



CONSOLIDATED FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

MAY 31, 2020

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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, 2020 and 2019, the related consolidated statements of activities, functional expenses 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, 2020 and 2019, and the consolidated changes in Organization's net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 22 to the financial statements, in March of 2020, the World Health Organization has declared COVID-19 constitutes a "Public Health Emergency of International Concern." Given the uncertainty of the situation, the duration of any organizational disruption and related financial impact cannot be reasonably estimated at this time. Our opinion is not modified with respect to this matter.

Brown Smith Wallace, LLP

St. Louis, Missouri
September 22, 2020

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Consolidated Statements of Financial Position

Years ended May 31, 2020 and 2019

(See Independent Auditor's Report)

	2020	2019
ASSETS		
Cash	\$ 1,789,292	\$ 1,063,133
Investments	26,000,492	26,762,456
Estate gifts and other receivables, net	3,289,570	4,269,262
Branch office cash advances	399,176	574,119
Prepaid expenses and other assets, net	686,169	795,518
Irrevocable deferred gifts	4,310,885	4,316,649
Beneficial interest in trusts	9,722,833	5,860,389
Property and equipment, net	15,450,177	14,997,989
TOTAL ASSETS	\$ 61,648,594	\$ 58,639,515
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accruals	\$ 625,152	\$ 701,975
Line of credit	1,899,949	200,000
Custodial funds	124,665	124,023
Other liabilities	778,479	887,257
Gift annuity liabilities	3,130,422	2,823,262
Notes payable	9,890,700	8,000,000
Total Liabilities	16,449,367	12,736,517
Net Assets		
Without donor restrictions		
Undesignated	1,092,525	3,955,021
Board designated	14,571,647	15,128,373
Total without donor restrictions	15,664,172	19,083,394
With donor restrictions		
Temporary in nature	5,700,717	6,980,492
Perpetual in nature	23,834,338	19,839,112
Total with donor restrictions	29,535,055	26,819,604
Total Net Assets	45,199,227	45,902,998
TOTAL LIABILITIES AND NET ASSETS	\$ 61,648,594	\$ 58,639,515

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, 2020

(See Independent Auditor's Report)

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue:			
Contributions	\$ 10,962,156	\$ 130,263	\$ 11,092,419
In-kind gifts	10,935,550	-	10,935,550
Bequests, annuities, and trusts	6,133,321	88,336	6,221,657
Change in value of deferred gifts	(281,332)	3,856,681	3,575,349
Charitable gift annuities	178,598	-	178,598
Investment income, net	125,600	149,588	275,188
Merchandise sales	158,491	-	158,491
Other income	7,312	-	7,312
Building tenant rent	1,541,404	-	1,541,404
Net assets released from restrictions	1,509,417	(1,509,417)	-
Total support and revenue	31,270,517	2,715,451	33,985,968
Expenses:			
Program services - global ministries	25,457,781	-	25,457,781
Program services - building tenant services	1,165,318	-	1,165,318
Administration	3,014,703	-	3,014,703
Fundraising	5,051,937	-	5,051,937
Total expenses	34,689,739	-	34,689,739
CHANGE IN NET ASSETS	(3,419,222)	2,715,451	(703,771)
Net assets at beginning of year	19,083,394	26,819,604	45,902,998
Net assets at end of year	\$ 15,664,172	\$ 29,535,055	\$ 45,199,227

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

(See Independent Auditor's Report)

	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 Functional Expenses

Year ended May 31, 2020

(See Independent Auditor's Report)

	Global Ministries	Building Tenant Services	Administrative	Fundraising	Total Expenses
Salaries	\$ 4,329,914	\$ -	\$ 1,750,141	\$ 1,959,381	\$ 8,039,436
Employee benefits	1,405,296	-	604,421	624,713	2,634,430
Postage & freight	97,062	-	15,078	416,308	528,448
Printing	273,619	-	4,682	590,526	868,827
Media production	114,683	-	479	4,876	120,038
Media distribution	1,963,851	-	-	-	1,963,851
Contributed station time	10,935,550	-	-	-	10,935,550
Travel	286,693	-	142,865	524,493	954,051
Professional & consulting	243,191	5,913	76,838	378,653	704,595
Insurance, utilities & maintenance	254,569	476,410	68,274	114,694	913,947
District funding	37,647	-	-	18,543	56,190
Interest	87,121	79,648	30,839	63,443	261,051
Depreciation and amortization	102,317	323,830	41,843	107,869	575,859
Information processing	253,305	1,880	139,735	103,802	498,722
International office	4,256,958	-	-	-	4,256,958
Other expenses	816,005	277,637	139,508	144,636	1,377,786
	\$ 25,457,781	\$ 1,165,318	\$ 3,014,703	\$ 5,051,937	\$ 34,689,739

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

(See Independent Auditor's Report)

	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, 2020 and 2019

(See Independent Auditor's Report)

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ (703,771)	\$ (2,801,831)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities -		
Depreciation	562,918	533,979
Unrealized loss on investments	426,816	1,188,630
In-kind contribution of property and investments	(502,314)	(867,141)
Change in value of beneficial interests in trusts	(3,862,444)	670,169
Change in value of irrevocable deferred gifts	5,764	502,289
Change in deferred value of gift annuity liabilities	281,332	229,302
Loss on disposal of property and equipment	2,612	13,973
(Increase) decrease in assets -		
Estate and other receivables, net	979,692	(285,165)
Branch office cash advance	174,943	(235,447)
Prepaid expenses and other assets	109,349	(83,209)
Increase (decrease) in liabilities -		
Accounts payable and accruals	(76,823)	(62,967)
Custodial fund liabilities	642	(2,380)
Gift annuity liabilities	25,828	(359,247)
Other liabilities	(108,778)	200,859
Net cash used in operating activities	(2,684,234)	(1,358,186)
Cash flows from investing activities:		
Purchases of investments	(14,629,693)	(11,332,224)
Proceeds from sale of investments	15,467,155	11,458,653
Purchases of property and equipment	(1,017,718)	(367,783)
Net cash used in investing activities	(180,256)	(241,354)
Cash flows from financing activities:		
Proceeds from line of credit	3,350,000	500,000
Payments on line of credit	(1,650,051)	(300,000)
Proceeds from notes payable	1,890,700	-
Net cash provided by financing activities	3,590,649	200,000
NET INCREASE (DECREASE) IN CASH	726,159	(1,399,540)
Cash, beginning of year	1,063,133	2,462,673
Cash, end of year	\$ 1,789,292	\$ 1,063,133
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for -		
Interest paid	\$ 261,051	\$ 211,769
Unrelated business income taxes paid	\$ 21,117	\$ 19,353

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, 2020 and 2019

(See Independent Auditor's Report)

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, 2020 and 2019

(See Independent Auditor's Report)

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 cash.

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, 2020 and 2019

(See Independent Auditor's Report)

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, 2020 and 2019, 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, 2020 and 2019

(See Independent Auditor's Report)

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 contributions without donor restrictions 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, 2020 and 2019

(See Independent Auditor's Report)

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

Change in Accounting Policy

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU clarifies and improves guidance for contributions received and contributions made and provides guidance to the Organization on how to account for certain exchange transactions. This change is preferable in that it clarifies whether to account for transactions as contributions or as exchange transactions. In addition, it clarifies whether a contribution is conditional. As a result, it enhances comparability of financial information about not-for-profit entities. The change in accounting principle was adopted under the modified prospective in 2020. No restatement of prior amounts was recognized in the 2020 financial statements.

In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, permitting private entities that have not yet issued their financial statements as of June 3, 2020, to defer adopting ASU 2014-09, *Revenue from Contracts with Customers*, for annual reporting periods beginning after December 15, 2019. The Organization has chosen to adopt and implement ASU 2020-05 for the year ended June 30, 2020, permitting deferral of adoption of ASU 2014-09, *Revenue from Contracts with Customers*, until June 30, 2021.

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.

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2020 and 2019

(See Independent Auditor's Report)

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

Paycheck Protection Program Loan

The Small Business Administration Paycheck Protection Program ("PPP") loan obtained by the League is presented as a liability until forgiven or paid back. If any part of the loan is forgiven and legal release is received, the League will reduce the liability by the amounts forgiven and record a gain on extinguishment in the consolidated statement of activities.

Subsequent Events

Management has evaluated all subsequent events and transactions through September 22, 2020, the date the consolidated financial statements were available to be issued. No subsequent events require recognition in the consolidated financial statements or disclosures of the Organization per the definitions and requirements of FASB ASC Section 855-10.

Note 2 - Income Tax Status

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

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.

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2020 and 2019

(See Independent Auditor's Report)

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 available and liquid 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.

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.

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2020 and 2019

(See Independent Auditor's Report)

Note 4 - Fair Value Measurements and Investments (Continued)

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 (purchases 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.

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, 2020 and 2019.

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2020 and 2019

(See Independent Auditor's Report)

Note 4 - Fair Value Measurements and Investments (Continued)

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, 2020 and 2019:

<u>2020</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	\$ 30,704	\$ 30,704	\$ -	\$ -
Government securities	213,838	213,838	-	-
Investment funds:				
Mutual funds				
Equity funds	2,093,389	2,093,389	-	-
Fixed income funds	3,713,804	3,713,804	-	-
Total mutual funds	<u>5,807,193</u>	<u>5,807,193</u>	<u>-</u>	<u>-</u>
Total levelled investments	<u>6,051,735</u>	<u>6,051,735</u>	<u>-</u>	<u>-</u>
Collective trust funds:				
Equity funds	13,762,906			
Fixed income funds	5,891,549			
Total collective trust funds	<u>19,654,455</u>			
Cash equivalents	294,302			
Total investments	<u>\$ 26,000,492</u>			
Deferred gifts				
Irrevocable deferred gifts	\$ 4,310,885	\$ -	\$ -	\$ 4,310,885
Beneficial interest in trusts	9,722,833	-	-	9,722,833
	<u>\$ 14,033,718</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,033,718</u>

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2020 and 2019

(See Independent Auditor's Report)

Note 4 - Fair Value Measurements and Investments (Continued)

<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>	<u>-</u>	<u>-</u>
Total levelled investments	<u>6,488,006</u>	<u>6,459,385</u>	<u>-</u>	<u>28,621</u>
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>

The following tables summarize investments measured at fair value based on NAV per share as of May 31, 2020 and 2019:

<u>Investment Name</u>	<u>Fair Value</u>	<u>2020</u>		
		<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Collective trust funds	\$ 19,654,455	-	Daily	Daily
<u>Investment Name</u>	<u>Fair Value</u>	<u>2019</u>		
		<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Collective trust funds	\$ 19,605,098	-	Daily	Daily

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2020 and 2019

(See Independent Auditor's Report)

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, 2020:

Level 3 inputs by category	Real Estate	Deferred Gifts	Total
May 31, 2019	\$ 28,621	\$ 10,177,038	\$ 10,205,659
Additions	-	284,922	284,922
Change in value	-	3,827,769	3,827,769
Sales or pay down of principal	(28,621)	(253,011)	(281,632)
May 31, 2020	\$ -	\$ 14,033,718	\$ 14,033,718

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

Net investment income (loss) at May 31, 2020 consists of the following:

	Undesignated	Board Designated	Temporary In Nature	Total
Dividends and interest	\$ 13,721	\$ 151,143	\$ 199,922	\$ 364,786
Realized gain	1,125	220,787	228,718	450,630
Unrealized loss	5,546	(221,880)	(210,482)	(426,816)
Investment management fees	(50)	(44,792)	(68,570)	(113,412)
	\$ 20,342	\$ 105,258	\$ 149,588	\$ 275,188

Net investment income (loss) at May 31, 2019 consists of the following:

	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)

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2020 and 2019

(See Independent Auditor's Report)

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 \$1,008 and \$(2,102) at May 31, 2020 and 2019, respectively.

Note 5 - Estate Gifts and Other Receivables

<u>May 31</u>	<u>2020</u>	<u>2019</u>
Estate gifts	\$ 3,040,977	\$ 3,781,385
Allowance for change in valuation	<u>(147,954)</u>	<u>(113,847)</u>
	2,893,023	3,667,538
Other receivables	<u>396,547</u>	<u>601,724</u>
Total estate gifts and other receivables	\$ <u>3,289,570</u>	\$ <u>4,269,262</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 \$4,310,885 at May 31, 2020 and \$4,316,649 at May 31, 2019 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 without donor restrictions, 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, 2020 on which the beneficiary can be changed. The actuarial present value of these contracts amounted to \$1,420,474 and \$1,931,488 at May 31, 2020 and 2019, 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 \$9,722,833 and \$5,860,389 at May 31, 2020 and 2019, respectively.

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2020 and 2019

(See Independent Auditor's Report)

Note 8 - Prepaid Expenses and Other Assets

<u>May 31</u>	<u>2020</u>	<u>2019</u>
Unamortized capital leasing costs	\$ 227,862	\$ 53,855
Insurance policies – cash surrender value	366,214	451,529
Other prepaid expenses	<u>92,093</u>	<u>290,134</u>
Total prepaid expenses and other assets	<u>\$ 686,169</u>	<u>\$ 795,518</u>

Note 9 - Property and Equipment

<u>May 31</u>	<u>2020</u>	<u>2019</u>
Building and improvements	\$ 19,958,157	\$ 19,091,999
Equipment and furniture	1,633,871	1,681,554
Software	<u>956,044</u>	<u>890,443</u>
	<u>22,548,072</u>	<u>21,663,996</u>
Less accumulated depreciation	<u>(10,572,895)</u>	<u>(10,141,007)</u>
	<u>11,975,177</u>	<u>11,522,989</u>
Land	<u>3,475,000</u>	<u>3,475,000</u>
	<u>\$ 15,450,177</u>	<u>\$ 14,997,989</u>
Depreciation expense	<u>\$ 562,918</u>	<u>\$ 533,979</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, 2020 and 2019. 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.

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2020 and 2019

(See Independent Auditor's Report)

Note 10 - Gift Annuities and Other Liabilities (Continued)

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, 2020 and 2019. 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 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, 2020

	<u>League</u>	<u>Foundation</u>	<u>Total</u>
Beginning gift annuity liabilities	\$ 707,319	\$ 2,115,943	\$ 2,823,262
Liabilities from newly issued gift annuities	23,144	387,758	410,902
Payments to annuitants	(107,844)	(277,230)	(385,074)
Change in value of deferred gift annuities	<u>110,155</u>	<u>171,177</u>	<u>281,332</u>
Ending gift annuity liabilities	<u>\$ 732,774</u>	<u>\$ 2,397,648</u>	<u>\$ 3,130,422</u>

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>

Note 11 - Line of Credit

The Organization has a revolving line of credit balloon note with the Lutheran Church Extension Fund (LCEF) with interest charged at the prevailing rate when funds were loaned 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 \$1,899,949 and \$200,000 at May 31, 2020 and 2019, respectively. The Organization plans to renew the line of credit with LCEF by October 31, 2020.

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2020 and 2019

(See Independent Auditor's Report)

Note 12 - Notes Payable

<u>May 31</u>	<u>2020</u>	<u>2019</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
Payroll Protection Plan note payable taken on April 15, 2020 to Commerce Bank with no interest only due until November 1, 2020, then amortizable for 18 months. This Promissory note is unsecured. The interest rate of 1.0% is fixed beginning on November 15, 2020. Under the Payroll Protection Plan, this loan is forgivable if used to pay for qualified expenses incurred during the initial 24 weeks.	<u>1,890,700</u>	<u>-</u>
	<u>\$ 9,890,700</u>	<u>\$ 8,000,000</u>

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

	<u>Mortgage</u>	<u>PPP Loan</u>	<u>Total</u>
2021	98,882	\$ 735,272	\$ 834,154
2022	173,413	1,155,428	1,328,841
2023	178,465	-	178,465
2024	183,664	-	183,664
2025	189,014	-	189,014
Thereafter	<u>7,176,562</u>	<u>-</u>	<u>7,176,562</u>
	<u>\$ 8,000,000</u>	<u>\$ 1,890,700</u>	<u>\$ 9,890,700</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, 2020. 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, 2020 and 2019

(See Independent Auditor's Report)

Note 12 - Notes Payable (Continued)

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was signed into law. The legislation includes provisions for expansion of the U.S. Small Business Administration's 7(a) Loan Program to support the new Paycheck Protection Program ("PPP"). The Organization applied and was awarded a loan in the amount of \$1,890,700 from Commerce Bank under the PPP on April 15, 2020.

The loan bears interest at 1% with any accrued interest to be forgiven along with the principal balance. This loan is unsecured, and all unpaid principal and interest shall be due upon maturity on April 16, 2022, if not forgiven. As of May 31, 2020, the notes payable balance was \$1,890,700.

Loans made under the PPP can be forgiven if certain conditions are met. Based on the PPP guidelines, the Organization expects that most or all of the loan will qualify for forgiveness. As of May 31, 2020, the Organization had not received approval that the certain conditions were met, therefore no forgiveness has been recorded.

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.

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2020 and 2019

(See Independent Auditor's Report)

Note 13 - Employee Benefits (Continued)

Total expenses for the Plans are as follows as of May 31:

	<u>2020</u>	<u>2019</u>
CRP, CRSP, and CDSP plans	\$ 800,968	\$ 774,689
Health and welfare	\$1,343,727	\$1,245,375

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, 2020. There were no contingent liabilities associated with the Plans at May 31, 2020 and 2019. 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.

Note 14 - Net Assets Without Donor Restrictions - Board Designated

<u>May 31</u>	<u>2020</u>	<u>2019</u>
Gift annuities reserve	\$ 1,850,729	\$ 1,986,568
Other retained annuity excess earnings	111,579	315,365
Board designated endowment funds	850,206	891,090
Net investment in plant	7,375,476	7,362,395
Operating reserve	<u>4,383,657</u>	<u>4,572,955</u>
	<u>\$14,571,647</u>	<u>\$15,128,373</u>

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

<u>May 31</u>	<u>2020</u>	<u>2019</u>
Restricted by program		
Restricted contributions	\$ 179,502	\$ 198,649
Restricted by time		
Undistributed endowment earnings	1,146,318	1,858,204
Pledges receivable	-	540,000
Beneficial interest in trusts	64,012	66,990
Irrevocable deferred gifts	<u>4,310,885</u>	<u>4,316,649</u>
	<u>\$ 5,700,717</u>	<u>\$ 6,980,492</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 \$107,945 and \$11,784 and for time restrictions were \$1,401,472 and \$941,692 for the years ended May 31, 2020 and 2019, respectively.

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2020 and 2019

(See Independent Auditor's Report)

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

<u>May 31</u>	<u>2020</u>	<u>2019</u>
Donor-restricted endowments	\$ 14,175,517	\$ 14,045,714
Beneficial interest in trusts	<u>9,658,821</u>	<u>5,793,398</u>
	<u>\$ 23,834,338</u>	<u>\$ 19,839,112</u>

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.

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2020 and 2019

(See Independent Auditor's Report)

Note 17 - Endowment Policies (Continued)

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. Cumulative deficiencies of this nature that are reported with donor restrictions were \$118,413 for twenty-five named endowments and \$5,820 for two named endowments as of May 31, 2020 and 2019, respectively. These deficiencies resulted from unfavorable market fluctuations.

The changes in and composition of endowment net assets for the year ended May 31, 2020 are as follows:

	Board Designated	With Donor Restrictions		Total
		Temporary In Nature	Perpetual In Nature	
Endowment net assets – Beginning of year	\$ 891,090	\$ 1,858,204	\$ 14,045,714	\$ 16,795,008
Contributions	-	-	129,804	129,804
Net investment income:				
Dividends and interest	10,882	199,919	-	210,801
Net realized gains	12,572	228,718	-	241,290
Net change in unrealized losses	(11,218)	(210,481)	-	(221,699)
Investment management fees	(3,775)	(68,570)	-	(72,345)
Total net investment gain	8,461	149,586	-	158,047
Release of endowment funds:				
Endowment distributions to the League	(46,852)	(815,977)	-	(862,829)
Foundation expenses	(2,493)	(45,495)	-	(47,988)
Total endowment funds released	(49,345)	(861,472)	-	(910,817)
Endowment net assets – End of year	\$ 850,206	\$ 1,146,318	\$ 14,175,518	\$ 16,172,042

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

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2020 and 2019

(See Independent Auditor's Report)

Note 17 - Endowment Policies (Continued)

Endowment net asset composition by type of funds as of May 31, 2020:

	Board Designated	With Donor Restrictions		Total
		Temporary In Nature	Perpetual In Nature	
Donor-designated gifts	\$ -	\$ -	\$ 14,175,518	\$ 14,175,518
Earnings on donor gifts	-	1,146,318	-	1,146,318
Board-designated	850,206	-	-	850,206
	<u>\$ 850,206</u>	<u>\$ 1,146,318</u>	<u>\$ 14,175,518</u>	<u>\$ 16,172,042</u>

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	-	1,858,204	-	1,858,204
Board-designated	891,090	-	-	891,090
	<u>\$ 891,090</u>	<u>\$ 1,858,204</u>	<u>\$ 14,045,714</u>	<u>\$ 16,795,008</u>

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 \$1,874,785 and \$1,805,089 for the years ended May 31, 2020 and 2019, respectively. In addition, the Organization also received free radio and television time from local stations valued at \$9,060,765 and \$8,573,569 for the years ended May 31, 2020 and 2019, 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, 2020, 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, 2020 and 2019

(See Independent Auditor's Report)

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:

2021	1,531,827
2022	1,427,215
2023	903,553
2024	895,590
2025	898,838
Thereafter	5,618,081

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

Note 21 - Liquidity and Availability of Resources

	<u>2020</u>	<u>2019</u>
Financial assets, at year end	\$ 31,478,530	\$ 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	(15,321,836)	(15,903,918)
Board-designations:		
Board-designated quasi-endowments and funds	(961,785)	(1,206,455)
Set aside for gift annuity liability and reserves	(4,981,151)	(4,809,830)
LHM Operating Reserve Fund	(4,383,657)	(4,572,955)
Custodial funds:		
Funds held as custodian for other organizations	(124,665)	(124,023)
Contributions and pledges with donor restrictions	<u>(179,503)</u>	<u>(738,649)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ <u>5,525,933</u>	\$ <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, 2020 and 2019

(See Independent Auditor's Report)

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 portfolios. The investment mix provides a strategy for 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 \$1,225,000 of reserves above state regulatory requirements available to cover other expenses as of May 31, 2020.

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. These funds, totaling \$961,785 on May 31, 2020, are available to be released from designation by the Board if necessary, to meet the needs of the Organization.

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 \$900,000 in fiscal year 2020-2021.

The Organization maintains a line of credit in the amount of \$3,500,000 to provide liquidity when necessary. On May 31, 2020 there was \$1,600,051 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 on May 31, 2020 was \$4,383,657 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 \$366,214 on May 31, 2020, which would be available to management if needed to cover expenses.

Note 22 - Risk and Uncertainties

The Organization's financial performance, estimates, reserves, contracts and operations in the next 12 months may be affected by the ongoing outbreak of the coronavirus disease ("COVID-19"), which was declared a pandemic by the World Health Organization. The full extent and duration of the impact of COVID-19 on the Organization's operations and financial performance is currently unknown and depends on uncertain and unpredictable developments.

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, 2020, and our report thereon dated September 22, 2020, 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 32 through 33, is presented for purposes of additional analysis of the consolidated financial statements and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Brown Smith Wallace, LLP

St. Louis, Missouri
September 22, 2020

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Consolidating Statement of Financial Position

Year ended May 31, 2020

(See Independent Auditor's Report on Supplemental Information)

	Organization	Foundation	Total
ASSETS			
Cash	\$ 1,774,012	\$ 15,280	\$ 1,789,292
Investments	1,290,404	24,710,088	26,000,492
Estate gifts and other receivables, net	3,275,716	13,854	3,289,570
Branch office cash advances	399,176	-	399,176
Prepaid expenses and other assets, net	686,169	-	686,169
Irrevocable deferred gifts	4,310,885	-	4,310,885
Beneficial interest in trusts	9,722,833	-	9,722,833
Property and equipment, net	15,450,177	-	15,450,177
TOTAL ASSETS	\$ 36,909,372	\$ 24,739,222	\$ 61,648,594
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable and accruals	\$ 609,438	\$ 15,714	\$ 625,152
Line of credit	1,899,949	-	1,899,949
Custodial funds	-	124,665	124,665
Other liabilities	778,479	-	778,479
Intercompany (receivable) payable	(4,811,773)	4,811,773	-
Gift annuity liabilities	732,774	2,397,648	3,130,422
Notes payable	9,890,700	-	9,890,700
Total Liabilities	9,099,567	7,349,800	16,449,367
Net Assets			
Without donor restrictions			
Unrestricted	1,092,525	-	1,092,525
Board designated	12,504,061	2,067,586	14,571,647
With donor restrictions			
Temporary in nature	4,554,399	1,146,318	5,700,717
Perpetual in nature	9,658,820	14,175,518	23,834,338
Total Net Assets	27,809,805	17,389,422	45,199,227
TOTAL LIABILITIES AND NET ASSETS	\$ 36,909,372	\$ 24,739,222	\$ 61,648,594

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Consolidating Statement of Activities

Year ended May 31, 2020

(See Independent Auditor's Report on Supplemental Information)

	Organization	Foundation	Total
Support and Revenue:			
Contributions	\$ 11,049,046	\$ 43,373	\$ 11,092,419
In-kind gifts	10,935,550	-	10,935,550
Bequests, annuities, and trusts	6,133,320	88,337	6,221,657
Change in value of deferred gifts	3,746,526	(171,177)	3,575,349
Charitable gift annuities	28,855	149,743	178,598
Investment income	89,534	185,654	275,188
Merchandise sales	158,491	-	158,491
Other income	(6,138)	13,450	7,312
Building tenant rent	1,541,404	-	1,541,404
Total support and revenue	33,676,588	309,380	33,985,968
Expenses:			
Operating expenses			
Program services - global ministries	25,457,781	-	25,457,781
Program services - Building tenant services	1,165,318	-	1,165,318
Administration	3,014,703	-	3,014,703
Fundraising	4,961,679	90,258	5,051,937
Total expenses	34,599,481	90,258	34,689,739
Transfers from Foundation to the League			
Endowment and other fund distributions	1,117,512	(1,117,512)	-
CHANGE IN NET ASSETS	194,619	(898,390)	(703,771)
Net assets at beginning of year	27,615,186	18,287,812	45,902,998
Net assets at end of year	\$ 27,809,805	\$ 17,389,422	\$ 45,199,227