



## **Lutheran World Relief, Incorporated and Affiliates**

**Consolidated Financial Statements,  
Supplemental Information, Schedule of  
Expenditures of Federal Awards and  
Independent Auditor's Reports Required  
by *Government Auditing Standards* and  
the Uniform Guidance**

Year Ended September 30, 2019

**Lutheran World Relief, Incorporated  
and Affiliates**

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**Consolidated Financial Statements, Supplemental  
Information, Schedule of Expenditures of  
Federal Awards and Independent Auditor's Reports Required by  
*Government Auditing Standards* and the Uniform Guidance  
Year Ended September 30, 2019**

# Lutheran World Relief, Incorporated and Affiliates

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## Independent Auditor's Report

To the Board of Directors  
**Lutheran World Relief, Incorporated and Affiliates**  
Baltimore, Maryland

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of **Lutheran World Relief, Incorporated and Affiliates** (the "Organization"), which comprise the consolidated statement of financial position as of September 30, 2019, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

#### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

#### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of **Lutheran World Relief, Incorporated and Affiliates** as of September 30, 2019, 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.

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### ***Emphasis of Matter***

As discussed in Note 2 to the consolidated financial statements, Lutheran World Relief, Incorporated and Affiliates changed their method for revenue recognition as a result of the adoption of the amendments to the Financial Accounting Standards Board Accounting Standards Codification resulting from Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, and ASU 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* effective October 1, 2018. Our opinion is not modified with respect to these matters.

As discussed in Note 15 to the consolidated financial statements, the opening balance of the consolidated financial statements as of September 30, 2019 have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Other Information - Supplemental Information***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information, which includes the Consolidating Schedule of Financial Position, Consolidating Schedule of Activities, and Consolidated Schedule of Area Support and Program Services Expenses, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 24, 2020 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

**BDO USA, LLP**

July 31, 2020

## **Consolidated Financial Statements**

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# Lutheran World Relief, Incorporated and Affiliates

## Consolidated Statement of Financial Position

September 30,

2019

### Assets

Cash and cash equivalents	\$ 19,352,801
Investments	22,195,805
Advances to subrecipients	1,601,644
Grants and contributions receivable, net	10,212,780
Inventory of materials for distribution	4,200,072
Cash surrender value of life insurance contracts	408,970
Other investments	3,559,345
Charitable trusts	2,113,901
Other receivables and prepaid expenses	3,971,617
Other assets	1,012,646
Property and equipment, net	1,174,395

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**Total assets** **\$ 69,803,976**

### Liabilities and net assets

#### Liabilities

Accounts payable and accrued expenses	\$ 11,853,738
Refundable advances for program purposes	19,778,265
Deferred rent and lease incentive	1,289,722
Debt	1,679,025

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**Total liabilities** **34,600,750**

#### Net assets

Without donor restrictions	
General operations	26,784,095
Board designated funds	1,069,097
Total without donor restrictions	27,853,192
With donor restrictions	
Time restricted	2,796,885
Purpose restricted	4,553,149
Total with donor restrictions	7,350,034

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**Total net assets** **35,203,226**

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**Total liabilities and net assets** **\$ 69,803,976**

*See accompanying notes to the consolidated financial statements.*

# Lutheran World Relief, Incorporated and Affiliates

## Consolidated Statement of Activities

<i>Year ended September 30, 2019</i>	Without Donor Restrictions	With Donor Restrictions	Total
<b>Support and Revenue:</b>			
Support:			
Church body support:			
Evangelical Lutheran Church in America	\$ 150,000	\$ 1,100,437	\$ 1,250,437
Lutheran Church - Missouri Synod	-	100,000	100,000
	150,000	1,200,437	1,350,437
Individuals and congregations:			
Contributions	15,126,196	2,510,387	17,636,583
Bequests	4,397,386	14,990	4,412,376
	19,523,582	2,525,377	22,048,959
Institutional donors:			
U.S. Government grants	38,766,706	-	38,766,706
Foundation grants	3,745,979	-	3,745,979
Multilateral and bilateral grants	1,678,348	-	1,678,348
Corporate and other grants	39,563,961	1,568,248	41,132,209
Program service revenue	1,167,574	-	1,167,574
Contracts	383,661	-	383,661
	85,306,229	1,568,248	86,874,477
<b>Total support</b>	<b>104,979,811</b>	<b>5,294,062</b>	<b>110,273,873</b>
Donated goods and services:			
Donated material resources	12,437,924	-	12,437,924
Contributed services	462,657	-	462,657
<b>Total donated goods and services</b>	<b>12,900,581</b>	<b>-</b>	<b>12,900,581</b>
Net assets released from restrictions:			
Satisfaction of program and time restrictions	5,462,139	(5,462,139)	-
<b>Total support and revenue</b>	<b>123,342,531</b>	<b>(168,077)</b>	<b>123,174,454</b>
<b>Expenses:</b>			
Program services	111,117,734	-	111,117,734
Supporting services:			
Management and general	16,841,940	-	16,841,940
Fundraising	3,626,019	-	3,626,019
<b>Total supporting services</b>	<b>20,467,959</b>	<b>-</b>	<b>20,467,959</b>
<b>Total expenses</b>	<b>131,585,693</b>	<b>-</b>	<b>131,585,693</b>
<b>Changes in net assets before investment return, net</b>	<b>(8,243,162)</b>	<b>(168,077)</b>	<b>(8,411,239)</b>
Investment return, net	1,185,819	15,093	1,200,912
<b>Total change in net assets</b>	<b>(7,057,343)</b>	<b>(152,984)</b>	<b>(7,210,327)</b>
<b>Net assets, beginning of year - LWR</b>	<b>27,339,133</b>	<b>7,139,400</b>	<b>34,478,533</b>
<b>Net assets, beginning of year - IMA</b>	<b>7,571,402</b>	<b>363,618</b>	<b>7,935,020</b>
<b>Net assets, beginning of year - Total</b>	<b>34,910,535</b>	<b>7,503,018</b>	<b>42,413,553</b>
<b>Net assets, end of year</b>	<b>\$ 27,853,192</b>	<b>\$ 7,350,034</b>	<b>\$ 35,203,226</b>

*See accompanying notes to the consolidated financial statements.*

# Lutheran World Relief, Incorporated and Affiliates

## Consolidated Statement of Functional Expenses

Year ended September 30, 2019	Program Services							Supporting Services				Total Expenses
	Health	Emergencies and Material Resources	Agriculture	Climate Change	Impact Investing	Constituent Engagement	Other Program Activities	Program Services	Management and General	Fundraising	Supporting Services	
Salaries	\$ 9,550,194	\$ 2,792,371	\$ 3,875,535	\$ 916,158	\$ 373,841	\$ 454,615	\$ -	\$ 17,962,714	\$ 7,874,402	\$ 1,072,180	\$ 8,946,582	\$ 26,909,296
Employee benefits and payroll taxes	5,034,812	940,166	1,458,511	390,976	16,315	144,579	356	7,985,715	1,876,911	348,695	2,225,606	10,211,321
<b>Total salaries and related expenses</b>	<b>14,585,006</b>	<b>3,732,537</b>	<b>5,334,046</b>	<b>1,307,134</b>	<b>390,156</b>	<b>599,194</b>	<b>356</b>	<b>25,948,429</b>	<b>9,751,313</b>	<b>1,420,875</b>	<b>11,172,188</b>	<b>37,120,617</b>
Retained services	3,515,124	448,216	800,966	86,315	155,397	254,183	15	5,260,216	2,622,416	728,734	3,351,150	8,611,366
Program materials and other supplies	493,906	88,085	157,439	78,301	-	1,280	7	819,018	123,678	1,414	125,092	944,110
Communications and postage	498,053	77,782	215,464	30,278	80	68,225	16	889,898	117,534	300,714	418,248	1,308,146
Occupancy costs, HQ and overseas	1,986,129	341,719	432,087	101,115	-	28,779	247	2,890,076	964,236	78,720	1,042,956	3,933,032
Insurance	140,005	20,323	36,724	7,485	-	-	-	204,537	206,568	-	206,568	411,105
Cost of equipment, supplies and maintenance	1,924,756	159,632	217,097	39,002	5,313	19,886	-	2,365,686	673,662	98,615	772,277	3,137,963
Travel and meetings	4,719,465	605,448	1,086,878	231,071	54,071	69,901	4,070	6,770,904	1,428,442	154,686	1,583,128	8,354,032
Printing, publications and film	233,941	8,685	84,627	5,894	-	63,849	-	396,996	34,367	490,768	525,135	922,131
Membership fees	219,291	59,555	27,181	6,848	-	-	-	312,875	137,153	23,356	160,509	473,384
Bank and merchant fees	321,543	877	1,087	154	8,093	26	-	331,780	136,716	245,106	381,822	713,602
Material resources:												
Donated materials (blankets and quilts, medical, etc)	-	13,218,302	-	-	-	-	-	13,218,302	-	-	-	13,218,302
Purchased materials and cash-related costs	2,580,422	1,535,220	-	-	-	-	-	4,115,642	5,165	-	5,165	4,120,807
Grant expenses	747,894	1,354,257	2,842,934	597,386	-	-	126,750	5,669,221	-	-	-	5,669,221
Program expenses												
Subaward expenses	19,528,579	2,427	(54,761)	142	793,366	9,000	-	20,278,753	-	-	-	20,278,753
Project materials	9,308,989	195,594	738,977	192,614	-	-	-	10,436,174	-	-	-	10,436,174
Project expenses	3,437,562	188,221	2,139,407	497,795	-	-	1,912	6,264,897	7,942	-	7,942	6,272,839
Depreciation of equipment	11	64,533	51,913	11,045	-	6,824	-	134,326	24,473	19,523	43,996	178,322
Miscellaneous	4,766,219	13,615	9,749	774	-	19,647	-	4,810,004	608,275	63,508	671,783	5,481,787
<b>Total expenses</b>	<b>\$ 69,006,895</b>	<b>\$ 22,115,028</b>	<b>\$ 14,121,815</b>	<b>\$ 3,193,353</b>	<b>\$ 1,406,476</b>	<b>\$ 1,140,794</b>	<b>\$ 133,373</b>	<b>\$ 111,117,734</b>	<b>\$ 16,841,940</b>	<b>\$ 3,626,019</b>	<b>\$ 20,467,959</b>	<b>\$ 131,585,693</b>

*See accompanying notes to the financial statements.*

# Lutheran World Relief, Incorporated and Affiliates

## Consolidated Statement of Cash Flows

Year ended September 30,	2019
<b>Cash flows from operating activities:</b>	
Change in net assets	\$ (7,210,327)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Support in-kind	(12,900,581)
Material aid in-kind shipped	13,218,302
Decrease in allowance for doubtful accounts and discounts on grants and contributions receivable	(3,441)
Contributions restricted for long-term investment	(53,886)
Amortization of bond premium and deferred loan costs	2,046
Depreciation	178,322
Loss of disposition of property	41,000
Loss in equity investment in Lutheran Center Corporation	38,936
Realized gains on sale of investments	(249,505)
Unrealized gains on investments	(121,972)
Changes in assets and liabilities:	
(Increase) decrease in:	
Advances to subrecipients	5,593,057
Grants and contributions receivable	(8,298,746)
Other receivables and prepaid expenses, cash surrender value of life insurance contracts and charitable trusts	9,764,260
Other assets	(369,083)
Purchased inventory	471,407
Increase (decrease) in:	
Accounts payable and accrued expenses	1,976,518
Refundable advances for program purposes	294,842
Deferred rent and lease incentive	(93,182)
<b>Net cash provided by operating activities</b>	<b>2,277,967</b>
<b>Cash flows from investing activities:</b>	
Purchase of equipment and fixed assets	(70,406)
Purchase of investments	(89,582,041)
Proceeds from maturities and sales of investments	95,174,368
<b>Net cash provided by investing activities</b>	<b>5,521,921</b>
<b>Cash flows from financing activities:</b>	
Proceeds from contributions restricted for long-term investment	53,886
Principal payments on debt	(125,000)
<b>Net cash used in financing activities</b>	<b>(71,114)</b>
<b>Net increase in cash and cash equivalents</b>	<b>7,728,774</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>11,624,027</b>
<b>Cash and cash equivalents, end of year</b>	<b>19,352,801</b>
<b>Supplemental disclosure of cash flow information:</b>	
Cash payments for interest	\$ 44,559

*See accompanying notes to the consolidated financial statements.*

# Lutheran World Relief, Incorporated and Affiliates

## Notes to the Consolidated Financial Statements

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### 1. About Lutheran World Relief, Incorporated

In 1945, World War II left an estimated one-fifth of the world's Lutherans homeless. Here in the United States, Lutheran churches in at least 20 states mobilized to help in Europe through a new agency called Lutheran World Relief, Incorporated (LWR). Today, Lutheran World Relief operates in East and West Africa, Latin America, Asia, and the Middle East, helping some of the world's poorest communities build the resilience they need to thrive. LWR is a nonprofit organization incorporated in 1945 in the State of New York. LWR's headquarters is in Baltimore, Maryland.

On October 15, 2018, LWR signed a master agreement and plan of merger with Interchurch Medical Assistance, Inc. (d/b/a IMA World Health) (IMA). LWR became the sole member of IMA to facilitate the coordination of activities and to implement opportunities for integration in furtherance of the cost efficiencies and greater programmatic impact. Both organizations are ecumenically connected with others in focusing on improving health and livelihood in complex environments and helping people lift themselves out of extreme poverty by ministering to the well-being of the whole person and providing humanitarian assistance (see Note 16).

IMA, a membership non-profit organization, was founded by Protestant Churches and church-based organizations, incorporated in 1960, and is intentionally ecumenical to provide health services and build healthy communities around the world. Believing that people can do more together than alone; that spirit of joint action remains foundational to IMA. IMA believes the core ecumenical imperatives are unity and respect for all faiths and traditions. The mission of IMA is to advance health and healing for vulnerable and marginalized people. IMA's activities are funded primarily through United States (U.S.) contracts, grants and contributions.

The consolidated financial statements include Ground Up Investing, LLC, a wholly owned for-profit affiliate of LWR, formed as a Delaware limited liability company in April, 2017. The purpose of this entity is to establish, support and invest in for-profit businesses that seek to deliver needed goods and services to the poor in a commercially sustainable manner and create positive social impact and value for impoverished communities.

The consolidated financial statements also include IMA Innovations (Innovations), a wholly owned subsidiary of IMA. Innovations is a charitable organization that seeks to develop projects and initiatives to solve public health crises around the world. Innovations will work in conjunction with IMA, testing and implementing programs on behalf of IMA, to achieve better health outcomes for people in developing and emergency settings, specifically in Asia and Africa. IMA Innovations is a center where innovative public health and allied programs can be conceived, tested and implemented on behalf of IMA. Innovations will pursue creative projects that expand and refine the agency's public health programming while exploring future areas of work. Innovations was incorporated in April 2018 in the District of Columbia. Innovations was recognized by the Internal Revenue Service (IRS) as an organization exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code (the IRC) in April 2019.

#### **Mission**

Affirming God's love for all people, LWR works with Lutherans and partners around the world to end poverty, injustice and human suffering.

IMA's mission is to build healthier communities by collaborating with key partners to serve vulnerable people.

# Lutheran World Relief, Incorporated and Affiliates

## Notes to the Consolidated Financial Statements

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### Organization Operating Structure

Jointly, LWR and IMA's (LWR-IMA) operational structure includes the following program and supporting services, which are included in the accompanying consolidated statement of activities:

### Program Services

**Health** programs build integrated, holistic and sustainable health systems that increase access to quality health care, with an emphasis on vulnerable people. These programs are built around designing and implementing innovative and effective technical approaches that demonstrate long-term, measurable improvements and impact on individual and community health.

**Emergencies and Material Resources** help communities experiencing poverty and marginalization cope with, and recover from, emergencies in ways that promote lasting improvements in people's living conditions. LWR-IMA's humanitarian work responds to both natural disaster and complex emergencies involving conflict. LWR-IMA engages in emergency response and material resources projects and our partners conduct distributions of LWR-IMA quilts and kits to reach people in need around the world.

The **Agriculture** programs are focused on coffee and cocoa projects that engaged farmers to improve their agricultural production and incomes. By strengthening rural economies through improving agricultural practices and increasing food security, LWR-IMA creates lasting impact in poverty reduction, community stability, and resilience.

**Climate Change** programs help communities adapt to changing climates, which is a key element to building resilient communities and strong local economies. Increasing variability in weather patterns lead to an increase in frequency and severity of natural disasters, negatively impacting food production and resilience of economic and environmental systems.

**Impact Investing** is an enterprise-based approach to development. LWR-IMA reduces poverty by engaging workers, their households, and communities to sustain and raise incomes, build assets, increase resilience and ultimately access pathways out of poverty. This is done by the establishment, support, and investment in locally based for-profit businesses that seek to deliver needed goods and services in a commercially sustainable manner and create positive social impact and value for impoverished communities.

**Constituent Engagement** is LWR-IMA's work with U.S. Lutheran congregations and individuals who put faith into action by helping neighbors in need overseas, Lutherans engage with LWR-IMA by making quilts and kits for overseas distribution, buying and selling Farmers Market coffee, fair trade chocolate and eco-palms, and educating others to raise awareness of hunger and the role of smallholder farmers value in supply chains.

### Supporting Services

The **Management and General** category include the functions necessary to provide core mission support and proper administrative functioning of LWR-IMA's governing board and leadership.

# Lutheran World Relief, Incorporated and Affiliates

## Notes to the Consolidated Financial Statements

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**Fundraising** includes expenditures which provide the structure necessary to encourage and secure financial resources for LWR-IMA's worldwide operations and programs.

### 2. Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies followed by LWR-IMA in the preparation of these consolidated financial statements:

#### **Basis of accounting**

The accompanying consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and have been prepared on the accrual basis of accounting, whereby, revenue is recognized when earned and expenses are recognized when incurred.

#### **Consolidation policy**

The consolidated financial statements include the accounts of LWR, IMA and their respective subsidiaries. All material intercompany transactions and balances have been eliminated in the consolidation.

#### **Use of estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### **Cash and cash equivalents**

For purposes of reporting cash flows, LWR-IMA considers all highly liquid investments with a maturity of three months or less to be cash equivalents. Any cash held by investment managers is considered investments, regardless of maturity.

#### **Advances to subrecipients**

LWR-IMA advances grant funds to subrecipients under the terms of its various cost-reimbursable grant agreements and records these amounts as advances to subrecipients. Upon submission of the required financial reports by the subrecipients detailing the amount of funds expended under these grant agreements during each month or quarter and upon approval by LWR-IMA, LWR-IMA recognizes allowable direct and indirect grant expenses incurred by the subrecipients. Any amounts advanced by LWR-IMA in excess of expenses incurred by the subrecipients are reflected as advances to subrecipients in the accompanying statement of financial position. Any amounts due to subrecipients for expenditures incurred in excess of advances made are reflected in accounts payable and accrued expenses in the accompanying consolidated statement of financial position.

#### **Grants receivable**

Grants receivable are comprised of allowable costs in excess of amounts received on federal and foundation grants. Recoverable costs from federal grants are billable when qualifying expenditures

# Lutheran World Relief, Incorporated and Affiliates

## Notes to the Consolidated Financial Statements

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are incurred. As these amounts are mainly due from the U.S. Government and foundations, it is anticipated that all receivables are collectible. There was no provision for uncollectable balances on grants receivable as of September 30, 2019.

### Contributions receivable

Contributions are recognized when the donor makes a pledge to LWR-IMA that is, in substance, unconditional. Contributions to be received in a future period are discounted to their net present value, using a then commiserate discount rate, at the time the revenue is recorded.

LWR-IMA uses the allowance method to determine uncollectible promises to give. The allowance is based on prior years' experience and management's analysis of specific pledges made.

### Investments

Investments are reflected at fair market value. Certain other investments are segregated for presentation purposes. LWR-IMA's non-segregated investments include some amounts for investment pools which are valued at fair value based on the applicable percentage ownership of the underlying pools' net assets as of the measurement date, as determined by the manager. The manager values securities and other financial instruments on a fair value basis of accounting. The fair value of LWR-IMA's investment in such investment pools generally represents the amount LWR-IMA would expect to receive if it were to liquidate its investment excluding any redemption charges that may apply. However, the estimated fair values of the assets underlying this investment may include securities for which prices are not readily available and are determined by the fund manager, and, therefore, may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. LWR-IMA may adjust the respective manager's valuation when circumstances support such an adjustment. No such adjustments have been deemed necessary by management at September 30, 2019.

### Financial risk

LWR-IMA maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. LWR-IMA has not experienced any losses in such accounts. LWR-IMA believes it is not exposed to any significant financial risk on cash. LWR-IMA manages financial risk by monitoring the financial institutions in which deposits are made.

LWR-IMA invests in professionally managed portfolios that contain mutual funds, common stock, fixed income instruments and certain alternative investments. Such investments are exposed to various risks, such as market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near-term could materially affect investment balances and the amounts reported in the consolidated financial statements.

### Inventory of materials for distribution

The inventory consists of donated materials for distribution. The fair value of all the materials (blankets, quilts and various kits) is reviewed and adjusted as needed. Fair value is determined through an annual market study which consists of surveys of purchased prices of similar items at various outlets. The value of inventory is adjusted annually based on the results of the market study.

# Lutheran World Relief, Incorporated and Affiliates

## Notes to the Consolidated Financial Statements

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Donated materials are valued at their estimated fair value at the date of receipt and are removed from inventory at the time of distribution at carrying value as of the date of distribution. Inventory balances consist of undistributed items on hand.

### **Cash surrender value of life insurance contracts**

LWR-IMA has entered into life insurance contracts on various individuals. LWR-IMA makes premium payments to fund the life insurance policies. The policy holders have assigned the cash surrender value and proceeds from death benefits of the policies to LWR-IMA to the extent of LWR-IMA's cumulative premium payments.

### **Charitable trusts**

Charitable trusts consist of charitable remainder unitrust agreements where LWR-IMA is not the trustee. These agreements call for LWR-IMA to receive a certain percentage of the trust when the trustee agreement has terminated. LWR-IMA records the estimated present value of the beneficial interest using risk-adjusted discount rates. The estimated present value of the beneficial interest of the charitable trusts are recorded in the year the existence and information to compute the beneficial interest first become known.

### **Property and equipment**

Property and equipment purchased by LWR-IMA are recorded at cost or if donated, at fair market value on the date of donation. LWR-IMA follows the practice of capitalizing all expenditures for property and equipment over \$5,000. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, which are three to ten years for furniture and equipment and five years for overseas transportation and other equipment. Assets purchased with donor funds are expensed and charged to awards in accordance with approved grant agreements.

### **Foreign currency translation**

The functional currency of LWR-IMA is the U.S. Dollar. The consolidated financial statements and transactions of LWR-IMA's foreign operations are generally maintained in the relevant local currency. Where local currencies are used, assets and liabilities are remeasured at the statement of financial position date using the spot rate as of September 30, 2019. For revenue and expense items, translation is performed using the rate of exchange in effect at approximately the date of transaction.

### **Donated agricultural commodities and other in-kind gifts**

Under US Public Law 480, Title II, the United States Department of Agriculture (USDA) has provided agricultural commodities to LWR-IMA for the purpose of promoting food security and agricultural market development under the Food for Progress Program. Those commodities are sold, and proceeds are used by LWR-IMA to carry out programmatic activities. Uncollected sales proceeds are recorded by LWR-IMA as accounts receivable with an offsetting Monetization liability.

Other in-kind items consist of materials contributed to LWR-IMA by individuals and congregations and include blankets, quilts, and various kits. The fair value of all materials is reviewed annually and adjusted as needed. Fair value is determined through an annual market study which consists of surveys of purchase prices of similar items at various outlets. The carrying value of inventory is

# Lutheran World Relief, Incorporated and Affiliates

## Notes to the Consolidated Financial Statements

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adjusted based on the results of the market study. Donated materials are valued at their estimated fair value at the date of receipt and are removed from inventory at the time of distribution at carrying value as of the date of distribution. Inventory balances consist of undistributed items on hand.

### Net assets

LWR-IMA reports information regarding their financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. As of September 30, 2019, and for the year then ended, LWR-IMA has recorded activities in the following net assets classes:

*Net assets without donor restrictions:* Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of LWR-IMA. Net assets without donor restrictions are composed of the following:

- General operations: Represents resources available for support of operations.
- Board designated funds: The Board of Directors designated certain net assets without donor restrictions to establish and maintain funds to support LWR-IMA's various programs.

*Net assets with donor restrictions:* Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of LWR-IMA or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resources was restricted has been fulfilled, or both.

### Revenue Recognition

#### Contributions

Historically, contribution revenue was accounted for under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958-605, *Not-for-Profit Entities, Revenue Recognition*, before the implementation of the new standards. With the clarifications outlined in FASB Accounting Standards Update (ASU) No. 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08), LWR-IMA management reviewed existing agreements as of the effective date, as well as new agreements for 2019, and concluded that there are no material changes in revenue related to contributions.

Contributions, including unconditional promises to give, are recognized in the period received. Contributions received are available for use unless specifically restricted by the donor. Amounts received that are designated for a future period or are restricted by the donor for specific purposes are reported as contributions with donor restrictions. These contributions also increase net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated

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## Notes to the Consolidated Financial Statements

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statement of activities and changes in net assets as net assets released from restrictions. Contributions with donor restrictions that are used for the purpose specified by the donor in the same year as the contribution is received are recognized as contributions without donor restrictions.

Contributions are reported at fair value, which is net of estimated uncollectible amounts. LWR-IMA uses the allowance method to determine uncollectible, unconditional pledges receivable. The allowance is based on experience as well as management's analysis of specific pledges made, including such factors as prior collection history, type of contribution, and nature of fundraising activity. Contributions to be received after one year, are recorded at the present value of the estimated future cash flows. Subsequent changes in this discount resulting from the passage of time are accounted for as contributions in subsequent years.

Conditional promises to give, including those received under multi-year grant agreements are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. A promise is considered conditional only if the donor has stipulated one or more barriers that must be overcome before LWR-IMA is entitled to the assets transferred or promised, and there also exists a right of return to the donor of any assets transferred or a right of release of the donor's obligation to honor the promise.

### Grants and contract revenue

Under ASU 2018-08, these arrangements constitute contributions since the customer does not receive commensurate value for the consideration received by LWR-IMA; rather, the purpose of an arrangement is for the benefit of the general public. Therefore, LWR-IMA management concluded that the agreements are conditional due to rights of return/release and barriers to entitlement to funds. Revenue is recognized when the condition is satisfied. Because the nature of conditions is either based on incurring qualifying expenses or satisfying a milestone or other deliverable, the pattern of revenue recognition remained consistent with previous years. Therefore, under the prospective approach, there was no material change in the revenue recognition for government grants and contracts. Under ASU 2018-08, a refundable advance is recorded when LWR-IMA receives assets (i.e. cash) in advance of the satisfaction of the conditions within these arrangements. As of September 30, 2018, there was \$16,478,606 in deferred revenue recorded related to grants and contracts. In accordance with the prospective transition approach in ASU 2018-08, the deferred revenue balances were reclassified to refundable advances for program purposes on October 1, 2018.

### Support-in-kind

Gift-in-kind revenue is recognized as revenue in circumstances in which LWR-IMA has enough discretion over the use and disposition of the items to recognize a contribution. Accordingly, the recognition of gifts-in-kind revenue is limited to circumstances in which LWR-IMA takes constructive possession of the gifts-in-kind and LWR-IMA is the recipient of the gift, rather than an agent or intermediary. LWR-IMA receives in-kind contributions from individuals and faith-based non-governmental organizations, of handmade quilts and kits. These in-kind contributions are recorded at the estimated fair value at the date of receipt by LWR-IMA, which is the cost an individual would pay for the items in stores in the United States.

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## Notes to the Consolidated Financial Statements

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### Grant expenses

Grant expenses are recognized when the expense is incurred by the grantee and LWR-IMA receives the request for reimbursement for these expenses.

### Income taxes

LWR-IMA is generally exempt from federal income taxes under the provisions of Section 501(c)(3) of the IRC. In addition, LWR-IMA qualifies for charitable contribution deductions and has been classified as an organization that is not a private foundation. Income, which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes. LWR-IMA had no net unrelated business income for the years ended September 30, 2019.

LWR-IMA follows the provisions of the FASB ASC 740-10, *Accounting for Uncertainty in Income Taxes*. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. LWR-IMA files tax returns in the U.S. federal jurisdictions. LWR-IMA believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on LWR-IMA's financial position, results of activities or cash flows. Accordingly, LWR-IMA has not recorded any reserves or related accruals for taxes, interest and penalties for uncertain income tax positions at September 30, 2019. LWR-IMA is open to examination by taxing authorities from 2016 forward.

### Functional allocation of expenses

The consolidated statement of functional expense present expenses by function and natural classification. Expenses directly attributable to specific functional area of LWR-IMA are reported as expenses of those functional areas. A portion of management and general costs that benefit multiple functional areas (indirect costs) have been allocated across programs and supporting services based on the proportion of the full-time employee equivalents of a program or other supporting service versus the total organizational full-time employee equivalent. Natural expenses attributable to more than one functional expense category are allocated using a variety of cost allocation techniques such as time and effort.

### Recently adopted accounting standards

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct internal investment expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. LWR-IMA has adopted the ASU and has

# Lutheran World Relief, Incorporated and Affiliates

## Notes to the Consolidated Financial Statements

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adjusted the presentation of these consolidated financial statements accordingly. There was no effect on the change in net assets reported at September 30, 2018.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This update, along with ASU 2016-08, *Revenue from Contracts with Customer (Topic 606), Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, ASU 2016-10, *Revenue from Contracts with Customers (Topic 606), Identifying Performance Obligations and Licensing*, and ASU 2016-12, *Revenue from Contracts with Customers (Topic 606), Narrow-Scope Improvements and Practical Expedients*, established a comprehensive revenue recognition standard. The updates require that revenue should be recognized to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additional disclosures is also required to enable financial statement users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The adoption of ASC 606 had no impact on IMA-LWR.

In June 2018, the FASB issued ASU 2018-08. The ASU was issued to standardize how grants and other contracts received and made are classified across the sector, as either an exchange transaction or a contribution. The ASU provides guidance to assist in the determination of whether a transaction is a contribution or an exchange transaction. If the transaction is deemed to be a contribution the guidance provides factors to consider regarding whether the contribution is conditional or unconditional. For contributions received, if determined to be an unconditional contribution, the determination will then need to be made as to whether the contribution is restricted. LWR-IMA adopted this update in 2019 under the modified prospective basis. The adoption of this update did not materially impact the consolidated financial statements.

### **Recently issued accounting standards but not yet adopted**

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. The ASU modifies certain disclosure requirements in FASB ASC 820, *Fair Value Measurement and Disclosures*. The ASU is effective for the consolidated financial statements for fiscal years beginning after December 15, 2019. LWR-IMA is currently evaluating the impact of this ASU on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Restricted Cash (Topic 230)*. This ASU requires that restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total cash amounts shown on the statement of cash flows. Consequently, transfers between cash and restricted cash will not be presented as a separate line item in the operating, investing or financing sections of the cash flow statement. ASU 2016-18 is effective for LWR-IMA's consolidated financial statements for fiscal years beginning after December 15, 2018. LWR-IMA is currently evaluating the impact of this ASU on its consolidated financial statements.

# Lutheran World Relief, Incorporated and Affiliates

## Notes to the Consolidated Financial Statements

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### 3. Investments

Investments at September 30, 2019 consist of the following, at market value:

	2019
Money market funds and cash equivalents	\$ 2,352,602
U.S. Treasury and municipal obligations	1,289,905
U.S. Government agency bonds	5,412,508
Corporate and foreign bonds	2,141,146
Common equity securities	2,250,635
Mutual funds	5,845,404
Investment pools	2,903,605
<b>Total investments</b>	<b>\$ 22,195,805</b>

### 4. Grants and Contributions Receivable

Grant and contributions receivables at September 30, 2019 consist of the following:

	2019
Contributions receivable:	
General	\$ 5,806,846
Less allowance for doubtful pledges	(22,718)
	5,784,128
Grants receivables - U.S. Government	4,428,652
<b>Total grants and contributions receivable</b>	<b>\$ 10,212,780</b>

All contributions receivable at September 30, 2019 were expected to be received within twelve months.

### 5. Fair Value Measurements

ASC 820 provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy under ASC 820 are described below:

**Level 1:** Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity can access at the measurement date. Listed equities and holdings in mutual funds are types of investments included in Level 1.

**Level 2:** Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly; Level 2 includes the use of models or other valuation methodologies. Investments which are generally included in this category include corporate loans, less liquid, restricted equity securities and certain corporate bonds, and over-the-counter derivatives.

# Lutheran World Relief, Incorporated and Affiliates

## Notes to the Consolidated Financial Statements

**Level 3:** Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investments level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. LWR-IMA's assessment of the significance of an input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

The following table presents LWR-IMA's fair value hierarchy for those assets reflected in the consolidated statement of financial position, measured at fair value on a recurring basis as of September 30, 2019:

<i>Description</i>	<b>2019</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
U.S. Government agency bonds	\$ -	\$ 5,412,508	\$ -	\$ 5,412,508
Corporate and foreign bonds	-	2,141,146	-	2,141,146
U.S. Treasury obligations	-	1,163,233	-	1,163,233
Municipal obligations	-	126,672	-	126,672
Money market funds	1,908,732	-	-	1,908,732
Common equity securities:				
Financial	306,477	-	-	306,477
Information technology	509,604	-	-	509,604
Healthcare	334,912	-	-	334,912
Consumer discretionary	228,033	-	-	228,033
Energy	100,064	-	-	100,064
Telecommunication services	240,287	-	-	240,287
Materials	54,196	-	-	54,196
Industrials	154,411	-	-	154,411
Utilities	77,258	-	-	77,258
Real estate	78,352	-	-	78,352
Consumer staples	167,042	-	-	167,042
Mutual funds:				
Aggressive allocation	1,882,467	-	-	1,882,467
Domestic equity	2,566,781	-	-	2,566,781
International funds	1,396,156	-	-	1,396,156
	<u>\$ 10,004,770</u>	<u>\$ 8,843,559</u>	<u>\$ -</u>	<u>18,848,329</u>
Cash equivalents				443,870
Investment pools:				
Pooled trust fund (a)				1,506,010
Commingled investment vehicle (a)				1,397,595
Total investments				<u>\$ 22,195,805</u>
Charitable trusts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,113,901</u>	<u>\$ 2,113,901</u>

# Lutheran World Relief, Incorporated and Affiliates

## Notes to the Consolidated Financial Statements

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- (a) In accordance with Subtopic 820-10 as amended by ASU 2015-07, certain investments that were measured at Net Asset Value (NAV) per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the consolidated statement of financial position.

Mutual funds, equities and money market funds are classified as Level 1 instruments, as they are actively traded on public exchanges and valued based on quoted market prices.

U.S. Government agency bonds and corporate and foreign bonds are included in Level 2 assets as identical assets are not actively traded. The fair market values are based on quoted prices for similar assets in active markets or quoted prices for identical assets in markets that are not active.

The charitable trusts are classified as Level 3 instruments, as there is no market for LWR-IMA's interest in the trusts. Further, LWR-IMA's asset is the right to receive cash flows from the trusts, not the assets of the trusts themselves. Although the trust assets may be investments for which quoted prices in an active market are available, LWR-IMA does not control those investments.

Changes in Level 3 assets for the years ended September 30, 2019, were as follows:

	2019
Balance, beginning of year	\$ 2,116,448
Net realized and unrealized losses	(2,547)
Balance, end of year	\$ 2,113,901

For fair value measurements categorized within Level 3 of the fair value hierarchy, a presorting entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. The following table provides the required information for LWR-IMA as of September 30, 2019:

Type	Fair Value	Valuation Technique	Unobservable Inputs	Range
Charitable trusts	\$ 2,113,901	Present Value	FMV of underlying assets	2.00% to 4.25%

LWR-IMA performs due diligence reviews of the NAV or its equivalent to determine the fair value of certain investments. LWR-IMA has assessed factors including, but not limited to, managers compliance with fair value measurements standards, price transparency and valuation procedures in place, the ability to redeem at NAV at the measurement date and the existence of certain redemption restrictions at the measurement date.

# Lutheran World Relief, Incorporated and Affiliates

## Notes to the Consolidated Financial Statements

The table below details LWR-IMA's ability to redeem investment funds valued at NAV or its equivalent as of September 30, 2019:

	Fair Value Estimated Using NAV per Share			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Pooled trust fund	\$ 1,506,010	\$ -	Daily	N/A
Commingled investment vehicle	1,397,595	-	Monthly	N/A
	\$ 2,903,605	\$ -		

**Pooled trust fund:** In this investment class the funds endeavor is to achieve long-term return objectives within prudent risk constraints by investing the assets in a diversified portfolio that places a greater emphasis on equity-based and fixed-income investments. The funds target asset allocation ranges are 40% to 80% in U.S. equity securities, 0% to 25% in non-U.S. equity securities, 5% to 45% in investment grade fixed income securities, 0% to 10% in high-yield fixed income securities, 0% to 10% in global real estate securities and 0% to 10% in U.S. inflation-indexed securities with the balance in cash and cash equivalents.

**Commingled investment vehicle:** In this class, the Series 1 fund employs a low volatility equity strategy with the objective of earning equity market returns over the long term with lower volatility than the market index. The investment universe consists of U.S. large cap equity securities (approximately 1,000 largest) as identified by major index providers such as Russell Investments and Standard & Poor's, including projected additions to the Russell 1000 and/or S&P 500 indices. Securities in this universe trade in the U.S., but some securities may be incorporated in other countries. Exchange traded funds representing U.S. large cap equity securities may be used to a limited extent to equitize cash, generally not to exceed 5% of the portfolio. Cash equivalents will be invested in a short-term investment fund vehicle (STIF) managed by the Custodian.

## 6. Property and Equipment

Property and equipment, net, at September 30, 2019, consists of the following:

	2019
Office furniture and equipment - headquarters	\$ 2,495,955
Transportation and other equipment - overseas operations	906,785
Office building - overseas	104,775
Software	422,426
	3,929,941
Less: accumulated depreciation	(2,755,546)
Property and equipment, net	\$ 1,174,395

## 7. Other Investments

**Lutheran Center Corporation (LCC) by LWR:** LWR-IMA occupies approximately 49.9% of the office space and common space in the Lutheran Center owned by the Lutheran Center Corporation (LCC). The LCC, a nonprofit organization, was organized to construct and operate the office building, which

# Lutheran World Relief, Incorporated and Affiliates

## Notes to the Consolidated Financial Statements

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LWR-IMA and Lutheran Immigration and Refugee Service (LIRS) occupy. LWR has a 50% interest in LCC and as such, carries its investment in LCC on the equity method. LWR-IMA and LIRS are providing monthly payments to LCC under a partial cost sharing agreement, which provides for reimbursement of costs, including interest and depreciation, in operating the building based upon space occupied. The Agreement is for 30 years commencing September 1, 1999, through August 31, 2029, with six renewal options of ten years each. For the years ended September 30, 2019, LWR has recorded occupancy expense of \$598,739. The recording of depreciation expense as part of the cost share reduces the investment in LCC since LWR has previously provided equity investments in LCC. At September 30, 2019, LWR's equity in LCC was \$3,394,342. At September 30, 2019, LCC assets consisted principally of the building and LCC liabilities were insignificant. The building is subject to a ground lease, which provides for LCC to pay rent of \$1 per year for the 50 years to the Christ Lutheran Church, with four optional ten-year extensions.

### *Programmatic Investments*

**Divine Chocolate, LTD by LWR:** During the year ended September 30, 2014, LWR acquired common stock in Divine Chocolate, Ltd. (a foreign corporation based in the United Kingdom and hereafter "Divine") in exchange for its shares in Divine Chocolate, Inc. This transaction was after a reorganization in which all outstanding shares of Divine Chocolate, Inc. were exchanged for a proportionate number of common shares in Divine. This transaction had no impact on the financial statements of LWR. As the world's first farmer-owned fair-trade chocolate company, the investment in Divine is an integral component of LWR's program relating to fair trade activities. LWR accounts for this investment, in which ownership is 2% before and after the transaction, by the cost method of accounting. Under the cost method of accounting, any distributions received by LWR are recorded as revenue in the period received. At September 30, 2019, the investment was valued at \$165,003, which is net of cumulative impairments of \$221,637, due to recurring losses incurred that are deemed to be permanent in nature.

**Ground Up Investing LLC by LWR:** On April 4, 2017 Ground Up Investing LLC was formed as a wholly owned subsidiary of Lutheran World Relief, Inc. Its mission is to reduce poverty through an enterprise-based approach of engaging workers, their households and communities to sustain and raise incomes, build assets, increase resilience and ultimately access pathways out of poverty. This is done by the establishment, support and investment in for-profit businesses that seek to deliver needed goods and services in a commercially sustainable manner and create positive social impact and value for impoverished communities.

Below are the financial results of Ground Up Investing LLC (GUI) included in the consolidated statement of activities. The expenses of GUI represent costs paid by LWR on behalf of GUI. Revenues were not considered material by management for disclosure.

<i>For the year ended September 30, 2019</i>		2019
Salaries and benefits	\$	340,792
Travel		54,093
Legal fees (in-kind)		155,389
Other program expenses		341,395
Subsidy to Mountain Harvest		134,526
Bank fees		5,555
<b>Total expenses</b>	<b>\$</b>	<b>1,031,750</b>

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## Notes to the Consolidated Financial Statements

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As of October 2017, LWR's subsidiary Ground Up Investing LLC (GUI) made an investment in **Mountain Harvest - SMC Limited (MH)**. MH is a wholly owned coffee production company in Uganda that engages in small scale trade in fair trade, organic, and Rainforest Alliance certified coffee while providing terms to farmers which are more favorable than otherwise available. MH is considered a disregarded entity of LWR.

The consolidated statement of activities for includes the following operating results for Mountain Harvest:

*For the year ended September 30, 2019*

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Revenue from export sales of coffee	\$	1,946
Cost of goods sold		14,859
Other operating expenses		131,999
Interest and taxes		900
<hr/>		
<b>Net loss</b>	<b>\$</b>	<b>(145,812)</b>

As of September 30, 2019, there is an intercompany payable from MH to GUI of \$43,823.

**IMA Innovations of IMA:** Innovations was incorporated in April 2018, in the District of Columbia, and is a wholly owned subsidiary of IMA. Innovations is recognized as an exempt organization pursuant to Section 501(c)(3) of the IRC. Innovations is a charitable organization that seeks to develop projects and initiatives to solve public health crises around the world. Innovations works in conjunction with IMA, testing and implementing programs on behalf of IMA to achieve better health outcomes for people in developing and emergency settings, specifically in Asia and Africa. Innovations is a center where innovative public health and allied programs can be conceived, tested and implemented on behalf of IMA.

The consolidated statement of activities includes the following operating results for Innovations.

*For the year ended September 30, 2019*

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ICR revenue	\$	324,784
Total expenses		216,393
<hr/>		
<b>Net income</b>	<b>\$</b>	<b>108,391</b>

## 8. Debt

On July 26, 2007, LWR and LIRS jointly borrowed \$5,805,000 through the issuance of Economic Development Revenue Bonds, Series 2007 (2007 Bonds) through the Maryland Economic Development Corporation. The 2007 Bonds were issued to advance refund the Maryland Economic Development Revenue Bonds, Series 2000 (2000 Bonds) issued by the Maryland Economic Development Corporation. In addition, proceeds of the 2007 Bonds were used to pay a portion of the issuance costs of the 2007 Bonds. LWR and LIRS are jointly and severally liable for the 2007 Bonds and as such, each has recorded 50% of the outstanding debt and related issue costs. If LIRS is unable to pay off their portion of the outstanding debt, LWR will be liable. The LCC, as owner of the Lutheran Center, has guaranteed the repayment of the debt. LWR and LIRS must maintain a joint leverage ratio (cash and investments to annual debt service) of 5 to 1 or approximately \$2,250,000.

# Lutheran World Relief, Incorporated and Affiliates

## Notes to the Consolidated Financial Statements

The 2007 Bonds were issued as Serial Bonds maturing April 1 in the years 2008 through 2029 and have annual mandatory sinking fund provisions, which began in 2008. The 2007 Bonds bear interest at 5.25% per annum. Deferred loan costs in the amount of \$113,106 were incurred in connection with the issuance of the 2007 Bonds and LWR-IMA capitalized 50% of these costs, which are being amortized on a straight-line basis over the life of the bonds. Long-term debt on the 2007 Bonds at September 30, 2019, is shown on the consolidated statement of financial position, net of unamortized bond premium of \$31,186, and deferred loan costs of \$49,660.

In conjunction with the issuance of the 2007 Bonds, a Debt Service Reserve Fund was created in the amount of \$476,792 and LWR has recorded 50% of these funds. Funds in the Debt Service Reserve Fund may be withdrawn by the Trustee to make the principal or interest payments of the 2007 Bonds if the other funds available for the purpose are inadequate. Included in other assets at September 30, 2019 is \$232,442, for LWR's 50% interest in the Debt Service Reserve Fund.

Bonds payable, net of bond issuance costs, at September 30, 2019, consist of the following:

	2019
Bond payable	\$ 1,728,685
Bond issuance costs, net	(49,660)
	\$ 1,679,025

Principal payments under the terms of the 2007 Bond indenture are as follows:

<i>Date</i>	LWR Portion	LIRS Portion	Total
April 1, 2020	\$ 132,500	\$ 132,500	\$ 265,000
April 1, 2021	140,000	140,000	280,000
April 1, 2022	147,500	147,500	295,000
April 1, 2023 and thereafter	1,277,500	1,277,500	2,555,000
Bond premium	31,185	31,185	62,370
	\$ 1,728,685	\$ 1,728,685	\$ 3,457,370

Interest on the 2007 Bonds for the years ended September 30, 2019, amounted to \$95,681. Payments of principal and interest are partially funded by the other tenant in the Lutheran Center through allocation of building costs based upon space occupied (see Note 6).

LWR was in compliance with all covenants related to the bonds payable with the exception of an administrative default of a requirement to provide final consolidated audited statements no more than 120 days after the close of the fiscal year. The submission delay encountered results from matters fully described in Note 15. Because of this noncompliance, the bonds payable are presented as a current liability. However, LWR has not been notified of any impending request for repayment of the outstanding bonds payable. LWR is still in compliance with the financial covenants contained in the loan agreement with consideration of the bonds payable being considered a current liability.

# Lutheran World Relief, Incorporated and Affiliates

## Notes to the Consolidated Financial Statements

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### 9. Net Assets with Donor Restrictions

Net assets with donor restrictions at September 30, 2019 are restricted for the following purposes:

	2019
Use in future periods - pledges receivable and deferred gifts	\$ 2,796,885
Nepal Earthquake Response	768,467
Global Emergency Fund	522,008
Hurricane Dorian	417,723
Endowments Restricted for Perpetuity	326,625
Impact Investing	299,550
Honduras Youth Project	247,492
Other restricted funds	1,971,284
	<hr/>
	\$ 7,350,034

### 10. Net Assets Released from Restrictions

Net assets were released from donor restrictions, during the year ended September 30, 2019, by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors as follows:

	2019
ELCA Project Funding	\$ 852,606
Haiti Malaria Zero	723,423
Nepal Earthquake Response	458,418
Health Program Funds in South Sudan	450,544
Hurricane Matthew - Haiti	313,752
Global Emergency Fund	305,354
2017 Caribbean Hurricanes	275,904
Congregational Transboundary Resilience Project	245,333
Middle East Program	216,143
Bihar Partnership (India)	202,827
Other international programs, relief and development	1,417,835
	<hr/>
	\$ 5,462,139

### 11. Endowment Funds

The Board of Directors of LWR-IMA has interpreted the New York-enacted version of 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. LWR-IMA has interpreted UPMIFA as requiring the preservation of the fair value of original donor-restricted contributions as of the date of the gift, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Committee classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the

# Lutheran World Relief, Incorporated and Affiliates

## Notes to the Consolidated Financial Statements

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original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of applicable donor gift instrument at the time the accumulation is added to the fund.

In accordance with UPMIFA, LWR-IMA considers the following factors in making a determination to appropriate or accumulate donor-restricted cash contributions:

- The purpose of LWR-IMA and donor-restricted endowment fund;
- The duration and preservation of the fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other available financial resources;
- Investment policies.

LWR-IMA has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets.

Earnings on the endowment fund are considered restricted and may be subsequently released from restriction at management's discretion up to a spending rate of 7%, as permitted by New York UPMIFA.

LWR-IMA's endowment funds at September 30, 2019, consist of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor restricted endowment funds	\$ -	\$ 326,625	\$ 326,625

Endowment fund activity for the years ended September 30, 2019, consists of the following:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ -	\$ 278,216	\$ 278,216
Investment income	-	14,932	14,932
Endowment draw	-	(14,932)	(14,932)
Contributions	-	53,886	53,886
Release from restriction	-	(5,477)	(5,477)
Total Funds	\$ -	\$ 326,625	\$ 326,625

# Lutheran World Relief, Incorporated and Affiliates

## Notes to the Consolidated Financial Statements

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### 12. U.S. Government Grants

LWR-IMA has entered into grant agreements with the U.S. Government for various programs. The expenditures for the year ended September 30, 2019 are as follows:

	2019
Relief and other programs	
U.S. Agency for International Development	\$ 24,372,732
Office of U.S. Foreign Disaster Assistance	9,369,230
U.S. Center for Disease Control	6,497
U.S. Department of State	68,220
U.S. Department of Agriculture	4,950,027
	<hr/>
	\$ 38,766,706

During the year ended September 30, 2019, \$172,653 of interest earned on grant funds expended is included in the revenues and expenditures above, in addition to that reported on the consolidated statement of activities. The interest earned is used as additional funding for the federal program.

### 13. Retirement Plan

Employees of LWR based in the United States (US) or are Ex-Patriates are enrolled in the defined contribution pension plan (the Pension Plan) made available and administered by Portico Benefit. Contributions to the Pension Plan are based upon earnings for all eligible employees and are accrued and funded on a current basis. Retirement benefits expense was approximately \$742,419 for 2019. Employees who are not based in the United States are provided comparable benefits through various plans and arrangements permitted within the country of employment.

IMA sponsors a retirement plan in accordance with Section 403(b) (the 403(b) Plan) of the IRC. IMA's employees are eligible to participate in the plan if they have been credited with 1,000 or more hours of service during any consecutive 12-month period. Under the 403(b) Plan, eligible employees may make pretax contributions up to the limits established by the IRC. All employer contributions are discretionary. The employer contributions are fully vested. The 403(b) Plan expense was \$270,662 for the year ended September 30, 2019.

As of October 1, 2017, LWR established a non-qualified deferred compensation plan, a 457(f) plan (the 457(f) Plan). The purpose of the 457(f) Plan is to provide supplemental retirement benefits for a select group of management employees of LWR. Employer contribution under the 457(f) Plan for the year ended September 30, 2019 was \$70,000 and the liability, including interest, is \$73,182 as of September 30, 2019.

### 14. Liquidity and Availability of Resources

The following reflects assets as of the statement of financial position date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial statement date. Amounts not available include amounts set aside for satisfaction of donor restrictions or pledged contributions that will not be received within the next year.

# Lutheran World Relief, Incorporated and Affiliates

## Notes to the Consolidated Financial Statements

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<i>September 30,</i>	2019
Cash and cash equivalents (net of restricted collateral funds)	\$ 18,549,325
Investments	22,195,805
Advances to subrecipients	1,601,644
Grants and contributions receivable, net	10,212,780
Other receivables less prepaid expenses	3,210,531
<hr/>	
Total financial assets available within one year	55,770,085
Less amounts unavailable for general expenditures within one year, due to:	
Net assets with donor restrictions	(7,350,034)
Board designated funds	(1,069,097)
<hr/>	
Total financial assets available to management for general expenditure within one year	\$ 47,350,954

LWR-IMA maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, LWR-IMA invests cash in excess of the semi-monthly requirements in short-term investments.

To help manage unanticipated liquidity needs, IMA has a committed line of credit of \$5,000,000, which it could draw upon should cash needs dictate. Additionally, LWR-IMA has Board Designated net assets without donor restrictions that could be made available for current operations with the Boards approval, if necessary.

### Commitments and Contingencies

LWR has entered into loan guarantee agreements with certain banks and not-for-profit microfinance institutions (MFIs) overseas in order to facilitate credit for various partner organizations. Under these agreements, LWR would be jointly responsible with the banks and MFIs for non-payment by the borrowers. The terms of these guarantees are generally over the life of the outstanding loans, and LWR expects the guarantee program to continue indefinitely. Amounts of legally restricted collateral funds deposited with financial institutions administering certain loans that are included in cash and cash equivalents at September 30, 2019 are \$803,476. LWR's exposure to losses on current and future guarantees is limited to these legally restricted and internally designated funds as LWR will not guarantee funds in excess of these amounts.

In the course of normal business operations, LWR-IMA is faced with routine legal matters. In the opinion of management, all matters are adequately covered by insurance or the costs have been accrued.

U.S. government grants and contracts are subject to audit by various governmental agencies. Management believes, any potential disallowed costs would not be material to the consolidated financial statements.

# Lutheran World Relief, Incorporated and Affiliates

## Notes to the Consolidated Financial Statements

### 15. Restatement of Previously Issued IMA Consolidated Financial Statements for Correction of Errors

During the financial statement close process, an error was identified related to IMA's previously presented financial statements. The error resulted from non-timely review and approval of sub grantee activities. The aggregation of this reporting error resulted in a material misstatement of IMA's consolidated financial statements. The impact of the restatement is presented below:

	Previously Presented at September 30, 2018	Restatement Adjustments	Restated Balances as of September 30, 2018
Advances to subrecipients	\$ 7,194,701	\$ (5,356,930)	\$ 1,837,771
Total assets	31,383,900	(5,356,930)	26,026,970
Accrued liabilities	5,562,357	(1,564,370)	7,126,745
Deferred revenue	16,478,606	6,921,300	9,557,306
Total liabilities	23,448,880	5,356,390	18,091,950
Contributions and grants revenue	7,919,890	(6,921,300)	14,841,190
Assistance to overseas institutions of healthcare	12,744,320	6,921,300	19,556,620

It is the opinion of management that the subrecipients incurred valid and supported program related expenses during 2018. As such, management has corrected the errors. Management assessed the materiality of these corrections in IMA's 2018 consolidated financial statements, assessing materiality both quantitatively and qualitatively, and concluded that the correction of the error is material to IMA's consolidated financial statements for the beginning balances for the year ended September 30, 2018 and has appropriately corrected it.

### 16. Subsequent Events

LWR-IMA evaluated subsequent events through July 31, 2020, which is the date the consolidated financial statements were available to be issued. Except for the items noted below, there were no transactions or events, that required adjustment to or disclosure in the consolidated financial statements.

**Charlie Goldsmith Associates LTD (acquisition):** As of October 30, 2019, LWR acquired Charlie Goldsmith Associates Limited (CGA), a UK-based company that develops and applies context-suitable technology to meet the needs of the world's poorest communities. CGA's staff will continue projects in fragile and emerging countries such as South Sudan, Somalia, Sierra Leone, Kenya, and Malawi. CGA specializes in developing practical management systems for governments and supporting organizations to deliver basic services more effectively with disaggregate and near-real-time accountability, transparency and results data. CGA's technology facilitates cash transfers for education, health and social protection; tracks school attendance and health records; and supports government ministries with payroll and Human Resource systems. CGA also trains civil servants and others to effectively use and maintain those systems.

**Corus International (new parent company):** Due to statutory and regulatory considerations, LWR and IMA did not merge as had been planned, but instead continued to operate within the "sole member" structure initially established. As of January 1, 2020, Corus International (Corus) was

# Lutheran World Relief, Incorporated and Affiliates

## Notes to the Consolidated Financial Statements

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created as the overarching parent organization of LWR and IMA. Corus is established as a 501(c)(3) organization. All other LWR and IMA affiliates align within this new parent company. Corus is a new brand and a brand-new kind of organization with a brand-new approach to relief and development.

**Divine Chocolate, Ltd. (Impairment):** On September 30, 2019 LWR's 2% of shares in Divine were valued at \$165,003. On October 15, 2019 LWR was informed that Divine's majority shareholder, TWIN Trading Limited (37.6% of the shares), went into "administration" in the UK (or "insolvency"). LWR was notified of the appointment of a new Executive Chairman of Divine in November 2019. Per the shareholders' agreement, TWIN shares were mandatorily held for sale and purchased by Sustainable Harvest, a US-based green coffee importer. On December 16, 2019, LWR was notified that Divine would incur a loss of GBP 680,000 as compared to the projected GBP 25,000 gain. After several months of attempted restructuring, an offer was made by the chocolate provider to Divine, who was also a minority shareholder of Divine, to pay €175.00 per ordinary share to then current shareholders to divest of the shares. This transaction price resulted in LWR's remaining shares to be valued at approximately USD \$3,754. Given Divine's declining business operations, LWR concluded this was a permanent impairment in value totaling \$161,249.

**COVID-19 Outbreak:** On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

In order to further limit health risks associated with the COVID-19 virus, LWR-IMA has required staff at its offices in Baltimore, Maryland, Washington, DC, and St. Paul, Minnesota to work remotely, and has curtailed international programmatic activities, where required by local authorities, to mitigate further spread of the virus. LWR-IMA is complying with State health officials, WHO recommendations, and local country ministries of health to do its part in reducing the impact to its employees and consultants globally.

As of the date of issuance of the financial statements, this public health emergency stands to substantially impact the global economy, including significant volatility in the financial markets. LWR-IMA cannot reasonably estimate the length or severity of this pandemic or the impact on the economy. Management is continually monitoring the impact of the pandemic on operations and although it may have a material impact on the amount of reported assets and net assets associated with the market value of investments in the near term, management believes that LWR-IMA has sufficient reserves and liquidity to effectively manage through this uncertainty consistent with the long term objectives of its investment and spending policies. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, LWR-IMA is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2020.

On March 27, 2020, President Trump signed into law the "Coronavirus Aid, Relief, and Economic Security (CARES) Act." The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions, and technical corrections to tax depreciation methods for qualified improvement property. It also appropriated funds for the Small Business Administration (SBA) Paycheck Protection Program loans that are

# Lutheran World Relief, Incorporated and Affiliates

## Notes to the Consolidated Financial Statements

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forgivable in certain situations to promote continued employment, as well as Economic Injury Disaster Loans to provide liquidity to small businesses harmed by COVID-19.

LWR-IMA has applied for, and has received, funds under the Paycheck Protection Program after the year end in the amount of \$3,534,500 (LWR: \$2,270,500 and IMA: \$1,264,000). The application for these funds requires LWR-IMA to, in good faith, certify that the current economic uncertainty made the loan request necessary to support the ongoing operations of LWR-IMA. This certification further requires LWR-IMA to consider current business activity and ability to access other sources of liquidity sufficient to support ongoing operations in a manner that is not significantly detrimental to the business. The receipt of these funds, and the forgiveness of the loan attendant to these funds, is dependent on LWR-IMA having initially qualified for the loan and qualifying for the forgiveness of such loan based on our future adherence to the forgiveness criteria.

We continue to examine the impact that the CARES Act may have on our business. Currently, we are unable to determine the impact that the CARES Act will have on our financial condition, results of operations, or liquidity.

## Supplemental Information

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# Lutheran World Relief, Incorporated and Affiliates

## Consolidating Schedule of Financial Position

<i>September 30, 2019</i>	LWR	IMA	Elimination	Consolidated
<b>Assets</b>				
Cash and cash equivalents	\$ 3,028,176	\$ 16,324,625	\$ -	\$ 19,352,801
Investments	21,073,772	1,122,033	-	22,195,805
Advances to subrecipients	-	1,601,644	-	1,601,644
Grants and contributions receivable, net	1,384,496	9,337,603	(509,319)	10,212,780
Inventory of materials for distribution	4,200,072	-	-	4,200,072
Cash surrender value of life insurance contracts	408,970	-	-	408,970
Other investments	3,559,345	-	-	3,559,345
Charitable trusts	2,113,901	-	-	2,113,901
Other receivables and prepaid expenses	2,603,636	1,367,981	-	3,971,617
Other assets	1,558,253	373,534	(919,141)	1,012,646
Property and equipment, net	306,351	868,044	-	1,174,395
<b>Total assets</b>	<b>\$ 40,236,972</b>	<b>\$ 30,995,464</b>	<b>\$ (1,428,460)</b>	<b>\$ 69,803,976</b>
<b>Liabilities and net assets</b>				
<b>Liabilities</b>				
Accounts payable and accrued expenses	\$ 3,474,688	\$ 9,418,752	\$ (1,039,702)	\$ 11,853,738
Refundable advances for program purposes	4,645,661	15,132,604	-	19,778,265
Deferred rent and lease incentive	-	1,289,722	-	1,289,722
Debt	1,679,025	-	-	1,679,025
<b>Total liabilities</b>	<b>9,799,374</b>	<b>25,841,078</b>	<b>(1,039,702)</b>	<b>34,600,750</b>
<b>Net assets</b>				
Without donor restrictions				
General operations	23,450,781	3,722,072	(388,758)	26,784,095
Board designated funds	-	1,069,097	-	1,069,097
Total without donor restrictions	23,450,781	4,791,169	(388,758)	27,853,192
Total with donor restrictions	6,986,817	363,217	-	7,350,034
<b>Total net assets</b>	<b>30,437,598</b>	<b>5,154,386</b>	<b>(388,758)</b>	<b>35,203,226</b>
<b>Total liabilities and net assets</b>	<b>\$ 40,236,972</b>	<b>\$ 30,995,464</b>	<b>\$ (1,428,460)</b>	<b>\$ 69,803,976</b>

Lutheran World Relief, Incorporated and Affiliates

Consolidating Schedule of Activities

Year ended September 30, 2019	LWR			IMA			Elimination			Total		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Support and Revenue:</b>												
Support:												
Church body support:												
Evangelical Lutheran Church in America	\$ 150,000	\$ 1,100,437	\$ 1,250,437	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 150,000	\$ 1,100,437	\$ 1,250,437
Lutheran Church - Missouri Synod	-	100,000	100,000	-	-	-	-	-	-	-	100,000	100,000
	150,000	1,200,437	1,350,437	-	-	-	-	-	-	150,000	1,200,437	1,350,437
Individuals and congregations:												
Contributions	14,756,803	2,447,425	17,204,228	758,151	62,962	821,113	(388,758)	-	(388,758)	15,126,196	2,510,387	17,636,583
Bequests	4,397,386	14,990	4,412,376	-	-	-	-	-	-	4,397,386	14,990	4,412,376
	19,154,189	2,462,415	21,616,604	758,151	62,962	821,113	(388,758)	-	(388,758)	19,523,582	2,525,377	22,048,959
Institutional donors:												
U.S. Government grants	6,512,235	-	6,512,235	32,254,471	-	32,254,471	-	-	-	38,766,706	-	38,766,706
Foundation grants	3,745,979	-	3,745,979	-	-	-	-	-	-	3,745,979	-	3,745,979
Multilateral and bilateral grants	1,678,348	-	1,678,348	-	-	-	-	-	-	1,678,348	-	1,678,348
Corporate and other grants	1,545	-	1,545	39,562,416	1,568,248	41,130,664	-	-	-	39,563,961	1,568,248	41,132,209
Program service revenue	-	-	-	1,167,574	-	1,167,574	-	-	-	1,167,574	-	1,167,574
Contracts	383,661	-	383,661	-	-	-	-	-	-	383,661	-	383,661
	12,321,768	-	12,321,768	72,984,461	1,568,248	74,552,709	-	-	-	85,306,229	1,568,248	86,874,477
<b>Total support</b>	<b>31,625,957</b>	<b>3,662,852</b>	<b>35,288,809</b>	<b>73,742,612</b>	<b>1,631,210</b>	<b>75,373,822</b>	<b>(388,758)</b>	<b>-</b>	<b>(388,758)</b>	<b>104,979,811</b>	<b>5,294,062</b>	<b>110,273,873</b>
Donated goods and services:												
Donated material resources	12,437,924	-	12,437,924	-	-	-	-	-	-	12,437,924	-	12,437,924
Contributed services	462,657	-	462,657	-	-	-	-	-	-	462,657	-	462,657
<b>Total donated goods and services</b>	<b>12,900,581</b>	<b>-</b>	<b>12,900,581</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,900,581</b>	<b>-</b>	<b>12,900,581</b>
Net assets released from restrictions:												
Satisfaction of program and time restrictions	3,830,528	(3,830,528)	-	1,631,611	(1,631,611)	-	-	-	-	5,462,139	(5,462,139)	-
<b>Total support and revenue</b>	<b>48,357,066</b>	<b>(167,676)</b>	<b>48,189,390</b>	<b>75,374,223</b>	<b>(401)</b>	<b>75,373,822</b>	<b>(388,758)</b>	<b>-</b>	<b>(388,758)</b>	<b>123,342,531</b>	<b>(168,077)</b>	<b>123,174,454</b>
<b>Expenses:</b>												
Program services:												
Program services	42,611,540	-	42,611,540	68,506,194	-	68,506,194	-	-	-	111,117,734	-	111,117,734
Supporting services:												
Management and general	7,236,014	-	7,236,014	9,605,926	-	9,605,926	-	-	-	16,841,940	-	16,841,940
Fundraising	3,523,710	-	3,523,710	102,309	-	102,309	-	-	-	3,626,019	-	3,626,019
<b>Total supporting services</b>	<b>10,759,724</b>	<b>-</b>	<b>10,759,724</b>	<b>9,708,235</b>	<b>-</b>	<b>9,708,235</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20,467,959</b>	<b>-</b>	<b>20,467,959</b>
<b>Total expenses</b>	<b>53,371,264</b>	<b>-</b>	<b>53,371,264</b>	<b>78,214,429</b>	<b>-</b>	<b>78,214,429</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>131,585,693</b>	<b>-</b>	<b>131,585,693</b>
<b>Changes in net assets before investment return, net</b>	<b>(5,014,198)</b>	<b>(167,676)</b>	<b>(5,181,874)</b>	<b>(2,840,206)</b>	<b>(401)</b>	<b>(2,840,607)</b>	<b>(388,758)</b>	<b>-</b>	<b>(388,758)</b>	<b>(8,243,162)</b>	<b>(168,077)</b>	<b>(8,411,239)</b>
Investment return, net	1,125,846	15,093	1,140,939	59,973	-	59,973	-	-	-	1,185,819	15,093	1,200,912
<b>Total change in net assets</b>	<b>(3,888,352)</b>	<b>(152,583)</b>	<b>(4,040,935)</b>	<b>(2,780,233)</b>	<b>(401)</b>	<b>(2,780,634)</b>	<b>(388,758)</b>	<b>-</b>	<b>(388,758)</b>	<b>(7,057,343)</b>	<b>(152,984)</b>	<b>(7,210,327)</b>
<b>Net assets, beginning of year</b>	<b>27,339,133</b>	<b>7,139,400</b>	<b>34,478,533</b>	<b>7,571,402</b>	<b>363,618</b>	<b>7,935,020</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>34,910,535</b>	<b>7,503,018</b>	<b>42,413,553</b>
<b>Net assets, end of year</b>	<b>\$ 23,450,781</b>	<b>\$ 6,986,817</b>	<b>\$ 30,437,598</b>	<b>\$ 4,791,169</b>	<b>\$ 363,217</b>	<b>\$ 5,154,386</b>	<b>\$ (388,758)</b>	<b>\$ -</b>	<b>\$ (388,758)</b>	<b>\$ 27,853,192</b>	<b>\$ 7,350,034</b>	<b>\$ 35,203,226</b>

**Lutheran World Relief, Incorporated and Affiliates**  
**Consolidated Schedule of Area Support and Program Services Expenses**  
**Year Ended September 30, 2019**

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**Region**

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**Africa**

Burkina Faso	\$ 4,806,139
Congo Democratic Republic	19,805,935
Ethiopia	62,663
Kenya	6,360,374
Mali	1,740,154
Mauritania	910,144
Mozambique	32,572
Niger	2,802,106
Rwanda	229,364
Sierra Leone	495,091
South Sudan	2,435,843
Tanzania	12,553,956
Uganda	2,462,584
Zambia	232,888
Zimbabwe	317,701
Regional Africa	619,239
	<hr/> 55,866,753

**Asia and the Middle East**

India	477,399
Indonesia	707,350
Iraq	927,056
Lebanon	879,873
Nepal	967,109
Palestine	9,964
Philippines	240,088
Regional Middle East	2,137
Syria Arab Republic	1,628,625
Yemen	251,534
Regional Asia	216,400
	<hr/> 6,307,535

**Lutheran World Relief, Inc. and Interchurch Medical Assistance, Inc.  
and Affiliates**

**Consolidated Schedule of Area Support and Program Services Expenses (cont.)  
Year Ended September 30, 2019**

<b>Region</b>	
<b>Latin America and the Carribbean</b>	
Chile	27,036
Colombia	804,217
Dominica	350,615
Ecuador	54,198
El Salvador	1,443,589
Guatemala	490,753
Haiti	3,367,998
Honduras	606,765
Nicaragua	1,524,292
Peru	2,215,931
Uruguay	20,054
USA (Puerto Rico)	102,018
Venezuela	647
Regional LAC	839,447
	<b>11,847,560</b>
<b>Worldwide</b>	
Angola	1,933,485
Armenia	193,292
Bosnia-Hercegovina	365,021
Georgia	475,547
Romania	250,151
Worldwide	35,625,266
Headquarters	18,721,083
	<b>57,563,845</b>
<b>Total</b>	<b>\$ 131,585,693</b>

**Schedule of Expenditures  
of Federal Awards**

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# Lutheran World Relief, Incorporated and Affiliates

## Schedule of Expenditures of Federal Awards Year Ended September 30, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number or Award ID	Provided to Subrecipients	Total Federal Expenditures
<b>United States Agency for International Development (USAID)</b>				
<b>USAID - Direct Awards to IMA</b>				
USAID Foreign Assistance for Programs Overseas	98.001	72066018CA00001	\$ 1,473,560	\$ 3,213,692
USAID Foreign Assistance for Programs Overseas	98.001	720FDA19CA00004	1,118,206	2,527,493
USAID Foreign Assistance for Programs Overseas	98.001	720FDA18GR00295	533,859	2,768,889
USAID Foreign Assistance for Programs Overseas	98.001	720FDA18GR00273	211,113	1,801,804
USAID Foreign Assistance for Programs Overseas	98.001	720FDA18GR00185	-	1,335,233
USAID Foreign Assistance for Programs Overseas	98.001	AID-OFDA-G-17-00177	450,523	956,807
<b>USAID - Direct Awards to LWR</b>				
USAID Foreign Assistance for Programs Overseas (Niger)	98.001	AID-625-A-17-00001	434,212	996,986
<b>Total USAID - Direct Awards</b>			<b>4,221,473</b>	<b>13,600,904</b>
<b>USAID - Pass-Through Award to IMA</b>				
Pass through from RTI International Act to End NTDs   East	98.001	12-330-0216642-65440L	2,653,138	3,667,690
Pass through from JSI Research & Training Institute, Inc. AIDS-Free Generation Project	98.001	AID-OAA-A-14-00046	-	2,795
Pass through from RTI International Neglected Tropical Diseases - Envision	98.001	GHS-A-00-06-0000-00	394,776	6,399,996
Pass through from DAI Global, LLC Integrated Governance Activity Project in the DRC	98.001	AID-660-C-17-00001	-	290,881
Pass through from The Task Force for Global Health, Inc. Lymphatic Filariasis Positive - Case Follow up	98.001	NTDSC 103 U	-	118,422
<b>USAID - Pass-Through Award to LWR</b>				
Pass through from Catholic Relief Services USAID Foreign Assistance for Programs Overseas (El Salvador)	98.001	AID-519-A-14-00002	-	502,446
<b>Total USAID - Pass-Through Awards</b>			<b>3,047,914</b>	<b>10,982,230</b>
<b>Total United States Agency for International Development</b>			<b>7,269,387</b>	<b>24,583,134</b>
<b>U.S. Department of Health and Human Services</b>				
<b>USDHHS - Pass- Through Award to IMA</b>				
Pass through from Centers for Disease Control Advancing the Control and Elimination of Neglected Tropical Diseases	93.283	7200AA18RFA00010	-	6,497
<b>Total U.S. Department of Health and Human Services</b>			<b>-</b>	<b>6,497</b>
<b>United States Department of State (USDOS)</b>				
<b>USDOS - Pass-Through Award to LWR</b>				
Pass through from World Environment Center United States Department of State Bureau of Western Hemisphere Affairs Grant Programs	19.750	S-LMAQM-13-GR-1202	-	68,220
<b>Total United States Department of State</b>			<b>-</b>	<b>68,220</b>
<b>United States Department of Agriculture (USDA)</b>				
<b>USDA Direct Awards to LWR</b>				
Food for Progress	10.606	FCC-596-2018-005-00	135,471	655,749
Food for Progress	10.606	FCC-524-2014-056-00	14,584	62,755
Food for Progress	10.606	FCC-686-2016-005-00	586,758	4,403,743
<b>Total United States Department of Agriculture - Direct Awards</b>			<b>736,813</b>	<b>5,122,247</b>
<b>Total Expenditures of Federal Awards</b>			<b>\$ 8,006,200</b>	<b>\$ 29,780,098</b>

*See accompanying notes to the Schedule of Expenditures of Federal Awards.*

# Lutheran World Relief, Incorporated and Affiliates

## Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2019

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### 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (Schedule) includes Lutheran World Relief, Incorporated and Interchurch Medical Assistance, Incorporated (d/b/a IMA World Health) (hereafter LWR-IMA) Federal Government grant activity and is presented on the accrual basis of accounting for the year ended September 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of LWR-IMA, it is not intended to and does not present the financial position, changes in net assets or cash flows of LWR-IMA. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements.

The reimbursement of indirect costs reflected in the accompanying consolidated financial statements as federal grants revenue is subject to final approval by federal grantors and could be adjusted upon the results of these reviews. Management believes that the results of any such adjustment will not be material to LWR-IMA's financial position or change in net assets.

All of LWR-IMA's federal awards were in the form of cash assistance for the year ended September 30, 2019.

LWR-IMA had no federally funded insurance programs or loan guarantees during the year ended September 30, 2019.

### 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying numbers are presented where available.

### 3. Indirect Cost Rate

LWR-IMA has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

### 4. Monetization

Under U.S. Public Law 480, Title II Food Aid of the Agricultural Trade Development and Assistance Act of 1954, the United States Department of Agriculture (USDA) has provided agricultural commodities to LWR for the purpose of promoting food security and agricultural market development under the Food for Progress Program. During the year ended September 30, 2019, LWR had one USDA Food for Progress award active in the following country: Burkina Faso in West Africa. The commodities granted to LWR are sold as received to local agro-processing firms or other local buyers.

# **Lutheran World Relief, Incorporated and Affiliates**

## **Notes to Schedule of Expenditures of Federal Awards Year Ended September 30, 2019**

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The proceeds from the sales of donated commodities are used to finance LWR-IMA's development activities in Burkina Faso. At September 30, 2019, LWR-IMA had \$2,837,605 of funds, including \$172,137 of allocated interest, on hand from such activities. During the year ended September 30, 2019, commodity was sold for \$6,316,475.

**Independent Auditor's Reports Required  
by *Government Auditing Standards*  
and the Uniform Guidance**

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## **Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

To the Board of Directors  
**Lutheran World Relief, Incorporated and Affiliates**  
Baltimore, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of **Lutheran World Relief, Incorporated and Affiliates** (the “Organization”), which comprise the consolidated statement of financial position as of September 30, 2019, and the consolidated related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated July 31, 2020.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered the Organization’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s consolidated financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item **2019-001** to be a material weakness.

*A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item **2019-002** to be a significant deficiency.

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### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **The Organization's Response to the Finding**

The Organization's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

**BDO USA, LLP**

July 31, 2020



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McLean, VA 22102

## **Independent Auditor's Report on Compliance For The Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance**

To the Board of Directors  
**Lutheran World Relief, Incorporated and Affiliates**  
Baltimore, Maryland

### **Report on Compliance for the Major Federal Program**

We have audited **Lutheran World Relief, Incorporated and Affiliates'** (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended September 30, 2019. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the Organization's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for its major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

#### ***Opinion on the Major Federal Program***

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2019.

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### ***Other Matters***

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item **2019-003**. Our opinion on the major federal program is not modified with respect to this matter.

The Organization's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and management's corrective action plan. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item **2019-003**, that we consider to be a significant deficiency.



The Organization's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and management's corrective action plan. The Organization's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BDO USA, LLP

July 31, 2020

# Lutheran World Relief, Incorporated and Affiliates

## Schedule of Findings and Questioned Costs Year Ended September 30, 2019

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### Section I - Summary of Auditor's Results

#### Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with U.S. GAAP:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified?  Yes  None reported
- Noncompliance material to financial statements noted?  Yes  No

#### Federal Awards

Internal control over the major federal program:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified?  Yes  None reported

Type of auditor's report issued on compliance for the major federal program:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

Yes  No

Identification of the major federal program:

CFDA Number:

98.001

Name of Federal Program or Cluster:

USAID Foreign Assistance for Programs Overseas

Dollar threshold used to distinguish between type A and type B programs:

\$893,403

Auditee qualified as low-risk auditee?

Yes  No

# Lutheran World Relief, Incorporated and Affiliates

## Schedule of Findings and Questioned Costs Year Ended September 30, 2019

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### Section II - Financial Statement Findings

#### 2019-001 Compliance with Documented Expenditure Policies and Procedures

Criteria: Organizations must maintain financial management systems that provide effective controls over accountability for all funds, assets and liabilities. These controls should be in compliance with the internal controls integrated framework. The preparation of the consolidated financial statements is the responsibility of management, including management's assertions that the consolidated financial statements are complete and accurate; that the rights and obligations recorded in the consolidated financial statements exist, belong to the entity, and are properly valued; and the information presented in the consolidated financial statements is presented in accordance with generally accepted accounting principles.

Condition: During the IMA audit process, sub grantee expenses related to a international donor funded project were identified to have been reported in the incorrect fiscal year.

After further review and assessment by IMA management, it was determined that significant delays had occurred regarding the receipt, approval and liquidation of sub grantee activity related to the project. The net impact of this error resulted in approximately \$6.9 million of expenses and related revenues being incorrectly reported.

Cause: This was primarily caused by lack of compliance with documented internal policies and procedures regarding the timely review, validation and approval of sub grantee financial reporting by IMA personnel. This timely performance reduces the risk of reporting activity within the incorrect financial reporting period. Evidence identified noted significant delays in liquidating the sub grantee advances in excess of one year.

Effect: A restatement of IMA's prior year balances resulting in increasing related revenues and corresponding expenses by \$6.9 million while also impacting both advances to subrecipients and deferred revenue.

Recommendation: We recommend that IMA increase training and review of the sub grantee liquidation process. Further, a review at fiscal year end of all sub grantee activities should occur to ensure all related financial reporting matters have been liquidated and reported correctly.

#### 2019-002 IMA Financial Reporting Close Process

Criteria: Organizations should implement financial management systems that provide effective controls over accountability for all funds, property and other assets. These controls should be in compliance with the internal control integrated framework. Additionally, the preparation of the financial statements is the responsibility of management, including management's assertions that the financial statements are complete and accurate; that the rights and obligations recorded in the financial statements exist, belong to the entity, are properly valued, that new accounting standards are implemented correctly in the year of adoption; and that the information presented in the financial statements is presented in accordance with generally accepted accounting principles. Furthermore, these standards require the entity to take prompt action to address findings identified.

# Lutheran World Relief, Incorporated and Affiliates

## Schedule of Findings and Questioned Costs Year Ended September 30, 2019

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Condition: During the current year, the IMA September 30, 2019 year-end reconciliations, analyses and related audit schedules were unable to be addressed prior to the start of the financial statement audit. There were instances identified during the IMA audit where errors were identified in reconciliations, and the lack of review of those reconciliations over the course of the fiscal year resulted in multiple revisions to the consolidated financial statements. Additionally, significant post-closing adjustments resulted from donor specific issues that were not identified until multiple months after year-end.

Cause: Timely and accurate recordkeeping delayed completion of year-end reconciliations, analyses and resulting preparation of financial statements until significantly after the audit process began. Due to nearly 100% turnover of IMA personnel, the process of going through these accounts was an “add-on” for remaining staff, and therefore took significant time and effort and led to multiple revisions over the course of the audit. Furthermore, as a result of these additional reviews, personnel identified adjustments to IMA’s accounting records that had to occur to present the consolidated financial statements correctly.

Effect: The limitations noted above within IMA’s accounting records, in aggregate, increases the risk for misstatement of the consolidated financial statements.

Recommendation: We recommend that IMA management, as part of its ongoing integration process, enhance its year-end procedures to ensure reconciliations, analyses and preparation of financial statements are completed fully prior to the start of the audit to ensure the consolidated financial statements presented for testing reflect the complete operations of LWR-IMA. Procedures should also ensure that all year-end adjustments necessary to present results in accordance with U.S. GAAP, are properly recorded.

# Lutheran World Relief, Incorporated and Affiliates

## Schedule of Findings and Questioned Costs Year Ended September 30, 2019

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### Section III - Federal Award Findings and Questioned Costs

#### 2019-003 Activities Allowed or Unallowed and Allowable Costs and Cost Principles

##### Information on Federal Program:

U.S. Agency for International Development  
CFDA Number: 98.001  
CFDA Name: USAID Foreign Assistance for Programs Overseas

##### IMA Grant Award Number(s):

- 720FDA18GR00185
- GHS-A-00-06-0000-00
- 72066018CA00001

Criteria: In accordance with 2 *CFR* §200.302 - *Financial Management*, a non-federal entity's financial management systems, including records documenting compliance with federal statutes, regulations, and the terms and conditions of the federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the federal statutes, regulations, and the terms and conditions of the federal award. The financial management system of each non-federal entity must provide for the following:

- (1) Identification, in its accounts, of all federal awards received and expended and the federal programs under which they were received.
- (2) Accurate, current, and complete disclosure of the financial results of each federal award or program in accordance with the reporting requirements set forth in §200.327 *Financial Reporting* and §200.328 *Monitoring and Reporting Program Performance*.
- (3) Records that identify adequately the source and application of funds for federally-funded activities.
- (4) Effective control over, and accountability for, all funds, property, and other assets.

Additionally, 2 *CFR* §200.303 - *Internal Controls* states that a non-federal entity must (a) establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award. These internal controls should be in compliance with the guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO); (b) comply with federal statutes, regulations, and the terms and conditions of the federal awards; (c) evaluate and monitor the non-federal entity's compliance with statutes, regulations, and the terms and conditions of federal awards.

Condition: IMA global policies require country offices to maintain adequate documentation that validates allocations to the various donor projects/awards and related approval of such allocations. In six instances (three instances for award 720FDA18GR00185; two instances for award GHS-A-00-06-0000-00; and one instance for award 72066018CA00001), BDO noted that data was accumulated to support various required allocations, however, there was no review or approval of the worksheet

# Lutheran World Relief, Incorporated and Affiliates

## Schedule of Findings and Questioned Costs Year Ended September 30, 2019

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once that data input occurred. This lack of review and approval of the data entry by IMA personnel could result in allocation errors. BDO, based on the lack of sufficient documentation, was unable to determine the correct amount to be allocated to the award; therefore, the questioned costs related to this finding are not determinable.

Questioned Costs: Undeterminable.

Context: This is a condition identified per review of IMA's compliance with allocability and allowability provisions of the Uniform Guidance. The prevalence of these findings is detailed in the condition section above. Samples were selected using a non-statistical method.

Cause: IMA has documented expenditure policies and procedures, as well as documentation maintenance requirements. However, as identified above, local country IMA management did not review and approve allocation schedules that supported the samples noted after data entry occurred.

Effect: The lack of adherence to the established internal control policies and procedures can lead to noncompliance with federal statutes, regulations, and the provisions of grant agreements which could ultimately lead to disallowed costs for the major program.

Recommendation: We recommend that IMA adhere control procedures regarding authorization and approval of the allocation of expenditures.

Views of Responsible Officials: Management agrees with the finding. See corrective action plan.

## **Management Prepared Documents**

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## Status of Prior Year Findings

### 2018-001 Procurement, Suspension and Debarment

Contact: JoAnn Theys  
Title: Chief Financial Officer  
Phone Number: 410 230 2724

Condition:

During test of controls and compliance over procurement costs charged to the major program, BDO identified one vendor out of five items tested, in which Lutheran World Relief (LWR) was unable to provide substantiating documentation to evidence compliance with LWR's policy to perform suspension and debarment checks on vendor prior to entering into the contract with the vendor.

Current Year Status:

Since issuance of the Corrective Action Plan, an immediate change to the global procurement policy was enacted in January 2019. Additionally, LWR expanded its search databases which enables a more expansive review of all vendors related to foreign goods and services. Further guidance was also issued to the global international finance team reiterating the importance of these mandatory checks timely and accurately. LWR believes this finding to be remediated.

## Management's Corrective Action Plan

### 2019-003 Activities Allowed or Unallowed and Allowable Costs and Costs Principles

Contact: JoAnn Theys  
Title: Chief Financial Officer  
Phone Number: 410 230 2724

*Estimated Completion Date – December 2020*

#### Corrective Action –

IMA World Health (IMA) and LWR are committed to responsible stewardship of United States Government (USG) funds and with the joining of the two organizations have developed strong joint internal controls and procedures to ensure compliance and minimize the risk of loss. We believe that the identified instances of non-compliance are isolated and did not result in any questioned costs and/or losses to any of IMA's USG projects/awards. However, we recognize the importance of this review and approval process and have taken steps to prevent a recurrence of this oversight. As these all pertain to IMA's office in the Democratic Republic of the Congo (DRC), the relevant staff in-country have begun a standard process for reviewing and approving the month-end allocations to the various USG (and non-USG) projects/awards. The new Senior Director, Accounting and Finance in the DRC (reporting up to the global Chief Financial Officer) will be monitoring their compliance.