

**Lower Susquehanna Synod of the
Evangelical Lutheran Church in America**

Financial Statements

January 31, 2018 and 2017



Lower Susquehanna Synod of the Evangelical Lutheran Church in America

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January 31, 2018 and 2017

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Independent Auditor's Report

To the Synod Council
Lower Susquehanna Synod of the Evangelical Lutheran Church in America
Harrisburg, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the Lower Susquehanna Synod of the Evangelical Lutheran Church in America, which comprise the statement of financial position as of January 31, 2018, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lower Susquehanna Synod of the Evangelical Lutheran Church in America as of January 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Lower Susquehanna Synod of the Evangelical Lutheran Church in America's 2017 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated June 21, 2017. In our opinion, the summarized comparative information presented herein for the year ended January 31, 2018, is consistent in all material respects with the audited financial statements from which it has been derived.

Handwritten signature in black ink that reads "RKL LLP". The letters are cursive and somewhat stylized.

September 5, 2018
Harrisburg, Pennsylvania

Lower Susquehanna Synod of the Evangelical Lutheran Church in America

Statement of Financial Position

January 31, 2018

	Unrestricted		Temporarily Restricted	Permanently Restricted	Total	Comparative Totals 2017
	Undesignated	Designated				
Assets						
Cash and cash equivalents	\$ 84,769	\$ 178,513	\$ 318,311	\$ 3,514	\$ 585,107	\$ 444,411
Accounts receivable	189	-	-	-	189	1,156
Investments, at fair value	-	-	-	2,322,883	2,322,883	2,188,217
Investments, at cost	91,914	112,889	-	-	204,803	259,601
Prepaid expenses	16,869	-	-	-	16,869	11,428
Note receivable	-	50,400	-	-	50,400	52,800
Leasehold improvements	-	19,824	-	-	19,824	19,824
Equipment	-	116,794	-	-	116,794	115,544
Accumulated depreciation	-	(129,553)	-	-	(129,553)	(121,991)
Total Assets	\$ 193,741	\$ 348,867	\$ 318,311	\$ 2,326,397	\$ 3,187,316	\$ 2,970,990
Liabilities and Net Assets						
Liabilities						
Accounts payable	\$ 70,859	\$ 1,716	\$ 18,838	\$ 3,463	\$ 94,876	\$ 161,028
Deferred program support	11,003	-	-	-	11,003	-
Other current liabilities	93,557	-	-	-	93,557	81,430
Total Liabilities	175,419	1,716	18,838	3,463	199,436	242,458
Net Assets	18,322	347,151	299,473	2,322,934	2,987,880	2,728,532
Total Liabilities and Net Assets	\$ 193,741	\$ 348,867	\$ 318,311	\$ 2,326,397	\$ 3,187,316	\$ 2,970,990

See accompanying notes.

Lower Susquehanna Synod of the Evangelical Lutheran Church in America

Statement of Activities

Year Ended January 31, 2018

	Unrestricted		Temporarily Restricted	Permanently Restricted	Total	Comparative Totals 2017
	Undesignated	Designated				
Support and Revenue						
Benevolence						
Mission support	\$ 2,619,390	\$ -	\$ -	\$ -	\$ 2,619,390	\$ 2,550,611
Churchwide special	-	-	285,390	-	285,390	165,639
Synod special	-	-	368,397	-	368,397	448,460
Other special	-	-	91,823	-	91,823	103,065
Always Being Made New	-	-	432,644	-	432,644	533,239
Interest and dividend income	1,113	1,172	-	4,941	7,226	10,882
Net realized and unrealized gains on investments	-	6,437	100,843	142,112	249,392	260,306
Grants and support	122,887	214,732	32,327	215	370,161	327,242
Program ministries, fees, and reimbursements	153,447	-	653	-	154,100	262,190
Net assets released from restrictions	1,222,689	-	(1,222,689)	-	-	-
Total Support and Revenue	4,119,526	222,341	89,388	147,268	4,578,523	4,661,634
Expenses						
ELCA churchwide mission support	916,786	-	-	-	916,786	994,738
Synod ministries						
Ministry Partners	341,000	-	-	-	341,000	368,737
Synodical Ministries	336,739	-	-	-	336,739	345,370
Governance	63,904	-	-	-	63,904	62,160
Administration	1,247,206	-	-	-	1,247,206	1,206,980
Always Being Made New Campaign	483,717	-	-	-	483,717	542,153
Specific Synod ministries	-	160,542	-	-	160,542	187,403
Special benevolence	761,719	-	-	-	761,719	936,995
Depreciation	-	7,562	-	-	7,562	7,596
Total Expenses	4,151,071	168,104	-	-	4,319,175	4,652,132
Change in Net Assets	(31,545)	54,237	89,388	147,268	259,348	9,502
Net Assets at Beginning of Year	49,867	292,914	210,085	2,175,666	2,728,532	2,719,030
Net Assets at End of Year	\$ 18,322	\$ 347,151	\$ 299,473	\$ 2,322,934	\$ 2,987,880	\$ 2,728,532

See accompanying notes.

Lower Susquehanna Synod of the Evangelical Lutheran Church in America

Statement of Functional Expenses

Year Ended January 31, 2018

	<u>Program Services</u>	<u>Management and Administrative</u>	<u>Fund- Raising</u>	<u>Total</u>	<u>Comparative Totals 2017</u>
Expenses					
ELCA churchwide mission support	\$ 916,786	\$ -	\$ -	\$ 916,786	\$ 994,738
Ministry Partners					
Region 8	4,000	-	-	4,000	11,700
Lutheran Theological Seminary at Gettysburg	185,000	-	-	185,000	185,000
Social Ministry Organizations	1,000	-	-	1,000	1,000
Lutheran Camping Corporation of Central Pennsylvania	76,000	-	-	76,000	76,000
PA Council of Churches	5,000	-	-	5,000	5,000
Lutheran Planned Giving	-	-	-	-	12,080
Campus ministry	70,000	-	-	70,000	77,957
Total Ministry Partners	341,000	-	-	341,000	368,737
Synodical Ministries					
Care of rosters persons	528	-	-	528	24
Leadership support	6,538	-	-	6,538	4,805
Communication	10,271	-	-	10,271	10,959
Beginning ministry	1,404	-	-	1,404	1,541
Care of congregations	-	-	-	-	131
Conference of Deans	420	-	-	420	72
Resource network	5,886	-	-	5,886	36,590
Resource center	2,996	-	-	2,996	7,164
Evangelism and outreach	257,302	-	-	257,302	165,423
Ecumenical programs	25	-	-	25	-
Synodical worship	2,489	-	-	2,489	2,208
Candidacy committee	11,285	-	-	11,285	11,747
Faith formation with youth	27,835	-	-	27,835	94,761
Coordination of relief projects	760	-	-	760	945
Advocacy ministry	9,000	-	-	9,000	9,000
Total Synodical Ministries	336,739	-	-	336,739	345,370

See accompanying notes.

Lower Susquehanna Synod of the Evangelical Lutheran Church in America

Statement of Functional Expenses (continued)

Year Ended January 31, 2018

	Program Services	Management and Administrative	Fund- Raising	Total	Comparative Totals 2017
Expenses (continued)					
Governance					
Assembly planning	\$ -	\$ 63,741	\$ -	\$ 63,741	\$ 61,923
Synod council and standing committee	-	163	-	163	237
Total Governance	-	63,904	-	63,904	62,160
Administration					
Office operating costs	-	2,272	-	2,272	3,165
Occupancy	-	69,389	3,269	72,658	76,075
Office operations	-	99,721	3,617	103,338	82,021
Human resources	619,111	347,553	56,152	1,022,816	997,477
Travel Synod staff	25,367	17,526	3,229	46,122	48,242
Total Administration	644,478	536,461	66,267	1,247,206	1,206,980
Always Being Made New Campaign	423,381	-	60,336	483,717	542,153
Specific Synod ministries	160,542	-	-	160,542	187,403
Special benevolence	761,719	-	-	761,719	936,995
Depreciation	-	7,562	-	7,562	7,596
Total Expenses	\$ 3,584,645	\$ 607,927	\$ 126,603	\$ 4,319,175	\$ 4,652,132

Lower Susquehanna Synod of the Evangelical Lutheran Church in America

Statement of Cash Flows

	Years Ended January 31,	
	2018	2017
Cash Flows from Operating Activities		
Change in net assets	\$ 259,348	\$ 9,502
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	7,562	7,596
Net realized and unrealized gains on investments and other assets	(249,392)	(260,306)
(Increase) decrease in assets		
Accounts receivable	967	(1,156)
Prepaid expenses	(5,441)	(762)
Increase (decrease) in liabilities		
Accounts payable	(66,152)	59,678
Deferred program support	11,003	-
Other current liabilities	12,127	9,784
Net Cash Used in Operating Activities	(29,978)	(175,664)
Cash Flows from Investing Activities		
Proceeds from sale of investments	969,045	607,263
Purchases of investments	(799,521)	(361,029)
Purchase of fixed assets	(1,250)	(2,759)
Proceeds from note receivable	2,400	2,400
Net Cash Provided by Investing Activities	170,674	245,875
Net Increase in Cash and Cash Equivalents	140,696	70,211
Cash and Cash Equivalents at Beginning of Year	444,411	374,200
Cash and Cash Equivalents at End of Year	\$ 585,107	\$ 444,411

Lower Susquehanna Synod of the Evangelical Lutheran Church in America

Notes to Financial Statements

January 31, 2018 and 2017

Note 1 - Nature of Activities

The Lower Susquehanna Synod of the Evangelical Lutheran Church in America (the Synod) is a nonprofit organization established to bear primary responsibility for pastoral care of the congregation, to provide for lay leadership, foster organizations for youth, women, and men, develop the policy and implement programs of the Synod, promote relationships with other congregations and ministries, and elect members of the churchwide assembly.

The Synod of the Evangelical Lutheran Church in America (ELCA) was organized on April 17, 1986 as a Pennsylvania nonprofit corporation, a geographical faith community of the ELCA. The Synod is one of 65 Synods of the ELCA and one of seven ELCA Synods in Pennsylvania. The Synod is located in the south central part of Pennsylvania and covers a nine county area that reached from Fulton County to the urban areas of Harrisburg, York, and Lancaster, and is subject to the overall economic conditions of the region. The Synod's 235 congregations represent over 92,500 baptized members of the ELCA.

The Synod Council serves as an interim legislative authority between meetings of the Synod Assembly. The Synod maintains relations with several ELCA affiliated institutions and agencies. The relationships include the election of members to the churchwide assembly of the ELCA and appointment or election of institution and agency board members.

Note 2 - Summary of Significant Accounting Policies

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Basis of Presentation

In order to ensure observance of limitations and restrictions placed on the use of the resources available, the Synod maintains its financial accounts in accordance with the principles and practices of fund accounting. This is the procedure by which resources for various purposes are classified into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund.

In the accompanying financial statements, funds are reported in the statements of financial position and activities according to three classes of assets; unrestricted net assets (including undesignated and designated), temporarily restricted net assets, and permanently restricted net assets of the Synod.

Unrestricted, Undesignated Net Assets - This group is used to account for the portion of expendable funds that are available for support of the Synod's general operations.

Unrestricted, Designated Net Assets - This group is used to account for the portion of expendable funds that the Synod's council has designated for specific purposes, including a Bishop's congregation mission fund, Bishop's discretionary fund, care of rostered leaders fund, Lutheran hands fund, CTIM congregation in mission fund, Haiti mission fund, fixed asset fund, and loan fund.

Lower Susquehanna Synod of the Evangelical Lutheran Church in America

Notes to Financial Statements

January 31, 2018 and 2017

Note 2 - Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

Temporarily Restricted Net Assets - This group represents resources restricted by donors for the purchase of specified items. Temporarily restricted net assets are available for Synod program expenditures once donor restrictions are met. Temporarily restricted net assets totaled \$299,473 and \$210,085 on January 31, 2018 and 2017, respectively.

Permanently Restricted Net Assets - This group represents resources which have been segregated and permanently restricted based on donor intent. Permanently restricted net assets totaled \$2,322,934 and \$2,175,666 on January 31, 2018 and 2017, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses, including functional allocations during the reporting period. Actual results could differ from those estimates.

Basis of Accounting

The accrual basis of accounting is utilized.

Comparative Financial Information

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Synod considers all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly-liquid investments purchased with a maturity of three months or less to be cash and cash equivalents on the statement of financial position. This includes checking, savings, and money market accounts.

Leasehold Improvements and Equipment

Leasehold improvements and equipment are recorded at cost when purchased. Maintenance and repair costs are charged to expenses as incurred. Gains and losses on disposition of leasehold improvements and equipment are reflected in income. Currently the Synod capitalized assets purchased with a cost or fair value greater than \$2,500. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of assets as follows:

Leasehold improvements	3 years
Furniture and equipment	3 to 5 years

Lower Susquehanna Synod of the Evangelical Lutheran Church in America

Notes to Financial Statements

January 31, 2018 and 2017

Note 2 - Summary of Significant Accounting Policies (continued)

Investments

The Synod carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair value. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

Donated Services

A substantial number of volunteers have donated significant hours to the Synod's programs and activities, however, these donated services are not reflected in the financial statements since the services do not require specialized skills.

Long-Lived Assets

Long-lived assets consist of leasehold improvements and equipment, and are reviewed for impairment whenever events or circumstances indicate that the carrying amount of the assets may not be recoverable. An asset is considered to be impaired when the undiscounted estimated net cash flows to be generated by the asset are less than the carrying amount. The impairment recognized is the amount by which the carrying amount exceeds the fair value of the impaired asset. Fair value estimates are based on assumptions concerning the amount and timing of estimated future cash flows and discount rates reflecting varying degrees of perceived risk. The Synod had concluded that no impairment adjustments were required as of January 31, 2018.

Income Taxes

The Internal Revenue Service has issued a Group Exemption Letter to the ELCA which includes the Synod as part of the group. Inclusion in the group exemption established that the Synod is exempt from federal and state income tax under Section 501(c)(3) of the Internal Revenue Code of 1986 and is not a private foundation as defined in Code Section 509(a). Accordingly, no provision for income taxes has been made in the financial statements.

Functional Allocation of Expenses

The cost of providing the various programs and supporting services have been summarized on a functional basis in the statement of activities and statement of functional expenses. Accordingly, certain costs have been allocated among the programs, management and administrative, and fund-raising based on services benefited.

Separate Entities

The accompanying financial statements include the assets, liabilities, net assets, and financial activities of only the Synod as one expression of this church in relationship with congregations, related institutions and agencies, and the churchwide agencies of the ELCA. These are separate and distinct legal entities with their own accounting systems for providing budgetary and financial information.

Note 2 - Summary of Significant Accounting Policies (continued)

Related Party Transactions

A significant portion of the Synod's revenue, support, and expenses are received from and disbursed to the separate entities as discussed above.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, which provides a robust framework for addressing revenue recognition issues and, upon its effective date, replaces almost all existing revenue recognition guidance. This guidance is effective for annual reporting periods beginning after December 15, 2018.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2019.

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU make certain improvements that address many, but not all, of the identified issues about the current financial reporting for not-for-profit entities. The standard improves current requirements related to net asset classifications, liquidity assessment, expense reporting consistency, and methods used to present cash flows from operations. This guidance is effective for fiscal years beginning after December 15, 2017.

The Synod is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

Lower Susquehanna Synod of the Evangelical Lutheran Church in America

Notes to Financial Statements

January 31, 2018 and 2017

Note 3 - Investments

The following is a summary of the Synod's investments as of January 31:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Money Market Funds	\$ 44,359	\$ 44,359	\$ 37,220	\$ 37,220
Bond Mutual Funds				
Investment grade corporate bonds	86,210	100,859	169,947	187,760
U.S. Treasury Bonds (1 to 3 years)	75,989	76,139	75,989	76,752
U.S. Treasury inflation protected bonds	396,706	389,664	396,705	393,350
Total Bond Mutual Funds	558,905	566,662	642,641	657,862
Equity Securities				
Energy	71,798	65,790	87,128	80,675
Technology	174,988	395,178	208,942	318,949
Producer durables	192,584	225,090	67,560	82,728
Consumer discretionary	209,666	301,111	163,565	174,288
Consumer staples	26,349	30,360	31,256	25,219
Financial services	174,451	318,335	245,400	442,843
Health care	161,930	182,122	124,501	145,706
Utilities	36,319	81,687	88,632	112,463
Materials and processing	82,874	112,189	88,854	110,264
Total Equity Securities	1,130,959	1,711,862	1,105,838	1,493,135
	\$ 1,734,223	\$ 2,322,883	\$ 1,785,699	\$ 2,188,217

Investment income is as follows for the years ended January 31:

2018	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 2,285	\$ -	\$ 18,167	\$ 20,452
Net unrealized gains (losses)	6,437	100,843	(7,822)	99,458
Net realized gains	-	-	149,934	149,934
Investment fees	-	-	(13,226)	(13,226)
	\$ 8,722	\$ 100,843	\$ 147,053	\$ 256,618

Lower Susquehanna Synod of the Evangelical Lutheran Church in America

Notes to Financial Statements

January 31, 2018 and 2017

Note 3 - Investments (continued)

2017	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	\$ 3,380	\$ -	\$ 20,615	\$ 23,995
Net unrealized gains	6,437	166,864	26,000	199,301
Net realized gains	-	-	61,005	61,005
Investment fees	-	-	(13,113)	(13,113)
	<u>\$ 9,817</u>	<u>\$ 166,864</u>	<u>\$ 94,507</u>	<u>\$ 271,188</u>

Note 4 - Mission Investment Fund Investments

Funds invested in the Mission Investment Fund of the ELCA are unsecured. These investments, which are available to entities associated with the ELCA, are uninsured and are not readily marketable, and reported at cost on the statement of financial position.

The cost of nonmarketable securities is as follows at January 31:

	2018	2017
Mission Investment Fund of the ELCA	<u>\$ 204,803</u>	<u>\$ 259,601</u>

These securities, which mature in one year, earn interest in a range from 0.35% and 0.75%.

Note 5 - Fair Value of Investments

The Synod defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurement. Fair value is a market-based measurement, not an entity-specific measurement, and the Synod sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Fair value measurements are disclosed by level within that hierarchy. The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 - Quoted market prices in active markets for identical assets or liabilities.

Level 2 - Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3 - Unobservable inputs that are not corroborated by market data.

Lower Susquehanna Synod of the Evangelical Lutheran Church in America

Notes to Financial Statements

January 31, 2018 and 2017

Note 5 - Fair Value of Investments (continued)

In determining the appropriate levels, the Synod performs a detailed analysis of the assets and liabilities. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

The tables below present the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy as of January 31:

Fair Value Measurements at January 31, 2018				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Money Market	\$ 44,359	\$ -	\$ -	\$ 44,359
Bond Mutual Funds				
Investment grade corporate bonds	100,859	-	-	100,859
U.S. Treasury Bonds (1 to 3 years)	76,139	-	-	76,139
U.S. Treasury inflation protected bonds	389,664	-	-	389,664
Equity Securities				
Energy	65,790	-	-	65,790
Technology	395,178	-	-	395,178
Producer durables	225,090	-	-	225,090
Consumer discretionary	301,111	-	-	301,111
Consumer staples	30,360	-	-	30,360
Financial services	318,335	-	-	318,335
Health care	182,122	-	-	182,122
Utilities	81,687	-	-	81,687
Materials and processing	112,189	-	-	112,189
	<u>\$ 2,322,883</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,322,883</u>

Lower Susquehanna Synod of the Evangelical Lutheran Church in America

Notes to Financial Statements

January 31, 2018 and 2017

Note 5 - Fair Value of Investments (continued)

	Fair Value Measurements at January 31, 2017			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Money Market	\$ 37,220	\$ -	\$ -	\$ 37,220
Bond Mutual Funds				
Investment grade corporate bonds	187,760	-	-	187,760
U.S. Treasury Bonds (1 to 3 years)	76,752	-	-	76,752
U.S. Treasury inflation protected bonds	393,350	-	-	393,350
Equity Securities				
Energy	80,675	-	-	80,675
Technology	318,949	-	-	318,949
Producer durables	82,728	-	-	82,728
Consumer discretionary	174,288	-	-	174,288
Consumer staples	25,219	-	-	25,219
Financial services	442,843	-	-	442,843
Health care	145,706	-	-	145,706
Utilities	112,463	-	-	112,463
Materials and processing	110,264	-	-	110,264
	<u>\$ 2,188,217</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,188,217</u>

Investment Risk

Investments are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near-term and that such changes could materially affect account balances and the amounts reported in the statement of activities for the Synod.

Note 6 - Always Being Made New Campaign

The 2014 Synod Assembly adopted a resolution to initiate the 25th Anniversary Campaign for the ELCA in the Lower Susquehanna Synod. The campaign, titled "Always Being Made New", is a five-year effort to raise \$6,050,000 to support a variety of Synod and ELCA ministries and pay for direct campaign costs estimated at \$550,000 for the five-year term of the campaign. All campaign support, including multi-year donor commitments, which are not binding obligations, will be recognized and reported as the financial support is received.

Lower Susquehanna Synod of the Evangelical Lutheran Church in America

Notes to Financial Statements

January 31, 2018 and 2017

Note 6 - Always Being Made New Campaign (continued)

In February 2016, the Synod Council adopted a resolution for the funding of the campaign. The resolution limits costs to \$350,000. The February 2016 resolution lacked adequate provision to fund campaign expenses. Accordingly, in November 2016, the Synod Council adopted a second resolution. Under the resolution, the Synod's Restitution Fund and realized "Where Needed Most" campaign contributions through January 31, 2017, will be used to fund the cumulative campaign expenses. The remaining balance will come from the Unrestricted - Undesignated Fund.

Campaign expense for fiscal years beginning February 1, 2017 are to be annually budgeted in the Synod's Unrestricted - Undesignated Fund.

Note 7 - Leasehold Improvements and Equipment

A summary of leasehold improvements and equipment is as follows at January 31:

	<u>2018</u>	<u>2017</u>
Leasehold improvements	\$ 19,824	\$ 19,824
Equipment	<u>116,794</u>	<u>115,544</u>
	136,618	135,368
Accumulated depreciation	<u>(129,553)</u>	<u>(121,991)</u>
	<u>\$ 7,065</u>	<u>\$ 13,377</u>

Note 8 - Note Receivable

On December 15, 2009, the Synod entered into a noninterest bearing mortgage note with Holy Spirit Lutheran Church in the amount of \$65,000. The note is secured by property. The principal amount is due on demand. The balance of the mortgage note at January 31, 2018 and 2017 was \$50,400 and \$52,800, respectively.

Note 9 - Operating Lease, Real Estate

The Synod leases 5,072 square feet of office space in the United Church Center under a lease agreement with the Pennsylvania Council of Churches. The lease is dated January 21, 2002. The term of the lease is not specified, however, it can be canceled by either party with one year's notification. Total payments for both the fiscal years ended January 31, 2018 and 2017 amounted to \$72,658 and \$76,075, respectively.

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Note 10 - Retirement Plan

The Synod participates in a defined contribution retirement plan with Portico Benefit Services. The plan, which covers substantially all employees, is fully vested and funded. In addition, employees may elect to defer additional amounts subject to limitations. The total retirement cost paid to Portico Benefit Services totaled \$81,675 and \$81,667 for the fiscal years ended January 31, 2018 and 2017, respectively.

Note 11 - Temporarily Restricted Net Assets

Temporarily restricted net assets consisted of the following as of January 31:

	<u>2018</u>	<u>2017</u>
Konde Fund	\$ 62,070	\$ 68,119
Always Being Made New Campaign	106,493	3,986
Synod Programs	112,928	110,785
Funds Held for Others	7,396	7,392
ELCA Grants	3,931	3,931
Scholarship Fund	3,856	7,251
Thrivent Grants	1,003	1,546
Leadership Programs Musicians	687	687
Student Aid Fund	1,109	6,388
	<u>\$ 299,473</u>	<u>\$ 210,085</u>

Note 12 - Permanently Restricted Net Assets

Permanently restricted net assets represent resources segregated, classified, and reported based on implied donor intent. As such, the permanently restricted net assets are regulated by provisions of the Pennsylvania State Act 141 of 1998 (the Act).

The Synod has interpreted the Act as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Synod classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund and investment income in excess of amounts designated for current operations and losses up to the extent of accumulated gains.

In accordance with the Act, the Synod has adopted the "total return investment" policy. As such, "income" is defined as a percentage of the market value of the funds' assets.

The Synod retains a professional investment advisor to manage permanently restricted net assets investments in accordance with the "Synod Investment Policy" adopted by Synod Council on February 21, 2009. The policy targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives with prudent risk constraints.

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Note 12 - Permanently Restricted Net Assets (continued)

The Synod has a policy of distributing up to 5% of the monthly fair market value average over the most recent three calendar years. The presumption is that over the course of multiple years, the average investment returns will equal or exceed 5% per annum, and that the endowment will meet the objective of providing ongoing financial support to the Synod for these initiatives. Distributions made during fiscal years ended January 31, 2018 and 2017 totaled \$107,282 and \$173,301, respectively.

Permanently restricted net assets maintained for these program initiatives are as follows as of January 31:

	<u>2018</u>	<u>2017</u>
Support of Konde Diocese	\$ 765,434	\$ 715,988
Eliminate Hunger	765,434	715,988
Seminarian Scholarship Support	353,983	334,210
Synodical Program Support	296,717	277,158
Bishop's Discretionary Fund Support	141,366	132,322
	<u>\$ 2,322,934</u>	<u>\$ 2,175,666</u>

Changes in endowment net assets for the fiscal years ended January 31:

	<u>2018</u>	<u>2017</u>
Endowment Net Assets at Beginning of Year	\$ 2,175,666	\$ 2,080,744
Investment return		
Interest and dividend income	4,941	7,502
Net realized and unrealized gain on investments	249,394	260,306
Total investment gain	<u>254,335</u>	<u>267,808</u>
Legacy fund distribution	<u>(107,282)</u>	<u>(173,301)</u>
Other changes		
Grants and support	<u>215</u>	<u>415</u>
Endowment Net Assets at End of Year	\$ 2,322,934	\$ 2,175,666

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Notes to Financial Statements

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Note 13 - Contingencies

Concentrations of Credit Risk

Cash and Cash Equivalents

The Synod maintains its monies in a financial institution in South Central Pennsylvania. Cash accounts at the financial institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. Securities held by third-party institutions are covered by the Securities Investor Protection Corporation, except for funds held by the Mission Investment Fund of the ELCA, which is not insured by the federal or state regulatory agency.

Note 14 - Subsequent Events

The Synod has evaluated subsequent events through September 5, 2018. This date is the date the financial statements were available to be issued. No material events subsequent to January 31, 2018 were noted.