



CONSOLIDATED FINANCIAL STATEMENTS  
WITH  
INDEPENDENT AUDITOR'S REPORT

**MAY 31, 2017**

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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, 2017 and 2016, 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, 2017 and 2016, 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 22, 2017

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Consolidated Statements of Financial Position

May 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Cash	\$ 662,646	\$ 640,796
Investments	25,907,960	23,507,384
Estate gifts and other receivables, net	3,239,150	3,954,683
Irrevocable deferred gifts	5,013,385	4,873,069
Beneficial interest in trusts	7,557,455	6,776,663
Branch office cash advances	341,753	366,591
Prepaid expenses and other assets	741,338	686,986
Property and equipment, net	15,437,027	15,769,452
<b>TOTAL ASSETS</b>	<b>\$ 58,900,714</b>	<b>\$ 56,575,624</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable and accruals	\$ 796,154	\$ 660,041
Line of credit	1,200,000	-
Custodial funds	25,056	30,082
Other liabilities	917,117	729,952
Gift annuity liabilities	2,883,618	2,879,450
Bonds payable	6,570,978	6,560,243
<b>Total Liabilities</b>	<b>12,392,923</b>	<b>10,859,768</b>
<b>Net Assets</b>		
Unrestricted - undesignated	3,744,114	6,530,930
Unrestricted - board designated	15,367,223	14,691,486
Temporarily restricted	7,843,395	6,889,428
Permanently restricted	19,553,059	17,604,012
<b>Total Net Assets</b>	<b>46,507,791</b>	<b>45,715,856</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 58,900,714</b>	<b>\$ 56,575,624</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, 2017

	Unrestricted				Total
	Undesignated	Board Designated	Temporarily Restricted	Permanently Restricted	
<b>Support and Revenue:</b>					
Contributions	\$ 10,936,427	\$ -	\$ 145,680	\$ 63,430	\$ 11,145,537
In-kind gifts	9,703,790	-	-	-	9,703,790
Bequests, annuities, and trusts	7,168,088	179,083	-	1,073,071	8,420,242
Change in value of deferred gifts	-	-	108,562	812,546	921,108
Charitable gift annuities	-	294,486	-	-	294,486
Investment income	5,569	1,108,815	1,599,729	-	2,714,113
Merchandise sales	295,718	-	-	-	295,718
Other income	124,767	-	-	-	124,767
Building tenant rent	1,343,543	-	-	-	1,343,543
Net assets released from restrictions and designations	1,806,651	(906,647)	(900,004)	-	-
<b>Total support and revenue</b>	<b>31,384,553</b>	<b>675,737</b>	<b>953,967</b>	<b>1,949,047</b>	<b>34,963,304</b>
<b>Expenses:</b>					
<b>Operating expenses</b>					
Program services:					
Domestic radio	12,620,219	-	-	-	12,620,219
Domestic television	590,338	-	-	-	590,338
Other domestic ministries	5,355,432	-	-	-	5,355,432
Foreign ministries	6,457,983	-	-	-	6,457,983
Administration	2,195,979	-	-	-	2,195,979
Fund raising	5,585,222	-	-	-	5,585,222
<b>Total operating expenses</b>	<b>32,805,173</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>32,805,173</b>
<b>Non-operating expenses</b>					
Building tenant expenses	926,600	-	-	-	926,600
Annuity contract expenses	439,596	-	-	-	439,596
<b>Total expenses</b>	<b>34,171,369</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>34,171,369</b>
<b>CHANGE IN NET ASSETS</b>	<b>(2,786,816)</b>	<b>675,737</b>	<b>953,967</b>	<b>1,949,047</b>	<b>791,935</b>
Net assets at beginning of year	6,530,930	14,691,486	6,889,428	17,604,012	45,715,856
Net assets at end of year	\$ 3,744,114	\$ 15,367,223	\$ 7,843,395	\$ 19,553,059	\$ 46,507,791

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		Temporarily Restricted	Permanently Restricted	Total
	Undesignated	Board Designated			
<b>Support and Revenue:</b>					
Contributions	\$ 10,454,594	\$ -	\$ 70,753	\$ 68,344	\$ 10,593,691
In-kind gifts	9,821,785	-	-	-	9,821,785
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>
<b>Net assets at beginning 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>
<b>Net assets at end of year</b>	<b>\$ 6,530,930</b>	<b>\$ 14,691,486</b>	<b>\$ 6,889,428</b>	<b>\$ 17,604,012</b>	<b>\$ 45,715,856</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, 2017 and 2016

	2017	2016
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 791,935	\$ (2,050,591)
Adjustments to reconcile change in net assets to net cash used in operating activities -		
Depreciation	537,445	532,485
Amortization of debt issuance costs	10,735	10,735
Unrealized (gain) loss on investments	(2,268,979)	642,146
Change in value of beneficial interests in trusts	(780,792)	233,637
Change in value of irrevocable deferred gifts	(140,316)	58,139
Change in deferred value of gift annuity liabilities	4,168	5,685
Loss on disposal of property and equipment	1,214	840
Unrealized gain on interest swap agreements	-	(7,985)
(Increase) decrease in assets -		
Estate and other receivables, net	715,533	(1,003,470)
Branch office cash advance	24,838	40,540
Prepaid expenses and other assets	(54,352)	42,923
Increase (decrease) in liabilities -		
Accounts payable and accruals	136,113	(360,921)
Custodial fund liabilities	(5,026)	(428,601)
Other liabilities	187,165	43,810
<b>Net cash used in operating activities</b>	<b>(840,319)</b>	<b>(2,240,628)</b>
<b>Cash flows from investing activities:</b>		
Purchases of investments	(9,688,297)	(14,708,570)
Proceeds from sale of investments	9,556,700	17,506,071
Purchases of property and equipment	(206,234)	(366,133)
<b>Net cash provided by (used in) investing activities</b>	<b>(337,831)</b>	<b>2,431,368</b>
<b>Cash flows from financing activities:</b>		
Proceeds from line of credit	3,400,000	100,000
Payments on line of credit	(2,200,000)	(100,000)
Payments on bonds payable	-	-
<b>Net cash provided by financing activities</b>	<b>1,200,000</b>	<b>-</b>
<b>NET INCREASE IN CASH</b>	<b>21,850</b>	<b>190,740</b>
<b>Cash, beginning of year</b>	<b>640,796</b>	<b>450,056</b>
<b>Cash, end of year</b>	<b>\$ 662,646</b>	<b>\$ 640,796</b>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid during the year for -		
Interest paid	\$ 174,150	\$ 114,598
Unrelated business income taxes paid	\$ 20,850	\$ 21,300

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, 2017

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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 - Continued

May 31, 2017

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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 undistributed investment earnings on donor-restricted endowments and 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 the endowment funds, to distribute payouts to the League according to the Foundation's board approved endowment distribution policy.

#### 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.

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements - Continued

May 31, 2017

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

#### Cash

The Organization's cash is on deposit with major domestic financial institutions. At times, bank deposits may exceed federally insured limits. Highly liquid investments with initial maturities of three months or less are considered 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. Other receivables are those resulting from the normal course of operations such as accrued investment income, rent receivable, and life estate in pledged property.

#### 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.

#### Property and Equipment

Property and equipment maintained in the United States 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.

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements - Continued

May 31, 2017

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

#### **New Accounting Pronouncement on Debt Issuance Costs**

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-03 "Interest – Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs" (Subtopic 835-30) effective for years beginning subsequent to December 31, 2015. This standard eliminates the reporting of debt issuance costs as deferred charges on the statement of financial position and now reports them as a direct deduction from the face amount of the debt. The annual amortization of these debt issuance costs is reported as interest expense.

#### **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, 2017 and 2016, 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.

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements - Continued

May 31, 2017

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

#### 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.

#### 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 2016 consolidated financial statements to conform to the 2017 presentation.

#### Subsequent Events

Management has evaluated all subsequent events and transactions through September 22, 2017, 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.

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements - Continued

May 31, 2017

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### 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).

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 to cover any uncertain tax positions.

### 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 - Continued

May 31, 2017

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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.

*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:* Valued at the daily closing price as reported by the funds. Mutual funds held by the Organization are open end mutual funds that are registered with the Securities Exchange Commission. These funds are required to publish their daily net asset value ("NAV") and to transact at that price. The NAV, as provided by the trustee, is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities. The mutual funds held by the Organization are deemed to be actively traded.

*Collective Trust Funds:* Valued at the NAV of units of a collective trust. The NAV, as provided by the custodian, is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities. This practical expedient is not used when it is determined to be probable that the fund will sell the investment for an amount different than the reported NAV. Transactions (purchased and sales) may occur daily.

*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.

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 - Continued

May 31, 2017

### 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, 2017 and 2016.

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, 2017 and 2016:

<u>2017</u>	<u>Fair Value</u>	<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash equivalents	\$ 559,786	\$ 559,786	\$ -	\$ -
Real estate	8,700	-	-	8,700
Government securities	242,727	242,727	-	-
Investment funds:				
Mutual funds				
Equity funds	2,335,196	2,335,196	-	-
Fixed income funds	3,447,285	3,447,285	-	-
Total Mutual funds	<u>5,782,481</u>	<u>5,782,481</u>	<u>-</u>	<u>-</u>
Collective trust funds:				
Equity funds	14,587,585	-	14,587,585	-
Fixed income funds	4,726,681	-	4,726,681	-
Total collective trust funds	<u>19,314,266</u>	<u>-</u>	<u>19,314,266</u>	<u>-</u>
Total investments	<u>25,907,960</u>	<u>6,584,994</u>	<u>19,314,266</u>	<u>8,700</u>
Irrevocable deferred gifts and beneficial interest in trust	<u>12,570,840</u>	<u>-</u>	<u>-</u>	<u>12,570,840</u>
	<u>\$ 38,478,800</u>	<u>\$ 6,584,994</u>	<u>\$ 19,314,266</u>	<u>\$ 12,579,540</u>

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements - Continued

May 31, 2017

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

<u>2016</u>	<u>Fair Value</u>	<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash equivalents	\$ 427,585	\$ 427,585	\$ -	\$ -
Real estate	8,700	-	-	8,700
Government securities	244,891	244,891	-	-
Investment funds:				
Mutual funds:				
Equity funds	2,146,052	2,146,052	-	-
Fixed income funds	3,114,702	3,114,702	-	-
Total mutual funds	<u>5,260,754</u>	<u>5,260,754</u>	<u>-</u>	<u>-</u>
Collective trust funds:				
Equity funds	11,463,987	-	11,463,987	-
Fixed income funds	6,101,467	-	6,101,467	-
Total collective trust funds	<u>17,565,454</u>	<u>-</u>	<u>17,565,454</u>	<u>-</u>
Total investments	<u>23,507,384</u>	<u>5,933,230</u>	<u>17,565,454</u>	<u>8,700</u>
Irrevocable deferred gifts and beneficial interest in trust	11,649,732	-	-	11,649,732
	<u>\$ 35,157,116</u>	<u>\$ 5,933,230</u>	<u>\$ 17,565,454</u>	<u>\$ 11,658,432</u>

The following tables summarize investments measured at fair value based on NAV per share as of May 31, 2017 and 2016:

<u>2017</u>				
<u>Investment Name</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Collective trust investments	\$ 19,314,266	-	Daily	Daily
<u>2016</u>				
<u>Investment Name</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Collective trust investments	\$ 17,565,454	-	Daily	Daily

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements - Continued

May 31, 2017

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

Changes in assets measured on a recurring basis using significant unobservable inputs (Level 3 inputs) for the year ended May 31, 2017:

Level 3 inputs by category	Real Estate	Deferred Gifts	Total
May 31, 2016	\$ 8,700	\$ 11,649,732	\$ 11,658,432
Additions	-	2,113,416	2,113,416
Change in value	-	(1,016,339)	(1,016,339)
Sales or pay down of principal	-	(175,969)	(175,969)
May 31, 2017	\$ <u>8,700</u>	\$ <u>12,570,840</u>	\$ <u>12,579,540</u>

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

Level 3 inputs by category	Real Estate	Deferred Gifts	Total
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	(1,023,092)	(578,541)	(1,601,633)
May 31, 2016	\$ <u>8,700</u>	\$ <u>11,649,732</u>	\$ <u>11,658,432</u>

Investment income at May 31, 2017 consists of the following:

Investment income:	Unrestricted Undesignated	Board Designated	Temporarily Restricted	Total
Dividends and interest	\$ 3,695	\$ 119,638	\$ 149,891	\$ 273,224
Realized gain	1,874	134,487	38,685	175,046
Unrealized gain	-	854,690	1,411,153	2,265,843
	\$ <u>5,569</u>	\$ <u>1,108,815</u>	\$ <u>1,599,729</u>	\$ <u>2,714,113</u>

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

Investment income (loss):	Unrestricted Undesignated	Board Designated	Temporarily Restricted	Total
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)	3,837	(386,671)	(256,451)	(639,285)
	\$ <u>16,692</u>	\$ <u>(219,505)</u>	\$ <u>(272,648)</u>	\$ <u>(475,461)</u>

The Foundation also manages custodial funds on behalf of certain of the League's districts and zones. Net investment income (losses) associated with custodial funds were \$2,891 and \$(10,854) at May 31, 2017 and 2016, respectively.

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements - Continued

May 31, 2017

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### Note 5 - Estate Gifts and Other Receivables

<u>May 31</u>	<u>2017</u>	<u>2016</u>
Estate gifts	\$ 2,936,478	\$ 3,553,362
Allowance for change in valuation	<u>(139,827)</u>	<u>(169,736)</u>
	2,796,651	3,383,626
Other receivables	<u>442,499</u>	<u>571,057</u>
Total estate gifts and other receivables	<u>\$ 3,239,150</u>	<u>\$ 3,954,683</u>

### 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 \$5,013,385 at May 31, 2017 and \$4,873,069 at May 31, 2016 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, 2017 on which the beneficiary can be changed. The actuarial present value of these contracts amounted to \$2,037,423 and \$1,878,564 at May 31, 2017 and 2016, respectively. These amounts have not been reflected in these consolidated financial statements.

### Note 7 - Beneficial Interest in Trusts

The Organization is the beneficiary of numerous 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 \$7,557,455 and \$6,776,663 at May 31, 2017 and 2016, respectively.

### Note 8 - Prepaid Expenses and Other Assets

<u>May 31</u>	<u>2017</u>	<u>2016</u>
Unamortized capital leasing costs	\$ 70,602	\$ 77,020
Insurance policies – cash surrender value	545,056	554,733
Other	<u>125,680</u>	<u>55,233</u>
Total prepaid expenses and other assets	<u>\$ 741,338</u>	<u>\$ 686,986</u>

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements - Continued

May 31, 2017

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### Note 9 - Property and Equipment

<u>May 31</u>	<u>2017</u>	<u>2016</u>
Building and improvements	\$18,819,417	\$18,669,965
Equipment and furniture	2,340,625	2,390,406
Software	930,715	1,086,923
	<u>22,090,757</u>	<u>22,147,294</u>
Less accumulated depreciation	<u>10,128,730</u>	<u>9,852,842</u>
	<u>11,962,027</u>	<u>12,294,452</u>
Land	<u>3,475,000</u>	<u>3,475,000</u>
	<u>\$15,437,027</u>	<u>\$15,769,452</u>
Depreciation expense	\$ <u>537,445</u>	\$ <u>532,485</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 gift values are based on rates established by the Internal Revenue Service and the payments to the individuals are generally based on rates suggested by the American Council on Gift Annuities which range from 4.1% to 10.0% as of May 31, 2017 and 2016. 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, 2017 and 2016. 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 - Continued

May 31, 2017

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

Change in Gift Annuity Liabilities:

May 31, 2017

	<u>League</u>	<u>Foundation</u>	<u>Total</u>
Beginning gift annuity liabilities	\$ 806,892	\$ 2,072,558	\$ 2,879,450
Increase in liabilities on gift annuities issued before payouts	-	167,792	167,792
Other net changes in liabilities including terminations	<u>(38,366)</u>	<u>(125,258)</u>	<u>(163,624)</u>
Ending gift annuity liabilities	<u>\$ 768,526</u>	<u>\$ 2,115,092</u>	<u>\$ 2,883,618</u>

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>

### 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 \$1,200,000 and \$-0- at May 31, 2017 and 2016, respectively.

The Organization has 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, 2017 and 2016, respectively.

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements - Continued

May 31, 2017

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### Note 12 - Bonds Payable

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

<u>May 31</u>	<u>2017</u>	<u>2016</u>
Series A tax-exempt bonds with maturity date of September 1, 2038. The interest rate at May 31, 2017 was 0.82%.	<b>\$ 6,800,000</b>	\$ 6,800,000
Less: Debt issuance costs	<u>229,022</u>	<u>239,757</u>
	<b><u>\$ 6,570,978</u></b>	<b><u>\$ 6,560,243</u></b>

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 were paid off. The interest rate on the Series A bonds at May 31, 2017 was 0.82%. 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, 2017 and 2016 of \$15,136,058 and \$15,414,697, 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 \$90,659 and \$90,907 for the fiscal years ended May 31, 2017 and 2016, respectively.

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements - Continued

May 31, 2017

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### Note 12 - Bonds Payable (Continued)

During the year ended May 31, 2017, the Organization adopted new authoritative generally accepted accounting principle (GAAP) guidance for the presentation of debt issuance costs and related amortization. Debt issuance costs are now reported on the statement of financial position as a direct deduction from the face amount of bonds payable. Previously, such costs were shown as other assets, and May 31, 2016 amounts have been reclassified as deductions from bonds payable, as shown in the table above. This change has no effect on previously reported net assets or change in net assets.

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, 2017 and 2016, accumulated amortization of \$93,040 and \$82,305, respectively, had been recognized and reflected as a reduction in debt issuance costs. Expenses related to the original bond issuance in 2008 totaled \$10,735 in 2017 and \$10,735 in 2016. These amortization expenses are being reported as interest.

Interest paid on the bonds amounted to \$44,435 and \$7,342 during the fiscal years ended May 31, 2017 and 2016, respectively. The interest is based on LIBOR and ranged from 0.33% to 0.96% 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 \$-0- and \$8,081 in the fiscal years ended May 31, 2017 and 2016, respectively.

Subsequent to May 31, 2017, the Organization has begun the process of refinancing its debt and plans to redeem the outstanding bonds.

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements - Continued

May 31, 2017

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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 for the Plans are as follows as of May 31:

	<u>2017</u>	<u>2016</u>
CRP, CRSP, and CDSP plans	\$ 793,973	\$ 748,463
Health and welfare	\$1,270,763	\$1,317,755

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, 2017. There were no contingent liabilities associated with the Plans at May 31, 2017 and 2016. 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 - Continued

May 31, 2017

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### Note 14 - Board Designated Unrestricted Net Assets

<u>May 31</u>	<u>2017</u>	<u>2016</u>
Gift annuities reserve	\$ 2,513,412	\$ 2,169,648
Other retained annuity excess earnings	329,932	261,744
Board designated endowment funds	1,406,097	1,405,886
Net investment in plant	7,364,123	7,341,998
Bequest reserve	<u>3,753,659</u>	<u>3,512,210</u>
	<u>\$15,367,223</u>	<u>\$14,691,486</u>

### Note 15 - Temporarily Restricted Net Assets

<u>May 31</u>	<u>2017</u>	<u>2016</u>
<b>Restricted by program</b>		
Restricted contributions	\$ 170,993	\$ 177,613
<b>Restricted by time</b>		
Undistributed endowment earnings	2,512,496	1,673,666
Pledges receivable	30,829	17,634
Beneficial interest in trusts	115,692	147,446
Irrevocable deferred gifts	<u>5,013,385</u>	<u>4,873,069</u>
	<u>\$ 7,843,395</u>	<u>\$ 6,889,428</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 \$139,106 and \$321,369 and for time restrictions were \$760,898 and \$703,007 for the years ended May 31, 2017 and 2016, respectively.

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements - Continued

May 31, 2017

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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.

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, 2017 are as follows:

	<u>Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets – beginning of year	\$ 1,405,886	\$ 1,673,666	\$10,974,796	\$14,054,348
Contributions	-	-	1,136,501	1,136,501
Investment earnings:				
Dividends and interest	14,662	149,891	-	164,553
Net realized gains	3,524	38,684	-	42,208
Net change in unrealized gains	<u>139,064</u>	<u>1,411,153</u>	<u>-</u>	<u>1,550,217</u>
Total investment income	157,250	1,599,728	-	1,756,978
Release of endowment funds:				
Endowment distributions to the League	(147,241)	(659,158)	-	(806,399)
Foundation expenses	<u>(9,798)</u>	<u>(101,740)</u>	<u>-</u>	<u>(111,538)</u>
Total endowment funds released	<u>(157,039)</u>	<u>(760,898)</u>	<u>-</u>	<u>(917,937)</u>
Endowment net assets – end of year	<u>\$ 1,406,097</u>	<u>\$ 2,512,496</u>	<u>\$12,111,297</u>	<u>\$16,029,890</u>

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements - Continued

May 31, 2017

### Note 16 - Endowment Policies (Continued)

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

	<u>Board Designated</u>	<u>Temporarily Restricted</u>	<u>Permanently 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 losses	(12,064)	(112,959)	-	(125,023)
Net change in unrealized losses	<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>

Endowment net asset composition by type of funds as of May 31, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor designated	\$ -	\$ 2,512,496	\$ 12,111,297	\$ 14,623,793
Board designated	<u>1,406,097</u>	<u>-</u>	<u>-</u>	<u>1,406,097</u>
	<u>\$ 1,406,097</u>	<u>\$ 2,512,496</u>	<u>\$ 12,111,297</u>	<u>\$ 16,029,890</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently 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>1,405,866</u>
	<u>\$ 1,405,866</u>	<u>\$ 1,673,666</u>	<u>\$ 10,974,796</u>	<u>\$ 14,054,348</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 \$1,914,629 and \$2,173,254 for the years ended May 31, 2017 and 2016, respectively. In addition, the Organization also received free radio and television time from local stations valued at \$7,789,161 and \$7,648,531 for the years ended May 31, 2017 and 2016, respectively.

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements - Continued

May 31, 2017

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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 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, 2017, 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:

2018	\$ 1,379,758
2019	1,394,277
2020	1,423,082
2021	1,392,290
2022	1,260,030
Thereafter	1,024,159

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

## **Supplemental Information**

## Independent Auditor's Report on 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, 2017, and our report thereon dated September 22, 2017, which expressed an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole.

The supplemental information, as listed in the table of contents on pages 28 through 30, is presented for purposes of additional analysis of the consolidated financial statements and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Brown Smith Wallace, LLP*

St. Louis, Missouri  
September 22, 2017

## INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

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

Year ended May 31, 2017

(See Independent Auditor's Report on Supplemental Information)

	Domestic Ministry Radio	Domestic Ministry Television	Other Domestic Ministries	Foreign Ministries	Administration	Fund Raising	Building Tenant Expense	Annuity Contract Expenses	Total	Expenses
Salaries	\$ 928,535	\$ 47,146	\$ 2,782,282	\$ 1,076,441	\$ 1,202,869	\$ 2,163,977	\$ -	\$ -	\$ 8,201,250	
Employee benefits	310,448	38,937	873,037	339,679	347,263	729,109	-	-	2,638,473	
Postage & freight	24,599	3,818	95,948	23,237	17,738	433,971	90	-	599,401	
Printing	29,639	4,318	177,711	30,518	15,592	592,436	-	-	850,214	
Media production	31,744	10,960	153,585	1,413	10,650	12,632	-	-	220,984	
Media distribution	10,903,704	451,404	-	392,901	-	-	-	-	11,748,009	
Travel	76,248	5,534	421,960	229,641	148,666	475,827	-	-	1,357,876	
Professional & consulting	28,509	720	157,867	7,039	44,346	482,018	893	-	721,392	
Insurance, utilities & maintenance	52,751	7,224	166,700	53,431	96,770	169,988	304,933	-	851,797	
District funding	5,339	796	15,141	5,339	26,537	26,537	-	-	79,689	
Interest	17,114	2,457	48,885	17,114	14,048	31,341	53,926	-	184,885	
Depreciation	34,781	5,322	89,094	33,597	52,380	78,260	244,011	-	537,445	
Information processing	53,420	5,751	114,101	40,993	122,221	99,648	-	-	436,134	
International office	-	-	-	4,144,821	-	92,349	-	-	4,237,170	
Annuity contract expenses	-	-	-	-	-	-	-	439,596	439,596	
Other expenses	123,388	5,951	259,121	61,819	96,899	197,129	322,747	-	1,067,054	
	<b>\$ 12,620,219</b>	<b>\$ 590,338</b>	<b>\$ 5,355,432</b>	<b>\$ 6,457,983</b>	<b>\$ 2,195,979</b>	<b>\$ 5,585,222</b>	<b>\$ 926,600</b>	<b>\$ 439,596</b>	<b>\$ 34,171,369</b>	

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Consolidating Statement of Financial Position

May 31, 2017

(See Independent Auditor's Report on Supplemental Information)

	Int'l LLL and Subsidiaries	LHM Foundation	Total
<b>ASSETS</b>			
Cash	\$ 504,324	\$ 158,322	\$ 662,646
Investments	5,198,549	20,709,411	25,907,960
Estate gifts and other receivables, net	3,232,281	6,869	3,239,150
Irrevocable deferred gifts	5,013,385	-	5,013,385
Beneficial interest in trusts	7,557,455	-	7,557,455
Branch office cash advances	341,753	-	341,753
Prepaid expenses and other assets, net	728,098	13,240	741,338
Property and equipment, net	15,437,027	-	15,437,027
<b>TOTAL ASSETS</b>	<b>\$ 38,012,872</b>	<b>\$ 20,887,842</b>	<b>\$ 58,900,714</b>
<b>LIABILITIES AND NET ASSETS</b>			
<b>Liabilities</b>			
Accounts payable and accruals	\$ 779,573	\$ 16,581	\$ 796,154
Line of credit	1,200,000	-	1,200,000
Custodial funds	-	25,056	25,056
Other liabilities	917,117	-	917,117
Intercompany (receivable) payable	(746,969)	746,969	-
Gift annuity liabilities	768,526	2,115,092	2,883,618
Bonds payable	6,570,978	-	6,570,978
<b>Total Liabilities</b>	<b>9,489,225</b>	<b>2,903,698</b>	<b>12,392,923</b>
<b>Net Assets</b>			
Unrestricted - undesignated	3,744,114	-	3,744,114
Unrestricted - board designated	12,006,872	3,360,351	15,367,223
Temporarily restricted	5,330,899	2,512,496	7,843,395
Permanently restricted	7,441,762	12,111,297	19,553,059
<b>Total Net Assets</b>	<b>28,523,647</b>	<b>17,984,144</b>	<b>46,507,791</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 38,012,872</b>	<b>\$ 20,887,842</b>	<b>\$ 58,900,714</b>

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Consolidating Statement of Activities

Year ended May 31, 2017

(See Independent Auditor's Report on Supplemental Information)

	Int'l LLL and Subsidiaries	LHM Foundation	Total
<b>Support and Revenue:</b>			
Contributions	\$ 11,081,082	\$ 64,455	\$ 11,145,537
In-kind gifts	\$ 9,703,790	\$ -	\$ 9,703,790
Bequests, annuities, and trusts	7,168,088	1,252,154	8,420,242
Change in value of deferred gifts	921,108	-	921,108
Charitable gift annuities	-	294,486	294,486
Investment income	519,423	2,194,690	2,714,113
Merchandise sales	295,718	-	295,718
Other income	124,600	167	124,767
Building tenant rent	1,343,543	-	1,343,543
<b>Total support and revenue</b>	<b>31,157,352</b>	<b>3,805,952</b>	<b>34,963,304</b>
<b>Expenses:</b>			
<b>Operating expenses</b>			
Program services:			
Domestic radio	12,620,219	-	12,620,219
Domestic television	590,338	-	590,338
Other domestic ministries	5,355,432	-	5,355,432
Foreign ministries	6,457,983	-	6,457,983
Administration	2,195,979	-	2,195,979
Fund raising	5,422,889	162,333	5,585,222
<b>Total operating expenses</b>	<b>32,642,840</b>	<b>162,333</b>	<b>32,805,173</b>
<b>Non-operating expenses</b>			
Building tenant expenses	926,600	-	926,600
Annuity contract expenses	99,234	340,362	439,596
<b>Total expenses</b>	<b>33,668,674</b>	<b>502,695</b>	<b>34,171,369</b>
	(2,511,322)	3,303,257	791,935
Endowment and other fund distributions	932,441	(932,441)	-
<b>CHANGE IN NET ASSETS</b>	<b>(1,578,881)</b>	<b>2,370,816</b>	<b>791,935</b>
Net assets at beginning of year	30,102,528	15,613,328	45,715,856
Net assets at end of year	\$ 28,523,647	\$ 17,984,144	\$ 46,507,791