



THE
LUTHERAN CHURCH
Missouri Synod

Internal Audit Department



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INTERNAL AUDITOR'S REPORT

Board of Directors
Kansas District of
The Lutheran Church—Missouri Synod
Topeka, Kansas

We have audited the accompanying financial statements of the Kansas District of The Lutheran Church—Missouri Synod, which comprise the statements of financial position as of January 15, 2018 and 2017, and the related statements of activities 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. 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

INTERNAL AUDITOR'S REPORT (Continued)

Auditor's Responsibility (Continued)

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, as internal auditors of The Lutheran Church—Missouri Synod, the financial statements referred to above present fairly, in all material respects, the financial position of the Kansas District as of January 15, 2018 and 2017, 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.

THE LUTHERAN CHURCH—MISSOURI SYNOD
Internal Audit Department

Joann P. Spotanski

St. Louis, Missouri
April 25, 2018

KANSAS DISTRICT of
THE LUTHERAN CHURCH—MISSOURI SYNOD

STATEMENTS OF FINANCIAL POSITION
JANUARY 15, 2018 and 2017

	2018	2017
Assets:		
Cash and Cash Equivalents	\$ 96,254	\$ 101,652
Accounts Receivable	25,185	29,410
Interest Receivable	2,777	2,355
Prepaid Expenses	14,300	11,940
Contributions Receivable - Net (Note 4)	64,091	58,246
Property and Equipment - Net (Note 5)	1,550,841	1,581,540
Long-Term Investments (Note 6)	2,595,167	2,408,864
Cash Surrender Value of Life Insurance Policies	159,592	160,268
Funds Held by Third-Party Trustee	67,018	60,438
Total Assets	\$ 4,575,225	\$ 4,414,713
Liabilities:		
Accounts Payable and Accrued Expenses	\$ 54,493	\$ 81,180
Deferred Revenue	70,647	55,604
Funds Held in Trust for Others	445,905	446,942
Total Liabilities	571,045	583,726
Net Assets:		
Undesignated	461,203	386,083
Investment in Property and Equipment	1,550,841	1,581,540
Board-Designated (Note 7)	149,180	55,909
Total Unrestricted	2,161,224	2,023,532
Temporarily Restricted (Note 8)	341,042	312,078
Permanently Restricted (Note 9)	1,501,914	1,495,377
Total Net Assets	4,004,180	3,830,987
Total Liabilities and Net Assets	\$ 4,575,225	\$ 4,414,713

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

KANSAS DISTRICT of
THE LUTHERAN CHURCH—MISSOURI SYNOD

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JANUARY 15, 2018

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
<u>SUPPORT, REVENUES, & OTHER ADDITIONS:</u>				
Support -				
District Congregations (Note 1)	\$ 1,489,081	\$ 99,423	\$	\$ 1,588,504
LCEF (Note 11)		62,758		62,758
Other	147,488	50,452		197,940
Revenues -				
Subscriptions	63,457			63,457
Conventions, Conferences, and Workshops	153,169			153,169
Income on Long-Term Investments	10,466	21,295	374	32,135
Agreements with LCEF (Note 11)	230,145			230,145
Other	18,510			18,510
Change in Value of Split-Interest Agreements		6,262	(417)	5,845
Change in Value of Funds Held by Third-Party Trustee			6,580	6,580
Net Gain on Property and Equipment Disposals	7,290			7,290
Net Assets Released from Restrictions (Note 12)	211,226	(211,226)		-
	2,330,832	28,964	6,537	2,366,333
<u>EXPENSES:</u>				
Program Services -				
World and National Missions	315,967			315,967
Preparing Church Workers	75,472			75,472
Congregational Services	408,930			408,930
Support Services -				
Synodical Budget	376,239			376,239
Mission and Ministry Support Services	756,368			756,368
Ecclesiastical and Program Administration	260,164			260,164
	2,193,140	-	-	2,193,140
CHANGE IN NET ASSETS	137,692	28,964	6,537	173,193
NET ASSETS - Beginning of Year	2,023,532	312,078	1,495,377	3,830,987
NET ASSETS - End of Year	\$ 2,161,224	\$ 341,042	\$ 1,501,914	\$ 4,004,180

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

KANSAS DISTRICT of
THE LUTHERAN CHURCH—MISSOURI SYNOD

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JANUARY 15, 2017

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
<u>SUPPORT, REVENUES, & OTHER ADDITIONS:</u>				
Support -				
District Congregations (Note 1)	\$ 1,445,346	\$ 84,244	\$	\$ 1,529,590
LCEF (Note 11)		62,169		62,169
Other	5,873	8,550		14,423
Revenues -				
Subscriptions	66,911			66,911
Conventions, Conferences, and Workshops	378,652			378,652
Income on Long-Term Investments	10,068	19,020	339	29,427
Agreements with LCEF (Note 11)	231,516			231,516
Other	12,379			12,379
Change in Value of Split-Interest Agreements		797	(402)	395
Change in Value of Funds Held by Third-Party Trustee			1,520	1,520
Net Assets Released from Restrictions (Note 12)	215,650	(215,650)		-
Total Support, Revenues, & Other Additions	2,366,395	(40,870)	1,457	2,326,982
<u>EXPENSES:</u>				
Program Services -				
World and National Missions	389,360			389,360
Preparing Church Workers	59,325			59,325
Congregational Services	539,395			539,395
Support Services -				
Synodical Budget	394,148			394,148
Mission and Ministry Support Services	778,488			778,488
Ecclesiastical and Program Administration	272,361			272,361
Total Expenses	2,433,077	-	-	2,433,077
CHANGE IN NET ASSETS	(66,682)	(40,870)	1,457	(106,095)
NET ASSETS - Beginning of Year	2,090,214	352,948	1,493,920	3,937,082
NET ASSETS - End of Year	\$ 2,023,532	\$ 312,078	\$ 1,495,377	\$ 3,830,987

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

KANSAS DISTRICT of
THE LUTHERAN CHURCH—MISSOURI SYNOD

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JANUARY 15, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 173,193	\$ (106,095)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense	127,927	121,297
Change in Value of Split-Interest Agreements	(5,845)	(395)
Change in Value of Funds Held by Third-Party Trustee	(6,580)	(1,520)
(Gain) Loss on Property and Equipment Disposals	(7,290)	—
Interest Restricted for Long-Term Investment	(374)	(339)
(Increase) Decrease in Operating Assets:		
Accounts Receivable	4,225	(25,735)
Interest Receivable	(422)	122
Prepaid Expenses	(2,360)	22,398
Cash Surrender Value of Life Insurance Policies	676	22,596
Increase (Decrease) in Operating Liabilities:		
Accounts Payable and Accrued Expenses	(26,687)	40,518
Deferred Revenue	15,043	(2,953)
Funds Held in Trust for Others	(1,037)	(19,855)
Net Cash Provided (Used) by Operating Activities	270,469	50,039
Cash Flows from Investing Activities:		
Proceeds from Sale of Fixed Assets	25,175	—
Purchases of Fixed Assets	(115,113)	(27,400)
Proceeds from Sale of Investments	140,397	301,337
Purchases of Investments	(326,700)	(303,593)
Net Cash Provided (Used) by Investing Activities	(276,241)	(29,656)
Cash Flows from Financing Activities:		
Interest Restricted for Reinvestment in Permanent Endowment	374	339
Net Cash Provided (Used) by Financing Activities	374	339
Net Increase (Decrease) in Cash and Cash Equivalents	(5,398)	20,722
Cash and Cash Equivalents - Beginning of Year	101,652	80,930
Cash and Cash Equivalents - End of Year	\$ 96,254	\$ 101,652

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

KANSAS DISTRICT of
THE LUTHERAN CHURCH—MISSOURI SYNOD
NOTES TO FINANCIAL STATEMENTS

1. NATURE OF ORGANIZATION

The Kansas District (the District), a religious not-for-profit organization, is one of 35 districts of The Lutheran Church—Missouri Synod (the Synod), encompassing 160 congregations in the state of Kansas. The Synod established its district offices to more effectively achieve its objectives and assist its congregations and their members in conserving and promoting the unity of the faith and in carrying out their mission and ministry.

The District relies on donations from its member congregations for a significant portion of its support. As shown in the Statement of Activities, support from District congregations totaled \$1,588,504 and \$1,529,590 for the years ended January 15, 2018 and 2017, respectively. These donations are subject to fluctuations in the economic status of the areas in which the congregations are located. No provisions have been made for changes in the economic environment. Any significant reduction in the level of this support, however, could have an effect on the District's program and supporting activities.

The costs of providing various program and other supporting services have been summarized on a functional basis in the Statement of Activities as follows:

- *World and National Missions* – World missions includes the District's personalized world ministry support remitted to the Synod. National missions includes but is not limited to North American new mission work, campus ministries, deaf ministries, ethnic ministries, urban ministries, congregational subsidy, evangelism efforts, human care ministries, and related conferences and events.
- *Preparing Church Workers* – Includes financial aid provided to students normally attending one of the nine colleges/universities or two seminaries of the Synod.
- *Congregational Services* – Supports District congregational service efforts and includes but is not limited to activities such as Sunday School, confirmation, family life, day care, adult education, outdoor ministry, singles ministry, elementary and secondary education, youth services, worship, stewardship education, and related conferences and events.
- *Synodical Budget* – Includes remittances to the Synod for synodical budget support.
- *Mission and Ministry Support Services* – Includes the District's communication efforts, financial and general service activities, the operation/maintenance of District office facilities, District/Synodical convention expenses, and the District's support of the national Lutheran Church Extension Fund (LCEF) efforts as discussed in Note 11.
- *Ecclesiastical and Program Administration* – Includes activities of the president's office, vice-presidents, circuit visitors, reconcilers, and related conferences and events, as well as support of the District Board of Directors and its related committees.

All of these program and support services include the related program and administration expense associated with that particular function.

KANSAS DISTRICT of
THE LUTHERAN CHURCH—MISSOURI SYNOD
NOTES TO FINANCIAL STATEMENTS

1. NATURE OF ORGANIZATION (Continued)

The Kansas District of the Synod is an organization described in Section 501(c)(3) of the Internal Revenue Code and, by virtue of a group tax-exempt ruling to the Synod and its component parts, is exempt from income taxes. However, any unrelated business income may be subject to taxation. In addition, the District qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified by the Internal Revenue Service as an organization other than a private foundation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the District are described below:

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Basis of Presentation

The financial statement presentation follows the requirements of the Financial Accounting Standards Board *Accounting Standards Codification* (FASB ASC). Under these standards, the District is required to report information regarding its financial position and activities according to the following three classes of net assets:

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

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that will be met by action of the District and/or the passage of time.

Unrestricted Net Assets – Net assets not subject to donor-imposed restrictions.

Principles of Consolidation

The accompanying financial statements include all administrative and program offices or departments of the Kansas District. They do not include the assets, liabilities, and operations of the congregations, schools, and other separately administered operations of the Synod within the District's geographic area.

KANSAS DISTRICT of
THE LUTHERAN CHURCH—MISSOURI SYNOD
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For financial statement purposes, the District considers currency, demand deposits, and liquid investments with a maturity of three months or less, when purchased, to be cash and cash equivalents. At times throughout the year, the cash and cash equivalent balances in the various bank deposit accounts may exceed federally insured limits.

Split-Interest Agreements

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

Property and Equipment

Property and equipment purchases of \$5,000 or more with an estimated useful life greater than two years are capitalized and recorded at cost. Donated property and equipment is recorded at fair value on the date of receipt. Depreciation is computed using the straight-line method.

Investments and Investment Return

Investments with maturities greater than or equal to one year at time of purchase are classified as long-term. In addition, investments with maturities of less than one year at time of purchase, which the District has both the ability and intent to hold long-term, are also classified as long-term investments. All equity securities with readily determinable fair values and all investments in debt securities are carried at their fair values in the Statement of Financial Position.

Investment return includes dividend and interest income and realized and unrealized gains and losses on investments carried at fair value. Investment return is included in the change in net assets in the Statement of Activities based on the existence and/or nature of any donor or legally imposed restrictions.

Perpetual Trusts

Funds held by third-party trustee consist of irrevocable trusts from which the District is to receive the income in perpetuity. The principal is held in trust by the LCMS Foundation and will never revert to the District. The perpetual stream of income is viewed by the District as promises to give by the individuals who established the trusts, and thus the District's beneficial interest in these trusts has been recorded at the fair value of the assets underlying the trusts at January 15, 2018 and 2017.

KANSAS DISTRICT of
THE LUTHERAN CHURCH—MISSOURI SYNOD
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Perpetual Trusts (Continued)

Given the nature of the promises, the District has recorded these contributions as permanently restricted net assets. Income received is recorded as either unrestricted or temporarily restricted activity based on the presence or absence of donor restrictions. Increases or decreases in the fair value of the trust assets are recorded in the Statement of Activities as changes in permanently restricted net assets.

Line-of-Credit

The District has an unsecured line-of-credit with LCEF in the amount of \$393,122 and \$377,334 at January 15, 2018 and 2017, respectively. There were no borrowings against this line-of-credit in the 2018 and 2017 fiscal years.

Grants Payable

Unconditional promises to give which have been authorized and communicated to the recipient are reported as liabilities and expenses in the period in which the notification to the recipient occurs. If at the time the promise is made, the District expects to make payment in one year or less, the payable is recorded at net settlement value. Unconditional promises that the District expects to pay in more than one year are reported at fair value, which is measured as the present value of the amounts to be paid.

Donor-Restricted Endowments

The District Board of Directors has interpreted the Kansas enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift of the donor-restricted endowment funds, as of the gift date, absent explicit donor stipulations to the contrary. As a result of this interpretation, the District 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 the 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 expenditure by the District in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the District considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

KANSAS DISTRICT of
THE LUTHERAN CHURCH—MISSOURI SYNOD
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

Contributions are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. Contributions are recognized as support in the Statement of Activities when they are received or unconditionally promised by a donor. Unconditional promises to give are recorded as contributions receivable and are stated at the net present value of the amount expected to be collected from outstanding balances. The District provides for an estimated uncollectible amount based on historical experience and industry trends. Conditional promises to give are not included as support until the conditions on which they depend are substantially met and the promises become unconditional.

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

The District reports gifts of property and equipment as unrestricted support unless explicit donor restrictions specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor restrictions about how long those long-lived assets must be maintained, the District reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Donated services are reported as support in the financial statements at fair value when those services (1) create or enhance nonfinancial assets or (2) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Subsequent Events

Subsequent events are events or transactions that occur after the date of the Statement of Financial Position but before the financial statements are issued. The District recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the Statement of Financial Position, including the estimates inherent in the process of preparing the financial statements.

The District has evaluated subsequent events through April 25, 2018, the date the financial statements were available to be issued.

KANSAS DISTRICT of
THE LUTHERAN CHURCH—MISSOURI SYNOD
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxes

The District follows the accounting standards for contingencies in evaluating uncertain tax positions. This guidance requires financial statement recognition of the impact of a tax position if a position is more likely than not of being sustained on audit by the applicable regulatory authority, 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. No liability has been recognized by the District for uncertain tax positions as of January 15, 2018 and 2017.

3. FAIR VALUE MEASUREMENTS

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

The fair value hierarchy is broken down into three levels based on the transparency of inputs as follows:

Level 1 Inputs – Quoted prices are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

Level 2 Inputs – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. Level 2 inputs include assets or liabilities for which quoted prices are available but traded less frequently and assets or liabilities that are fair valued using similar assets or liabilities, the parameters of which can be directly observed.

Level 3 Inputs – Assets or liabilities have little to no pricing observability as of the report date. These items are measured using management’s best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

A financial instrument’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes “observable” requires significant judgment by the District. The District considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the District’s perceived risk of that instrument.

At January 15, 2018 and 2017, the District’s financial instruments measured at fair value on a recurring basis include Split-Interest Agreements in the amount of \$64,091 and \$58,246,

KANSAS DISTRICT of
THE LUTHERAN CHURCH—MISSOURI SYNOD
NOTES TO FINANCIAL STATEMENTS

3. FAIR VALUE MEASUREMENTS (Continued)

respectively, and Funds Held by Third-Party Trustee in the amount of \$67,018 and \$60,438, respectively. Within the fair value hierarchy, these funds are measured using significant unobservable Level 3 inputs.

The following tables provide a reconciliation of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended January 15, 2018 and 2017:

	<u>Balance</u> 1/15/2017	Net New or (Matured) Gifts	<u>Change</u> in Value	<u>Balance</u> 1/15/2018
Split-Interest Agreements	\$ 58,246	\$	\$ 5,845	\$ 64,091
Funds Held by Third- Party Trustee	<u>60,438</u>	<u></u>	<u>6,580</u>	<u>67,018</u>
	<u>\$ 118,684</u>	<u>\$ -</u>	<u>\$ 12,425</u>	<u>\$ 131,109</u>

	<u>Balance</u> 1/15/2016	Net New or (Matured) Gifts	<u>Change</u> in Value	<u>Balance</u> 1/15/2017
Split-Interest Agreements	\$ 57,851	\$	\$ 395	\$ 58,246
Funds Held by Third- Party Trustee	<u>58,918</u>	<u></u>	<u>1,520</u>	<u>60,438</u>
	<u>\$ 116,769</u>	<u>\$ -</u>	<u>\$ 1,915</u>	<u>\$ 118,684</u>

The District reports transfers between levels of the fair value hierarchy, if any, at the end of the reporting period. There were no such transfers at January 15, 2018 and 2017.

While the District believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

KANSAS DISTRICT of
THE LUTHERAN CHURCH—MISSOURI SYNOD
NOTES TO FINANCIAL STATEMENTS

4. CONTRIBUTIONS RECEIVABLE

At January 15, 2018 and 2017, contributors have unconditionally promised to give the District \$136,503 and \$130,916, respectively. These amounts are held by the LCMS Foundation as irrevocable deferred gifts of which the District is the beneficiary and will receive the principal at some future date. The valuations of these split-interest agreements are calculated by the LCMS Foundation using a discount rate of 3.5% and applicable mortality tables.

Management believes total contributions will be received as follows:

	January 15	
	<u>2018</u>	<u>2017</u>
Amount Due:		
In One to Five Years	\$ 8,004	\$ 8,636
After Five Years	<u>128,499</u>	<u>122,280</u>
	136,503	130,916
Less: Present Value Component	<u>(72,412)</u>	<u>(72,670)</u>
	<u>\$ 64,091</u>	<u>\$ 58,246</u>

The District is also the beneficiary of other trusts administered by the LCMS Foundation. The assets of these trusts are not included in contributions receivable since the beneficiaries may be changed at the discretion of the grantor. On January 15, 2018 and 2017, the future value of the assets of these trusts totaled \$724,307 and \$673,852, respectively.

5. PROPERTY AND EQUIPMENT

Property and equipment consists of:

	January 15	
	<u>2018</u>	<u>2017</u>
Land	\$ 102,000	\$ 102,000
Office Building	2,310,360	2,304,541
Herington Lake Retreat Center	635,770	635,042
Office Furnishings and Equipment	67,047	89,397
Vehicles	<u>125,944</u>	<u>158,686</u>
	3,241,121	3,289,666
Less: Accumulated Depreciation	<u>(1,690,280)</u>	<u>(1,708,126)</u>
Net Property and Equipment	<u>\$ 1,550,841</u>	<u>\$ 1,581,540</u>

KANSAS DISTRICT of
THE LUTHERAN CHURCH—MISSOURI SYNOD
NOTES TO FINANCIAL STATEMENTS

6. LONG-TERM INVESTMENTS

At January 15, 2018 and 2017, the District held the following long-term investments:

	January 15	
	2018	2017
LCEF Notes	\$ 2,367,031	\$ 2,180,728
LCMS Foundation - Invested in a LCEF Certificate	228,136	228,136
	\$ 2,595,167	\$ 2,408,864

At January 15, 2018 and 2017, the fair value of donor-restricted endowment investments managed by the District and included in the above schedule was \$1,428,307 and \$1,427,934, respectively.

7. BOARD-DESIGNATED NET ASSETS

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

	January 15	
	2018	2017
World and National Missions	\$ 114,795	\$ 15,242
Preparing Church Workers	3,398	4,398
Congregational Services	22,917	28,199
Mission and Ministry Support Services	8,070	8,070
	\$ 149,180	\$ 55,909

KANSAS DISTRICT of
THE LUTHERAN CHURCH—MISSOURI SYNOD
NOTES TO FINANCIAL STATEMENTS

8. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets contain donor-imposed restrictions that expire upon the passage of time or once specific actions are undertaken by the District. At January 15, 2018 and 2017, temporarily restricted net assets are available for the following specific purposes, or time restrictions have been placed on the use of the funds as noted in the following schedule:

	January 15	
	2018	2017
Purpose Restrictions:		
World and National Missions	\$ 213,085	\$ 192,126
Preparing Church Workers	18,564	23,459
Congregational Services	5,010	8,033
Mission and Ministry Support Services	27,153	21,673
	263,812	245,291
Time Restrictions:		
Congregation Support	20,056	15,875
Irrevocable Trusts	57,174	50,912
	77,230	66,787
	\$ 341,042	\$ 312,078

9. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are subject to donor-imposed restrictions that the principal be invested in perpetuity. The income from these investments will be used to support:

	January 15	
	2018	2017
Endowments Managed by District:		
World and National Missions	\$ 638,347	\$ 638,347
Preparing Church Workers	789,632	789,258
	1,427,979	1,427,605
Endowments Managed by LCMS Foundation:		
World and National Missions	73,935	67,772
	\$ 1,501,914	\$ 1,495,377

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10. ENDOWMENT FUNDS

The District’s endowment consists of nine donor-restricted endowment funds established primarily for world and national missions and preparing church workers. As required by generally accepted accounting principles (U.S. GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Management does not consider permanently restricted assets held and managed by third parties (e.g., split-interest agreements, funds held by third-party trustee) to be part of the endowment fund. Therefore, these net assets totaling \$73,935 and \$67,772 at January 15, 2018 and 2017, respectively, are not included in the following required disclosures.

Endowment Policies – Endowment assets are currently being managed and invested by the Business Manager in consultation with the Board of Administration. Endowment assets include those assets of donor-restricted endowment funds the District must hold in perpetuity. The District has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment. Per District policy, all assets are invested with LCEF or the LCMS Foundation. This allows the District to maintain a stable value in these endowments over the long-term. Exceptions to this policy may be granted by the Board of Directors if the donor specifies an alternate financial institution. The Boards of Administration and Stewardship review the endowment investments and their performance on an annual basis.

Funds with Deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or relevant law requires the District to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature would be reported in temporarily restricted net assets to the extent accumulated income is available to absorb such loss. Any excess loss would be reported in unrestricted net assets. There were no deficiencies of this nature that are reported in unrestricted net assets as of January 15, 2018 and 2017.

As of January 15, 2018, the District’s endowment net asset composition by fund type is summarized as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment Funds:			
Donor-Restricted	\$ <u>16,764</u>	\$ <u>1,427,979</u>	\$ <u>1,444,743</u>

As of January 15, 2017, the District’s endowment net asset composition by fund type is summarized as follows:

	Temporarily Restricted	Permanently Restricted	Total
Endowment Funds:			
Donor-Restricted	\$ <u>11,784</u>	\$ <u>1,427,605</u>	\$ <u>1,439,389</u>

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10. ENDOWMENT FUNDS (Continued)

The changes in the endowment net assets for the year ended January 15, 2018, are summarized below:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets - Beginning of Year	\$ 11,784	\$ 1,427,605	\$ 1,439,389
Investment Return:			
Investment Income	20,679	374	21,053
Appropriation of Endowment Assets for Expenditure	<u>(15,699)</u>	<u> </u>	<u>(15,699)</u>
Endowment Net Assets - End of Year	<u>\$ 16,764</u>	<u>\$ 1,427,979</u>	<u>\$ 1,444,743</u>

The changes in the endowment net assets for the year ended January 15, 2017, are summarized below:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment Net Assets - Beginning of Year	\$ 3,428	\$ 1,427,266	\$ 1,430,694
Investment Return:			
Investment Income	18,777	339	19,116
Appropriation of Endowment Assets for Expenditure	<u>(10,421)</u>	<u> </u>	<u>(10,421)</u>
Endowment Net Assets - End of Year	<u>\$ 11,784</u>	<u>\$ 1,427,605</u>	<u>\$ 1,439,389</u>

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11. SUPPORT AND REVENUE FROM THE LUTHERAN CHURCH EXTENSION FUND

Distribution of LCEF Operating Results – Based on LCEF’s annual operating performance, earnings distributions are made available to its partner districts. LCEF operating results are restricted for specific mission and ministry programs of the respective district and are distributed upon request. During the years ended January 15, 2018 and 2017, the Kansas District requested and received distributions of LCEF operating results totaling \$60,758 and \$62,169, respectively.

Agreements with LCEF – In accordance with certain agreements, which are subject to renegotiation each July, LCEF agreed to compensate and reimburse the District for providing facilities and services to LCEF, as well as for promotion and coordination of church extension program activities within the District. The agreements require LCEF to pay the District a fixed amount on a monthly basis. The amounts received by the District in connection with these agreements during the years ended January 15, 2018 and 2017, totaled \$230,145 and \$231,516, respectively.

12. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions when expenses were incurred to satisfy the restricted purposes or by the occurrence of other events specified by donors. For the years ended January 15, 2018 and 2017, temporarily restricted net assets were released as follows:

	January 15	
	2018	2017
Purpose Restrictions Accomplished:		
World and National Missions	\$ 106,340	\$ 119,248
Preparing Church Workers	68,405	58,825
Congregational Services	5,273	21,881
Mission and Ministry Support Services	15,333	1,236
	195,351	201,190
Expiration of Time Restrictions	15,875	14,460
	\$ 211,226	\$ 215,650

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13. DEFINED BENEFIT PLAN

The District participates in the worker benefit plans of the Synod, including the Concordia Retirement Plan (CRP). The CRP provides individuals with post-retirement benefits. Substantially all full-time employees (those employed more than 20 hours per week and at least five months per year) are covered by the CRP. Employees are vested after five years of creditable service. The District contributes a fixed percentage of each participant's salary to the CRP. Total retirement plan expense for the years ended January 15, 2018 and 2017, totaled \$57,638 and \$52,207, respectively.

There were no significant changes in the District's relationship to the CRP or changes that would affect the comparability to the CRP during fiscal 2018 or 2017. There were also no contingent liabilities associated with the CRP at January 15, 2018 or 2017. Currently, the District has no intention to withdraw from the CRP; the District's contributions and level of participation represent a small percentage of the CRP as a whole.