

**ELCA FOUNDATION AND THE EVANGELICAL LUTHERAN  
CHURCH IN AMERICA ENDOWMENT FUND POOLED TRUST**

**COMBINED FINANCIAL STATEMENTS**

December 31, 2018

ELCA FOUNDATION AND THE EVANGELICAL LUTHERAN  
CHURCH IN AMERICA ENDOWMENT FUND POOLED TRUST

COMBINED FINANCIAL STATEMENTS  
December 31, 2018

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## INDEPENDENT AUDITOR'S REPORT

The Board of Trustees  
ELCA Foundation

***Report on the Financial Statements***

We have audited the accompanying combined financial statements of the Endowment Fund of the Evangelical Lutheran Church in America (dba the ELCA Foundation) and the Evangelical Lutheran Church in America Endowment Fund Pooled Trust, collectively the Foundation, which comprise the combined statement of financial position as of December 31, 2018, and the related combined statements of activities and cash flows for the year 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 combined 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 combined 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 combined financial statements based on our audit. We conducted our audit 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 combined financial statements are free from material misstatement.

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

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

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(Continued)

### **Opinion**


In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the ELCA Foundation and Evangelical Lutheran Church in America Endowment Fund Pooled Trust as of December 31, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 1 to the combined financial statements, the ELCA Foundation and the Evangelical Lutheran Church in America Endowment Fund Pooled Trust has adopted ASU 2016-14 - *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*. Our opinion is not modified with respect to this matter.

### **Other Matter**

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combining statement of financial position is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position of the individual funds, and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the combined financial statements as a whole.

  
Crowe LLP

Chicago, Illinois  
June 26, 2019

ELCA FOUNDATION AND THE EVANGELICAL LUTHERAN  
CHURCH IN AMERICA ENDOWMENT FUND POOLED TRUST  
COMBINED STATEMENT OF FINANCIAL POSITION  
December 31, 2018

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**ASSETS**

Cash and cash equivalents	\$ 14,711,469
Investments	765,901,616
Beneficial interest in outside trusts	876,583
Other assets	<u>119,168</u>
 Total assets	 <u><u>\$ 781,608,836</u></u>

**LIABILITIES AND NET ASSETS**

Liabilities

Accounts payable and accrued expenses	\$ 1,077,059
Funds due to related organizations	3,985,772
Annuities and trusts liability	52,615,733
Funds held for others	
Funds held for others	357,052,457
Funds held for ELCA churchwide organization	<u>361,189,787</u>
Total funds held for others	<u>718,242,244</u>
 Total liabilities	 <u>775,920,808</u>

Net assets

Without donor restrictions	3,695,338
With donor restrictions	<u>1,992,690</u>
Total net assets	<u>5,688,028</u>
 Total liabilities and net assets	 <u><u>\$ 781,608,836</u></u>

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See accompanying notes to combined financial statements.

ELCA FOUNDATION AND THE EVANGELICAL LUTHERAN  
CHURCH IN AMERICA ENDOWMENT FUND POOLED TRUST  
COMBINED STATEMENT OF ACTIVITIES  
Year ended December 31, 2018

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	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>Operating revenue and support</b>			
Contributed support	\$ 3,206,874	\$ 2,150,000	\$ 5,356,874
Management fees	4,953,571	-	4,953,571
Partner dues	517,614	-	517,614
Other income	946,591	-	946,591
	<u>9,624,650</u>	<u>2,150,000</u>	<u>11,774,650</u>
 Net assets released from restrictions	 <u>110,780</u>	 <u>(110,780)</u>	 <u>-</u>
 Total operating revenue and support	 <u>9,735,430</u>	 <u>2,039,220</u>	 <u>11,774,650</u>
 <b>Expenses</b>			
Program services	3,078,642	-	3,078,642
Administrative services	1,237,357	-	1,237,357
Management and general	1,638,313	-	1,638,313
Total operating expenses	<u>5,954,312</u>	<u>-</u>	<u>5,954,312</u>
 Net operating revenue and support less operating expenses	 <u>3,781,118</u>	 <u>2,039,220</u>	 <u>5,820,338</u>
 <b>Non-operating transactions</b>			
Other non-operating loss	(107,004)	-	(107,004)
Net real estate income and expenses	(3,776)	-	(3,776)
Investment loss, net of expenses	<u>-</u>	<u>(46,530)</u>	<u>(46,530)</u>
Total non-operating transactions	<u>(110,780)</u>	<u>(46,530)</u>	<u>(157,310)</u>
 <b>Changes in net assets</b>	 3,670,338	 1,992,690	 5,663,028
 Net assets at beginning of year	 <u>25,000</u>	 <u>-</u>	 <u>25,000</u>
 <b>Net assets at end of year</b>	 <u><u>\$ 3,695,338</u></u>	 <u><u>\$ 1,992,690</u></u>	 <u><u>\$ 5,688,028</u></u>

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See accompanying notes to combined financial statements.

ELCA FOUNDATION AND THE EVANGELICAL LUTHERAN  
CHURCH IN AMERICA ENDOWMENT FUND POOLED TRUST  
COMBINED STATEMENT OF CASH FLOWS  
Year ended December 31, 2018

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<b>Cash flows from operating activities</b>	
Change in net assets	\$ 5,663,028
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Gifts restricted for long-term investment	(1,992,690)
Changes in	
Other assets	(119,168)
Accounts payable and accrued expenses	985,009
Funds due to related organizations	<u>2,403,856</u>
Net cash provided by operating activities	6,940,035
<b>Cash flows from investing activities</b>	
Purchase of investments	<u>(2,466,378)</u>
Net cash used in investing activities	(2,466,378)
<b>Cash flows from financing activities</b>	
Gifts restricted for long-term investment	<u>1,992,690</u>
Net cash provided by financing activities	1,992,690
Increase in cash and cash equivalents	6,466,347
Cash and cash equivalents at beginning of year	<u>8,245,122</u>
Cash and cash equivalents at end of year	<u><u>\$ 14,711,469</u></u>
<b>Noncash transactions</b>	
Transfer of assets related to charitable remainder trusts from the ELCA churchwide organization	\$ 56,191,291
Transfer of obligations related to charitable remainder trusts from the ELCA churchwide organization	57,993,614
Transfer of assets related to charitable gift annuities from the ELCA churchwide organization	30,145,461
Transfer of obligations related to charitable gift annuities from the ELCA churchwide organization	30,059,740

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See accompanying notes to combined financial statements.

ELCA FOUNDATION AND THE EVANGELICAL LUTHERAN  
CHURCH IN AMERICA ENDOWMENT FUND POOLED TRUST  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
December 31, 2018

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**NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES**

**Organization:** Effective January 1, 2018, the Endowment Fund of the Evangelical Lutheran Church in America (the Endowment Fund) began doing business as the ELCA Foundation, a separately incorporated ministry/corporation of the Evangelical Lutheran Church in America. This corporation manages the Evangelical Lutheran Church in America Endowment Fund Pooled Trust (the Trust) and the Deferred Gift Portfolio, including the Charitable Remainder Trust (CRT) and Charitable Gift Annuity (CGA) programs.

The Evangelical Lutheran Church in America (the ELCA) is a denomination organized into approximately 9,100 congregations, 61 geographic synods and a churchwide organization. The ELCA churchwide organization (the Church) is a Minnesota nonprofit corporation that functions interdependently with the congregations and synods of the ELCA. The ELCA churchwide organization serves on behalf of and in support of the ELCA's members, congregations and synods, but the other expressions of the ELCA and ELCA-related organizations and their financial transactions are not included in the references to the ELCA churchwide organization in these financial statements or in notes to the financial statements.

The Trust was initially established on October 9, 1995, and restated on January 20, 1999, under a Restated Declaration of Trust by and between the Church and the Endowment Fund. The Church established the Trust to allow for the collective long-term investment of funds belonging to the Church, Endowment Fund, its congregations, synods, seminaries, and other eligible affiliated entities (the Participants). The Endowment Fund is the Trustee and administrator of the Trust. The Board of Pensions, doing business as Portico Benefit Services, an affiliated corporation of the Church, is an Investment Advisor to the Trust.

On January 20, 1999, the Endowment Fund contributed \$25,000 of capital to the Trust. The Trust commenced operations on July 1, 1999, when the Endowment Fund of the Church transferred Participants' accounts of approximately \$190,400,000 to the Trust.

During the course of the year the Church transferred investments totaling approximately \$86.3 million and corresponding liabilities totaling approximately \$88.0 million representing the deferred gifts portfolio to the Foundation.

**Basis of Presentation:** The combined financial statements include the balances and activities of the ELCA Foundation and the Trust, collectively the Foundation. The combined financial statements are prepared as a result of the ELCA Foundation and the Trust being under common operations and management. All significant intercompany balances and transactions have been eliminated from the combined financial statements. The combined financial statements have been prepared on the accrual basis of accounting.

To ensure the observance of limitations and restrictions placed on the use of resources available, the Foundation maintains its financial accounts in accordance with the principles and practices of fund accounting.

The combined financial statements focus on the organization as a whole and present balances and transactions classified based upon the existence or absence of donor-imposed restrictions. Net assets, revenue, contributed support, expenses, gains, and losses have been classified into two net asset classes based on these donor-imposed restrictions. A description of each net asset class follows:

*Without Donor Restrictions* – Net assets that are not subject to donor-imposed restrictions. Items that affect this category of net assets include contributions and bequests without donor restrictions, contributions with donor restrictions and bequests whose donor-imposed restrictions were met during the fiscal year and investment income whose use is without donor restrictions, as well as all expenses incurred in connection with the operations of the Foundation.

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(Continued)



ELCA FOUNDATION AND THE EVANGELICAL LUTHERAN  
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NOTES TO THE COMBINED FINANCIAL STATEMENTS  
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**NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*With Donor Restrictions* – Net assets subject to donor-imposed restrictions that will be met either by actions of the Foundation or the passage of time. Items in this net asset category are contributions, bequests, and investment income whose use is limited to specific purposes by the donor. These amounts are reclassified when such restrictions are met or when time restrictions have expired.

Cash and Cash Equivalents: Cash and cash equivalents include investments in money market accounts, commercial paper, and other short-term investments with original maturities of three months or less from the date of purchase. Cash and cash equivalents used by the Foundation in managing its investments are reported in investments. The Foundation maintains cash balances at several financial institutions in excess of the insurance limits provided by the Federal Deposit Insurance Corporation.

Beneficial Interest in Outside Trusts: The Foundation has been granted a beneficial interest in a charitable remainder trust. This trust account is administered and held by an outside trustee. The Foundation records the fair value of the beneficial interest as a receivable when documentation of the beneficial interest is received. There is a corresponding liability included within funds held for others on the combined statement of financial position.

Investments and Related Income, Gains, and Losses: Investments are reported at fair value. Investment income, gains and losses, and any investment-related expenses are recorded as changes in net assets without donor restrictions in the combined statement of activities unless their use is restricted by explicit donor stipulations.

Funds Held for Others: Funds held for others consist of contributions, endowments and deferred gifts received on behalf of and other resources held for other Lutheran organizations that are separate, uncombined entities. The Foundation does not have variance power over these funds.

Revenue, Expenses, and Contributions: Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between applicable classes of net assets.

Contributions, including unconditional promises to give, are recognized in the period received. Conditional contributions are not recognized until the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at estimated fair value. Contributions received with donor-imposed restrictions are reported as revenue of the net asset class with donor restrictions, as appropriate.

Management fee revenue represents the fees earned by the Foundation for managing the Endowment Fund Pooled Trust, the Charitable Gift Annuity program, and the Charitable Remainder Trust program. These fees are recognized as management performs the related services.

Endowment Pool Unitization: Endowment investments managed by the Trust on behalf of others are pooled and managed on the total return concept. When a pool is established, ownership interests are initially assigned through unitization to the pool based on the fair value of the cash and securities placed in the pool by each participant. Current fair value is used to determine the number of units allocated to additional assets placed in the pool and to value withdrawals from the pool.

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(Continued)

ELCA FOUNDATION AND THE EVANGELICAL LUTHERAN  
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NOTES TO THE COMBINED FINANCIAL STATEMENTS  
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**NOTE 1 - NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Income Tax: The Church received a group ruling determination letter from the Internal Revenue Service in 1988 recognizing the exemption from federal income taxes on income related to its exempt purpose under Section 501(c)(3) of the Internal Revenue Code. In 1993, the Endowment Fund of the Evangelical Lutheran Church in America was included in the group ruling. Accordingly, no provision for income taxes has been made in the combined financial statements.

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

Recent Accounting Pronouncements: In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-14 (ASU 2016-14), *Not-for-Profit Entities: Topic 958*. The amendments in this update affect not-for-profit entities (NFPs) and the users of their general purpose financial statements. The amendments in this Update make certain improvements to the current net asset classification requirements and the information presented in financial statements and notes about an NFP's liquidity, financial performance, and cash flows. The amendments in the ASU are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The Foundation adopted ASU 2016-14 for the year ended December 31, 2018.

**NOTE 2 - INVESTMENTS AND FAIR VALUE MEASUREMENTS**

Investments at December 31, 2018, consist of the following:

	<u>2018</u>
Investments in pools	
U.S. equity securities	\$ 200,408,519
Non-U.S. equity securities	207,040,434
Investment grade fixed income securities	71,546,445
High-yield fixed income securities	61,404,126
Inflation-indexed fixed income securities	36,873,032
Global real estate securities	42,512,078
Balanced funds	19,095,098
Special purpose bond fund	6,795,838
Direct investments	
Equity funds	40,617,985
Income funds	16,614,215
Alternative investments	
Absolute return	25,212,333
Infrastructure	23,354,787
Private markets	13,273,098
Cash and cash equivalents	475,110
Real estate	<u>678,518</u>
	<u>\$ 765,901,616</u>

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(Continued)

ELCA FOUNDATION AND THE EVANGELICAL LUTHERAN  
CHURCH IN AMERICA ENDOWMENT FUND POOLED TRUST  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
December 31, 2018

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**NOTE 2 - INVESTMENTS AND FAIR VALUE MEASUREMENTS** (Continued)

Investments carried at fair value consist primarily of investments in pools, direct investments in equity and income funds and alternative investments. Direct investments in real estate are carried at cost.

Fair value is the price that would be received for an asset (an exit price) in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. Investments that have readily determinable market values are determined using quoted market prices. Fair values of investments for which market prices are not readily available are determined based upon quoted market close prices for similar issues, dealer quotes, appraisals, or pricing models utilizing market-observable inputs from comparable securities.

The fair value hierarchy is based on maximizing observable inputs and minimizing unobservable inputs when measuring fair value. Three levels of inputs may be used to measure fair value.

Level 1: Quoted prices (unadjusted) for identical assets in active markets that the Foundation 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, 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 the Foundation's own assumptions that the market participants would use in pricing an asset.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. Investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

*Investments in Pools:* The Foundation's pooled investments are invested in the investment pools of Portico Benefit Services. The fair value of each of the Foundation's pools is measured using a unitization method, with values differing according to the underlying securities of each pool (NAV). Security prices are based on quotes that are obtained from an independent pricing service. Fair values of securities for which market prices are not readily available are determined based upon quoted market close prices for similar issues, dealer quotes, or pricing models utilizing market observable inputs from comparable securities. This total fair value is divided by the total number of units in the pool to determine the per-share value that is assigned to the Foundation's units.

*Direct Investments:* The absolute return, infrastructure and private markets funds are collectively referred to as alternative investments, whose values have been estimated by the Foundation in the absence of readily ascertainable market values. The Foundation's estimate of fair value is generally based on the net asset value per share (NAV) provided to the Foundation by each alternative investment fund, supported by the independently audited financial statements of the alternative investment fund, when available. For those alternative investment funds for which independently audited financial statements in accordance with accounting principles generally accepted in the United States of America are not provided, the Foundation bases its estimate of fair value on the unaudited information calculated by the respective alternative investment fund's management and reported to the Foundation. The Foundation's equity and income fund securities are readily marketable and have fair values which are determined by obtaining quoted market prices in active markets (Level 1 inputs).

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(Continued)

ELCA FOUNDATION AND THE EVANGELICAL LUTHERAN  
CHURCH IN AMERICA ENDOWMENT FUND POOLED TRUST  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
December 31, 2018

**NOTE 2 - INVESTMENTS AND FAIR VALUE MEASUREMENTS** (Continued)

*Beneficial Interest in Outside Trusts:* The fair value of beneficial interests in trusts is determined based upon the Foundation's proportional interest in the fair value of the underlying trust assets. The underlying trust assets are readily marketable and have fair values which are determined by obtaining quoted market prices in active markets. This valuation method has been estimated to represent the present value of future distributed income. The liquidation of these assets is contingent upon circumstances that are out of the Foundation's control and cannot be liquidated on a periodic basis (Level 3 inputs).

The following table sets forth, by level within the fair value hierarchy, financial instruments owned, at fair value as of December 31, 2018:

	2018			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Direct investments				
Equity funds	\$ 40,617,985	\$ -	\$ -	\$ 40,617,985
Income funds	16,614,215	-	-	16,614,215
Cash and cash equivalents	475,110	-	-	475,110
Investments held at fair value	<u>\$ 57,707,310</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 57,707,310</u>
Investments at net asset value				707,515,788
Total investments at fair value				765,223,098
Physical real estate at cost				678,518
Total investments				<u>\$ 765,901,616</u>
Beneficial interest in perpetual trusts, fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 876,583</u>	<u>\$ 876,583</u>

The table below rolls forward balances for the Level 3 beneficial interest in perpetual trusts from January 1, 2018, through December 31, 2018:

	<u>2018</u>
Balance as of January 1, 2018	\$ -
Transfer from ELCA	<u>876,583</u>
Balance as of December 31, 2018	<u>\$ 876,583</u>

Direct Investment Capital Contributions: The Trust made the following capital contributions to alternative investments as called for by the investment agreements in 2018:

<u>Investment Strategies</u>	<u>2018</u>
Absolute return	\$ -
Infrastructure	3,000,000
Private markets	<u>9,985,614</u>
Total	<u>\$ 12,985,614</u>

(Continued)

ELCA FOUNDATION AND THE EVANGELICAL LUTHERAN  
CHURCH IN AMERICA ENDOWMENT FUND POOLED TRUST  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
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**NOTE 2 - INVESTMENTS AND FAIR VALUE MEASUREMENTS** (Continued)

Direct Investment Strategy and Redemption Information: The investment strategy types, commitments to additional capital contributions, and various features of the alternative investment portfolio as of December 31, 2018, are as follows:

<u>Investment Strategies</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>
Absolute return (a)	\$ 25,212,333	\$ -
Infrastructure (b)	23,354,787	-
Private markets (c)	<u>13,273,098</u>	<u>136,514,386</u>
Total	<u>\$ 61,840,218</u>	<u>\$ 136,514,386</u>

- (a) This single-investor fund (the absolute return fund) shall invest its assets in a manner consistent with the absolute return fund's "Investment Objectives, Investment Strategy and Approach, Performance Objectives and Portfolio Constraints" (the "Guidelines"), as may be agreed upon between Grosvenor Capital Management, L.P. (Grosvenor) and the initial shareholder. The absolute return fund's investment objectives are: (i) to generate a superior absolute and risk-adjusted rate of return, with low performance volatility and low correlation with global equity and fixed-income markets, over a full-market cycle; and (ii) to preserve capital during challenging market environments. The ability of a shareholder to redeem shares is dependent on the withdrawal/redemption provisions of the limited liability private investment vehicles ("Portfolio Funds") in which the fund invests. Furthermore, the Trust may at any time request Grosvenor to redeem from all Portfolio funds and terminate the fund. Liquidity of the underlying investments range between daily and every three years with over 90% of the underlying investments having liquidity of less than one year from the notice date.
- (b) This fund (the infrastructure fund) invests in unlisted infrastructure equity primarily in the U.S., Western Europe, Canada, and Australia, and secondarily in other Organization for Economic Cooperation and Development (OECD) countries. Repurchase requests can be submitted semi-annually; payment subject to best efforts. Redemption dates occur two times a year on March 31 and September 30. Redemption requests must be received during the applicable redemption notice period. For the March 31 redemption date, notices must be received between November 15 and December 31 of the previous year. Redemption requests for the September 30 date must be received between May 15 and June 30 of the same year. If a repurchase request is received after the expiration of the repurchase notice period, then it will be considered a request for the following repurchase date.
- (c) This single-investor fund (the private markets fund) focuses on multiple investment strategies, vintage years and geographies across primary fund investments, secondaries and co-investments. The private markets fund is primarily focused on small and mid-sized private equity funds, while seeking diversification through secondary markets, delayed primary markets and credit investments. Private equity funds are typically organized to have a limited life cycle, typically 10-15 years. During this life cycle, the fund manager will call capital from the investors (or Limited Partners), invest that capital into underlying investments (companies), hold those investments, and finally sell those investments and send the proceeds (also known as Distributions) to the fund's investors.

(Continued)

ELCA FOUNDATION AND THE EVANGELICAL LUTHERAN  
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**NOTE 2 - INVESTMENTS AND FAIR VALUE MEASUREMENTS** (Continued)

Strategies Employed for Achieving Objectives for Pooled Investments: Portico Benefit Services, the Investment Advisor for the Trust and for the ELCA Foundation's charitable gift annuity program, endeavors to achieve long-term return objectives within prudent risk constraints by investing in a diversified portfolio that consist of equity-based, fixed-income and alternative investments. Investments are selected in accordance with the criteria of social responsibility that is consistent with the values and programs of the ELCA.

The Trust's target asset allocation ranges are displayed in the following chart. Actual allocations varied from targeted levels by modest amounts.

	Range	Target	December 31, 2018	Difference
U.S. Equity Securities	22-32%	27%	29.4%	2.4%
Non-U.S. Equity Securities	25-35%	30%	30.4%	0.4%
Investment Grade Fixed Income Securities	3.5-13.5%	8.5%	10.5%	2.0%
High-Yield Fixed Income Securities	3.5-13.5%	8.5%	9.0%	0.5%
Inflation-Indexed Fixed Income Securities	0-10%	5%	5.4%	0.4%
Global Real Estate Securities	0-10%	5%	6.2%	1.2%
Absolute Return	0-8%	3%	3.7%	0.7%
Infrastructure	0-8%	3%	3.4%	0.4%
Private Markets	0-20%	5%	1.9%	-3.1%
Cash and Cash Equivalents	0-5%	0%	0.1%	0.1%

A portion of the Foundation's charitable gift annuity assets are invested in the Investment Advisor's Social Purpose 40e Fund and Portico SP Bond Fund. Collectively, these two investments seek to generate rates of return moderately in excess of the rate of inflation over longer time periods, with a long-term goal of growing the purchasing power of participants. The blended targets asset allocation range from 25-35% in equities and 65-75% in fixed income and real assets.

**NOTE 3 - SPLIT-INTEREST AGREEMENTS**

Charitable Remainder Trusts: Charitable remainder trusts are arrangements in which the donor establishes and funds a trust with specific distributions to be made to a designated beneficiary or beneficiaries over the trust's term. Obligations to the beneficiaries are limited to the trust's assets. Assets are recorded at fair value when received, and a liability is recorded for the present value of the estimated future payments to the beneficiaries. Present values are calculated using a discount rate based on the risk adjusted rate at the date of the trust and the life expectancies of the beneficiaries. The 2012 Individual Annuity Reserving Report and Tables (2012 IAR) are used to calculate life expectancies unless a time restriction is specified.

Upon termination of the trust, the remaining assets are given to a combination of the Church, related organizations, and other organizations, with no more than 30% of the remainder going to unrelated organizations.

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(Continued)

ELCA FOUNDATION AND THE EVANGELICAL LUTHERAN  
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**NOTE 3 - SPLIT-INTEREST AGREEMENTS (Continued)**

Charitable Gift Annuities: Charitable gift annuities are arrangements between a donor and the ELCA Foundation in which the donor contributes assets to the ELCA Foundation in exchange for a promise by the ELCA Foundation to pay a fixed amount for the life of the donor or other individuals designated by the donor. Due to state insurance regulations, the assets received are held as segregated assets. The annuity liability is a general obligation of the ELCA Foundation. Assets are recognized at fair value on the date of the contribution. An annuity payment liability is recognized for the present value of future cash flows expected to be paid to the donor or to the designated individual. The discount rate is the appropriate risk adjusted rate on the date of the contract. The 2012 IAR Tables are used to calculate the life expectancies of the annuity beneficiaries.

At the death of the donor or designated individual, the book value of the contract is distributed to the Church and/or related organization with or without restrictions depending upon the donor's wishes.

A summary of recorded amounts related to these arrangements as of December 31, 2018, is as follows:

	<u>2018</u>
Charitable remainder annuity trusts	\$ 1,081,344
Charitable remainder unitrusts	31,628,608
Charitable gift annuities	<u>19,905,781</u>
Total annuities and trusts liability	<u><u>\$ 52,615,733</u></u>

Adjustments to the liability to reflect amortization of the discount and changes in actuarial assumptions are recognized in the combined statement of financial position as funds held for others and funds held for ELCA churchwide organization.

**NOTE 4 - RELATED-PARTY TRANSACTIONS**

The ELCA churchwide organization is the beneficiary of endowment, trust and annuity accounts with a fair value of \$361,189,787 at December 31, 2018.

The Foundation had balances payable to the ELCA churchwide organization of \$3,985,772 at December 31, 2018. This is made up of expenses related to a service level agreement between the Foundation and the ELCA churchwide organization including salaries, benefits, travel and other administrative expenses, provided to the Foundation by the ELCA churchwide organization.

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(Continued)

ELCA FOUNDATION AND THE EVANGELICAL LUTHERAN  
CHURCH IN AMERICA ENDOWMENT FUND POOLED TRUST  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
December 31, 2018

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**NOTE 5 - NET ASSETS RELEASED FROM DONOR RESTRICTIONS**

Net assets which were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors were as follows during the year ended December 31:

	<u>2018</u>
Satisfaction of program restrictions:	
Payments on underwater Charitable Gift Annuities	\$ 110,780
 Satisfaction of program restrictions	 <u>\$ 110,780</u>

**NOTE 6 - SECURITIES LOANED**

The Foundation's investment pools participate in a securities lending program, whereby securities are lent to borrowers in exchange for a fee. The securities lending program specifies that the custodian is responsible for the lending of securities and obtaining adequate collateral from the borrower. Beneficial interest in fees earned by the investment pools totaled \$2,164,864 for the year ended December 31, 2018.

**NOTE 7 - NET ASSETS WITHOUT DONOR RESTRICTIONS**

Net assets without donor restrictions consist of the following at December 31:

	<u>2018</u>
General	\$ 495,338
Reserve for operations	<u>3,200,000</u>
	 <u>\$ 3,695,338</u>

**NOTE 8 - NET ASSETS WITH DONOR RESTRICTION**

Net assets with donor restrictions totaling \$1,992,690 are available for the underwater charitable gift annuity program at December 31, 2018.

**NOTE 9 - EXPENSES BY NATURE**

The combined statement of activities reports certain categories of expenses attributable to the programs and supporting functions of the Foundation. Program Activities include the costs associated with administrative services provided to the Church and related organizations. The table below presents these functional expenses by their natural classification for the year ended December 31, 2018.

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(Continued)



ELCA FOUNDATION AND THE EVANGELICAL LUTHERAN  
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**NOTE 9 - EXPENSES BY NATURE (Continued)**

	Endowment Fund Pooled Trust	Charitable Gift Annuity Program	Charitable Remainder Trust Program	Other Program Activities	Total Program Activities	Management and General	Total
Grants	\$ -	\$ -	\$ -	\$ 193,264	\$ 193,264	\$ 302,711	\$ 495,975
Compensation	101,833	42,555	35,691	1,559,299	1,739,378	511,590	2,250,968
Benefits	47,455	19,005	13,324	763,229	843,013	260,701	1,103,714
Travel	98	301	-	273,329	273,728	23,427	297,155
Professional and other purchased services	139,446	137,806	65,868	34,734	377,854	106,308	484,162
Service level agreement	249,243	87,989	84,189	185,214	606,635	286,035	892,670
Other expenses	88,835	110,320	13,399	69,573	282,127	147,541	429,668
Total expenses	<u>\$ 626,910</u>	<u>\$ 397,976</u>	<u>\$ 212,471</u>	<u>\$ 3,078,642</u>	<u>\$ 4,315,999</u>	<u>\$ 1,638,313</u>	<u>\$ 5,954,312</u>

The allocations of certain categories of expenses attributable to more than one program or supporting function are allocated based on an estimate of staff time spent in each of the functional areas.

**NOTE 10 - LIQUIDITY AND AVAILABILITY**

The Foundation's financial assets available within one year of the combined statement of financial position date for general expenditure are as follows:

	<u>2018</u>
Financial Assets	
Cash	\$ 14,711,469
Accounts receivable	93,004
Investments	<u>765,901,616</u>
Financial assets, at year end	780,706,089
Less those unavailable for general expenditure within one year due to:	
Contractual or donor-imposed restrictions	
Donor purpose restrictions	(1,992,690)
Annuities and trusts liability	(52,615,733)
Funds held for other organizations	<u>(718,242,244)</u>
Financial assets available to meet cash needs for general expenditure within one year before board designation	7,855,422
Less: Designations	
Reserves for operations	<u>(3,200,000)</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 4,655,422</u>

(Continued)

ELCA FOUNDATION AND THE EVANGELICAL LUTHERAN  
CHURCH IN AMERICA ENDOWMENT FUND POOLED TRUST  
NOTES TO THE COMBINED FINANCIAL STATEMENTS  
December 31, 2018

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**NOTE 10 - LIQUIDITY AND AVAILABILITY (Continued)**

As part of the Foundation's liquidity management, the Foundation invests its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The reserves for operations are set aside to help ensure the Foundation has adequate reserves to meet state requirements when registering to provide charitable gift annuities. These funds would be available to meet general expenditures with approval from the Board of Trustees.

**NOTE 11 - SUBSEQUENT EVENTS**

Management has performed an analysis of the activities and transactions subsequent to December 31, 2018, to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended December 31, 2018. Management has performed their analysis through June 26, 2019, the date the financial statements were available to be issued. Activities subsequent to this date have not been evaluated by management.

## **SUPPLEMENTARY INFORMATION**

ELCA FOUNDATION AND THE EVANGELICAL LUTHERAN  
CHURCH IN AMERICA ENDOWMENT FUND POOLED TRUST  
COMBINING STATEMENT OF FINANCIAL POSITION  
December 31, 2018

	Endowment Funds	Deferred Gift and Operating Funds	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 3,320,064	\$ 11,391,405	\$ 14,711,469
Investments	682,099,962	83,801,654	765,901,616
Beneficial interest in outside trusts	-	876,583	876,583
Other assets	-	119,168	119,168
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total assets	<u>\$ 685,420,026</u>	<u>\$ 96,188,810</u>	<u>\$ 781,608,836</u>
<b>LIABILITIES AND NET ASSETS</b>			
Liabilities			
Accounts payable and accrued expenses	\$ 118,354	\$ 958,705	\$ 1,077,059
Funds due to related organizations	3,977,390	8,382	3,985,772
Annuities and trusts liability	-	52,615,733	52,615,733
Funds held for others			
Funds held for others	334,692,107	22,360,350	357,052,457
Funds held for ELCA churchwide organization	346,607,175	14,582,612	361,189,787
Total funds held for others	<u>681,299,282</u>	<u>36,942,962</u>	<u>718,242,244</u>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total liabilities	<u>685,395,026</u>	<u>90,525,782</u>	<u>775,920,808</u>
Net assets			
Without donor restrictions	25,000	3,670,338	3,695,338
With donor restrictions	-	1,992,690	1,992,690
Total net assets	<u>25,000</u>	<u>5,663,028</u>	<u>5,688,028</u>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total liabilities and net assets	<u>\$ 685,420,026</u>	<u>\$ 96,188,810</u>	<u>\$ 781,608,836</u>

See accompanying Independent Auditor's Report.