



CONSOLIDATED FINANCIAL STATEMENTS  
WITH  
INDEPENDENT AUDITOR'S REPORT

**MAY 31, 2016**

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## **Independent Auditor's Report**

Board of Directors  
International Lutheran Laymen's League and Subsidiaries  
St. Louis, Missouri

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of the International Lutheran Laymen's League and Subsidiaries (the "Organization"), which comprise the consolidated statements of financial position as of May 31, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years 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 financial statements that are free from material misstatement, whether due to error or fraud.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 Organization'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 Organization'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 the International Lutheran Laymen's League and Subsidiaries as of May 31, 2016 and 2015, and the consolidated changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Brown Smith Wallace, LLP*

St. Louis, Missouri  
September 16, 2016

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Consolidated Statements of Financial Position

May 31, 2016 and 2015

|   | 2016                 | 2015                 |
|---|----------------------|----------------------|
| <b>ASSETS</b>                           |                      |                      |
| Cash                                    | \$ 640,796           | \$ 450,056           |
| Investments                             | 23,507,384           | 26,947,031           |
| Estate gifts and other receivables, net | 3,954,683            | 2,951,213            |
| Irrevocable deferred gifts              | 4,873,069            | 4,931,208            |
| Beneficial interest in trusts           | 6,776,663            | 7,010,300            |
| Branch office cash advances             | 366,591              | 407,131              |
| Prepaid expenses and other assets, net  | 926,743              | 980,401              |
| Property and equipment, net             | 15,769,452           | 15,936,644           |
| <b>TOTAL ASSETS</b>                     | <b>\$ 56,815,381</b> | <b>\$ 59,613,984</b> |
| <b>LIABILITIES AND NET ASSETS</b>       |                      |                      |
| <b>Liabilities</b>                      |                      |                      |
| Accounts payable and accruals           | \$ 660,041           | \$ 1,020,962         |
| Custodial funds                         | 30,082               | 458,683              |
| Other liabilities                       | 729,952              | 686,142              |
| Gift annuity liabilities                | 2,879,450            | 2,873,765            |
| Interest rate swap agreements           | -                    | 7,985                |
| Bonds payable                           | 6,800,000            | 6,800,000            |
| <b>Total Liabilities</b>                | <b>11,099,525</b>    | <b>11,847,537</b>    |
| <b>Net Assets</b>                       |                      |                      |
| Unrestricted - undesignated             | 6,530,930            | 6,388,700            |
| Unrestricted - board designated         | 14,691,486           | 15,691,882           |
| Temporarily restricted                  | 6,889,428            | 8,276,777            |
| Permanently restricted                  | 17,604,012           | 17,409,088           |
| <b>Total Net Assets</b>                 | <b>45,715,856</b>    | <b>47,766,447</b>    |
| <b>TOTAL LIABILITIES AND NET ASSETS</b> | <b>\$ 56,815,381</b> | <b>\$ 59,613,984</b> |

The accompanying notes are an integral part of these consolidated financial statements.

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Consolidated Statement of Activities

Year ended May 31, 2016

|  | Unrestricted      |                    |                        |                        | Total              |
|--|-------------------|--------------------|------------------------|------------------------|--------------------|
|  | Undesignated      | Board Designated   | Temporarily Restricted | Permanently Restricted |                    |
| <b>Support and Revenue:</b>                            |                   |                    |                        |                        |                    |
| Contributions  | \$ 20,276,379     | \$ -               | \$ 70,753              | \$ 68,344              | \$ 20,415,476      |
| Bequests, annuities, and trusts                        | 8,457,118         | -                  | -                      | 257,278                | 8,714,396          |
| Change in value of deferred gifts                      | -                 | -                  | (161,078)              | (130,698)              | (291,776)          |
| Charitable gift annuities                              | -                 | 445,636            | -                      | -                      | 445,636            |
| Investment income (loss)                               | 16,692            | (219,505)          | (272,648)              | -                      | (475,461)          |
| Merchandise sales                                      | 343,039           | -                  | -                      | -                      | 343,039            |
| Other income   | 282,714           | -                  | -                      | -                      | 282,714            |
| Building tenant rent                                   | 1,319,652         | -                  | -                      | -                      | 1,319,652          |
| Net assets released from restrictions and designations | 2,250,903         | (1,226,527)        | (1,024,376)            | -                      | -                  |
| <b>Total support and revenue</b>                       | <b>32,946,497</b> | <b>(1,000,396)</b> | <b>(1,387,349)</b>     | <b>194,924</b>         | <b>30,753,676</b>  |
| <b>Expenses:</b>                                       |                   |                    |                        |                        |                    |
| <b>Operating expenses</b>                              |                   |                    |                        |                        |                    |
| Program services:                                      |                   |                    |                        |                        |                    |
| Domestic radio   | 12,463,258        | -                  | -                      | -                      | 12,463,258         |
| Domestic television                                    | 661,702           | -                  | -                      | -                      | 661,702            |
| Other domestic ministries                              | 4,540,498         | -                  | -                      | -                      | 4,540,498          |
| Foreign ministries                                     | 6,472,559         | -                  | -                      | -                      | 6,472,559          |
| Administration   | 2,166,695         | -                  | -                      | -                      | 2,166,695          |
| Fund raising   | 5,232,361         | -                  | -                      | -                      | 5,232,361          |
| <b>Total operating expenses</b>                        | <b>31,537,073</b> | <b>-</b>           | <b>-</b>               | <b>-</b>               | <b>31,537,073</b>  |
| <b>Non-operating expenses</b>                          |                   |                    |                        |                        |                    |
| Building tenant expenses                               | 814,581           | -                  | -                      | -                      | 814,581            |
| Annuity contract expenses                              | 452,613           | -                  | -                      | -                      | 452,613            |
| <b>Total expenses</b>                                  | <b>32,804,267</b> | <b>-</b>           | <b>-</b>               | <b>-</b>               | <b>32,804,267</b>  |
| <b>CHANGE IN NET ASSETS</b>                            | <b>142,230</b>    | <b>(1,000,396)</b> | <b>(1,387,349)</b>     | <b>194,924</b>         | <b>(2,050,591)</b> |
| Net assets at beginning of year                        | 6,388,700         | 15,691,882         | 8,276,777              | 17,409,088             | 47,766,447         |
| Net assets at end of year                              | \$ 6,530,930      | \$ 14,691,486      | \$ 6,889,428           | \$ 17,604,012          | \$ 45,715,856      |

The accompanying notes are an integral part of these consolidated financial statements.

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Consolidated Statement of Activities

Year ended May 31, 2015

|   | Unrestricted        |                      | Temporarily<br>Restricted | Permanently<br>Restricted | Total                |
|---|---------------------|----------------------|---------------------------|---------------------------|----------------------|
|   | Undesignated        | Board<br>Designated  |                           |                           |                      |
| <b>Support and Revenue:</b>                               |                     |                      |                           |                           |                      |
| Contributions   | \$ 19,653,797       | \$ -                 | \$ 243,412                | \$ 329,482                | \$ 20,226,691        |
| Bequests, annuities, and trusts                           | 9,883,303           | -                    | -                         | 1,567,540                 | 11,450,843           |
| Change in value of deferred gifts                         | -                   | -                    | 26,420                    | 111,407                   | 137,827              |
| Charitable gift annuities                                 | -                   | 216,014              | -                         | -                         | 216,014              |
| Investment income   | 84,484              | 395,783              | 538,202                   | -                         | 1,018,469            |
| Merchandise sales   | 279,663             | -                    | -                         | -                         | 279,663              |
| Other income  | 95,411              | (160)                | -                         | -                         | 95,251               |
| Building tenant rent                                      | 1,291,985           | -                    | -                         | -                         | 1,291,985            |
| Net assets released from restrictions<br>and designations | 1,160,191           | (428,949)            | (731,242)                 | -                         | -                    |
| <b>Total support and revenue</b>                          | <b>32,448,834</b>   | <b>182,688</b>       | <b>76,792</b>             | <b>2,008,429</b>          | <b>34,716,743</b>    |
| <b>Expenses:</b>  |                     |                      |                           |                           |                      |
| <b>Operating expenses</b>                                 |                     |                      |                           |                           |                      |
| Program services:   |                     |                      |                           |                           |                      |
| Domestic radio  | 11,912,095          | -                    | -                         | -                         | 11,912,095           |
| Domestic television                                       | 762,127             | -                    | -                         | -                         | 762,127              |
| Other domestic ministries                                 | 4,807,145           | -                    | -                         | -                         | 4,807,145            |
| Foreign ministries  | 6,098,661           | -                    | -                         | -                         | 6,098,661            |
| Administration  | 2,105,688           | -                    | -                         | -                         | 2,105,688            |
| Fund raising  | 5,046,809           | -                    | -                         | -                         | 5,046,809            |
| <b>Total operating expenses</b>                           | <b>30,732,525</b>   | <b>-</b>             | <b>-</b>                  | <b>-</b>                  | <b>30,732,525</b>    |
| <b>Non-operating expenses</b>                             |                     |                      |                           |                           |                      |
| Building tenant expenses                                  | 781,543             | -                    | -                         | -                         | 781,543              |
| Annuity contract expenses                                 | 466,147             | -                    | -                         | -                         | 466,147              |
| <b>Total expenses</b>                                     | <b>31,980,215</b>   | <b>-</b>             | <b>-</b>                  | <b>-</b>                  | <b>31,980,215</b>    |
| <b>CHANGE IN NET ASSETS</b>                               | <b>468,619</b>      | <b>182,688</b>       | <b>76,792</b>             | <b>2,008,429</b>          | <b>2,736,528</b>     |
| <b>Net assets at beginning of year</b>                    | <b>5,920,081</b>    | <b>15,509,194</b>    | <b>8,199,985</b>          | <b>15,400,659</b>         | <b>45,029,919</b>    |
| <b>Net assets at end of year</b>                          | <b>\$ 6,388,700</b> | <b>\$ 15,691,882</b> | <b>\$ 8,276,777</b>       | <b>\$ 17,409,088</b>      | <b>\$ 47,766,447</b> |

The accompanying notes are an integral part of these consolidated financial statements.

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Consolidated Statements of Cash Flows

Years ended May 31, 2016 and 2015

|  | 2016               | 2015               |
|--|--------------------|--------------------|
| <b>Cash flows from operating activities:</b>   |                    |                    |
| Change in net assets   | \$ (2,050,591)     | \$ 2,736,528       |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities - |                    |                    |
| Depreciation   | 532,485            | 564,292            |
| Unrealized loss on investments   | 642,146            | 3,581,930          |
| Change in value of beneficial interests in trusts  | 233,637            | (70,628)           |
| Change in value of irrevocable deferred gifts  | 58,139             | (67,200)           |
| Change in deferred value of gift annuity liabilities   | 5,685              | (359,830)          |
| Loss on disposal of property and equipment   | 840                | -                  |
| Unrealized gain on interest swap agreements  | (7,985)            | (30,523)           |
| (Increase) decrease in assets -  |                    |                    |
| Estate and other receivables, net  | (1,003,470)        | 799,760            |
| Branch office cash advance   | 40,540             | (63,751)           |
| Prepaid expenses and other assets, net   | 53,658             | 27,716             |
| Increase (decrease) in liabilities -   |                    |                    |
| Accounts payable and accruals  | (360,921)          | 354,991            |
| Custodial fund liabilities   | (428,601)          | (35,719)           |
| Other liabilities  | 43,810             | (21,181)           |
| <b>Net cash provided by (used in) operating activities</b>   | <b>(2,240,628)</b> | <b>7,416,385</b>   |
| <b>Cash flows from investing activities:</b>   |                    |                    |
| Purchases of investments   | (14,708,570)       | (74,762,783)       |
| Proceeds from sale of investments  | 17,506,071         | 68,018,832         |
| Purchases of property and equipment  | (366,133)          | (519,120)          |
| <b>Net cash provided by (used in) investing activities</b>   | <b>2,431,368</b>   | <b>(7,263,071)</b> |
| <b>Cash flows from financing activities:</b>   |                    |                    |
| Proceeds from line of credit   | 100,000            | -                  |
| Payments on line of credit   | (100,000)          | -                  |
| Payments on bonds payable  | -                  | (255,000)          |
| <b>Net cash used in financing activities</b>   | <b>-</b>           | <b>(255,000)</b>   |
| <b>NET INCREASE (DECREASE) IN CASH</b>   | <b>190,740</b>     | <b>(101,686)</b>   |
| <b>Cash, beginning of year</b>   | <b>450,056</b>     | <b>551,742</b>     |
| <b>Cash, end of year</b>   | <b>\$ 640,796</b>  | <b>\$ 450,056</b>  |
| <b>Supplemental Disclosure of Cash Flow Information:</b>   |                    |                    |
| Cash paid during the year for -  |                    |                    |
| Interest   | \$ 125,333         | \$ 128,485         |
| Unrelated business income taxes paid   | \$ 21,300          | \$ 20,691          |

The accompanying notes are an integral part of these consolidated financial statements.

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

May 31, 2016

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### Note 1 - Organization and Summary of Significant Accounting Policies

#### Organization

The International Lutheran Laymen's League and its subsidiaries (the "Organization"), also known as Lutheran Hour Ministries, is a not-for-profit organization which serves as the media evangelism auxiliary of the Lutheran Church-Missouri Synod and the Lutheran Church-Canada. The Organization does this by developing culturally relevant programs and resources that proclaim the Gospel to the un-churched, both domestically and around the world, and providing those people who are reached through these ministry efforts an opportunity to respond and connect with the church.

The Lutheran Hour Ministries Foundation (the "Foundation") was established to generate interest in, and funds for, the ministries of the International Lutheran Laymen's League (the "League") and manage the assets of the Foundation.

#### Consolidation Policy

The consolidated financial statements include the accounts of the International Lutheran Laymen's League (and its subsidiaries LHM Holdings, Inc. and BCTN Holdings, Inc.), and the Lutheran Hour Ministries Foundation. All significant intercompany transactions are eliminated in the consolidated financial statements.

The Foundation, due to substantial organizational control by the Organization, is consolidated in these financial statements.

#### Basis of Presentation

The consolidated financial statements have been prepared using the accrual basis of accounting. Additionally, the financial statement presentation follows the requirements of *Financial Accounting Standards Board Accounting Standards Codification 958 (FASB ASC)*, which requires the Organization to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

May 31, 2016

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### Note 1 - Organization and Summary of Significant Accounting Policies (Continued)

#### Basis of Presentation (Continued)

##### Unrestricted Net Assets

Unrestricted net assets are neither permanently nor temporarily restricted by donor-imposed stipulations and include revenue from fees, certain investment income, and all unrestricted gifts, grants, and contributions. Unrestricted amounts are those currently available at the discretion of the Organization's Board for use in its operations.

In addition, the Organization and Foundation boards have designated certain funds for the purposes of providing additional security for their gift annuities and endowments and for the funding of certain fund raising activities.

##### Temporarily Restricted Net Assets

Temporarily restricted net assets account for unspent contributions that are restricted by the donor for specific purposes or time periods.

##### Permanently Restricted Net Assets

Permanently restricted net assets represent beneficial interests in trusts and perpetual endowments established for the benefit of the Organization. Donor-imposed restrictions on those endowments stipulate that the original contribution be maintained permanently and permit the Foundation, which holds all of the endowment funds, to payouts according to the board approved endowment distribution policy.

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

May 31, 2016

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### Note 1 - Organization and Summary of Significant Accounting Policies (Continued)

#### Contributions and Other Revenues

Substantially all of the Organization's revenues result from contributions, bequests, special grants, and investment income, which are recognized as income when received or accrued and are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. In addition, unconditional promises to give are recorded in the year made, less an allowance for doubtful collections. Conditional promises to give are recognized when the conditions upon which they were given are substantially met.

#### Cash

The Organization's cash is on deposit with major domestic financial institutions. At times, bank deposits may be in excess of federally insured limits. Highly liquid investments with initial maturities of three months or less are considered to be cash equivalents and reported as investments.

#### Investments

Investments are stated at fair value. Investment income is recognized when earned. The change in unrealized gains and losses are included in the changes in net assets in the accompanying consolidated statements of activities. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

#### Estate Gifts and Other Receivables

Estate gifts which are due and not received as of the financial statement date are accrued as receivables. Unless affirmed by subsequent events, it is the Organization's practice to establish a 5% holdback for additional fees and adverse market fluctuations. Receivables are also established to recognize investment income due.

#### Branch Office Cash Advances

Branch office cash advances held in foreign banks are reflected at the U.S. dollar value after adjustments are made for differences in the exchange rates.

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

May 31, 2016

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### Note 1 - Organization and Summary of Significant Accounting Policies (Continued)

#### Property and Equipment

United States property and equipment are stated at cost, net of depreciation, which is computed using the straight-line method over the estimated useful service life of the assets (building and improvements - 50 years or remaining useful life, furniture and equipment and software - 3 to 10 years). Foreign property is expensed when purchased. Additions and betterments of \$2,500 or more are capitalized, while repairs and maintenance that do not improve or extend the useful lives of the respective assets are expensed currently.

#### Impairment of Long Lived Assets

Long lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value and the carrying value of the asset. For the years ended May 31, 2016 and 2015, management determined that no impairment loss needs to be recognized.

#### Donated Property and Equipment

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated assets for a specific purpose. Assets with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

#### Donated Other Assets

Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair values at the date of donation.

#### Donated Volunteer Services

No amounts have been reflected in the consolidated financial statements for donated volunteer services as the criteria for recognition has not been met under FASB ASC 958-605. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific ministry programs, campaign solicitations, and various committee assignments.

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

May 31, 2016

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### Note 1 - Organization and Summary of Significant Accounting Policies (Continued)

#### Donated Air Time

The value of donated radio and television time has been reflected as unrestricted contributions and as domestic and foreign ministry expenses in the accompanying consolidated financial statements at fair value on the date of the contribution.

#### Expense Allocation

The cost of providing various programs and other activities has been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

#### Use of Estimates in Financial Statements

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Reclassifications

Certain reclassifications have been made to the 2015 consolidated financial statements to conform to the 2016 presentation.

#### Subsequent Events

Management has evaluated all subsequent events and transactions through September 16, 2016, the date the consolidated financial statements were available to be issued. No subsequent events require recognition in the consolidated financial statements or disclosures of the Organization per the definitions and requirements of FASB ASC Section 855-10.

### Note 2 - Income Tax Status

The Organization and Foundation are exempt from Federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code except as to unrelated business income. The Organization's subsidiary, BCTN Holdings, Inc, files a Form 990-T for unrelated business income. The Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

May 31, 2016

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### Note 2 - Income Tax Status (Continued)

The Organization has evaluated its tax positions, expiring statutes of limitations, audits, proposed settlements, changes in tax laws and new authoritative rulings and believes that no provision for income taxes is necessary, at this time, to cover any uncertain tax positions. The Organization's federal Form 990-T for tax years 2013 and later remains subject to examination by taxing authorities.

### Note 3 - Concentration of Risk

The Organization's investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statements of financial position.

### Note 4 - Fair Value Measurements and Investments

The Organization follows FASB ASC 820 Fair Value Measurements and Disclosures which establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

FASB ASC 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC 820-10 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

**Level 1:** Quoted prices in active markets for identical assets or liabilities.

**Level 2:** Observable inputs based on quoted prices in non-active markets or in active markets for similar assets or liabilities. Inputs other than quoted prices that are observable, or inputs that are not directly observable, but are corroborated by observable market data.

**Level 3:** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities requiring management judgments and estimations based on available market data.

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

May 31, 2016

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### Note 4 - Fair Value Measurements and Investments (Continued)

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position, as well as the general classification of such instruments pursuant to the valuation hierarchy. There were no changes in methodologies in the years ending May 31, 2016 and 2015.

*Common stocks, corporate bonds and U.S. government securities:* Valued at the closing price reported on the active market on which the individual securities are traded.

*Mutual funds, Common Trust Funds (CTF) and Exchange Trust Funds (ETF):* Valued at the closing net asset value (NAV) of shares held at fiscal year-end.

*Real estate investments:* Valued at the most recent appraised value.

*Deferred gifts:* Irrevocable deferred gifts are valued at the present value of expected future cash receipts adjusted for the actuarial life expectancy of the gift annuitants including survivors. Beneficial interests in trust are valued at the present value of expected receipts for the duration of the trust where stated. Where the trust is perpetual, a life of 99 years was used.

The Organization has used a "practical expedient" to estimate fair value of its Level 2 investments. The Net Asset Value (NAV) reported by each investment fund is used as a practical expedient to estimate the fair value of the Organization's interest in the fund. Investments are categorized as Level 2 when the Organization has the ability to redeem its investment in the entity at the NAV per share in the near term. There are no unfunded commitments associated with these investments, nor are there any significant restrictions on the Organization's ability to sell these investments. Additionally, there are no circumstances under which the investments would not be redeemable. All of the collective trust investments are redeemable in the near term.

Management determines the fair value measurement valuation policies and procedures, including those for Level 3 recurring and nonrecurring measurements. The Investment Committee of the Foundation Board of Directors and the Budget and Finance Committee of the Organization Board of Directors assess and approve these policies and procedures. At least annually, Management: (1) determines if the current valuation techniques used in fair value measurements are still appropriate, and (2) evaluates and adjusts the unobservable inputs used in the fair value measurements based on current market conditions and third-party information.

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

May 31, 2016

### Note 4 - Fair Value Measurements and Investments (Continued)

The Organization recognizes transfers between levels in the fair value hierarchy at the end of the reporting period. There were no transfers between levels for the years ending May 31, 2016 and 2015.

The following table presents the fair value measurements of assets recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the FASB ASC 820-10 fair value hierarchy in which the fair value measurements fall at May 31, 2016 and 2015:

| <b>2016</b>  | <b>Fair Value</b>    | <b>Quoted Prices<br/>In Active<br/>Markets for<br/>Identical Assets<br/>(Level 1)</b> | <b>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |
|--|----------------------|---|--|--|
| Cash and cash equivalents                                      | \$ 427,585           | \$ 427,585  | \$ -   | \$ -   |
| Fixed income-domestic bonds                                    | -                    | -   | -  | -  |
| Real estate  | 8,700                | -   | -  | 8,700  |
| Government securities  | 244,891              | 153,084   | 91,807   | -  |
| Investment funds:  |                      |   |  |  |
| Mutual funds   | 4,214,662            | 684,208   | 3,530,454  | -  |
| Exchange trust funds (ETF)                                     | 1,046,092            | 1,046,092   | -  | -  |
| Common trust funds (CTF)                                       | 17,565,454           | -   | 17,565,454   | -  |
| Total investment funds   | <u>22,826,208</u>    | <u>1,730,300</u>  | <u>21,095,908</u>  | <u>-</u>   |
| Total investments  | <u>23,507,384</u>    | <u>2,310,969</u>  | <u>21,187,715</u>  | <u>8,700</u>   |
| Irrevocable deferred gifts and<br>beneficial interest in trust | <u>11,649,732</u>    | <u>-</u>  | <u>-</u>   | <u>11,649,732</u>  |
|  | <u>\$ 35,157,116</u> | <u>\$ 2,310,969</u>   | <u>\$ 21,187,715</u>   | <u>\$ 11,658,432</u>   |

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

May 31, 2016

### Note 4 - Fair Value Measurements and Investments (Continued)

| <u>2015</u>  | <u>Fair Value</u>    | <u>Quoted Prices<br/>In Active<br/>Markets for<br/>Identical Assets<br/>(Level 1)</u> | <u>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</u> | <u>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</u> |
|--|----------------------|---|--|--|
| Cash equivalents   | \$ 826,326           | \$ 826,326  | \$ -   | \$ -   |
| Fixed income-domestic bonds                                    | 15,260               | -   | 15,260   | -  |
| Real estate  | 1,023,700            | -   | -  | 1,023,700  |
| Government securities  | 806,996              | 426,837   | 380,159  | -  |
| Investment funds:  |                      |   |  |  |
| Mutual funds   | 5,730,547            | 1,210,008   | 4,520,539  | -  |
| Exchange trust funds (ETF)                                     | 1,977,679            | 1,977,679   | -  | -  |
| Common trust funds (CTF)                                       | <u>16,566,523</u>    | <u>-</u>  | <u>16,566,523</u>  | <u>-</u>   |
| Total investment funds   | <u>24,274,749</u>    | <u>3,187,687</u>  | <u>21,087,062</u>  | <u>-</u>   |
| Total investments  | <u>26,947,031</u>    | <u>4,440,850</u>  | <u>21,482,481</u>  | <u>1,023,700</u>   |
| Irrevocable deferred gifts and<br>beneficial interest in trust | <u>11,941,508</u>    | <u>-</u>  | <u>-</u>   | <u>11,941,508</u>  |
|  | <u>\$ 38,888,539</u> | <u>\$ 4,440,850</u>   | <u>\$ 21,482,481</u>   | <u>\$ 12,965,208</u>   |

Changes in assets measured on a recurring basis using significant unobservable inputs (Level 3 inputs) for the year ended May 31, 2016:

| <u>Level 3 inputs by category</u> | <u>Real Estate</u> | <u>Deferred<br/>Gifts</u> | <u>Total</u>         |
|-----------------------------------|--------------------|---------------------------|----------------------|
| May 31, 2015                      | \$ 1,023,700       | \$ 11,941,508             | \$ 12,965,208        |
| Additions                         | -                  | 1,337,623                 | 1,337,623            |
| Change in value                   | 8,092              | (1,050,858)               | (1,042,766)          |
| Sales or pay down of principal    | <u>(1,023,092)</u> | <u>(578,541)</u>          | <u>(1,601,633)</u>   |
| May 31, 2016                      | <u>\$ 8,700</u>    | <u>\$ 11,649,732</u>      | <u>\$ 11,658,432</u> |

Changes in assets measured on a recurring basis using significant unobservable inputs (Level 3 inputs) for the year ended May 31, 2015:

| <u>Level 3 inputs by category</u> | <u>Real Estate</u>  | <u>Deferred<br/>Gifts</u> | <u>Total</u>         |
|-----------------------------------|---------------------|---------------------------|----------------------|
| May 31, 2014                      | \$ 8,700            | \$ 11,803,680             | \$ 11,812,380        |
| Additions                         | 1,015,000           | 747,426                   | 1,762,426            |
| Change in value                   | -                   | 41,145                    | 41,145               |
| Sales or pay down of principal    | -                   | (650,743)                 | (650,743)            |
| May 31, 2015                      | <u>\$ 1,023,700</u> | <u>\$ 11,941,508</u>      | <u>\$ 12,965,208</u> |

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

May 31, 2016

### Note 4 - Fair Value Measurements and Investments (Continued)

Investment income (loss) at May 31, 2016 consists of the following:

| Investment income (loss): | <u>Unrestricted<br/>Undesignated</u> | <u>Board<br/>Designated</u> | <u>Temporarily<br/>Restricted</u> | <u>Total</u>        |
|---------------------------|--------------------------------------|-----------------------------|-----------------------------------|---------------------|
| Dividends and interest    | \$ 10,881                            | \$ 124,468                  | \$ 96,762                         | \$ 232,111          |
| Realized gain (loss)      | 1,974                                | 42,698                      | (112,959)                         | (68,287)            |
| Unrealized gain (loss)    | <u>3,837</u>                         | <u>(386,671)</u>            | <u>(256,451)</u>                  | <u>(639,285)</u>    |
|                           | <u>\$ 16,692</u>                     | <u>\$ (219,505)</u>         | <u>\$ (272,648)</u>               | <u>\$ (475,461)</u> |

Investment income at May 31, 2015 consists of the following:

| Investment income:     | <u>Unrestricted<br/>Undesignated</u> | <u>Board<br/>Designated</u> | <u>Temporarily<br/>Restricted</u> | <u>Total</u>        |
|------------------------|--------------------------------------|-----------------------------|-----------------------------------|---------------------|
| Dividends and interest | \$ 86,737                            | \$ 149,806                  | \$ 273,446                        | \$ 509,989          |
| Realized gain (loss)   | 1,584                                | 1,788,886                   | 2,224,020                         | 4,014,490           |
| Unrealized gain (loss) | <u>(3,837)</u>                       | <u>(1,542,909)</u>          | <u>(1,959,264)</u>                | <u>(3,506,010)</u>  |
|                        | <u>\$ 84,484</u>                     | <u>\$ 395,783</u>           | <u>\$ 538,202</u>                 | <u>\$ 1,018,469</u> |

In April 2015, all investments were consolidated under the management and custodianship of State Street Global Advisors (SSGA) of Boston, MA. Previous to this, only investments pertaining to the gift annuity programs were held at SSGA.

The Foundation also manages custodial funds on behalf of certain of the League's districts and zones. Net investment income gains (losses) associated with custodial funds were \$(10,854) and \$23,780 at May 31, 2016 and 2015, respectively.

### Note 5 - Estate Gifts and Other Receivables

| <u>May 31</u>                            | <u>2016</u>         | <u>2015</u>         |
|--|---------------------|---------------------|
| Estate gifts                             | \$ 3,553,362        | \$ 2,609,170        |
| Allowance for change in valuation        | <u>(169,736)</u>    | <u>(101,013)</u>    |
|  | <u>3,383,626</u>    | 2,508,157           |
| Other receivables                        | <u>571,057</u>      | <u>443,056</u>      |
| Total estate gifts and other receivables | <u>\$ 3,954,683</u> | <u>\$ 2,951,213</u> |

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

May 31, 2016

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### Note 6 - Irrevocable Deferred Gifts

The Organization is beneficiary of various irrevocable deferred gifts administered by the Lutheran Church-Missouri Synod Foundation and other organizations. The actuarial present value of these contracts amount to \$4,873,069 at May 31, 2016 and \$4,931,208 at May 31, 2015 and have been reflected in these consolidated financial statements as a receivable and as temporarily restricted net assets due to time restrictions. When the contracts mature, the current value will be re-classed as unrestricted, temporarily restricted, or permanently restricted net assets based on the donor restrictions.

In addition, the Organization is currently beneficiary of contracts at May 31, 2016 on which the beneficiary can be changed. The actuarial present value of these contracts amounted to \$1,878,564 and \$2,651,220 at May 31, 2016 and 2015, respectively. These amounts have not been reflected in these consolidated financial statements.

### Note 7 - Beneficial Interest in Trusts

The Organization is the beneficiary of a number of annual trust and endowment distributions during the year from various third party trustees. Based on the information available, which includes the applicable trust or other distribution documents and the latest available asset valuations, the present value of future distributions was determined and included in the consolidated financial statements in the amount of \$6,776,663 and \$7,010,300 at May 31, 2016 and 2015, respectively.

### Note 8 - Prepaid Expenses and Other Assets

| <u>May 31</u>                             | <u>2016</u>       | <u>2015</u>       |
|---|-------------------|-------------------|
| Unamortized debt issuance costs           | \$ 239,757        | \$ 250,492        |
| Unamortized capital leasing costs         | 77,020            | 111,014           |
| Insurance policies – cash surrender value | 554,733           | 552,324           |
| Other                                     | <u>55,233</u>     | <u>66,571</u>     |
| Total prepaid expenses and other assets   | \$ <u>926,743</u> | \$ <u>980,401</u> |

Debt issuance costs pertaining to the Industrial Development Authority of the County of St. Louis, Missouri Adjustable Rate Demand Revenue Bonds issued on September 10, 2008 totaled \$322,062 and are being amortized over 30-year retirement for the bonds. At May 31, 2016 and 2015, accumulated amortization of \$82,305 and \$71,570, respectively, had been recognized and reflected as a reduction in debt issuance costs.

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

May 31, 2016

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### Note 9 - Property and Equipment

| <u>May 31</u>                 | <u>2016</u>         | <u>2015</u>         |
|-------------------------------|---------------------|---------------------|
| Building and improvements     | \$18,669,965        | \$18,368,866        |
| Equipment and furniture       | 2,390,406           | 2,559,009           |
| Software                      | <u>1,086,923</u>    | <u>1,086,923</u>    |
|                               | 22,147,294          | 22,014,798          |
| Less accumulated depreciation | <u>9,852,842</u>    | <u>9,553,154</u>    |
|                               | 12,294,452          | 12,461,644          |
| Land                          | <u>3,475,000</u>    | <u>3,475,000</u>    |
|                               | <u>\$15,769,452</u> | <u>\$15,936,644</u> |
| Depreciation expense          | \$ <u>532,485</u>   | \$ <u>564,292</u>   |

### Note 10 - Gift Annuities and Other Liabilities

Gift annuities and custodial arrangements are established by donors and related entities respectively, for the benefit of the Organization and related organizations.

The Foundation established a gift annuity program in which donors make an irrevocable gift to the Foundation and receive an annuity payment for their lifetime and/or their survivor's lifetime. At their death, the Foundation will receive the balance of the annuity. The payments to the individuals are generally based on rates suggested by the American Council on Gift Annuities and the gift values are based on rates established by the Internal Revenue Service which range from 4.1% to 10.0% as of May 31, 2016 and 4.1% to 11.0% as of May 31, 2015. Under the counsel of State Street Global Advisors, the Foundation is in compliance with the reserve requirements and limitations on investments of the states in which the gift annuity contracts have been written.

Annuity reserves were determined by State Street Global Advisors using the mortality tables as recommended by the American Council on Gift Annuities at May 31, 2016 and 2015. However, for gift annuities issued in the State of California, the annuity reserves were determined by State Street Global Advisors using the mortality tables as required by the California Department of Insurance.

Because of state regulations, the gift annuity programs for the States of California, Wisconsin, Illinois, and New York are being operated by the League.

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

May 31, 2016

### Note 10 - Gift Annuities and Other Liabilities (Continued)

Change in Gift Annuity Liabilities:

May 31, 2016

|   | <u>League</u>     | <u>Foundation</u>   | <u>Total</u>        |
|---|-------------------|---------------------|---------------------|
| Beginning gift annuity liabilities                              | \$ 708,188        | \$ 2,165,577        | \$ 2,873,765        |
| Increase in liabilities on gift annuities issued before payouts | 131,187           | 56,042              | 187,229             |
| Other net changes in liabilities including terminations         | <u>(32,483)</u>   | <u>(149,061)</u>    | <u>(181,544)</u>    |
| Ending gift annuity liabilities                                 | <u>\$ 806,892</u> | <u>\$ 2,072,558</u> | <u>\$ 2,879,450</u> |

May 31, 2015

|   | <u>League</u>     | <u>Foundation</u>   | <u>Total</u>        |
|---|-------------------|---------------------|---------------------|
| Beginning gift annuity liabilities                              | \$ 975,882        | \$ 2,257,713        | \$ 3,233,595        |
| Increase in liabilities on gift annuities issued before payouts | 8,300             | 104,738             | 113,038             |
| Other net changes in liabilities including terminations         | <u>(275,994)</u>  | <u>(196,874)</u>    | <u>(472,868)</u>    |
| Ending gift annuity liabilities                                 | <u>\$ 708,188</u> | <u>\$ 2,165,577</u> | <u>\$ 2,873,765</u> |

### Note 11 - Line of Credit

The Organization has a revolving line of credit balloon note with the Lutheran Church Extension Fund (LCEF) in the amount of \$1,500,000 with a maturity date of January 8, 2018, and interest charged at the prevailing rate when funds are loaned. The Organization was obligated for \$-0- at May 31, 2016 and 2015.

On September 15, 2015 the Organization extended a revolving line of credit balloon note with Fifth Third Bank, an Ohio banking corporation, in the amount of \$2,000,000, which is secured by its home office building and is due and payable on September 15, 2018. The interest rate on the variable rate loan is calculated based on the per annum rate of LIBOR plus 200 basis points. The Organization was obligated for \$-0- at May 31, 2016 and 2015.

### Note 12 - Bonds Payable

The Organization issued Industrial Development Authority of St. Louis County, Missouri Adjustable Rate Demand Revenue Bonds on September 10, 2008.

May 31

2016

2015

Series A tax-exempt bonds with maturity date of September 1, 2038. The interest rate at May 31, 2016 was 0.39%.

\$ 6,800,000    \$ 6,800,000

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

May 31, 2016

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### Note 12 - Bonds Payable (Continued)

The Organization issued \$10,005,000 in Industrial Development Authority of St. Louis County, Missouri Adjustable Rate Demand Revenue Bonds on September 10, 2008 in order to retire a note payable due to the Lutheran Church Extension Fund. The bonds were classified as Series A Tax-Exempt Bonds with a maturity date of September 1, 2038 in the amount of \$7,055,000 and Series B taxable bonds with a maturity date of September 1, 2021 in the amount of \$2,950,000. During the fiscal year ended May 31, 2014 all remaining Series B bonds in the amount of \$920,000 were paid off. The interest rate on the Series A bonds at May 31, 2016 was 0.39%. No principal payments are due on the remaining Series A bonds until September 1, 2023. Management believes that the Organization is in compliance with all covenants of the Bond Trust Indentures, Letter of Credit Agreement and remaining Swap Agreement.

The outstanding bonds are supported by a letter of credit issued by Fifth Third Bank which guarantees full payment and is collateralized by office property at 660 Mason Ridge Center Drive, Town and Country, Missouri with a net book value as of May 31, 2016 and 2015 of \$15,414,697 and \$15,534,614, respectively. This letter of credit will expire on September 15, 2018. The Organization paid a fee for this letter of credit of 1.30% per annum on a quarterly basis which amounted to \$90,907 and \$94,059 for the fiscal years ended May 31, 2016 and 2015, respectively.

Expenses related to the original bond issuance in 2008 in the amount of \$322,162 are being amortized over the maturity of the outstanding bonds and totaled \$10,735 in 2016 and \$10,736 in 2015. These amortization expenses are being reported as interest.

Interest paid on the bonds amounted to \$7,342 and \$8,267 during the fiscal years ended May 31, 2016 and 2015, respectively. The interest is based on LIBOR and ranged from 0.03% to 0.43% for the outstanding Series A bonds this past fiscal year.

Interest rate swap agreements were signed with Fifth Third Bank at the issuance of the original bonds. All swap agreements have expired as of September 1, 2015. The net amount of interest paid on the swap agreements amounted to \$8,081 and \$31,965 in the fiscal years ended May 31, 2016 and 2015, respectively.

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

May 31, 2016

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### Note 13 - Employee Benefits

The Organization participates in the worker benefit plans (the "Plans") of The Lutheran Church–Missouri Synod. Substantially all full-time employees are covered by the Concordia Retirement Plan (CRP), Concordia Retirement Savings Plan (CRSP), and the Concordia Disability and Survivor Plan (CDSP). The CRP and CRSP provide workers with income during retirement. All full-time workers (those employed more than 20 hours per week and more than 5 consecutive months a year) are eligible. Eligible members in the CRP are vested after five years of creditable service. Eligible members in the CRSP are 100% vested in all contributions and earnings. The CDSP provides a disability benefit (for the worker) and a pre-retirement lump-sum death benefit (for the worker and enrolled dependents). All full-time workers (those employed more than 20 hours per week and more than 5 consecutive months a year) must be offered the opportunity to enroll themselves and eligible dependents in the CDSP. The CDSP pays a monthly income benefit equal to 70% of an employee's monthly compensation when a worker becomes disabled due to a qualifying disability. The Organization contributes a fixed percentage of each participant's salary to the plans. The Plans also provide health and welfare benefits covering substantially all full time employees (those employed 30 hours or more per week) and their families.

Total expenses are as follows as of May 31:

|                           | <u>2016</u>  | <u>2015</u>  |
|---------------------------|--------------|--------------|
| CRP, CRSP, and CDSP plans | \$ 748,463   | \$ 696,877   |
| Health and welfare        | \$ 1,317,755 | \$ 1,265,702 |

There were no significant changes in the Organization's relationships to the Plans or changes that would affect the comparability to the Plans during the fiscal year ended May 31, 2016. There were also no contingent liabilities associated with the Plans at May 31, 2016 and 2015. Currently, the Organization has no intention to withdraw from the Plans and the contributions and level of participation represent a small percentage of the Plans.

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

May 31, 2016

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### Note 14 - Board Designated Unrestricted Net Assets

| <u>May 31</u>                          | <u>2016</u>         | <u>2015</u>         |
|--|---------------------|---------------------|
| Gift annuities reserve                 | \$ 2,169,648        | \$ 2,393,638        |
| Other retained annuity excess earnings | 261,744             | 611,540             |
| Board designated endowment funds       | 1,405,886           | 1,522,776           |
| Net investment in plant                | 7,341,998           | 7,320,199           |
| Bequest reserve                        | <u>3,512,210</u>    | <u>3,843,729</u>    |
|  | <u>\$14,691,486</u> | <u>\$15,691,822</u> |

### Note 15 - Temporarily Restricted Net Assets

| <u>May 31</u>                    | <u>2016</u>         | <u>2015</u>         |
|----------------------------------|---------------------|---------------------|
| <b>Restricted by program</b>     |                     |                     |
| Restricted contributions         | \$ 177,613          | \$ 378,509          |
| <b>Restricted by time</b>        |                     |                     |
| Undistributed endowment earnings | 1,673,666           | 2,649,321           |
| Pledges receivable               | 17,634              | 67,354              |
| Beneficial interest in trusts    | 147,446             | 250,385             |
| Irrevocable deferred gifts       | <u>4,873,069</u>    | <u>4,931,208</u>    |
|                                  | <u>\$ 6,889,428</u> | <u>\$ 8,276,777</u> |

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors. Temporarily restricted net assets released for program restrictions were \$321,369 and \$61,188 and for time restrictions were \$703,007 and \$670,054 for the years ended May 31, 2016 and 2015, respectively.

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

May 31, 2016

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### Note 16 - Endowment Policies

The investment objectives of the Foundation endowment funds are designed to produce the desired long-term real growth over inflation and sufficient income for expenses and the desired annual spending from the Foundation funds. The assets are to be invested with care, skill, prudence and diligence that a prudent person acting at those times in a like capacity and familiar with such matters would use in the investment of a fund of like character, with like aims and due consideration given to the tax-exempt status of the Foundation. The targeted invested asset mix is currently 55% equities and 40% fixed income, 4% alternative investments and 1% cash equivalents. The Foundation honors donors' specific, written restrictions or directives. The endowment distribution policy follows the requirements of the State of Missouri's Uniform Prudent Management of Institutional Funds Act. The distribution policy is based on 5% of the average market value of endowment assets for the preceding twelve quarters.

Most of the endowment funds permit invasion of corpus not to exceed 10% on an annual basis in the event of extraordinary circumstances requiring the emergency expenditure of funds and only with the approval of the Foundation Board of Trustees.

So as to ensure a perpetual source of payout to support the International Lutheran Laymen's League, the Foundation strives to maintain the market value of the endowments on an aggregate basis equal to their total historic dollar value when received. In the aggregate, the fair value of donor restricted endowment funds exceeds the historic dollar value. The Board of Trustees continues to interpret state law to require the original value of an endowment gift to be maintained as the permanent endowment corpus.

The changes in and composition of endowment net assets for the year ended May 31, 2016 are as follows:

|  | <u>Board<br/>Designated</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>         |
|--|-----------------------------|-----------------------------------|-----------------------------------|----------------------|
| Endowment net assets – beginning of year | \$ 1,522,776                | \$ 2,649,321                      | \$ 10,649,174                     | \$ 14,821,271        |
| Contributions                            | -                           | -                                 | 325,622                           | 325,622              |
| Investment earnings (losses):            |                             |                                   |                                   |                      |
| Dividends and interest                   | 10,183                      | 96,762                            | -                                 | 106,945              |
| Net realized gains                       | (12,064)                    | (112,959)                         | -                                 | (125,023)            |
| Net change in unrealized gains           | <u>(28,118)</u>             | <u>(256,451)</u>                  | -                                 | <u>(284,569)</u>     |
| Total investment income                  | (29,999)                    | (272,648)                         | -                                 | (302,647)            |
| Release of endowment funds:              |                             |                                   |                                   |                      |
| Endowment distributions to the League    | (75,668)                    | (602,210)                         | -                                 | (677,878)            |
| Foundation expenses                      | <u>(11,223)</u>             | <u>(100,797)</u>                  | -                                 | <u>(112,020)</u>     |
| Total endowment funds released           | <u>(86,891)</u>             | <u>(703,007)</u>                  | -                                 | <u>(789,898)</u>     |
| Endowment net assets – end of year       | <u>\$ 1,405,886</u>         | <u>\$ 1,673,666</u>               | <u>\$ 10,974,796</u>              | <u>\$ 14,054,348</u> |

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

May 31, 2016

### Note 16 - Endowment Policies (Continued)

The changes in and composition of endowment net assets for the year ended May 31, 2015 are as follows:

|  | <u>Board<br/>Designated</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>         |
|--|-----------------------------|-----------------------------------|-----------------------------------|----------------------|
| Endowment net assets – beginning of year | \$ 1,540,684                | \$ 2,781,173                      | \$ 8,752,152                      | \$ 13,074,009        |
| Contributions                            | -                           | -                                 | 1,897,022                         | 1,897,022            |
| Investment earnings (losses):            |                             |                                   |                                   |                      |
| Dividends and interest                   | 38,579                      | 273,446                           | -                                 | 312,025              |
| Net realized gains                       | 257,411                     | 2,224,020                         | -                                 | 2,481,431            |
| Net change in unrealized gains           | <u>(225,488)</u>            | <u>(1,959,264)</u>                | <u>-</u>                          | <u>(2,184,752)</u>   |
| Total investment income                  | 70,502                      | 538,202                           | -                                 | 608,704              |
| Release of endowment funds:              |                             |                                   |                                   |                      |
| Endowment distributions to the League    | (75,929)                    | (561,330)                         | -                                 | (637,259)            |
| Foundation expenses                      | <u>(12,481)</u>             | <u>(108,724)</u>                  | <u>-</u>                          | <u>(121,205)</u>     |
| Total endowment funds released           | <u>(88,410)</u>             | <u>(670,054)</u>                  | <u>-</u>                          | <u>(758,464)</u>     |
| Endowment net assets – end of year       | <u>\$ 1,522,776</u>         | <u>\$ 2,649,321</u>               | <u>\$ 10,649,174</u>              | <u>\$ 14,821,271</u> |

Endowment net asset composition by type of funds as of May 31, 2016:

|                  | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>         |
|------------------|---------------------|-----------------------------------|-----------------------------------|----------------------|
| Donor designated | \$ -                | \$ 1,673,666                      | \$ 10,974,796                     | \$ 12,648,462        |
| Board designated | <u>1,405,866</u>    | <u>-</u>                          | <u>-</u>                          | <u>1,405,886</u>     |
|                  | <u>\$ 1,405,866</u> | <u>\$ 1,673,666</u>               | <u>\$ 10,974,796</u>              | <u>\$ 14,054,348</u> |

Endowment net asset composition by type of funds as of May 31, 2015:

|                  | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>         |
|------------------|---------------------|-----------------------------------|-----------------------------------|----------------------|
| Donor designated | \$ -                | \$ 2,649,321                      | \$ 10,649,174                     | \$ 13,298,495        |
| Board designated | <u>1,522,776</u>    | <u>-</u>                          | <u>-</u>                          | <u>1,522,776</u>     |
|                  | <u>\$ 1,522,776</u> | <u>\$ 2,649,321</u>               | <u>\$ 10,649,174</u>              | <u>\$ 14,821,271</u> |

### Note 17 - Contributed Radio and Television Station Time

A portion of the Organization's radio station time has been donated by local sponsors. The value of the time contributed by local sponsors was \$2,173,254 and \$2,311,598 for the years ended May 31, 2016 and 2015, respectively. In addition, the Organization also received free radio and television time from local stations valued at \$7,648,531 and \$7,523,966 for the years ended May 31, 2016 and 2015, respectively.

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements

May 31, 2016

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### Note 18 - Commitments

The Organization has entered into numerous contracts with various hotels and convention center facilities for future planned conferences. Some of these contracts contain penalty clauses for cancellation which could be material depending upon the particular contract and the date of cancellation. The penalties are based upon rooms reserved, anticipated hotel, food and beverage revenues and other damages. The potential liability for such damages, if incurred, cannot presently be determined. At May 31, 2016, the Organization does not intend to cancel any of these commitments.

### Note 19 - Future Rental Income

The Organization leases space to outside entities. These rental agreements are typically multi-year periods and are accounted for as operating leases.

Rental income is reported as earned over the term of the lease. Future minimum rental income under these leases is as follows:

|            |              |
|------------|--------------|
| 2017       | \$ 1,270,049 |
| 2018       | 875,947      |
| 2019       | 877,924      |
| 2020       | 894,185      |
| 2021       | 836,356      |
| Thereafter | 1,076,747    |

It is management's intent to seek renewal of these leases as they expire.

## **Supplemental Information**

## **Independent Auditor's Report on Consolidating and Supplemental Information**

Board of Directors  
International Lutheran Laymen's League and Subsidiaries  
St. Louis, Missouri

We have audited the consolidated financial statements of the International Lutheran Laymen's League and Subsidiaries as of and for the year ended May 31, 2016, and our report thereon dated September 16, 2016, which expressed an unmodified opinion on those consolidated financial statements appears on page 1. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 28 and 29 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and changes in net assets of the individual organizations, and is not a required part of the consolidated financial statements. The consolidated schedule of expenses by functional and natural classification also is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. The consolidating and supplemental 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. Such 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 consolidating information on pages 28 and 29 and the supplemental information on page 27 is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Brown Smith Wallace, LLP*

St. Louis, Missouri  
September 16, 2016

## INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

### Consolidated Schedule of Expenses by Functional and Natural Classification

Year ended May 31, 2016

(See Independent Auditor's Report on Consolidating and Supplemental Information)

|                                    | Domestic<br>Ministry Radio | Domestic<br>Ministry<br>Television | Other<br>Domestic<br>Ministries | Foreign<br>Ministries | Administration      | Fund<br>Raising     | Building<br>Tenant Expense | Annuity<br>Contract<br>Expenses | Total                | Expenses |
|------------------------------------|----------------------------|------------------------------------|---------------------------------|-----------------------|---------------------|---------------------|----------------------------|---------------------------------|----------------------|----------|
| Salaries                           | \$ 1,036,129               | \$ 151,876                         | \$ 2,031,749                    | \$ 1,119,384          | \$ 1,125,013        | \$ 1,966,332        | \$ -                       | \$ -                            | \$ 7,430,483         |          |
| Employee benefits                  | 308,109                    | 57,889                             | 692,598                         | 370,513               | 389,107             | 735,321             | -                          | -                               | 2,553,537            |          |
| Postage & freight                  | 26,167                     | 5,341                              | 105,645                         | 25,146                | 31,117              | 436,403             | 110                        | -                               | 629,929              |          |
| Printing                           | 49,965                     | 7,204                              | 246,981                         | 47,448                | 24,268              | 565,727             | -                          | -                               | 941,593              |          |
| Media production                   | 36,566                     | 9,487                              | 127,685                         | 3,761                 | 3,303               | 3,604               | -                          | -                               | 184,406              |          |
| Media distribution                 | 10,657,713                 | 377,611                            | 302,092                         | 408,972               | -                   | -                   | -                          | -                               | 11,746,388           |          |
| Travel                             | 46,910                     | 5,666                              | 247,749                         | 257,637               | 162,922             | 399,103             | -                          | -                               | 1,119,987            |          |
| Professional & consulting          | 10,938                     | 1,480                              | 46,449                          | 8,059                 | 90,423              | 459,798             | 228                        | -                               | 617,375              |          |
| Insurance, utilities & maintenance | 58,813                     | 10,457                             | 159,278                         | 60,383                | 85,070              | 164,860             | 302,095                    | -                               | 840,956              |          |
| District funding                   | 7,246                      | 1,379                              | 18,660                          | 7,246                 | 35,873              | 34,520              | -                          | -                               | 104,924              |          |
| Interest                           | 11,382                     | 2,167                              | 29,268                          | 11,382                | 9,622               | 20,275              | 41,237                     | -                               | 125,333              |          |
| Depreciation                       | 35,723                     | 6,407                              | 85,667                          | 34,516                | 52,139              | 78,057              | 273,973                    | -                               | 566,482              |          |
| Information processing             | 64,160                     | 9,956                              | 136,133                         | 53,326                | 65,962              | 120,302             | -                          | -                               | 449,839              |          |
| International office               | -                          | -                                  | -                               | 3,997,329             | -                   | 119,761             | -                          | -                               | 4,117,090            |          |
| Annuity contract expenses          | -                          | -                                  | -                               | -                     | -                   | -                   | -                          | 452,613                         | 452,613              |          |
| Other expenses                     | 113,437                    | 14,782                             | 310,544                         | 67,457                | 91,876              | 128,298             | 196,938                    | -                               | 923,332              |          |
|                                    | <u>\$ 12,463,258</u>       | <u>\$ 661,702</u>                  | <u>\$ 4,540,498</u>             | <u>\$ 6,472,559</u>   | <u>\$ 2,166,695</u> | <u>\$ 5,232,361</u> | <u>\$ 814,581</u>          | <u>\$ 452,613</u>               | <u>\$ 32,804,267</u> |          |

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Consolidating Statement of Financial Position

May 31, 2016

(See Independent Auditor's Report on Consolidating and Supplemental Information)

|   | Int'l LLL and<br>Subsidiaries | LHM<br>Foundation    | Total                |
|---|-------------------------------|----------------------|----------------------|
| <b>ASSETS</b>                           |                               |                      |                      |
| Cash                                    | \$ 589,241                    | \$ 51,555            | \$ 640,796           |
| Investments                             | 4,956,080                     | 18,551,304           | 23,507,384           |
| Estate gifts and other receivables, net | 3,948,944                     | 5,739                | 3,954,683            |
| Irrevocable deferred gifts              | 4,873,069                     | -                    | 4,873,069            |
| Beneficial interest in trusts           | 6,776,663                     | -                    | 6,776,663            |
| Branch office cash advances             | 366,591                       | -                    | 366,591              |
| Prepaid expenses and other assets, net  | 926,743                       | -                    | 926,743              |
| Property and equipment, net             | 15,769,452                    | -                    | 15,769,452           |
| <b>TOTAL ASSETS</b>                     | <b>\$ 38,206,783</b>          | <b>\$ 18,608,598</b> | <b>\$ 56,815,381</b> |
| <b>LIABILITIES AND NET ASSETS</b>       |                               |                      |                      |
| <b>Liabilities</b>                      |                               |                      |                      |
| Accounts payable and accruals           | \$ 649,733                    | \$ 10,308            | \$ 660,041           |
| Custodial funds                         | -                             | 30,082               | 30,082               |
| Other liabilities                       | 729,952                       | -                    | 729,952              |
| Intercompany (receivable) payable       | (882,322)                     | 882,322              | -                    |
| Gift annuity liabilities                | 806,892                       | 2,072,558            | 2,879,450            |
| Bonds payable                           | 6,800,000                     | -                    | 6,800,000            |
| <b>Total Liabilities</b>                | <b>8,104,255</b>              | <b>2,995,270</b>     | <b>11,099,525</b>    |
| <b>Net Assets</b>                       |                               |                      |                      |
| Unrestricted - undesignated             | 6,530,930                     | -                    | 6,530,930            |
| Unrestricted - board designated         | 11,726,620                    | 2,964,866            | 14,691,486           |
| Temporarily restricted                  | 5,215,762                     | 1,673,666            | 6,889,428            |
| Permanently restricted                  | 6,629,216                     | 10,974,796           | 17,604,012           |
| <b>Total Net Assets</b>                 | <b>30,102,528</b>             | <b>15,613,328</b>    | <b>45,715,856</b>    |
| <b>TOTAL LIABILITIES AND NET ASSETS</b> | <b>\$ 38,206,783</b>          | <b>\$ 18,608,598</b> | <b>\$ 56,815,381</b> |

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Consolidating Statement of Activities

Year ended May 31, 2016

(See Independent Auditor's Report on Consolidating and Supplemental Information)

|  | Int'l LLL and<br>Subsidiaries | LHM<br>Foundation  | Total              |
|--|-------------------------------|--------------------|--------------------|
| <b>Support and Revenue:</b>            |                               |                    |                    |
| Contributions                          | \$ 20,344,243                 | \$ 71,233          | \$ 20,415,476      |
| Bequests, annuities, and trusts        | 8,457,118                     | 257,278            | 8,714,396          |
| Change in value of deferred gifts      | (291,776)                     | -                  | (291,776)          |
| Charitable gift annuities              | 350,705                       | 94,931             | 445,636            |
| Investment income                      | (38,565)                      | (436,896)          | (475,461)          |
| Merchandise sales                      | 343,039                       | -                  | 343,039            |
| Other income                           | 281,650                       | 1,064              | 282,714            |
| Building tenant rent                   | 1,319,652                     | -                  | 1,319,652          |
| <b>Total support and revenue</b>       | <b>30,766,066</b>             | <b>(12,390)</b>    | <b>30,753,676</b>  |
| <b>Expenses:</b>                       |                               |                    |                    |
| <b>Operating expenses</b>              |                               |                    |                    |
| Program services:                      |                               |                    |                    |
| Domestic radio                         | 12,463,258                    | -                  | 12,463,258         |
| Domestic television                    | 661,702                       | -                  | 661,702            |
| Other domestic ministries              | 4,540,498                     | -                  | 4,540,498          |
| Foreign ministries                     | 6,472,559                     | -                  | 6,472,559          |
| Administration                         | 2,166,695                     | -                  | 2,166,695          |
| Fund raising                           | 5,064,891                     | 167,470            | 5,232,361          |
| <b>Total operating expenses</b>        | <b>31,369,603</b>             | <b>167,470</b>     | <b>31,537,073</b>  |
| <b>Non-operating expenses</b>          |                               |                    |                    |
| Building tenant expenses               | 814,581                       | -                  | 814,581            |
| Annuity contract expenses              | 213,041                       | 239,572            | 452,613            |
| <b>Total expenses</b>                  | <b>32,397,225</b>             | <b>407,042</b>     | <b>32,804,267</b>  |
|  | <b>(1,631,159)</b>            | <b>(419,432)</b>   | <b>(2,050,591)</b> |
| Endowment and other fund distributions | 998,033                       | (998,033)          | -                  |
| <b>CHANGE IN NET ASSETS</b>            | <b>(633,126)</b>              | <b>(1,417,465)</b> | <b>(2,050,591)</b> |
| Net assets at beginning of year        | 30,735,654                    | 17,030,793         | 47,766,447         |
| Net assets at end of year              | \$ 30,102,528                 | \$ 15,613,328      | \$ 45,715,856      |