Lutheran World Relief, Incorporated and Affiliate

Consolidated Financial Report
September 30, 2017

Contents

RSM US LLP

Independent Auditor's Report

Board of Directors
Lutheran World Relief, Incorporated and Affiliate
Baltimore, Maryland

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Lutheran World Relief, Incorporated and Affiliate (LWR), which comprise the consolidated statements of financial position as of September 30, 2017 and 2016, the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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 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 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.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of LWR as of September 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated 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, 2017 and 2016, is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our reports dated February 14, 2018 and February 23, 2017, 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 14, 2018

Lutheran World Relief, Incorporated and Affiliate

Consolidated Statements of Financial Position
September 30, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	**$ 1,784,716**	$ 1,026,630
Investments (Notes 2 and 4)	**34,769,747**	24,612,829
Grants and contributions receivable, net (Note 3)	**1,265,463**	2,891,364
Inventory of materials for distribution	**5,030,387**	4,337,151
Cash surrender value of life insurance contracts (Note 1)	**365,215**	339,292
Other investments (Note 6)	**3,679,220**	3,848,127
Charitable trusts (Note 4)	**2,030,437**	1,971,491
Other receivables and prepaid expenses	**1,791,081**	1,605,030
Other assets	**630,482**	507,595
Property and equipment, net (Note 5)	**484,547**	894,818
Total assets	**$ 51,831,295**	$ 42,034,327
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	**$ 4,962,440**	$ 3,975,002
Advances for program purposes	**6,318,381**	1,696,532
Long-term debt (Note 7)	**1,919,934**	2,030,387
Total liabilities	**13,200,755**	7,701,921
Commitments and contingencies (Notes 11 and 12)		
Net assets:		
Unrestricted:		
General	**24,260,100**	21,916,893
Board designated funds for impact investing	**1,000,000**	-
Inventories of donated materials for distribution, at estimated values	**5,006,001**	4,295,265
Total unrestricted net assets	**30,266,101**	26,212,158
Temporarily restricted (Note 8)	**8,100,701**	7,869,510
Permanently restricted (Notes 8 and 9)	**263,738**	250,738
Total net assets	**38,630,540**	34,332,406
Total liabilities and net assets	**$ 51,831,295**	$ 42,034,327

See notes to consolidated financial statements.

Lutheran World Relief, Incorporated and Affiliate

Consolidated Statements of Activities
Year Ended September 30, 2017

	Unrestricted (Supplementary Information)					
	Operations	Material Resources	Unrestricted Total	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:						
Support:						
Church body support:						
Evangelical Lutheran Church in America	$ -	$ -	$ -	$ 1,882,626	$ -	$ 1,882,626
Lutheran Church – Missouri Synod	7,500	-	7,500	199,947	-	207,447
North American Lutheran Church	10,651	-	10,651	-	-	10,651
	18,151	-	18,151	2,082,573	-	2,100,724
Individuals and congregations:						
Contributions	13,222,894	-	13,222,894	3,549,768	13,000	16,785,662
Bequests	5,326,077	-	5,326,077	262,795	-	5,588,872
Foods resource bank	-	-	-	143,707	-	143,707
CWS via CROP	-	-	-	15,274	-	15,274
Combined federal campaign	152,449	-	152,449	232,101	-	384,550
	18,701,420	-	18,701,420	4,203,645	13,000	22,918,065
Institutional donors:						
U.S. Government grants (Note 10):						
Relief and other programs	7,312,376	-	7,312,376	-	-	7,312,376
Foundation grants	3,578,866	-	3,578,866	-	-	3,578,866
Multilateral and bilateral grants	1,223,902	-	1,223,902	-	-	1,223,902
Corporate grants	286,429	-	286,429	-	-	286,429
Action by Churches Together	429,160	-	429,160	-	-	429,160
Contracts	1,271,701	-	1,271,701	-	-	1,271,701
	14,102,434	-	14,102,434	-	-	14,102,434
Other revenue	68,666	-	68,666	830	-	69,496
Total support (cash)	32,890,671	-	32,890,671	6,287,048	13,000	39,190,719
Support in-kind:						
Donated material resources	-	13,930,222	13,930,222	-	-	13,930,222
Contributed services	441,098	-	441,098	-	-	441,098
Total support (in-kind)	441,098	13,930,222	14,371,320	-	-	14,371,320
Net assets released from restrictions (Note 8)	6,079,141	-	6,079,141	(6,079,141)	-	-
Total support and revenue	39,410,910	13,930,222	53,341,132	207,907	13,000	53,562,039
Expenses:						
Program services	30,683,651	13,219,486	43,903,137	-	-	43,903,137
Supporting services:						
Management and operations	3,698,272	-	3,698,272	-	-	3,698,272
Fundraising	4,311,801	-	4,311,801	-	-	4,311,801
Total supporting services	8,010,073	-	8,010,073	-	-	8,010,073
Total expenses	38,693,724	13,219,486	51,913,210	-	-	51,913,210
Changes in net assets before investment return	717,186	710,736	1,427,922	207,907	13,000	1,648,829
Investment return	2,626,021	-	2,626,021	23,284	-	2,649,305
Changes in net assets	3,343,207	710,736	4,053,943	231,191	13,000	4,298,134
Net assets:						
Beginning	21,916,893	4,295,265	26,212,158	7,869,510	250,738	34,332,406
Ending	$ 25,260,100	$ 5,006,001	$ 30,266,101	$ 8,100,701	$ 263,738	$ 38,630,540

See notes to consolidated financial statements.

Lutheran World Relief, Incorporated and Affiliate

Consolidated Statements of Activities
Year Ended September 30, 2016

	Unrestricted (Supplementary Information) Operations	Unrestricted (Supplementary Information) Material Resources	Unrestricted Total	Temporarily Restricted	Permanently Restricted	Total
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
	196,087	-	196,087	2,425,868	-	2,621,955
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
	16,455,048	-	16,455,048	3,794,857	-	20,249,905
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
	10,017,502	-	10,017,502	-	-	10,017,502
Other revenue	112,492	-	112,492	-	-	112,492
Total support (cash)	26,781,129	-	26,781,129	6,220,725	-	33,001,854
Support in-kind:						
Donated material resources	-	14,279,567	14,279,567	-	-	14,279,567
Contributed services	81,393	-	81,393	-	-	81,393
Total support (in-kind)	81,393	14,279,567	14,360,960	-	-	14,360,960
Net assets released from restrictions (Note 8)	7,119,374	-	7,119,374	(7,119,374)	-	-
Total support and revenue	33,981,896	14,279,567	48,261,463	(898,649)	-	47,362,814
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
Total supporting services	7,288,899	-	7,288,899	-	-	7,288,899
Total expenses	34,919,454	13,312,479	48,231,933	-	-	48,231,933
Changes in net assets before investment return	(937,558)	967,088	29,530	(898,649)	-	(869,119)
Investment return	2,137,395	-	2,137,395	21,442	-	2,158,837
Changes in net assets	1,199,837	967,088	2,166,925	(877,207)	-	1,289,718
Net assets:						
Beginning	20,717,056	3,328,177	24,045,233	8,746,717	250,738	33,042,688
Ending	$ 21,916,893	$ 4,295,265	$ 26,212,158	$ 7,869,510	$ 250,738	$ 34,332,406

See notes to consolidated financial statements.

Lutheran World Relief, Incorporated and Affiliate

Consolidated Statement of Functional Expenses
Year Ended September 30, 2017

	Program Services						
	Agriculture	Emergencies & Material Resources	Climate Change	Health & Livelihoods	Constituent Engagement	Impact Investing	Program Services
Salaries	$ 3,991,115	$ 1,914,982	$ 805,045	$ -	$ 597,230	$ 178,425	$ 7,486,797
Employee benefits and payroll taxes	1,536,146	668,652	338,175	-	187,974	50,701	2,781,648
Total salaries and related expenses	5,527,261	2,583,634	1,143,220	-	785,204	229,126	10,268,445
Retained services	1,704,522	605,411	212,139	-	295,190	309,753	3,127,015
Program materials and other supplies	445,362	123,060	41,719	-	1,709	2,395	614,245
Communications and postage	169,145	62,798	19,939	-	86,114	950	338,946
Occupancy costs:							-
Cost share, including interest/rent	129,681	23,901	22,456	-	64,940	10,835	251,813
Overseas	401,016	151,152	60,098	-	336	1,837	614,439
Insurance	29,531	18,364	8,022	-	-	471	56,388
Cost of equipment, supplies and maintenance	587,949	107,715	52,137	-	10,376	5,004	763,181
Travel and meetings	932,647	439,718	160,388	-	73,759	33,856	1,640,368
Printing, publications and film	33,968	14,424	5,315	-	44,146	313	98,166
Membership fees	50,430	39,077	10,495	-	21,807	7,102	128,911
Bank and merchant fees	991	-	343	-	-	-	1,334
Material resources:							-
Donated materials							-
(blankets and quilts, medical, etc.)	-	13,219,486	-	-	-	-	13,219,486
Purchased materials	-	17,500	-	-	-	-	17,500
Cash-related costs	-	1,501,085	-	-	-	-	1,501,085
Grants (cash)	3,087,417	5,344,730	1,087,880	-	4,080	1,861	9,525,968
Program inputs	542,215	94,137	157,847	-	-	-	794,199
Other program costs	483,960	37,102	26,226	-	1,539	94	548,921
Miscellaneous	53,257	50,290	5,444	-	123,012	604	232,607
Reimbursement of administrative expenses	-	-	-	-	-		-
Total expenses before depreciation	14,179,352	24,433,584	3,013,668	-	1,512,212	604,201	43,743,017
Depreciation of equipment	57,003	40,120	9,082	-	52,824	1,091	160,120
Total expenses	$ 14,236,355	$ 24,473,704	$ 3,022,750	$ -	$ 1,565,036	$ 605,292	$ 43,903,137

(Continued)

Lutheran World Relief, Incorporated and Affiliate

Consolidated Statement of Functional Expenses (Continued)
Year Ended September 30, 2017

	Supporting Services			
	Management & Operations	Fundraising	Supporting Services	Total Expenses
Salaries	$ 1,850,273	$ 1,384,665	$ 3,234,938	$ 10,721,735
Employee benefits and payroll taxes	585,860	437,317	1,023,177	3,804,825
Total salaries and related expenses	2,436,133	1,821,982	4,258,115	14,526,560
Retained services	585,852	730,739	1,316,591	4,443,606
Program materials and other supplies	12,464	4,246	16,710	630,955
Communications and postage	15,707	349,722	365,429	704,375
Occupancy costs:				
Cost share, including interest/rent	189,822	126,467	316,289	568,102
Overseas	-	-	-	614,439
Insurance	48,135	3,726	51,861	108,249
Cost of equipment, supplies and maintenance	109,762	25,608	135,370	898,551
Travel and meetings	134,544	188,600	323,144	1,963,512
Printing, publications and film	17,340	501,000	518,340	616,506
Membership fees	11,395	16,190	27,585	156,496
Bank and merchant fees	117,611	251,046	368,657	369,991
Material resources:				
Donated materials				
(blankets and quilts, medical, etc.)	-	-	-	13,219,486
Purchased materials	-	-	-	17,500
Cash related costs	-	-	-	1,501,085
Grants (cash)	-	-	-	9,525,968
Program inputs	-	-	-	794,199
Other program costs		-	-	548,921
Miscellaneous	24,695	225,167	249,862	482,469
Reimbursement of administrative expenses	(18,706)		(18,706)	(18,706)
Total expenses before depreciation	3,684,754	4,244,493	7,929,247	51,672,264
Depreciation of equipment	13,518	67,308	80,826	240,946
Total expenses	$ 3,698,272	$ 4,311,801	$ 8,010,073	$ 51,913,210

See notes to consolidated financial statements.

Lutheran World Relief, Incorporated and Affiliate

Consolidated Statement of Functional Expenses
Year Ended September 30, 2016

	Program Services					
	Agriculture	Emergencies & Material Resources	Climate Change	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
Total salaries and related expenses	4,806,536	2,932,763	801,993	18,191	756,316	9,315,799
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	-	-	-	-	-	-
Total expenses before depreciation	12,658,995	24,195,630	2,472,984	90,086	1,373,715	40,791,410
Depreciation of equipment	51,663	39,977	7,263	307	52,414	151,624
Total expenses	$ 12,710,658	$ 24,235,607	$ 2,480,247	$ 90,393	$ 1,426,129	$ 40,943,034

(Continued)

Lutheran World Relief, Incorporated and Affiliate

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

	Supporting Services			
	Management & Operations	Fundraising	Supporting Services	Total Expenses
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
Total salaries and related expenses	2,183,153	1,797,997	3,981,150	13,296,949
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)
Total expenses before depreciation	3,187,658	4,024,158	7,211,816	48,003,226
Depreciation of equipment	14,287	62,796	77,083	228,707
Total expenses	$ 3,201,945	$ 4,086,954	$ 7,288,899	$ 48,231,933

See notes to consolidated financial statements.

Lutheran World Relief, Incorporated and Affiliate

Consolidated Statements of Cash Flows
Years Ended September 30, 2017 and 2016

		2017		2016
Cash flows from operating activities:				
Change in net assets	**$**	**4,298,134**	$	1,289,718
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:				
Support in-kind		**(13,930,222)**		(14,279,567)
Material aid in-kind shipped		**13,219,486**		13,312,479
Increase (decrease) in allowance for doubtful accounts and discounts on grants and contributions receivable		**5,617**		(11,711)
Contributions restricted for long-term investment		**(13,000)**		-
Amortization of bond premium and deferred loan costs		**2,047**		2,046
Depreciation		**240,946**		228,707
Loss of disposition of property		**237,392**		20,216
Loss in equity investment in Lutheran Center Corporation		**168,907**		49,631
Realized gains on sale of investments		**(359,169)**		(677,791)
Unrealized gains on investments		**(1,777,730)**		(899,123)
Changes in assets and liabilities:				
(Increase) decrease in:				
Grants and contributions receivable		**1,620,284**		(798,872)
Other receivables and prepaid expenses, cash surrender value of life insurance contracts and charitable trusts		**(270,920)**		(281,296)
Other assets		**(122,887)**		8,176
Purchased inventory		**17,500**		11,806
Increase (decrease) in:				
Accounts payable and accrued expenses		**987,438**		314,163
Advances for program purposes		**4,621,849**		(503,377)
Net cash provided by (used in) operating activities		**8,945,672**		(2,214,795)
Cash flows from investing activities:				
Purchase of equipment and fixed assets		**(68,067)**		(277,681)
Purchase of investments		**(50,334,768)**		(35,221,591)
Proceeds from maturities and sales of investments		**42,314,749**		37,532,938
Net cash (used in) provided by investing activities		**(8,088,086)**		2,033,666
Cash flows from financing activities:				
Proceeds from contributions restricted for long-term investment		**13,000**		-
Principal payments on long-term debt		**(112,500)**		(107,500)
Net cash used in financing activities		**(99,500)**		(107,500)
Net increase (decrease) in cash and cash equivalents		**758,086**		(288,629)
Cash and cash equivalents:				
Beginning of year		**1,026,630**		1,315,259
End of year	**$**	**1,784,716**	$	1,026,630
Supplemental disclosure of cash flow information:				
Cash payments for interest	**$**	**107,888**	$	113,531

See notes to consolidated financial statements.

Note 1. Nature of Activities and Significant Accounting Policies

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

During the year ended September 30, 2017, LWR integrated Health & Livelihood program activities into other program strategies. In addition, LWR began its Impact Investing program during that year.

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 6 for further details of the investment.

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

Basis of accounting: The accompanying consolidated 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 uncollectable balances on grants receivable as of September 30, 2017 and 2016.

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.

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

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 6). 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, 2017 and 2016.

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 consolidated 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.

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

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 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.

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 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 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.

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.

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

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 consolidated 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, 2017 and 2016.

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 2014.

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.

	2017	2016
Management and general	$ 29,756	$ 59,214
Fundraising	4,135	12,451
Program services	27,053	49,255
	$ 60,944	$ 120,920

Pending accounting pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 entitle 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 consolidated financial statements for subsequent periods has not yet been determined.

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

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 consolidated 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 consolidated financial statements.

Reclassifications: Certain reclassifications were made to the 2016 financial statements to conform to the 2017 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 14, 2018, which is the date the consolidated financial statements were available to be issued.

Note 2. Investments

Investments at September 30, 2017 and 2016, consist of the following, at market value:

	2017	2016
Money market funds and cash equivalents	$ 8,490,636	$ 5,112,770
U.S. Treasury and municipal obligations	384,847	50,469
U.S. Government agency bonds	6,655,351	1,877,203
Corporate and foreign bonds	1,863,251	231,392
Common equity securities	4,934,894	4,260,438
Mutual funds	11,088,501	11,872,637
Investment pools	1,352,267	1,207,920
Total investments	$ 34,769,747	$ 24,612,829

Note 2. Investments (Continued)

Investment return for the years ended September 30, 2017 and 2016, consists of the following:

	2017	2016
Interest and dividends	$ 512,406	$ 581,923
Net realized gains	359,169	677,791
Net unrealized gains	1,777,730	899,123
Investment return	$ 2,649,305	$ 2,158,837

Note 3. Receivables

Receivables at September 30, 2017 and 2016, consist of the following:

	2017	2016
Contributions receivable:		
General	$ 310,101	$ 956,786
Lutheran Malaria Initiative	-	50
	310,101	956,836
Less allowance for doubtful pledges	(33,520)	(27,903)
	276,581	928,933
Grants receivables – U.S. Government	988,882	1,962,431
Total grants and contributions receivable	$ 1,265,463	$ 2,891,364

Contributions receivable at September 30, 2017 and 2016, are expected to be received as follows:

	2017	2016
Receivables due in less than one year	$ 310,101	$ 956,836
	$ 310,101	$ 956,836

As of September 30, 2017 and 2016, 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.

Note 4. Fair Value Measurements (Continued)

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:

	2017			
Description	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
Common equity 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:				
Fixed income	-	-	-	-
Closed end	-	-	-	-
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
	$ 20,449,694	$ 8,903,449	$ -	29,353,143
Cash equivalents				1,998,319
Investment pools:				
Pooled trust fund (a)				1,352,267
Commingled investment vehicle (a)				2,066,018
Total investments				$ 34,769,747
Charitable trusts	$ -	$ -	$ 2,030,437	$ 2,030,437

Note 4. Fair Value Measurements (Continued)

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, 2016:

	2016			
Description	Level 1	Level 2	Level 3	Total
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
	$ 18,920,770	$ 2,159,064	$ -	21,079,834
Investment pools:				
Pooled trust fund (a)				1,207,920
Commingled investment vehicle (a)				2,325,075
Total investments				$ 24,612,829
Charitable trusts	$ -	$ -	$ 1,971,491	$ 1,971,491

(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.

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.

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, 2017 and 2016, were as follows:

	2017	2016
Balance, beginning of year	$ 1,971,491	$ 2,009,789
Net realized and unrealized gains (losses)	58,946	(38,298)
Balance, end of year	$ 2,030,437	$ 1,971,491

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:

	Fair Value at September 30		Valuation	Unobservable	
Type	2017	2016	Technique	Inputs	Range
Charitable trusts	$ 2,030,437	$ 1,971,491	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, 2017 and 2016:

	2017	2016	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Pooled trust fund	$ 1,352,267	$ 1,207,920	$ -	Daily	N/A
Commingled investment vehicle	2,066,018	2,325,075	-	Monthly	N/A
	$ 3,418,285	$ 3,532,995	$ -		

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 4. Fair Value Measurements (Continued)

Commingled investment vehicle: Series 1 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.

Note 5. Property and Equipment

Property and equipment, net, at September 30, 2017 and 2016, consists of the following:

	2017	2016
Office furniture and equipment – headquarters	$ 613,463	$ 545,395
Transportation and other equipment – overseas operations	821,254	847,594
Office building – overseas	104,775	104,775
Software	309,166	824,508
	1,848,658	2,322,272
Less accumulated depreciation	(1,364,111)	(1,427,454)
Property and equipment, net	$ 484,547	$ 894,818

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, 2017 and 2016, LWR has recorded occupancy expense of $527,572 and $484,197, 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, 2017 and 2016, LWR's equity in LCC was $3,514,217 and $3,683,124, respectively. At September 30, 2017 and 2016, 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.

Note 6. Other Investments (Continued)

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% 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, 2017 and 2016, 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 was formed as a wholly owned subsidiary of Lutheran World Relief, Inc. 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 Ground Up Investing LLC (GUI) included in Lutheran World Relief's 2017 consolidated statement of activities. The expenses of Ground Up Investing LLC represents costs paid by LWR on behalf of GUI. These expenses have no effect on the consolidated statement of activities of LWR.

Salaries and benefits	$	166,644
Travel		25,147
Legal fees (in-kind)		238,294
other program expenses		71,790
Total expenses	$	501,875

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, 2017 and 2016, is shown on the statements of financial position, net of unamortized bond premium of $37,535 and $40,708, respectively, and deferred loan costs of $60,101 and $65,321, respectively.

Note 7. Long-Term Debt (Continued)

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, 2017 and 2016, is $225,126 and $225,801, respectively, for LWR's 50% interest in the Debt Service Reserve Fund.

Bonds payable, net of bond issue costs, at September 30, 2017 and 2016, consist of the following:

	2017	2016
Bond payable, including unamortized premium	$ 1,980,035	$ 2,095,708
Bond issuance costs, net	(60,101)	(65,321)
	$ 1,919,934	$ 2,030,387

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

Date	LWR Portion	LIRS Portion	Total
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	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	37,535	37,535	75,070
	$ 1,980,035	$ 1,980,035	$ 3,960,070

Interest on the 2007 Bonds for the years ended September 30, 2017 and 2016, amounted to $107,888 and $113,531, 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, 2017 and 2016, are available for the following purposes:

	2017	2016
Use in future periods – pledges receivable and deferred gifts	$ 2,659,192	$ 2,635,882
Nepal Earthquake Response	1,600,354	2,395,951
Hurricane Matthew	845,421	-
Nepal Livelihood Recovery Support	641,308	-
Typhoon Haiyan Relief and Rehabilitation	594,650	821,611
Middle East Program	451,167	351,026
Haiti Earthquake Response	253,827	680,280
Bethlehem Fund: School Outcomes in High Andes	178,881	476,885
Other temporarily restricted funds	875,901	507,875
	$ 8,100,701	$ 7,869,510

Temporarily restricted net assets were released from restrictions, during the years ended September 30, 2017 and 2016, by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors, as follows:

	2017	2016
Evangelical Lutheran Church in America – International Projects	$ 1,275,000	$ -
Hurricane Matthew	628,846	-
Quilt & Kit Shipping Fund	618,655	707,147
International programs – general	543,170	2,836,552
Nepal Earthquake Response	542,826	597,085
Haiti Earthquake Response	426,453	525,281
Use in future periods – pledges receivable and deferred gifts	325,386	731,133
Bethlehem Fund: School Outcomes in High Andes	298,004	23,115
CARE - Kenya project	256,974	-
Middle East Program	246,780	185,253
Typhoon Haiyan Relief and Rehabilitation	231,730	870,475
Lutheran Church Missouri Synod – International Projects	199,947	-
Bihar Women in Food Security	197,372	111,412
Foods Resource Bank	63,707	149,976
Other international programs, relief and development	224,291	381,945
	$ 6,079,141	$ 7,119,374

Note 8. Net assets (Continued)

Permanently restricted net assets at September 30, 2017 and 2016, consist of the following endowment funds:

	2017	2016
Endowment Fund	$ 136,965	$ 136,965
Kathryn F. Wolford Global Fund For Women	116,773	113,773
Gisela I. Hellert Endowment	10,000	-
	$ 263,738	$ 250,738

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

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, the total funding deficiency was $571. There was no funding deficiency as of September 30, 2017. The deficiency in the donor-restricted endowment fund at September 30, 2016, 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.

Note 9. Endowment Funds (Continued)

LWR's endowment funds at September 30, 2017 and 2016, consist of the following:

	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

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

Endowment fund activity for the years ended September 30, 2017 and 2016, consists of the following:

	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 adjustment for underwater endowment	571	(571)	-	-
Total funds	$ -	$ 4,251	$ 263,738	$ 267,989

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

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, 2017 and 2016, are as follows:

	2017		2016	
	Revenue	Expenditures	Revenue	Expenditures
Relief and other programs:				
USAID	$ 1,578,456	$ 1,578,456	$ 1,136,231	$ 1,136,231
USDOS	3,110,327	3,110,327	3,481,028	3,481,028
USDOA	2,631,655	2,631,655	782,796	782,796
	7,320,438	7,320,438	5,400,055	5,400,055

In the fiscal years ended September 30, 2017 and 2016, $8,062 and $1,415 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 for US Employees

All US 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 $634,000 for 2017 and $597,000 for 2016.

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, 2017 and 2016, are $388,232 and $379,726, 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.

Note 13. Subsequent Events

As of October 2017, LWR's subsidiary Ground Up Investing LLC (GUI) made an investment in Mountain Harvest – SMC Limited (MH). MH is a wholly owned coffee production company in Uganda that engages in small scale trade in fair trade, organic, and Rain Forest Alliance certified coffee while providing terms to farmers which are more favorable than otherwise available. As of the date of this report, LWR had an investment of $30,000 and a note receivable of $370,000, as well as a receivable from MH of $65,000 for short-term financing needs. MH is considered a disregarded entity of LWR.

RSM US LLP

Independent Auditor's Report on the Supplementary Information

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

We have audited the consolidated financial statements of Lutheran World Relief, Incorporated and Affiliate (LWR) as of and for the years ended September 30, 2017 and 2016, and have issued our report thereon which contains an unmodified opinion on those consolidated financial statements. See pages 1 and 2. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole.

The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits 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.

RSM US LLP

Baltimore, Maryland
February 14, 2018

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Lutheran World Relief, Incorporated

Area Support and Program Services Expenses
Years Ended September 30, 2017 and 2016

	2017	2016
Africa:		
Angola	**$ 1,449,514**	$ 2,488,096
Burkina Faso	**2,971,015**	1,812,489
Congo	**-**	521,885
Djibouti	**520,172**	-
East Africa Region	**148,073**	139,186
Ethiopia	**22,370**	-
Kenya	**1,278,910**	1,969,787
Mali	**575,439**	1,509,947
Mauritania	**1,681,672**	516,320
Niger	**3,253,313**	436,557
South Sudan	**1,564,396**	975,529
Tanzania	**844,473**	1,280,033
Uganda	**708,801**	923,798
West Africa Region	**410,559**	373,563
Zimbabwe	**-**	11,134
Program management	**1,006,197**	669,599
	16,434,904	13,627,923
Asia:		
Regional Asia	**147,275**	255,226
Cambodia	**5,010**	-
India	**1,724,905**	1,585,912
Indonesia	**640,572**	627,108
Nepal	**1,429,252**	1,214,914
Pakistan	**-**	828,197
Philippines	**688,715**	1,765,135
Thailand	**17,860**	1,582,055
Turkey	**151,069**	-
Vietnam	**4,640**	-
Program management	**578,512**	532,196
	5,387,810	8,390,743
Middle East:		
Iraq	**327,430**	299,599
Jordan	**430,289**	112,892
Lebanon	**515,699**	-
Region Middle East	**12,856**	3,482
Syrian Arab Republic	**33,623**	100,000
	1,319,897	515,973

(Continued)

Lutheran World Relief, Incorporated

Area Support and Program Services Expenses (Continued)
Years Ended September 30, 2017 and 2016

	2017	2016
Latin America and the Caribbean:		
Andean Region	$ 391,270	$ 296,373
Central America Region	535,930	633,158
Chile	77,000	31,500
Colombia	322,365	630,442
Dominican Republic	65,000	72,800
El Salvador	1,362,202	1,033,667
Guatemala	874,057	-
Haiti	2,008,717	929,499
Honduras	692,707	969,585
Nicaragua	1,819,151	1,811,227
Peru	2,943,000	2,846,485
Uruguay	20,700	
Program management	435,937	451,558
	11,548,036	9,706,294
Other Worldwide:		
Bosnia-Hercegovina	164,233	-
Georgia	1,874,792	1,789,296
Serbia	164,233	490,863
Ukraine	328,205	603,340
	2,531,463	2,883,499
Total area program expenses	37,222,110	35,124,432
Other program expenses:		
Cross regional including impact investing	2,996,128	2,317,685
Emergencies and material resources – program management	428,088	428,888
Program quality and technical support	742,733	679,439
U.S.-based program and public policy	2,276,192	2,250,138
Worldwide	77,766	(9,172)
Total other program expenses	6,520,907	5,666,978
Total expenses before depreciation	43,743,017	40,791,410
Depreciation of equipment	160,120	151,624
Total program expenses	$ 43,903,137	$ 40,943,034