

Lutheran World Relief, Incorporated

Financial Report
September 30, 2015

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Independent Auditors' Report

Board of Directors
Lutheran World Relief, Incorporated
Baltimore, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of Lutheran World Relief, Incorporated (LWR) which comprise the statements of financial position as of September 30, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LWR as of September 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on pages 4 and 5 of the changes in unrestricted net assets for operations and material resources, for the years ended September 30, 2015 and 2014, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated February 23, 2016 and February 9, 2015, on our consideration of LWR's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LWR's internal control over financial reporting and compliance.

RSM US LLP

Baltimore, Maryland
February 23, 2016

Lutheran World Relief, Incorporated

Statements of Financial Position
September 30, 2015 and 2014

Assets	2015	2014
Cash and Cash Equivalents	\$ 1,315,259	\$ 1,406,358
Investments (Notes 2 and 4)	25,347,262	31,213,939
Grants and Contributions Receivable, Net (Note 3)	2,080,781	1,300,646
Inventory of Materials for Distribution	3,381,869	2,892,720
Cash Surrender Value of Life Insurance Contracts (Note 1)	311,959	288,670
Other Investments (Note 6)	3,897,758	3,846,884
Charitable Trusts (Note 4)	2,009,789	2,165,611
Other Receivables and Prepaid Expenses	1,312,769	1,189,662
Other Assets (Note 7)	586,312	611,593
Property and Equipment, Net (Note 5)	866,060	896,357
Total assets	\$ 41,109,818	\$ 45,812,440
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 3,660,839	\$ 3,207,125
Advances for program purposes	2,199,909	2,806,592
Long-term debt (Note 7)	2,206,382	2,312,056
Total liabilities	8,067,130	8,325,773
Commitments and Contingencies (Notes 11 and 12)		
Net Assets		
Unrestricted		
General	20,717,056	24,973,841
Inventories of donated materials for distribution, at estimated values	3,328,177	2,855,568
Total unrestricted net assets	24,045,233	27,829,409
Temporarily restricted (Note 8)	8,746,717	9,406,520
Permanently restricted (Notes 8 and 9)	250,738	250,738
Total net assets	33,042,688	37,486,667
Total liabilities and net assets	\$ 41,109,818	\$ 45,812,440

See Notes to Financial Statements.

Lutheran World Relief, Incorporated
Statement of Activities
Year Ended September 30, 2015

	Unrestricted (Supplementary Information)		Unrestricted Total	Temporarily Restricted	Permanently Restricted	Total
	Operations	Material Resources				
Support and Revenue						
Support:						
Church body support:						
Evangelical Lutheran Church in America	\$ 6,590	\$ -	\$ 6,590	\$ 2,288,285	\$ -	\$ 2,294,875
Lutheran Church – Missouri Synod	362,629	-	362,629	235,000	-	597,629
North American Lutheran Church	8,200	-	8,200	2,928	-	11,128
	377,419	-	377,419	2,526,213	-	2,903,632
Contributions	11,987,752	-	11,987,752	4,245,523	-	16,233,275
Foundation grants	2,641,103	-	2,641,103	179,130	-	2,820,233
Bequests	2,777,767	-	2,777,767	(2,341)	-	2,775,426
U.S. Government grants (Note 10):						
Relief and other programs	4,751,639	-	4,751,639	-	-	4,751,639
Ocean freight reimbursement	23,200	-	23,200	-	-	23,200
Multilateral and bilateral grants	462,289	-	462,289	-	-	462,289
Corporate grants	201,806	-	201,806	-	-	201,806
Foods Resource Bank	-	-	-	255,569	-	255,569
Action by Churches Together	2,000,932	-	2,000,932	-	-	2,000,932
CWS via CROP	-	-	-	184,082	-	184,082
Combined Federal Campaign	138,152	-	138,152	458,244	-	596,396
Other revenue	101,725	-	101,725	-	-	101,725
	25,463,784	-	25,463,784	7,846,420	-	33,310,204
Support in-kind:						
Donated material resources	-	13,162,732	13,162,732	-	-	13,162,732
Net assets released from restrictions (Note 8)	8,506,223	-	8,506,223	(8,506,223)	-	-
Total support and revenue	33,970,007	13,162,732	47,132,739	(659,803)	-	46,472,936
Expenses						
Program services	30,572,443	12,690,123	43,262,566	-	-	43,262,566
Supporting services:						
Management and operations	3,318,431	-	3,318,431	-	-	3,318,431
Fundraising	3,876,649	-	3,876,649	-	-	3,876,649
Total supporting services	7,195,080	-	7,195,080	-	-	7,195,080
Total expenses	37,767,523	12,690,123	50,457,646	-	-	50,457,646
Changes in net assets before investment return net of amounts designated for current operations	(3,797,516)	472,609	(3,324,907)	(659,803)	-	(3,984,710)
Investment Return, Net of Amounts Designated for Current Operations	(459,269)	-	(459,269)	-	-	(459,269)
Changes in net assets	(4,256,785)	472,609	(3,784,176)	(659,803)	-	(4,443,979)
Net Assets						
Beginning	24,973,841	2,855,568	27,829,409	9,406,520	250,738	37,486,667
Ending	\$ 20,717,056	\$ 3,328,177	\$ 24,045,233	\$ 8,746,717	\$ 250,738	\$ 33,042,688

See Notes to Financial Statements.

Lutheran World Relief, Incorporated

Statement of Activities

Year Ended September 30, 2014

	Unrestricted (Supplementary Information)		Unrestricted	Temporarily	Permanently	Total
	Operations	Material Resources	Total	Restricted	Restricted	
Support and Revenue						
Support:						
Church body support:						
Evangelical Lutheran Church in America	\$ 1,000,000	\$ -	\$ 1,000,000	\$ 3,381,147	\$ -	\$ 4,381,147
Lutheran Church – Missouri Synod	577,883	-	577,883	270,759	-	848,642
North American Lutheran Church	12,547	-	12,547	-	-	12,547
	1,590,430	-	1,590,430	3,651,906	-	5,242,336
Contributions	11,983,094	-	11,983,094	4,875,492	2,499	16,861,085
Foundation grants	2,465,668	-	2,465,668	156,000	-	2,621,668
Bequests	1,574,534	-	1,574,534	572,193	-	2,146,727
U.S. Government grants (Note 10):						
Relief and other programs	3,453,221	-	3,453,221	-	-	3,453,221
Ocean freight reimbursement	31,800	-	31,800	-	-	31,800
Multilateral and bilateral grants	62,973	-	62,973	-	-	62,973
Corporate grants	234,715	-	234,715	-	-	234,715
Foods Resource Bank	-	-	-	208,824	-	208,824
Action by Churches Together	929,001	-	929,001	-	-	929,001
Combined Federal Campaign	-	-	-	560,869	-	560,869
Other revenue	1,221	-	1,221	-	-	1,221
	22,326,657	-	22,326,657	10,025,284	2,499	32,354,440
Support in-kind:						
Donated material resources	-	12,745,107	12,745,107	-	-	12,745,107
Net assets released from restrictions (Note 8)	7,210,092	-	7,210,092	(7,210,092)	-	-
Total support and revenue	29,536,749	12,745,107	42,281,856	2,815,192	2,499	45,099,547
Expenses						
Program services	26,075,993	12,042,615	38,118,608	-	-	38,118,608
Supporting services:						
Management and operations	2,855,295	-	2,855,295	-	-	2,855,295
Fundraising	3,471,987	-	3,471,987	-	-	3,471,987
Total supporting services	6,327,282	-	6,327,282	-	-	6,327,282
Total expenses	32,403,275	12,042,615	44,445,890	-	-	44,445,890
Changes in net assets before investment return net of amounts designated for current operations	(2,866,526)	702,492	(2,164,034)	2,815,192	2,499	653,657
Investment Return, Net of Amounts Designated for Current Operations	2,178,542	-	2,178,542	18,402	-	2,196,944
Changes in net assets	(687,984)	702,492	14,508	2,833,594	2,499	2,850,601
Net Assets						
Beginning	25,661,825	2,153,076	27,814,901	6,572,926	248,239	34,636,066
Ending	\$ 24,973,841	\$ 2,855,568	\$ 27,829,409	\$ 9,406,520	\$ 250,738	\$ 37,486,667

See Notes to Financial Statements.

Lutheran World Relief, Incorporated

Statement of Functional Expenses
Year Ended September 30, 2015

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

(Continued)

Lutheran World Relief, Incorporated

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

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

See Notes to Financial Statements

Lutheran World Relief, Incorporated

Statement of Functional Expenses
Year Ended September 30, 2014

	Program Services							
	Agriculture	Emergencies & Material Resources	Climate Change	Water	Civic Participation & Government Accountability	Health & Livelihoods	Constituent Engagement	Program Services
Salaries	\$ 1,704,205	\$ 2,429,353	\$ 476,944	\$ 107,235	\$ 91,062	\$ 282,277	\$ 427,204	\$ 5,518,280
Employee Benefits and Payroll Taxes	672,570	940,878	191,924	42,580	36,259	133,892	146,594	2,164,697
Total salaries and related expenses	2,376,775	3,370,231	668,868	149,815	127,321	416,169	573,798	7,682,977
Retained Services	289,318	487,185	196,321	15,777	11,623	48,728	297,866	1,346,818
Program Materials and Other Supplies	75,200	100,849	14,320	3,943	2,523	15,582	1,872	214,289
Communications and Postage	52,156	80,960	15,483	3,222	2,187	11,397	106,459	271,864
Occupancy Costs								
Cost share, including interest/rent	79,843	91,801	25,646	4,907	3,864	14,108	61,783	281,952
Overseas	113,105	231,084	31,085	6,686	5,990	14,285	-	402,235
Insurance	19,548	19,829	5,034	1,382	1,090	5,312	31	52,226
Cost of Equipment, Supplies and Maintenance	94,236	124,917	12,036	3,154	2,561	10,057	12,240	259,201
Travel and Meetings	426,592	678,487	118,497	23,681	17,334	107,109	72,704	1,444,404
Printing, Publications and Film	22,351	34,448	6,526	1,310	1,000	6,283	12,365	84,283
Membership Fees	27,887	43,517	9,128	1,785	1,406	5,125	66,083	154,931
Bank and Merchant Fees	-	7,587	-	-	-	-	-	7,587
Material Resources								
Donated materials								
(blankets and quilts, medical, etc.)	-	12,042,615	-	-	-	-	-	12,042,615
Purchased materials	-	168,881	-	-	-	-	-	168,881
Cash-related costs	-	1,414,439	-	-	-	-	-	1,414,439
Grants (Cash)	3,997,631	5,099,594	1,233,959	273,331	206,824	756,081	-	11,567,420
Program Inputs	47,324	52,665	184,251	392	339	848	-	285,819
Other Program Costs	115,648	56,442	15,878	5,721	6,566	6,886	15,876	223,017
Miscellaneous	37,725	73,514	11,957	2,317	1,260	11,159	3,259	141,191
Reimbursement of Administrative Expenses	-	-	-	-	-	-	-	-
Total expenses before depreciation	7,775,339	24,179,045	2,548,989	497,423	391,888	1,429,129	1,224,336	38,046,149
Depreciation of Equipment	24,322	34,858	4,108	1,799	1,289	4,323	1,760	72,459
Total expenses	\$ 7,799,661	\$ 24,213,903	\$ 2,553,097	\$ 499,222	\$ 393,177	\$ 1,433,452	\$ 1,226,096	\$ 38,118,608

(Continued)

Lutheran World Relief, Incorporated

Statement of Functional Expenses (Continued)
Year Ended September 30, 2014

	Supporting Services			
	Management and Operations	Fundraising	Supporting Services	Total Expenses
Salaries	\$ 1,316,106	\$ 1,167,152	\$ 2,483,258	\$ 8,001,538
Employee Benefits and Payroll Taxes	453,210	383,647	836,857	3,001,554
Total salaries and related expenses	1,769,316	1,550,799	3,320,115	11,003,092
Retained Services	406,159	618,557	1,024,716	2,371,534
Program Materials and Other Supplies	4,797	4,352	9,149	223,438
Communications and Postage	36,196	308,129	344,325	616,189
Occupancy Costs				
Cost share, including interest/rent	151,273	93,854	245,127	527,079
Overseas	-	-	-	402,235
Insurance	39,189	86	39,275	91,501
Cost of Equipment, Supplies, and Maintenance	55,989	15,708	71,697	330,898
Travel and Meetings	147,075	146,467	293,542	1,737,946
Printing, Publications and Film	39,854	425,026	464,880	549,163
Membership Fees	8,658	2,325	10,983	165,914
Bank and Merchant Fees	128,808	246,472	375,280	382,867
Material Resources				
Donated materials				
(blankets and quilts, medical, etc.)	-	-	-	12,042,615
Purchased materials	-	-	-	168,881
Cash related costs	-	-	-	1,414,439
Grants (Cash)	-	-	-	11,567,420
Program Inputs	-	-	-	285,819
Other Program Costs	4,575	-	4,575	227,592
Miscellaneous	87,889	44,145	132,034	273,225
Reimbursement of Administrative Expenses	(46,942)	-	(46,942)	(46,942)
Total expenses before depreciation	2,832,836	3,455,920	6,288,756	44,334,905
Depreciation of Equipment	22,459	16,067	38,526	110,985
Total expenses	\$ 2,855,295	\$ 3,471,987	\$ 6,327,282	\$ 44,445,890

See Notes to Financial Statements

Lutheran World Relief, Incorporated

Statements of Cash Flows

Years Ended September 30, 2015 and 2014

	2015	2014
Cash Flows From Operating Activities		
Change in net assets	\$ (4,443,979)	\$ 2,850,601
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Support in-kind	(13,162,732)	(12,745,107)
Material aid in-kind shipped	12,690,123	12,042,615
Decrease in allowance for doubtful accounts and discounts on grants and contributions receivable	(16,681)	(27,831)
Contributions restricted for long-term investment	-	(2,499)
Amortization of bond premium and deferred loan costs	(3,174)	(3,174)
Depreciation	198,979	110,985
Loss of disposition of property	24,690	27,511
Gain in equity investment in Lutheran Center Corporation	(50,874)	(17,584)
Realized gains on sale of investments	(351,398)	(314,607)
Unrealized losses (gains) on investments	1,416,399	(1,212,830)
Changes in assets and liabilities:		
(Increase) decrease in:		
Grants and contributions receivable	(763,454)	174,116
Other receivables and prepaid expenses, cash surrender value of life insurance contracts and charitable trusts	9,426	(36,683)
Other assets	25,281	246
Purchased inventory	(16,540)	77,080
Increase (decrease) in:		
Accounts payable and accrued expenses	453,714	618,192
Advances for program purposes	(606,683)	1,921,102
Net cash (used in) provided by operating activities	(4,596,903)	3,462,133
Cash Flows From Investing Activities		
Purchase of equipment and fixed assets	(196,704)	(683,484)
Purchase of investments	(37,597,205)	(33,584,324)
Proceeds from sale of equipment	3,332	37,599
Proceeds from maturities and sales of investments	42,398,881	31,638,605
Net cash provided by (used in) investing activities	4,608,304	(2,591,604)
Cash Flows From Financing Activities		
Proceeds from contributions restricted for long-term investment	-	2,499
Principal payments on long-term debt	(102,500)	(100,000)
Net cash used in financing activities	(102,500)	(97,501)
Net (decrease) increase in cash and cash equivalents	(91,099)	773,028
Cash and Cash Equivalents		
Beginning of year	1,406,358	633,330
End of year	\$ 1,315,259	\$ 1,406,358
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	\$ 118,913	\$ 124,163

See Notes to Financial Statements.

Lutheran World Relief, Incorporated

Notes to Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

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

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

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

Basis of presentation: LWR is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

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

Cash and cash equivalents: For purposes of reporting cash flows, LWR considers all highly-liquid investments with a maturity of three months or less to be cash equivalents. Any cash held by investment managers is considered investments, regardless of maturity.

Grants receivable: Grants receivable are comprised of allowable costs in excess of amounts received on federal and foundation grants. Recoverable costs from federal grants are billable when expenditures are incurred. As these amounts are mainly due from the U.S. Government and foundations, it is anticipated that all receivables are collectible. There was no provision for uncollectable balances on grants receivable as of September 30, 2015 and 2014.

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

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

Investments: Investments are reflected at fair market value. Certain other investments are segregated for presentation purposes. LWR's non-segregated investments include some amounts for investment pools which are valued at fair value based on the applicable percentage ownership of the underlying pools' net assets as of the measurement date, as determined by the manager. The manager values securities and other financial instruments on a fair value basis of accounting. The fair value of LWR's investment in such investment pools generally represents the amount LWR would expect to receive if it were to liquidate its investment excluding any redemption charges that may apply. However, the estimated fair values of the assets underlying this investment may include securities for which prices are not readily available and are determined by the fund manager, and, therefore, may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. LWR may adjust the respective manager's valuation when circumstances support such an adjustment. No such adjustments have been deemed necessary by management at September 30, 2015 and 2014.

Lutheran World Relief, Incorporated

Notes to Financial Statements

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

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

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

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

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

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

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

Net assets: LWR's net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of LWR and changes therein are classified and reported as follows:

Lutheran World Relief, Incorporated

Notes to Financial Statements

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

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

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

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

Contributions: Unconditional contributions, including church body support, are recorded in the year received. All donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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

Conditional contributions are recognized in the financial statements when conditions are met or are highly likely to be met.

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

Support-in-kind: Gift-in-kind revenue is recognized as revenue in circumstances in which LWR has sufficient discretion over the use and disposition of the items to recognize a contribution. Accordingly, the recognition of gifts-in-kind revenue is limited to circumstances in which LWR takes constructive possession of the gifts-in-kind and LWR is the recipient of the gift, rather than an agent or intermediary. LWR receives in-kind contributions from individuals and faith-based non-governmental organizations, of handmade quilts and kits. These in-kind contributions are recorded at the estimated fair value at the date of receipt by LWR, which is the cost an individual would pay for the items in stores in the United States.

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

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

Income taxes: LWR is generally exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code (IRC). In addition, LWR qualifies for charitable contributions deductions and has been classified as an organization that is not a private foundation. Income which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. LWR had no net unrelated business income for the years ended September 30, 2015 and 2014.

Lutheran World Relief, Incorporated

Notes to Financial Statements

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

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

LWR files tax returns in the U.S. federal jurisdictions. Generally, LWR is no longer subject to U.S. federal or state and local income tax examinations by tax authorities for years before 2012.

Reclassifications: Certain reclassifications were made to the 2014 financial statements to conform to the 2015 presentation. These reclassifications have no effect on previously reported net assets or change in net assets.

Subsequent events: LWR has evaluated subsequent events through February 23, 2016, which is the date the financial statements were available to be issued.

Pending accounting pronouncement: In May 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The ASU is effective for LWR for the year ended September 30, 2018. The adoption of this standard is expected to result in changes to LWR's fair value measurement disclosures.

Note 2 Investments

Investments at September 30, 2015 and 2014, consist of the following, at market value:

	2015	2014
Money market funds	\$ 4,390,164	\$ 3,159,366
U.S. treasury obligations	200,170	1,675,217
U.S. government agency bonds	2,681,885	3,128,498
Corporate and foreign bonds	236,421	3,149,306
Common equity securities	4,347,166	6,436,524
Mutual funds	12,395,454	12,563,866
Investment pools	1,096,002	1,101,162
Total investments	<u>\$ 25,347,262</u>	<u>\$ 31,213,939</u>

Lutheran World Relief, Incorporated

Notes to Financial Statements

Note 2. Investments (Continued)

Investment return for the years ended September 30, 2015 and 2014, consists of the following:

	2015	2014
Interest and dividends	\$ 605,732	\$ 669,507
Net realized gains	351,398	314,607
Net unrealized gains (losses)	(1,416,399)	1,212,830
Investment return	<u>\$ (459,269)</u>	<u>\$ 2,196,944</u>

Note 3. Receivables

Receivables at September 30, 2015 and 2014, consist of the following:

	2015	2014
Contributions receivable		
General	\$ 493,671	\$ 360,170
Lutheran Malaria Initiative	34,896	88,773
	<u>528,567</u>	<u>448,943</u>
Less discount on pledges receivable	(5,476)	(5,181)
Less allowance for doubtful pledges	<u>(34,138)</u>	<u>(51,114)</u>
	488,953	392,648
Grants receivables – U.S. Government	1,591,828	907,998
Total grants and contributions receivable	<u>\$ 2,080,781</u>	<u>\$ 1,300,646</u>

Contributions receivable at September 30, 2015 and 2014, are expected to be received as follows:

	2015	2014
Receivables due in less than one year	\$ 525,491	\$ 422,025
Receivables due in one to five years	3,076	26,918
	<u>\$ 528,567</u>	<u>\$ 448,943</u>

As of September 30, 2015 and 2014, all contributions receivable are considered temporarily restricted.

Lutheran World Relief, Incorporated

Notes to Financial Statements

Note 4. Fair Value Measurements

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

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

Level 2 Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly; Level 2 includes the use of models or other valuation methodologies. Investments which are generally included in this category include corporate loans, less liquid, restricted equity securities and certain corporate bonds, and over-the-counter derivatives.

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

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

Lutheran World Relief, Incorporated

Notes to Financial Statements

Note 4. Fair Value Measurements (Continued)

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

Description	2015			
	Level 1	Level 2	Level 3	Total
U.S. government agency bonds	\$ -	\$ 2,681,885	\$ -	\$ 2,681,885
Corporate and foreign bonds	-	236,421	-	236,421
U.S. treasury obligations	-	200,170	-	200,170
Money market funds	4,390,164	-	-	4,390,164
Common equity securities				
Financial	873,459	-	-	873,459
Information technology	758,548	-	-	758,548
Healthcare	667,369	-	-	667,369
Consumer discretionary	543,934	-	-	543,934
Energy	310,846	-	-	310,846
Telecommunication services	73,943	-	-	73,943
Materials	206,158	-	-	206,158
Industrials	417,725	-	-	417,725
Utilities	191,542	-	-	191,542
Consumer staples	303,642	-	-	303,642
Mutual funds				
Fixed income	1,849,580	-	-	1,849,580
Closed end	3,676,575	-	-	3,676,575
Foreign large blend	1,600,409	-	-	1,600,409
Aggressive allocation	1,704,044	-	-	1,704,044
Domestic equity	1,564,846	-	-	1,564,846
Other Assets	2,000,000	-	-	2,000,000
Investment pools				
Pooled trust fund	-	1,096,002	-	1,096,002
Total investments	\$ 21,132,784	\$ 4,214,478	\$ -	\$ 25,347,262
Charitable trusts	\$ -	\$ -	\$ 2,009,789	\$ 2,009,789

Lutheran World Relief, Incorporated

Notes to Financial Statements

Note 4. Fair Value Measurements (Continued)

The following table presents LWR's fair value hierarchy for those assets reflected in the statement of financial position, measured at fair value on a recurring basis as of September 30, 2014:

Description	2014			
	Level 1	Level 2	Level 3	Total
U.S. government agency bonds	\$ -	\$ 3,128,498	\$ -	\$ 3,128,498
Corporate and foreign bonds	-	3,149,306	-	3,149,306
U.S. treasury obligations	-	1,675,217	-	1,675,217
Money market funds	3,159,366	-	-	3,159,366
Common equity securities				
Financial	1,250,248	-	-	1,250,248
Information technology	1,076,421	-	-	1,076,421
Healthcare	1,104,346	-	-	1,104,346
Consumer discretionary	629,178	-	-	629,178
Energy	661,262	-	-	661,262
Telecommunication services	165,792	-	-	165,792
Materials	163,582	-	-	163,582
Industrials	660,215	-	-	660,215
Utilities	214,744	-	-	214,744
Consumer staples	410,068	-	-	410,068
Miscellaneous	100,668	-	-	100,668
Mutual funds				
Fixed income	636,844	-	-	636,844
Diversified Emerging Markets	773,024	-	-	773,024
Closed end	720,808	-	-	720,808
Foreign large blend	1,737,934	-	-	1,737,934
Aggressive allocation	961,258	-	-	961,258
Intermediate-term bond	1,696,237	-	-	1,696,237
High yield bond	2,356,971	-	-	2,356,971
Domestic equity	3,680,790	-	-	3,680,790
Investment pools				
Pooled trust fund	-	1,101,162	-	1,101,162
Total investments	<u>\$ 22,159,756</u>	<u>\$ 9,054,183</u>	<u>\$ -</u>	<u>\$ 31,213,939</u>
Charitable trusts	\$ -	\$ -	\$ 2,165,611	\$ 2,165,611

Lutheran World Relief, Incorporated

Notes to Financial Statements

Note 4. Fair Value Measurements (Continued)

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

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

The pooled trust funds have net asset values per share (NAV), or the equivalent. These are classified as Level 2 instruments is able to be redeemed by LWR at September 30, 2015, or in the near term.

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

Changes in Level 3 assets for the years ended September 30, 2015 and 2014, were as follows:

	2015	2014
Balance, beginning of year	\$ 2,165,611	\$ 1,661,286
Purchases	-	-
Sales	-	-
Net realized and unrealized gains	(155,822)	504,325
Balance, end of year	<u>\$ 2,009,789</u>	<u>\$ 2,165,611</u>

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

Type	Fair Value at September 30,		Valuation Technique	Unobservable Inputs	
	2015	2014		Inputs	Range
Charitable trusts	\$ 2,009,789	\$ 2,165,611	Present Value	Discount Rate	5%

LWR performs due diligence reviews of the NAV or its equivalent to determine the fair value of certain investments. LWR has assessed factors including, but not limited to, managers' compliance with fair value measurements standards, price transparency and valuation procedures in place, the ability to redeem at NAV at the measurement date, and the existence of certain redemption restrictions at the measurement date. Furthermore, investments that can be redeemed at NAV by LWR on the measurement date or in the near term and whose underlying holdings are valued based on quoted prices in active markets at the measurement date are classified as Level 2.

Lutheran World Relief, Incorporated

Notes to Financial Statements

Note 4. Fair Value Measurements (Continued)

The table below details LWR's ability to redeem investment funds valued at NAV or its equivalent as of September 30, 2015 and 2014:

	2015	2014	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Pooled trust fund	\$ 1,096,002	\$ 1,101,162	\$ -	Daily	N/A
	<u>\$ 1,096,002</u>	<u>\$ 1,101,162</u>	<u>\$ -</u>		

Pooled trust fund: In this class the fund's endeavor is to achieve long-term return objectives within prudent risk constraints by investing the assets in a diversified portfolio that places a greater emphasis on equity-based and fixed-income investments. The fund's target asset allocation ranges are 30% to 40% in U.S. equity securities, 20% to 30% in Non-U.S. equity securities, 10% to 20% in investment grade fixed income securities, 5% to 15% in high-yield fixed income securities, 5% to 15% in global real estate securities and 0% to 10% in U.S. inflation-indexed securities with the balance in cash and cash equivalents.

Note 5. Property and Equipment

Property and equipment, net, at September 30, 2015 and 2014, consists of the following:

	2015	2014
Office furniture and equipment – headquarters	\$ 1,151,124	\$ 561,983
Transportation and other equipment – overseas operations	141,760	538,887
Office building – overseas	104,775	104,775
Assets under development	638,270	598,192
	<u>2,035,929</u>	<u>1,803,837</u>
Less accumulated depreciation	(1,169,869)	(907,480)
Property and equipment, net	<u>\$ 866,060</u>	<u>\$ 896,357</u>

Note 6. Other Investments

LWR occupies approximately 43% of the office space and common space in the Lutheran Center owned by Lutheran Center Corporation (LCC). LCC, a non-profit organization, was organized to construct and operate the office building which LWR and Lutheran Immigration and Refugee Service (LIRS) occupy. LWR has a 50% interest in LCC and as such, carries its investment in LCC on the equity method. LWR and LIRS are providing monthly payments to LCC under a partial cost sharing agreement which provides for reimbursement of costs, including interest and depreciation, in operating the building based upon space occupied. The Agreement is for 30 years commencing September 1, 1999, through August 31, 2029, with six renewal options of ten years each. Since LWR occupies less than 50% of the total space, repayment of LWR's portion of debt and related interest is funded by LIRS' cost share contributions based upon its percentage of space occupied. For the years ended September 30, 2015 and 2014, LWR has recorded occupancy expense of \$500,037 and \$478,594, respectively. The recording of depreciation expense as part of the cost share reduces the investment in LCC since LWR has previously provided equity investments in LCC. At September 30, 2015 and 2014, LWR's equity in LCC was \$3,732,755 and \$3,681,881, respectively. At September 30, 2015, LCC assets consisted principally of the building and LCC liabilities were insignificant. The building is subject to a ground lease which provides for LCC to pay rent of \$1 per year for the 50 years to the Christ Lutheran Church, with four optional ten-year extensions.

Lutheran World Relief, Incorporated

Notes to Financial Statements

Note 6 Other Investments (Continued)

During the year ended September 30, 2014, LWR acquired common stock in Divine Chocolate, Ltd. (a foreign corporation based in the United Kingdom) in exchange for its shares in Divine Chocolate, Inc. This transaction was subsequent to a reorganization in which all outstanding shares of Divine Chocolate, Inc. were exchanged for a proportionate number of common shares in Divine Chocolate, Ltd. This transaction had no impact on the financial statements of LWR. As the world's first farmer-owned fair trade chocolate company, the investment in Divine Chocolate is an integral component of LWR's program relating to fair trade activities. LWR accounts for this investment, in which ownership is less than 20% before and after the transaction, by the cost method of accounting. Under the cost method of accounting, any distributions received by LWR are recorded as revenue in the period received. At September 30, 2015 and 2014, the investment was valued at \$165,003, which is net of cumulative impairments of \$221,637 for both years, due to recurring losses incurred that are deemed to be permanent in nature.

Note 7. Long-Term Debt

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

The 2007 Bonds were issued as Serial Bonds maturing April 1 in the years 2008 through 2029 and have annual mandatory sinking fund provisions which began in 2008. The 2007 Bonds bear interest at 5.25% per annum. Deferred loan costs in the amount of \$113,106 were incurred in connection with the issuance of the 2007 Bonds and LWR capitalized 50% of these costs which are being amortized on a straight-line basis over the life of the bonds. Long-term debt on the 2007 Bonds at September 30, 2015 and 2014, is shown on the statement of financial position including unamortized bond premium of \$43,882 and \$47,056, respectively.

In conjunction with the issuance of the 2007 Bonds, a Debt Service Reserve Fund was created in the amount of \$476,792 and LWR has recorded 50% of these funds. Funds in the Debt Service Reserve Fund may be withdrawn by the Trustee to make the principal or interest payments of the 2007 Bonds in the event that the other funds available for the purpose are inadequate. Included in other assets at September 30, 2015 and 2014, is \$232,752 and \$252,626, respectively, for LWR's 50% interest in the Debt Service Reserve Fund.

Lutheran World Relief, Incorporated

Notes to Financial Statements

Note 7. Long-Term Debt (Continued)

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

Date	LWR Portion	LIRS Portion	Total
April 1, 2016	107,500	107,500	\$ 215,000
April 1, 2017	112,500	112,500	225,000
April 1, 2018	120,000	120,000	240,000
April 1, 2019	125,000	125,000	250,000
April 1, 2019	132,500	132,500	265,000
April 1, 2020, and thereafter	1,565,000	1,565,000	3,130,000
Bond premium	43,882	43,882	87,764
	<u>\$ 2,206,382</u>	<u>\$ 2,206,382</u>	<u>\$ 4,412,764</u>

Interest on the 2007 Bonds for the years ended September 30, 2015 and 2014, amounted to \$118,913 and \$124,163, respectively. Payments of principal and interest are partially funded by the other tenant in the Lutheran Center through allocation of building costs based upon space occupied (see Note 6).

Note 8. Net Assets

Temporarily restricted net assets at September 30, 2015 and 2014, are available for the following purposes:

	2015	2014
Nepal Earthquake Response	\$ 2,277,057	\$ -
Typhoon Haiyan Relief and Rehabilitation	1,684,866	3,953,162
Haiti Earthquake Response	1,205,561	1,670,143
Use in future periods – pledges receivable and deferred gifts	2,922,338	2,826,929
South Asia Tsunami Relief and Rehabilitation	5,977	194,495
East Africa Drought/Famine Fund	134,400	199,493
Other temporarily restricted funds	516,518	562,298
	<u>\$ 8,746,717</u>	<u>\$ 9,406,520</u>

Lutheran World Relief, Incorporated

Notes to Financial Statements

Note 8. Net Assets (Continued)

Temporarily restricted net assets were released from restrictions, during the years ended September 30, 2015 and 2014, by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors, as follows:

	2015	2014
International programs – general	\$ 2,988,429	\$ 2,482,928
Use in future periods – pledges receivable and deferred gifts	417,122	856,054
Lutheran Malaria Initiative	-	436,852
Haiti Earthquake Response	464,582	647,281
South Asia Tsunami Relief and Rehabilitation	188,564	563,252
Quilt & Kit Shipping Fund	746,931	779,978
Typhoon Haiyan Relief and Rehabilitation	2,309,790	442,547
East Africa Drought/Famine Fund	68,971	260,376
Foods Resource Bank	248,185	296,103
Nepal Earthquake Response	451,868	-
Other international programs, relief and development	621,781	444,721
	<u>\$ 8,506,223</u>	<u>\$ 7,210,092</u>

Permanently restricted net assets at September 30, 2015 and 2014, consist of the following endowment funds:

	2015	2014
Endowment Fund	\$ 136,965	\$ 136,965
Kathryn F. Wolford Global Fund For Women	113,773	113,773
	<u>\$ 250,738</u>	<u>\$ 250,738</u>

Note 9. Endowment Funds

The Board of Directors of LWR has interpreted the New York-enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, LWR classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets, until those amounts are appropriated for expenditures by LWR in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, LWR considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

- The duration and preservation of the fund
- The purposes of LWR and the donor-restricted endowment fund

Lutheran World Relief, Incorporated

Notes to Financial Statements

Note 9. Endowment Funds (Continued)

- c. General economic conditions
- d. The possible effects of inflation and deflation
- e. The expected total return from income and the appreciation of investments
- f. Other resources of LWR
- g. The investment policies of LWR

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

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires LWR to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States, deficiencies of this nature are reported in unrestricted net assets. As of September 30, 2015 and 2014, total funding deficiencies were \$4,461 and \$0, respectively. The deficiencies in the donor-restricted endowment funds at September 30, 2015, resulted from unfavorable market fluctuations and continued appropriation of endowment assets, which was deemed prudent by LWR.

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

LWR's endowment funds at September 30, 2015 and 2014, consist of the following:

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

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	\$ -	\$ 4,175	\$ 250,738	\$ 254,913
Total funds	\$ -	\$ 4,175	\$ 250,738	\$ 254,913

Lutheran World Relief, Incorporated

Notes to Financial Statements

Note 9. Endowment Funds (Continued)

Endowment fund activity for the years ended September 30, 2015 and 2014, consists of the following:

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

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 1,033	\$ 248,239	\$ 249,272
Investment income	-	18,402	-	18,402
Contributions	-	-	2,499	2,499
Reclassification	-	2,292	-	2,292
Endowment draw	-	(17,552)	-	(17,552)
Total funds	<u>\$ -</u>	<u>\$ 4,175</u>	<u>\$ 250,738</u>	<u>\$ 254,913</u>

Note 10. U.S. Government Grants

LWR has entered into grant agreements with the U.S. Government for various programs. The revenue and expenditures for the years ended September 30, 2015 and 2014, are as follows:

	2015		2014	
	Revenue	Expenditures	Revenue	Expenditures
Relief and other programs:				
USAID	\$ 1,122,648	\$ 1,122,648	\$ 1,364,043	\$ 1,364,043
USDOS	3,372,587	3,372,587	2,089,178	2,089,178
USDOA	256,404	256,404	-	-
	<u>4,751,639</u>	<u>4,751,639</u>	<u>3,453,221</u>	<u>3,453,221</u>
Ocean Freight Reimbursement:				
USAID	23,200	23,200	31,800	31,800
	<u>\$ 4,774,839</u>	<u>\$ 4,774,839</u>	<u>\$ 3,485,021</u>	<u>\$ 3,485,021</u>

Lutheran World Relief, Incorporated

Notes to Financial Statements

Note 11. Retirement Plan

All employees of LWR are enrolled in the defined contribution pension plan made available and administered by Portico Benefit Services (formerly the Board of Pensions of the Evangelical Lutheran Church in America). Contributions to this plan are based upon earnings for all eligible employees and are accrued and funded on a current basis. Retirement benefits expense was approximately \$585,000 for 2015 and \$502,000 for 2014.

Note 12. Commitments and Contingencies

LWR has entered into loan guarantee agreements with certain banks and nonprofit microfinance institutions (MFIs) overseas in order to facilitate credit for various partner organizations. Under these agreements, LWR would be jointly responsible with the banks and MFIs for non-payment by the borrowers. The terms of these guarantees are generally over the life of the outstanding loans, and LWR expects the guarantee program to continue indefinitely. Amounts of legally restricted collateral funds deposited with financial institutions administering certain loans that are included in other receivables and prepaid expenses at September 30, 2015 and 2014, are \$379,257 and \$323,109, respectively. LWR's exposure to losses on current and future guarantees is limited to these legally restricted and internally designated funds as LWR will not guarantee funds in excess of these amounts.

**Independent Auditor's Report
on the Supplementary Information**

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

We have audited the financial statements of Lutheran World Relief (LWR) as of and for the years ended September 30, 2015 and 2014, and have issued our report thereon which contains an unmodified opinion on those financial statements (see pages 1 and 2). Our audits were performed for the purpose of forming an opinion on the financial statements as a whole.

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

RSM US LLP

Baltimore, Maryland
February 23, 2016

Lutheran World Relief, Incorporated

**Area Support and Program Services Expenses
Years Ended September 30, 2015 and 2014**

	2015	2014
Africa		
Angola	\$ 1,400,998	\$ 1,397,400
Burkina Faso	2,034,782	1,997,436
Chad	-	473,846
Djibouti	295,790	-
Ghana	8,327	-
Kenya	2,146,746	1,993,209
Liberia	-	81,080
Mali	2,052,681	1,094,667
Mauritania	1,669,226	335,338
Multi-country Africa	-	168,426
Niger	612,515	1,253,758
South Sudan	1,247,007	480,849
Tanzania	1,807,672	2,204,784
Uganda	797,670	902,102
Program Management	631,569	594,092
	<u>14,704,983</u>	<u>12,976,987</u>
Asia		
Cambodia	-	176,937
India	1,674,006	1,431,592
Indonesia	765,063	1,084,521
Myanmar	-	222,628
Nepal	1,971,687	420,519
Philippines	4,564,747	4,862,417
Thailand	1,689,158	1,988,426
Program Management	472,846	491,185
	<u>11,137,507</u>	<u>10,678,225</u>
Middle East		
Iraq	299,599	103,761
Jordan	418,276	171,852
Lebanon	1,064,928	415,229
Palestine	-	312,060
Syrian Arab Republic	-	157,286
Yemen	443,211	457,012
	<u>2,226,014</u>	<u>1,617,200</u>

(Continued)

Lutheran World Relief, Incorporated

Area Support and Program Services Expenses (Continued)
Years Ended September 30, 2015 and 2014

	2015	2014
Latin America and the Caribbean		
Bolivia	\$ 41,105	\$ 129,054
Colombia	527,122	581,009
El Salvador	554,629	269,256
Guatemala	123,609	-
Haiti	1,221,088	510,057
Honduras	747,495	572,560
Nicaragua	1,893,325	1,539,909
Peru	1,261,751	2,016,016
Program Management	529,603	461,132
	<u>6,899,727</u>	<u>6,078,993</u>
Other Worldwide		
Armenia	-	422,500
Georgia	1,417,559	1,236,002
Multi Country Europe	80,911	-
Serbia	-	426,847
Ukraine	891,057	-
Vanuatu	32,500	-
	<u>2,422,027</u>	<u>2,085,349</u>
Total area program expenses	<u>37,390,258</u>	<u>33,436,754</u>
Other Program Expenses		
Cross regional	2,084,194	1,580,875
Emergencies and material resources – program management	389,839	253,028
Program quality and technical support	648,852	516,131
U.S.-based program and public Ppolicy	2,740,503	2,470,980
Worldwide	(117,594)	(211,619)
Total other program expenses	<u>5,745,794</u>	<u>4,609,395</u>
Total expenses before depreciation	<u>43,136,052</u>	<u>38,046,149</u>
Depreciation of Equipment	<u>126,514</u>	<u>72,459</u>
Total program expenses	<u>\$ 43,262,566</u>	<u>\$ 38,118,608</u>