

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

FINANCIAL STATEMENTS
December 31, 2018 and 2017

MISSION INVESTMENT FUND
OF THE EVANGELICAL LUTHERAN
CHURCH IN AMERICA

FINANCIAL STATEMENTS
December 31, 2018 and 2017

CONTENTS

INDEPENDENT AUDITOR'S REPORT	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

INDEPENDENT AUDITOR'S REPORT

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, 2018 and 2017, 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, 2018, 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, 2018 and 2017, and the changes in its net assets and its cash flows for each of the three years in the period ended December 31, 2018, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Organization 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.

A handwritten signature in black ink that reads "Crowe LLP". The signature is written in a cursive, flowing style.

Crowe LLP

Chicago, Illinois
March 22, 2019

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents	\$ 7,877,083	\$ 17,111,536
Investments (Notes 2 and 9)	142,317,420	157,424,329
Accrued interest receivable	2,397,886	1,642,580
Other assets (Note 1)	<u>598,755</u>	<u>432,355</u>
	<u>153,191,144</u>	<u>176,610,800</u>
 Loans receivable, net (Note 3):		
Congregational and other ministry loans	556,613,085	539,104,543
Allowance for loan losses	<u>(10,050,000)</u>	<u>(9,298,000)</u>
	<u>546,563,085</u>	<u>529,806,543</u>
 Real estate owned (Notes 4 and 9):		
Held for congregations	3,469,761	6,044,368
Held for sale	5,524,124	8,639,468
Allowance for losses on property held for sale	<u>(3,360,000)</u>	<u>(5,432,000)</u>
	<u>5,633,885</u>	<u>9,251,836</u>
 Total assets	<u>\$ 705,388,114</u>	<u>\$ 715,669,179</u>
 LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and other liabilities	\$ 2,663,832	\$ 2,403,192
Due to ELCA Churchwide Administrative Offices	806,909	756,557
Accrued interest payable	785,435	714,832
Investment obligations (Note 5)	499,064,694	505,955,049
Real estate deposits	<u>1,206,933</u>	<u>1,895,776</u>
Total liabilities	<u>504,527,803</u>	<u>511,725,406</u>
 Commitments and contingencies (Notes 7 and 8)	-	-
 Net assets (Note 6):		
Without donor restrictions	197,721,419	200,405,426
With donor restrictions	<u>3,138,892</u>	<u>3,538,347</u>
Total net assets	<u>200,860,311</u>	<u>203,943,773</u>
 Total liabilities and net assets	<u>\$ 705,388,114</u>	<u>\$ 715,669,179</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, 2018, 2017, and 2016

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Changes in net assets without donor restriction			
Operating income:			
Interest on loans	\$ 21,708,826	\$ 21,058,236	\$ 21,419,443
Interest and dividends on investments	4,401,350	4,189,086	3,489,786
Total interest and dividend income	26,110,176	25,247,322	24,909,229
Interest expense	8,140,674	7,480,090	6,486,596
Net interest income	17,969,502	17,767,232	18,422,633
Operating expenses:			
General operating expenses	12,528,735	11,728,106	11,019,274
Grants to ELCA and related ministries (Note 10)	2,771,706	2,716,282	3,541,979
Provision for loan losses (Note 3)	752,000	1,577,942	1,020,000
(Recovery of) provision for real estate losses (Notes 4 and 9)	(420,123)	(68,000)	400,000
Total operating expenses	15,632,318	15,954,330	15,981,253
Other operating income:			
Loan fees	88,345	114,276	110,101
Gain on sale of real estate	101,072	138,582	46,096
Rental income	83,394	65,873	78,991
Other income	292,738	357,685	329,697
Total other operating income	565,549	676,416	564,885
Increase in net assets from operating activities	2,902,733	2,489,318	3,006,265
Non-operating (loss) income:			
Investment return, net (Note 2)	(5,709,599)	2,950,630	1,365,648
Gifts (Note 6)	122,859	1,720	15,654
Non-operating (loss) income	(5,586,740)	2,952,350	1,381,302
Change in net assets without donor restrictions	(2,684,007)	5,441,668	4,387,567
Net assets without donor restrictions at beginning of year	200,405,426	194,963,758	190,576,191
Net assets without donor restrictions at end of year	197,721,419	200,405,426	194,963,758

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
STATEMENTS OF INCOME, EXPENSES, AND CHANGES IN NET ASSETS
Years ended December 31, 2018, 2017, and 2016

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Changes in net assets with donor restrictions:			
Investment return, net (Note 2)	\$ (405,578)	\$ 365,149	\$ 70,413
Gifts (Note 6)	<u>6,123</u>	<u>19,174</u>	<u>650</u>
Change in net assets with donor restrictions	(399,455)	384,323	71,063
Net assets with donor restrictions at beginning of year	<u>3,538,347</u>	<u>3,154,024</u>	<u>3,082,961</u>
Net assets with donor restrictions at end of year	<u>3,138,892</u>	<u>3,538,347</u>	<u>3,154,024</u>
Changes in total net assets:			
Change in total net assets	(3,083,462)	5,825,991	4,458,630
Total net assets at beginning of year	<u>203,943,773</u>	<u>198,117,782</u>	<u>193,659,152</u>
Total net assets at end of year	<u><u>\$ 200,860,311</u></u>	<u><u>\$ 203,943,773</u></u>	<u><u>\$ 198,117,782</u></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, 2018, 2017, and 2016

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:			
Change in net assets	\$ (3,083,462)	\$ 5,825,991	\$ 4,458,630
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation	160,337	389,352	735,627
Provision for loan losses	752,000	1,577,942	1,020,000
(Recovery of) provision for real estate losses	(420,123)	(68,000)	400,000
Restricted and designated gifts	(128,982)	(20,894)	(16,304)
Gain on sale of real estate	(101,072)	(138,582)	(46,096)
Writedown on real estate	403,782	-	-
Loss (gain) on investments	5,876,287	(3,602,088)	(1,599,784)
Changes in assets and liabilities:			
Accrued interest receivable	(755,306)	566,805	(39,196)
Other assets	(1,264,087)	(177,134)	306,235
Accounts payable and other liabilities	260,640	(913,015)	862,462
Due to ELCA Churchwide Administrative Offices	50,352	144,740	124,509
Accrued interest payable	70,603	67,176	1,239
Net cash provided by operating activities	<u>1,820,969</u>	<u>3,652,293</u>	<u>6,207,322</u>
Cash flows from investing activities:			
Purchases of investments	(63,360,990)	(89,650,926)	(60,714,224)
Proceeds from sales and maturities of investments	72,591,612	66,775,195	86,395,560
Purchases of real estate and fixed assets	1,041,778	(41,111)	(77,191)
Change in real estate deposits	(688,843)	130,401	110,833
Proceeds from sale of real estate	2,316,135	512,131	907,705
Improvements on real estate	22,016	-	-
Loans issued	(77,787,315)	(88,082,329)	(82,787,406)
Principal collected on loans	61,571,558	72,543,016	51,055,529
Net cash used in investing activities	<u>(4,294,049)</u>	<u>(37,813,623)</u>	<u>(5,109,194)</u>
Cash flows from financing activities:			
Restricted and designated gifts	128,982	20,894	16,304
Issuance of investment obligations	204,598,974	208,108,406	189,755,924
Redemption of investment obligations	(211,489,329)	(175,684,947)	(180,324,214)
Net cash (used in) provided by financing activities	<u>(6,761,373)</u>	<u>32,444,353</u>	<u>9,448,014</u>
Net (decrease) increase in cash and cash equivalents	(9,234,453)	(1,716,977)	10,546,142
Cash and cash equivalents at beginning of year	<u>17,111,536</u>	<u>18,828,513</u>	<u>8,282,371</u>
Cash and cash equivalents at end of year	<u>\$ 7,877,083</u>	<u>\$ 17,111,536</u>	<u>\$ 18,828,513</u>
Supplementary disclosures:			
Interest paid to investors	\$ 8,070,071	\$ 7,411,914	\$ 6,485,357
Supplementary schedule of noncash investing activities:			
Transfers from loans to real estate owned	\$ 1,292,785	\$ 240,000	\$ -

See accompanying notes to financial statements.

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

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 make 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.

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.

Net Assets: The financial statements focus on MIF as a whole and present balances and transactions classified based upon the existence or absence of donor-imposed restrictions. Net assets, revenue, 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 interest income, interest expense, operating income, operating expenses and gifts and investment income without donor-imposed restrictions. Certain funds, generally set aside by Board action, function as endowments and are included in net assets without donor restrictions.

With Donor Restrictions – Net assets subject to donor-imposed restrictions that will be met either by actions of MIF or the passage of time. Items in this net asset category are contributions 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.

Net assets that are subject to donor-imposed restrictions which require them to be maintained permanently by the MIF are also considered net assets with donor restrictions. Items in this net asset category include gifts wherein donors stipulate that the corpus be held in perpetuity and only the income be made available for purposes without donor restrictions or with donor restrictions (primarily gifts for endowments that will fund perpetual endowments).

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. 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.

Investments Held for Operating Purposes: Investments, consisting primarily of U.S. government securities, 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.

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

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

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 without restrictions 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 Foundation. 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 Foundation 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 investment 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 an 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 22% to 32% in U.S. equity securities, 25% to 35% in Non-U.S. equity securities, 3.5% to 13.5% in investment grade fixed income securities, 3.5% to 13.5% in high yield fixed income securities, 0% to 15% in global real estate securities, 0% to 10% in U.S. inflation-indexed securities, 0% to 10% in illiquid real assets, 0% to 8% in absolute return, 0% to 8% in infrastructure and 0% to 10% in alternative equities with the balance in cash and cash equivalents.

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 2018, 2017 and 2016 was 4.00%. It was applied each year to the average unit value of the assets in the EFPT at December 31 of the five preceding years. The rate established for 2019 is 4.00%.

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 the endowment funds holding the contributed value of donor-restricted gifts, and related undistributed earnings and unrealized appreciation, as net assets with donor restrictions. The endowment fund holding the contributed value of MIF board-designated gifts, and related undistributed earnings and unrealized appreciation, is classified as net assets without donor restrictions.

All other net assets of MIF that do not have donor-imposed restrictions are included in net assets without donor restrictions.

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

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

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 using 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 less than 90 days past due and future payments are reasonably assured.

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.

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 incurred 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 indicators.

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.

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

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

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 at the fair value of collateral. For troubled debt restructurings that subsequently default, 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 and buildings acquired for future sale to new congregations. MIF typically sells the property to congregations at its carrying value plus expenses incurred during ownership and usually issues a loan to finance the cost of the property and any related construction costs for a 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, establishing a new cost basis. The assets are subsequently carried at the lower of cost or fair value 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 in the real estate valuation allowance recorded through expense. Expenses for maintaining such properties are expensed as incurred.

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 if conditions suggest impairment may exist.

Other Assets: Included with other assets are office and computer equipment and software, at cost, of \$3,234,831 and \$4,253,245 with accumulated depreciation of \$2,998,256 and \$4,195,645 at December 31, 2018 and 2017, respectively. Depreciation is provided over the estimated useful lives of the respective assets which range from 3 to 7 years using the straight-line method. Amounts charged to general operating expenses for depreciation were \$79,272, \$338,654, and \$682,396, for the years ended December 31, 2018, 2017 and 2016, respectively.

Operations: Operating results in the statements of income, expenses, and changes in net assets reflect all transactions increasing and decreasing net assets without donor restrictions 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.

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

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

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 each of the three years in the period ended December 31, 2018. MIF recognizes interest and penalties related to unrecognized tax benefits, if incurred, in interest and income tax expense, respectively. MIF has not been examined by any tax jurisdiction.

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. 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.

Reclassification: Certain reclassifications have been made to present last year's financial statements on a basis comparable to the current year's financial statements. These reclassifications had no effect on the change in net assets or total net assets.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to December 31, 2018, and where appropriate reflected them within the audited financial statements for the year ended December 31, 2018. Management has performed their analysis through March 22, 2019, the date the financial statements were available to be issued.

Adoption of New Accounting Standards: In August 2016, FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958) (ASU 2016-14)*. ASU 2016-14 makes several improvements to current reporting requirements that address the complexities related to not-for-profit reporting. The guidance requires an entity to continue to present on the face of the statement of cash flows the net amount for operating cash flows using either the direct or indirect method but no longer requires the presentation of the indirect method reconciliation if using the direct method. It requires the entity to provide qualitative and quantitative information that communicates how the entity manages liquid resources available to meet cash needs within one year of the statement of net position date. It also requires the entity to disclose expenses by both natural and functional classification as well as methods used to allocate between program and support functions. ASU 2016-14 requires the entity to report investment return net of external and direct internal investment expenses and no longer requires disclosure of those netted expenses. ASU 2016-14 is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. MIF implemented this guidance for the year ended December 31, 2018 and retroactively for all years presented with the exception of Notes 12 and 13.

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

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

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. Among other things, these amendments require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. The Update is effective for fiscal years beginning after December 15, 2021. Early adoption is permitted for fiscal years beginning after December 15, 2018. MIF has not yet implemented this ASU and is in the process of assessing the effect on MIF's financial statements.

NOTE 2 - INVESTMENTS

Investments: Investments are stated at fair value and consist of the following at December 31, 2018 and 2017:

	2018		2017	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and cash equivalents	\$ 5,117,018	\$ 5,117,018	\$ 3,931,362	\$ 3,931,362
U.S. treasuries	6,315,146	6,265,886	8,498,727	8,345,798
U.S. sponsored agencies	10,327,237	10,117,367	12,893,629	12,613,650
U.S. government mortgage-backed	35,256,093	34,500,866	39,550,391	38,945,937
Municipal bonds	16,361,222	16,238,611	20,296,737	20,186,339
Corporate bonds	21,415,263	20,958,175	31,861,363	31,464,452
Other bonds	14,620,225	14,605,677	3,173,506	3,165,977
U.S. large-cap stocks	10,594,782	12,082,240	10,344,782	13,189,773
U.S. mid-cap stocks	4,814,402	4,843,236	4,514,402	5,538,056
U.S. small-cap stocks	2,537,463	2,599,959	2,164,463	2,851,121
Non-U.S. stocks	6,218,938	5,592,395	6,218,938	7,112,895
Beneficial Interest in ELCA Endowments	2,578,568	3,138,892	2,494,887	3,538,347
ELCA Endowment Fund Pooled Trust	5,286,214	6,257,098	4,866,822	6,540,622
	<u>\$ 141,442,571</u>	<u>\$ 142,317,420</u>	<u>\$ 150,810,009</u>	<u>\$ 157,424,329</u>

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 2 – INVESTMENTS (Continued)

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, 2018, 2017, and 2016:

	Without donor restrictions		
	2018	2017	2016
Realized investment gains (losses)	141,408	493,186	(609,247)
Unrealized investment (losses) gains	(5,612,117)	2,743,753	2,138,617
Investment management fees	(238,890)	(286,309)	(163,722)
Investment return, net	(5,709,599)	2,950,630	1,365,648

	With donor restrictions		
	2018	2017	2016
Realized investment gains (losses)	-	-	-
Unrealized investment (losses) gains	(405,578)	365,149	70,413
Investment management fees	-	-	-
Investment return, net	(405,578)	365,149	70,413

NOTE 3 - LOANS RECEIVABLE

Congregational and Other Ministry Loans: These loans consist of mortgage notes, loan participations, contracts for deeds, and unsecured promissory notes totaling \$556,613,085 and \$539,104,543 at December 31, 2018 and 2017, respectively. At December 31, 2018 and 2017, approximately \$550.0 million and \$532.3 million of the loans are secured by first mortgages, \$0.4 million and \$0.6 million are secured by second mortgages, and \$6.3 million and \$6.2 million are unsecured, respectively. Interest rates for congregational and other ministry loans range from 3.00% to 7.13% with a weighted average interest rate of approximately 4.07% during 2018, 3.00% to 7.13% with a weighted average interest rate of approximately 4.05% during 2017, ranged from 3.00% to 7.13% with a weighted average interest rate of approximately 4.17% during 2016.

MIF makes loans to congregations and other ministries. Because of the financial uniqueness of this market, MIF's relationship with its borrowers is different from that of a typical commercial lender. MIF may make loans to borrowers which may not be able to secure financing from commercial sources. The ability of each borrower to pay MIF may depend on contributions received. Therefore, payments to MIF may depend on the membership levels of the borrower congregations, and on the maintenance of adequate contributions by individual members to their congregations, on prudent management by those congregations of their finances, and on general economic conditions. 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.

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 3 - LOANS RECEIVABLE (Continued)

MIF may also permit payment accommodations more readily than commercial lenders. These 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 other ministry loans, net at December 31 are as follows:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Construction loans	\$ 21,637,101	\$ 24,849,907	\$ 41,792,220
Standard loans	534,975,984	514,254,636	482,112,952
Allowance for loan losses	<u>(10,050,000)</u>	<u>(9,298,000)</u>	<u>(7,820,000)</u>
Loans receivable, net	<u>\$ 546,563,085</u>	<u>\$ 529,806,543</u>	<u>\$ 516,085,172</u>

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

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:

	Commercial real estate loans		
<u>Allowance for Loan Losses</u>	Construction <u>Loans</u>	Standard <u>Loans</u>	<u>Total</u>
Balance January 1, 2016	\$ -	\$ 6,800,000	\$ 6,800,000
Charge-offs	-	-	-
Recoveries	-	-	-
Provision	-	1,020,000	1,020,000
Balance December 31, 2016	-	7,820,000	7,820,000
Ending balance individually evaluated for impairment	-	5,408,402	5,408,402
Ending balance collectively evaluated for impairment	-	2,411,598	2,411,598
Total	-	7,820,000	7,820,000
Charge-offs	-	(99,942)	(99,942)
Recoveries	-	-	-
Provision	-	1,577,942	1,577,942
Balance December 31, 2017	-	9,298,000	9,298,000
Ending balance individually evaluated for impairment	-	7,494,780	7,494,780
Ending balance collectively evaluated for impairment	-	1,803,220	1,803,220
Total	-	9,298,000	9,298,000
Charge-offs	-	-	-
Recoveries	-	-	-
Provision	-	752,000	752,000
Balance December 31, 2018	-	10,050,000	10,050,000
Ending balance individually evaluated for impairment	-	7,933,765	7,933,765
Ending balance collectively evaluated for impairment	-	2,116,235	2,116,235
Total	-	10,050,000	10,050,000

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 3 - LOANS RECEIVABLE (Continued)

<u>Loans</u>	<u>Construction Loans</u>	<u>Standard Loans</u>	<u>Total</u>
Balance December 31, 2016	41,792,220	482,112,952	523,905,172
Allowance for loan losses	-	(7,820,000)	(7,820,000)
Carrying value	41,792,220	474,292,952	516,085,172
Ending balance individually evaluated for impairment	-	28,229,428	28,229,428
Ending balance collectively evaluated for impairment	41,792,220	453,883,524	495,675,744
Total	41,792,220	482,112,952	523,905,172
Balance December 31, 2017	24,849,907	514,254,636	539,104,543
Allowance for loan losses	-	(9,298,000)	(9,298,000)
Carrying value	24,849,907	504,956,636	529,806,543
Ending balance individually evaluated for impairment	-	39,158,137	39,158,137
Ending balance collectively evaluated for impairment	24,849,907	475,096,499	499,946,406
Total	24,849,907	514,254,636	539,104,543
Balance December 31, 2018	21,637,101	534,975,984	556,613,085
Allowance for loan losses	-	(10,050,000)	(10,050,000)
Carrying value	21,637,101	524,925,984	546,563,085
Ending balance individually evaluated for impairment	-	47,494,717	47,494,717
Ending balance collectively evaluated for impairment	21,637,101	487,481,267	509,118,368
Total	21,637,101	534,975,984	556,613,085

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

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, 2018, 2017, and 2016 is as follows:

	December 31, 2018				
	<u>Current (Accruing)</u>	<u>30-59 Days Past Due (Accruing)</u>	<u>60-89 Days Past Due (Accruing)</u>	<u>90 Days and Over (Non-Accruing)</u>	<u>Total</u>
Commercial real estate loans					
Construction loans	\$ 21,637,101	\$ -	\$ -	\$ -	\$ 21,637,101
Standard loans	<u>527,813,714</u>	<u>-</u>	<u>97,286</u>	<u>7,064,984</u>	<u>534,975,984</u>
Total	<u>\$ 549,450,815</u>	<u>\$ -</u>	<u>\$ 97,286</u>	<u>\$ 7,064,984</u>	<u>\$ 556,613,085</u>

	December 31, 2017				
	<u>Current (Accruing)</u>	<u>30-59 Days Past Due (Accruing)</u>	<u>60-89 Days Past Due (Accruing)</u>	<u>90 Days and Over (Non-Accruing)</u>	<u>Total</u>
Commercial real estate loans					
Construction loans	\$ 24,849,907	\$ -	\$ -	\$ -	\$ 24,849,907
Standard loans	<u>505,669,974</u>	<u>3,775,667</u>	<u>-</u>	<u>4,808,995</u>	<u>514,254,636</u>
Total	<u>\$ 530,519,881</u>	<u>\$ 3,775,667</u>	<u>\$ -</u>	<u>\$ 4,808,995</u>	<u>\$ 539,104,543</u>

	December 31, 2016				
	<u>Current (Accruing)</u>	<u>30-59 Days Past Due (Accruing)</u>	<u>60-89 Days Past Due (Accruing)</u>	<u>90 Days and Over (Non-Accruing)</u>	<u>Total</u>
Commercial real estate loans					
Construction loans	\$ 41,792,220	\$ -	\$ -	\$ -	\$ 41,792,220
Standard loans	<u>472,757,140</u>	<u>4,370,842</u>	<u>-</u>	<u>4,984,970</u>	<u>482,112,952</u>
Total	<u>\$ 514,549,360</u>	<u>\$ 4,370,842</u>	<u>\$ -</u>	<u>\$ 4,984,970</u>	<u>\$ 523,905,172</u>

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

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>2018</u>	<u>2017</u>	<u>2016</u>
<u>Standard loans</u>			
<u>With an allowance recorded</u>			
Carrying value	\$ 39,560,952	\$ 31,663,357	\$ 22,821,026
Unpaid principal balance	47,494,717	39,158,137	28,229,428
Related allowance	7,933,765	7,494,780	5,408,402
Average recorded investment during the year	35,612,155	27,242,192	22,773,124
Interest income recognized and collected while impaired (including performing troubled debt restructuring)	1,513,246	1,214,518	1,038,439

There were no impaired construction loans during the years ended December 31, 2018, 2017, or 2016.

Impaired loans had a principal balance of \$47,494,717, with a valuation allowance of \$7,933,765 at December 31, 2018, resulting in an additional provision for loan losses of \$438,985 for the year ended December 31, 2018. Impaired loans had a principal balance of \$39,158,137, with a valuation allowance of \$7,494,780 at December 31, 2017, resulting in an additional provision for loan losses of \$2,086,378 for the year ended December 31, 2017. Impaired loans with specific allocations of the allowance for loan losses are based on expected future cash flows.

Troubled debt restructurings

MIF has allocated \$485,987 and \$852,932 of the allowance for loan losses, relating to balances of \$26,581,347 and \$27,897,320, for nine and ten customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2018 and 2017, respectively. The concessions giving rise to the troubled debt restructurings totaled approximately \$2,225,003 and were in the form of matching grants to encourage timely monthly payments and temporary interest rate reductions. There were no loans modified in trouble debt restructurings during the year ended December 31, 2018. There was one loan modified in trouble debt restructurings during the year ended December 31, 2017. The pre- and post-modification outstanding balance on these loans was \$9,706,472 in 2017. None of the troubled debt restructurings have subsequently defaulted during the years ended December 31, 2018 or 2017. There are no troubled debt restructurings related to construction loans.

The terms of certain other loans were modified during the years ending December 31, 2018 and 2017, which did not meet the definition of a troubled debt restructuring. These loans have a total recorded investment as of December 31, 2018 and 2017, of \$12,509,576 and \$19,318,899, 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.

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 3 - LOANS RECEIVABLE (Continued)

Credit quality and non-accrual loans

Each month 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, 2018 and 2017, loans in non-accrual status were \$7,064,984 and \$4,808,995, respectively, none of which were construction loans.

Concentration of Credit Risk: MIF's lending activities are primarily conducted with congregations and other ministries 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>2018</u>	<u>2017</u>
Region 1 - Northwest area	\$ 54,786,223	\$ 52,886,550
Region 2 - Southwest area	80,503,953	74,133,692
Region 3 - Northwest Mid-West area	80,701,089	72,654,734
Region 4 - Southwest Mid-West area	50,197,456	51,917,234
Region 5 - Northeast Mid-West area	122,563,004	127,460,076
Region 6 - Southeast Mid-West area	39,010,040	34,789,582
Region 7 - Northeast area	36,919,940	35,675,392
Region 8 - East area	29,018,870	29,268,173
Region 9 - Southeast area	53,054,941	53,018,551
Other	<u>9,857,569</u>	<u>7,300,559</u>
Total loans	<u>\$ 556,613,085</u>	<u>\$ 539,104,543</u>

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 \$2,110,318 and \$2,538,377 at December 31, 2018 and 2017, respectively. Accumulated depreciation on this leased property was \$298,655 and \$403,781 at December 31, 2018 and 2017, respectively. Depreciation expense on buildings under lease is included in general operating expenses and amounted to \$40,532, \$50,698, and \$53,231, for years ended December 31, 2018, 2017 and 2016, 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 approximately \$3.4 million and \$5.4 million at December 31, 2018 and 2017, respectively.

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 4 - REAL ESTATE (Continued)

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Balance at beginning of year	\$ 5,432,000	\$ 5,500,000	\$ 5,100,000
(Recovery of) provision for real estate losses	(420,123)	(68,000)	400,000
Charge off on sales of real estate	<u>(1,651,877)</u>	<u>-</u>	<u>-</u>
Balance at end of year	<u>\$ 3,360,000</u>	<u>\$ 5,432,000</u>	<u>\$ 5,500,000</u>

NOTE 5 - INVESTMENT OBLIGATIONS

MIF sells term and demand investment obligations ("Investments" or "Obligations") for the purpose of raising funds for its congregational and other ministry loan programs. Details relating to Obligations outstanding at December 31, 2018 and 2017, are as follows:

<u>Type of Obligation</u>	<u>Rate</u>	<u>Amount</u>	
		<u>2018</u>	<u>2017</u>
Demand	(a)	\$ 237,155,932	\$ 243,037,624
Term	(b)	255,582,300	256,871,341
Term - MIF4KIDZ	(c)	<u>6,326,462</u>	<u>6,046,084</u>
		<u>\$ 499,064,694</u>	<u>\$ 505,955,049</u>

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 0.35% to 1.24% in 2018 and 0.35% to 1.00% in 2017. These investments totaled \$230,765,553 and \$236,354,991 at December 31, 2018 and 2017, 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 2018, the rate was 0.35% from January 1 to June 30, 0.50% from July 1 to September 30 and 0.70% from October 1 to December 31. In 2017, the rate was 0.40% from January 1 to April 30 and 0.35% from May 1 to December 31. These investments totaled \$6,390,379 and \$6,682,633 at December 31, 2018 and 2017, respectively.

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 5 - INVESTMENT OBLIGATIONS (Continued)

b. Term Investments:

MIF offers and sells adjustable and fixed rate term investments. Adjustable rate term investments were available for sale during 2018 and 2017, 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 1.79% to 3.06% for the year ended December 31, 2018, and 0.90% to 2.23% for the year ended December 31, 2017. The average interest rates were 2.43% and 1.57% for the years ended December 31, 2018 and 2017, respectively. These investments totaled \$56,246,174 and \$26,024,928 at December 31, 2018 and 2017, respectively.

Fixed rate term investments were available for sale during 2018 and 2017, 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 3.21% for the year ended December 31, 2018, and 1.24% to 3.45% for the year ended December 31, 2017. The average interest rates were 2.11% and 2.35% for the years ended December 31, 2018 and 2017, respectively. These investments totaled \$192,090,556 and \$219,640,911 at December 31, 2018 and 2017, 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 1.00% to 2.48% for the year ended December 31, 2018 and 1.00% to 1.64% for the year ended December 31, 2017. The average interest rate was 1.74% and 1.32% for the years ended December 31, 2018 and 2017. These investments totaled \$7,245,570 and \$11,205,502 at December 31, 2018 and 2017, 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 1.50% of the principal amount redeemed prior to maturity.

Aggregate maturities of term investments outstanding at December 31, 2018, are shown below. Amounts indicated as maturing in the various years will not necessarily correspond to cash redemptions because of renewals.

<u>Year ending December 31,</u>	<u>Fixed Rate</u>	<u>Adjustable Rate</u>	<u>Total</u>
2018	\$ 66,156,671	\$ 30,227,518	\$ 96,384,189
2019	47,171,964	4,261,007	51,432,971
2020	17,821,953	12,107,870	29,929,823
2021	35,385,718	1,432,698	36,818,416
2022	21,021,358	3,105,459	24,126,817
Thereafter	<u>11,778,462</u>	<u>5,111,622</u>	<u>16,890,084</u>
	<u>\$ 199,336,126</u>	<u>\$ 56,246,174</u>	<u>\$ 255,582,300</u>

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 5 - INVESTMENT OBLIGATIONS (Continued)

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 range from 1.99% to 2.99% for the year ended December 31, 2018 and 1.69% to 1.99% for the year ended December 31, 2017. The average interest rates were 2.49% and 1.84% for years ended December 31, 2018 and 2017, respectively. These investments totaled \$6,326,462 and \$6,046,084 at December 31, 2018 and 2017, respectively.

Redemption of MIF4KIDZ investments prior to maturity is permitted and currently requires an early redemption penalty of 2.00% of the principal amount redeemed prior to maturity.

Aggregate maturities of MIF4KIDZ investments outstanding at December 31, 2018, are shown below:

<u>Year ending December 31</u>	<u>MIF4KIDZ</u>
2019	\$ 576,086
2020	523,810
2021	589,744
2022	631,336
2023	510,691
Thereafter	<u>3,494,795</u>
	<u>\$ 6,326,462</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 \$8,168,593 and \$10,719,179 at December 31, 2018 and 2017, respectively. Board members and MIF personnel held investments of \$1,394,253 and \$1,271,534 at December 31, 2018 and 2017, 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.

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 5 - INVESTMENT OBLIGATIONS (Continued)

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

	<u>2018</u>	<u>2017</u>
Region 1 - Northwest area	\$ 43,195,780	\$ 47,184,558
Region 2 - Southwest area	49,163,164	50,936,241
Region 3 - Northwest Mid-West area	76,480,636	83,417,211
Region 4 - Southwest Mid-West area	47,335,544	49,766,714
Region 5 - Northeast Mid-West area	106,261,944	99,023,462
Region 6 - Southeast Mid-West area	32,232,925	33,651,593
Region 7 - Northeast area	50,912,725	52,315,634
Region 8 - East area	53,146,663	52,242,743
Region 9 - Southeast area	39,205,892	36,954,354
Other	<u>1,129,421</u>	<u>462,539</u>
	<u>\$ 499,064,694</u>	<u>\$ 505,955,049</u>

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, 2018 and 2017:

Classification by net asset class:

<u>December 31, 2018:</u>	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Donor Restricted	\$ -	\$ 3,138,892	\$ 3,138,892
Board Designated	<u>2,656,153</u>	<u>-</u>	<u>2,656,153</u>
	<u>\$ 2,656,153</u>	<u>\$ 3,138,892</u>	<u>\$ 5,795,045</u>
<u>December 31, 2017:</u>	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Donor Restricted	\$ -	\$ 3,538,347	\$ 3,538,347
Board Designated	<u>2,866,113</u>	<u>-</u>	<u>2,866,113</u>
	<u>\$ 2,866,113</u>	<u>\$ 3,538,347</u>	<u>\$ 6,404,460</u>

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 6 - NET ASSETS (Continued)

Activity by net asset class:

	Without Donor Restriction	With Donor Restriction	Total
Balance January 1, 2016	\$ 2,492,542	\$ 3,082,961	\$ 5,575,503
Investment income	96,655	116,660	213,315
Unrealized gain	59,894	70,413	130,307
New gifts	15,654	650	16,304
Withdrawals	<u>(96,655)</u>	<u>(116,660)</u>	<u>(213,315)</u>
Balance December 31, 2016	2,568,090	3,154,024	5,722,114
Investment income	100,968	121,457	222,425
Unrealized gain	296,303	365,149	661,452
New gifts	1,720	19,174	20,894
Withdrawals	<u>(100,968)</u>	<u>(121,457)</u>	<u>(222,425)</u>
Balance December 31, 2017	2,866,113	3,538,347	6,404,460
Investment income	106,503	267,588	374,091
Unrealized loss	(332,819)	(405,578)	(738,397)
New gifts	122,859	6,123	128,982
Withdrawals	<u>(106,503)</u>	<u>(267,588)</u>	<u>(374,091)</u>
Balance December 31, 2018	<u>\$ 2,656,153</u>	<u>\$ 3,138,892</u>	<u>\$ 5,795,045</u>

At December 31, 2018 and 2017, there were no aggregate amounts of funds for which the fair value of the assets held is less than the level required by donor stipulation or law.

NOTE 7 - LINE OF CREDIT

At December 31, 2018, MIF had a \$20 million unsecured committed line of credit with UMB Bank, n.a., at a variable interest rate of prime less 1% and a maturity date of December 31, 2019. There were no borrowings outstanding under the line of credit at December 31, 2018 and 2017, or during the years then ended. The interest rate on the line of credit was 1% for the year ended December 31, 2018 and 2017.

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

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 outstanding at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Commitments to originate and disburse loans	\$ 67,014,178	\$ 53,610,140

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.

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 principal 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 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: The fair values of cash and cash equivalents are estimated to approximate deposit account balances, payable on demand, as no discounts for credit quality or liquidity were determined to be applicable (Level 1 and Level 2 inputs).

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

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

Investments: 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, municipal 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).

The ELCA 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. 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.

The fair value of the Beneficial Interest in ELCA Endowments, which is invested in the Endowment Fund Pooled Trust, was determined based upon the fair value of the underlying assets at December 31, 2018. This valuation method has been estimated to represent the present value of future distributed income (Level 3 inputs). This value is determined by a third party without adjustments from MIF.

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

	Fair Value Measurements at December 31, 2018 Using			NAV	Total
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
Assets:					
Cash and cash equivalents	\$ -	\$ 5,117,018	\$ -	\$ -	\$ 5,117,018
U.S. treasuries	-	6,265,886	-	-	6,265,886
U.S. sponsored agencies	-	10,117,367	-	-	10,117,367
U.S. government mortgage-backed	-	34,500,866	-	-	34,500,866
Municipal bonds	-	16,238,611	-	-	16,238,611
Corporate bonds	-	20,958,175	-	-	20,958,175
Other bonds	-	14,605,677	-	-	14,605,677
U.S. large-cap stocks	12,082,240	-	-	-	12,082,240
U.S. mid-cap stocks	4,843,236	-	-	-	4,843,236
U.S. small-cap stocks	2,599,959	-	-	-	2,599,959
Non-U.S. stocks	5,592,395	-	-	-	5,592,395
Beneficial Interest in ELCA Endowments	-	-	3,138,892	-	3,138,892
ELCA Endowment Fund Pooled Trust	-	-	-	6,257,098	6,257,098
Total	<u>\$ 25,117,830</u>	<u>\$ 107,803,600</u>	<u>\$ 3,138,892</u>	<u>\$ 6,257,098</u>	<u>\$ 142,317,420</u>

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

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

	Fair Value Measurements at December 31, 2017 Using					
	Quoted Prices In Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs			
	(Level 1)	(Level 2)	(Level 3)	NAV		Total
Assets:						
Cash and cash equivalents	\$ -	\$ 3,931,362	\$ -	\$ -		\$ 3,931,362
U.S. treasuries	-	8,345,798	-	-		8,345,798
U.S. sponsored agencies	-	12,613,650	-	-		12,613,650
U.S. government mortgage-backed	-	38,945,937	-	-		38,945,937
Municipal bonds	-	20,186,339	-	-		20,186,339
Corporate bonds	-	31,464,452	-	-		31,464,452
Other bonds	-	3,165,977	-	-		3,165,977
U.S. large-cap stocks	13,189,773	-	-	-		13,189,773
U.S. mid-cap stocks	5,538,056	-	-	-		5,538,056
U.S. small-cap stocks	2,851,121	-	-	-		2,851,121
Non-U.S. stocks	7,112,895	-	-	-		7,112,895
Beneficial Interest in ELCA Endowments	-	-	3,538,347	-		3,538,347
ELCA Endowment Fund Pooled Trust	-	-	-	6,540,622		6,540,622
Total	\$ 28,691,845	\$ 118,653,515	\$ 3,538,347	\$ 6,540,622		\$ 157,424,329

	Beneficial Interest in ELCA Endowments
Balance, beginning January 1, 2017	\$ 3,154,024
Increase in fair value of beneficial interest in ELCA endowments	365,149
Gifts	<u>19,174</u>
Balance, ending December 31, 2017	3,538,347
Decrease in fair value of beneficial interest in ELCA endowments	(405,578)
Gifts	<u>6,123</u>
Balance, ending December 31, 2018	<u><u>\$ 3,138,892</u></u>

All unrealized gains/losses presented in the table relate to assets still held at December 31, 2018 and 2017.

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

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

The following table presents additional information about assets and liabilities measured at fair value on a non-recurring basis for which MIF has utilized Level 3 inputs to determine fair value.

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

	Fair Value Measurements at December 31, 2018 Using		
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets - Real estate held for sale	\$ -	\$ -	\$ 1,550,700

	Fair Value Measurements at December 31, 2017 Using		
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets - Real estate held for sale	\$ -	\$ -	\$ 216,000

Real estate held for sale, for which valuation estimates have changed during the year, as shown in the table above, measured at fair value less costs to sell had a net carrying amount of \$1,550,700, made up of the balance of \$2,887,493 less a valuation allowance of \$1,336,793, resulting in an increase in value of \$1,334,700 for the year ended December 31, 2018. Real estate held for sale, for which valuation estimates have changed during the year, as shown in the table above, measured at fair value less costs to sell had a net carrying amount of \$216,000, made up of the balance of \$240,000 less a valuation allowance of \$24,000 resulting in an decrease in value of \$1,840,500 for the year ended December 31, 2017.

Nonrecurring adjustments to certain commercial real estate properties classified as real estate held for sale are based on fair value, less costs to sell. Costs to sell approximate 10% of the current value of the property. 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.

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 10 - RELATED-PARTY TRANSACTIONS

MIF provided support to the ELCA Churchwide Administrative Office for new start congregations in the amount of \$1,500,000 in 2018, 2017 and 2016, respectively. Other grants to the ELCA-related ministries totaled approximately \$1,272,000, \$1,216,000, and \$2,042,000, for the years ended December 31, 2018, 2017 and 2016, respectively.

Pursuant to a shared services agreement, MIF contracts with the ELCA for all operations personnel and related benefits and services for an annual fee. This fee is intended to be all-inclusive and to cover compensation of all personnel and other expenses of the ELCA related to its providing of services to MIF, including, but not limited to, rent, telephone expenses, utilities, office furniture, information technology services, miscellaneous administrative expenses, and other expenses related to MIF. During its year ended December 31, 2018, MIF paid total service fees to the ELCA of approximately \$8,364,000. This compares to service fees of approximately \$8,109,000 and 6,618,000 in 2017 and 2016 respectively.

NOTE 11 - DEFINED CONTRIBUTION PENSION PLAN

Substantially all active employees of ELCA are enrolled in an ELCA defined contribution pension plan administered by Portico (previously known as the Board of Pensions of the Evangelical Lutheran Church in America). MIF's portion of the cost for the plan for the years ended December 31, 2018, 2017, and 2016, was approximately \$450,000, \$421,000, and \$373,000, respectively. All contributions to the plan are funded on a current basis.

NOTE 12 – FUNCTIONAL EXPENSES BY NATURE

The statements of income, expense and changes in net assets report operating expenses which are attributable to one or more programs or supporting functions of the organization. Program activities include issuing loans and soliciting investment obligations and providing grants to the ELCA and its affiliated ministries. Supporting activities include marketing of loans and investment obligations; management and general activities that are indispensable to the operation of the organization but are not identifiable with a specific program; and other supporting activities which include accounting and compliance functions.

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 12 – FUNCTIONAL EXPENSES BY NATURE (Continued)

The table below presents expenses by both their nature and function for the year ended December 31, 2018:

	Program Activities			Supporting Activities				
	Loan and Investment Obligation	Grants	Total Programs	Management and General	Marketing	Other Supporting	Total Supporting	Total
Salaries and Benefits	4,006,384	134,170	4,140,554	1,458,361	673,867	918,756	3,050,984	7,191,538
Grants to ELCA and related ministries	-	2,771,706	2,771,706	-	-	-	-	2,771,706
Advertising, Publications, and Events	-	-	-	-	1,941,252	-	1,941,252	1,941,252
Computer systems	763,011	8,257	771,268	115,599	116,720	123,855	356,174	1,127,442
Office and occupancy	453,146	5,141	458,287	71,975	64,264	77,116	213,355	671,642
Professional fees	-	-	-	546,911	-	-	546,911	546,911
Investor obligation compliance	145,191	-	145,191	227,669	-	-	227,669	372,860
Provision for loan and real estate losses	331,877	-	331,877	-	-	-	-	331,877
Travel and meeting	275,040	-	275,040	146,388	18,699	6,503	171,590	446,630
Real estate expenses	230,460	-	230,460	-	-	-	-	230,460
	6,205,109	2,919,274	9,124,383	2,566,903	2,814,802	1,126,230	6,507,935	15,632,318

Certain expenses, such as grants, advertising, publications, and events, professional fees, investor obligation compliance, provision for loan and real estate losses, travel and meeting, and real estate expenses were specifically identified for the specific program or support activity. Expenses attributable to more than one program or supporting activity are allocated. Allocated expenses include salaries and benefits which are allocated based on employee job responsibilities related to the specific program or supporting activity. Computer systems and office and occupancy are allocated based on the equivalent employee head count identified for the specific program or supporting activity.

NOTE 13 - LIQUIDITY AND AVAILABILITY

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

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 7,877,083	\$ 17,111,536
Commercial paper and money market accounts	3,841,712	1,580,532
Investment maturities and principal paydowns	14,754,695	14,369,710
Investment interest receivable	<u>2,467,465</u>	<u>2,669,819</u>
	<u>\$ 28,940,955</u>	<u>\$ 35,731,597</u>

As part of MIF's liquidity management, MIF invests its financial assets to remain available for its program operations and its general expenditures, liabilities, and other obligations as they come due.

To maintain liquidity for program operations, MIF holds a portion of its assets in cash, cash equivalents, and readily marketable securities. MIF manages its liquidity through an Asset/Liability Management Committee (ALCO) which reviews cash flow projections from scheduled loan payments and anticipated prepayments and investment obligations scheduled to mature. The ALCO committee, which meets no less frequently than monthly, also reviews and sets interest rates on loans and investment obligations based on market conditions and MIF's liquidity needs.

(Continued)

MISSION INVESTMENT FUND OF THE
EVANGELICAL LUTHERAN CHURCH IN AMERICA
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 13 - LIQUIDITY AND AVAILABILITY (Continued)

To further manage any unanticipated liquidity needs that may arise, MIF has a committed line of credit in the amount of \$20 million which it could draw upon. The use of this line of credit is generally restricted to the extent that MIF requires additional liquidity to fund program-related obligations.

MIF's liquidity policy requires a minimum of 8% of outstanding investment obligations to be held as a combination of liquid assets, which include cash, cash equivalents, and readily marketable securities, and a committed line of credit. As of December 31, 2018 and 2017, 8% of investment obligations was approximately \$39.9 million and \$40.5 million, respectively.

In addition to MIF's financial assets whose cash flow is available within one year, MIF holds an additional \$102,962,458 of readily marketable stocks and bonds at December 31, 2018 that can be sold for liquidity purposes.