

# **Lutheran World Relief, Incorporated**

Financial Report  
September 30, 2016

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## Independent Auditor's Report

Board of Directors  
Lutheran World Relief, Incorporated  
Baltimore, Maryland

### Report on the Financial Statements

We have audited the accompanying financial statements of Lutheran World Relief, Incorporated (LWR), which comprise the statements of financial position as of September 30, 2016 and 2015, and the related statements of activities, functional expenses 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LWR as of September 30, 2016 and 2015, 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.

**Other Matter**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 4 and 5 of the changes in unrestricted net assets for operations and material resources for the years ended September 30, 2016 and 2015, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our reports dated February 23, 2017 and February 23, 2016, on our consideration of LWR's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LWR's internal control over financial reporting and compliance.

*RSM US LLP*

Baltimore, Maryland  
February 23, 2017

**Lutheran World Relief, Incorporated**

**Statements of Financial Position  
September 30, 2016 and 2015**

	2016	2015
<b>Assets</b>		
Cash and cash equivalents	\$ 1,026,630	\$ 1,315,259
Investments (Notes 2 and 4)	24,612,829	25,347,262
Grants and contributions receivable, net (Note 3)	2,891,364	2,080,781
Inventory of materials for distribution	4,337,151	3,381,869
Cash surrender value of life insurance contracts (Note 1)	339,292	311,959
Other investments (Note 6)	3,848,127	3,897,758
Charitable trusts (Note 4)	1,971,491	2,009,789
Other receivables and prepaid expenses	1,605,030	1,312,769
Other assets (Note 7)	507,595	515,771
Property and equipment, net (Note 5)	894,818	866,060
<b>Total assets</b>	<b>\$ 42,034,327</b>	<b>\$ 41,039,277</b>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 3,975,002	\$ 3,660,839
Advances for program purposes	1,696,532	2,199,909
Long-term debt (Note 7)	2,030,387	2,135,841
<b>Total liabilities</b>	<b>7,701,921</b>	<b>7,996,589</b>
Commitments and contingencies (Notes 11 and 12)		
Net assets:		
Unrestricted:		
General	21,916,893	20,717,056
Inventories of donated materials for distribution, at estimated values	4,295,265	3,328,177
<b>Total unrestricted net assets</b>	<b>26,212,158</b>	<b>24,045,233</b>
Temporarily restricted (Note 8)	7,869,510	8,746,717
Permanently restricted (Notes 8 and 9)	250,738	250,738
<b>Total net assets</b>	<b>34,332,406</b>	<b>33,042,688</b>
<b>Total liabilities and net assets</b>	<b>\$ 42,034,327</b>	<b>\$ 41,039,277</b>

See notes to financial statements.

**Lutheran World Relief, Incorporated**  
**Statements of Activities**  
**Year Ended September 30, 2016**

	Unrestricted (Supplementary Information)		Unrestricted Total	Temporarily Restricted	Permanently Restricted	Total
	Operations	Material Resources				
Support and revenue:						
Support:						
Church body support:						
Evangelical Lutheran Church in America	\$ -	\$ -	\$ -	\$ 2,047,617	\$ -	\$ 2,047,617
Lutheran Church – Missouri Synod	184,397	-	184,397	378,251	-	562,648
North American Lutheran Church	11,690	-	11,690	-	-	11,690
	<u>196,087</u>	<u>-</u>	<u>196,087</u>	<u>2,425,868</u>	<u>-</u>	<u>2,621,955</u>
Individuals and congregations:						
Contributions	12,581,477	-	12,581,477	2,430,963	-	15,012,440
Bequests	3,902,856	-	3,902,856	663,039	-	4,565,895
Foods resource bank	-	-	-	155,845	-	155,845
CWS via CROP	-	-	-	96,303	-	96,303
Combined federal campaign	(29,285)	-	(29,285)	448,707	-	419,422
	<u>16,455,048</u>	<u>-</u>	<u>16,455,048</u>	<u>3,794,857</u>	<u>-</u>	<u>20,249,905</u>
Institutional donors:						
U.S. Government grants (Note 10):						
Relief and other programs	5,398,640	-	5,398,640	-	-	5,398,640
Foundation grants	2,106,980	-	2,106,980	-	-	2,106,980
Multilateral and bilateral grants	472,019	-	472,019	-	-	472,019
Corporate grants	245,643	-	245,643	-	-	245,643
Action by Churches Together	806,511	-	806,511	-	-	806,511
Contracts	987,709	-	987,709	-	-	987,709
	<u>10,017,502</u>	<u>-</u>	<u>10,017,502</u>	<u>-</u>	<u>-</u>	<u>10,017,502</u>
Other revenue	112,492	-	112,492	-	-	112,492
<b>Total support (cash)</b>	<u>26,781,129</u>	<u>-</u>	<u>26,781,129</u>	<u>6,220,725</u>	<u>-</u>	<u>33,001,854</u>
Support in-kind:						
Donated material resources	-	14,279,567	14,279,567	-	-	14,279,567
Contributed services	81,393	-	81,393	-	-	81,393
<b>Total support (in-kind)</b>	<u>81,393</u>	<u>14,279,567</u>	<u>14,360,960</u>	<u>-</u>	<u>-</u>	<u>14,360,960</u>
Net assets released from restrictions (Note 8)	7,119,374	-	7,119,374	(7,119,374)	-	-
<b>Total support and revenue</b>	<u>33,981,896</u>	<u>14,279,567</u>	<u>48,261,463</u>	<u>(898,649)</u>	<u>-</u>	<u>47,362,814</u>
Expenses:						
Program services	27,630,555	13,312,479	40,943,034	-	-	40,943,034
Supporting services:						
Management and operations	3,201,945	-	3,201,945	-	-	3,201,945
Fundraising	4,086,954	-	4,086,954	-	-	4,086,954
<b>Total supporting services</b>	<u>7,288,899</u>	<u>-</u>	<u>7,288,899</u>	<u>-</u>	<u>-</u>	<u>7,288,899</u>
<b>Total expenses</b>	<u>34,919,454</u>	<u>13,312,479</u>	<u>48,231,933</u>	<u>-</u>	<u>-</u>	<u>48,231,933</u>
<b>Changes in net assets before investment return net of amounts designated for current operations</b>	<u>(937,558)</u>	<u>967,088</u>	<u>29,530</u>	<u>(898,649)</u>	<u>-</u>	<u>(869,119)</u>
Investment return, net of amounts designated for current operations	2,137,395	-	2,137,395	21,442	-	2,158,837
<b>Changes in net assets</b>	<u>1,199,837</u>	<u>967,088</u>	<u>2,166,925</u>	<u>(877,207)</u>	<u>-</u>	<u>1,289,718</u>
Net assets:						
Beginning	20,717,056	3,328,177	24,045,233	8,746,717	250,738	33,042,688
Ending	<u>\$ 21,916,893</u>	<u>\$ 4,295,265</u>	<u>\$ 26,212,158</u>	<u>\$ 7,869,510</u>	<u>\$ 250,738</u>	<u>\$ 34,332,406</u>

See notes to financial statements.

**Lutheran World Relief, Incorporated**

**Statements of Activities  
Year Ended September 30, 2015**

	Unrestricted (Supplementary Information)		Unrestricted Total	Temporarily Restricted	Permanently Restricted	Total
	Operations	Material Resources				
Support and revenue:						
Support:						
Church body support:						
Evangelical Lutheran Church in America	\$ 6,590	\$ -	\$ 6,590	\$ 2,288,285	\$ -	\$ 2,294,875
Lutheran Church – Missouri Synod	362,629	-	362,629	235,000	-	597,629
North American Lutheran Church	8,200	-	8,200	2,928	-	11,128
	377,419	-	377,419	2,526,213	-	2,903,632
Individuals and congregations:						
Contributions	11,987,752	-	11,987,752	4,245,523	-	16,233,275
Bequests	2,777,767	-	2,777,767	(2,341)	-	2,775,426
Foods resource bank	-	-	-	255,569	-	255,569
CWS via CROP	-	-	-	184,082	-	184,082
Combined federal campaign	138,152	-	138,152	458,244	-	596,396
	14,903,671	-	14,903,671	5,141,077	-	20,044,748
Institutional donors:						
U.S. Government grants (Note 10):						
Relief and other programs	4,751,639	-	4,751,639	-	-	4,751,639
Ocean freight reimbursement	23,200	-	23,200	-	-	23,200
Foundation grants	2,641,103	-	2,641,103	179,130	-	2,820,233
Multilateral and bilateral grants	332,985	-	332,985	-	-	332,985
Corporate grants	201,806	-	201,806	-	-	201,806
Action by Churches Together	2,000,932	-	2,000,932	-	-	2,000,932
Contracts	138,112	-	138,112	-	-	138,112
	10,089,777	-	10,089,777	179,130	-	10,268,907
Other revenue	11,087	-	11,087	-	-	11,087
<b>Total support (cash)</b>	25,381,954	-	25,381,954	7,846,420	-	33,228,374
Support in-kind:						
Donated material resources	-	13,162,732	13,162,732	-	-	13,162,732
Contributed Services	81,830	-	81,830	-	-	81,830
<b>Total support (in-kind)</b>	81,830	13,162,732	13,244,562	-	-	13,244,562
Net assets released from restrictions (Note 8)	8,506,223	-	8,506,223	(8,506,223)	-	-
<b>Total support and revenue</b>	33,970,007	13,162,732	47,132,739	(659,803)	-	46,472,936
Expenses:						
Program services	30,572,443	12,690,123	43,262,566	-	-	43,262,566
Supporting services:						
Management and operations	3,318,431	-	3,318,431	-	-	3,318,431
Fundraising	3,876,649	-	3,876,649	-	-	3,876,649
<b>Total supporting services</b>	7,195,080	-	7,195,080	-	-	7,195,080
<b>Total expenses</b>	37,767,523	12,690,123	50,457,646	-	-	50,457,646
<b>Changes in net assets before investment return net of amounts designated for current operations</b>	(3,797,516)	472,609	(3,324,907)	(659,803)	-	(3,984,710)
Investment return, net of amounts						
Designated for current operations	(459,269)	-	(459,269)	-	-	(459,269)
<b>Changes in net assets</b>	(4,256,785)	472,609	(3,784,176)	(659,803)	-	(4,443,979)
Net assets:						
Beginning	24,973,841	2,855,568	27,829,409	9,406,520	250,738	37,486,667
Ending	\$ 20,717,056	\$ 3,328,177	\$ 24,045,233	\$ 8,746,717	\$ 250,738	\$ 33,042,688

See notes to financial statements.

Lutheran World Relief, Incorporated

Statement of Functional Expenses  
Year Ended September 30, 2016

	Program Services							
	Agriculture	Emergencies & Material Resources	Climate Change	Water	Civic Participation & Government Accountability	Health & Livelihoods	Constituent Engagement	Program Services
Salaries	\$ 3,480,365	\$ 2,133,208	\$ 574,514	\$ -	\$ -	\$ 13,787	\$ 568,448	\$ 6,770,322
Employee benefits and payroll taxes	1,326,171	799,555	227,479	-	-	4,404	187,868	2,545,477
<b>Total salaries and related expenses</b>	<b>4,806,536</b>	<b>2,932,763</b>	<b>801,993</b>	<b>-</b>	<b>-</b>	<b>18,191</b>	<b>756,316</b>	<b>9,315,799</b>
Retained services	1,547,175	502,351	119,954	-	-	3,312	279,240	2,452,032
Program materials and other supplies	195,070	62,507	14,656	-	-	511	1,348	274,092
Communications and postage	88,969	48,264	9,869	-	-	471	133,331	280,904
Occupancy costs:								
Cost share, including interest/rent	118,711	51,942	22,520	-	-	613	52,676	246,462
Overseas	263,134	110,881	35,696	-	-	723	-	410,434
Insurance	21,277	11,656	4,016	-	-	88	-	37,037
Cost of equipment, supplies and maintenance	260,207	92,903	71,447	-	-	546	11,670	436,773
Travel and meetings	738,043	473,844	101,508	-	-	3,976	62,722	1,380,093
Printing, publications and film	68,130	16,561	3,933	-	-	146	41,226	129,996
Membership fees	49,561	42,333	9,612	-	-	351	24,053	125,910
Bank and merchant fees	-	6,875	-	-	-	-	-	6,875
Material resources:								
Donated materials								
(blankets and quilts, medical, etc.)	-	13,312,479	-	-	-	-	-	13,312,479
Purchased materials	-	11,806	-	-	-	-	-	11,806
Cash-related costs	-	1,416,413	-	-	-	-	-	1,416,413
Grants (cash)	3,765,634	4,706,433	1,243,369	-	-	60,719	4,645	9,780,800
Program inputs	254,448	296,832	20,269	-	-	-	-	571,549
Other program costs	445,492	44,692	6,625	-	-	239	3,503	500,551
Miscellaneous	36,608	54,095	7,517	-	-	200	2,985	101,405
Reimbursement of administrative expenses	-	-	-	-	-	-	-	-
<b>Total expenses before depreciation</b>	<b>12,658,995</b>	<b>24,195,630</b>	<b>2,472,984</b>	<b>-</b>	<b>-</b>	<b>90,086</b>	<b>1,373,715</b>	<b>40,791,410</b>
Depreciation of equipment	51,663	39,977	7,263	-	-	307	52,414	151,624
<b>Total expenses</b>	<b>\$ 12,710,658</b>	<b>\$ 24,235,607</b>	<b>\$ 2,480,247</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 90,393</b>	<b>\$ 1,426,129</b>	<b>\$ 40,943,034</b>

(Continued)



**Lutheran World Relief, Incorporated**

**Statement of Functional Expenses (Continued)  
Year Ended September 30, 2016**

	Supporting Services			Total Expenses
	Management & Operations	Fundraising	Supporting Services	
Salaries	\$ 1,633,184	\$ 1,351,395	\$ 2,984,579	\$ 9,754,901
Employee benefits and payroll taxes	549,969	446,602	996,571	3,542,048
<b>Total salaries and related expenses</b>	<b>2,183,153</b>	<b>1,797,997</b>	<b>3,981,150</b>	<b>13,296,949</b>
Retained services	319,981	892,658	1,212,639	3,664,671
Program materials and other supplies	8,640	8,023	16,663	290,755
Communications and postage	59,394	329,622	389,016	669,920
Occupancy costs:				
Cost share, including interest/rent	155,225	122,466	277,691	524,153
Overseas	-	-	-	410,434
Insurance	52,136	-	52,136	89,173
Cost of equipment, supplies and maintenance	114,432	37,403	151,835	588,608
Travel and meetings	151,638	154,877	306,515	1,686,608
Printing, publications and film	21,443	352,459	373,902	503,898
Membership fees	10,305	22,365	32,670	158,580
Bank and merchant fees	102,824	243,575	346,399	353,274
Material resources:				
Donated materials (blankets and quilts, medical, etc.)	-	-	-	13,312,479
Purchased materials	-	-	-	11,806
Cash related costs	-	-	-	1,416,413
Grants (cash)	-	-	-	9,780,800
Program inputs	-	-	-	571,549
Other program costs	-	-	-	500,551
Miscellaneous	55,417	62,713	118,130	219,535
Reimbursement of administrative expenses	(46,930)	-	(46,930)	(46,930)
<b>Total expenses before depreciation</b>	<b>3,187,658</b>	<b>4,024,158</b>	<b>7,211,816</b>	<b>48,003,226</b>
Depreciation of equipment	14,287	62,796	77,083	228,707
<b>Total expenses</b>	<b>\$ 3,201,945</b>	<b>\$ 4,086,954</b>	<b>\$ 7,288,899</b>	<b>\$ 48,231,933</b>

See notes to financial statements.

**Lutheran World Relief, Incorporated**

**Statement of Functional Expenses  
Year Ended September 30, 2015**

	Program Services							
	Agriculture	Emergencies & Material Resources	Climate Change	Water	Civic Participation & Government Accountability	Health & Livelihoods	Constituent Engagement	Program Services
Salaries	\$ 2,208,284	\$ 3,069,599	\$ 527,973	\$ -	\$ -	\$ 152,273	\$ 526,709	\$ 6,484,838
Employee benefits and payroll taxes	909,662	1,248,588	211,726	-	-	67,290	184,957	2,622,223
<b>Total salaries and related expenses</b>	<b>3,117,946</b>	<b>4,318,187</b>	<b>739,699</b>	<b>-</b>	<b>-</b>	<b>219,563</b>	<b>711,666</b>	<b>9,107,061</b>
Retained services	411,800	652,712	119,075	-	-	40,165	367,317	1,591,069
Program materials and other supplies	221,312	99,819	25,374	-	-	4,933	2,013	353,451
Communications and postage	52,205	74,591	9,486	-	-	5,019	136,992	278,293
Occupancy costs:								
Cost share, including interest/rent	81,031	105,849	22,030	-	-	4,400	59,421	272,731
Overseas	177,583	192,389	31,816	-	-	11,436	-	413,224
Insurance	18,614	20,903	3,333	-	-	2,427	16	45,293
Cost of equipment, supplies and maintenance	228,745	134,343	52,674	-	-	10,383	9,319	435,464
Travel and meetings	557,768	789,758	103,114	-	-	80,964	82,604	1,614,208
Printing, publications and film	23,886	18,109	2,550	-	-	493	94,649	139,687
Membership fees	29,811	55,112	8,020	-	-	1,840	50,442	145,225
Bank and merchant fees	-	4,057	-	-	-	-	-	4,057
Material resources:								
Donated materials								
(blankets and quilts, medical, etc.)	-	12,690,123	-	-	-	-	-	12,690,123
Purchased materials	-	85,767	-	-	-	-	-	85,767
Cash-related costs	-	1,546,691	-	-	-	-	-	1,546,691
Grants (cash)	3,767,112	8,343,574	1,309,170	-	-	167,359	4,190	13,591,405
Program inputs	212,353	212,791	10,688	-	-	20	-	435,852
Other program costs	56,866	66,277	5,463	-	-	4,610	12,000	145,216
Miscellaneous	70,176	143,484	12,004	-	-	9,711	5,860	241,235
Reimbursement of administrative expenses	-	-	-	-	-	-	-	-
<b>Total expenses before depreciation</b>	<b>9,027,208</b>	<b>29,554,536</b>	<b>2,454,496</b>	<b>-</b>	<b>-</b>	<b>563,323</b>	<b>1,536,489</b>	<b>43,136,052</b>
Depreciation of equipment	31,064	44,368	7,151	-	-	1,491	42,440	126,514
<b>Total expenses</b>	<b>\$ 9,058,272</b>	<b>\$ 29,598,904</b>	<b>\$ 2,461,647</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 564,814</b>	<b>\$ 1,578,929</b>	<b>\$ 43,262,566</b>

(Continued)

**Lutheran World Relief, Incorporated**

**Statement of Functional Expenses (Continued)**  
**Year Ended September 30, 2015**

	Supporting Services			Total Expenses
	Management & Operations	Fundraising	Supporting Services	
Salaries	\$ 1,622,589	\$ 1,290,580	\$ 2,913,169	\$ 9,398,007
Employee benefits and payroll taxes	552,519	431,663	984,182	3,606,405
<b>Total salaries and related expenses</b>	<b>2,175,108</b>	<b>1,722,243</b>	<b>3,897,351</b>	<b>13,004,412</b>
Retained services	332,785	676,562	1,009,347	2,600,416
Program materials and other supplies	38,368	5,665	44,033	397,484
Communications and postage	38,715	355,640	394,355	672,648
Occupancy costs:				
Cost share, including interest/rent	158,329	107,571	265,900	538,631
Overseas	-	-	-	413,224
Insurance	46,616	39	46,655	91,948
Cost of equipment, supplies and maintenance	107,756	29,354	137,110	572,574
Travel and meetings	165,022	181,856	346,878	1,961,086
Printing, publications and film	68,855	426,800	495,655	635,342
Membership fees	9,620	1,902	11,522	156,747
Bank and merchant fees	131,034	272,821	403,855	407,912
Material resources:				
Donated materials				
(blankets and quilts, medical, etc.)	-	-	-	12,690,123
Purchased materials	-	-	-	85,767
Cash related costs	-	-	-	1,546,691
Grants (cash)	-	-	-	13,591,405
Program inputs	-	-	-	435,852
Other program costs	-	-	-	145,216
Miscellaneous	66,439	43,872	110,311	351,546
Reimbursement of administrative expenses	(40,357)	-	(40,357)	(40,357)
<b>Total expenses before depreciation</b>	<b>3,298,290</b>	<b>3,824,325</b>	<b>7,122,615</b>	<b>50,258,667</b>
Depreciation of equipment	20,141	52,324	72,465	198,979
<b>Total expenses</b>	<b>\$ 3,318,431</b>	<b>\$ 3,876,649</b>	<b>\$ 7,195,080</b>	<b>\$ 50,457,646</b>

See notes to financial statements.

## Lutheran World Relief, Incorporated

### Statements of Cash Flows Years Ended September 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ 1,289,718	\$ (4,443,979)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Support in-kind	(14,279,567)	(13,162,732)
Material aid in-kind shipped	13,312,479	12,690,123
Decrease in allowance for doubtful accounts and discounts on grants and contributions receivable	(11,711)	(16,681)
Amortization of bond premium and deferred loan costs	2,046	2,046
Depreciation	228,707	198,979
Loss of disposition of property	20,216	24,690
Loss (gain) in equity investment in Lutheran Center Corporation	49,631	(50,874)
Realized gains on sale of investments	(677,791)	(351,398)
Unrealized (gains) losses on investments	(899,123)	1,416,399
Changes in assets and liabilities:		
(Increase) decrease in:		
Grants and contributions receivable	(798,872)	(763,454)
Other receivables and prepaid expenses, cash surrender value of life insurance contracts and charitable trusts	(281,296)	9,426
Other assets	8,176	20,061
Purchased inventory	11,806	(16,540)
Increase (decrease) in:		
Accounts payable and accrued expenses	314,163	453,714
Advances for program purposes	(503,377)	(606,683)
<b>Net cash used in operating activities</b>	<b>(2,214,795)</b>	<b>(4,596,903)</b>
Cash flows from investing activities:		
Purchase of equipment and fixed assets	(277,681)	(196,704)
Purchase of investments	(35,221,591)	(37,597,205)
Proceeds from sale of equipment	-	3,332
Proceeds from maturities and sales of investments	37,532,938	42,398,881
<b>Net cash provided by investing activities</b>	<b>2,033,666</b>	<b>4,608,304</b>
Cash flows from financing activities:		
Principal payments on long-term debt	(107,500)	(102,500)
<b>Net cash used in financing activities</b>	<b>(107,500)</b>	<b>(102,500)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(288,629)</b>	<b>(91,099)</b>
Cash and cash equivalents:		
Beginning of year	1,315,259	1,406,358
End of year	\$ 1,026,630	\$ 1,315,259
Supplemental disclosure of cash flow information:		
Cash payments for interest	\$ 113,531	\$ 118,913

See notes to financial statements.

## Lutheran World Relief, Incorporated

### Notes to Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies

**Nature of activities:** Affirming God's love for all people, Lutheran World Relief (LWR) works with Lutherans and partners around the world to end poverty, injustice and human suffering.

A summary of LWR's significant accounting policies is as follows:

**Basis of accounting:** The accompanying financial statements are presented in accordance with the accrual basis of accounting, whereby unconditional support is recognized when received, 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.

**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.

**Cash and 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.

**Grants receivable:** Grants receivable are comprised of allowable costs in excess of amounts received 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, 2016 and 2015.

**Contributions receivable:** Contributions are recognized when the donor makes a pledge to LWR that is, in substance, unconditional. Contributions receivable to be received in a future period are discounted to their net present value, using a discount rate of 3%, at the time the revenue is recorded.

LWR uses the allowance method to determine uncollectible promises to give. The allowance is based on prior years' experience and management's analysis of specific pledges made.

**Investments:** Investments are reflected at fair market value. Certain other investments are segregated for presentation purposes. 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. The manager 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, 2016 and 2015.

## Lutheran World Relief, Incorporated

### Notes to Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**Financial risk:** 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. LWR believes it is not exposed to any significant financial risk on cash. LWR manages financial risk by monitoring the financial institutions in which deposits are made.

LWR invests in professionally managed portfolios that contain mutual funds, common stock, fixed income instruments and certain alternative investments. Such investments are exposed to various risks, such as market 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 financial statements.

**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 to the extent of LWR's cumulative premium payments.

**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 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. Assets purchased with donor funds are expensed and charged to awards in accordance with approved grant agreements.

**Inventory for material for distributions:** The inventory consists of donated materials for distribution. The fair value of all the materials (blankets, quilts and various kits) is reviewed annually and adjusted as needed. Donated materials are valued at their estimated fair value at the date of receipt. Donated goods are removed from inventory at the time of distribution of such goods at carrying value of the date of distribution.

**Net assets:** LWR's net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. 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.

**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.

## Lutheran World Relief, Incorporated

### Notes to Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

**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 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 net realizable 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 or are highly likely to be met.

**Exchange transactions:** LWR receives grants from U.S. Government agencies and certain foundations 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 provides currently for all known or anticipated loss on contracts.

**Support-in-kind:** Gift-in-kind 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 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.

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

**Allocation of expenses:** The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services.

**Income taxes:** LWR is generally exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code (IRC). 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. LWR had no net unrelated business income for the years ended September 30, 2016 and 2015.

## Lutheran World Relief, Incorporated

### Notes to Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

LWR has adopted the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this policy, LWR may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position would be sustained on examination by taxing authorities, based on the technical merits of the position. Management has evaluated LWR's tax positions and has concluded that LWR has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance.

LWR files tax returns in the U.S. federal jurisdictions. Generally, LWR is no longer subject to U.S. federal or state and local income tax examinations by tax authorities for years before 2013.

**Joint cost allocation:** The Organization incurred expenses that served joint purposes. Expenses related to donor communication and program materials jointly support program services, fundraising or management and general. These expenses were allocated by their functional classification as follows for the year ended September 30.

	2016	2015
Management and general	\$ 59,214	\$ 22,188
Fundraising	12,451	48,153
Program services	49,255	87,188
	<u>\$ 120,920</u>	<u>\$ 157,529</u>

**Accounting pronouncements adopted:** In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This ASU requires that debt issuance costs related to a recognized debt liability be presented in the statements of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. As permitted, LWR early adopted ASU 2015-03 and retrospective application is required. Deferred financing costs, net of accumulated amortization, have been reclassified into long-term debt as of September 30, 2016 and 2015.

In May 2015, the FASB issued ASU 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value (NAV) per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the NAV per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The ASU is effective for LWR for the year ending September 30, 2018. As permitted, LWR early adopted ASU 2015-07 in 2016. Prior year disclosure in Note 4 has been revised to reflect the retrospective application. The impact of adopting this ASU did not have a significant impact on the financial statements.



**Note 1. Nature of Activities and Significant Accounting Policies (Continued)**

**Pending accounting pronouncements:** In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The amendments in this ASU create Topic 606, *Revenue from Contracts with Customers*, and supersede the revenue recognition requirements in Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. In summary, the core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or 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. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018. The impacts of adopting ASU 2014-09 on LWR's financial statements for subsequent periods has not yet been determined.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The standard is effective on October 1, 2020, with early adoption permitted. LWR is in the process of evaluating the impact of this new guidance.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU make improvements to the information provided in the financial statements and accompanying notes of not-for-profit entities. The amendments set forth the FASB's improvements to net asset classification requirements and the information presented about a not-for-profit entity's liquidity, financial performance and cash flows. The ASU will be effective for fiscal years beginning after December 15, 2017. Earlier applicable is permitted. The changes in this ASU should generally be applied on a retrospective basis in the year that the ASU is first applied. LWR is in the process of evaluating the impact of this ASU on the financial statements.

**Reclassifications:** Certain reclassifications were made to the 2015 financial statements to conform to the 2016 presentation. These reclassifications have no effect on previously reported net assets or change in net assets.

**Subsequent events:** LWR has evaluated subsequent events through February 23, 2017, which is the date the financial statements were available to be issued.

## Lutheran World Relief, Incorporated

### Notes to Financial Statements

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#### Note 2. Investments

Investments at September 30, 2016 and 2015, consist of the following, at market value:

	2016	2015
Money market funds	\$ 5,112,770	\$ 4,390,164
U.S. Treasury obligations	50,469	200,170
U.S. Government agency bonds	1,877,203	2,681,885
Corporate and foreign bonds	231,392	236,421
Common equity securities	4,260,438	4,347,166
Mutual funds	11,872,637	12,395,454
Investment pools	1,207,920	1,096,002
Total investments	<u>\$ 24,612,829</u>	<u>\$ 25,347,262</u>

Investment return for the years ended September 30, 2016 and 2015, consists of the following:

	2016	2015
Interest and dividends	\$ 581,923	\$ 605,732
Net realized gains	677,791	351,398
Net unrealized gains (losses)	899,123	(1,416,399)
Investment return	<u>\$ 2,158,837</u>	<u>\$ (459,269)</u>

#### Note 3. Receivables

Receivables at September 30, 2016 and 2015, consist of the following:

	2016	2015
Contributions receivable:		
General	\$ 956,786	\$ 493,671
Lutheran Malaria Initiative	50	34,896
	<u>956,836</u>	<u>528,567</u>
Less discount on pledges receivable	-	(5,476)
Less allowance for doubtful pledges	(27,903)	(34,138)
	<u>928,933</u>	<u>488,953</u>
Grants receivables – U.S. Government	1,962,431	1,591,828
Total grants and contributions receivable	<u>\$ 2,891,364</u>	<u>\$ 2,080,781</u>

## Lutheran World Relief, Incorporated

### Notes to Financial Statements

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#### Note 3. Receivables (Continued)

Contributions receivable at September 30, 2016 and 2015, are expected to be received as follows:

	2016	2015
Receivables due in less than one year	\$ 956,836	\$ 525,491
Receivables due in one to five years	-	3,076
	<u>\$ 956,836</u>	<u>\$ 528,567</u>

As of September 30, 2016 and 2015, all contributions receivable are considered temporarily restricted.

#### Note 4. 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. 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.

**Lutheran World Relief, Incorporated**

**Notes to Financial Statements**

**Note 4. Fair Value Measurements (Continued)**

The following table presents LWR's fair value hierarchy for those assets reflected in the statement of financial position, measured at fair value on a recurring basis as of September 30, 2016:

Description	2016			Total
	Level 1	Level 2	Level 3	
U.S. Government agency bonds	\$ -	\$ 1,877,203	\$ -	\$ 1,877,203
Corporate and foreign bonds	-	231,392	-	231,392
U.S. Treasury obligations	-	50,469	-	50,469
Money market funds	5,112,770	-	-	5,112,770
Common equity securities:				
Financial	840,032	-	-	840,032
Information technology	768,834	-	-	768,834
Healthcare	705,949	-	-	705,949
Consumer discretionary	369,902	-	-	369,902
Energy	333,933	-	-	333,933
Telecommunication services	119,884	-	-	119,884
Materials	167,281	-	-	167,281
Industrials	387,446	-	-	387,446
Utilities	225,951	-	-	225,951
Consumer staples	341,226	-	-	341,226
Mutual funds:				
Fixed income	1,913,274	-	-	1,913,274
Closed end	-	-	-	-
Foreign large blend	1,690,291	-	-	1,690,291
Aggressive allocation	1,884,030	-	-	1,884,030
Domestic equity	4,059,967	-	-	4,059,967
Other assets	2,325,075	-	-	2,325,075
	<u>\$ 21,245,845</u>	<u>\$ 2,159,064</u>	<u>\$ -</u>	<u>23,404,909</u>
Investment pools:				
Pooled trust fund (a)				1,207,920
Total investments				<u>\$ 24,612,829</u>
Charitable trusts	\$ -	\$ -	\$ 1,971,491	\$ 1,971,491

## Lutheran World Relief, Incorporated

### Notes to Financial Statements

#### Note 4. Fair Value Measurements (Continued)

The following table presents LWR's fair value hierarchy for those assets reflected in the statement of financial position, measured at fair value on a recurring basis as of September 30, 2015:

Description	2015			Total
	Level 1	Level 2	Level 3	
U.S. Government agency bonds	\$ -	\$ 2,681,885	\$ -	\$ 2,681,885
Corporate and foreign bonds	-	236,421	-	236,421
U.S. Treasury obligations	-	200,170	-	200,170
Money market funds	4,390,164	-	-	4,390,164
Common equity securities:				
Financial	873,459	-	-	873,459
Information technology	758,548	-	-	758,548
Healthcare	667,369	-	-	667,369
Consumer discretionary	543,934	-	-	543,934
Energy	310,846	-	-	310,846
Telecommunication services	73,943	-	-	73,943
Materials	206,158	-	-	206,158
Industrials	417,725	-	-	417,725
Utilities	191,542	-	-	191,542
Consumer staples	303,642	-	-	303,642
Mutual funds:				
Fixed income	1,849,580	-	-	1,849,580
Closed end	3,676,575	-	-	3,676,575
Foreign large blend	1,600,409	-	-	1,600,409
Aggressive allocation	1,704,044	-	-	1,704,044
Domestic equity	1,564,846	-	-	1,564,846
Other assets	2,000,000	-	-	2,000,000
	<u>\$ 21,132,784</u>	<u>\$ 3,118,476</u>	<u>\$ -</u>	<u>24,251,260</u>
Investment pools:				
Pooled trust fund (a)				1,096,002
Total investments				<u>\$ 25,347,262</u>
Charitable trusts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,009,789</u>	<u>\$ 2,009,789</u>

- (a) In accordance with Subtopic 820-10 as amended by ASU 2015-07, certain investments that were measured at 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.

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.

## Lutheran World Relief, Incorporated

### Notes to Financial Statements

#### Note 4. Fair Value Measurements (Continued)

U.S. Government agency bonds and corporate and foreign bonds 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.

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, 2016 and 2015, were as follows:

	2016	2015
Balance, beginning of year	\$ 2,009,789	\$ 2,165,611
Purchases	-	-
Sales	-	-
Net realized and unrealized gains	(38,298)	(155,822)
Balance, end of year	<u>\$ 1,971,491</u>	<u>\$ 2,009,789</u>

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
	2016	2015			
Charitable trusts	\$ 1,971,491	\$ 2,009,789	Present value	Discount rate	5%

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, 2016 and 2015:

	2016	2015	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Pooled trust fund	<u>\$ 1,207,920</u>	<u>\$ 1,096,002</u>			
	<u>\$ 1,207,920</u>	<u>\$ 1,096,002</u>	<u>\$ -</u>		

## Lutheran World Relief, Incorporated

### Notes to Financial Statements

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#### Note 4. Fair Value Measurements (Continued)

**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. The fund's target asset allocation ranges are 30% to 40% in U.S. equity securities, 20% to 30% in non-U.S. equity securities, 10% to 20% in investment grade fixed income securities, 5% to 15% in high-yield fixed income securities, 5% to 15% in global real estate securities and 0% to 10% in U.S. inflation-indexed securities with the balance in cash and cash equivalents.

#### Note 5. Property and Equipment

Property and equipment, net, at September 30, 2016 and 2015, consists of the following:

	2016	2015
Office furniture and equipment – headquarters	\$ 1,305,358	\$ 1,151,124
Transportation and other equipment – overseas operations	64,545	141,760
Office building – overseas	104,775	104,775
Software	847,594	638,270
	<u>2,322,272</u>	<u>2,035,929</u>
Less accumulated depreciation	(1,427,454)	(1,169,869)
Property and equipment, net	<u>\$ 894,818</u>	<u>\$ 866,060</u>

#### Note 6. Other Investments

LWR occupies approximately 43% 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, 2016 and 2015, LWR has recorded occupancy expense of \$484,197 and \$500,037, 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, 2016 and 2015, LWR's equity in LCC was \$3,683,124 and \$3,732,755, respectively. At September 30, 2016 and 2015, 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.

## Lutheran World Relief, Incorporated

### Notes to Financial Statements

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#### Note 6. Other Investments (Continued)

During the year ended September 30, 2014, LWR acquired common stock in Divine Chocolate, Ltd. (a foreign corporation based in the United Kingdom) in exchange for its shares in Divine Chocolate, Inc. This transaction was subsequent to a reorganization in which all outstanding shares of Divine Chocolate, Inc. were exchanged for a proportionate number of common shares in Divine Chocolate, Ltd. This transaction had no impact on the financial statements of LWR. 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% before and after the transaction, 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, 2016 and 2015, 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.

#### Note 7. 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, 2016 and 2015, is shown on the statements of financial position, net of unamortized bond premium of \$40,708 and \$43,882, respectively, and deferred loan costs of \$65,321 and \$70,541, 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, 2016 and 2015, is \$225,801 and \$232,752, respectively, for LWR's 50% interest in the Debt Service Reserve Fund.

Bonds payable, net of bond issue costs, at September 30, 2016 and 2015 consist of the following:

	2016	2015
Bond payable	\$ 2,095,708	\$ 2,206,382
Bond issuance costs, net	(65,321)	(70,541)
	<u>\$ 2,030,387</u>	<u>\$ 2,135,841</u>



## Lutheran World Relief, Incorporated

### Notes to Financial Statements

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#### Note 7. Long-Term Debt (Continued)

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

Date	LWR Portion	LIRS Portion	Total
April 1, 2017	\$ 112,500	\$ 112,500	\$ 225,000
April 1, 2018	120,000	120,000	240,000
April 1, 2019	125,000	125,000	250,000
April 1, 2020	132,500	132,500	265,000
April 1, 2021 and thereafter	1,565,000	1,565,000	3,130,000
Bond premium	40,708	40,708	81,416
	<u>\$ 2,095,708</u>	<u>\$ 2,095,708</u>	<u>\$ 4,191,416</u>

Interest on the 2007 Bonds for the years ended September 30, 2016 and 2015, amounted to \$113,531 and \$118,913, 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 6).

#### Note 8. Net Assets

Temporarily restricted net assets at September 30, 2016 and 2015, are available for the following purposes:

	2016	2015
Use in future periods – pledges receivable and deferred gifts	\$ 2,635,882	\$ 2,922,338
Nepal Earthquake Response	2,395,951	2,277,057
Typhoon Haiyan Relief and Rehabilitation	821,611	1,684,866
Haiti Earthquake Response	680,280	1,205,561
Bethlehem Fund: School Outcomes in High Andes	476,885	-
Middle East Program	351,026	-
Other temporarily restricted funds	507,875	656,895
	<u>\$ 7,869,510</u>	<u>\$ 8,746,717</u>

## Lutheran World Relief, Incorporated

### Notes to Financial Statements

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#### Note 8. Net Assets (Continued)

Temporarily restricted net assets were released from restrictions, during the years ended September 30, 2016 and 2015, by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors, as follows:

	2016	2015
International programs – general	\$ 2,836,552	\$ 2,988,429
Typhoon Haiyan Relief and Rehabilitation	870,475	2,309,790
Use in future periods – pledges receivable and deferred gifts	731,133	417,122
Quilt & Kit Shipping Fund	707,147	746,931
Nepal Earthquake Response	597,085	451,868
Haiti Earthquake Response	525,281	464,582
Middle East Program	185,253	81,204
Foods resource bank	149,976	248,185
Other international programs, relief and development	516,472	798,112
	<u>\$ 7,119,374</u>	<u>\$ 8,506,223</u>

Permanently restricted net assets at September 30, 2016 and 2015, consist of the following endowment funds:

	2016	2015
Endowment Fund	\$ 136,965	\$ 136,965
Kathryn F. Wolford Global Fund For Women	113,773	113,773
	<u>\$ 250,738</u>	<u>\$ 250,738</u>

#### Note 9. 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 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

**Lutheran World Relief, Incorporated**

**Notes to Financial Statements**

**Note 9. Endowment Funds (Continued)**

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 accounting principles generally accepted in the United States, deficiencies of this nature are reported in unrestricted net assets. As of September 30, 2016 and 2015, total funding deficiencies were \$571 and \$4,461, respectively. The deficiencies in the donor-restricted endowment funds at September 30, 2016 and 2015, resulted from unfavorable market fluctuations and continued appropriation of endowment assets, which was deemed prudent by LWR.

Earnings on the endowment fund are considered temporarily restricted and may be subsequently released from restriction at management's discretion up to amounts permitted by applicable state and federal regulations. Amounts earned but not released remain classified as temporarily restricted.

LWR's endowment funds at September 30, 2016 and 2015, consist of the following:

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor restricted endowment funds	\$ (571)		\$ 250,738	\$ 250,167
Total funds	\$ (571)	\$ -	\$ 250,738	\$ 250,167

  

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor restricted endowment funds	\$ (4,461)	\$ -	\$ 250,738	\$ 246,277
Total funds	\$ (4,461)	\$ -	\$ 250,738	\$ 246,277

Endowment fund activity for the years ended September 30, 2016 and 2015, consists of the following:

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ (4,461)	\$ -	\$ 250,738	\$ 246,277
Investment income	-	21,442	-	21,442
Endowment draw	-	(17,552)	-	(17,552)
Quasi adjustment for underwater endowments	3,890	(3,890)	-	-
Total funds	\$ (571)	\$ -	\$ 250,738	\$ 250,167

**Lutheran World Relief, Incorporated**

**Notes to Financial Statements**

**Note 9. Endowment Funds (Continued)**

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ -	\$ 4,175	\$ 250,738	\$ 254,913
Investment loss	-	(4,461)	-	(4,461)
Endowment draw	-	(4,175)	-	(4,175)
Quasi adjustment for underwater endowments	(4,461)	4,461	-	-
Total funds	<u>\$ (4,461)</u>	<u>\$ -</u>	<u>\$ 250,738</u>	<u>\$ 246,277</u>

**Note 10. U.S. Government Grants**

LWR has entered into grant agreements with the U.S. Government for various programs. The revenue and expenditures for the years ended September 30, 2016 and 2015, are as follows:

	2016		2015	
	Revenue	Expenditures	Revenue	Expenditures
Relief and other programs:				
USAID	\$ 1,136,231	\$ 1,136,231	\$ 1,122,648	\$ 1,122,648
USDOS	3,481,028	3,481,028	3,372,587	3,372,587
USDOA	782,796	782,796	256,404	256,404
	<u>5,400,055</u>	<u>5,400,055</u>	<u>4,751,639</u>	<u>4,751,639</u>
Ocean freight reimbursement:				
USAID	-	-	23,200	23,200
	<u>\$ 5,400,055</u>	<u>\$ 5,400,055</u>	<u>\$ 4,774,839</u>	<u>\$ 4,774,839</u>

In the fiscal years ended September 30, 2016 and 2015, \$1,415 and \$0 of interest earned on grant funds expended is included in the revenues and expenditures above, in addition to that reported on the statements of activities.

**Note 11. Retirement Plan**

All employees of LWR are enrolled in the defined contribution pension plan made available and administered by Portico Benefit Services (formerly the Board of Pensions of the Evangelical Lutheran Church in America). Contributions to this plan are based upon earnings for all eligible employees and are accrued and funded on a current basis. Retirement benefits expense was approximately \$597,000 for 2016 and \$585,000 for 2015.

**Note 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 receivables and prepaid expenses at September 30, 2016 and 2015, are \$379,726 and \$379,257, respectively. LWR's exposure to losses on current and future guarantees is limited to these legally restricted and internally designated funds as LWR will not guarantee funds in excess of these amounts.

## Independent Auditor's Report on the Supplementary Information

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

We have audited the financial statements of Lutheran World Relief (LWR) as of and for the years ended September 30, 2016 and 2015, and have issued our report thereon which contains an unmodified opinion on those financial statements. See pages 1 and 2. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole.

The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*RSM US LLP*

Baltimore, Maryland  
February 23, 2017

**Lutheran World Relief, Incorporated**

**Area Support and Program Services Expenses  
Years Ended September 30, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>Africa:</b>		
Angola	\$ 2,488,096	\$ 1,400,998
Burkina Faso	1,812,489	2,034,782
Congo	521,885	-
East Africa Region	139,186	-
Djibouti	-	295,790
Ghana	-	8,327
Kenya	1,969,787	2,146,746
Mali	1,509,947	2,052,681
Mauritania	516,320	1,669,226
Niger	436,557	612,515
South Sudan	975,529	1,247,007
Tanzania	1,280,033	1,807,672
Uganda	923,798	797,670
West Africa Region	373,563	-
Zimbabwe	11,134	-
Program management	669,599	631,569
	<b>13,627,923</b>	<b>14,704,983</b>
<b>Asia:</b>		
Regional Asia	255,226	-
India	1,585,912	1,674,006
Indonesia	627,108	765,063
Nepal	1,214,914	1,971,687
Pakistan	828,197	-
Philippines	1,765,135	4,564,747
Thailand	1,582,055	1,689,158
Program management	532,196	472,846
	<b>8,390,743</b>	<b>11,137,507</b>
<b>Middle East:</b>		
Iraq	299,599	299,599
Jordan	112,892	418,276
Lebanon	-	1,064,928
Region Middle East	3,482	-
Syrian Arab Republic	100,000	-
Yemen	-	443,211
	<b>515,973</b>	<b>2,226,014</b>

(Continued)

**Lutheran World Relief, Incorporated**

**Area Support and Program Services Expenses (Continued)  
Years Ended September 30, 2016 and 2015**

	2016	2015
Latin America and the Caribbean:		
Bolivia	\$ -	\$ 41,105
Andean Region	296,373	-
Central America Region	633,158	-
Chile	31,500	-
Colombia	630,442	527,122
Dominican Republic	72,800	-
El Salvador	1,033,667	554,629
Guatemala	-	123,609
Haiti	929,499	1,221,088
Honduras	969,585	747,495
Nicaragua	1,811,227	1,893,325
Peru	2,846,485	1,261,751
Program management	451,558	529,603
	<u>9,706,294</u>	<u>6,899,727</u>
Other Worldwide:		
Georgia	1,789,296	1,417,559
Multi Country Europe	-	80,911
Serbia	490,863	-
Ukraine	603,340	891,057
Vanuatu	-	32,500
	<u>2,883,499</u>	<u>2,422,027</u>
<b>Total area program expenses</b>	<u>35,124,432</u>	<u>37,390,258</u>
Other program expenses:		
Cross regional	2,317,685	2,084,194
Emergencies and material resources – program management	428,888	389,839
Program quality and technical support	679,439	648,852
U.S.-based program and public policy	2,250,138	2,740,503
Worldwide	(9,172)	(117,594)
<b>Total other program expenses</b>	<u>5,666,978</u>	<u>5,745,794</u>
<b>Total expenses before depreciation</b>	<u>40,791,410</u>	<u>43,136,052</u>
Depreciation of equipment	<u>151,624</u>	<u>126,514</u>
<b>Total program expenses</b>	<u>\$ 40,943,034</u>	<u>\$ 43,262,566</u>