



Report of Mission Investment Fund of the ELCA

Always
being made
New.

25 YEARS TOGETHER IN CHRIST

Board of Trustees

Ms. Miji Bell, *vice chair*, Durham, N.C. (2017)
Mr. Daniel M. Bringman, *chair*, Gettysburg, Pa. (2015)
Ms. Kendra D. Brodin, Shoreview, Minn. (2015)
Ms. Judy L. Conklin, Crystal Lake, Ill. (2013)
Mr. Warren W. Hanson, St. Paul, Minn. (2015)
Mr. Mark S. Helmke, San Antonio, Texas (2013)
The Rev. Lorenz W. Lutey, Wheaton, Ill. (2015)
Mr. Harold C. Mueller, St. Louis, Mo. (2013)
Mr. Roger E. Southward, Pickerington, Ohio (2017)
Ms. Julie Swanson, Roanoke, Va. (2013)
The Rev. Viviane E. Thomas-Breitfeld, Brookfield, Wis. (2017)

Leadership

Ms. Eva M. Roby, *president*

Statement of Purpose

The purpose of the Mission Investment Fund is to help build the Evangelical Lutheran Church in America (ELCA) and advance God's mission by providing ministry loans, investment opportunities, and support services for ELCA members, congregations, and partners. Investments are put to work to provide low-interest loans to established ELCA congregations, new-start congregations, and ELCA-related ministries. The governing description of this separately incorporated ministry appears in continuing resolution 17.30.A11, printed in Section XII of the *Pre-Assembly Report*.

Report of Work for 2011–2013

The Mission Investment Fund (MIF) benefitted from a strengthening economy over the past two years and a focus on the retention of existing customers. Both investment obligations and loans outstanding grew in 2012—a positive turnaround following three years of slight declines during the sluggish economy. The MIF funded \$128 million in new loans during the 2011–2012 period. Applications for new loans remained strong, and the total loan amount requested increased to \$278 million in the two-year period.

The MIF maintained a high-quality loan portfolio with continued adherence to sound underwriting standards and responsible collection practices. At year-end 2012, the delinquency ratio was exceptionally low at 1.5 percent.

Throughout 2012, the MIF involved a wide spectrum of stakeholders—MIF senior management, staff members, members of the MIF Board of Trustees, and ELCA leaders—in providing input in the development of a three-year strategic plan. This plan, for 2013 through 2015, was approved by the MIF Board of Trustees in October 2012. Four key goals will drive this ministry's efforts going forward:

- MIF achieves an increased market share and awareness among ELCA congregations, church members, and related ministries resulting in growth in both loans and investments.
- The range, quality, and accessibility of products and services are developed and improved in response to customer needs and preferences.
- MIF maintains its traditional and consistent record of financial strength and stability.

- MIF invests in ongoing development of its people, systems, and structures as a foundation for organizational effectiveness, accountability, and sustainability.

As always, the MIF partnered closely with ministries within the ELCA. In 2011, when so many natural disasters struck the United States, the MIF worked closely with Lutheran Disaster Response to reach out to congregations affected by tornadoes and floods. MIF church building consultants worked with congregations to assess damage and identify possibilities for repairs. In one case, the MIF provided a loan—with expedited underwriting—for necessary renovation work.

In 2012, the MIF once again supported the ELCA Youth Gathering as a sponsor of an interactive booth as well as the host of a customer service center for on-site check-cashing. In addition, the MIF provided a \$100,000 grant to help cover travel, food, and hotel expenses for congregations that might not have been able to participate in the event without financial assistance. For each of the past two years, the MIF continued to provide a \$1.5 million annual grant to the Congregational and Synodical Mission unit to help support new-start congregations. The MIF also partnered with the Global Mission unit, providing a loan to the Evangelical Lutheran Church in Jordan and the Holy Land (ELCJHL) for that church's \$1.5 million project to build a pilgrimage and retreat center at Bethany-beyond-the-Jordan, the site of Jesus' baptism, on land bestowed on the ELCJHL by the Kingdom of Jordan.

Financial Summary

The Mission Investment Fund continued its tradition as a strong, stable financial institution over the past two years. At year-end 2012, MIF total assets were \$663.4 million, and net assets, or equity, reached \$184.8 million. The MIF capital ratio rose to nearly 28 percent, and the MIF continues to rank among the strongest and best-capitalized church extension funds in the country.

Total investment obligations increased to \$473.5 million during this period, and the number of total investors in the MIF grew to 14,728, with 10,569 individual investors, 3,386 congregations, and 773 ELCA-related ministries.

At year-end 2012, the MIF had 761 outstanding loans totaling \$450.5 million.

Major Directions for 2013–2016

Guided by its new strategic plan for 2013–2015, the Mission Investment Fund is at work on a number of strategic initiatives. The most immediate project is the implementation of a new core operating system, slated for July 1, 2013, installation, which will offer more options for MIF customers and greater in-house efficiency. To further enhance the customer experience, the MIF will institute a new call center by year-end 2013.

Going forward, the MIF is focusing in great detail on its strategic priorities. The MIF has effective plans in place to meet future opportunities and challenges, to maintain its position of strength and stability, and to continue its path toward growth.

Mr. Daniel M. Bringman, *board chair*

Ms. Eva M. Roby, *president*

**MISSION INVESTMENT FUND
OF THE EVANGELICAL LUTHERAN
CHURCH IN AMERICA**

FINANCIAL STATEMENTS
December 31, 2012 and 2011

MISSION INVESTMENT FUND
OF THE EVANGELICAL LUTHERAN
CHURCH IN AMERICA

FINANCIAL STATEMENTS
December 31, 2012 and 2011

CONTENTS

REPORT OF INDEPENDENT AUDITORS	1
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	3
STATEMENTS OF INCOME, EXPENSES, AND CHANGES IN NET ASSETS	4
STATEMENTS OF CASH FLOWS	6
NOTES TO FINANCIAL STATEMENTS	7

REPORT OF INDEPENDENT AUDITORS

The Board of Trustees
Mission Investment Fund of the
Evangelical Lutheran Church in America

Report on the Financial Statements

We have audited the accompanying financial statements of Mission Investment Fund of the Evangelical Lutheran Church in America ("MIF"), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of income, expenses and changes in net assets, and cash flows for each of the three years in the period ended December 31, 2012, 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 MIF'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 MIF's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mission Investment Fund of the Evangelical Lutheran Church in America as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for each of the three years in the period ended December 31, 2012, in accordance with accounting principles generally accepted in the United States of America.


Crowe Horwath LLP

Chicago, Illinois
March 21, 2013

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
STATEMENTS OF FINANCIAL POSITION
December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash and cash equivalents	\$ 32,745,052	\$ 30,299,627
Investments (Note 2)	163,246,424	148,482,306
Accrued interest receivable	2,388,449	2,338,865
Other assets (Note 1)	1,265,225	598,299
	<u>199,645,150</u>	<u>181,719,097</u>
Loans receivable, net (Note 3):		
Congregational and institutional loans	450,547,772	445,882,893
ELCA Churchwide Administrative Offices	-	163,433
Allowance for loan losses	(5,600,000)	(6,100,000)
	<u>444,947,772</u>	<u>439,946,326</u>
Real estate owned (Note 4):		
Held for congregations	8,296,987	9,024,983
Held for sale	18,469,823	18,165,224
Allowance for losses on property held for sale	(8,000,000)	(6,500,000)
	<u>18,766,810</u>	<u>20,690,207</u>
 Total assets	 <u>\$ 663,359,732</u>	 <u>\$ 642,355,630</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and other liabilities	\$ 2,205,996	\$ 2,107,594
Due to ELCA Churchwide Administrative Offices	453,626	386,433
Accrued interest payable	632,401	739,571
Investment obligations (Note 5)	473,480,396	458,341,125
Real estate deposits	1,789,818	1,594,517
Total liabilities	<u>478,562,237</u>	<u>463,169,240</u>
 Commitments and contingencies (Notes 7, 8, and 12)	 -	 -
Net assets (Note 6):		
Unrestricted	181,859,220	176,335,507
Permanently restricted	2,938,275	2,850,883
Total net assets	<u>184,797,495</u>	<u>179,186,390</u>
 Total liabilities and net assets	 <u>\$ 663,359,732</u>	 <u>\$ 642,355,630</u>

See accompanying notes to financial statements.

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
STATEMENTS OF INCOME, EXPENSES, AND CHANGES IN NET ASSETS
Years ended December 31, 2012, 2011, and 2010

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Changes in unrestricted net assets			
Operating income:			
Interest on loans	\$ 22,752,659	\$ 24,354,388	\$ 26,658,929
Interest and dividends on investments	4,168,006	4,887,121	5,201,564
Total interest income	<u>26,920,665</u>	<u>29,241,509</u>	<u>31,860,493</u>
Interest expense	<u>8,037,779</u>	<u>9,070,030</u>	<u>10,755,462</u>
Net interest income	<u>18,882,886</u>	<u>20,171,479</u>	<u>21,105,031</u>
Operating expenses:			
General operating expenses	9,298,313	8,544,095	8,195,720
Grants for congregational development	2,030,360	1,824,315	2,310,925
Provision for loan losses (Note 3)	(465,457)	(260,880)	400,000
Provision for real estate losses (Note 4)	2,160,041	1,800,000	1,000,000
Total operating expenses	<u>13,023,257</u>	<u>11,907,530</u>	<u>11,906,645</u>
Other operating income:			
Loan fees	114,024	68,131	34,762
Gain on sale of real estate	296,577	274,698	14,962
Rental income	118,553	131,296	132,648
Other income	46,212	56,760	51,338
Total other operating income	<u>575,366</u>	<u>530,885</u>	<u>233,710</u>
Increase in net assets from operating activities	<u>6,434,995</u>	<u>8,794,834</u>	<u>9,432,096</u>
Non-operating income (loss):			
Realized investment loss	(1,456,269)	(1,300,686)	(724,683)
Unrealized investment gain (loss)	161,139	(213,292)	(64,844)
Gifts (Note 6)	207,685	12,844	144,098
Transfer to adjust endowment balances (Note 6)	176,163	(122,477)	129,250
Non-operating loss	<u>(911,282)</u>	<u>(1,623,611)</u>	<u>(516,179)</u>
Increase in unrestricted net assets	5,523,713	7,171,223	8,915,917
Unrestricted net assets at beginning of year	<u>176,335,507</u>	<u>169,164,284</u>	<u>160,248,367</u>
Unrestricted net assets at end of year	<u>181,859,220</u>	<u>176,335,507</u>	<u>169,164,284</u>

(Continued)

MISSION INVESTMENT FUND OF THE
 EVANGELICAL LUTHERAN CHURCH IN AMERICA
 STATEMENTS OF INCOME, EXPENSES, AND CHANGES IN NET ASSETS
 Years ended December 31, 2012, 2011, and 2010

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Changes in permanently restricted net assets:			
Increase (decrease) in beneficial interest in ELCA endowments	\$ 249,654	\$ (188,930)	\$ 199,637
Gifts (Note 6)	13,901	2,191	17,596
Transfer to adjust endowment balances	<u>(176,163)</u>	<u>122,477</u>	<u>(129,250)</u>
Increase (decrease) in permanently restricted net assets	87,392	(64,262)	87,983
Permanently restricted net assets at beginning of year	<u>2,850,883</u>	<u>2,915,145</u>	<u>2,827,162</u>
Permanently restricted net assets at end of year	<u>2,938,275</u>	<u>2,850,883</u>	<u>2,915,145</u>
Changes in total net assets:			
Change in total net assets	5,611,105	7,106,961	9,003,900
Total net assets at beginning of year	<u>179,186,390</u>	<u>172,079,429</u>	<u>163,075,529</u>
Total net assets at end of year	<u>\$ 184,797,495</u>	<u>\$ 179,186,390</u>	<u>\$ 172,079,429</u>

See accompanying notes to financial statements.

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
STATEMENTS OF CASH FLOWS
Years ended December 31, 2012, 2011, and 2010

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:			
Increase in net assets	\$ 5,611,105	\$ 7,106,961	\$ 9,003,900
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			
Depreciation	192,735	232,714	313,528
Provision for loan losses	(465,457)	(260,880)	400,000
Provision for real estate losses	2,160,041	1,800,000	1,000,000
Restricted and designated gifts	(221,586)	(15,035)	(161,694)
Gain on sale of real estate	(296,577)	(274,698)	(14,962)
Loss on investments	1,045,476	1,702,908	589,890
Changes in assets and liabilities:			
Accrued interest receivable	(49,584)	392,684	(5,104)
Other assets	(784,755)	(193,519)	(538,489)
Accounts payable and other liabilities	98,402	379,660	399,834
Due to ELCA Churchwide Administrative Offices	67,193	(2,009)	(76,950)
Accrued interest payable	(107,170)	(133,699)	(117,564)
Net cash provided by operating activities	<u>7,249,823</u>	<u>10,735,087</u>	<u>10,792,389</u>
Cash flows from investing activities:			
Purchases of investments	(89,833,476)	(70,530,780)	(68,150,005)
Proceeds from sales and maturities of investments	74,023,882	66,190,691	58,658,890
Purchases of real estate and capital improvements	(1,629,806)	(45,464)	(2,204,543)
Change in real estate deposits	195,301	(40,318)	176,730
Proceeds from sale of real estate	1,740,833	1,541,343	14,962
Loans issued	(70,419,580)	(57,710,960)	(48,690,356)
Principal collected on loans	65,757,591	67,530,903	58,854,690
Net cash (used in) provided by investing activities	<u>(20,165,255)</u>	<u>6,935,415</u>	<u>(1,339,632)</u>
Cash flows from financing activities:			
Restricted and designated gifts	221,586	15,035	161,694
Issuance of investment obligations	185,177,326	175,682,288	186,841,470
Redemption of investment obligations	(170,038,055)	(182,354,287)	(193,811,516)
Net cash provided by (used in) financing activities	<u>15,360,857</u>	<u>(6,656,964)</u>	<u>(6,808,352)</u>
Net increase in cash and cash equivalents	2,445,425	11,013,538	2,644,405
Cash and cash equivalents at beginning of year	<u>30,299,627</u>	<u>19,286,089</u>	<u>16,641,684</u>
Cash and cash equivalents at end of year	<u>\$ 32,745,052</u>	<u>\$ 30,299,627</u>	<u>\$ 19,286,089</u>
Supplementary disclosures:			
Interest paid to investors	\$ 8,144,949	\$ 9,203,729	\$ 10,028,591
Supplementary schedule of noncash investing activities:			
Transfers from loans to real estate owned	\$ 126,000	\$ 933,377	\$ -

See accompanying notes to financial statements.

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization: The Mission Investment Fund of the Evangelical Lutheran Church in America (MIF) was organized in March 1987 and began operations on January 1, 1988. MIF assists congregations of the Evangelical Lutheran Church in America (ELCA) in the acquisition, construction, renovation or expansion of church facilities by providing loans at favorable interest rates. MIF may also purchase property for future sale to newly organized congregations and makes loans to other ELCA-related ministries. MIF's relationship with its borrowers is unlike that of a typical commercial lender. MIF may make loans to borrowers that would be unable to secure financing from commercial sources.

Cash and Cash Equivalents: MIF considers all financial instruments with original maturity of 90 days or less held in banks and money market accounts to be cash equivalents except for such amounts held within the investment portfolio for future purchases of additional investments. Cash is maintained in bank deposit accounts which, at times, may exceed federal deposit insurance limits. MIF has not experienced any losses in such accounts and believes there is no significant credit risk on cash.

MIF has entered into a repurchase agreement with a financial institution whereby MIF lends cash to the financial institution on an overnight basis. The financial institution in return pledges collateral with a value equivalent to the amount of the cash borrowed and pays interest to MIF on the borrowed funds. The collateral pledged is in the form of U.S. Treasury Securities or U.S. Bonds. The total balance related to this arrangement included in cash and cash equivalents was approximately \$35,033,000 and \$31,318,000 at year end December 31, 2012 and 2011 before consideration of outstanding checks.

Investments Held for Operating Purposes: Investments, consisting primarily of U.S. government securities, other church extension fund investments, mortgage-backed securities, and corporate securities are stated at fair value. Interest and dividends on investments are included in changes in net assets from operating activities. Realized and unrealized gains and losses are included in non-operating activities.

Investments Held in Endowment Funds: The MIF Board of Trustees directs that all gifts received by MIF that are donor-restricted be invested in the Mission Investment Fund Endowment at the ELCA and that all gifts not restricted by the donor be designated for investment in the Mission Investment Fund Gift Fund at the ELCA. MIF is also the beneficiary of other endowment funds held by the ELCA. Investments held in endowment funds are stated at fair value. The distributed income from these endowment funds is used annually by MIF to fund grants or loans to congregations or other ministries. All such endowment funds are classified by the ELCA as "Funds Held for Others" or "Funds Held for Others in Perpetuity" and are invested in the ELCA Endowment Fund Pooled Trust ("EFPT") administered under the terms of that Trust by its Trustee.

The EFPT investment objective is to provide Participants with a stable stream of distributable income with long-term capital appreciation, while assuming a moderate level of investment risk. The assets of the EFPT are invested in a diversified portfolio that places a greater emphasis on equity-based and fixed income investments selected in accordance with the criteria of social responsibility that is consistent with the values and programs of the ELCA.

The target asset allocation ranges are 30% to 40% in U.S. equity securities, 20% to 30% in Non-U.S. equity securities, 10% to 20% in investment grade fixed income securities, 5% to 15% in high yield fixed income securities, 5% to 15% in global real estate securities, and 0% to 7% in US inflation-indexed securities, with the balance in cash and cash equivalents.

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Ownership interests in the EFPT are initially assigned through unitization of participants' investment additions. The total value of the EFPT net assets at the end of each month is used to determine the number of units allocated to participants' additions placed in the EFPT and to value withdrawals from the pool. Distributions from the pool are first made from dividend and interest income and net realized gains. If distributions exceed the actual dividends, interest, and net realized gains, the excess is distributed first from accumulated undistributed earnings and gains, then from capital.

Quarterly distributions from the EFPT are made at a rate established annually by the Trustee of the EFPT that reflects the Trustee's consideration of anticipated returns of the EFPT and anticipated changes in the purchasing power of the EFPT. The rate established for the years 2012, 2011, and 2010, was 4.25%, and was applied each year to the average unit value of the assets in the EFPT at December 31 of the preceding five years. The rate established for 2013 is 4.25%.

MIF has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, MIF classifies endowment funds holding the contributed value of donor-restricted gifts, and related undistributed earnings and unrealized appreciation, as permanently restricted net assets. The endowment fund holding the contributed value of MIF board-designated gifts, and related undistributed earnings and unrealized appreciation, is classified as unrestricted net assets.

All other net assets of MIF that do not have donor imposed restrictions are included in unrestricted net assets.

Loans Receivable: Loans that management has the ability and intent to hold for the foreseeable future are recorded at the principal balance outstanding, less the allowance for loan losses. Interest income is accrued on loans and credited to income on the principal amount outstanding. Accrual of interest is ceased on loans and the loans are moved to non-accrual status when payment is 90 days or more past due. MIF determines whether a loan is past due based on the contractual terms of the loan. Interest accrued, but not collected, at the date a loan is placed on non-accrual status is reversed and charged against income. Interest received on such loans is accounted for on the cost-recovery method until the loan is returned to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current.

The loan portfolio consists of one segment – commercial real estate loans with two classes of loans – standard loans and construction loans. Construction loans are loans in the construction stage and are not completed to the point where permanent occupancy is permitted. Some risk characteristics of construction loans are different from standard loans due to uncertainty inherent in the construction phase of projects including the potential for cost overruns or other circumstances detrimental to the collectability of the loan that are not present with standard loans. When there is a construction phase, both the construction and permanent financing phases of loans are underwritten and the resultant loan documentation is prepared in a single step and therefore MIF considers the underwriting risk factors for both classes of loans to be the same.

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. The allowance for loan losses is increased by a provision for losses charged to expense and reduced by loans charged off, net of recoveries. The allowance, for both construction loans and standard loans, is maintained at a level considered adequate to provide for probable loan losses based on management's evaluation of the anticipated impact on the loan portfolio of current economic conditions, changes in the character and size of the portfolio, past loan loss experience, probable future losses on loans to specific borrowers, the financial condition of the borrower, and other pertinent factors that management believes require current recognition in estimating probable loan losses. Loan losses are charged against the allowance when management believes the loan balance is uncollectible. Subsequent recoveries, if any, are credited to the allowance. Specific reserves are established for any impaired loan for which the recorded investment in the loan exceeds the fair value of the loan. Both construction loans and standard loans use the same risk categories for credit quality indications.

A loan is considered impaired when it is probable that all principal and interest amounts due will not be collected in accordance with the loan's contractual terms. Loans that experience insignificant delays and temporary payment shortfalls generally are not classified as impaired. Impairment is measured on a loan-by-loan basis by the value of either the expected future cash flows or the loan's underlying collateral.

The recorded investment in impaired loans is periodically adjusted to reflect cash payments and revised estimates of future cash flows. Cash payments are reported as reductions in the recorded investment. Other cash payments representing interest income are reported as such. Increases or decreases due to changes in estimates of future payments are considered in relation to the overall adequacy of the allowance for loan losses.

A troubled debt restructuring exists when MIF has granted a concession to a borrower that is in financial difficulty. Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is collateral dependent, the loan is reported, net, of the fair value of collateral. For troubled debt restructurings that are in non-accrual status, MIF determines the amount of allowance for loan losses in accordance with its accounting policy for such losses.

Real Estate: Real estate held for congregations, excluding any properties for which impairment has been recognized is reported at cost and consists of land acquired for future sale to new congregations, property leased to congregations, and buildings. MIF typically sells the property to congregations at its carrying value plus expenses incurred during ownership and usually issue a loan to finance the cost of the property and any related construction costs for the physical facility. Real estate no longer needed for future congregational use, which has been designated for sale to third parties, is reported at the lower of the carrying amount or fair value, less estimated selling costs.

Real estate properties transferred from loans are recorded at the lower of the loan balance at the time of transfer or the fair value of the properties, less estimated selling costs. Any write-down in the carrying value of a property at the time of acquisition is charged to the allowance for loan losses. Any subsequent declines in fair value, as well as losses on disposition, are reflected through the real estate valuation allowance recorded through expense. Expenses for maintaining such properties are expensed as incurred.

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

MIF reviews its long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If such assets are considered impaired, the impairment recognized is equal to the amount by which the carrying amount of the assets exceeds the fair value of the assets, less estimated selling costs. Fair value is generally based on real estate appraisals which are updated no less frequently than triennially. Other qualified evaluations may be obtained more frequently.

Other Assets: Included with other assets are office and computer equipment and software, at cost, of \$2,462,873 and \$1,772,138 with accumulated depreciation of \$1,654,795 and \$1,598,977 at December 31, 2012 and 2011, respectively. Depreciation is provided over the estimated useful lives of the respective assets which range from 3 to 5 years using the straight-line method. Amounts charged to general operating expenses for depreciation were \$117,829, \$149,197 and \$235,034, for the years ended December 31, 2012, 2011 and 2010, respectively.

Operations: Operating results in the statements of income, expenses, and changes in net assets reflect all transactions increasing and decreasing unrestricted net assets except for gains and losses on investments, as well as gifts, which have been classified as non-operating.

General Operating Expenses: Certain general operating expenses of MIF are disbursed by the ELCA Churchwide Administrative Offices ("CAO"). These payments for general operating expenses are reimbursed by MIF on a monthly basis.

Income Taxes: MIF is an affiliated entity recognized by the CAO as being included under its Group Exemption Ruling which establishes that MIF is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code of 1986 and, except for taxes pertaining to unrelated business income, is exempt from Federal and state income taxes. Accordingly, no provision for income taxes has been made in the financial statements. There were no income tax related interest or penalties recognized by MIF for the three years ended December 31, 2012. MIF has not been examined by any tax jurisdiction. The four years ended December 31, 2012, remain subject to examination by tax jurisdictions.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including the allowances for loan and real estate losses, fair value of financial instruments, and the disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of income, expenses, gains, and losses during the period. Actual results could differ from these estimates.

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 9. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to December 31, 2012 and where appropriate reflected them within the audited financial statements for the year ended December 31, 2012. Management has performed their analysis through March 21, 2013, the date the financial statements were available to be issued.

NOTE 2 - INVESTMENTS

Investments: Investments are stated at fair value and consist of the following at December 31, 2012 and 2011:

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	\$ 6,022,609	\$ 6,022,609	\$ 5,600,006	\$ 5,600,006
Church extension fund notes	5,000,000	5,000,000	10,000,000	10,000,000
U.S. Treasuries	13,350,594	13,424,001	11,693,815	11,887,280
U.S. sponsored agencies	37,302,355	37,268,181	57,465,647	57,380,781
U. S. government mortgage-backed	48,966,584	49,399,111	32,767,387	33,406,665
Corporate bonds	21,715,311	21,812,603	22,797,912	22,469,525
Other bonds	18,818,778	18,589,257	2,238,950	2,195,353
U.S. large cap stocks	2,579,600	2,509,850	-	-
U.S. mid-cap stocks	1,042,400	1,035,999	-	-
U.S. small cap stocks	659,400	636,604	-	-
Non-U.S. stocks	607,200	619,176	-	-
Other investments	353,215	355,966	-	-
ELCA Endowment Fund Pooled Trust	2,468,190	2,825,636	2,437,970	2,562,081
Beneficial Interest in ELCA Endowments	3,161,497	3,747,431	2,692,721	2,980,615
	<u>\$ 162,047,733</u>	<u>\$ 163,246,424</u>	<u>\$ 147,694,408</u>	<u>\$ 148,482,306</u>

The following schedule summarizes the investment return reported in the statements of income, expenses, and changes in net assets for the years ended December 31, 2012, 2011, and 2010:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Interest and dividends on investments	\$ 4,168,006	\$ 4,887,121	\$ 5,201,564
Realized investment losses	(1,456,269)	(1,300,686)	(724,683)
Unrealized investment gains (losses)	410,793	(402,222)	134,793
Total investment return	<u>\$ 3,122,530</u>	<u>\$ 3,184,213</u>	<u>\$ 4,611,674</u>

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 3 - LOANS RECEIVABLE

Congregational and Institutional Loans: These loans consist of mortgage notes, contracts for deeds, and unsecured promissory notes totaling \$450,547,772 and \$446,046,326 at December 31, 2012 and 2011, respectively. At December 31, 2012 and 2011, approximately \$434.5 and \$432.4 million of the loans are secured by first mortgages, \$2.0 and \$3.5 million are secured by second mortgages, and \$14.1 and \$10.1 million are unsecured, respectively. Interest rates for congregational and institutional loans range from 2.0% to 7.90% with a weighted average interest rate of approximately 4.94% during 2012, ranged from 0.0% to 7.90% with a weighted average interest rate of approximately 5.27% during 2011, and ranged from 0.0% to 7.90% with a weighted average interest rate of approximately 5.64% during 2010.

MIF makes loans to congregations and other ministries as part of its mission. Because of the financial uniqueness of this market, MIF's relationship with its borrowers is unlike that of a typical commercial lender. MIF may make loans to borrowers which would be unable to secure financing from commercial sources. The ability of each borrower congregation to pay MIF may depend on the contributions the congregation receives from its members. Therefore, payments to MIF may depend on the continued growth in membership of the borrower congregations, and on the maintenance of adequate contributions by individual members to their congregations, as well as on prudent management by those congregations of their finances. In the event of default, ultimate repayment of loans secured by first and second mortgages may depend on the proceeds from the sale of the underlying collateral. The underlying collateral for first and second mortgages generally consists of real estate used for congregational needs, such as church facilities. This real estate often has limited uses which could negatively impact its salability and ultimate repayment of the loans.

MIF may also accommodate partial, deferred, or late payments more readily than commercial lenders. Such loan practices may result in less money being collected on delinquent loans than a commercial lender would normally collect and may result in a higher loan delinquency rate.

Components of congregational and institutional loans, net at December 31 are as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
<u>Commercial real estate loans:</u>			
Construction loans	\$ 10,469,751	\$ 21,991,479	\$ 17,994,272
Standard loans	440,078,021	424,054,847	438,944,494
Allowance for loan losses	<u>(5,600,000)</u>	<u>(6,100,000)</u>	<u>(6,500,000)</u>
Loans receivable, net	<u>\$ 444,947,772</u>	<u>\$ 439,946,326</u>	<u>\$ 450,438,766</u>

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 3 - LOANS RECEIVABLE (Continued)

Allowance for Loan Losses and Related Loans: A summary of the activity in the allowance for loan losses by class of loan is as follows:

<u>Allowance for loan losses</u>	Commercial real estate loans		
	<u>Construction Loans</u>	<u>Standard Loans</u>	<u>Total</u>
Balance January 1, 2010	\$ 18,947	\$ 6,081,053	\$ 6,100,000
Charge-offs	-	-	-
Recoveries	-	-	-
Provision (Reversal)	(4,598)	404,598	400,000
Balance December 31, 2010	14,349	6,485,651	6,500,000
Ending balance individually evaluated for impairment	-	1,979,280	1,979,280
Ending balance collectively evaluated for impairment	14,349	4,506,371	4,520,720
Total	14,349	6,485,651	6,500,000
Charge-offs	-	(139,120)	(139,120)
Recoveries	-	-	-
Provision (reversal)	(3,086)	(257,794)	(260,880)
Balance December 31, 2011	11,263	6,088,737	6,100,000
Ending balance individually evaluated for impairment	-	2,632,658	2,632,658
Ending balance collectively evaluated for impairment	11,263	3,456,079	3,467,342
Total	11,263	6,088,737	6,100,000
Charge-offs	-	(34,543)	(34,543)
Recoveries	-	-	-
Provision (reversal)	(11,263)	(454,194)	(465,457)
Balance December 31, 2012	-	5,600,000	5,600,000
Ending balance individually evaluated for impairment	-	3,494,551	3,494,551
Ending balance collectively evaluated for impairment	-	2,105,449	2,105,449
Total	-	5,600,000	5,600,000

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 3 - LOANS RECEIVABLE (Continued)

<u>Loans</u>	<u>Construction Loans</u>	<u>Standard Loans</u>	<u>Total</u>
Balance December 31, 2010	\$ 17,994,272	\$ 438,944,494	\$ 456,938,766
Allowance for loan losses	<u>(14,349)</u>	<u>(6,485,651)</u>	<u>(6,500,000)</u>
Carrying value	17,979,923	432,458,843	450,438,766
<hr/>			
Ending balance individually evaluated for impairment	-	7,641,001	7,641,001
Ending balance collectively evaluated for impairment	<u>17,994,272</u>	<u>431,303,493</u>	<u>449,297,765</u>
Total	17,994,272	438,944,494	456,938,766
<hr/>			
Balance December 31, 2011	21,991,479	424,054,847	446,046,326
Allowance for loan losses	<u>(11,263)</u>	<u>(6,088,737)</u>	<u>(6,100,000)</u>
Carrying value	21,980,216	417,966,110	439,946,326
<hr/>			
Ending balance individually evaluated for impairment	-	9,539,246	9,539,246
Ending balance collectively evaluated for impairment	<u>21,991,479</u>	<u>414,515,601</u>	<u>436,507,080</u>
Total	21,991,479	424,054,847	446,046,326
<hr/>			
Balance December 31, 2012	10,469,751	440,078,021	450,547,772
Allowance for loan losses	<u>-</u>	<u>(5,600,000)</u>	<u>(5,600,000)</u>
Carrying value	10,469,751	434,478,021	444,947,772
<hr/>			
Ending balance individually evaluated for impairment	-	26,079,319	26,079,319
Ending balance collectively evaluated for impairment	<u>10,469,751</u>	<u>413,998,702</u>	<u>424,468,453</u>
Total	10,469,751	440,078,021	450,547,772

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 3 - LOANS RECEIVABLE (Continued)

Past Due Loans: Management tracks asset quality through past due loans. A summary of past due loans at December 31, 2012, 2011, and 2010 is as follows:

December 31, 2012					
Commerical real estate loans	Current (Accruing)	30-59 Days Past Due (Accruing)	60-89 Days Past Due (Accruing)	90 Days and Over (Non-Accruing)	Total
Construction loans	\$ 10,469,751	\$ -	\$ -	\$ -	\$ 10,469,751
Standard loans	<u>395,138,037</u>	<u>8,870,428</u>	<u>29,190,878</u>	<u>6,878,678</u>	<u>440,078,021</u>
Total	<u>\$ 405,607,788</u>	<u>\$ 8,870,428</u>	<u>\$ 29,190,878</u>	<u>\$ 6,878,678</u>	<u>\$ 450,547,772</u>
December 31, 2011					
Commerical real estate loans	Current (Accruing)	30-59 Days Past Due (Accruing)	60-89 Days Past Due (Accruing)	90 Days and Over (Non-Accruing)	Total
Construction loans	\$ 21,991,479	\$ -	\$ -	\$ -	\$ 21,991,479
Standard loans	<u>389,853,221</u>	<u>20,237,277</u>	<u>3,543,698</u>	<u>10,420,651</u>	<u>424,054,847</u>
Total	<u>\$ 411,844,700</u>	<u>\$ 20,237,277</u>	<u>\$ 3,543,698</u>	<u>\$ 10,420,651</u>	<u>\$ 446,046,326</u>
December 31, 2010					
Commerical real estate loans	Current (Accruing)	30-59 Days Past Due (Accruing)	60-89 Days Past Due (Accruing)	90 Days and Over (Non-Accruing)	Total
Construction loans	\$ 17,994,272	\$ -	\$ -	\$ -	\$ 17,994,272
Standard loans	<u>370,478,681</u>	<u>45,969,598</u>	<u>6,262,815</u>	<u>16,233,400</u>	<u>438,944,494</u>
Total	<u>\$ 388,472,953</u>	<u>\$ 45,969,598</u>	<u>\$ 6,262,815</u>	<u>\$ 16,233,400</u>	<u>\$ 456,938,766</u>

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 3 - LOANS RECEIVABLE (Continued)

Impaired Loans and Related Allowances for Losses: The following is a summary of information pertaining to impaired loans as of December 31:

<u>Commercial real estate loans</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
<u>With an allowance recorded</u>			
Carrying value	\$ 22,584,768	\$ 6,906,588	\$ 5,661,721
Unpaid principal balance	26,079,319	9,539,246	7,641,001
Related allowance	3,494,551	2,632,658	1,979,280
 Average recorded investment during the year	 14,745,678	 6,284,155	 4,109,793
 Interest income recognized while impaired (currently performing troubled debt restructuring)	 1,115,454	 290,749	 239,472
 Interest income recognized on a cash basis while impaired	 -	 -	 -

Construction loans

There are no impaired construction loans

Impaired loans had a principal balance of \$26,079,319, with a valuation allowance of \$3,494,551 at December 31, 2012, resulting in an additional provision for loan losses of \$861,893 for the year ended December 31, 2012. At December 31, 2011, impaired loans had a principal balance of \$9,539,246, with a valuation allowance of \$2,632,658, resulting in an additional provision for loan losses of \$653,378 for the year ended December 31, 2011. Impaired loans with specific allocations of the allowance for loan losses are based on expected future cash flows.

Troubled debt restructurings

MIF has allocated \$548,209 and \$178,904 of the allowance for loan losses, relating to balances of \$5,979,887 and \$4,852,566, for five and four customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2012 and 2011, respectively. The concessions giving rise to the troubled debt restructurings totaled approximately \$124,296 and were in the form of matching grants to encourage timely monthly payments and temporary interest rate reductions for periods of one year. There were two and four loans modified in troubled debt restructurings during the year ended December 31, 2012 and 2011, respectively. The pre- and post-modification outstanding balance on these loans was \$1,494,569 and \$4,852,566 during the year ended December 31, 2012 and 2011, respectively. Currently, there is no commitment to lend additional amounts to these borrowers. There are no troubled debt restructurings related to construction loans.

The terms of certain other loans were modified during the year ending December 31, 2012, that did not meet the definition of a troubled debt restructuring. These loans have a total recorded investment as of December 31, 2012 and 2011, of \$10,808,310 and \$12,020,240, respectively. The modifications of these loans involved temporary delays in payments that were considered to be insignificant and did not result in concessions to the borrowers. None of these troubled debt restructurings have subsequently defaulted during the year ended December 31, 2012 or 2011.

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 3 - LOANS RECEIVABLE (Continued)

Credit quality and non-accrual loans

Each month the MIF divides the loan portfolio into two credit quality categories based upon their payment records – performing loans and non-performing loans. Non-performing loans, or those that are in non-accrual status, are loans which are past due 90 days or more. At December 31, 2012 and 2011, loans in non-accrual status were \$6,878,678 and \$10,420,651, respectively, none of which were construction loans.

ELCA Churchwide Administrative Offices: During 1998, MIF entered into a mortgage loan agreement for \$25,000,000 with the CAO to refinance its existing mortgage on the building that houses its churchwide administrative offices. The loan was secured by a first mortgage on the building and was repayable in monthly installments of interest and principal. The interest rate was fixed at 7% for the first 5 years and for years 6 through 10 was subject to adjustment at the option of MIF with any increase limited to 8%. Effective September 1, 2003, the interest rate was reduced to a fixed rate of 4% for the term of the loan, which was also extended to March 1, 2012, at which time the loan was fully repaid. Interest income on the loan was \$447, \$49,718 and \$129,229, during 2012, 2011 and 2010, respectively.

Concentration of Credit Risk: MIF's lending activities are primarily conducted with congregations and institutions related to the ELCA throughout the United States. The ELCA has identified nine geographical regions, which are comprised of 65 synods and their related congregations. The following is a summary of loans by region for years ended December 31:

	<u>2012</u>	<u>2011</u>
Region 1 - Northwest area	\$ 51,507,340	\$ 48,546,341
Region 2 - Southwest area	67,770,678	65,728,767
Region 3 - Northwest Mid-West area	48,401,067	50,704,064
Region 4 - Southwest Mid-West area	42,726,703	44,766,623
Region 5 - Northeast Mid-West area	90,121,151	82,786,326
Region 6 - Southeast Mid-West area	31,223,374	34,196,326
Region 7 - Northeast area	36,834,210	40,507,288
Region 8 - East area	32,615,942	34,716,772
Region 9 - Southeast area	47,019,230	42,992,217
Other	2,328,077	938,169
Subtotal	<u>450,547,772</u>	<u>445,882,893</u>
ELCA Churchwide Administrative Offices	<u>-</u>	<u>163,433</u>
Total loans	<u>\$ 450,547,772</u>	<u>\$ 446,046,326</u>

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 4 - REAL ESTATE

Real Estate Held for Congregations: Through its congregational development program, MIF may buy and manage real estate for future sale to new congregations.

MIF may acquire property and subsequently enter into lease arrangements with congregations regarding such property. The net carrying value of leased property was \$4,883,248 and \$4,803,341 at December 31, 2012 and 2011, respectively. Accumulated depreciation on this leased property was \$302,538 and \$287,369 at December 31, 2012 and 2011, respectively. Depreciation expense on buildings under lease is included in general operating expenses and amounted to \$74,906, \$83,517 and \$78,494, for years ended December 31, 2012, 2011 and 2010, respectively.

Future minimum lease payments to be received during the years ending December 31, 2013 and 2014 are approximately \$31,000 and \$20,000, respectively.

Real Estate Held for Sale: MIF actively reviews its property holdings to identify properties no longer required for congregational development. These properties are then considered to be excess real estate and are actively marketed for sale to third parties. The carrying value of real estate held for sale is net of allowances of \$8.0 million and \$6.5 million at December 31, 2012 and 2011, respectively.

A summary of the activity in the allowance for losses on property held for sale is as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Balance at beginning of year	\$ 6,500,000	\$ 4,700,000	\$ 3,700,000
Provision for real estate losses	2,160,041	1,800,000	1,000,000
Losses on sales of real estate	<u>(660,041)</u>	<u>-</u>	<u>-</u>
Balance at end of year	<u>\$ 8,000,000</u>	<u>\$ 6,500,000</u>	<u>\$ 4,700,000</u>

NOTE 5 - INVESTMENT OBLIGATIONS

MIF sells term and demand investment obligations ("Investments" or "Obligations") for the purpose of raising funds for its congregational development and other loan programs. Details relating to Obligations outstanding at December 31, 2012 and 2011, are as follows:

<u>Type of Obligation</u>	<u>Rate</u>	<u>Amount</u>	
		<u>2012</u>	<u>2011</u>
Demand	(a)	\$ 207,485,925	\$ 194,124,593
Term	(b)	261,480,409	260,257,925
Term - MIF4KIDZ	(c)	<u>4,514,062</u>	<u>3,958,607</u>
		<u>\$ 473,480,396</u>	<u>\$ 458,341,125</u>

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 5 - INVESTMENT OBLIGATIONS (Continued)

a. Demand Investments:

MIF offers and sells demand investments which do not have a fixed term and may be redeemed by the owner at any time in whole or in part, including by writing a check or using a debit card. Interest rates may be adjusted to reflect market conditions at any time. Interest rates based on tiered account balances ranged from 0.50% to 1.10% and 0.70% to 1.20%, in 2012 and 2011, respectively. These investments totaled \$204,638,197 and \$191,412,023 at December 31, 2012 and 2011, respectively.

MIF also offers and sells demand investments which do not have a fixed term and may be redeemed by the owner at any time in whole or in part, but limited to one redemption per month by request to MIF. Interest rates may be adjusted to reflect market conditions on the first day of each month. In 2012, the rate was 0.75% from January 1 to September 30 and 0.65% from October 1 to December 31, and in 2011, the rate was 0.75%. These investments totaled \$2,847,728 and \$2,712,570 at December 31, 2012 and 2011, respectively.

b. Term Investments:

MIF offers and sells adjustable and fixed rate term investments. Adjustable rate term investments were available for sale during 2012 and 2011, with 1, 3, 5, and 7 year term maturities. Interest rates may be adjusted on the first day of each month to reflect market conditions, but not lower than the representative yields to maturity on United States Government Treasury securities having approximately corresponding terms to maturity as of the interest rate adjustment date. Interest rates ranged from 0.20% to 1.70% for the year ended December 31, 2012, and 0.20% to 3.00% for the year ended December 31, 2011. The average interest rates were 0.95% and 1.60% for the years ended December 31, 2012 and 2011, respectively. These investments totaled \$31,000,380 and \$34,147,088 at December 31, 2012 and 2011, respectively.

Fixed rate term investments were available for sale during 2012 and 2011, with 1, 2, 4, and 6 year maturities. The interest rate, which is set by MIF and may be adjusted from time to time, is fixed at the beginning of the term and remains at that rate for the full term. Interest rates ranged from 1.00% to 3.00% for the year ended December 31, 2012 and 1.30% to 3.20% for the year ended December 31, 2011. The average interest rates were 2.00% and 2.25% for the years ended December 31, 2012 and 2011, respectively. These investments totaled \$215,599,942 and \$208,559,922 at December 31, 2012 and 2011, respectively.

MIF also offers and sells term investments with 1, 2, and 3 year maturities and a minimum balance of \$250,000. The interest rate, which is set by MIF and may be adjusted from time to time, is fixed at the beginning of the term and remains at that rate for the full term. Interest rates ranged from 1.10% to 2.00% for the year ended December 31, 2012 and 1.40% to 2.30% for the year ended December 31, 2011. The average interest rate was 1.55% for the year ended December 31, 2012, and 1.85% for the year ended December 31, 2011. These investments totaled \$14,221,989 and \$14,588,331 at December 31, 2012 and 2011, respectively.

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 5 - INVESTMENT OBLIGATIONS (Continued)

Prior to May 1, 2003, MIF offered and sold adjustable term investments with 10 year term maturities which were still outstanding during 2012 and 2011. Interest rates are adjusted on January 1 and July 1 each year to the representative yields to maturity on United States Government Treasury securities which at the interest rate adjustment date have approximately 10 years remaining to maturity. Interest rates ranged from 1.60% to 1.90% for the year ended December 31, 2012, and 3.0% to 3.5% for the year ended December 31, 2011. The average interest rates were 1.75% and 3.25% for the years ended December 31, 2012 and 2011, respectively. These investments totaled \$658,198 and \$2,962,584 at December 31, 2012 and 2011, respectively.

Redemption of term investments prior to maturity may be permitted or denied at the discretion of MIF and currently requires an early redemption penalty of 1.5% of the principal amount redeemed prior to maturity (waived for exchange of the 10 year adjustable rate investments).

Aggregate maturities of term investments outstanding at December 31, 2012 are shown below. Amounts indicated as maturing in the various years will not necessarily correspond to cash redemptions because of renewals.

Year ending December 31	<u>Fixed Rate</u>	<u>Adjustable Rate</u>	<u>Total</u>
2013	\$ 87,780,169	\$ 11,698,227	\$ 99,478,396
2014	43,616,137	5,911,055	49,527,192
2015	12,819,092	3,562,672	16,381,764
2016	44,949,526	2,502,246	47,451,772
2017	18,529,949	3,006,499	21,536,448
Thereafter	<u>22,126,958</u>	<u>4,977,879</u>	<u>27,104,837</u>
	<u>\$ 229,821,831</u>	<u>\$ 31,658,578</u>	<u>\$ 261,480,409</u>

c. Term Investments- MIF4KIDZ:

MIF offers and sells MIF4KIDZ investments only to custodians for minors who are less than 16 years of age. The investment matures on the eighteenth birthday of the minor. Interest rates may be adjusted to reflect market conditions on the first day of each month, but not lower than the representative yields to maturity on United States Government Treasury securities which at the interest rate adjustment date have approximately five years remaining to maturity. Interest rates were 2.40% for January 1 to March 31, 2.20% from April 1 to September 30, and 2.10% from October 1 to December 31, 2012, and 2.40% for the year ended December 31, 2011. These investments totaled \$4,514,062 and \$3,958,607 at December 31, 2012 and 2011, respectively.

Redemption of MIF4KIDZ investments prior to maturity is permitted and currently requires an early redemption penalty of 2.0% of the principal amount redeemed prior to maturity.

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 5 - INVESTMENT OBLIGATIONS (Continued)

Aggregate maturities of MIF4KIDZ investments outstanding at December 31, 2012 are shown below:

Year ending December 31	<u>MIF4KIDZ</u>
2013	\$ 395,492
2014	283,916
2015	284,639
2016	243,150
2017	253,538
Thereafter	<u>3,053,327</u>
	<u>\$ 4,514,062</u>

MIF has the right to call all investments for prepayment prior to maturity at any time on 90 days prior written notice by tendering to the owner of the investment the principal amount of the investment plus interest accrued to the date of tender. No further interest will accrue following tender.

The CAO held investments of \$5,607,776 and \$6,430,241 at December 31, 2012 and 2011, respectively. Board members and employees of MIF held investments \$850,003 and \$1,088,247 at December 31, 2012 and 2011, respectively.

Concentration of Risk: MIF's investment activities are primarily conducted with the ELCA's members, congregations, and related ministries throughout the United States. The ELCA has identified nine geographical regions, which are comprised of 65 synods and their related congregations.

The following is a summary of investments by region for years ended December 31:

	<u>2012</u>	<u>2011</u>
Region 1 - Northwest area	\$ 41,481,503	\$ 40,882,873
Region 2 - Southwest area	43,870,135	41,717,157
Region 3 - Northwest Mid-West area	72,313,454	69,132,053
Region 4 - Southwest Mid-West area	51,861,603	49,175,287
Region 5 - Northeast Mid-West area	88,937,293	86,534,550
Region 6 - Southeast Mid-West area	31,371,059	30,276,916
Region 7 - Northeast area	53,756,949	49,720,141
Region 8 - East area	55,265,690	54,942,845
Region 9 - Southeast area	33,896,390	31,607,219
Other	<u>726,320</u>	<u>4,352,084</u>
	<u>\$ 473,480,396</u>	<u>\$ 458,341,125</u>

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 6 - NET ASSETS

The following schedules summarize the balance and activity in the Endowment Funds by net asset class for the years ended December 31, 2012 and 2011:

Classification by net asset class:

	<u>Unrestricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
December 31, 2012:			
Donor Restricted	\$ (112,639)	\$ 2,938,275	\$ 2,825,636
Board Designated	2,137,292	-	2,137,292
	<u>\$ 2,024,653</u>	<u>\$ 2,938,275</u>	<u>\$ 4,962,928</u>
December 31, 2011:			
Donor Restricted	\$ (288,801)	\$ 2,850,883	\$ 2,562,082
Board Designated	1,755,575	-	1,755,575
	<u>\$ 1,466,774</u>	<u>\$ 2,850,883</u>	<u>\$ 4,317,657</u>

Activity by net asset class:

	<u>Unrestricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Balance January 1, 2011	\$ 1,705,927	\$ 2,915,145	\$ 4,621,072
Investment income	79,705	113,595	193,300
Unrealized gain (loss)	(129,520)	(188,930)	(318,450)
New gifts	12,844	2,191	15,035
Withdrawals	(79,705)	(113,595)	(193,300)
Transfer for (from) reestablishment of endowment balances	<u>(122,477)</u>	<u>122,477</u>	<u>-</u>
Balance December 31, 2011	1,466,774	2,850,883	4,317,657
Investment income	61,296	199,794	261,090
Unrealized gain (loss)	174,031	249,654	423,685
New gifts	207,685	13,901	221,586
Withdrawals	(61,296)	(199,794)	(261,090)
Transfer for (from) reestablishment of endowment balances	<u>176,163</u>	<u>(176,163)</u>	<u>-</u>
Balance December 31, 2012	<u>\$ 2,024,653</u>	<u>\$ 2,938,275</u>	<u>\$ 4,962,928</u>

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 6 - NET ASSETS (Continued)

The aggregate amounts of funds for which the fair value of the assets held is less than the level required by donor stipulation or law were \$1,836,767 at December 31, 2012. At December 31, 2012, a cumulative loss of \$112,639 was reported in unrestricted net assets to re-establish underwater endowment balances: \$122,477 added in 2011, and \$176,163 reversed in 2012.

NOTE 7 - LINE OF CREDIT

At December 31, 2012, MIF had a \$20 million unsecured committed line of credit with UMB Bank, n.a., at a variable interest rate of prime less 1%, but not less than 3.0%, and a maturity date of June 30, 2013. The agreement requires that \$40,000,000 of unrestricted cash and investments be maintained at the bank, which was exceeded by MIF throughout 2012 and 2011. There were no borrowings outstanding under the line of credit at December 31, 2012 and 2011, or during the years then ended.

NOTE 8 - FINANCIAL COMMITMENTS AND AGREEMENTS WITH OFF-BALANCE-SHEET RISK

MIF is a party to financial commitments and agreements with off-balance-sheet risk in the normal course of its business. These commitments and agreements include credit and interest rate risk in excess of the amount recognized in the statements of financial position.

The following table summarizes the contractual amounts of off-balance-sheet financial commitments and agreements outstanding at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Commitments to originate and disburse loans and purchase real estate	\$ 30,504,000	\$ 25,100,000
Guarantee agreements	<u>2,500,000</u>	<u>4,700,000</u>
Total off-balance-sheet financial commitments and agreements	<u>\$ 33,004,000</u>	<u>\$ 29,800,000</u>

Prior to 1997, MIF issued payment guarantees on commercial loans made by another lender to congregations of the ELCA. If there are substantial delinquencies on the payment of guaranteed loans, MIF would be required to make payments under the guarantee agreements. These guarantees extended through the year 2036. No material losses are anticipated by management as a result of these transactions.

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 9 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time MIF's entire holdings of a particular financial instrument. Because no market exists for a significant portion of MIF's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practical to estimate that value:

Cash and Cash Equivalents and Accrued Interest: The carrying amount approximates fair value because of the short maturity of these instruments.

Investments: The fair value of debt securities is based on quoted prices for similar investments at the reporting date for those or similar securities.

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in MIF's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

U.S. GAAP establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The principle describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability

The fair values of cash and cash equivalents and church extension fund notes are estimated to approximate deposit account balances, payable on demand, as no discounts for credit quality or liquidity were determined to be applicable (Level 2 inputs).

The fair values of debt and equity investments, that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or by quoted market prices of similar securities with similar due dates (U.S. treasuries) (Level 2 inputs). The fair values of other debt instruments (U.S. sponsored agencies, government mortgage backed securities, corporate bonds, and other bonds) are determined by obtaining valuations from third parties based on matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 9 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The ELCA Endowment Fund Pooled Trust, and the Beneficial Interest in ELCA Endowments which is invested in the Endowment Fund Pooled Trust, has observable inputs and market activity that allow for pricing based on the underlying market prices of the securities in the Trust. These underlying investments have level 2 inputs and thus the trusts are classified as level 2. MIF has the ability to redeem their investment with the ELCA Endowment Fund Pooled Trust at any time at the monthly per unit net asset value.

Assets measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at December 31, 2012 Using			<u>Total</u>
	Quoted Prices In Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	
	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>	
Assets:				
Cash and cash equivalents	\$ 1,092	\$ 6,021,517	\$ -	\$ 6,022,609
Church extension fund notes	-	5,000,000	-	5,000,000
U.S. Treasuries	-	13,424,001	-	13,424,001
U.S. sponsored agencies	-	37,268,181	-	37,268,181
U. S. government mortgage-backed	-	49,399,111	-	49,399,111
Corporate bonds	-	21,812,603	-	21,812,603
Other bonds	-	18,589,257	-	18,589,257
U.S. large cap stocks	2,509,850	-	-	2,509,850
U.S. mid-cap stocks	1,035,999	-	-	1,035,999
U.S. small cap stocks	636,604	-	-	636,604
Non-U.S. stocks	619,176	-	-	619,176
Other investments	355,966	-	-	355,966
ELCA Endowment Fund Pooled Trust	-	2,825,636	-	2,825,636
Beneficial Interest in ELCA Endowments	-	3,747,431	-	3,747,431
	<u>\$ 5,158,687</u>	<u>\$ 158,087,737</u>	<u>\$ -</u>	<u>\$ 163,246,424</u>

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 9 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

	Fair Value Measurements at December 31, 2011 Using			
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	\$	\$	\$	\$
	1,981	5,598,025	-	5,600,006
Assets:				
Cash and cash equivalents	\$ 1,981	\$ 5,598,025	\$ -	\$ 5,600,006
Church extension fund notes	-	10,000,000	-	10,000,000
U.S. Treasuries	-	11,887,280	-	11,887,280
U.S. sponsored agencies	-	57,380,781	-	57,380,781
U. S. government mortgage-backed	-	33,406,665	-	33,406,665
Corporate bonds	-	22,469,526	-	22,469,526
Other bonds	-	2,195,353	-	2,195,353
ELCA Endowment Fund Pooled Trust	-	2,562,081	-	2,562,081
Beneficial Interest in ELCA Endowments	-	2,980,614	-	2,980,614
	<u>\$ 1,981</u>	<u>\$ 148,480,325</u>	<u>\$ -</u>	<u>\$ 148,482,306</u>
Total				

Assets measured at fair value on a non-recurring basis are summarized below:

	Fair Value Measurements at December 31, 2012 Using			
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	\$	\$	\$	\$
	-	-	10,469,823	10,469,823
Assets - Real estate held for sale	\$ -	\$ -	\$ 10,469,823	\$ 10,469,823

	Fair Value Measurements at December 31, 2011 Using			
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	\$	\$	\$	\$
	-	-	11,665,224	11,665,224
Assets - Real estate held for sale	\$ -	\$ -	\$ 11,665,224	\$ 11,665,224

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 9 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Real estate held for sale measured at fair value less costs to sell, had a net carrying amount of \$10,469,823, which is made up of the outstanding balance of \$18,469,823 less a valuation allowance of \$8,000,000 at December 31, 2012, resulting in a write-down of \$2,160,041 for the year ended December 31, 2012. At December 31, 2011, real estate held for sale had a net carrying amount of \$11,665,224, made up of the outstanding balance of \$18,165,224 less a valuation allowance of \$6,500,000, resulting in a write-down of \$1,800,000 for the year ended December 31, 2011.

Nonrecurring adjustments to certain commercial real estate properties classified as real estate held for sale are based on fair value, less costs to sell. Fair values are generally based on real estate appraisals which are updated no less frequently than triennially. These appraisals may use a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and result in a Level 3 classification of the inputs for determining fair value.

Congregational, Institutional, and CAO Loans: Fair value of performing loans with similar financial characteristics is estimated based on current rates offered by commercial banks for similar loans adjusted for risk characteristics inherent in the portfolios. Fair values for delinquent loans are based on the estimated cash flows discounted using a rate commensurate with the risk associated with the estimated cash flows. Assumptions regarding credit risk, cash flows, and discount rates are judgmentally determined using available market information. The estimated fair value of congregational and institutional loans is approximately \$460 million and \$455 million at December 31, 2012 and 2011, respectively.

Investment Obligations: The carrying value of investment obligations is a reasonable estimate of the fair value of these adjustable and fixed rate Instruments due to the call features of the Investments.

NOTE 10 - RELATED-PARTY TRANSACTIONS

MIF provided support to the CAO for new start congregations in the amount of \$1,500,000 in 2012, \$1,500,000 in 2011, and \$1,860,000 in 2010. MIF also paid the CAO for shared office, information technology, human resource administrative services, and rent in the amounts of \$511,207, \$476,254 and \$348,120, for the years 2012, 2011 and 2010, respectively.

NOTE 11 - DEFINED CONTRIBUTION PENSION PLAN

Substantially all active employees of MIF are enrolled in a defined contribution pension plan administered by Portico (previously known as the Board of Pensions of the Evangelical Lutheran Church in America). The cost for the plan for the years ended December 31, 2012, 2011, and 2010, was approximately \$277,100, \$262,600 and \$294,700, respectively. All contributions to the plan are funded on a current basis.

NOTE 12 - CONTINGENCIES

MIF is a party to litigation in various matters arising in the ordinary course of operations. Pending litigation will be vigorously defended and, in the opinion of management, is likely to be resolved without any material adverse effect upon the financial statements of MIF.