<b>Total funds</b>	<b>\$ -</b>	<b>\$ 4,251</b>	<b>\$ 263,738</b>	<b>\$ 267,989</b>

## 11. Retirement Plans

Employees of LWR based in the U.S. are enrolled in the defined contribution pension plan made available and administered by Portico Benefit Services. Contributions to this plan are based upon earnings for all eligible employees and are accrued and funded on a current basis. Retirement benefits expense for the year ended September 30, 2018 and 2017 was \$671,091 and \$633,581, respectively. Employees who are not based in the United States are provided comparable benefits through various plans and arrangements permitted within the country of employment.

As of October 1, 2017 LWR, established a non-qualified deferred compensation plan, a 457(f) plan, to provide supplemental retirement benefits for a select group of management employees of LWR. Employer contribution under this plan for the year ended September 30, 2018 was \$35,000 and the liability, including interest, is \$36,050 as of September 30, 2018.

## 12. Commitments and Contingencies

LWR has entered into loan guarantee agreements with certain banks and not-for-profit microfinance institutions (MFIs) overseas in order to facilitate credit for various partner organizations. Under these agreements, LWR would be jointly responsible with the banks and MFIs for non-payment by the borrowers. The terms of these guarantees are generally over the life of the outstanding loans, and LWR expects the guarantee program to continue indefinitely. Amounts of legally restricted collateral funds deposited with financial institutions administering certain loans that are included in other

# Lutheran World Relief, Incorporated

## Notes to the Consolidated Financial Statements

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receivables and prepaid expenses at September 30, 2018 and 2017, are \$836,746 and \$388,232, respectively. LWR's exposure to losses on current and future guarantees is limited to this legally restricted collateral as LWR will not guarantee funds in excess of these amounts.

LWR received a portion of its revenue from U.S. Government funded grants and cooperative agreements, all of which are subject to audit. The ultimate determination of amounts received under these grants is generally based upon allowable costs reported to and subject to audit by sponsoring agencies. Management believes that disallowed costs, if any, will be immaterial to the consolidated financial statements.

From time to time, LWR may be involved in legal proceedings during the normal course of operations. In management's opinion, LWR is not currently involved in any legal proceedings which individually or in the aggregate could have a material effect on the financial condition, results of operations and/or liquidity of LWR.

### **13. Subsequent Events**

LWR evaluated subsequent events through January 17, 2019, which is the date the consolidated financial statements were available to be issued. Except for the items noted below, there were no other transactions or events that required adjustment to or disclosure in the consolidated financial statements.

On October 15, 2018, LWR signed a master agreement and plan of merger with Interchurch Medical Assistance, Inc. (IMA). Per the agreement, both organizations wish to combine to form a faith based international relief and development organization, rooted in the Lutheran tradition and ecumenically connected with others in focusing on improving health and livelihood in complex environments and helping people lift themselves out of extreme poverty by ministering to the well-being of the whole person and providing humanitarian assistance through a two-step process of (i) LWR becoming the sole member of IMA to facilitate the coordination of activities and to implement opportunities for integration in furtherance of the cost efficiencies and greater programmatic impact, and (ii) subject to the approval of the New York Attorney General and the other conditions set forth herein, engaging in a merger of IMA with LWR.

## Supplementary Information

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# Lutheran World Relief, Incorporated

## Area Support and Consolidated Program Services Expenses

<i>Years Ended September 30,</i>	2018	2017
<b>Africa:</b>		
Angola	\$ 1,463,258	\$ 1,449,514
Burkina Faso	3,689,641	2,971,015
Congo	265,709	-
Djibouti	-	520,172
East Africa Region	188,571	148,073
Ethiopia	1,287,155	22,370
Kenya	700,974	1,278,910
Liberia	32,719	-
Mali	1,573,650	575,439
Mauritania	520,034	1,681,672
Niger	2,539,022	3,253,313
Rwanda	247,550	-
Senegal	507,348	-
South Sudan	1,565,038	1,564,396
Tanzania	1,068,939	844,473
Uganda	762,887	708,801
West Africa Region	458,913	410,559
Zimbabwe	238,030	-
Program management	874,346	1,006,197
	<b>17,983,784</b>	<b>16,434,904</b>
<b>Asia:</b>		
Regional Asia	162,438	147,275
Cambodia	-	5,010
India	1,896,383	1,724,905
Indonesia	681,723	640,572
Nepal	1,529,163	1,429,252
Palestine	63,053	-
Pakistan	366,557	-
Philippines	1,019,655	688,715
Thailand	102,272	17,860
Turkey	-	151,069
Vietnam	-	4,640
Program management	657,528	578,512
	<b>6,478,772</b>	<b>5,387,810</b>
<b>Middle East:</b>		
Iraq	801,877	327,430
Jordan	252,234	430,289
Lebanon	1,106,632	515,699
Syrian Arab Republic	25,484	33,623
Program management	-	12,856
	<b>2,186,227</b>	<b>1,319,897</b>

# Lutheran World Relief, Incorporated

## Area Support and Consolidated Program Services Expenses

<i>Years Ended September 30,</i>	2018	2017
Latin America and the Caribbean:		
Andean Region	\$ 243,581	\$ 391,270
Central America Region	403,700	535,930
Chile	29,054	77,000
Colombia	493,942	322,365
Cuba	40,000	-
Dominica	96,980	-
Dominican Republic	25,018	65,000
El Salvador	1,484,707	1,362,202
Grenada	242,575	-
Guatemala	372,934	874,057
Haiti	490,105	2,008,717
Honduras	626,101	692,707
Nicaragua	1,769,011	1,819,151
Paraguay	10,018	-
Peru	2,268,990	2,943,000
Uruguay	21,054	20,700
Programmed management	624,465	435,937
	<b>9,242,235</b>	<b>11,548,036</b>
Other Worldwide:		
Armenia	204,475	-
Bosnia-Herzegovina	-	164,233
Georgia	837,933	1,874,792
Serbia	224,908	164,233
Ukraine	462,808	328,205
United States (Puerto Rico)	226,570	-
	<b>1,956,694</b>	<b>2,531,463</b>
<b>Total area program expenses</b>	<b>37,847,712</b>	<b>37,222,110</b>
Other program expenses:		
Cross regional including impact investing	3,710,013	2,996,128
Emergencies and material resources - program management	441,962	428,088
Program quality and technical support	900,697	742,733
U.S.-based program and public policy	2,541,064	2,276,192
Worldwide	45,979	77,766
<b>Total other program expenses</b>	<b>7,639,715</b>	<b>6,520,907</b>
<b>Total expenses before depreciation</b>	<b>45,487,427</b>	<b>43,743,017</b>
Depreciation of equipment	116,703	160,120
<b>Total program expenses</b>	<b>\$ 45,604,130</b>	<b>\$ 43,903,137</b>