



CONSOLIDATED FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

MAY 31, 2019

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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, 2019 and 2018, the related consolidated statements of activities and cash flows for the years then ended, and the consolidated statement of functional expenses for the year ended May 31, 2019, 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, 2019 and 2018, 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 24, 2019

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Consolidated Statements of Financial Position

May 31, 2019 and 2018

	2019	2018
ASSETS		
Cash	\$ 1,063,133	\$ 2,462,673
Investments	26,762,456	27,416,563
Estate gifts and other receivables, net	4,269,262	3,984,097
Branch office cash advances	574,119	338,672
Prepaid expenses and other assets, net	795,518	712,309
Irrevocable deferred gifts	4,316,649	4,818,938
Beneficial interest in trusts	5,860,389	6,530,558
Property and equipment, net	14,997,989	14,971,969
TOTAL ASSETS	\$ 58,639,515	\$ 61,235,779
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accruals	\$ 701,975	\$ 764,942
Line of credit	200,000	-
Custodial funds	124,023	126,403
Other liabilities	887,257	686,398
Gift annuity liabilities	2,823,262	2,953,207
Notes payable	8,000,000	8,000,000
Total Liabilities	12,736,517	12,530,950
Net Assets		
Without donor restrictions		
Undesignated	3,955,021	5,236,583
Board designated	15,128,373	16,599,050
Total without donor restrictions	19,083,394	21,835,633
With donor restrictions		
Temporary in nature	6,980,492	8,103,594
Perpetual in nature	19,839,112	18,765,602
Total with donor restrictions	26,819,604	26,869,196
Total Net Assets	45,902,998	48,704,829
TOTAL LIABILITIES AND NET ASSETS	\$ 58,639,515	\$ 61,235,779

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, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue:			
Contributions	\$ 9,997,279	\$ 1,623,941	\$ 11,621,220
In-kind gifts	10,567,658	-	10,567,658
Bequests, annuities, and trusts	8,134,680	643,204	8,777,884
Change in value of deferred gifts	(229,302)	(1,172,459)	(1,401,761)
Charitable gift annuities	3,818	-	3,818
Investment income, net	(167,859)	(190,802)	(358,661)
Merchandise sales	181,919	-	181,919
Other income	128,924	-	128,924
Building tenant rent	1,427,420	-	1,427,420
Net assets released from restrictions	953,476	(953,476)	-
Total support and revenue	30,998,013	(49,592)	30,948,421
Expenses:			
Program services - global ministries	23,841,820	-	23,841,820
Program services - building tenant services	975,453	-	975,453
Administration	3,136,614	-	3,136,614
Fundraising	5,796,365	-	5,796,365
Total expenses	33,750,252	-	33,750,252
CHANGE IN NET ASSETS	(2,752,239)	(49,592)	(2,801,831)
Net assets at beginning of year	21,835,633	26,869,196	48,704,829
Net assets at end of year	\$ 19,083,394	\$ 26,819,604	\$ 45,902,998

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

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue:			
Contributions	\$ 12,165,093	\$ 268,707	\$ 12,433,800
In-kind gifts	10,267,554	-	10,267,554
Bequests, annuities, and trusts	9,125,073	190,262	9,315,335
Change in value of deferred gifts	14,320	(1,221,344)	(1,207,024)
Charitable gift annuities	228,119	-	228,119
Investment income, net	786,619	1,075,454	1,862,073
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	840,337	(840,337)	-
Total support and revenue	35,181,708	(527,258)	34,654,450
Expenses:			
Program services - global ministries	24,020,492	-	24,020,492
Program services - building tenant services	877,341	-	877,341
Administration	2,446,598	-	2,446,598
Fundraising	5,112,981	-	5,112,981
Total expenses	32,457,412	-	32,457,412
CHANGE IN NET ASSETS	2,724,296	(527,258)	2,197,038
Net assets at beginning of year	19,111,337	27,396,454	46,507,791
Net assets at end of year	\$ 21,835,633	\$ 26,869,196	\$ 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 Functional Expenses

Year ended May 31, 2019

	Global Ministries	Building Tenant Services	Administrative	Fundraising	Total Expenses
Salaries	\$ 3,636,068	\$ -	\$ 1,831,647	\$ 2,406,229	\$ 7,873,944
Employee benefits	1,288,567	-	648,397	617,946	2,554,910
Postage & freight	112,915	8	18,724	452,609	584,256
Printing	239,590	-	8,257	600,785	848,632
Media production	71,647	-	5,270	41,246	118,163
Media distribution	1,765,547	-	-	-	1,765,547
Contributed station time	10,378,658	-	-	-	10,378,658
Travel	435,053	-	151,606	680,886	1,267,545
Professional & consulting	264,197	1,815	94,619	334,117	694,748
Insurance, utilities & maintenance	295,270	425,194	105,137	192,546	1,018,147
District funding	22,659	-	21,993	21,993	66,645
Interest	79,307	67,575	25,110	39,777	211,769
Depreciation and amortization	155,467	267,334	52,396	71,622	546,819
Information processing	208,896	-	111,692	68,660	389,248
International office	4,300,245	-	-	92,584	4,392,829
Other expenses	587,734	213,527	61,766	175,365	1,038,392
	\$ 23,841,820	\$ 975,453	\$ 3,136,614	\$ 5,796,365	\$ 33,750,252

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, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ (2,801,831)	\$ 2,197,038
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities -		
Depreciation	533,979	553,095
Unrealized (gain) loss on investments	1,188,630	(1,304,306)
In-kind contribution of property and investments	(867,141)	-
Change in value of beneficial interests in trusts	670,169	1,026,897
Change in value of irrevocable deferred gifts	502,289	194,447
Change in deferred value of gift annuity liabilities	229,302	(14,320)
Loss on disposal of property and equipment	13,973	21,475
Write off of bond issuance costs	-	229,022
(Increase) decrease in assets -		
Estate and other receivables, net	(285,165)	(744,947)
Branch office cash advance	(235,447)	3,081
Prepaid expenses and other assets	(83,209)	29,029
Increase (decrease) in liabilities -		
Accounts payable and accruals	(62,967)	(31,212)
Custodial fund liabilities	(2,380)	101,347
Gift annuity liabilities	(359,247)	83,909
Other liabilities	200,859	(230,719)
Net cash provided by (used in) operating activities	(1,358,186)	2,113,836
Cash flows from investing activities:		
Purchases of investments	(11,332,224)	(17,607,206)
Proceeds from sale of investments	11,458,653	17,402,908
Purchases of property and equipment	(367,783)	(109,511)
Net cash (used in) investing activities	(241,354)	(313,809)
Cash flows from financing activities:		
Proceeds from line of credit	500,000	2,824,594
Payments on line of credit	(300,000)	(4,024,594)
Proceeds from notes payable	-	8,000,000
Payments on bonds payable	-	(6,800,000)
Net cash provided by financing activities	200,000	-
NET INCREASE IN CASH	(1,399,540)	1,800,027
Cash, beginning of year	2,462,673	662,646
Cash, end of year	\$ 1,063,133	\$ 2,462,673
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for -		
Interest paid	\$ 211,769	\$ 262,226
Unrelated business income taxes paid	\$ 19,353	\$ 11,411

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, 2019

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 two classes of net assets: net assets without donor restrictions, and net assets with donor restrictions which are either temporary or perpetual in nature.

Net Assets Without Donor Restrictions

Net assets without donor restrictions are not restricted by donor-imposed stipulations, either temporary or perpetual in nature, and include revenue from fees, certain investment income, and all unrestricted gifts, grants, and contributions. Undesignated amounts are those currently available at the discretion of the Board for use in the Organization's operations. In addition, the Board has designated certain funds for the purposes of providing additional security for its gift annuities and endowments for funding certain fundraising activities and other purposes.

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2019

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

Basis of Presentation (Continued)

Net Assets With Donor Restrictions

Net assets with donor restrictions that are temporary in nature represent contributions, pledges receivable, deferred gifts, and undistributed investment earnings on donor-restricted endowments that are restricted by donors for specific purposes or time periods.

Net assets with donor restrictions that are perpetual in nature include beneficial interest in trusts held outside of the Organization and perpetual endowments held by the Foundation and established for the benefit of the League. These donor-imposed restrictions stipulate that the original contribution be maintained perpetually and permit the Foundation, which holds the endowment funds, to distribute payouts according to the 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 without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. In addition, unconditional promises to give are recorded in the year made, less an allowance for doubtful collections. Conditional promises to give are recognized when the conditions upon which they were given are substantially met.

Cash 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.

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2019

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

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 \$1,000 for computer equipment and \$2,500 or more for other assets are capitalized, while repairs and maintenance that do not improve or extend the useful lives of the respective assets are expensed currently.

Impairment of Long Lived Assets

Long lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value and the carrying value of the asset. For the years ended May 31, 2019 and 2018, management determined that no impairment loss needs to be recognized.

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2019

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

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 net assets temporary in nature to net assets without donor restrictions 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, 2019

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

Change in Accounting Policy

On August 18, 2016, FASB issued Account Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements for Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classifications, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has implemented ASU 2016-14 and has adjusted the presentation of these financial statements accordingly. The ASU has been applied retroactively to all periods presented.

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. The Organization uses various methods to determine the allocation of expenses. Building Tenant Services allocations are based on square footage. Depreciation, information processing, and shared services are allocated based on staff counts, and the president's office and communications-related expenses are allocated based on management estimates of time and effort.

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 2018 consolidated financial statements to conform to the 2019 presentation.

Subsequent Events

Management has evaluated all subsequent events and transactions through September 24, 2019, 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, 2019

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, 2019

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, 2019

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, 2019 and 2018.

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, 2019 and 2018:

<u>2019</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>
Equities - stocks	\$ 25,158	\$ 25,158	\$ -	\$ -
Real estate	28,621	-	-	28,621
Government securities	242,225	242,225	-	-
Investment funds:				
Mutual funds				
Equity funds	2,006,331	2,006,331	-	-
Fixed income funds	4,185,671	4,185,671	-	-
Total mutual funds	<u>6,192,002</u>	<u>6,192,002</u>	-	-
Total levelled investments	<u>6,488,006</u>	<u>6,459,385</u>	-	28,621
Collective trust funds:				
Equity funds	14,270,788			
Fixed income funds	5,334,310			
Total collective trust funds	<u>19,605,098</u>			
Cash equivalents	669,352			
Total investments	<u>\$ 26,762,456</u>			
Deferred gifts				
Irrevocable deferred gifts	\$ 4,316,649	\$ -	\$ -	\$ 4,316,649
Beneficial interest in trusts	5,860,389	-	-	5,860,389
	<u>\$ 10,177,038</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,177,038</u>

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2019

Note 4 - Fair Value Measurements and Investments (Continued)

<u>2018</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>
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	<u>5,535,216</u>			
Total collective trust funds	<u>20,884,940</u>			
Cash equivalents	<u>362,420</u>			
Total investments	<u>\$ 27,416,563</u>			
Deferred gifts				
Irrevocable deferred gifts	\$ 4,818,938	\$ -	\$ -	\$ 4,818,938
Beneficial interest in trusts	<u>6,530,558</u>	<u>-</u>	<u>-</u>	<u>6,530,558</u>
	<u>\$ 11,349,496</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,349,496</u>

The following tables summarize investments measured at fair value based on NAV per share as of May 31, 2019 and 2018:

<u>2019</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	\$ 19,605,098	-	Daily	Daily
<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

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2019

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, 2019:

Level 3 inputs by category	Real Estate	Deferred Gifts	Total
May 31, 2018	\$ -	\$ 11,349,496	\$ 11,349,496
Additions	26,000	217,320	243,320
Change in value	2,621	(918,191)	(915,570)
Sales or pay down of principal	-	(471,587)	(471,587)
May 31, 2019	\$ 28,621	\$ 10,177,038	\$ 10,205,659

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

Investment loss at May 31, 2019 consists of the following:

Investment loss:	Undesignated	Board Designated	Temporary In Nature	Total
Dividends and interest	\$ 12,445	\$ 117,435	\$ 144,843	\$ 274,723
Realized gain	10,832	515,101	149,690	675,623
Unrealized loss	(14,505)	(765,311)	(417,825)	(1,197,641)
Investment management fees	-	(43,856)	(67,510)	(111,366)
	\$ 8,772	\$ (176,631)	\$ (190,802)	\$ (358,661)

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

Investment income:	Undesignated	Board Designated	Temporary In Nature	Total
Dividends and interest	\$ 4,912	\$ 116,357	\$ 136,594	\$ 257,863
Realized gain (loss)	(8,529)	268,306	150,586	410,363
Unrealized gain	8,959	440,880	853,702	1,303,541
Investment management fees	-	(44,266)	(65,428)	(109,694)
	\$ 5,342	\$ 781,277	\$ 1,075,454	\$ 1,862,073

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2019

Note 4 - Fair Value Measurements and Investments (Continued)

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 \$(2,102) and \$1,556 at May 31, 2019 and 2018, respectively.

Note 5 - Estate Gifts and Other Receivables

<u>May 31</u>	<u>2019</u>	<u>2018</u>
Estate gifts	\$ 3,781,385	\$ 3,606,124
Allowance for change in valuation	<u>(113,847)</u>	<u>(179,155)</u>
	<u>3,667,538</u>	<u>3,426,969</u>
Other receivables	<u>601,724</u>	<u>557,128</u>
Total estate gifts and other receivables	<u>\$ 4,269,262</u>	<u>\$ 3,984,097</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 \$4,316,649 at May 31, 2019 and \$4,818,938 at May 31, 2018 and have been reflected in these consolidated financial statements as a receivable and as net assets with donor restrictions and temporary in nature due to time restrictions. When the contracts mature, the current value will be re-classed as unrestricted, temporary in nature, or perpetual in nature net assets based on the donor restrictions.

In addition, the Organization is currently beneficiary of contracts at May 31, 2019 on which the beneficiary can be changed. The actuarial present value of these contracts amounted to \$1,931,488 and \$2,206,714 at May 31, 2019 and 2018, 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 \$5,860,389 and \$6,530,558 at May 31, 2019 and 2018, respectively.

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2019

Note 8 - Prepaid Expenses and Other Assets

<u>May 31</u>	<u>2019</u>	<u>2018</u>
Unamortized capital leasing costs	\$ 53,855	\$ 59,905
Insurance policies – cash surrender value	451,529	470,592
Other prepaid expenses	<u>290,134</u>	<u>181,812</u>
Total prepaid expenses and other assets	<u>\$ 795,518</u>	<u>\$ 712,309</u>

Note 9 - Property and Equipment

<u>May 31</u>	<u>2019</u>	<u>2018</u>
Building and improvements	\$ 19,091,999	\$ 18,807,275
Equipment and furniture	1,681,554	2,335,076
Software	<u>890,443</u>	<u>903,895</u>
	<u>21,663,996</u>	<u>22,046,246</u>
Less accumulated depreciation	<u>(10,141,007)</u>	<u>(10,549,277)</u>
	<u>11,522,989</u>	<u>11,496,969</u>
Land	<u>3,475,000</u>	<u>3,475,000</u>
	<u>\$ 14,997,989</u>	<u>\$ 14,971,969</u>
Depreciation expense	<u>\$ 533,979</u>	<u>\$ 553,095</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, 2019 and 2018. 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, 2019 and 2018. 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.

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2019

Note 10 - Gift Annuities and Other Liabilities (Continued)

Because of state regulations concerning the number of years of continuous service required for initial registration in the state, the gift annuity programs for the States of California, Wisconsin, Illinois, and New York are being operated by the League.

Change in Gift Annuity Liabilities:

May 31, 2019

	<u>League</u>	<u>Foundation</u>	<u>Total</u>
Beginning gift annuity liabilities	\$ 737,952	\$ 2,215,255	\$ 2,953,207
Liabilities from newly issued gift annuities	-	6,181	6,181
Payments to annuitants	(101,876)	(263,552)	(365,428)
Change in value of deferred gift annuities	<u>71,243</u>	<u>158,059</u>	<u>229,302</u>
Ending gift annuity liabilities	\$ <u>707,319</u>	\$ <u>2,115,943</u>	\$ <u>2,823,262</u>

May 31, 2018

	<u>League</u>	<u>Foundation</u>	<u>Total</u>
Beginning gift annuity liabilities	\$ 768,526	\$ 2,115,092	\$ 2,883,618
Liabilities from newly issued gift annuities	23,504	449,807	473,311
Payments to annuitants	(107,122)	(282,280)	(389,402)
Change in value of deferred gift annuities	<u>53,044</u>	<u>(67,364)</u>	<u>(14,320)</u>
Ending gift annuity liabilities	\$ <u>737,952</u>	\$ <u>2,215,255</u>	\$ <u>2,953,207</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 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 \$200,000 and \$-0- at May 31, 2019 and 2018, respectively.

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2019

Note 12 - Notes Payable

<u>May 31</u>	<u>2019</u>	<u>2018</u>
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, Missouri 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.	\$ 8,000,000	\$ 8,000,000

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

2020	\$ 98,882
2021	173,413
2022	178,465
2023	183,664
2024	189,014
Thereafter	<u>7,176,562</u>
	<u>\$ 8,000,000</u>

Management has determined that it is in non-compliance with the debt service coverage ratio loan covenant for the mortgage loan with LCEF for the year ended May 31, 2019. There were no missed payments or defaults and the Organization is confident that it will meet all obligations under the mortgage loan agreement. The Organization has requested and expects to receive a waiver and anticipates no material restatements or consequences to the consolidated financial statements or information contained in these audited statements.

Management believes that the Organization is in compliance with all other loan covenants of the LCEF mortgage loan agreement.

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2019

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>2019</u>	<u>2018</u>
CRP, CRSP, and CDSP plans	\$ 774,689	\$ 702,139
Health and welfare	\$1,245,375	\$1,179,491

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, 2019. There were no contingent liabilities associated with the Plans at May 31, 2019 and 2018. 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, 2019

Note 14 - Net Assets Without Donor Restrictions - Board Designated

<u>May 31</u>	<u>2019</u>	<u>2018</u>
Gift annuities reserve	\$ 1,986,568	\$ 2,865,897
Other retained annuity excess earnings	315,365	342,570
Board designated endowment funds	891,090	1,167,982
Net investment in plant	7,362,395	7,342,650
Operating reserve	<u>4,572,955</u>	<u>4,879,951</u>
	<u>\$15,128,373</u>	<u>\$16,599,050</u>

Note 15 - Net Assets With Donor Restrictions – Temporary In Nature

<u>May 31</u>	<u>2019</u>	<u>2018</u>
Restricted by program		
Restricted contributions	\$ 198,649	\$ 210,433
Restricted by time		
Undistributed endowment earnings	1,858,204	2,820,698
Pledges receivable	540,000	170,000
Beneficial interest in trusts	66,990	83,525
Irrevocable deferred gifts	<u>4,316,649</u>	<u>4,818,938</u>
	<u>\$ 6,980,492</u>	<u>\$ 8,103,594</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors. Net assets with donor restrictions released for program restrictions were \$11,784 and \$73,086 and for time restrictions were \$941,692 and \$832,679 for the years ended May 31, 2019 and 2018, respectively.

Note 16 - Net Assets With Donor Restrictions – Perpetual In Nature

<u>May 31</u>	<u>2019</u>	<u>2018</u>
Donor-restricted endowments	\$ 14,045,714	\$ 12,318,569
Beneficial interest in trusts	<u>5,793,398</u>	<u>6,447,033</u>
	<u>\$ 19,839,112</u>	<u>\$ 18,765,602</u>

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2019

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.

The endowment distribution policy follows the requirements of the State of Missouri's Uniform Prudent Management of Institutional Funds Act. The distribution policy beginning with the year ending May 31, 2019 was changed to a quarterly distribution of 1.25% of the average market value of endowment assets for the preceding twelve quarters. Previously the policy was for an annual distribution of 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.

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the total amount of the gifts made to the endowment by the donor. There were two individual endowments of this nature, with deficiencies that are reported with donor restrictions of \$5,820 and \$2,826 as of May 31, 2019 and 2018, respectively. These deficiencies resulted from unfavorable market fluctuations.

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2019

Note 17 - Endowment Policies (Continued)

The changes in and composition of endowment net assets for the year ended May 31, 2019 are as follows:

	Board Designated	With Donor Restrictions		Total
		Temporary In Nature	Perpetual In Nature	
Endowment net assets – Beginning of year	\$ 1,167,982	\$ 2,820,698	\$ 12,318,569	\$ 16,307,249
Contributions	-	-	1,727,145	1,727,145
Net investment income:				
Dividends and interest	8,337	144,841	-	153,178
Net realized gains	142,342	149,691	-	292,033
Net change in unrealized losses	(162,614)	(417,824)	-	(580,438)
Investment management fees	(4,327)	(67,510)	-	(71,837)
Total investment losses	(16,262)	(190,802)	-	(207,064)
Release of endowment funds:				
Endowment distributions to the League	(259,826)	(736,040)	-	(995,866)
Foundation expenses	(804)	(35,652)	-	(36,456)
Total endowment funds released	(260,630)	(771,692)	-	(1,032,322)
Endowment net assets – End of year	\$ 891,090	\$ 1,858,204	\$ 14,045,714	\$ 16,795,008

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

	Board Designated	With Donor Restrictions		Total
		Temporary In Nature	Perpetual In Nature	
Endowment net assets – Beginning of year	\$ 1,406,097	\$ 2,512,496	\$ 12,111,297	\$ 16,029,890
Contributions	-	-	207,272	207,272
Net 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
Investment management fees	(5,064)	(65,428)	-	(70,492)
Total investment gains	93,608	1,075,454	-	1,169,062
Release of endowment funds:				
Endowment distributions to the League	(327,792)	(716,584)	-	(1,044,376)
Foundation expenses	(3,931)	(50,668)	-	(54,599)
Total endowment funds released	(331,723)	(767,252)	-	(1,098,975)
Endowment net assets – End of year	\$ 1,167,982	\$ 2,820,698	\$ 12,318,569	\$ 16,307,249

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2019

Note 17 - Endowment Policies (Continued)

Endowment net asset composition by type of funds as of May 31, 2019:

	Board Designated	With Donor Restrictions		Total
		Temporary In Nature	Perpetual In Nature	
Donor-designated gifts	\$ -	\$ -	\$ 14,045,714	\$ 14,045,714
Earnings on donor gifts Board-designated	- 891,090	1,858,204 -	- -	1,858,204 891,090
	\$ 891,090	\$ 1,858,204	\$ 14,045,714	\$ 16,795,008

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

	Board Designated	With Donor Restrictions		Total
		Temporary In Nature	Perpetual In Nature	
Donor-designated gifts	\$ -	\$ -	\$ 12,318,569	\$ 12,318,569
Earnings on donor gifts Board-designated	- 1,167,982	2,820,698 -	- -	2,820,698 1,167,982
	\$ 1,167,982	\$ 2,820,698	\$ 12,318,569	\$ 16,307,249

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 \$1,805,089 and \$1,807,676 for the years ended May 31, 2019 and 2018, respectively. In addition, the Organization also received free radio and television time from local stations valued at \$8,573,569 and \$8,459,878 for the years ended May 31, 2019 and 2018, 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, 2019, the Organization does not intend to cancel any of these commitments.

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2019

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:

2020	\$ 1,479,854
2021	1,436,154
2022	1,308,077
2023	405,557
2024	18,735
Thereafter	599,867

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

Note 21 - Liquidity and Availability of Resources

Financial assets, at year end	\$ 32,668,970
Less those unavailable for general expenditures within one year, due to:	
Investments:	
Donor-imposed restrictions:	
Restricted by donor with time or purpose restrictions	(15,903,918)
Board-designations:	
Board-designated quasi-endowments and funds	(1,206,455)
Set aside for gift annuity liability and reserves	(4,809,830)
LHM Operating Reserve Fund	(4,572,955)
Custodial funds:	
Funds held as custodian for other organizations	(124,023)
Contributions and pledges with donor restrictions	<u>(738,649)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 5,313,140</u>

The Organization is partially funded by restricted contributions to the League, gift annuity contributions, and endowment donations to the Foundation. Donor restrictions require resources to be used in a particular manner or in a future period, the Organization must maintain sufficient resources to meet those responsibilities. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2019

Note 21 - Liquidity and Availability of Resources (Continued)

Gift annuity obligations to annuitants and beneficiaries are supported by reserve funds held in the gift annuity investment portfolio. The investment mix provides a strategy for both long-term growth and short-term liquidity to meet the cash needs for annuity payments and distributions. The Foundation maintains these funds at a level that meets or exceeds state regulatory requirements to cover annuity liabilities and provides sufficient access to cash when needed. The Organization has approximately \$1,400,000 of reserves in excess of state regulatory requirements available to cover other expenses at May 31, 2019.

Board designated quasi-endowments are funds set aside by the board for long-term purposes. The Foundation invests these funds for long-term growth and makes quarterly distributions to the League. All of these funds, totaling \$1,206,455 at May 31, 2019, are available to be released from designation by the Board if necessary, to meet the needs of the Foundation.

Quarterly distributions of 1.25% from the donor-restricted and board-designated endowments held in the Foundation are transferred to the League to meet its obligations. These distributions are expected to be approximately \$800,000 in fiscal year 2019-2020.

The Organization maintains a line of credit in the amount of \$3,500,000 to provide liquidity when necessary. At May 31, 2019 there was \$3,300,000 available on the line of credit to cover expenses.

The League has a board-designated operating reserve fund that is invested in the Foundation as a custodial fund. The fund distributes 1.25% of portfolio balance on a quarterly basis to the League. The balance of the fund at May 31, 2019 was \$4,572,955 and is available to the Board to be released as needed to cover expenses. There is a mortgage covenant requiring the Organization to maintain a minimum balance of \$3,000,000 in the operating reserve fund.

The Organization also owns donor-contributed life insurance policies with a goal of holding them until maturity. These policies had a cash surrender value of \$451,529 at May 31, 2019 which would be available to management if needed to cover expenses.

Supplemental Information



THE FIRM FOR GROWTH.®

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, 2019, and our report thereon dated September 24, 2019, 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 30 through 31, 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 24, 2019

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Consolidating Statement of Financial Position

May 31, 2019

(See Independent Auditor's Report on Supplemental Information)

	Organization	Foundation	Total
ASSETS			
Cash	\$ 1,050,793	\$ 12,340	\$ 1,063,133
Investments	1,351,569	25,410,887	26,762,456
Estate gifts and other receivables, net	4,257,515	11,747	4,269,262
Branch office cash advances	574,119	-	574,119
Prepaid expenses and other assets, net	795,518	-	795,518
Irrevocable deferred gifts	4,316,649	-	4,316,649
Beneficial interest in trusts	5,860,389	-	5,860,389
Property and equipment, net	14,997,989	-	14,997,989
TOTAL ASSETS	\$ 33,204,541	\$ 25,434,974	\$ 58,639,515
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable and accruals	\$ 686,285	\$ 15,690	\$ 701,975
Line of credit	200,000	-	200,000
Custodial funds	-	124,023	124,023
Other liabilities	887,257	-	887,257
Intercompany (receivable) payable	(4,891,506)	4,891,506	-
Gift annuity liabilities	707,319	2,115,943	2,823,262
Notes payable	8,000,000	-	8,000,000
Total Liabilities	5,589,355	7,147,162	12,736,517
Net Assets			
Without donor restrictions			
Unrestricted	3,955,021	-	3,955,021
Board designated	12,744,479	2,383,894	15,128,373
With donor restrictions			
Temporary in nature	5,122,288	1,858,204	6,980,492
Perpetual in nature	5,793,398	14,045,714	19,839,112
Total Net Assets	27,615,186	18,287,812	45,902,998
TOTAL LIABILITIES AND NET ASSETS	\$ 33,204,541	\$ 25,434,974	\$ 58,639,515

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Consolidating Statement of Activities

Year ended May 31, 2019

(See Independent Auditor's Report on Supplemental Information)

	Organization	Foundation	Total
Support and Revenue:			
Contributions	\$ 10,535,660	\$ 1,085,560	\$ 11,621,220
In-kind gifts	10,567,658	-	10,567,658
Bequests, annuities, and trusts	8,134,680	643,204	8,777,884
Change in value of deferred gifts	(1,243,702)	(158,059)	(1,401,761)
Charitable gift annuities	-	3,818	3,818
Investment income	(68,281)	(290,380)	(358,661)
Merchandise sales	181,919	-	181,919
Other income	118,354	10,570	128,924
Building tenant rent	1,427,420	-	1,427,420
Total support and revenue	29,653,708	1,294,713	30,948,421
Expenses:			
Operating expenses			
Program services - global ministries	23,841,820	-	23,841,820
Program services - Building tenant services	975,453	-	975,453
Administration	3,136,614	-	3,136,614
Fundraising	5,715,371	80,994	5,796,365
Total expenses	33,669,258	80,994	33,750,252
Transfers from Foundation to the League			
Endowment and other fund distributions	1,509,489	(1,509,489)	-
CHANGE IN NET ASSETS	(2,506,061)	(295,770)	(2,801,831)
Net assets at beginning of year	30,121,247	18,583,582	48,704,829
Net assets at end of year	\$ 27,615,186	\$ 18,287,812	\$ 45,902,998