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FINANCIAL STATEMENT

Financial Statements with
Independent Auditor's Report
June 30, 2023

LCMS Foundation
TODAY | TOMORROW | FOREVER

Photo: Erik M. Lunsford / The Lutheran Church—Missouri Synod

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
The Lutheran Church-Missouri Synod Foundation
St. Louis, Missouri

Opinion

We have audited the accompanying financial statements of The Lutheran Church-Missouri Synod Foundation (the "Foundation"), which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Lutheran Church-Missouri Synod Foundation as of June 30, 2023 and 2022, 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.

Basis of Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of The Lutheran Church-Missouri Synod Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Lutheran Church-Missouri Synod Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Lutheran Church-Missouri Synod Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Lutheran Church-Missouri Synod Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



Armanino^{LLP}
St. Louis, Missouri

September 21, 2023

THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

Statements of Financial Position

June 30, 2023 and 2022

(In Thousands)	2023	2022
ASSETS		
Cash and cash equivalents	\$ 28,734	\$ 22,382
Accrued interest and dividends receivable	2,810	2,088
Investments	1,109,016	1,086,189
Real estate held for sale	3,775	3,775
Notes and loans receivable	484	501
Land, building, and equipment, net of accumulated depreciation and amortization	901	962
Real estate held in custody	5,683	5,683
Beneficial interest in charitable trust	1,439	1,422
Other assets	7,722	5,979
TOTAL ASSETS	\$ 1,160,564	\$ 1,128,981
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 708	\$ 670
Trust and other liabilities due to:		
Life Income	143,559	140,678
Gift Annuity	17,634	14,658
Held in: Endowment	188,877	175,896
Custodial	727,957	719,129
Agency	11,263	4,789
Total Trust and Other Liabilities	1,089,290	1,055,150
Total Liabilities	1,089,998	1,055,820
Net Assets		
Without Donor Restrictions		
Undesignated	6,031	6,461
Foundation Designated	40,307	43,818
	46,338	50,279
With Donor Restrictions		
Temporarily Restricted	8,358	7,609
Permanently Restricted	15,870	15,273
	24,228	22,882
Total Net Assets	70,566	73,161
TOTAL LIABILITIES AND NET ASSETS	\$ 1,160,564	\$ 1,128,981

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

THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

Statement of Activities

Year ended June 30, 2023

(In Thousands)	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue:			
Direct gifts	\$ 503	\$ -	\$ 503
Gifts-new agreements	2,225	662	2,887
Fee revenue	8,243	-	8,243
Investment income	1,445	-	1,445
Other income	3	-	3
Net assets released from restrictions	552	(552)	-
Total support and revenue	12,971	110	13,081
Operating Expenses:			
Planned giving	3,659	-	3,659
Trust services	2,418	-	2,418
Donor-advised, insurance services	3,087	-	3,087
Marketing and communication	1,005	-	1,005
Investment services	985	-	985
Management and general	2,552	-	2,552
Total operating expenses	13,706	-	13,706
NET OPERATING INCOME (LOSS)	(735)	110	(625)
Other Income (Loss):			
Net realized and unrealized gains on investments and real estate	912	-	912
Change in value of irrevocable deferred gifts	517	1,236	1,753
Transfers to gift annuity reserve	(4,635)	-	(4,635)
TOTAL OTHER INCOME (LOSS)	(3,206)	1,236	(1,970)
CHANGE IN NET ASSETS	(3,941)	1,346	(2,595)
Net assets at beginning of year	50,279	22,882	73,161
Net assets at end of year	\$ 46,338	\$ 24,228	\$ 70,566

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

THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

Statement of Activities

Year ended June 30, 2022

(In Thousands)	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue:			
Direct gifts	\$ 1,790	\$ -	\$ 1,790
Gifts-new agreements	6,104	916	7,020
Fee revenue	8,709	-	8,709
Investment income	2,552	-	2,552
Other income	-	-	-
Net assets released from restrictions	122	(122)	-
Total support and revenue	19,277	794	20,071
Operating Expenses:			
Planned giving	3,448	-	3,448
Trust services	2,125	-	2,125
Donor-advised, insurance services	3,845	-	3,845
Marketing and communication	848	-	848
Investment services	934	-	934
Management and general	3,155	-	3,155
Total operating expenses	14,355	-	14,355
NET OPERATING INCOME	4,922	794	5,716
Other Income (Loss):			
Net realized and unrealized losses on investments and real estate	(7,008)	-	(7,008)
Change in value of irrevocable deferred gifts	(2,073)	(5,017)	(7,090)
TOTAL OTHER INCOME	(9,081)	(5,017)	(14,098)
CHANGE IN NET ASSETS	(4,159)	(4,223)	(8,382)
Net assets at beginning of year	54,438	27,105	81,543
Net assets at end of year	\$ 50,279	\$ 22,882	\$ 73,161

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

THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

Statement of Functional Expenses

Year ended June 30, 2023

(In Thousands)	Program Services										Supporting Services	
	Donor-Advised/										Management & General	Total Expenses
	Planned Giving	Trust Services	Insurance Services	Marketing & Communication	Investment Services	Total Program Expense	Management & General	Total Expenses				
Salaries and Wages	\$ 2,229	\$ 1,543	\$ -	\$ 453	\$ 585	\$ 4,810	\$ 1,117	\$ 5,927				
Employee Benefits	647	492	-	135	153	1,427	222	1,649				
Payroll Taxes	134	111	-	34	45	324	69	393				
Travel and Meeting	215	4	-	14	14	247	44	291				
Staff Development Resources	59	10	-	-	-	69	7	76				
Professional Services	71	27	-	28	140	266	245	511				
Information Technology	10	14	-	57	-	81	435	516				
Business Services	45	43	-	67	-	155	42	197				
Equipment	-	-	-	9	-	9	67	76				
Depreciation	22	-	-	-	-	22	96	118				
Supplies, Repairs & Maintenance	38	4	-	-	-	42	2	44				
Insurance	123	71	-	20	20	234	37	271				
Advertising and Promotion	-	-	-	160	-	160	1	161				
Telephone	5	5	-	1	1	12	6	18				
Other	61	94	-	27	27	209	162	371				
Distributions	-	-	3,087	-	-	3,087	-	3,087				
Total Functional Expenses	\$ 3,659	\$ 2,418	\$ 3,087	\$ 1,005	\$ 985	\$ 11,154	\$ 2,552	\$ 13,706				

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

THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

Statement of Functional Expenses

Year ended June 30, 2022

(In Thousands)	Program Services										Supporting Services	Total Expenses
	Donor-Advised/											
	Planned Giving	Trust Services	Insurance Services	Marketing & Communication	Investment Services	Total Program Expense	Management & General					
Salaries and Wages	\$ 2,106	\$ 1,361	\$ -	\$ 382	\$ 538	\$ 4,387	\$ 947	\$ 5,334				
Employee Benefits	640	444	-	109	148	1,341	195	1,536				
Payroll Taxes	132	98	-	29	41	300	59	359				
Travel and Meeting	179	1	-	4	26	210	51	261				
Staff Development/Resources	38	10	-	2	1	51	5	56				
Professional Services	55	23	-	13	135	226	237	463				
Information Technology	10	14	-	57	-	81	355	436				
Business Services	58	26	-	59	-	143	44	187				
Equipment	-	1	-	9	-	10	46	56				
Depreciation	16	-	-	-	-	16	97	113				
Supplies, Repairs & Maintenance	27	2	-	1	-	30	20	50				
Insurance	120	65	-	18	20	223	41	264				
Advertising and Promotion	-	-	-	141	-	141	-	141				
Telephone	7	4	-	1	1	13	5	18				
Other	60	76	-	23	24	183	1,053	1,236				
Distributions	-	-	3,845	-	-	3,845	-	3,845				
Total Functional Expenses	\$ 3,448	\$ 2,125	\$ 3,845	\$ 848	\$ 934	\$ 11,200	\$ 3,155	\$ 14,355				

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

THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

Statement of Cash Flows

Years ended June 30, 2023 and 2022

(In Thousands)	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (2,595)	\$ (8,382)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	118	113
Net realized and unrealized loss (gain) on investments	(912)	7,033
Changes in assets and liabilities		
Accrued interest and dividends receivable	(722)	(277)
Investments	(26,170)	24,437
Real estate held for sale and in custody	-	(2,717)
Notes and loans receivable	13	14
Beneficial interest in charitable trusts	(17)	29
Other assets	(1,743)	582
Accounts payable and accrued expenses	38	(49)
Trust and other liabilities due to:		
Life income and gift annuities	5,857	(29,092)
Endowment, custodial, and agency accounts	28,283	17,512
Net cash provided by operating activities	2,150	9,203
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (additions) to capital assets	(57)	(67)
Payment of notes and loans receivable	4	5
Purchase of investment securities	(5,874)	(11,065)
Proceeds from sale of investment securities	10,129	4,542
Net cash used in (provided by) investing activities	4,202	(6,585)
INCREASE IN CASH AND CASH EQUIVALENTS	6,352	2,618
Cash and cash equivalents, beginning of the year	22,382	19,764
Cash and cash equivalents, end of the year	\$ 28,734	\$ 22,382

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

THE LUTHERAN CHURCH–MISSOURI SYNOD FOUNDATION

Notes to Financial Statements

June 30, 2023

Note A - Summary of Organization and Significant Accounting Policies

The Lutheran Church–Missouri Synod Foundation (the “Foundation”) assists individuals and church ministries by raising and managing gifts and assets to support Christ’s mission through The Lutheran Church–Missouri Synod (the “Synod”) and to accomplish personal and corporate stewardship goals. The Foundation is administered by a Board of Trustees that are elected by the members of the Foundation.

Within the Foundation, trust services, investment services, and gift planning services are provided to the Synod and related agencies and entities. Within customer support, trust services generate trustee fees. Investment services within the Finance Department generate management fees. Gift planning services operate on a partial cost reimbursement basis.

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. 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 funds accrue income and expenses for the valuation period. The net income to the funds 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 annually to the participants.

The Foundation maintains a Statement of Investment Policies and Objectives that governs the overall investment policy, objectives, structure, and guidelines for the Foundation’s investments. Included in the guidelines are restrictions governing the management of all investments held in separate accounts specifically for the benefit of the Foundation. All investment managers are monitored for adherence to the Statement of Investment Policies and Objectives by the Foundation with the assistance of its investment consultant.

THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

Notes to Financial Statements - Continued

June 30, 2023

Note A - Summary of Organization and Significant Accounting Policies (Continued)

Basis of Accounting and Presentation

The financial statements have been prepared using the accrual basis of accounting. The Foundation is required to report information regarding its financial position and activities as net assets without donor restrictions or net assets with donor restrictions.

Net Assets Without Donor Restrictions

Net assets without donor restrictions are net assets available for use in the general operations of the Foundation, and include revenue from fees, certain investment income and all gifts, grants and contributions not restricted by the donor. At the discretion of the Board, net assets without donor restrictions are available for use in the Foundation's operations.

Expenses related to the daily administration and operations of the Foundation are recorded in net assets without donor restrictions. The proceeds from matured trust agreements that are held for the benefit of the Foundation or that are undesignated as to a specific beneficiary are transferred to net assets without donor restrictions. The Foundation also receives gifts and other undesignated income. After providing for operating expenses, the remainder is available for distribution at the direction of the Board of Trustees of the Foundation.

Net Assets With Donor Restrictions

Net assets subject to donor-imposed restrictions are either temporary or perpetual in nature. Temporary donor-imposed restrictions will be met by events specified by the donor or the passage of time. Perpetual donor-imposed restrictions are indefinite, with the income from the contribution being available for expenditure, as defined by the donor. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated purpose for which the resource was restricted has been fulfilled.

Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Such net assets consist of trusts valued at the present value (discounted at 3.5% at June 30, 2023 and 2022) of future gifts from irrevocable trusts held by the Foundation which name the Foundation as beneficiary.

Net assets with donor restrictions include the current value of a perpetual trust from which the Foundation is to receive the income in perpetuity. The principal is held in trust by a third party and will never revert to the Foundation.

THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

Notes to Financial Statements - Continued

June 30, 2023

Note A - Summary of Organization and Significant Accounting Policies (Continued)

Net Assets With Donor Restrictions (Continued)

The perpetual stream of income is viewed by the Foundation as a promise to give by the individual who established the trust and has been recorded at the fair value of the trust at June 30, 2023 and 2022, which closely approximates the net present value of the income stream, in perpetuity. Given the nature of the promise, the Foundation recorded this contribution as net assets with perpetual donor restrictions.

Income received is recorded based on the presence or absence of donor restrictions.

Cash and Cash Equivalents

For financial statement purposes, the Foundation considers currency, demand deposits, and liquid investments with a maturity of three months or less to be cash equivalents. The Foundation maintains cash balances at various major domestic financial institutions in amounts that at times may exceed federally insured limits. The Foundation has not incurred any losses as a result of the excess balances.

Investments

Investments of the Foundation are held at a custodial bank. Investments include marketable fixed income and equity securities, as well as units in assorted mutual funds and/or commingled investment vehicles. All investments are stated at fair market value as determined by authorized pricing sources for the custodial bank. The custodial bank records transactions involving the Foundation's investments on the date the securities are purchased or sold. Income is accrued as earned and posted as collected by the custodial bank. Realized gains and losses on the sale of investments are the differences between the proceeds received and the cost of the securities sold. Gains and losses, both realized and unrealized, are recognized in the statement of activities for those assets owned by the Foundation.

Real Estate Held

Real estate is initially recorded at its appraised value at the date of the gift. Real estate is carried at the lower of appraised or market value. Real estate can be held for immediate sale, or in custody for longer periods per a managed gift agreement.

Property and Equipment

Property and equipment is carried at cost and depreciated over their estimated useful lives. Major renewals and betterments over \$5,000 are capitalized, and maintenance and repairs which do not improve or extend the life of the respective assets are charged against operations in the current period.

THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

Notes to Financial Statements - Continued

June 30, 2023

Note A - Summary of Organization and Significant Accounting Policies (Continued)

Other Assets

The Foundation is the owner and beneficiary of certain insurance policies that have been gifted over a number of years. The policies are carried at fair value, which equates to current cash surrender value. The insurance policies are gifts to the Foundation that are without donor restrictions. They are accompanied by “letters of request” from the donors who request that the proceeds from the insurance policies go to specific ministries. The “letters of request” are not binding on the Foundation for the purpose of financial reporting. The insurance policies are reflected in the financial statements under other assets (Note E).

Financial Instruments

FASB ASC 825, *Financial Instruments*, requires disclosure of fair value information about financial instruments, whether or not recognized in the statement of financial position, for which it is practicable to estimate fair value. Financial instruments consisting of cash and cash equivalents, accrued interest and dividends receivable, investments, real estate held for sale, notes and loans receivable, real estate held for investment, and accounts payable are reported in the statements of financial position at carrying amounts which approximate fair value. Investments are reported at fair value as determined by authorized pricing sources for the custodial bank.

Revenue Recognition

Fees are recognized as revenue during the period services are provided or according to the terms of the related trust administration and management services contracts, distribution services agreements, and other miscellaneous service agreements. Fees are primarily paid by individuals and church ministries for services provided by the Foundation.

Functional Expense Allocation

The Foundation allocates expenses on a functional basis among various programs and supporting activities. Expenses that can be identified with a specific program and supporting activities are allocated directly according to their natural expenditure classifications. The nature of the organization precludes the Foundation from incurring significant fundraising expenses.

Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The expenses allocated are human resources, payroll, building services, and insurance. The allocable expenses are allocated based on the number of staff members in each department in relation to total staff. Salary expense for executives is allocated based on estimated time and effort.

THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

Notes to Financial Statements - Continued

June 30, 2023

Note A - Summary of Organization and Significant Accounting Policies (Continued)

Trust and Other Liabilities

The trust and other liabilities due to donors and beneficiaries represents the liabilities necessary to meet agreed payments. The trust and other liabilities due to endowment, custodial, and agency accounts represents the liability for gifts received based on the original contribution plus earnings less reductions in the liability necessary to meet agreed payments.

Direct costs associated with the establishment of trust agreements are recognized as an expense of the trust as incurred.

Trustee fees to cover continuing administrative expenses are charged to the trusts and recognized as revenue by the Foundation on a current basis.

Use of Estimates

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

Tax Status

The Foundation constitutes a qualified not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code and is, therefore, exempt from federal income taxes. However, the Foundation is subject to federal income tax on any unrelated business income. The Foundation follows accounting rules for uncertain tax positions. Those rules require financial statement recognition of the impact of a tax position if a position is more likely than not of being sustained on audit, based on the technical merits of the position. These rules also provide guidance on measurement, recognition, classification, interest and penalties, transition, and disclosure requirements for uncertain tax positions.

Reclassifications

Certain amounts on the 2022 financials have been reclassified, where appropriate, to conform to the financial statement presentation used in 2023. Changes in net assets are unchanged due to the reclassifications.

Change in Accounting Principle

The Foundation adopted FASB Topic 842, Leases, using the modified-retrospective transition method as of July 1, 2022, for the date of initial adoption. The adoption of the new standard did not have an impact on the Foundation's financial statements.

THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

Notes to Financial Statements - Continued

June 30, 2023

Note A - Summary of Organization and Significant Accounting Policies (Continued)

Subsequent Events

Management has evaluated all subsequent events and transactions through September 20, 2023.

Note B - Investments

The Foundation's investments at fair value were as follows (in thousands):

<u>June 30, 2023</u>	<u>Operating</u>	<u>Life Income</u>	<u>Gift Annuity</u>	<u>Endowment</u>	<u>Agency and Custodial</u>	<u>Total</u>
Common funds of the Foundation	\$ 23,423	\$ 142,850	\$ -	\$ 211,237	\$ 708,083	\$ 1,085,593
LCEF notes	-	-	-	1,936	3,383	5,319
Mutual funds	-	-	17,835	-	-	17,835
Other	<u>4</u>	<u>201</u>	<u>-</u>	<u>-</u>	<u>64</u>	<u>269</u>
	<u>\$ 23,427</u>	<u>\$ 143,051</u>	<u>\$ 17,835</u>	<u>\$ 213,173</u>	<u>\$ 711,530</u>	<u>\$ 1,109,016</u>

<u>June 30, 2022</u>	<u>Operating</u>	<u>Life Income</u>	<u>Gift Annuity</u>	<u>Endowment</u>	<u>Agency and Custodial</u>	<u>Total</u>
Common funds of the Foundation	\$ 26,765	\$ 140,587	\$ -	\$ 200,084	\$ 696,418	\$ 1,063,854
LCEF notes	-	-	-	1,936	3,945	5,881
Corporate stock	-	-	-	-	12	12
Mutual funds	-	-	14,922	-	-	14,922
Other	<u>5</u>	<u>1,452</u>	<u>-</u>	<u>-</u>	<u>63</u>	<u>1,520</u>
	<u>\$ 26,770</u>	<u>\$ 142,039</u>	<u>\$ 14,922</u>	<u>\$ 202,020</u>	<u>\$ 700,438</u>	<u>\$ 1,086,189</u>

THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

Notes to Financial Statements - Continued

June 30, 2023

Note B - Investments (Continued)

Investment income consists of the following (in thousands):

<u>June 30, 2023</u>	<u>Operating</u>	<u>Life Income</u>	<u>Gift Annuity</u>	<u>Endowment</u>	<u>Agency and Custodial</u>	<u>Total</u>
Interest and dividends	\$ 808	\$ 4,699	\$ 352	\$ 4,991	\$ 18,880	\$ 29,730
Capital gains distributed	637	2,609	-	5,238	11,976	20,460
Net realized/unrealized gains	<u>912</u>	<u>6,728</u>	<u>848</u>	<u>11,480</u>	<u>37,416</u>	<u>57,384</u>
	<u>\$ 2,357</u>	<u>\$ 14,036</u>	<u>\$ 1,200</u>	<u>\$ 21,709</u>	<u>\$ 68,272</u>	<u>\$ 107,574</u>

<u>June 30, 2022</u>	<u>Operating</u>	<u>Life Income</u>	<u>Gift Annuity</u>	<u>Endowment</u>	<u>Agency and Custodial</u>	<u>Total</u>
Interest and dividends	\$ 589	\$ 3,779	\$ 303	\$ 4,358	\$ 14,746	\$ 23,775
Capital gains distributed	1,963	8,871	28	19,566	42,130	72,558
Net realized/unrealized losses	<u>(7,008)</u>	<u>(35,449)</u>	<u>(2,344)</u>	<u>(59,896)</u>	<u>(168,799)</u>	<u>(273,496)</u>
	<u>\$ (4,456)</u>	<u>\$ (22,799)</u>	<u>\$ (2,013)</u>	<u>\$ (35,972)</u>	<u>\$ (111,923)</u>	<u>\$ (177,163)</u>

The common funds of the Foundation are as follows (in thousands):

	<u>June 30,</u>	
	<u>2023</u>	<u>2022</u>
Cash	\$ 9,298	\$ 8,014
Cash Equivalents	6,120	5,541
Government Issues	888	1,227
Corporate Bonds	34,623	26,910
Foreign Issues	9,245	7,192
Domestic Common Stocks	98,604	88,429
Foreign Stocks	5,775	4,087
Commingled Funds	<u>921,040</u>	<u>922,454</u>
	<u>\$ 1,085,593</u>	<u>\$ 1,063,854</u>

THE LUTHERAN CHURCH–MISSOURI SYNOD FOUNDATION

Notes to Financial Statements - Continued

June 30, 2023

Note B - Investments (Continued)

The Foundation's assets are invested primarily in six asset classes, called Preference Funds. These funds are managed by 14 professional fund managers, with asset-class specific strategies. These Preference funds are included in the Foundation's Standard and Trust Funds, shown in the following schedule.

6/30/2023

(in thousands)

	Domestic Equity	International Equity	High Yield Bonds	Core Bonds	Other Investments	Cash and Pending Trades	Total Common Funds
SF Fixed Income	\$ -	\$ -	\$ 9,611	\$ 38,422	\$ -	\$ 348	\$ 48,381
SF Equity	64,498	40,352	-	-	-	1,284	106,134
SF Conservative Balanced	4,034	2,606	3,678	14,993	-	30	25,341
SF Moderate Balanced	49,621	31,092	15,535	61,889	-	256	158,393
SF Aggressive Balanced	158,079	98,927	16,532	64,831	-	(244)	338,125
TF Income Short	-	-	133	1,196	-	430	1,759
TF Income Intermediate	483	303	2,294	1,996	-	40	5,116
TF Income Long	411	257	3,004	630	-	33	4,335
TF Total Return Short	909	570	2,295	5,153	-	(231)	8,696
TF Total Return Intermediate	10,871	6,852	6,903	10,148	-	13	34,787
TF Total Return Long	33,187	20,865	15,038	7,280	-	162	76,532
Pooled Trust 1	-	-	116	463	-	-	579
Pooled Trust 2	-	-	345	1,398	-	9	1,752
Pooled Trust 3	806	508	825	430	-	15	2,584
Individual separate accts-HY Bond	-	-	17,592	-	-	(95)	17,497
Individual separate accts-Core Bond	-	-	-	61,508	-	232	61,740
Individual separate accts-DEQ	39,443	-	-	-	-	(80)	39,363
Individual separate accts-DEQ Passive	-	-	-	-	99,126	(968)	98,158
Individual separate accts-Int EQ	-	7,689	-	-	-	33	7,722
Individual separate accts-Int EQ Passive	-	-	-	-	47,077	383	47,460
Total Preference Funds	<u>362,342</u>	<u>210,021</u>	<u>93,901</u>	<u>270,337</u>	<u>146,203</u>	<u>1,650</u>	<u>1,084,454</u>
Other	-	-	-	-	1,139	-	1,139
TOTAL COMMON FUNDS	<u>\$ 362,342</u>	<u>\$ 210,021</u>	<u>\$ 93,901</u>	<u>\$ 270,337</u>	<u>\$ 147,342</u>	<u>\$ 1,650</u>	<u>\$ 1,085,593</u>

THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

Notes to Financial Statements - Continued

June 30, 2023

Note B - Investments (Continued)

6/30/2022

(in thousands)

	Domestic Equity	International Equity	High Yield Bonds	Core Bonds	Other Investments	Cash and Pending Trades	Total Common Funds
SF Fixed Income	\$ -	\$ -	\$ 12,872	\$ 54,435	\$ -	\$ 610	\$ 67,917
SF Equity	66,842	45,746	-	-	-	1,235	113,823
SF Conservative Balanced	3,314	2,241	3,418	14,249	-	508	23,730
SF Moderate Balanced	47,795	32,277	16,805	68,935	-	24,070	189,882
SF Aggressive Balanced	132,310	89,479	15,225	65,386	-	4,753	307,153
TF Income Short	-	-	132	1,229	-	(137)	1,224
TF Income Intermediate	495	333	2,555	2,362	-	(92)	5,653
TF Income Long	390	223	2,965	671	-	45	4,294
TF Total Return Short	926	628	2,538	6,073	-	(164)	10,001
TF Total Return Intermediate	10,498	6,941	7,145	11,185	-	56	35,825
TF Total Return Long	28,296	19,168	13,884	7,247	-	200	68,795
Pooled Trust 1	-	-	121	503	-	3	627
Pooled Trust 2	-	-	361	1,489	-	8	1,858
Pooled Trust 3	711	493	803	455	-	16	2,478
Individual Accounts-HY Bond	-	-	15,007	-	-	83	15,090
Individual Accounts-Core Bond	-	-	-	59,986	-	(344)	59,642
Individual Accounts-DEQ	24,627	-	-	-	-	35	24,662
Individual Accounts-DEQ Passive	-	-	-	-	69,383	49	69,432
Individual Accounts-Int EQ	-	4,699	-	-	-	19	4,718
Individual Accounts-Int EQ Passive	-	-	-	-	46,245	(208)	46,037
Total Preference Funds	<u>316,204</u>	<u>202,228</u>	<u>93,831</u>	<u>294,205</u>	<u>115,628</u>	<u>30,745</u>	<u>1,052,841</u>
Thrivent Funds	-	-	-	-	9,879	41	9,920
Managed Portfolio	-	-	-	-	1,093	-	1,093
Total Other Funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,972</u>	<u>41</u>	<u>11,013</u>
TOTAL COMMON FUNDS	<u>\$ 316,204</u>	<u>\$ 202,228</u>	<u>\$ 93,831</u>	<u>\$ 294,205</u>	<u>\$ 126,600</u>	<u>\$ 30,786</u>	<u>\$ 1,063,854</u>

Note C - Land, Building, and Equipment

Depreciation and amortization included in operating expenses was computed under the methods previously described and amounted to \$118,000 and \$113,000 for the years ended June 30, 2023 and 2022, respectively.

Land, building, and equipment consists of the following at June 30 (in thousands):

	<u>2023</u>	<u>2022</u>
Land	\$ 140	\$ 140
Building and improvements	2,262	2,230
Office equipment	56	56
Computer equipment	343	343
Automobiles	<u>243</u>	<u>237</u>
	<u>3,044</u>	<u>3,006</u>
Less accumulated depreciation and amortization	<u>2,143</u>	<u>2,044</u>
Total	<u>\$ 901</u>	<u>\$ 962</u>

THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

Notes to Financial Statements - Continued

June 30, 2023

Note D - Beneficial Interest in Charitable Trust

The Foundation is a named beneficiary of an irrevocable perpetual trust valued at \$1,439 and \$1,422 as of June 30, 2023 and 2022, respectively. This account is held by the Foundation and is included in net assets with donor restrictions by the Foundation.

Note E - Other Assets

Other assets consist of the following at:

(In Thousands)	<u>2023</u>	<u>2022</u>
Insurance policies at cash surrender value	\$ 5,489	\$ 5,654
Prepaid insurance	202	209
Other assets	89	55
Accounts receivable	<u>1,942</u>	<u>61</u>
Total	<u>\$ 7,722</u>	<u>\$ 5,979</u>

Note F - Trust and Other Liabilities

Trusts and other instruments are established by donors, beneficiaries, and related entities for the benefit of the Foundation, the Synod, related agencies, and donors. By donor or depositor type, trust and other liabilities represent the following:

Donors and Beneficiaries

These accounts are comprised of trusts and gift annuities.

The Foundation is the issuer of gift annuity agreements under which the Foundation, in exchange for a transfer of cash or other property, is obligated to pay an annuity to one or two individuals (annuitants) for their remaining lives. The Foundation recognizes the assets transferred upon issuance of the gift annuity at their fair value. The contribution is decreased by a fixed dollar amount paid to the annuitant(s) throughout their lifetime and increased annually by earnings at a fixed rate of return based on the account balance. When the agreement terminates the account balance is distributed to ministry.

Trust accounts receive gifts of cash, securities, and real estate where the income earned is to be paid to the donor or a designee(s). At the death of the donor or successor(s), the remaining liability is paid in accordance with the trust agreement.

Endowment

This account receives endowment gifts that are held by the Foundation primarily for other ministries of the Synod. Income is distributed to beneficiaries in accordance with donor instructions.

THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

Notes to Financial Statements - Continued

June 30, 2023

Note F - Trust and Other Liabilities (Continued)

Custodial and Agency

These agency and custodial accounts are held by the Foundation for other ministries and organizations of the Synod. Refer to Note M for additional information on the entities with amounts held by the Foundation.

The details of activity in these donor trust and other liabilities for the year ended June 30, 2023, are as follows (in thousands):

	Life Income Fund	Gift Annuity Fund	Endowment Fund	Custodial Fund	Agency Fund	Total
ADDITIONS AND						
REALIZED REVENUES:						
New agreements/deposits	\$ 6,423	\$ 1,682	\$ 4,986	\$ 58,714	\$ 20,518	\$ 92,323
Interest and dividends	4,699	352	4,991	18,876	4	28,922
Capital gains	2,609		5,238	11,973	3	19,823
Transfers to gift annuity reserve	-	4,635	-	-	-	4,635
Other	206	741	43	47	15	1,052
Total support and revenues	13,937	7,410	15,258	89,610	20,540	146,755
LESS: DISTRIBUTIONS AND EXPENSES						
Distributions	15,985	5,066	9,461	116,323	13,297	160,132
Operating expenses	2,239	233	2,070	1,899	745	7,186
Total distributions and expenses	18,224	5,299	11,531	118,222	14,042	167,318
Revenues over (under) expenses	(4,287)	2,111	3,727	(28,612)	6,498	(20,563)
Change in value of deferred gifts	440	17	(2,226)	-	-	(1,769)
Net realized/unrealized gains (losses)	6,728	848	11,480	37,440	(24)	56,472
Net additions (deductions)	2,881	2,976	12,981	8,828	6,474	34,140
TOTAL LIABILITY JUNE 30, 2022	140,678	14,658	175,896	719,129	4,789	1,055,150
TOTAL LIABILITY JUNE 30, 2023	\$ 143,559	\$ 17,634	\$ 188,877	\$ 727,957	\$ 11,263	\$ 1,089,290

THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

Notes to Financial Statements - Continued

June 30, 2023

Note F - Trust and Other Liabilities (Continued)

The details of activity in these donor trust and other liabilities for the year ended June 30, 2022, are as follows (in thousands):

	Life Income Fund	Gift Annuity Fund	Endowment Fund	Custodial Fund	Agency Fund	Total
ADDITIONS AND						
REALIZED REVENUES:						
New agreements/deposits	\$ 17,265	\$ 2,335	\$ 12,777	\$ 178,891	\$ 22,540	\$ 233,808
Interest and dividends	3,779	303	4,358	14,740	7	23,187
Capital gains	8,871	28	19,566	42,111	19	70,595
Transfer to gift annuity reserve	-	1,000	-	-	-	1,000
Other	123	1,003	48	327	113	1,614
Total support and revenues	<u>30,038</u>	<u>4,669</u>	<u>36,749</u>	<u>236,069</u>	<u>22,679</u>	<u>330,204</u>
LESS: DISTRIBUTIONS AND EXPENSES						
Distributions	17,806	4,890	9,135	21,894	18,991	72,716
Operating expenses	2,511	1,298	2,305	1,819	751	8,684
Total distributions and expenses	<u>20,317</u>	<u>6,188</u>	<u>11,440</u>	<u>23,713</u>	<u>19,742</u>	<u>81,400</u>
Revenues over (under) expenses	9,721	(1,519)	25,309	212,356	2,937	248,804
Change in value of deferred gifts	389	110	5,605	-	-	6,104
Net realized/unrealized gains (losses)	<u>(35,449)</u>	<u>(2,344)</u>	<u>(59,896)</u>	<u>(168,687)</u>	<u>(112)</u>	<u>(266,488)</u>
Net additions (deductions)	<u>(25,339)</u>	<u>(3,753)</u>	<u>(28,982)</u>	<u>43,669</u>	<u>2,825</u>	<u>(11,580)</u>
TOTAL LIABILITY JUNE 30, 2021	<u>166,017</u>	<u>18,411</u>	<u>204,878</u>	<u>675,460</u>	<u>1,964</u>	<u>1,066,730</u>
TOTAL LIABILITY JUNE 30, 2022	<u>\$ 140,678</u>	<u>\$ 14,658</u>	<u>\$ 175,896</u>	<u>\$ 719,129</u>	<u>\$ 4,789</u>	<u>\$ 1,055,150</u>

Note G - Gift Annuities

The Foundation maintains a segregated gift annuity reserve fund (the "Gift Annuity Fund") consisting of assets set aside for the payment of annuity obligations to annuitants under charitable gift annuity agreements issued by the Foundation. Each year, the Gift Annuity Fund recognizes new agreements and deposits, the net gains or losses on gift values based on the investment income and market appreciation of invested assets, distributions to annuitants, releases of gift annuities and trustee fees to cover continuing investment, and administrative expenses of the Gift Annuity Fund.

Investments

Except for cash values of certain insurance policies of which the Foundation is both the owner and beneficiary and which have been designated by the Foundation as being held as part of the Gift Annuity Fund, the investments of the Gift Annuity Fund are mutual funds and are held at a custodial bank. All investments are stated at fair market value as determined by authorized pricing sources for the custodial bank based on quoted market prices. The custodial bank records transactions involving the Gift Annuity Fund's investments on the date the securities are purchased or sold. Income is accrued as earned and posted as collected by the custodial bank. Realized gains and losses on the sale of investments are the differences between the proceeds received and the cost of the securities sold. Gains and losses, both realized and unrealized, are recognized as changes in liability of the Gift Annuity Fund.

THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

Notes to Financial Statements - Continued

June 30, 2023

Note G - Gift Annuities (Continued)

Restrictions on Assets

In accordance with the laws of California, the Gift Annuity Fund is required to maintain a reserve within investments sufficient enough to make payments to all outstanding annuitants residing in California. This reserve is equal to or greater than the reserve required by state law in California. In addition, although not required by law, separate investments are maintained for all outstanding annuitants in the state of Washington. The reserves held are sufficient to make payments to all annuitants.

Gift Annuity Liability to Donors

Liabilities for annuity obligations represent the actuarial present value of annuity payments that are expected to be paid to donors over the life of the annuity. These amounts are reviewed periodically by an actuary to determine their overall adequacy. Liabilities for future payments to donor-specified individuals are recorded using published actuarial life expectancies and interest rates credited to the individual accounts. A rate of 2.75% was applied for the years ended June 30, 2023, and June 30, 2022. The gift annuity liability to donors totaled \$15,929,438 and \$16,834,926 at June 30, 2023, and June 30, 2022, respectively.

The following is a summary of total assets in excess of accounts payable and accrued expenses and the annuity liability to donors at June 30, 2023:

Total Assets	\$ 22,786,313
Less: Accounts payable and accrued expenses	(15,008)
Annuity liability to donors	<u>(15,929,438)</u>
Excess of Assets	<u>\$ 6,841,867</u>

The following is a summary of total assets in excess of accounts payable and accrued expenses and the annuity liability to donors at June 30, 2022:

Total Assets	\$ 20,059,211
Less: Accounts payable and accrued expenses	(12,610)
Annuity liability to donors	<u>(16,834,926)</u>
Excess of Assets	<u>\$ 3,211,675</u>

THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

Notes to Financial Statements - Continued

June 30, 2023

Note H - Net Assets

Net assets with donor restrictions were restricted for the following at June 30:

<i>(In Thousands)</i>	<u>2023</u>	<u>2022</u>
Timing Restriction		
Life income	\$ 2,327	\$ 2,768
Endowment	4,445	3,325
Total net assets with timing restrictions	<u>6,772</u>	<u>6,093</u>
Purpose Restriction		
Endowment	<u>1,586</u>	<u>1,516</u>
Total net assets with donor restrictions, temporary	\$ <u>8,358</u>	\$ <u>7,609</u>
Net assets subject to spending and distribution policy		
Endowments to be held in perpetuity	14,431	13,851
Beneficial interest in trust	<u>1,439</u>	<u>1,422</u>
Total net assets with donor restrictions	\$ <u>24,228</u>	\$ <u>22,882</u>

Net assets released for the years ended June 30 for:

<i>(In Thousands)</i>	<u>2023</u>	<u>2022</u>
Life income	\$ 472	\$ 47
Endowment	<u>80</u>	<u>75</u>
Total net assets released	\$ <u>552</u>	\$ <u>122</u>

Net assets without donor restrictions that were designated by the Foundation at June 30 include:

<i>(In Thousands)</i>	<u>2023</u>	<u>2022</u>
Endowments	\$ 14,061	\$ 13,215
Board designated funds	2,078	6,811
Gifted insurance policies	5,148	5,314
Gift annuity split interest agreements	338	355
Donor advised funds	<u>18,682</u>	<u>18,123</u>
Total Foundation designated net assets	\$ <u>40,307</u>	\$ <u>43,818</u>

THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

Notes to Financial Statements - Continued

June 30, 2023

Note I - Liquidity and Availability of Resources

Financial assets available for general expenditure, that is, without donor or management restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

<i>(In Thousands)</i>	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 1,052	\$ 1,748
Other assets	560	531
Operating investments	3,172	7,280
Distributions from assets held under split-interest agreements	400	200
Distributions from beneficial interest in assets held by others	49	49
Endowment spending-rate distributions and appropriations	<u>150</u>	<u>100</u>
Total financial assets available	<u>\$ 5,383</u>	<u>\$ 9,908</u>

In addition, the board designated fund of \$2,078,000 as of June 30, 2023, is subject to an annual spending rate of 4.0% as determined by the Foundation's Board of Trustees. Annual spending is not to exceed the endowment corpus.

The Foundation has a credit line of \$1,000,000 with the Lutheran Church Extension Fund. Although, the credit line has never been used, and the intention is not to use the available credit, these funds can be made available if necessary.

Note J - Intentions to Give

At June 30, 2023 and 2022, the Foundation is a named beneficiary of revocable deferred gifts totaling \$1,776,261 and \$1,941,494, respectively. In accordance with the trust agreements, the donor has retained the option to change the named beneficiary. Therefore, no amounts have been recognized within these financial statements for the potential future benefits.

Note K - Risks and Uncertainties

Credit Risks

The Foundation 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 that such changes could materially affect the amounts reported in the statement of financial position.

THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

Notes to Financial Statements - Continued

June 30, 2023

Note L - Pension Expense

The Foundation participates in the worker benefit plans of the Synod. Substantially all full-time employees are covered by these plans. The Foundation contributes a fixed percentage of each participant's salary to defined benefit plans known as Concordia Retirement Plan and the Concordia Disability and Survivorship Plan. Retirement program expense was \$504,000 and \$462,000, and disability program expense was \$107,000 and \$98,000 for the years ended June 30, 2023 and 2022, respectively.

Note M - Related Party Transactions

Funds Held for Related Entities

The Foundation provides investment services to various Synodical entities. Included in the trust and other liabilities of the Foundation are the following (in thousands):

	<u>June 30,</u>	
	<u>2023</u>	<u>2022</u>
Lutheran Church Extension Fund	\$ 1,297	\$ 1,266
The Lutheran Church—Missouri Synod	108,302	105,057
Colleges and seminaries	311,233	340,654
Districts, auxiliaries, related service organizations, congregations, and other	<u>302,987</u>	<u>270,952</u>
	<u>\$ 723,819</u>	<u>\$ 717,929</u>

Note N - Fair Value Measurements

The Foundation follows FASB ASC 820-10, *Fair Value Measurements and Disclosures*, which establishes a framework for measuring fair value and expands disclosures about fair value measurements.

FASB ASC 820-10 defines fair value as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. The standard also establishes a fair value hierarchy used to disclose the measurement of fair value based on levels of observable or unobservable inputs.

Level 1

Observable inputs that are derived from quoted prices (unadjusted) for identical assets or liabilities in an active market.

Level 2

Observable inputs based on quoted prices in non-active markets or in active markets for similar assets or liabilities. Inputs other than quoted prices that are observable, or inputs that are not directly observable, but are corroborated by observable market data.

THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

Notes to Financial Statements - Continued

June 30, 2023

Note N - Fair Value Measurements (Continued)

Level 3

Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities and reflect substantial management judgement or estimation utilizing available market data. Level 3 is comprised of real estate and LCEF notes.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2023 and 2022.

Mutual Funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Foundation are open-end mutual funds that are registered with the U.S. Securities and Exchange Commission. These funds are required to publish their daily net asset value and to transact at that price.

Domestic Common Stocks, Foreign Stocks: Valued at the closing price reported on the active market on which the individual securities are traded.

Corporate Issues, Foreign Issues, Convertible Bonds, Municipal Bonds, Mortgage Pass Through Securities, Collateralized Mortgage Obligations: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available on identical or similar bonds, the securities are submitted for brokers to obtain quotes. As part of the pricing process, the appropriateness of each quote (i.e., as to whether the quote is based on observable market transactions or not) is assessed to determine the most appropriate estimate of fair value. Lastly, securities are priced using internal cash flow modeling techniques. These valuation methodologies commonly use the following inputs: reported trades, bids, offers, issuer spreads, benchmark yields, estimated prepayment speeds, and/or estimated cash flows.

Commingled Funds: Valued using the net asset value (NAV) per share, or its equivalent, as a practical expedient for fair value.

Real Estate: Valued using current appraised values and other market data for similar properties.

LCEF Notes: Valued using deposited account balances.

The Board of Trustees and their related committees, along with Management, determines the fair value measurement valuation policies and procedures, including those for Level 3 recurring and nonrecurring measurements. The Board of Trustees assesses and approves these policies and procedures. At least annually, the Board of Trustees determines (1) 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 LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

Notes to Financial Statements - Continued

June 30, 2023

Note N - Fair Value Measurements (Continued)

The Foundation recognizes transfers between levels in the fair value hierarchy at the end of the reporting period.

Fair values of assets measured on a recurring basis at June 30, 2023, are as follows (in thousands):

	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other assets				
Beneficial interest in charitable trusts	\$ 1,439	\$ -	\$ 1,439	\$ -
Real estate held	9,458	-	-	9,458
Total other assets	\$ 10,897	\$ -	\$ 1,439	\$ 9,458
Investments				
Common funds				
Cash equivalents	\$ 6,120	\$ 6,120	\$ -	\$ -
Government issues	888	-	888	-
Corporate issues	34,623	-	34,623	-
Foreign issues	9,245	-	9,245	-
Domestic common stocks	98,604	98,604	-	-
Foreign stocks	5,775	5,775	-	-
Total common funds	155,255	110,499	44,756	-
Other investments				
Domestic Common stocks	-	-	-	-
LCEF notes	5,319	-	-	5,319
Mutual funds-equity	9,183	-	9,183	-
Mutual funds-fixed income	8,652	-	8,652	-
Other	269	-	-	269
Total other investments	23,423	-	17,835	5,588
Total other assets and investments required to be disclosed in the fair value hierarchy	189,575	\$ 110,499	\$ 64,030	\$ 15,046
Common funds cash	9,298			
Commingled funds	921,040			
Total other assets and investments	\$ 1,119,913			
Beneficial interest in charitable trusts	\$ 1,439			
Real estate held for sale	3,775			
Real estate held in custody	5,683			
Investments	1,109,016			
Total	\$ 1,119,913			

THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

Notes to Financial Statements - Continued

June 30, 2023

Note N - Fair Value Measurements (Continued)

Changes in assets measured on a recurring basis using significant unobservable inputs (Level 3 inputs) (in thousands):

Level 3 inputs by category	<u>Real Estate</u>	<u>LCEF</u>	<u>Other</u>	<u>Total</u>
June 30, 2022	\$ 9,458	\$ 5,880	\$ 269	\$ 15,607
Additions	1,813	15	174	2,002
Change in value	-	-	-	-
Sales or pay down of principal	<u>(1,813)</u>	<u>(576)</u>	<u>(174)</u>	<u>(2,563)</u>
June 30, 2023	<u>\$ 9,458</u>	<u>\$ 5,319</u>	<u>\$ 269</u>	<u>\$ 15,046</u>

Fair values of assets measured on a recurring basis at June 30, 2022, are as follows (in thousands):

	<u>Fair Value</u>	Quoted Prices In Active Markets for Identical Assets (<u>Level 1</u>)	Significant Other Observable Inputs (<u>Level 2</u>)	Significant Unobservable Inputs (<u>Level 3</u>)
Other assets				
Beneficial interest in charitable trusts	\$ 1,422	\$ -	\$ 1,422	\$ -
Real estate held	9,458	-	-	9,458
Total other assets	<u>\$ 10,880</u>	<u>\$ -</u>	<u>\$ 1,422</u>	<u>\$ 9,458</u>
Investments				
Common funds				
Cash equivalents	\$ 5,541	\$ 5,541	\$ -	\$ -
Government issues	1,227	-	1,227	-
Corporate issues	26,910	-	26,910	-
Foreign issues	7,192	-	7,192	-
Domestic common stocks	88,429	88,429	-	-
Foreign stocks	4,087	4,087	-	-
Total common funds	<u>133,386</u>	<u>98,057</u>	<u>35,329</u>	<u>-</u>
Other investments				
Domestic Common stocks	12	12	-	-
LCEF notes	5,880	-	-	5,880
Mutual funds-equity	7,711	-	7,711	-
Mutual funds-fixed income	8,463	-	8,463	-
Mutual funds-tax exempt	-	-	-	-
Other	269	-	-	269
Total other investments	<u>22,335</u>	<u>12</u>	<u>16,174</u>	<u>6,149</u>
Total other assets and investments required to be disclosed in the fair value hierarchy	166,601	<u>\$ 98,069</u>	<u>\$ 52,925</u>	<u>\$ 15,607</u>
Common funds cash	8,014			
Commingled funds	922,454			
Total other assets and investments	<u>\$ 1,097,069</u>			
Beneficial interest in charitable trusts	\$ 1,422			
Real estate held for sale	3,775			
Real estate held in custody	5,683			
Investments	1,086,189			
Total	<u>\$ 1,097,069</u>			

THE LUTHERAN CHURCH–MISSOURI SYNOD FOUNDATION

Notes to Financial Statements - Continued

June 30, 2023

Note N - Fair Value Measurements (Continued)

Changes in assets measured on a recurring basis using significant unobservable inputs (Level 3 inputs) (in thousands):

Level 3 inputs by category	<u>Real Estate</u>	<u>LCEF</u>	<u>Other</u>	<u>Total</u>
June 30, 2021	\$ 6,741	\$ 5,966	\$ 269	\$ 12,976
Additions	9,441	9	-	9,450
Change in value	-	-	-	-
Sales or pay down of principal	(6,724)	(95)	-	(6,819)
June 30, 2022	<u>\$ 9,458</u>	<u>\$ 5,880</u>	<u>\$ 269</u>	<u>\$ 15,607</u>

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

<u>Investment Name</u>	<u>2023</u>			
	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Commingled funds	\$ 921,040	-	Daily to Monthly	Daily

<u>Investment Name</u>	<u>2022</u>			
	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Commingled funds	\$ 922,454	-	Daily to Monthly	Daily

Note O - Endowments

The Foundation's endowments include both donor-restricted and board designated endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Trustees, are classified and reported based on the existence or absence of donor-imposed restrictions.

Net Asset Classifications and Interpretation of Relevant Law

The Foundation is governed subject to its By-Laws. The Board of Trustees of the Foundation has interpreted the relevant Missouri state law 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, the Foundation classifies as net assets with perpetual donor restrictions at (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 the applicable donor gift instrument at the time the accumulation is added to the fund.

THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

Notes to Financial Statements - Continued

June 30, 2023

Note O - Endowments (Continued)

Endowment Investment and Spending Policies

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a stable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment account. The Foundation has a policy of appropriating an approved percentage of 4% of the year-end value based on a rolling three-year average. The Foundation's spending and investment policies work together to achieve this stated objective. The Foundation's established investment objectives are (a) to preserve the purchasing power of the endowment assets and the related revenue stream over time, (b) to manage the endowment assets in a single investment pool with equities being the dominant asset class, (c) to employ multiple funds to gain the diversification benefits of different asset classes, and (d) to earn an average annual total return of at least 7% per year.

From time to time, certain donor-restricted endowment funds may have a fair value less than the amount required to be maintained by donors or by law (underwater endowments). The Foundation has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At June 30, 2023, two endowment funds with original gift values totaling \$296,929 had fair value of \$292,353 and deficiencies of \$4,576. At June 30, 2022, four endowment funds with original gift values of \$453,079 had a fair value of \$422,845 and deficiencies of \$30,234.

Change in Endowment Net Asset (in thousands):

<u>June 30, 2023</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 13,215	\$ 18,692	\$ 31,907
Investment income, net of investment expenses	665	954	1,619
Net appreciation (depreciation)	721	1,164	1,885
Contributions	359	617	976
Amounts appropriated for expenditure	<u>(899)</u>	<u>(965)</u>	<u>(1,864)</u>
Change in endowment net assets	<u>846</u>	<u>1,770</u>	<u>2,616</u>
Endowment net assets, end of year	<u>\$ 14,061</u>	<u>\$ 20,462</u>	<u>\$ 34,523</u>

THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

Notes to Financial Statements - Continued

June 30, 2023

Note O - Endowments (Continued)

<u>June 30, 2022</u>	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 15,778	\$ 22,497	\$ 38,275
Investment income, net of investment expenses	1,194	2,016	3,210
Net appreciation (depreciation)	(3,580)	(5,399)	(8,979)
Contributions	493	541	1,034
Amounts appropriated for expenditure	<u>(670)</u>	<u>(963)</u>	<u>(1,633)</u>
Change in endowment net assets	<u>(2,563)</u>	<u>(3,805)</u>	<u>(6,368)</u>
Endowment net assets, end of year	<u>\$ 13,215</u>	<u>\$ 18,692</u>	<u>\$ 31,907</u>

Endowment Asset Composition by Type of Fund as of June 30, 2023 and 2022, (in thousands):

<u>June 30, 2023</u>	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 14,061	\$ -	\$ 14,061
Donor-restricted endowment funds			
Temporarily restricted by time or purpose	-	2,339	2,339
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	14,431	14,431
Accumulated investment earnings	<u>-</u>	<u>3,692</u>	<u>3,692</u>
Endowment net assets, end of year	<u>\$ 14,061</u>	<u>\$ 20,462</u>	<u>\$ 34,523</u>

<u>June 30, 2022</u>	Without Donor Restrictions	With Donor Restrictions	Total
Board-designated endowment funds	\$ 13,215	\$ -	\$ 13,215
Donor-restricted endowment funds			
Temporarily restricted by time or purpose	-	2,231	2,231
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	13,851	13,851
Accumulated investment earnings	<u>-</u>	<u>2,610</u>	<u>2,610</u>
Endowment net assets, end of year	<u>\$ 13,215</u>	<u>\$ 18,692</u>	<u>\$ 31,907</u>

THE LUTHERAN CHURCH–MISSOURI SYNOD FOUNDATION

Notes to Financial Statements - Continued

June 30, 2023

Note P - Revenue Recognition

The Foundation has various streams of fee revenue, as described in Note A above. Fee revenue includes trust administration and management services fees, distribution fees, and other miscellaneous fees.

The Foundation acts as a service provider on behalf of individuals and church ministries and recognizes trust administration and management services fee revenue during the month in which management services are provided. Management has elected to apply a practical expedient to account for trust administration and management services contracts on a portfolio basis when recognizing revenue from contracts whose terms and conditions are similar in nature. The Foundation does not refund these fees and therefore, no liability for refunds is reported at June 30, 2023 and 2022.

Management evaluates distribution fees and other miscellaneous fees on a contract-by-contract basis. Distribution fees are earned at a point in time when an individual or church ministry account is closed, and all funds have been disbursed. Other miscellaneous fees are earned at a point in time upon the completion of a single performance obligation, including successful filing of various tax forms and completion of other miscellaneous services.

Disaggregation of Revenue

The following tables present revenue disaggregated by revenue source and pattern of revenue recognition (in thousands):

	<u>Year Ended June 30, 2023</u>		
	<u>Over Time</u>	<u>Point In Time</u>	<u>Total Revenues</u>
Trust administration and management services	\$ 6,036	\$ -	\$ 6,036
Distribution fees	-	1,138	1,138
Contract revenue	758	-	758
Other miscellaneous revenue	-	311	311
Total Fee Revenues	\$ 6,794	\$ 1,449	\$ 8,243

	<u>Year Ended June 30, 2022</u>		
	<u>Over Time</u>	<u>Point In Time</u>	<u>Total Revenues</u>
Trust administration and management services	\$ 6,428	\$ -	\$ 6,428
Distribution fees	-	1,272	1,272
Contract revenue	775	-	775
Other miscellaneous fees	-	234	234
Total Fee Revenues	\$ 7,203	\$ 1,506	\$ 8,709