



CONSOLIDATED FINANCIAL STATEMENTS  
WITH  
INDEPENDENT AUDITOR'S REPORT

**MAY 31, 2018**

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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, 2018 and 2017, 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, 2018 and 2017, 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 20, 2018

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Consolidated Statements of Financial Position

May 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash	\$ 2,462,673	\$ 662,646
Investments	27,416,563	25,907,960
Estate gifts and other receivables, net	3,984,097	3,239,150
Branch office cash advances	338,672	341,753
Prepaid expenses and other assets, net	712,309	741,338
Irrevocable deferred gifts	4,818,938	5,013,385
Beneficial interest in trusts	6,530,558	7,557,455
Property and equipment, net	14,971,969	15,437,027
<b>TOTAL ASSETS</b>	<b>\$ 61,235,779</b>	<b>\$ 58,900,714</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable and accruals	\$ 764,942	\$ 796,154
Line of credit	-	1,200,000
Custodial funds	126,403	25,056
Other liabilities	686,398	917,117
Gift annuity liabilities	2,953,207	2,883,618
Notes payable	8,000,000	-
Bonds payable	-	6,570,978
<b>Total Liabilities</b>	<b>12,530,950</b>	<b>12,392,923</b>
<b>Net Assets</b>		
Unrestricted - undesignated	5,236,583	3,744,114
Unrestricted - board designated	16,599,050	15,367,223
Temporarily restricted	8,103,594	7,843,395
Permanently restricted	18,765,602	19,553,059
<b>Total Net Assets</b>	<b>48,704,829</b>	<b>46,507,791</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 61,235,779</b>	<b>\$ 58,900,714</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, 2018

	Unrestricted		Temporarily Restricted	Permanently Restricted	Total
	Undesignated	Board Designated			
<b>Support and Revenue:</b>					
Contributions	\$ 12,165,093	\$ -	\$ 251,697	\$ 17,010	\$ 12,433,800
In-kind gifts	10,267,554	-	-	-	10,267,554
Bequests, annuities, and trusts	9,410,259	-	-	190,262	9,600,521
Change in value of deferred gifts	-	-	(226,615)	(994,729)	(1,221,344)
Charitable gift annuities	-	701,430	-	-	701,430
Investment income	5,342	825,543	1,140,882	-	1,971,767
Merchandise sales	259,342	-	-	-	259,342
Other income	125,618	-	-	-	125,618
Building tenant rent	1,369,633	-	-	-	1,369,633
Net assets released from restrictions and designations	1,200,911	(295,146)	(905,765)	-	-
<b>Total support and revenue</b>	<b>34,803,752</b>	<b>1,231,827</b>	<b>260,199</b>	<b>(787,457)</b>	<b>35,508,321</b>
<b>Expenses:</b>					
<b>Operating expenses</b>					
Program services:					
Domestic Ministries	17,542,621	-	-	-	17,542,621
Foreign ministries	6,477,871	-	-	-	6,477,871
Administration	2,222,050	-	-	-	2,222,050
Fund raising	5,222,675	-	-	-	5,222,675
<b>Total operating expenses</b>	<b>31,465,217</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>31,465,217</b>
<b>Non-operating expenses</b>					
Building tenant expenses	877,341	-	-	-	877,341
Loss on disposal of debt issuance costs	224,548	-	-	-	224,548
Annuity contract expenses	744,177	-	-	-	744,177
<b>Total expenses</b>	<b>33,311,283</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>33,311,283</b>
<b>CHANGE IN NET ASSETS</b>	<b>1,492,469</b>	<b>1,231,827</b>	<b>260,199</b>	<b>(787,457)</b>	<b>2,197,038</b>
Net assets at beginning of year	3,744,114	15,367,223	7,843,395	19,553,059	46,507,791
Net assets at end of year	\$ 5,236,583	\$ 16,599,050	\$ 8,103,594	\$ 18,765,602	\$ 48,704,829

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		Temporarily Restricted	Permanently Restricted	Total
	Undesignated	Board Designated			
<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 ministries	18,565,989	-	-	-	18,565,989
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>
<b>Net assets at beginning 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>
<b>Net assets at end of year</b>	<b>\$ 3,744,114</b>	<b>\$ 15,367,223</b>	<b>\$ 7,843,395</b>	<b>\$ 19,553,059</b>	<b>\$ 46,507,791</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, 2018 and 2017

	2018	2017
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 2,197,038	\$ 791,935
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities -		
Depreciation	553,095	537,445
Amortization of debt issuance costs	4,474	10,735
Unrealized (gain) loss on investments	(1,304,306)	(2,268,979)
Change in value of beneficial interests in trusts	1,026,897	(780,792)
Change in value of irrevocable deferred gifts	194,447	(140,316)
Change in deferred value of gift annuity liabilities	69,589	4,168
Loss on disposal of property and equipment	21,475	1,214
Loss on retirement of debt issuance costs	224,548	-
(Increase) decrease in assets -		
Estate and other receivables, net	(744,947)	715,533
Branch office cash advance	3,081	24,838
Prepaid expenses and other assets	29,029	(54,352)
Increase (decrease) in liabilities -		
Accounts payable and accruals	(31,212)	136,113
Custodial fund liabilities	101,347	(5,026)
Other liabilities	(230,719)	187,165
<b>Net cash provided by (used in) operating activities</b>	<b>2,113,836</b>	<b>(840,319)</b>
<b>Cash flows from investing activities:</b>		
Purchases of investments	(17,607,206)	(9,688,297)
Proceeds from sale of investments	17,402,908	9,556,700
Purchases of property and equipment	(109,511)	(206,234)
<b>Net cash (used in) investing activities</b>	<b>(313,809)</b>	<b>(337,831)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from line of credit	2,824,594	3,400,000
Payments on line of credit	(4,024,594)	(2,200,000)
Proceeds from notes payable	8,000,000	-
Payments on bonds payable	(6,800,000)	-
<b>Net cash provided by financing activities</b>	<b>-</b>	<b>1,200,000</b>
<b>NET INCREASE IN CASH</b>	<b>1,800,027</b>	<b>21,850</b>
<b>Cash, beginning of year</b>	<b>662,646</b>	<b>640,796</b>
<b>Cash, end of year</b>	<b>\$ 2,462,673</b>	<b>\$ 662,646</b>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid during the year for -		
Interest paid	\$ 262,226	\$ 174,150
Unrelated business income taxes paid	\$ 11,411	\$ 20,850

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, 2018

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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 (FASB ASC) 958*, 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, 2018

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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, 2018

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

#### Cash and Cash Equivalents

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, 2018

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

#### **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, 2018 and 2017, 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.

#### **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.

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements - Continued

May 31, 2018

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

#### Change in Accounting Policy

In May 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-07, Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). This standard removes the requirement to categorize within the fair value hierarchy investments for which fair values are estimated using the net asset value practical expedient provided by Accounting Standards Codification 820, Fair Value Measurement. The League and Foundation adopted this standard for the year ended May 31, 2018 and retrospectively for the year ended May 31, 2017.

#### 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 2017 consolidated financial statements to conform to the 2018 presentation.

#### Subsequent Events

Management has evaluated all subsequent events and transactions through September 20, 2018, 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, 2018

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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, 2018

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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 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, 2018

### 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 ended May 31, 2018 and 2017.

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, 2018 and 2017:

<b>2018</b>	<b>Fair Value</b>	<b>Quoted Prices In Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Equities - stocks	\$ 115,267	\$ 115,267	\$ -	\$ -
Real estate	-	-	-	-
Government securities	222,412	222,412	-	-
Investment funds:				
Mutual funds				
Equity funds	2,538,304	2,538,304	-	-
Fixed income funds	3,293,220	3,293,220	-	-
Total mutual funds	<u>5,831,524</u>	<u>5,831,524</u>	-	-
Total levelled investments	<u>6,169,203</u>	<u>6,169,203</u>	-	-
Collective trust funds:				
Equity funds	15,349,724			
Fixed income funds	5,535,216			
Total collective trust funds	<u>20,884,940</u>			
Cash equivalents	362,420			
Total investments	<u>\$ 27,416,563</u>			
Deferred gifts				
Irrevocable deferred gifts	\$ 4,818,938	\$ -	\$ -	\$ 4,818,938
Beneficial interest in trusts	6,530,558	-	-	6,530,558
	<u>\$ 11,349,496</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,349,496</u>



# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements - Continued

May 31, 2018

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

<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>
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>
Total levelled investments	<u>6,033,908</u>	<u>6,025,208</u>	<u>-</u>	<u>8,700</u>
Collective trust funds:				
Equity funds	14,587,585			
Fixed income funds	4,726,681			
Total collective trust funds	<u>19,314,266</u>			
Cash equivalents	<u>559,786</u>			
Total investments	<u>\$ 25,907,960</u>			
Deferred gifts				
Irrevocable deferred gifts	\$ 5,013,385	\$ -	\$ -	\$ 5,013,385
Beneficial interest in trusts	<u>7,557,455</u>	<u>-</u>	<u>-</u>	<u>7,557,455</u>
	<u>\$ 12,570,840</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,570,540</u>

The following tables summarize investments measured at fair value based on NAV per share as of May 31, 2018 and 2017:

<u>2018</u>				
<u>Investment Name</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Collective trust funds	\$ 20,884,940	-	Daily	Daily
<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 funds	\$ 19,314,266	-	Daily	Daily

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements - Continued

May 31, 2018

### 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, 2018:

Level 3 inputs by category	Real Estate	Deferred Gifts	Total
May 31, 2017	\$ 8,700	\$ 12,570,840	\$ 12,579,540
Additions	-	122,297	122,297
Change in value	(7,207)	(700,239)	(707,446)
Sales or pay down of principal	(1,493)	(643,402)	(644,895)
May 31, 2018	\$ -	\$ 11,349,496	\$ 11,349,496

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	\$ 8,700	\$ 12,570,840	\$ 12,579,540

Investment income at May 31, 2018 consists of the following:

Investment income:	Unrestricted Undesignated	Board Designated	Temporarily Restricted	Total
Dividends and interest	\$ 4,912	\$ 116,357	\$ 136,594	\$ 257,863
Realized gain	(8,529)	268,306	150,586	410,363
Unrealized gain	8,959	440,880	853,702	1,303,541
	\$ 5,342	\$ 825,543	\$ 1,140,882	\$ 1,971,767

Investment income (loss) 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
	\$ 5,569	\$ 1,108,815	\$ 1,599,729	\$ 2,714,113

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 \$1,556 and \$2,891 at May 31, 2018 and 2017, respectively.

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements - Continued

May 31, 2018

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### Note 5 - Estate Gifts and Other Receivables

<u>May 31</u>	<u>2018</u>	<u>2017</u>
Estate gifts	\$ 3,606,124	\$ 2,936,478
Allowance for change in valuation	<u>(179,155)</u>	<u>(139,827)</u>
	3,426,969	2,796,651
Other receivables	<u>557,128</u>	<u>442,499</u>
Total estate gifts and other receivables	<u>\$ 3,984,097</u>	<u>\$ 3,239,150</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 amounts to \$4,818,938 at May 31, 2018 and \$5,013,385 at May 31, 2017 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, 2018 on which the beneficiary can be changed. The actuarial present value of these contracts amounted to \$2,206,714 and \$2,037,423 at May 31, 2018 and 2017, 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 \$6,530,558 and \$7,557,455 at May 31, 2018 and 2017, respectively.

### Note 8 - Prepaid Expenses and Other Assets

<u>May 31</u>	<u>2018</u>	<u>2017</u>
Unamortized capital leasing costs	\$ 59,905	\$ 70,602
Insurance policies – cash surrender value	470,592	545,056
Other	<u>181,812</u>	<u>125,680</u>
Total prepaid expenses and other assets	<u>\$ 712,309</u>	<u>\$ 741,338</u>

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements - Continued

May 31, 2018

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### Note 9 - Property and Equipment

<u>May 31</u>	<u>2018</u>	<u>2017</u>
Building and improvements	\$18,807,275	\$18,819,417
Equipment and furniture	2,335,076	2,340,625
Software	<u>903,895</u>	<u>930,715</u>
	22,046,246	22,090,757
Less accumulated depreciation	<u>10,549,277</u>	<u>10,128,730</u>
	11,496,969	11,962,027
Land	<u>3,475,000</u>	<u>3,475,000</u>
	<u>\$14,971,969</u>	<u>\$15,437,027</u>
Depreciation expense	\$ <u>553,095</u>	\$ <u>537,445</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, 2018 and 2017. 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, 2018 and 2017. 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, 2018

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

#### Change in Gift Annuity Liabilities:

##### May 31, 2018

	<u>League</u>	<u>Foundation</u>	<u>Total</u>
Beginning gift annuity liabilities	\$ 768,526	\$ 2,115,092	\$ 2,883,618
Increase in liabilities on gift annuities issued before payouts	23,504	449,807	473,311
Other net changes in liabilities including terminations	<u>(54,078)</u>	<u>(349,644)</u>	<u>(403,722)</u>
Ending gift annuity liabilities	<u>\$ 737,952</u>	<u>\$ 2,215,255</u>	<u>\$ 2,953,207</u>

##### 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>

### Note 11 - Line of Credit

The Organization had a revolving line of credit balloon note with the Lutheran Church Extension Fund (LCEF) in the amount of \$1,500,000 that matured on January 8, 2018, with interest charged at the prevailing rate when funds were loaned. The Organization replaced this line of credit with a new line of credit with LCEF of \$3,500,000 on October 31, 2017, with a maturity date of October 31, 2020. The Organization was obligated on these lines of credit for \$-0- and \$1,200,000 at May 31, 2018 and 2017, respectively.

The Organization had a revolving line of credit balloon note with Fifth Third Bank, an Ohio banking corporation, in the amount of \$2,000,000, which was secured by its home office building and was due and payable on September 15, 2018. The interest rate on the variable rate loan was calculated based on the per annum rate of LIBOR plus 200 basis points. The Organization closed this line of credit on October 31, 2017. The Organization was obligated for \$-0- at May 31, 2017.

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements - Continued

May 31, 2018

### Note 12 - Notes Payable

<u>May 31</u>	<u>2018</u>	<u>2017</u>
<p>Note payable to the Lutheran Church Extension Fund with interest only due for 36 months, then amortizable for 20 years on a 30-year amortization schedule with a balloon payment at the end of that time. This promissory note is secured by office property at 660 Mason Ridge Center Drive, Town and Country, MO with a net book value of \$14,696,422. The initial interest rate of 2.875% is fixed until October 31, 2022, after which it is adjustable every five years.</p>	<p><b>\$ 8,000,000</b></p>	<p>\$ -</p>

Following are maturities of the note payable principal for each of the next five fiscal years ending May 31,:

2019	\$ -
2020	-
2021	98,882
2022	173,413
2023	178,465
Thereafter	<u>7,549,240</u>
	<u>\$ 8,000,000</u>

Management believes that the Organization was in compliance with all loan covenants of the Notes Payable.

### Note 13 - 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>2018</u>	<u>2017</u>
<p>Series A tax-exempt bonds with maturity date of September 1, 2038. The interest rate at May 31, 2017 was 0.82%.</p>	<p>\$ -</p>	<p>\$ 6,800,000</p>
<p>Less: Debt issuance costs</p>	<p style="border-top: 1px solid black;">-</p>	<p style="border-top: 1px solid black;">229,022</p>
	<p><b>\$ -</b></p>	<p><b>\$ 6,570,978</b></p>

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements - Continued

May 31, 2018

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### Note 13 - 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. 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.

On November 1, 2017 the Organization paid off the remaining series A bonds with proceeds from a new note payable from Lutheran Church Extension Fund borrowed on October 31, 2017. The interest rate on the Series A bonds at October 31, 2017 was 1.02%.

The outstanding bonds were supported by a letter of credit issued by Fifth Third Bank which guaranteed full payment and was collateralized by office property at 660 Mason Ridge Center Drive, Town and Country, Missouri with a net book value as of May 31, 2018 and 2017 of \$14,696,422 and \$15,136,058, respectively. This letter of credit was due to 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 \$45,702 and \$90,659 for the fiscal years ended May 31, 2018 and 2017, respectively.

Debt issuance costs pertaining to the bonds totaled \$322,062 and were being amortized over a 30-year retirement for the bonds. Expenses related to the original bond issuance in 2008 totaled \$4,474 in 2018 and \$10,735 in 2017. These amortization expenses were being reported as interest. At October 31, 2017 and May 31, 2017, accumulated amortization of \$97,513 and \$93,040, respectively, had been recognized and reflected as a reduction in debt issuance costs. Upon the retirement of the remaining outstanding bonds, the remaining unamortized debt issuance costs of \$224,548 were recorded as a loss on disposal of debt issuance costs.

Interest paid on the bonds amounted to \$23,806 and \$44,435 during the fiscal years ended May 31, 2018 and 2017, respectively. The interest was based on LIBOR and ranged from 0.71% to 1.02% for the outstanding Series A bonds this past fiscal year.

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements - Continued

May 31, 2018

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### Note 14 - 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>2018</u>	<u>2017</u>
CRP, CRSP, and CDSP plans	\$ 702,139	\$ 793,973
Health and welfare	\$1,179,491	\$1,270,763

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, 2018. There were no contingent liabilities associated with the Plans at May 31, 2018 and 2017. 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, 2018

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### Note 15 - Board Designated Unrestricted Net Assets

<u>May 31</u>	<u>2018</u>	<u>2017</u>
Gift annuities reserve	\$ 2,865,897	\$ 2,513,412
Other retained annuity excess earnings	342,570	329,932
Board designated endowment funds	1,167,982	1,406,097
Net investment in plant	7,342,650	7,364,123
Bequest reserve	<u>4,879,951</u>	<u>3,753,659</u>
	<u>\$16,599,050</u>	<u>\$15,367,223</u>

### Note 16 - Temporarily Restricted Net Assets

<u>May 31</u>	<u>2018</u>	<u>2017</u>
<b>Restricted by program</b>		
Restricted contributions	\$ 380,434	\$ 170,993
<b>Restricted by time</b>		
Undistributed endowment earnings	2,820,698	2,512,496
Pledges receivable	-	30,829
Beneficial interest in trusts	83,524	115,692
Irrevocable deferred gifts	<u>4,818,938</u>	<u>5,013,385</u>
	<u>\$ 8,103,594</u>	<u>\$ 7,843,395</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 \$73,086 and \$139,106 and for time restrictions were \$832,679 and \$760,898 for the years ended May 31, 2018 and 2017, respectively.

### Note 17 - 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 the 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 consideration given to the tax-exempt status of the Foundation. The targeted investment asset mix is currently 55% equities, 40% fixed income, 4% alternative investments and 1% cash equivalents. The Foundation honors donors' specific, written restrictions or directives.

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements - Continued

May 31, 2018

### Note 17 - Endowment Policies (Continued)

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. No distributions will be made from new named endowments during the first four quarters after initial receipt of funds.

To ensure a perpetual source of payout to support the 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. The distribution policy has been established to provide predictable and consistent endowment distributions through most investment market cycles. Since prolonged, or unusual investment market declines may push endowments underwater (market value less than historic gift value), the Board of Directors will review the status of underwater endowments prior to the end of the fiscal year and determine whether distributions will be made for the following year. 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.

The changes in and composition of endowment net assets for the year ended May 31, 2018 are as follows:

	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets – Beginning of year	\$ 1,406,097	\$ 2,512,496	\$ 12,111,297	\$ 16,029,890
Contributions	-	-	207,272	207,272
Investment earnings:				
Dividends and interest	11,341	136,593	-	147,934
Net realized gains	12,529	150,586	-	163,115
Net change in unrealized gains	74,802	853,703	-	928,505
Total investment gains	98,672	1,140,882		1,239,554
Release of endowment funds:				
Endowment distributions to the League	(327,792)	(716,584)	-	(1,044,376)
Foundation expenses	(8,995)	(116,096)	-	(125,091)
Total endowment funds released	(336,787)	(832,680)	-	(1,169,467)
Endowment net assets – End of year	<u>\$ 1,167,982</u>	<u>\$ 2,820,698</u>	<u>\$ 12,318,569</u>	<u>\$ 16,307,249</u>

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements - Continued

May 31, 2018

### Note 17 - Endowment Policies (Continued)

The changes in and composition of endowment net assets for the year ended May 31, 2017 are as follows:

	Board Designated	Temporarily Restricted	Permanently Restricted	Total
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	139,064	1,411,153	-	1,550,217
Total investment gains	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	(9,798)	(101,740)	-	(111,538)
Total endowment funds released	(157,039)	(760,898)	-	(917,937)
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>

Endowment net asset composition by type of funds as of May 31, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-designated	\$ -	\$ 2,820,698	\$ 12,318,569	\$ 15,139,267
Board-designated	<u>1,167,982</u>	-	-	<u>1,167,982</u>
	<u>\$ 1,167,982</u>	<u>\$ 2,820,698</u>	<u>\$ 12,318,569</u>	<u>\$ 16,307,249</u>

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

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

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Notes to Consolidated Financial Statements - Continued

May 31, 2018

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### Note 18 - 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 \$1,807,676 and \$1,914,629 for the years ended May 31, 2018 and 2017, respectively. In addition, the Organization also received free radio and television time from local stations valued at \$8,459,878 and \$7,789,161 for the years ended May 31, 2018 and 2017, respectively.

### Note 19 - 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, 2018, the Organization does not intend to cancel any of these commitments.

### Note 20 - 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:

2019	\$ 1,394,277
2020	1,423,082
2021	1,377,795
2022	1,260,030
2023	415,682
Thereafter	618,602

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, 2018, and our report thereon dated September 20, 2018, 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 20, 2018

## INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

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

Year ended May 31, 2018

(See Independent Auditor's Report on Supplemental Information)

	Domestic Ministries	Foreign Ministries	Administration	Fund Raising	Building Tenant Expense	Loss on Debt Issuance Costs	Annuity Contract Expenses	Total Expenses
Salaries	\$ 2,988,699	\$ 1,040,686	\$ 1,140,061	\$ 1,926,460	\$ -	\$ -	\$ -	\$ 7,095,906
Employee benefits	960,902	318,208	418,569	661,668	-	-	-	2,359,347
Postage & freight	107,815	21,868	15,956	362,834	95	-	-	508,568
Printing	164,015	26,595	4,340	539,856	-	-	-	734,806
Media production	53,111	3,817	1,175	18,951	-	-	-	77,054
Media distribution	1,855,411	-	-	4,120	-	-	-	1,859,531
Contributed station time	9,893,927	373,627	-	-	-	-	-	10,267,554
Travel	228,131	223,233	105,164	553,432	-	-	-	1,109,960
Professional & consulting	292,114	6,564	115,429	417,366	4,952	-	-	836,425
Insurance, utilities & maintenance	245,548	65,612	116,599	193,935	324,087	-	-	945,781
District funding	30,758	8,705	37,954	38,650	-	-	-	116,067
Interest	82,904	23,383	30,919	56,042	68,978	-	-	262,226
Depreciation and amortization	132,234	38,523	48,485	82,663	255,664	-	-	557,569
Information processing	152,550	41,163	108,053	91,292	-	-	-	393,058
International office	-	4,238,778	-	101,568	-	-	-	4,340,346
Annuity contract expenses	-	-	-	-	-	-	744,177	744,177
Other expenses	354,502	47,109	79,346	173,838	223,565	224,548	-	1,102,908
	<b>\$ 17,542,621</b>	<b>\$ 6,477,871</b>	<b>\$ 2,222,050</b>	<b>\$ 5,222,675</b>	<b>\$ 877,341</b>	<b>\$ 224,548</b>	<b>\$ 744,177</b>	<b>\$ 33,311,283</b>

# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Consolidating Statement of Financial Position

May 31, 2018

(See Independent Auditor's Report on Supplemental Information)

	Organization	Foundation	Total
<b>ASSETS</b>			
Cash	\$ 2,264,023	\$ 198,650	\$ 2,462,673
Investments	1,862,784	25,553,779	27,416,563
Estate gifts and other receivables, net	3,978,002	6,095	3,984,097
Branch office cash advances	338,672	-	338,672
Prepaid expenses and other assets, net	712,309	-	712,309
Irrevocable deferred gifts	4,818,938	-	4,818,938
Beneficial interest in trusts	6,530,558	-	6,530,558
Property and equipment, net	14,971,969	-	14,971,969
<b>TOTAL ASSETS</b>	<b>\$ 35,477,255</b>	<b>\$ 25,758,524</b>	<b>\$ 61,235,779</b>
<b>LIABILITIES AND NET ASSETS</b>			
<b>Liabilities</b>			
Accounts payable and accruals	\$ 747,953	\$ 16,989	\$ 764,942
Custodial funds	-	126,403	126,403
Other liabilities	686,398	-	686,398
Intercompany (receivable) payable	(4,816,295)	4,816,295	-
Gift annuity liabilities	737,952	2,215,255	2,953,207
Notes payable	8,000,000	-	8,000,000
<b>Total Liabilities</b>	<b>5,356,008</b>	<b>7,174,942</b>	<b>12,530,950</b>
<b>Net Assets</b>			
Unrestricted - undesignated	5,236,583	-	5,236,583
Unrestricted - board designated	13,154,735	3,444,315	16,599,050
Temporarily restricted	5,282,896	2,820,698	8,103,594
Permanently restricted	6,447,033	12,318,569	18,765,602
<b>Total Net Assets</b>	<b>30,121,247</b>	<b>18,583,582</b>	<b>48,704,829</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 35,477,255</b>	<b>\$ 25,758,524</b>	<b>\$ 61,235,779</b>



# INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

## Consolidating Statement of Activities

Year ended May 31, 2018

(See Independent Auditor's Report on Supplemental Information)

	Organization	Foundation	Total
<b>Support and Revenue:</b>			
Contributions	\$ 12,415,999	\$ 17,801	\$ 12,433,800
In-kind gifts	10,267,554	-	10,267,554
Bequests, annuities, and trusts	9,410,259	190,262	9,600,521
Change in value of deferred gifts	(1,221,344)	-	(1,221,344)
Charitable gift annuities	36,430	665,000	701,430
Investment income	368,768	1,602,999	1,971,767
Merchandise sales	259,342	-	259,342
Other income	125,056	562	125,618
Building tenant rent	1,369,633	-	1,369,633
<b>Total support and revenue</b>	<b>33,031,697</b>	<b>2,476,624</b>	<b>35,508,321</b>
<b>Expenses:</b>			
<b>Operating expenses</b>			
Program services:			
Domestic ministries	17,542,621	-	17,542,621
Foreign ministries	6,477,871	-	6,477,871
Administration	2,222,050	-	2,222,050
Fund raising	5,044,994	177,681	5,222,675
<b>Total operating expenses</b>	<b>31,287,536</b>	<b>177,681</b>	<b>31,465,217</b>
<b>Non-operating expenses</b>			
Building tenant expenses	877,341	-	877,341
Loss on disposal of debt issuance costs	224,548	-	224,548
Annuity contract expenses	106,675	637,502	744,177
<b>Total expenses</b>	<b>32,496,100</b>	<b>815,183</b>	<b>33,311,283</b>
Endowment and other fund distributions	1,062,003	(1,062,003)	-
<b>CHANGE IN NET ASSETS</b>	<b>1,597,600</b>	<b>599,438</b>	<b>2,197,038</b>
Net assets at beginning of year	28,523,647	17,984,144	46,507,791
Net assets at end of year	\$ 30,121,247	\$ 18,583,582	\$ 48,704,829