

**THE LUTHERAN CHURCH—MISSOURI SYNOD
AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2018

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Independent Auditor's Report

Board of Directors
The Lutheran Church—Missouri Synod and Subsidiaries
St. Louis, Missouri

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Lutheran Church—Missouri Synod and Subsidiaries (the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of LCMS Holdings, Ltd., a wholly owned subsidiary, which statements reflect total assets of \$158,404,000 and \$142,226,000 as of June 30, 2018 and 2017, and total revenues of \$60,360,000 and \$49,176,000 for the years then ended. Those statements, which were prepared in accordance with Hong Kong Financial Reporting Standards as issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, were audited by other auditors in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants, whose report has been furnished to us. We have applied audit procedures on the conversion adjustments to the financial statements of LCMS Holdings, Ltd., which conform those financial statements to accounting principles generally accepted in the United States of America. Our opinion, insofar as it relates to the amounts included for LCMS Holdings, Ltd., prior to these conversion adjustments, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 Organization'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 Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Lutheran Church—Missouri Synod and Subsidiaries as of June 30, 2018 and 2017, and the consolidated changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Brown Smith Wallace, LLP

St. Louis, Missouri
November 26, 2018

THE LUTHERAN CHURCH—MISSOURI SYNOD AND SUBSIDIARIES

Consolidated Statements of Financial Position

June 30, 2018 and 2017

(See Independent Auditor's Report)

	<i>In Thousands</i>	
	2018	2017
ASSETS		
Cash and cash equivalents – domestic operations	\$ 16,458	\$ 13,166
Cash and cash equivalents – foreign operations <i>(Note B)</i>	44,041	20,081
Accrued interest and dividends receivable	965	1,051
Contributions receivable – net <i>(Note F)</i>	16,489	16,611
Notes and accounts receivable:		
From Synod-related parties	3,103	3,280
From others	14,181	15,778
Total notes and accounts receivable	17,284	19,058
Land, buildings, and equipment – net of depreciation <i>(Note G)</i>	48,766	50,705
Investments <i>(Note C)</i>	94,914	97,996
Funds held in custody by others <i>(Note H)</i>	19,803	18,237
Prepaid expenses – Convention and Youth Gathering	1,488	-
Other assets	2,217	2,925
TOTAL ASSETS	\$ 262,425	\$ 239,830
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 11,058	\$ 10,763
LCEF line of credit	544	1,753
Support payable <i>(Note I)</i>	4,053	4,191
Funds on deposit by related entities	496	1,001
Notes payable <i>(Note J)</i>	9,115	9,568
Deferred revenue:		
Convention and Youth Gathering	4	-
Tuition and fees	39,549	34,529
Other <i>(Note U)</i>	7,237	9,361
Total deferred revenue	46,790	43,890
Advance payments on third-party billings	12,131	12,966
Capital lease obligations	889	-
Other liabilities	2,692	2,131
Funds held in custody for others	866	1,337
Total liabilities	88,634	87,600
Net assets		
Unrestricted:		
Undesignated	43,079	29,826
Board Designated <i>(Note K)</i>	8,849	8,881
Net investment in land, buildings and equipment	48,315	50,031
Total unrestricted	100,243	88,738
Temporarily restricted <i>(Note L)</i>	39,024	30,436
Permanently restricted <i>(Note M)</i>	34,524	33,056
Total net assets	173,791	152,230
TOTAL LIABILITIES AND NET ASSETS	\$ 262,425	\$ 239,830

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

THE LUTHERAN CHURCH—MISSOURI SYNOD AND SUBSIDIARIES

Consolidated Statement of Activities

Year Ended June 30, 2018

(See Independent Auditor's Report)

(In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support, revenues, and gains				
Support:				
District pledge	\$ -	\$ 13,931	\$ -	\$ 13,931
Gifts and grants	3,355	39,221	(50)	42,526
Bequests	2,930	5,312	-	8,242
Contributed services (Note N)	-	1,200	-	1,200
Total support	6,285	59,664	(50)	65,899
Revenues:				
Investment and trust income	608	1,145	1	1,754
Sales and services (Note O)	3,453	-	-	3,453
Convention and Youth Gathering	-	-	-	-
Concordia Plan Services	28,244	-	-	28,244
LCMS Holdings Limited – tuition and other	60,360	-	-	60,360
Total revenues	92,665	1,145	1	93,811
Net realized & unrealized gain on investments	99	321	937	1,357
Change in value of split-interest agreements	-	45	580	625
Gain on sale of assets	2,116	-	-	2,116
Net assets released from restrictions (Note L)	52,587	(52,587)	-	-
Total support, revenues, and gains	153,752	8,588	1,468	163,808

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

THE LUTHERAN CHURCH—MISSOURI SYNOD AND SUBSIDIARIES

Consolidated Statement of Activities – Continued

Year Ended June 30, 2018

(See Independent Auditor's Report)

(In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Expenses				
Programs				
International Mission	26,053	-	-	26,053
National Mission	9,123	-	-	9,123
Youth Gathering	-	-	-	-
Pastoral Education	3,517	-	-	3,517
University Education	2,282	-	-	2,282
KFUO	1,310	-	-	1,310
Communications	3,768	-	-	3,768
National Housing Support Corporation	1,070	-	-	1,070
Lutheran Center for Religious Liberty	579	-	-	579
Total programs	47,702	-	-	47,702
Ecclesiastical services and commissions	2,597	-	-	2,597
Synodical constitutional officers and administration	4,125	-	-	4,125
General and administrative	5,546	-	-	5,546
Concordia Plan Services	27,072	-	-	27,072
LCMS Holdings Limited – International School Operations	51,913	-	-	51,913
Mission Advancement	5,416	-	-	5,416
Total expenses	144,371	-	-	144,371
Foreign currency translation (Note B)	2,124	-	-	2,124
Change in net assets	11,505	8,588	1,468	21,561
Net assets at beginning of year	88,738	30,436	33,056	152,230
Net assets at end of year	\$ 100,243	\$ 39,024	\$ 34,524	\$ 173,791

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

THE LUTHERAN CHURCH—MISSOURI SYNOD AND SUBSIDIARIES

Consolidated Statement of Activities

Year Ended June 30, 2017

(See Independent Auditor's Report)

(In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support, revenues, and gains				
Support:				
District pledge	\$ 27	\$ 14,340	\$ -	\$ 14,367
Gifts and grants	1,742	27,702	301	29,745
Bequests	2,300	4,093	-	6,393
Contributed services (Note N)	-	1,200	-	1,200
Total support	4,069	47,335	301	51,705
Revenues:				
Investment and trust income	759	1,172	2	1,933
Sales and services (Note O)	3,575	-	-	3,575
Convention and Youth Gathering	9,718	-	-	9,718
Concordia Plan Services	24,790	-	-	24,790
LCMS Holdings Limited – tuition and other	49,176	-	-	49,176
Total revenues	88,018	1,172	2	89,192
Net realized & unrealized gain on investments	201	765	-	966
Change in value of split-interest agreements	-	179	1,198	1,377
Gain on sale of assets	1,988	-	-	1,988
Net assets released from restrictions (Note L)	51,738	(51,738)	-	-
Total support, revenues, and gains	146,014	(2,287)	1,501	145,228

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

THE LUTHERAN CHURCH—MISSOURI SYNOD AND SUBSIDIARIES

Consolidated Statement of Activities – Continued

Year Ended June 30, 2017

(See Independent Auditor's Report)

(In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Expenses				
Programs				
International Mission	26,965	-	-	26,965
National Mission	8,090	-	-	8,090
Youth Gathering	8,421	-	-	8,421
Pastoral Education	3,097	-	-	3,097
University Education	1,033	-	-	1,033
KFUO	1,634	-	-	1,634
Communications	4,085	-	-	4,085
National Housing Support Corporation	1,712	-	-	1,712
Total programs	55,037	-	-	55,037
Ecclesiastical services and commissions	3,430	-	-	3,430
Synodical constitutional officers and administration	6,458	-	-	6,458
General and administrative	5,296	-	-	5,296
Concordia Plan Services	23,745	-	-	23,745
LCMS Holdings Limited – International School Operations	44,419	-	-	44,419
Mission Advancement	5,763	-	-	5,763
Total expenses	144,148	-	-	144,148
Foreign currency translation (<i>Note B</i>)	(1,873)	-	-	(1,873)
Change in net assets	(7)	(2,287)	1,501	(793)
Net assets at beginning of year	88,745	32,723	31,555	153,023
Net assets at end of year	\$ 88,738	\$ 30,436	\$ 33,056	\$ 152,230

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

THE LUTHERAN CHURCH—MISSOURI SYNOD AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years Ended June 30, 2018 and 2017

(See Independent Auditor's Report)

	<i>In Thousands</i>	
	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 21,561	\$ (793)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	5,737	6,024
Loss on fixed asset retirement	135	1
Allowance adjustment for uncollectible receivables	(28)	(104)
Gain on investments	(380)	(973)
Gain on value of split interest agreements	(626)	(1,377)
Gain on sale of fixed assets	(2,116)	(1,988)
Changes in operating assets and liabilities:		
Increase in accrued interest receivable	(829)	(563)
Decrease in contributions receivable	121	126
(Increase) decrease in accounts receivable	(818)	2,305
(Increase) decrease in prepaid expenses and other assets	(756)	6,245
Increase in funds held in custody by others	(940)	(394)
Increase (decrease) in accounts payable and accrued expenses	1,300	(277)
Decrease in support payable to related entities	(138)	(567)
Increase (decrease) in deferred revenues and other liabilities	4,743	(1,089)
(Decrease) increase in advance payments for third-party billings	(835)	103
(Decrease) increase in funds held in custody for others	(471)	70
Contributions restricted for long-term investment	50	(301)
Net cash provided by operating activities	25,710	6,448
Cash flows from investing activities:		
Purchases of property, plant, and equipment	(2,189)	(8,014)
Disposal of property, plant, and equipment	15	5
Purchases of investments	5,181	(74,872)
Proceeds from sale of investments	732	4,908
Additions to notes receivable	(590)	(1,267)
Principal collections on notes receivable	2,714	2,598
Net cash provided by (used in) investing activities	5,863	(76,642)
Cash flows from financing activities:		
Decrease in funds on deposit by related entities	(505)	(7,922)
Increase in line of credit	469	2,700
Decrease in line of credit	(1,679)	(1,270)
Payments on line of credit	283	1,150
Payments on notes payable	(658)	(1,069)
Payments on capital lease obligation	(125)	-
Contributions restricted for long-term investment	(50)	301
Net cash used in financing activities	(2,265)	(6,110)
Effect of exchange rate changes	(2,056)	105
Net increase (decrease) in cash and cash equivalents	27,252	(76,199)
Cash and cash equivalents at beginning of year	33,247	109,446
Cash and cash equivalents at end of year	\$ 60,499	\$ 33,247
Supplemental cash flow data:		
Interest paid	\$ 76	\$ 94
Taxes paid	\$ 3,102	\$ 1,542

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

THE LUTHERAN CHURCH—MISSOURI SYNOD AND SUBSIDIARIES

Notes to Consolidated Financial Statements

June 30, 2018

(See Independent Auditor's Report)

Note A - Summary of Organization

The Lutheran Church—Missouri Synod (LCMS or the Synod) was organized in the state of Missouri in 1847 for the conservation and promotion of the unity of the true faith, strengthening congregations and their members in giving bold witness by word and deed, recruiting and training professional church workers, and extending the gospel witness into all the world. The LCMS was incorporated as a not-for-profit corporation in 1894 to manage the business affairs of the Synod at large, officially adopting the present name in 1947. For purposes of this report, the name LCMS or the Synod refers to LCMS, Inc. and the related organizations consolidated in this report.

The Board of Directors is the legal representative of the Synod. It is the custodian of all property of the Synod, directly or by its delegation of such authority to an agency of the Synod. It exercises supervision over all property and business affairs of the Synod except in those areas where authority has been delegated to another agency of the Synod, or where through the adoption of bylaws or other convention action specific areas of responsibility have been assigned to separate boards or trust entities, and as to those, the Board of Directors has general oversight responsibility.

The Synod, under the direction of its Board of Directors, is presently responsible for managing and reporting the following:

Programs:

International Mission – Coordinates and supports the ministries of the Synod in foreign countries. Its functions include the placement and support of foreign missionaries, establishment and maintenance of international schools, coordination of international relief efforts, and support and encouragement of international partner churches in conjunction with the Office of the President.

National Mission – Coordinates and supports domestic ministries and especially congregations and schools through their districts. Such ministries may include school ministries and accreditation, human care and domestic disaster response, stewardship, evangelism, church planting and revitalization, youth ministry, ethnic ministries, and granting recognized service organization status to deserving organizations. A major activity of the National Mission department is the triennial National Youth Gathering.

Pastoral Education – Plans, promotes, and coordinates pastoral education to provide healthy, well-trained clergy for the LCMS. The scope of this activity includes pre-seminary education, seminary education, and post-seminary continuing education within the Synod.

University Education – Reflects the support given by the Synod to the Concordia University System, Inc. (CUS) and all the Synod's colleges and universities to assist in providing for the education of commissioned ministers, other professional church workers for the Synod, and others desiring a Lutheran liberal arts education.

KFUO radio – Managed by the President's Office, the Christian radio station is operated out of St. Louis, MO to provide distinctively Lutheran programming around the world.

Communications – Exists to interpret the Synod's purpose and programs to its members and to promote an increased understanding on the part of the Church's publics of the church's mission.

THE LUTHERAN CHURCH—MISSOURI SYNOD AND SUBSIDIARIES

Notes to Consolidated Financial Statements – Continued

June 30, 2018

(See Independent Auditor's Report)

Note A - Summary of Organization (Continued)

Ecclesiastical Services and Commissions – Includes the Commissions on Theology and Church relations, Constitutional Matters, and Handbook, along with conflict resolution, rosters, and church relations.

Synodical Constitutional Officers and Administration – Consists of the Boards and executive officers established by the constitution who have the responsibility to manage and preserve the operations of the Synod. Also included is the Concordia Historical Institute subsidy and triennial synodical convention.

General and administrative – Includes accounting, audit, legal, insurance, computer operations, general services, and human resources expenses, some of which are incurred by the Synod for the benefit of other related entities and accordingly billed to those entities.

Mission Advancement – Serves as the fundraising and donor-relations arm of the Synod, working closely with the LCMS Foundation who supplies specialized services or products to donors.

The Synod relies on donations from its over 6,000 congregations as well as donations from individuals and grants from agencies for the majority of its support. These donations and grants are subject to fluctuations in the economic status of the area in which the congregations, individuals, and agencies are located.

Other Related Organizations

The Synod in convention has authorized the formation of 35 districts as separate legal entities to achieve its objectives and carry on its activities. It has also formed, as separate not-for-profit corporations, 11 educational institutions, CUS, a publishing house, a foundation, church extension programs, and its archives. The accompanying consolidated financial statements represent the operations of the Synod national offices, including Synodical administration over which the Board of Directors of the Synod has direct responsibility and control, and do not include the operations of the districts, universities, seminaries, CUS, Concordia Publishing House (CPH), The Lutheran Church—Missouri Synod Foundation (Foundation), Lutheran Church Extension Fund (LCEF), and Concordia Historical Institute (CHI), for which the Board of Directors of the Synod has oversight responsibilities as further explained in Note B, “Summary of Significant Accounting Policies.”

The Board of Directors allocates available funds to program boards, commissions, and departments of the corporate Synod and holds them responsible.

Concordia Plan Services

Concordia Plan Services (CPS) is a not-for-profit subsidiary corporation formed by approval of the Synod’s Board of Directors to administer the benefit plans of the Synod. Established in the state of Missouri, CPS began operations effective July 1, 2005 and has the Synod as its sole member.

CPS administers the employee benefit plans (Concordia Retirement Plan (CRP), Concordia Disability and Survivor Plan (CDSP), Concordia Health Plan (CHP), Concordia Retirement Savings Plan (CRSP), and the Pension Plan for Pastors and Teachers (PPPT), collectively, “the Plans”) established by the Synod. The consolidated financial statements of the Synod do not include the operations of the Plans.

THE LUTHERAN CHURCH—MISSOURI SYNOD AND SUBSIDIARIES

Notes to Consolidated Financial Statements – Continued

June 30, 2018

(See Independent Auditor's Report)

Note A - Summary of Organization (Continued)

The Synod has all powers which can be vested in members of a corporation under the Missouri Nonprofit Corporation Act. Subject to limitations, the business and property of CPS is managed and controlled by a Board of Directors. The duly appointed and serving members of the Board of Trustees of the Concordia Plans of the Lutheran Church—Missouri Synod also shall serve as the Board of Directors of CPS, provided, however, that the Chief Financial Officer of the Synod shall serve as a nonvoting member.

The Synod and CPS are organizations described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, and have received a determination letter from the Internal Revenue Service stating that it is exempt from federal income taxes on income from related exempt activities under Code Section 501(a).

LCMS National Housing Support Corporation

A wholly owned subsidiary corporation of the Synod, the LCMS National Housing Support Corporation (NHSC) was formed by the Board of Directors of the Synod for the primary purpose of furthering the housing ministry of the Synod. The Synod maintains control over the NHSC, having delegated its powers to be exercised by the Board of Directors for the NHSC.

The NHSC is a not-for-profit organization, organized in the state of Missouri in 2004 for charitable and educational purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the Code). Specifically, NHSC was organized to combat poverty and community deterioration. It was included and is covered under the Synod's group exempt ruling, issued by the Internal Revenue Service (IRS) in January 1965. It is therefore exempt from federal income taxes on income from related exempt activities under Code Section 501(a). In order to assist in carrying out its mission and for purposes of limiting liability on a project-by-project basis, the NHSC formed College Hill, LLC which serves as the vehicle for project development in the College Hill neighborhood in St. Louis, MO.

LCMS Holdings, Ltd. Hong Kong

A wholly owned subsidiary corporation of the Synod, LCMS Holdings, Ltd. Hong Kong (LCMS Holdings) is a limited liability company incorporated in Hong Kong and consolidated following the requirements of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958-810, *Not-for-Profit Entities—Consolidation*. Its principal activity is investment holding. The principal activity of its subsidiaries, Concordia International School Shanghai (CISS) and Concordia International School Hanoi (CISH), is operating a school for expatriate children in Shanghai and Hanoi respectively.

Lutheran Center for Religious Liberty (LCRL)

A wholly owned subsidiary corporation of the Synod, LCRL was formed by the Board of Directors of the LCMS for the primary purpose of educating and advancing the Synod's religious beliefs. The Synod maintains control over the LCRL, having delegated its powers to be exercised by the Board of Directors for the LCRL. The LCRL is a not-for-profit organization, organized in the state of Missouri in 2015 within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, and is included and covered under the Synod's group exempt ruling, issued by the IRS in January 1965, rendering it exempt from federal income taxes on income from related exempt activities under Code Section 501(a). LCRL is consolidated following the requirements of the FASB ASC 958-810, *Not-for-Profit Entities—Consolidation*.

THE LUTHERAN CHURCH—MISSOURI SYNOD AND SUBSIDIARIES

Notes to Consolidated Financial Statements – Continued

June 30, 2018

(See Independent Auditor's Report)

Note B - Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements have been prepared using the accrual basis of accounting and follow the requirements of the FASB ASC, 958-205-05, *Not-for-Profit Entities*. Under these standards, the Synod is required to report information regarding its financial position and activities according to three classes of net assets—unrestricted, temporarily restricted, and permanently restricted.

Principles of Consolidation

The consolidated financial statements include the accounts of the Lutheran Church—Missouri Synod, National Housing Support Corporation, Lutheran Center for Religious Liberty, Concordia Plan Services, and LCMS Holdings, Ltd. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates

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

Cash and Cash Equivalents

For consolidated financial statement purposes, the Synod considers currency, demand deposits, and liquid investments with a maturity of three months or less, when purchased, to be cash equivalents. At June 30, 2018 and 2017, cash and cash equivalents include deposits held at LCEF. At times, bank deposits may be in excess of federally insured limits.

Cash and cash equivalents – foreign operations represents the cash balances of LCMS Holdings, Ltd. Due to Chinese regulations, virtually the entire cash balance cannot be repatriated to the United States and is unavailable for the domestic operations of the Synod.

Notes and Accounts Receivable

Notes and accounts receivable are carried at unpaid principal balances, less an allowance for loan and other losses. The allowance for loan losses is increased by charges to the change in net assets and decreased by charge-offs (net of recoveries). Management's periodic evaluation of the adequacy of the allowance is based on the Synod's past loan loss experience, specific impaired loans, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and current economic conditions. Past due status is determined based on contractual terms. Loans are considered impaired if full principal or interest payments are not anticipated in accordance with the contractual terms. The Synod's practice is to charge off any loan or portion of a loan when the loan is determined by management to be uncollectible due to the borrower's failure to meet repayment terms, the borrower's deteriorating or deteriorated financial condition, the depreciation of the underlying collateral, or for other reasons.

THE LUTHERAN CHURCH—MISSOURI SYNOD AND SUBSIDIARIES

Notes to Consolidated Financial Statements – Continued

June 30, 2018

(See Independent Auditor's Report)

Note B - Summary of Significant Accounting Policies (Continued)

Interest ceases to be accrued on loans when management believes, after considering economic conditions, business conditions, and collection efforts, that loans are impaired, or collection of interest is doubtful. Uncollected accrued interest is charged off or an allowance is established by a charge to interest income. Interest income on such loans is recognized only to the extent cash payments are received.

Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

Investments and Recognition of Gains and Losses

The Synod carries investments at fair value. Gains and losses, both realized and unrealized, are recognized in the consolidated statement of activities.

All gains and losses are reflected in the consolidated statement of activities as increases or decreases in unrestricted or temporarily restricted net assets as appropriate based on donor restrictions.

Split-Interest Agreements

Split-interest agreements consist primarily of irrevocable charitable remainder trusts and charitable gift annuities. The assets associated with such agreements are held by the Foundation. Contributions are recognized as either contributions receivable or funds held in custody by others and gift income when the Synod is notified of the agreements, and are recorded at the present value of the estimated future benefits to be received when the assets are distributed to the Synod. The valuations of the agreements are initially calculated by the Foundation. The agreements are re-valued annually and any resulting actuarial gain or loss is reflected in the statement of activities as a change in value of split-interest agreements.

Capitalization of Collections

The Synod does not record or capitalize its collections of works of art, historical treasures, and similar assets donated or purchased. These collections are held for public exhibition, education, and research in furtherance of the Synod's public ministry. Management believes the collections are appropriately cared for and preserved and are subject to a policy that generally requires the proceeds from sales of collection items, if any, to be used to acquire other items for the collection.

Revenue Recognition

The Synod recognizes contributions as support when they are received or unconditionally pledged. Amounts pledged are presented as contributions receivable and are stated at the net present value of the amount expected to be collected from outstanding balances. The Synod provides for an estimated uncollectible amount based on historical experience and industry trends.

The Synod reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions.

THE LUTHERAN CHURCH—MISSOURI SYNOD AND SUBSIDIARIES

Notes to Consolidated Financial Statements – Continued

June 30, 2018

(See Independent Auditor's Report)

Note B - Summary of Significant Accounting Policies (Continued)

The Synod reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted support. Absent explicit donor restrictions about how those long-lived assets must be maintained, the Synod reports expirations of donor restrictions when the donated or acquired long-lived assets are depreciated or disposed of except for gifts of land where the basis is when the asset is placed in service.

CPS management fee revenue is recognized when plan administration costs are incurred. The billing of these fees to the plans requires management to make certain estimates and assumptions that affect the allocations to each plan.

Tuition and related income for LCMS Holdings are recognized on a straight-line basis over the school year.

Support Payable

Pledges authorized and communicated to the recipient but unpaid at year-end are reported as liabilities and are included in support payable to related entities. With the exception of certain multi-year grants, all pledges are expected to be paid within one year.

Deferred Revenue

Paid registration fees for future events are deferred at the time the fees are received. Costs associated with these events are considered prepaid expenses until the events have occurred, which are then recognized at that time. Tuition and fees received by the educational institutions of LCMS Holdings are deferred until the start of the academic year, which begins in August.

Land, Buildings, and Equipment

Land, buildings, improvements, and equipment with a value of at least \$5,000 and having a useful life greater than one year are capitalized and recorded at cost, except for property received by gift, which is recorded at the fair value at date of receipt. Buildings, including foreign mission properties (25 to 40 years), improvements (20 years), furniture and fixtures (5 to 8 years), and equipment (3 to 8 years) are depreciated over their estimated useful lives using the straight-line method.

Land use rights are stated at cost less amortization and any impairment losses. Amortization is computed using the straight-line method based on the period over which the rights are granted by the relevant authorities in Shanghai in the People's Republic of China.

Endowments and Permanently Restricted Net Assets

The Board of Directors has interpreted the Missouri enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the Synod to appropriate for expenditure or accumulate so much of an endowment fund as determined prudent for the uses, benefits, purposes, and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board of Directors. Because of this interpretation, the Synod

THE LUTHERAN CHURCH—MISSOURI SYNOD AND SUBSIDIARIES

Notes to Consolidated Financial Statements – Continued

June 30, 2018

(See Independent Auditor's Report)

Note B - Summary of Significant Accounting Policies (Continued)

Endowments and Permanently Restricted Net Assets (Continued)

has not changed the way permanently restricted net assets are classified. 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 expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Board of Directors considers the following factors in making a determination to appropriate or accumulate endowment funds:

- 1) The duration and preservation of the fund.
- 2) The purposes of the Synod and the endowment fund.
- 3) General economic conditions.
- 4) The possible effect of inflation and deflation.
- 5) The expected total return from income and the appreciation of investments.
- 6) Other resources of the Synod.
- 7) The investment policies of the Synod.

Line-of-Credit

The Synod had a \$10.0 million unsecured line-of-credit with LCEF for 2018 and 2017. As of June 30, 2018, and 2017, borrowings against this line-of-credit were \$0 and \$1,430,000, respectively. The NHSC obtained a \$300,000 line of credit with LCEF in August 2016 collateralized by real estate and matured in August 2018. At June 30, 2018 and 2017, total borrowings were \$59,000 and \$46,000 with variable interest rates of 4.0% and 3.875%, respectively, maturing August 2018. The NHSC obtained an additional \$500,000 line of credit with LCEF to fund its loan program with total borrowings at June 30, 2018 and 2017 of \$485,000 and \$277,000, respectively, with fixed interest rates from 5% to 6.25%, maturing between fiscal years 2018 and 2021.

Foreign Currency Translation

LCMS Holdings is located in Hong Kong, China, and Vietnam. The functional currencies of these foreign operations are the local currencies. The financial statements of LCMS Holdings subsidiaries have been translated into U.S. dollars. All statement of financial position accounts have been translated using the exchange rate in effect at the statement of financial position dates. Statements of activities amounts have been translated using the average exchange rate for the year. Foreign currency translation adjustments resulted in a gain of \$2,124,000 in 2018 and a loss of \$1,873,000 in 2017 which have been reported separately in the consolidated statement of activities.

Change in Accounting Policy

In May 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2015-07, Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). This standard removes the requirement to categorize within the fair value hierarchy investments for which fair values are estimated using the net asset value practical expedient provided by Accounting Standards Codification 820, Fair Value Measurement. The Synod adopted this standard for the year ended June 30, 2018 and retrospectively for the year ended June 30, 2017.

THE LUTHERAN CHURCH—MISSOURI SYNOD AND SUBSIDIARIES

Notes to Consolidated Financial Statements – Continued

June 30, 2018

(See Independent Auditor's Report)

Note B - Summary of Significant Accounting Policies (Continued)

Subsequent Events

Management has evaluated events and transactions subsequent to June 30, 2018 through November 26, 2018, the date the consolidated financial statements were available to be issued.

Note C - Investments

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

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

Certificates of deposit—LCMS Holdings represents long-term certificates of deposit owned by CISS. Due to Chinese regulation, these investments cannot be repatriated to the United States and are unavailable for the domestic operations of the Synod.

Total investment return, reflected in the statement of activities, is shown net of related investment management fees of \$79,000 and \$75,000 at June 30, 2018 and 2017, respectively.

Details of investments held by the Synod at June 30, 2018 and 2017 are as follows:

<i>(In Thousands)</i>	2018	2017
LCEF notes	\$ 512	\$ 512
Common Trust funds managed by the Foundation:		
Fixed income	1,642	1,949
Equity	2,395	2,635
Moderate balanced	16,308	14,125
Money market	4	1
Certificates of deposit—LCMS Holdings, Ltd.	74,053	78,774
Total investments	<u>\$ 94,914</u>	<u>\$ 97,996</u>

THE LUTHERAN CHURCH—MISSOURI SYNOD AND SUBSIDIARIES

Notes to Consolidated Financial Statements – Continued

June 30, 2018

(See Independent Auditor's Report)

Note D - Fair Value Measurements

The Synod follows FASB ASC for Fair Value Measurements and Disclosures which establishes a framework for measuring fair value and expands disclosures about fair value measurements. The standard 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. It also establishes a fair value hierarchy used to disclose the measurement of fair value based on levels of observable or unobservable inputs. The FASB ASC describes three levels of inputs that may be used to measure fair value:

- Level 1 – Observable inputs that are derived from quoted prices in active markets for identical assets or liabilities.
- Level 2 – Quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Unobservable inputs that are significant and reflect substantial management judgment or estimation, including the use of pricing models, discounted cash flow methodologies or similar techniques.

Common Trust Funds are valued at the Net Asset Value (NAV) reported by each investment fund. The NAV, as provided by the investment fund, is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities. This practical expedient is not used when it is determined to be probable that the fund will sell the investment for an amount different than the reported NAV. Transactions (purchases and sales) may occur daily.

Fixed income portfolio holds a broad range of investment grade bonds and higher quality, non-investment grade bonds. The portfolio's focus is income generation with 78% core bond, 19% high yield bond, and 3% cash. Moderate balanced portfolio holds both fixed income and equity securities. This portfolio is more evenly balanced between fixed income and equity, providing modest income generation and potential for growth. The portfolio is made up of 21% international equity, 10% high yield bond, 39% core bond, 28% domestic equity, and 2% cash. Equity portfolio holds both U.S. stocks and foreign stocks in developed and emerging markets. The portfolio's focus is long-term growth with 43% international equity, 56% domestic equity, and 1% cash.

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Foundation Owned Endowments: Valued at the net present value of the revenue stream in perpetuity.

Irrevocable Trusts: Valued at the present value of expected future cash receipts adjusted for actuarial life expectancy of the gift annuitants including survivors.

THE LUTHERAN CHURCH—MISSOURI SYNOD AND SUBSIDIARIES

Notes to Consolidated Financial Statements – Continued

June 30, 2018

(See Independent Auditor's Report)

Note D - Fair Value Measurements (Continued)

Management determines the fair value measurement valuation policies and procedures, including those for Level 3 recurring and nonrecurring measurements. Management assesses and approves these policies and procedures. At least annually, Management: (1) determines if the current valuation techniques used in fair value measurements are still appropriate, and (2) evaluates and adjusts the unobservable inputs used in the fair value measurements based on current market conditions and third-party information. The Synod recognizes transfers between levels in the fair value hierarchy at the end of the reporting period.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement requires judgment and may affect their placement within the fair value hierarchy levels.

The following tables set forth by level, within the fair value hierarchy, invested assets as of June 30, 2018 and changes in fair value of Level 3 invested assets during the year ended June 30, 2018:

(In Thousands)

	Fair Value Measurements			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Leveled investments				
Irrevocable trusts	\$ -	\$ -	\$ 5,583	\$ 5,583
Foundation owned endowments	-	-	19,479	19,479
Lutheran Foundation of Texas	-	-	320	320
Homes held for sale	-	-	115	115
Total leveled investments	-	-	25,497	25,497
Common trust funds				
Fixed income				1,641
Equity				2,396
Moderate balanced				16,308
Money Market				4
Total common trust funds				20,349
LCEF investments				516
LCMS Holdings CDs				74,053
Total	\$ -	\$ -	\$ 25,497	\$ 120,415

THE LUTHERAN CHURCH—MISSOURI SYNOD AND SUBSIDIARIES

Notes to Consolidated Financial Statements – Continued

June 30, 2018

(See Independent Auditor's Report)

Note D - Fair Value Measurements (Continued)

(In Thousands)

	Changes in Level 3 Invested Assets			
	Beginning Balance	Additions	Unrealized Gains & (Losses)	Ending Balance
Invested assets				
Irrevocable trusts	\$ 5,555	\$ 551	\$ (523)	\$ 5,583
Foundation owned endowments	17,916	1,740	(177)	19,479
Lutheran Foundation of Texas	317	-	3	320
Homes held for sale	91	-	24	115
Total	\$ 23,879	\$ 2,291	\$ (673)	\$ 25,497

The following tables set forth by level, within the fair value hierarchy, invested assets as of June 30, 2017 and changes in fair value of Level 3 invested assets during the year ended June 30, 2017:

(In Thousands)

	Fair Value Measurements			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Leveled investments				
Irrevocable trusts	\$ -	\$ -	\$ 5,555	\$ 5,555
Foundation owned endowments	-	-	17,916	17,916
Lutheran Foundation of Texas	-	-	317	317
Homes held for sale	-	-	91	91
Total leveled investments	-	-	23,879	23,879
Common trust funds				
Fixed income				1,949
Equity				2,635
Moderate balanced				14,125
Money Market				1
Total common trust funds				18,710
LCEF investments				515
LCMS Holdings CDs				78,774
Total	\$ -	\$ -	\$ 23,879	\$ 121,878

THE LUTHERAN CHURCH—MISSOURI SYNOD AND SUBSIDIARIES

Notes to Consolidated Financial Statements – Continued

June 30, 2018

(See Independent Auditor's Report)

Note D - Fair Value Measurements (Continued)

<i>(In Thousands)</i>	Changes in Level 3 Invested Assets			
	Beginning Balance	Additions	Unrealized Gains & (Losses)	Ending Balance
Invested assets				
Irrevocable trusts	\$ 5,349	\$ 55	\$ 151	\$ 5,555
Foundation owned endowments	16,299	394	1,223	17,916
Lutheran Foundation of Texas	314	-	3	317
Homes held for sale	91	-	-	91
Total	<u>\$ 22,053</u>	<u>\$ 449</u>	<u>\$ 1,377</u>	<u>\$ 23,879</u>

The following tables summarize investments measured at fair value based on NAV per share as of June 30, 2018 and 2017:

<i>(In Thousands)</i>	2018			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Common Trust Funds	<u>\$ 20,349</u>	-	<u>Daily</u>	<u>Daily</u>

<i>(In Thousands)</i>	2017			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Common Trust Funds	<u>\$ 18,710</u>	-	<u>Daily</u>	<u>Daily</u>

Note E - Endowment Investment and Spending Policies

The Synod has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments. Endowment assets include those assets of donor-restricted funds that the Synod must hold in perpetuity and Board designated endowments. Under this policy, the endowment assets are invested in a manner intended to balance the total investment return used to fund current operations. These policies act in accordance with Generally Accepted Accounting Principles and applicable laws in the state of Missouri.

All endowment fund investments should be in accordance with the Synod's investment policy and the respective earnings are subject to the endowment spending policy. Endowments containing restrictive investment language will be excluded from the policy and invested in accordance with the donor's directions. Investment returns or earnings consist of interest, dividends, realized and unrealized gains or losses. All permanently restricted endowments will be recorded and maintained at the original value of an endowment gift when the gift was received.

THE LUTHERAN CHURCH—MISSOURI SYNOD AND SUBSIDIARIES

Notes to Consolidated Financial Statements – Continued

June 30, 2018

(See Independent Auditor's Report)

Note E - Endowment Investment and Spending Policies (Continued)

All endowment fund investments will be invested in The Lutheran Church—Missouri Synod Foundation in the following proportions: 40% in either the Standard Fund-Fixed Income or Mortgage Pool Fund, and 60% in the Standard Fund-Equity. The Chief Financial Officer of Synod is responsible for all investments of the Synod and should review the investment allocation periodically, making recommendations for changes if necessary. All new investments will be invested in The Lutheran Church—Missouri Synod Foundation in the latest percentages approved by the Chief Financial Officer.

From time to time the fair value of the assets associated with individual donor endowment funds may fall below the value of the initial and subsequent donor gift amount. When endowment values decline, temporarily restricted net assets are reduced up to the fair value of the original gift. Further reductions in the fair value of the endowments result in a reduction of unrestricted net assets. Such deficits result from unfavorable market changes and authorized appropriations and expenditures that are deemed prudent. The annual appropriation for endowment funds with deficits (underwater) are returned to corpus rather than released for spending. There were no deficits of this nature reported in unrestricted net assets at June 30, 2018 or 2017.

The changes in and composition of endowment net assets for the year ended June 30, 2018 and 2017 are as follows:

Changes in Endowment Net Assets
June 30, 2018
(In Thousands)

	Temporarily			Total
	Unrestricted	Restricted	Restricted	
Endowment net assets, beginning of year	\$ 3,661	\$ 3,311	\$ 15,180	\$ 22,152
Contributions	-	-	10	10
Income earned on investments	147	504	938	1,589
Unrealized gain/(loss) on investments	53	325	-	378
Appropriation of endowment assets for expenditure	835	(835)	-	-
Expenses paid from endowments	(1,597)	-	-	(1,597)
Net change in endowment assets	(562)	(6)	948	380
Endowment net assets, end of year	\$ 3,099	\$ 3,305	\$ 16,128	\$ 22,532

THE LUTHERAN CHURCH—MISSOURI SYNOD AND SUBSIDIARIES

Notes to Consolidated Financial Statements – Continued

June 30, 2018

(See Independent Auditor's Report)

Note E - Endowment Investment and Spending Policies (Continued)

Composition of Endowment Net Assets

June 30, 2018

(In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor designated endowment funds	\$ -	\$ 3,305	\$ 16,128	\$ 19,433
Board designated endowment funds	3,099	-	-	3,099
Total endowment funds	<u>\$ 3,099</u>	<u>\$ 3,305</u>	<u>\$ 16,128</u>	<u>\$ 22,532</u>

Changes in Endowment Net Assets

June 30, 2017

(In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 3,321	\$ 2,712	\$ 15,262	\$ 21,295
Contributions	-	-	(82)	(82)
Income earned on investments	139	562	-	701
Unrealized gain/(loss) on investments	201	769	-	970
Appropriation of endowment assets for expenditure	732	(732)	-	-
Expenses paid from endowments	(732)	-	-	(732)
Net change in endowment assets	<u>340</u>	<u>599</u>	<u>(82)</u>	<u>857</u>
Endowment net assets, end of year	<u>\$ 3,661</u>	<u>\$ 3,311</u>	<u>\$ 15,180</u>	<u>\$ 22,152</u>

Composition of Endowment Net Assets

June 30, 2017

(In Thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor designated endowment funds	\$ -	\$ 3,311	\$ 15,180	\$ 18,491
Board designated endowment funds	3,661	-	-	3,661
Total endowment funds	<u>\$ 3,661</u>	<u>\$ 3,311</u>	<u>\$ 15,180</u>	<u>\$ 22,152</u>

THE LUTHERAN CHURCH—MISSOURI SYNOD AND SUBSIDIARIES

Notes to Consolidated Financial Statements – Continued

June 30, 2018

(See Independent Auditor's Report)

Note F - Contributions Receivable

At June 30, 2018 and 2017, contributors had promised to give the Synod \$19,716,000 and \$19,579,000 respectively. Irrevocable deferred gifts are those which the Synod is the beneficiary and will receive the principal at some future date. Management believes total contributions will be received as follows:

(In Thousands)

	June 30, 2018			
	District Pledges	Irrevocable Deferred Gifts	Other	Total
Amount due:				
Within one year	\$ 9,225	\$ 124	\$ 2,032	\$ 11,381
One to five years	-	1,759	482	2,241
More than five years	-	6,094	-	6,094
Total Contributions Receivable	9,225	7,977	2,514	19,716
Less:				
Present value component	-	(2,394)	(33)	(2,427)
Allowance for doubtful contributions	(500)	-	(300)	(800)
Net Contributions Receivable	\$ 8,725	\$ 5,583	\$ 2,181	\$ 16,489

(In Thousands)

	June 30, 2017			
	District Pledges	Irrevocable Deferred Gifts	Other	Total
Amount due:				
Within one year	\$ 9,335	\$ 712	\$ 1,924	\$ 11,971
One to five years	-	1,785	630	2,415
More than five years	-	5,193	-	5,193
Total Contributions Receivable	9,335	7,690	2,554	19,579
Less:				
Present value component	-	(2,135)	(33)	(2,168)
Allowance for doubtful contributions	(500)	-	(300)	(800)
Net Contributions Receivable	\$ 8,835	\$ 5,555	\$ 2,221	\$ 16,611

Assumptions utilized in calculating the present value of irrevocable deferred gifts at June 30 are as follows:

	2018	2017
Growth rates	0% to 5.9%	0% to 6.0%
Discount rate	3.5%	3.6%
Distribution rate	7.0%	7.0%

THE LUTHERAN CHURCH—MISSOURI SYNOD AND SUBSIDIARIES

Notes to Consolidated Financial Statements – Continued

June 30, 2018

(See Independent Auditor's Report)

Note G - Land, Buildings and Equipment

Land, buildings and equipment consisted of the following:

<i>(In Thousands)</i>	<u>2018</u>	<u>2017</u>
International Center (62.32% ownership):		
Land and land improvements	\$ 842	\$ 842
Building and improvements	<u>11,271</u>	<u>11,997</u>
Total International Center	<u>12,113</u>	12,839
Furniture and fixtures	4,147	4,029
Equipment	15,568	14,257
Foreign mission properties	6,145	6,129
Work in progress	481	336
LCMS Holdings, Ltd.:		
Land use rights	6,121	6,165
Property, plant and equipment	<u>61,281</u>	<u>59,810</u>
Total land, buildings and equipment	<u>105,856</u>	103,565
Less accumulated depreciation	<u>(57,090)</u>	<u>(52,860)</u>
Book value of land, buildings and equipment	<u><u>\$ 48,766</u></u>	<u><u>\$ 50,705</u></u>

The International Center is jointly owned by the Synod (62.32%), LCMS Foundation (12.68%) and Concordia Plans (25%). The Synod's foreign mission properties represent property used in support of Synod administration and staff.

CPS entered into a five-year capital lease agreement with an unrelated third party on November 1, 2017 for telecommunications equipment and software, capitalized for a cost of \$1,014,000. Accumulated depreciation as of June 30, 2018 and depreciation expense for the year ended June 30, 2018 was \$135,000.

Note H - Funds Held in Custody by Others

The Synod is the beneficiary of the earnings on irrevocable trusts and various endowment funds held by the Foundation. The Synod will receive the earnings in perpetuity. The principal will not revert to the Synod. The perpetual stream of revenue is viewed by the Synod as promises to give by the individuals who established the trusts and endowments and has been recorded at the fair value of the trusts at June 30, 2018 and 2017, which closely approximates the net present value of the revenue stream in perpetuity.

Given the nature of the promises, the Synod has recorded these contributions as permanently restricted net assets. Revenue received is recorded as either unrestricted or temporarily restricted activity based upon the presence or absence of donor restrictions. Increases or decreases in the fair value of the trust assets are recorded as changes in permanently restricted net assets in the consolidated statement of activities.

THE LUTHERAN CHURCH—MISSOURI SYNOD AND SUBSIDIARIES

Notes to Consolidated Financial Statements – Continued

June 30, 2018

(See Independent Auditor's Report)

Note I - Support Payable

The following represents support the Synod has committed to pay at June 30, 2018 and 2017:

<i>(In Thousands)</i>	<u>2018</u>	<u>2017</u>
CUS and seminaries	\$ 2,878	\$ 2,878
CHI	420	400
Human Care multi-year grants	755	913
Total	<u>\$ 4,053</u>	<u>\$ 4,191</u>

Note J - Notes Payable

Effective April 30, 2013 the NHSC obtained a loan from LCEF to provide a maximum of \$130,000 with total borrowings at June 30, 2018 and 2017 of \$48,000 and \$50,000, respectively, to fund a capital campaign.

During 2014, CISH obtained a loan from LCEF for the construction of the educational facilities in Hanoi, Vietnam. The construction loan had a balance of \$8,617,000 and \$8,844,000 at June 30, 2018 and 2017, respectively, bearing interest at 4.375% per annum for the first 5 years and 30-day LIBOR plus 4% thereafter. It is repayable by monthly installments after June 30, 2018 with a final repayment on June 30, 2028. Monthly installments will be calculated at the conclusion of the construction project. The loan is secured by a pledge of property from LCMS Holdings.

CPS has a \$3.5 million line of credit available with the CRP, CDSP and CHP bearing interest at 3.5% and 1.5% per annum in 2018 and 2017, respectively. The collateralized notes payable balances were \$450,000 and \$674,000 at June 30, 2018 and 2017, respectively. CPS continues to use the line of credit to finance all newly acquired fixed assets used in the administration of the Plans. Per the terms of the note, CPS is required to pay monthly principal and interest payments where the principal portion is equal to that month's depreciation expense on the assets financed by the note.

Total future minimum payments for these borrowings based on current principal balances are as follows:

<i>(In Thousands)</i>	<u>Year Ending June 30</u>
2019	\$ 1,124
2020	916
2021	765
2022	765
2023	765
Thereafter	<u>7,222</u>
	11,557
Less amount representing interest	<u>2,442</u>
Total principal payments	<u>\$ 9,115</u>

THE LUTHERAN CHURCH—MISSOURI SYNOD AND SUBSIDIARIES

Notes to Consolidated Financial Statements – Continued

June 30, 2018

(See Independent Auditor's Report)

Note K - Board Designated Net Assets

The Board of Directors has designated unrestricted net assets primarily for the following purposes:

<i>(In Thousands)</i>	<u>2018</u>	<u>2017</u>
Youth Gathering	\$ 552	\$ 502
DCS Ministries Endowment Fund	55	51
Mission Property Fund	280	280
Risk Endowment	2,256	2,872
Innovations in Communications	5,252	4,382
Synodical Convention	250	250
Convention Mandated Activities	204	204
National Housing Support Corporation housing loans	-	340
Total Board designated net assets	<u>\$ 8,849</u>	<u>\$ 8,881</u>

Note L - Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

<i>(In Thousands)</i>	<u>2018</u>	<u>2017</u>
Program restrictions:		
Program boards:		
International Mission	\$ 12,369	\$ 10,194
National Mission	3,269	4,440
Multi-Departmental	6,662	730
Pastoral Educations	904	846
KFUO radio stations	43	43
Communications	36	47
National Housing Support Corporation	787	347
Total program boards	<u>24,070</u>	<u>16,647</u>
Ecclesiastical services and commissions	465	164
Synodical constitutional officers and administration	739	802
General and administrative	63	60
Mission Advancement	108	257
Total program restrictions	<u>25,445</u>	<u>17,930</u>
Time restrictions:		
District Pledges	5,729	5,838
Irrevocable trusts	5,584	5,555
Term endowments	2,266	1,113
Total time restrictions	<u>13,579</u>	<u>12,506</u>
Total temporarily restricted net assets	<u>\$ 39,024</u>	<u>\$ 30,436</u>

THE LUTHERAN CHURCH—MISSOURI SYNOD AND SUBSIDIARIES

Notes to Consolidated Financial Statements – Continued

June 30, 2018

(See Independent Auditor's Report)

Note L - Temporarily Restricted Net Assets (Continued)

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. Temporarily restricted net assets were released for the following purposes:

<i>(In Thousands)</i>	<u>2018</u>	<u>2017</u>
Program restrictions:		
Program:		
International Mission	\$ 23,672	\$ 24,001
National Mission	7,883	6,312
Pastoral Education	2,429	2,004
University Education	5	-
KFUO radio stations	942	1,104
Communications	13	38
National Housing Support Corporation	311	223
Total program boards	<u>35,255</u>	<u>33,682</u>
Ecclesiastical services and commissions	426	1,012
Synodical constitutional officers and administration	191	425
General and administrative	441	261
Mission Advancement	2,367	1,638
Total program restrictions	<u>38,680</u>	<u>37,018</u>
Expiration of time restrictions:		
District Pledges	13,907	14,720
Total restrictions released	<u>\$ 52,587</u>	<u>\$ 51,738</u>

Note M - Permanently Restricted Net Assets

Permanently restricted net assets are restricted to investment in perpetuity. The income from these investments will be used to support various Synod programs:

<i>(In Thousands)</i>	<u>2018</u>	<u>2017</u>
International Mission	\$ 15,966	\$ 16,361
National Mission	4,170	4,083
Multi-departmental funds	3,258	2,354
Pastoral Education	6,127	5,380
KFUO	1,067	1,012
National Housing Support Corporation	448	433
General operations	3,488	3,433
Total permanently restricted net assets	<u>\$ 34,524</u>	<u>\$ 33,056</u>

THE LUTHERAN CHURCH—MISSOURI SYNOD AND SUBSIDIARIES

Notes to Consolidated Financial Statements – Continued

June 30, 2018

(See Independent Auditor's Report)

Note N - Contributed Services

The Synod received donated professional services for its overseas mission work as teachers and volunteer coordinators. The Synod had approximately 35 professional full-time and part-time volunteer workers for the year ended June 30, 2018 and 2017. Support arising from these contributed services has been recognized in the consolidated financial statements at the estimated fair value of the services received totaling approximately \$1,200,000 for the years ended June 30, 2018 and 2017. In addition, a substantial number of unpaid volunteers made significant contributions of their time to LCMS World Relief, Youth Gathering, and other programs. The value of this service has not been reflected in the consolidated financial statements since it is not susceptible to objective measurement or valuation.

Note O - Inter-organizational Charges

The Synod provided various administrative services to related entities which is included in sales and services revenue as follows:

(In Thousands)

	2018					Total
	CUS	LCMS Foundation	LCEF	Colleges/ Seminaries	Other	
Chaplain Services	\$ -	\$ 16	\$ 12	\$ -	\$ -	\$ 28
Risk Management	-	1	36	339	21	397
Rosters & Statistics	26	2	6	4	9	47
Accounting	-	49	-	-	34	83
Human Resources	-	82	180	-	-	262
General Services	-	163	90	-	-	253
Total	\$ 26	\$ 313	\$ 324	\$ 343	\$ 64	\$ 1,070

(In Thousands)

	2017					Total
	CUS	LCMS Foundation	LCEF	Colleges/ Seminaries	Other	
Chaplain Services	\$ -	\$ 7	\$ 16	\$ -	\$ -	\$ 23
Risk Management	-	1	42	360	27	430
Rosters & Statistics	26	2	5	4	29	66
Accounting	-	50	-	-	34	84
Human Resources	-	106	237	-	-	343
General Services	1	148	93	-	-	242
Total	\$ 27	\$ 314	\$ 393	\$ 364	\$ 90	\$ 1,188

THE LUTHERAN CHURCH—MISSOURI SYNOD AND SUBSIDIARIES

Notes to Consolidated Financial Statements – Continued

June 30, 2018

(See Independent Auditor's Report)

Note P - Employee Benefits

The Synod participates in the Concordia Health Plan (CHP), the Concordia Disability and Survivor Plan (CDSP), the Concordia Retirement Plan (CRP), and the Concordia Retirement Savings Plan (CRSP). The assets and liabilities of the respective plans are separate and distinct from those of the Synod and cannot be used to satisfy the liabilities and obligations of the Synod. Substantially all full-time employees are covered by the CRP, CRSP, and the CDSP. The CRP and CRSP provide workers with income during retirement. All full-time workers (those employed more than 20 hours per week and at least 5 months a year) are eligible. Eligible members in the CRSP are 100% vested in all contributions and earnings on the member's account balance. The CDSP provides a disability benefit (for the worker) and a pre-retirement lump-sum death benefit (for the worker and enrolled dependents). All full-time workers must be offered the opportunity to enroll themselves and eligible dependents in the CDSP. The CDSP pays a monthly income benefit equal to 70% of an employee's monthly compensation when a worker becomes disabled due to a qualifying disability. The Synod contributes a fixed percentage of each participant's salary to the plans. The Plan also provides health and welfare benefits covering substantially all full time employees (those employed 20 hours or more per week) and their families.

Total expenses are as follows:

<i>(In Thousands)</i>	<u>2018</u>	<u>2017</u>
Concordia Health Plan	\$ 4,850	\$ 5,273
Concordia Disability and Survivor Plan	527	590
Concordia Retirement and Retirement Savings Plans	<u>2,159</u>	<u>2,440</u>
Total	<u>\$ 7,536</u>	<u>\$ 8,303</u>

There were no significant changes in the Synod's relationships to the plans or changes that would affect the comparability to the plan during June 30, 2018 or 2017. There were also no contingent liabilities associated with the plans at June 30, 2018 or 2017. Currently, the Synod has no intention to withdraw from the plans and the contributions and level of participation represent a small percentage of the plans.

Note Q - Guarantees of Indebtedness of Others

To assist related entities (primarily CUS and individual colleges) in obtaining favorable financing terms, the Synod has guaranteed the repayment of certain borrowings. In the event of a default declared by the lending institution, the Synod is obligated to perform under the guarantee agreement. The maximum future payments that could be required are disclosed below. CUS and the individual colleges plan to repay the loans from fund drives, operations of the institutions, and donated restricted net assets.

Total outstanding guarantees were as follows:

<i>(In Thousands)</i>	<u>2018</u>	<u>2017</u>
LCEF	\$ 10,945	\$ 11,937
Tax-exempt public financing:		
Concordia University – Irvine	-	18,210
Total loan guarantees	<u>\$ 10,945</u>	<u>\$ 30,147</u>

THE LUTHERAN CHURCH—MISSOURI SYNOD AND SUBSIDIARIES

Notes to Consolidated Financial Statements – Continued

June 30, 2018

(See Independent Auditor's Report)

Note Q - Guarantees of Indebtedness of Others (Continued)

The guarantees to LCEF include a restructuring loan entered into in 2001 and a line of credit issued to CUS which the Synod has guaranteed a maximum of \$10 million. The interest rate on the restructuring loan is variable and was 4.125% and 3.875% at June 30, 2018 and June 30, 2017, respectively, maturing on May 29, 2027. The line of credit interest rate is also variable and was 4.0% and 3.875% at June 30, 2018 and June 30, 2017, respectively.

The guarantees used to obtain tax-exempt financings and guarantees to LCEF are unsecured. The Synod does, however, retain a reversionary interest in the underlying properties granted by the respective educational institutions or through the bylaws of the Synod.

Note R - Contingencies

The Synod is involved in litigation arising in the normal course of business. After consultation with legal counsel, it is management's opinion that these matters will be resolved without a material adverse effect on the Synod's financial position or change in net assets.

Note S - Risks and Uncertainties

The Synod invests in various investment securities. Investment securities are exposed to risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the statements of financial position.

Note T - Taxes

No provision has been made for Hong Kong profits tax as LCMS Holdings did not earn any income which is subject to Hong Kong profits tax. No provision for taxation is required for CISH as it has a 100% tax exemption for the first 4 profitable years and 50% exemption for the following 5 years. Taxation of CISS is calculated at rates prevailing in the People's Republic of China, based on existing legislation, interpretations and local practices. CISS tax expense was \$3,102,000 and \$1,542,000 for 2018 and 2017, respectively, and is included in LCMS Holding Limited – Int'l School operations on the Consolidated Statement of Activities.

The Synod is exempt from Federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code except as to unrelated business income for which Form 990-T is filed. The Synod qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

The Synod has addressed the provisions of *FASB ASC 740, Accounting for Income Taxes*. In that regard, the Synod has evaluated its tax positions, expiring statutes of limitations, audits, proposed settlements, changes in tax laws and new authoritative rulings and believes that no provision for income taxes is necessary, at this time, to cover any uncertain tax positions.

THE LUTHERAN CHURCH—MISSOURI SYNOD AND SUBSIDIARIES

Notes to Consolidated Financial Statements – Continued

June 30, 2018

(See Independent Auditor's Report)

Note U - Other

During 2010, the Synod entered into an asset purchase agreement to sell the KFUE-FM radio broadcast license. The Synod has elected to account for the sale on the installment basis and defer recognition of the gain until payments are received under the purchase agreement. Included in "Other" at June 30, 2018 and 2017, is the receivable balance under the agreement and deferred gain on sale which was \$6,941,000 at June 30, 2018 and \$9,033,000 at June 30, 2017. Interest accrues at 5.25% per annum. Remaining principal payments are as follows based on calendar year: \$350,000 due in 2018, \$400,000 due in 2019 and \$6,191,000 due in 2020.

Supplemental Information

Independent Auditor's Report on Supplemental Information

Board of Directors
The Lutheran Church—Missouri Synod and Subsidiaries
St. Louis, Missouri

We have audited the consolidated financial statements of The Lutheran Church—Missouri Synod and Subsidiaries as of and for the years ended June 30, 2018 and 2017, and have issued our report thereon dated November 26, 2018, which contained an unmodified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of financial position, activities, and cash flows are presented for the purposes of additional analysis of the consolidated financial statements rather than to present the financial position, activities, and cash flows of the individual organizations, and it 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 audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information, which insofar as it relates to LCMS Holdings, Ltd. as of and for the years ended June 30, 2018 and 2017, is based on the report of other auditors, is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

The supplemental information on page 45 is for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and, accordingly, we express no opinion on it.

Brown Smith Wallace, LLP

St. Louis, Missouri
November 26, 2018

THE LUTHERAN CHURCH—MISSOURI SYNOD AND SUBSIDIARIES

Consolidating Statement of Financial Position

June 30, 2018

(See Independent Auditor's Report)

(In Thousands)

	Synod	NHSC	LCRL	CPS	LCMS Holdings	Eliminations	Total
ASSETS							
Cash and cash equivalents – domestic operations	\$ 4,700	\$ 339	\$ 631	\$ 10,788	\$ -	\$ -	\$ 16,458
Cash and cash equivalents – foreign operations	-	-	-	-	44,041	-	44,041
Accrued interest and dividends receivable	936	29	-	-	-	-	965
Contributions receivable – net	16,398	-	91	-	-	-	16,489
Notes and accounts receivable:							
From Synod-related parties	11,703	515	556	-	-	(9,671)	3,103
From others	7,075	485	3	4,108	2,510	-	14,181
Total notes and accounts receivable	18,778	1,000	559	4,108	2,510	(9,671)	17,284
Land, buildings, and equipment – net of depreciation	8,659	-	-	2,307	37,800	-	48,766
Investments	20,861	-	-	-	74,053	-	94,914
Funds held in custody by others	19,354	449	-	-	-	-	19,803
Prepaid expenses – Convention and Youth Gathering	1,488	-	-	-	-	-	1,488
Other assets	891	264	10	1,052	-	-	2,217
TOTAL ASSETS	\$ 92,065	\$ 2,081	\$ 1,291	\$ 18,255	\$ 158,404	\$ (9,671)	\$ 262,425
LIABILITIES AND NET ASSETS							
Liabilities							
Accounts payable and accrued expenses	\$ 2,796	\$ 990	\$ 21	\$ 4,023	\$ 4,141	\$ (913)	\$ 11,058
LCEF line of credit	-	544	-	-	-	-	544
Support payable	4,053	-	-	-	-	-	4,053
Funds on deposit by related entities	496	-	-	-	-	-	496
Notes payable	-	48	-	450	10,317	(1,700)	9,115
Deferred revenue:							
Convention and Youth Gathering	4	-	-	-	-	-	4
Tuition and fees	-	-	-	-	39,549	-	39,549
Other	7,237	-	-	-	-	-	7,237
Total deferred revenue	7,241	-	-	-	39,549	-	46,790
Advance payments on third-party billings	-	-	-	12,131	-	-	12,131
Capital lease obligations	-	-	-	889	-	-	889
Other liabilities	107	-	-	-	9,643	(7,058)	2,692
Funds held in custody for others	866	-	-	-	-	-	866
Total liabilities	15,559	1,582	21	17,493	63,650	(9,671)	88,634
Net assets							
Unrestricted:							
Undesignated	(13,315)	(736)	1,270	(1,094)	56,954	-	43,079
Board Designated	8,849	-	-	-	-	-	8,849
Net investment in land, buildings and equipment	8,659	-	-	1,856	37,800	-	48,315
Total unrestricted	4,193	(736)	1,270	762	94,754	-	100,243
Temporarily restricted	38,237	787	-	-	-	-	39,024
Permanently restricted	34,076	448	-	-	-	-	34,524
Total net assets	76,506	499	1,270	762	94,754	-	173,791
TOTAL LIABILITIES AND NET ASSETS	\$ 92,065	\$ 2,081	\$ 1,291	\$ 18,255	\$ 158,404	\$ (9,671)	\$ 262,425

THE LUTHERAN CHURCH—MISSOURI SYNOD AND SUBSIDIARIES

Consolidating Statement of Activities – Unrestricted

Year Ended June 30, 2018

(See Independent Auditor's Report)

(In Thousands)

	Synod	NHSC	LCRL	CPS	LCMS Holdings	Elimin- ations	Total
Support, revenues, and gains							
Support:							
District pledge	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Gifts and grants	2,069	319	1,857	-	-	(890)	3,355
Bequests	2,930	-	-	-	-	-	2,930
Contributed services	-	-	-	-	-	-	-
Total support	4,999	319	1,857	-	-	(890)	6,285
Revenues:							
Investment and trust income	665	28	-	-	-	(85)	608
Sales and services	4,335	137	-	-	-	(1,019)	3,453
Convention and Youth Gathering	-	-	-	-	-	-	-
Concordia Plan Services	-	-	-	28,244	-	-	28,244
LCMS Holdings Limited – tuition and other	-	-	-	-	60,360	-	60,360
Total revenues	5,000	165	-	28,244	60,360	(1,104)	92,665
Net realized & unrealized gain on investments	99	-	-	-	-	-	99
Change in value of split-interest agreements	-	-	-	-	-	-	-
Gain on sale of assets	2,092	24	-	-	-	-	2,116
Net assets released from restrictions	52,791	311	-	-	-	(515)	52,587
Total support, revenues, and gains	64,981	819	1,857	28,244	60,360	(2,509)	153,752

THE LUTHERAN CHURCH—MISSOURI SYNOD AND SUBSIDIARIES

Consolidating Statement of Activities – Unrestricted – Continued

Year Ended June 30, 2018

(See Independent Auditor's Report)

(In Thousands)

	Synod	NHSC	LCRL	CPS	LCMS Holdings	Eliminations	Total
Expenses							
Programs:							
International Mission	26,053	-	-	-	-	-	26,053
National Mission	10,403	-	-	-	-	(1,280)	9,123
Youth Gathering	-	-	-	-	-	-	-
Pastoral Education	3,517	-	-	-	-	-	3,517
University Education	2,282	-	-	-	-	-	2,282
KFUO	1,310	-	-	-	-	-	1,310
Communications	3,768	-	-	-	-	-	3,768
National Housing Support Corporation	-	1,075	-	-	-	(5)	1,070
Lutheran Center for Religious Liberty	-	-	587	-	-	(8)	579
Total programs	47,333	1,075	587	-	-	(1,293)	47,702
Ecclesiastical services and commissions	2,597	-	-	-	-	-	2,597
Synodical constitutional officers and administration	4,125	-	-	-	-	-	4,125
General and administrative	5,671	-	-	-	-	(125)	5,546
Concordia Plan Services	-	-	-	28,078	-	(1,006)	27,072
LCMS Holdings Limited – Int'l School Operations	-	-	-	-	51,998	(85)	51,913
Mission Advancement	5,416	-	-	-	-	-	5,416
Total expenses	65,142	1,075	587	28,078	51,998	(2,509)	144,371
Foreign currency translation	-	-	-	-	2,124	-	2,124
Change in net assets	(161)	(256)	1,270	166	10,486	-	11,505
Net assets at beginning of year	4,354	(480)	-	596	84,268	-	88,738
Net assets at end of year	\$ 4,193	\$ (736)	\$ 1,270	\$ 762	\$ 94,754	\$ -	\$ 100,243

THE LUTHERAN CHURCH—MISSOURI SYNOD AND SUBSIDIARIES

Consolidating Statement of Activities – Temporarily Restricted

Year Ended June 30, 2018

(See Independent Auditor's Report)

(In Thousands)

	Synod	NHSC	Eliminations	Total
Support, revenues, and gains				
Support:				
District pledge	\$ 13,931	\$ -	\$ -	\$ 13,931
Gifts and grants	39,002	734	(515)	39,221
Bequests	5,312	-	-	5,312
Contributed services	1,200	-	-	1,200
Total support	59,445	734	(515)	59,664
Revenues:				
Investment and trust income	1,128	17	-	1,145
Sales and services	-	-	-	-
Concordia Plan Services	-	-	-	-
LCMS Holdings Limited – tuition and other	-	-	-	-
Total revenues	1,128	17	-	1,145
Net realized & unrealized gain on investments	321	-	-	321
Change in value of split-interest agreements	45	-	-	45
Gain on sale of assets	-	-	-	-
Net assets released from restrictions	(52,791)	(311)	515	(52,587)
Total support, revenues, and gains	8,148	440	-	8,588
Change in net assets	8,148	440	-	8,588
Net assets at beginning of year	30,089	347	-	30,436
Net assets at end of year	\$ 38,237	\$ 787	\$ -	\$ 39,024

THE LUTHERAN CHURCH—MISSOURI SYNOD AND SUBSIDIARIES

Consolidating Statement of Activities – Permanently Restricted

Year Ended June 30, 2018

(See Independent Auditor's Report)

(In Thousands)

	Synod	NHSC	Total
Support, revenues, and gains			
Support:			
District pledge	\$ -	\$ -	\$ -
Gifts and grants	(50)	-	(50)
Bequests	-	-	-
Contributed services	-	-	-
Total support	(50)	-	(50)
Revenues:			
Investment and trust income	1	-	1
Sales and services	-	-	-
Concordia Plan Services	-	-	-
LCMS Holdings Limited – tuition and other	-	-	-
Total revenues	1	-	1
Net realized & unrealized gain on investments	937	-	937
Change in value of split-interest agreements	565	15	580
Gain on sale of assets	-	-	-
Net assets released from restrictions	-	-	-
Total support, revenues, and gains	1,453	15	1,468
Change in net assets	1,453	15	1,468
Net assets at beginning of year	32,623	433	33,056
Net assets at end of year	\$ 34,076	\$ 448	\$ 34,524

THE LUTHERAN CHURCH—MISSOURI SYNOD AND SUBSIDIARIES

Consolidating Statement of Cash Flows

Year Ended June 30, 2018

(See Independent Auditor's Report)

(In Thousands)

	Synod	NHSC	LCRL	CPS	LCMS Holdings	Eliminations	Total
Cash flows from operating activities:							
Change in net assets	\$ 9,440	\$ 199	\$ 1,270	\$ 166	\$ 10,486	\$ -	\$ 21,561
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:							
Depreciation	819	-	-	369	4,549	-	5,737
Amortization of capital lease	-	-	-	135	-	-	135
Allowance adjustment for uncollectible receivables	-	-	-	(28)	-	-	(28)
Gain on investments	(380)	-	-	-	-	-	(380)
Gain on value of split interest agreements	(610)	(16)	-	-	-	-	(626)
Gain on sale of fixed assets	(2,092)	(24)	-	-	-	-	(2,116)
Changes in operating assets and liabilities:							
(Increase) decrease in accrued interest receivable	108	(22)	-	-	(915)	-	(829)
(Increase) decrease in contributions receivable	187	25	(91)	-	-	-	121
(Increase) decrease in accounts receivable	95	(515)	(559)	(618)	390	389	(818)
(Increase) decrease in prepaid expenses and other assets	(498)	49	(10)	(297)	-	-	(756)
Increase in funds held in custody by others	(940)	-	-	-	-	-	(940)
Increase (decrease) in accounts payable and accrued expenses	(96)	319	21	688	757	(389)	1,300
Decrease in support payable	(138)	-	-	-	-	-	(138)
Increase (decrease) in deferred revenues and other liabilities	(3)	-	-	-	4,746	-	4,743
Decrease in advance payments for third-party billings	-	-	-	(835)	-	-	(835)
Decrease in funds held in custody for others	(471)	-	-	-	-	-	(471)
Contributions restricted for long-term investment	50	-	-	-	-	-	50
Net cash provided by (used in) operating activities	5,471	15	631	(420)	20,013	-	25,710
Cash flows from investing activities:							
Purchases of property, plant, and equipment	(80)	-	-	(1,089)	(1,020)	-	(2,189)
Disposal of property, plant, and equipment	15	-	-	-	-	-	15
Purchases of investments	(1,990)	-	-	-	7,171	-	5,181
Proceeds from sale of investments	732	-	-	-	-	-	732
Additions to notes receivable	(319)	(271)	-	-	-	-	(590)
Principal collections on notes receivable	2,651	63	-	-	-	-	2,714
Net cash provided by (used in) investing activities	1,009	(208)	-	(1,089)	6,151	-	5,863
Cash flows from financing activities:							
Decrease in funds on deposit by related entities	(505)	-	-	-	-	-	(505)
Increase in line of credit	-	469	-	-	-	-	469
Payments on line of credit	(1,430)	(249)	-	-	-	-	(1,679)
Increase in notes payable	-	112	-	177	(6)	-	283
Payments on notes payable	-	(114)	-	(402)	(142)	-	(658)
Payments on capital lease obligation	-	-	-	(125)	-	-	(125)
Contributions restricted for long-term investment	(50)	-	-	-	-	-	(50)
Net cash provided by (used in) financing activities	(1,985)	218	-	(350)	(148)	-	(2,265)
Effect of exchange rate changes	-	-	-	-	(2,056)	-	(2,056)
Net increase (decrease) in cash and cash equivalents	4,495	25	631	(1,859)	23,960	-	27,252
Cash and cash equivalents at beginning of year	205	314	-	12,647	20,081	-	33,247
Cash and cash equivalents at end of year	\$ 4,700	\$ 339	\$ 631	\$ 10,788	\$ 44,041	\$ -	\$ 60,499
Supplemental cash flow data:							
Interest paid	\$ 14	\$ 27	\$ -	\$ 35	\$ -	\$ -	\$ 76
Taxes paid	\$ -	\$ -	\$ -	\$ -	\$ 3,102	\$ -	\$ 3,102

THE LUTHERAN CHURCH—MISSOURI SYNOD AND SUBSIDIARIES

Consolidating Statement of Financial Position

June 30, 2017

(See Independent Auditor's Report)

(In Thousands)

	Synod	NHSC	CPS	LCMS Holdings	Elimin- ations	Total
ASSETS						
Cash and cash equivalents – domestic operations	\$ 205	\$ 314	\$ 12,647	\$ -	\$ -	\$ 13,166
Cash and cash equivalents – foreign operations	-	-	-	20,081	-	20,081
Accrued interest and dividends receivable	1,044	7	-	-	-	1,051
Contributions receivable – net	16,586	25	-	-	-	16,611
Notes and accounts receivable:						
From Synod-related parties	11,958	-	-	-	(8,678)	3,280
From others	9,247	277	3,467	2,787	-	15,778
Total notes and accounts receivable	21,205	277	3,467	2,787	(8,678)	19,058
Land, buildings, and equipment – net of depreciation	9,413	-	708	40,584	-	50,705
Investments	19,222	-	-	78,774	-	97,996
Funds held in custody by others	17,804	433	-	-	-	18,237
Prepaid expenses – Convention and Youth Gathering	-	-	-	-	-	-
Other assets	1,881	289	755	-	-	2,925
TOTAL ASSETS	\$ 87,360	\$ 1,345	\$ 17,577	\$ 142,226	\$ (8,678)	\$ 239,830
LIABILITIES AND NET ASSETS						
Liabilities						
Accounts payable and accrued expenses	\$ 2,891	\$ 672	\$ 3,341	\$ 3,859	\$ -	\$ 10,763
LCEF line of credit	1,430	323	-	-	-	1,753
Support payable	4,191	-	-	-	-	4,191
Funds on deposit by related entities	1,001	-	-	-	-	1,001
Notes payable	-	50	674	10,544	(1,700)	9,568
Deferred revenue:						
Convention and Youth Gathering	-	-	-	-	-	-
Tuition and fees	-	-	-	34,529	-	34,529
Other	9,361	-	-	-	-	9,361
Total deferred revenue	9,361	-	-	34,529	-	43,890
Advance payments on third-party billings	-	-	12,966	-	-	12,966
Other liabilities	83	-	-	9,026	(6,978)	2,131
Funds held in custody for others	1,337	-	-	-	-	1,337
Total liabilities	20,294	1,045	16,981	57,958	(8,678)	87,600
Net assets						
Unrestricted:						
Undesignated	(13,600)	(820)	562	43,684	-	29,826
Board Designated	8,541	340	-	-	-	8,881
Net investment in land, buildings and equipment	9,413	-	34	40,584	-	50,031
Total unrestricted	4,354	(480)	596	84,268	-	88,738
Temporarily restricted	30,089	347	-	-	-	30,436
Permanently restricted	32,623	433	-	-	-	33,056
Total net assets	67,066	300	596	84,268	-	152,230
TOTAL LIABILITIES AND NET ASSETS	\$ 87,360	\$ 1,345	\$ 17,577	\$ 142,226	\$ (8,678)	\$ 239,830

THE LUTHERAN CHURCH—MISSOURI SYNOD AND SUBSIDIARIES

Consolidating Statement of Activities – Unrestricted

Year Ended June 30, 2017

(See Independent Auditor's Report)

(In Thousands)

	Synod	NHSC	CPS	LCMS Holdings	Eliminations	Total
Support, revenues, and gains						
Support:						
District pledge	\$ 27	\$ -	\$ -	\$ -	\$ -	\$ 27
Gifts and grants	1,319	598	-	-	(175)	1,742
Bequests	2,300	-	-	-	-	2,300
Contributed services	-	-	-	-	-	-
Total support	3,646	598	-	-	(175)	4,069
Revenues:						
Investment and trust income	833	11	-	-	(85)	759
Sales and services	4,194	414	-	-	(1,033)	3,575
Convention and Youth Gathering	9,718	-	-	-	-	9,718
Concordia Plan Services	-	-	24,790	-	-	24,790
LCMS Holdings Limited – tuition and other	-	-	-	49,176	-	49,176
Total revenues	14,745	425	24,790	49,176	(1,118)	88,018
Net realized & unrealized gain on investments	201	-	-	-	-	201
Change in value of split-interest agreements	-	-	-	-	-	-
Gain on sale of assets	1,988	-	-	-	-	1,988
Net assets released from restrictions	51,515	223	-	-	-	51,738
Total support, revenues, and gains	72,095	1,246	24,790	49,176	(1,293)	146,014

THE LUTHERAN CHURCH—MISSOURI SYNOD AND SUBSIDIARIES

Consolidating Statement of Activities – Unrestricted – Continued

Year Ended June 30, 2017

(See Independent Auditor's Report)

(In Thousands)

	Synod	NHSC	CPS	LCMS Holdings	Eliminations	Total
Expenses						
Programs:						
International Mission	26,965	-	-	-	-	26,965
National Mission	8,090	-	-	-	-	8,090
Youth Gathering	8,421	-	-	-	-	8,421
Pastoral Education	3,097	-	-	-	-	3,097
University Education	1,033	-	-	-	-	1,033
KFUO	1,634	-	-	-	-	1,634
Communications	4,085	-	-	-	-	4,085
National Housing Support Corporation	-	1,724	-	-	(12)	1,712
Total programs	53,325	1,724	-	-	(12)	55,037
Ecclesiastical services and commissions	3,430	-	-	-	-	3,430
Synodical constitutional officers and administration	6,458	-	-	-	-	6,458
General and administrative	5,471	-	-	-	(175)	5,296
Concordia Plan Services	-	-	24,766	-	(1,021)	23,745
LCMS Holdings Limited – Int'l School Operations	-	-	-	44,504	(85)	44,419
Mission Advancement	5,763	-	-	-	-	5,763
Total expenses	74,447	1,724	24,766	44,504	(1,293)	144,148
Foreign currency translation	-	-	-	(1,873)	-	(1,873)
Change in net assets	(2,352)	(478)	24	2,799	-	(7)
Net assets at beginning of year	6,706	(2)	572	81,469	-	88,745
Net assets at end of year	\$ 4,354	\$ (480)	\$ 596	\$ 84,268	\$ -	\$ 88,738

THE LUTHERAN CHURCH—MISSOURI SYNOD AND SUBSIDIARIES

Consolidating Statement of Activities – Temporarily Restricted

Year Ended June 30, 2017

(See Independent Auditor's Report)

(In Thousands)

	Synod	NHSC	Eliminations	Total
Support, revenues, and gains				
Support:				
District pledge	\$ 14,340	\$ -	\$ -	\$ 14,340
Gifts and grants	27,594	108	-	27,702
Bequests	4,093	-	-	4,093
Contributed services	1,200	-	-	1,200
Total support	47,227	108	-	47,335
Revenues:				
Investment and trust income	1,156	16	-	1,172
Sales and services	-	-	-	-
Concordia Plan Services	-	-	-	-
LCMS Holdings Limited – tuition and other	-	-	-	-
Total revenues	1,156	16	-	1,172
Net realized & unrealized gain on investments	765	-	-	765
Change in value of split-interest agreements	179	-	-	179
Gain on sale of assets	-	-	-	-
Net assets released from restrictions	(51,515)	(223)	-	(51,738)
Total support, revenues, and gains	(2,188)	(99)	-	(2,287)
Change in net assets	(2,188)	(99)	-	(2,287)
Net assets at beginning of year	32,277	446	-	32,723
Net assets at end of year	\$ 30,089	\$ 347	\$ -	\$ 30,436

THE LUTHERAN CHURCH—MISSOURI SYNOD AND SUBSIDIARIES

Consolidating Statement of Activities – Permanently Restricted

Year Ended June 30, 2017

(See Independent Auditor's Report)

(In Thousands)

	Synod	NHSC	Total
Support, revenues, and gains			
Support:			
District pledge	\$ -	\$ -	\$ -
Gifts and grants	301	-	301
Bequests	-	-	-
Contributed services	-	-	-
Total support	301	-	301
Revenues:			
Investment and trust income	2	-	2
Sales and services	-	-	-
Concordia Plan Services	-	-	-
LCMS Holdings Limited – tuition and other	-	-	-
Total revenues	2	-	2
Net realized & unrealized gain on investments	-	-	-
Change in value of split-interest agreements	1,164	34	1,198
Gain on sale of assets	-	-	-
Net assets released from restrictions	-	-	-
Total support, revenues, and gains	1,467	34	1,501
Change in net assets	1,467	34	1,501
Net assets at beginning of year	31,156	399	31,555
Net assets at end of year	\$ 32,623	\$ 433	\$ 33,056

THE LUTHERAN CHURCH—MISSOURI SYNOD AND SUBSIDIARIES

Consolidating Statement of Cash Flows

Year Ended June 30, 2017

(See Independent Auditor's Report)

(In Thousands)

	Synod	NHSC	CPS	LCMS Holdings	Elimin- ations	Total
Cash flows from operating activities:						
Change in net assets	\$ (3,073)	\$ (543)	\$ 24	\$ 2,799	\$ -	\$ (793)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:						
Depreciation	1,151	-	470	4,403	-	6,024
Loss on fixed asset retirement	-	-	1	-	-	1
Allowance adjustment for uncollectible receivables	5	-	(109)	-	-	(104)
Gain on investments	(973)	-	-	-	-	(973)
Gain on value of split interest agreements	(1,343)	(34)	-	-	-	(1,377)
Gain on sale of fixed assets	(1,988)	-	-	-	-	(1,988)
Changes in operating assets and liabilities:						
Increase in accrued interest receivable	(19)	(7)	-	(537)	-	(563)
(Increase) decrease in contributions receivable	138	(12)	-	-	-	126
(Increase) decrease in accounts receivable	(199)	12	607	1,800	85	2,305
(Increase) decrease in prepaid expenses and other assets	6,019	287	(61)	-	-	6,245
Increase in funds held in custody by others	(394)	-	-	-	-	(394)
Increase (decrease) in accounts payable and accrued expense:	(533)	229	81	31	(85)	(277)
Decrease in support payable	(567)	-	-	-	-	(567)
Increase (decrease) in deferred revenues and other liabilities	(8,085)	-	-	6,996	-	(1,089)
Increase in advance payments for third-party billings	-	-	103	-	-	103
Increase in funds held in custody for others	70	-	-	-	-	70
Contributions restricted for long-term investment	(301)	-	-	-	-	(301)
Net cash provided by (used in) operating activities	(10,092)	(68)	1,116	15,492	-	6,448
Cash flows from investing activities:						
Purchases of property, plant, and equipment	(438)	-	(420)	(7,156)	-	(8,014)
Disposal of property, plant, and equipment	-	-	-	5	-	5
Purchases of investments	(171)	-	-	(74,701)	-	(74,872)
Proceeds from sale of investments	186	-	-	4,722	-	4,908
Additions to notes receivable	(801)	(466)	-	-	-	(1,267)
Principal collections on notes receivable	2,408	190	-	-	-	2,598
Net cash provided by (used in) investing activities	1,184	(276)	(420)	(77,130)	-	(76,642)
Cash flows from financing activities:						
Decrease in funds on deposit by related entities	(7,922)	-	-	-	-	(7,922)
Increase in line of credit	2,700	-	-	-	-	2,700
Payments on line of credit	(1,270)	-	-	-	-	(1,270)
Increase in notes payable	-	666	386	98	-	1,150
Payments on notes payable	-	(471)	(469)	(129)	-	(1,069)
Contributions restricted for long-term investment	301	-	-	-	-	301
Net cash provided by (used in) financing activities	(6,191)	195	(83)	(31)	-	(6,110)
Effect of exchange rate changes	-	-	-	105	-	105
Net increase (decrease) in cash and cash equivalents	(15,099)	(149)	613	(61,564)	-	(76,199)
Cash and cash equivalents at beginning of year	15,304	463	12,034	81,645	-	109,446
Cash and cash equivalents at end of year	\$ 205	\$ 314	\$ 12,647	\$ 20,081	\$ -	\$ 33,247
Supplemental cash flow data:						
Interest paid	\$ 77	\$ 9	\$ 8	\$ -	\$ -	\$ 94
Taxes paid	\$ -	\$ -	\$ -	\$ 1,542	\$ -	\$ 1,542

THE LUTHERAN CHURCH—MISSOURI SYNOD AND SUBSIDIARIES

Consolidated Statement of Expenses by Natural Classification

Year Ended June 30, 2018

(See Independent Auditor's Report)

(In Thousands)

	<u>Labor</u>	<u>Grants</u>	<u>Travel</u>	<u>Fundraising</u>	<u>Other</u>	<u>Total</u>
Programs						
International Mission	\$ 13,439	\$ 9,218	\$ 390	\$ -	\$ 3,006	\$ 26,053
National Mission	3,471	3,440	832	-	1,380	9,123
National Youth Gathering	-	-	-	-	-	-
Pastoral Education	337	2,981	99	-	100	3,517
University Education	-	2,282	-	-	-	2,282
KFUO	804	-	5	16	485	1,310
Communications	2,736	-	50	-	982	3,768
National Housing Support Corporation	381	4	48	92	545	1,070
Lutheran Center for Religious Liberty	246	34	-	149	150	579
Total programs	<u>21,414</u>	<u>17,959</u>	<u>1,424</u>	<u>257</u>	<u>6,648</u>	<u>47,702</u>
Ecclesiastical services and commissions	1,666	324	243	-	364	2,597
Synodical constitutional officers & administration	2,478	570	465	-	612	4,125
General and administrative	7,488	12	62	-	(2,016)	5,546
Concordia Plan Services	18,109	-	838	-	8,125	27,072
LCMS Holdings	29,915	-	-	-	21,998	51,913
Mission Advancement	-	-	-	5,416	-	5,416
Total expenses	<u>\$ 81,070</u>	<u>\$ 18,865</u>	<u>\$ 3,032</u>	<u>\$ 5,673</u>	<u>\$ 35,731</u>	<u>\$ 144,371</u>