



CONSOLIDATED FINANCIAL STATEMENTS

MAY 31, 2022

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
 Financial Statements	
Consolidated Statements of Financial Position.....	3
Consolidated Statements of Activities	4
Consolidated Statements of Functional Expenses	6
Consolidated Statements of Cash Flows.....	8
Notes to Consolidated Financial Statements.....	9
 Supplemental Information	
Consolidating Schedule of Financial Position	32
Consolidating Schedule of Activities.....	34

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of International Lutheran Laymen's League and Subsidiaries

Opinion

We have audited the accompanying consolidated financial statements of International Lutheran Laymen's League and Subsidiaries (a nonprofit organization) and the Lutheran Hour Ministries Foundation (collectively referred to as "Lutheran Hour Ministries"), which comprise the consolidated statements of financial position as of May 31, 2022 and 2021, and the related consolidated statements of activities and cash flows for the years then ended, the consolidated statements of functional expenses for the year ended May 31, 2022 and 2021, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Lutheran Hour Ministries as of May 31, 2022 and 2021, and the 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Lutheran Hour Ministries and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Lutheran Hour Ministries' ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than

for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Lutheran Hour Ministries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Lutheran Hour Ministries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information, as listed in the table of contents on pages 32 through 35, is presented for purposes of additional analysis 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



Armanino^{LLP}
St. Louis, Missouri

September 20, 2022

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Consolidated Statements of Financial Position

Years ended May 31, 2022 and 2021

	2022	2021
ASSETS		
Cash	\$ 2,388,205	\$ 1,163,513
Investments	28,922,086	32,828,164
Estate gifts and other receivables, net	7,194,128	2,827,349
Branch office cash advances	513,577	563,063
Prepaid expenses and other assets, net	805,645	897,660
Irrevocable deferred gifts	4,104,615	5,306,545
Beneficial interest in trusts	8,969,304	10,563,881
Property and equipment, net	15,656,928	15,389,264
TOTAL ASSETS	\$ 68,554,488	\$ 69,539,439
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accruals	\$ 1,772,314	\$ 768,256
Line of credit	-	-
Custodial funds	149,536	160,343
Other liabilities	848,161	909,007
Gift annuity liabilities	2,959,373	3,289,890
Notes payable	7,727,706	7,901,119
Total Liabilities	13,457,090	13,028,615
Net Assets		
Without donor restrictions		
Undesignated	4,345,523	4,760,866
Board designated	19,235,054	16,451,683
Total without donor restrictions	23,580,577	21,212,549
With donor restrictions		
Temporary in nature	7,107,140	10,083,669
Perpetual in nature	24,409,681	25,214,606
Total with donor restrictions	31,516,821	35,298,275
Total Net Assets	55,097,398	56,510,824
TOTAL LIABILITIES AND NET ASSETS	\$ 68,554,488	\$ 69,539,439

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, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue:			
Contributions	\$ 12,375,660	\$ 663,480	\$ 13,039,140
In-kind gifts	11,482,749	-	11,482,749
Bequests, annuities, and trusts	12,533,657	367,052	12,900,709
Change in value of deferred gifts	31,439	(2,796,505)	(2,765,066)
Charitable gift annuities	31,118	-	31,118
Investment income, net	(202,991)	(1,043,400)	(1,246,391)
Merchandise sales	279,352	-	279,352
Other income	6,564	-	6,564
PPP loan forgiveness	-	-	-
Building tenant rent	1,515,120	-	1,515,120
Net assets released from restrictions	972,081	(972,081)	-
Total support and revenue	39,024,749	(3,781,454)	35,243,295
Expenses:			
Program services - global ministries	26,257,893	-	26,257,893
Program services - building tenant services	1,236,801	-	1,236,801
Administration	3,892,807	-	3,892,807
Fundraising	5,269,220	-	5,269,220
Total expenses	36,656,721	-	36,656,721
CHANGE IN NET ASSETS	2,368,028	(3,781,454)	(1,413,426)
Net assets at beginning of year	21,212,549	35,298,275	56,510,824
Net assets at end of year	\$ 23,580,577	\$ 31,516,821	\$ 55,097,398

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, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue:			
Contributions	\$ 12,000,005	\$ 111,561	\$ 12,111,566
In-kind gifts	11,144,370	-	11,144,370
Bequests, annuities, and trusts	9,666,615	426,231	10,092,846
Change in value of deferred gifts	(433,429)	1,836,708	1,403,279
Charitable gift annuities	105,598	-	105,598
Investment income, net	2,884,891	4,378,967	7,263,858
Merchandise sales	230,023	-	230,023
Other income	17,885	-	17,885
PPP loan forgiveness	1,890,700	-	1,890,700
Building tenant rent	1,610,387	-	1,610,387
Net assets released from restrictions	990,247	(990,247)	-
Total support and revenue	40,107,292	5,763,220	45,870,512
Expenses:			
Program services - global ministries	24,966,060	-	24,966,060
Program services - building tenant services	1,150,835	-	1,150,835
Administration	3,278,242	-	3,278,242
Fundraising	5,163,778	-	5,163,778
Total expenses	34,558,915	-	34,558,915
CHANGE IN NET ASSETS	5,548,377	5,763,220	11,311,597
Net assets at beginning of year	15,664,172	29,535,055	45,199,227
Net assets at end of year	\$ 21,212,549	\$ 35,298,275	\$ 56,510,824

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, 2022

	Global Ministries	Building Tenant Services	Administration	Fundraising	Total Expenses
Salaries	\$ 4,767,577	\$ -	\$ 2,078,998	\$ 1,979,987	\$ 8,826,562
Employee benefits	1,539,905	-	854,014	636,372	3,030,291
Postage & freight	83,470	16	17,055	398,327	498,868
Printing	202,305	-	6,495	515,864	724,664
Media production	65,450	-	3,782	15,458	84,690
Media distribution	1,866,408	-	-	-	1,866,408
Contributed station time	11,482,749	-	-	-	11,482,749
Travel	221,169	-	101,361	694,562	1,017,092
Professional & consulting	145,586	350	76,288	325,092	547,316
Insurance, utilities & maintenance	207,709	492,622	61,224	142,848	904,403
District funding	23,555	-	22,862	22,862	69,279
Interest	70,453	94,451	21,398	39,366	225,668
Depreciation and amortization	74,763	388,117	171,844	61,344	696,068
Information processing	188,761	-	357,033	198,629	744,423
International office	4,358,910	-	-	18,179	4,377,089
Other expenses	959,123	261,245	120,453	220,330	1,561,151
	<u>\$ 26,257,893</u>	<u>\$ 1,236,801</u>	<u>\$ 3,892,807</u>	<u>\$ 5,269,220</u>	<u>\$ 36,656,721</u>

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, 2021

	Global Ministries	Building Tenant Services	Administration	Fundraising	Total Expenses
Salaries	\$ 4,448,911	\$ -	\$ 1,974,844	\$ 2,163,687	\$ 8,587,442
Employee benefits	1,460,856	-	632,419	711,718	2,804,993
Postage & freight	41,299	11	15,916	442,736	499,962
Printing	274,103	-	278	506,317	780,698
Media production	125,277	-	2,059	6,103	133,439
Media distribution	1,863,732	-	-	-	1,863,732
Contributed station time	11,144,370	-	-	-	11,144,370
Travel	34,188	-	50,212	305,528	389,928
Professional & consulting	203,462	1,600	99,575	404,069	708,706
Insurance, utilities & maintenance	171,430	417,422	51,441	122,481	762,774
District funding	18,967	-	18,409	18,409	55,785
Interest	88,500	108,684	27,862	47,528	272,574
Depreciation and amortization	76,173	373,304	148,468	44,758	642,703
Information processing	398,987	-	163,095	139,250	701,332
International office	3,803,991	-	-	13,980	3,817,971
Other expenses	811,814	249,814	93,664	237,214	1,392,506
	<u>\$ 24,966,060</u>	<u>\$ 1,150,835</u>	<u>\$ 3,278,242</u>	<u>\$ 5,163,778</u>	<u>\$ 34,558,915</u>

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, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	\$ (1,413,426)	\$ 11,311,597
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities -		
Depreciation	637,094	598,543
Realized and unrealized losses (gains)	1,628,403	(7,081,405)
In-kind contribution of property and investments	(1,000)	(1,238,938)
Forgiveness of PPP loan	-	(1,890,700)
Change in value of beneficial interests in trusts	1,594,577	(841,048)
Change in value of irrevocable deferred gifts	1,201,930	(995,660)
Change in deferred value of gift annuity liabilities	(31,439)	433,429
Loss on disposal of property and equipment	3,941	82
(Increase) decrease in assets -		
Estate and other receivables, net	(4,366,779)	462,221
Branch office cash advance	49,486	(163,887)
Prepaid expenses and other assets	92,015	(211,491)
Increase (decrease) in liabilities -		
Accounts payable and accruals	1,004,058	143,104
Custodial fund liabilities	(10,807)	35,678
Gift annuity liabilities	(299,078)	(273,961)
Other liabilities	(60,846)	130,528
Net cash provided by (used in) operating activities	28,129	418,092
Cash flows from investing activities:		
Purchases of investments	(18,983,742)	(87,667,252)
Proceeds from sale of investments	21,262,417	89,159,923
Purchases of property and equipment	(908,699)	(537,712)
Net cash provided by (used in) investing activities	1,369,976	954,959
Cash flows from financing activities:		
Proceeds from line of credit	700,000	1,000,051
Payments on line of credit	(700,000)	(2,900,000)
Proceeds from notes payable	-	-
Payments on notes payable	(173,413)	(98,881)
Net cash provided by (used in) financing activities	(173,413)	(1,998,830)
NET INCREASE (DECREASE) IN CASH	1,224,692	(625,779)
Cash, beginning of year	1,163,513	1,789,292
Cash, end of year	\$ 2,388,205	\$ 1,163,513
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for -		
Interest paid	\$ 225,668	\$ 272,574
Unrelated business income taxes paid	\$ 21,050	\$ 13,525

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, 2022 and 2021

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 and economic interest in 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, 2022 and 2021

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.

Exchange revenue consists of merchandise sales, royalty income, and fees charged to outside organizations for custodial services. Merchandise sales are point in time transactions, while royalty income and custodial fees are over-time transactions. The fees are assessed at up to 1% of the funds. Management has elected to apply a practical expedient to recognize service fee revenue on a portfolio basis when recognizing revenue from contracts whose terms and conditions are similar in nature. The Organization does not refund these fees and therefore, no liability for refunds is reported at May 31, 2022 and 2021.

Cash

The Organization's cash is on deposit with major domestic financial institutions. At times, bank deposits may exceed federally insured limits.

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2022 and 2021

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

Investments

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

Estate Gifts and Other Receivables

Estate gifts which are due and not received as of the financial statement date are accrued as receivables. Unless affirmed by subsequent events, it is the Organization's practice to establish a 5% holdback for additional fees and adverse market fluctuations. Receivables are also established to recognize investment income due. Since all estate gifts are to be received within 1 year, receivables are recorded as contributions without donor restriction unless the gift has a specific purpose restriction. 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, 2022 and 2021, 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, 2022 and 2021

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 global ministries expenses in the accompanying consolidated financial statements at fair value on the date of the contribution.

Advertising

Advertising expenses for ministry programs are included in Other expenses within the consolidated statements of functional expenses. The Organization incurred advertising expenses of \$234,702 and \$138,600 for the years ended May 31, 2022 and 2021, respectively.

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2022 and 2021

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

Expense Allocation

The cost of providing various programs and other activities has been summarized on a functional basis in the consolidated statements 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.

Paycheck Protection Program Loan

The Small Business Administration Paycheck Protection Program ("PPP") loan obtained by the League was presented as a liability until forgiven or paid back. When the loan was forgiven in full and legal release was received in May 2021, the League reduced the liability by the loan balance and recorded the income as PPP loan forgiveness.

Subsequent Events

Management has evaluated all subsequent events and transactions through September 20, 2022, the date the consolidated financial statements were available to be issued. No subsequent events require recognition in the consolidated financial statements.

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2022 and 2021

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 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 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.

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2022 and 2021

Note 4 - Fair Value Measurements and Investments (Continued)

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.

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.

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2022 and 2021

Note 4 - Fair Value Measurements and Investments (Continued)

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, 2022 and 2021.

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, 2022 and 2021:

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2022 and 2021

Note 4 - Fair Value Measurements and Investments (Continued)

2022	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equities - stocks	\$ 43,240	\$ 43,240	\$ -	\$ -
Government securities	259,300	259,300	-	-
Real estate investments	-	-	-	-
Investment funds:				
Mutual funds				
Equity funds	15,728,263	15,728,263	-	-
Fixed income funds	9,813,735	9,813,735	-	-
Total mutual funds	<u>25,541,998</u>	<u>25,541,998</u>	<u>-</u>	<u>-</u>
Total levelled investments	<u>25,844,538</u>	<u>25,844,538</u>	<u>-</u>	<u>-</u>
Collective trust funds:				
Equity funds	1,926,418			
Fixed income funds	731,474			
Total collective trust funds	<u>2,657,892</u>			
Cash equivalents	412,656			
Certificates of deposit	7,000			
Total investments	<u>\$ 28,922,086</u>			
Deferred gifts				
Irrevocable deferred gifts	\$ 4,104,615	\$ -	\$ -	\$ 4,104,615
Beneficial interest in trusts	8,969,304	-	-	8,969,304
	<u>\$ 13,073,919</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,073,919</u>

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2022 and 2021

Note 4 - Fair Value Measurements and Investments (Continued)

<u>2021</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	\$ 42,241	\$ 42,241	\$ -	\$ -
Government securities	257,826	257,826	-	-
Real estate investments	909,305	-	-	909,305
Investment funds:				
Mutual funds				
Equity funds	19,478,282	19,478,282	-	-
Fixed income funds	8,558,410	8,558,410	-	-
Total mutual funds	<u>28,036,692</u>	<u>28,036,692</u>	<u>-</u>	<u>-</u>
Total levelled investments	<u>29,246,064</u>	<u>28,336,759</u>	<u>-</u>	<u>909,305</u>
Collective trust funds:				
Equity funds	2,505,415			
Fixed income funds	654,991			
Total collective trust funds	<u>3,160,406</u>			
Cash equivalents	414,694			
Certificates of deposit	7,000			
Total investments	<u>\$ 32,828,164</u>			
Deferred gifts				
Irrevocable deferred gifts	\$ 5,306,545	\$ -	\$ -	\$ 5,306,545
Beneficial interest in trusts	10,563,881	-	-	10,563,881
	<u>\$ 15,870,426</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,870,426</u>

The following tables summarize investments measured at fair value based on NAV per share as of May 31, 2022 and 2021:

<u>2022</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	\$ 2,657,892	-	Daily	Daily
<u>2021</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	\$ 3,160,406	-	Daily	Daily

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2022 and 2021

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, 2022:

<u>Level 3 inputs by category</u>	<u>Real Estate</u>	<u>Deferred Gifts</u>	<u>Total</u>
May 31, 2021	\$ 909,305	\$ 15,870,426	\$ 16,779,731
Additions	-	392,069	392,069
Change in value	356,788	(2,523,721)	(2,166,933)
Sales or pay down of principal	<u>(1,266,093)</u>	<u>(664,855)</u>	<u>(1,930,948)</u>
May 31, 2022	<u>\$ -</u>	<u>\$ 13,073,919</u>	<u>\$ 13,073,919</u>

Changes in assets measured on a recurring basis using significant unobservable inputs (Level 3 inputs) for the year ended May 31, 2021:

<u>Level 3 inputs by category</u>	<u>Real Estate</u>	<u>Deferred Gifts</u>	<u>Total</u>
May 31, 2020	\$ -	\$ 14,033,718	\$ 14,033,718
Additions	909,305	569,557	1,478,862
Change in value	-	1,471,762	1,471,762
Sales or pay down of principal	<u>-</u>	<u>(204,611)</u>	<u>(204,611)</u>
May 31, 2021	<u>\$ 909,305</u>	<u>\$ 15,870,426</u>	<u>\$ 16,779,731</u>

Net investment income (loss) at May 31, 2022 consists of the following:

	<u>Undesignated</u>	<u>Board Designated</u>	<u>Temporary In Nature</u>	<u>Total</u>
Dividends and interest	\$ 10,247	\$ 163,224	\$ 316,671	\$ 490,142
Realized gain	351,203	874,797	944,781	2,170,781
Unrealized gain (loss)	-	(1,559,051)	(2,240,133)	(3,799,184)
Investment management fees	<u>(200)</u>	<u>(43,211)</u>	<u>(64,719)</u>	<u>(108,130)</u>
	<u>\$ 361,250</u>	<u>\$ (564,241)</u>	<u>\$ (1,043,400)</u>	<u>\$ (1,246,391)</u>

Net investment income (loss) at May 31, 2021 consists of the following:

	<u>Undesignated</u>	<u>Board Designated</u>	<u>Temporary In Nature</u>	<u>Total</u>
Dividends and interest	\$ 5,680	\$ 114,199	\$ 164,585	\$ 284,464
Realized gain	4,949	1,668,029	3,707,052	5,380,030
Unrealized gain (loss)	-	1,121,337	580,038	1,701,375
Investment management fees	<u>-</u>	<u>(29,303)</u>	<u>(72,708)</u>	<u>(102,011)</u>
	<u>\$ 10,629</u>	<u>\$ 2,874,262</u>	<u>\$ 4,378,967</u>	<u>\$ 7,263,858</u>

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2022 and 2021

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 \$(8,482) and \$35,681 for the year ended May 31, 2022 and 2021, respectively.

Note 5 - Estate Gifts and Other Receivables

<u>May 31</u>	<u>2022</u>	<u>2021</u>
Estate gifts	\$ 7,020,776	\$ 2,525,417
Allowance for change in valuation	<u>(336,638)</u>	<u>(85,603)</u>
	6,684,138	2,439,814
Other receivables	<u>509,990</u>	<u>387,535</u>
Total estate gifts and other receivables	\$ <u>7,194,128</u>	\$ <u>2,827,349</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 \$4,104,615 at May 31, 2022, and \$5,306,545 at May 31, 2021, and have been reflected in these consolidated financial statements as a receivable and as net assets with donor restrictions that are 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, 2022 on which the beneficiary can be changed. The actuarial present value of these contracts amounted to \$1,123,639 and \$1,820,764 at May 31, 2022 and 2021, 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 \$8,969,304 and \$10,563,881 at May 31, 2022 and 2021, respectively.

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2022 and 2021

Note 8 - Prepaid Expenses and Other Assets

<u>May 31</u>	<u>2022</u>	<u>2021</u>
Unamortized capital leasing costs	\$ 315,568	\$ 374,541
Insurance policies – cash surrender value	386,442	377,539
Other prepaid expenses	<u>103,635</u>	<u>145,580</u>
Total prepaid expenses and other assets	<u>\$ 805,645</u>	<u>\$ 897,660</u>

Note 9 - Property and Equipment

<u>May 31</u>	<u>2022</u>	<u>2021</u>
Building and improvements	\$ 20,818,589	\$ 20,012,242
Equipment and furniture	1,582,322	1,686,045
Software	<u>666,260</u>	<u>1,371,804</u>
	23,067,171	23,070,091
Less accumulated depreciation	<u>(10,885,243)</u>	<u>(11,155,827)</u>
	12,181,928	11,914,264
Land	<u>3,475,000</u>	<u>3,475,000</u>
	<u>\$ 15,656,928</u>	<u>\$ 15,389,264</u>
Depreciation expense	<u>\$ 637,094</u>	<u>\$ 598,543</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 9.5% as of May 31, 2022, and 4.1% to 9.5% as of May 31, 2021. 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, 2022 and 2021

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, 2022, and 2021. 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, 2022

	<u>League</u>	<u>Foundation</u>	<u>Total</u>
Beginning gift annuity liabilities	\$ 720,622	\$ 2,569,268	\$ 3,289,890
Liabilities from newly issued gift annuities	2,309	52,346	54,655
Payments to annuitants	(86,791)	(266,942)	(353,733)
Change in value of deferred gift annuities	<u>20,446</u>	<u>(51,885)</u>	<u>(31,439)</u>
Ending gift annuity liabilities	<u>\$ 656,586</u>	<u>\$ 2,302,787</u>	<u>\$ 2,959,373</u>

May 31, 2021

	<u>League</u>	<u>Foundation</u>	<u>Total</u>
Beginning gift annuity liabilities	\$ 732,774	\$ 2,397,648	\$ 3,130,422
Liabilities from newly issued gift annuities	14,847	115,855	130,702
Payments to annuitants	(118,854)	(285,809)	(404,663)
Change in value of deferred gift annuities	<u>91,855</u>	<u>341,574</u>	<u>433,429</u>
Ending gift annuity liabilities	<u>\$ 720,622</u>	<u>\$ 2,569,268</u>	<u>\$ 3,289,890</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 November 16, 2023. The Organization was obligated on these lines of credit for \$-0- at May 31, 2022 and 2021.

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2022 and 2021

Note 12 - Notes Payable

<u>May 31</u>	<u>2022</u>	<u>2021</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 \$13,827,721. The initial interest rate of 2.875% is fixed until October 31, 2022, after which it is adjustable every five years.	<u>\$ 7,727,706</u>	<u>\$ 7,901,119</u>

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

2023	178,465
2024	183,664
2025	189,014
2026	194,521
2027	200,187
Thereafter	<u>6,781,855</u>
	<u>\$ 7,727,706</u>

Management has determined that it is in compliance with the debt service coverage ratio loan covenant for the mortgage loan with LCEF for the year ended May 31, 2022. There were no missed payments or defaults, and the Organization is confident that it will meet all obligations under the mortgage loan agreement. 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, 2022 and 2021

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 was used for qualified expenses under the PPP guidelines, and the Organization applied for full forgiveness. In May 2021, the Organization was granted full forgiveness for the loan. The liability was extinguished, and the Organization recorded \$1,890,700 as income classified as PPP loan forgiveness in the year ended May 31, 2021.

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, 2022 and 2021

Note 13 - Employee Benefits (Continued)

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

	<u>2022</u>	<u>2021</u>
CRP, CRSP, and CDSP plans	\$ 892,924	\$ 835,856
Health and welfare	\$1,461,355	\$1,438,756

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, 2022. There were no contingent liabilities associated with the Plans at May 31, 2022 and 2021. 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>2022</u>	<u>2021</u>
Gift annuities reserve	\$ 2,198,144	\$ 2,767,234
Other retained annuity excess earnings	39,238	39,238
Board designated endowment funds	252,482	646,431
Net investment in property and equipment	7,929,222	7,375,476
Operating reserve	<u>8,815,968</u>	<u>5,623,304</u>
	<u>\$19,235,054</u>	<u>\$16,451,683</u>

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

<u>May 31</u>	<u>2022</u>	<u>2021</u>
Restricted by program		
Restricted contributions	\$ 255,371	\$ 49,854
Undistributed endowment earnings	600,562	1,092,205
Restricted by time		
Undistributed endowment earnings	2,088,584	3,573,724
Beneficial interest in trusts	58,008	61,341
Irrevocable deferred gifts	<u>4,104,615</u>	<u>5,306,545</u>
	<u>\$ 7,107,140</u>	<u>\$10,083,669</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 \$38,697 and \$130,889 and for time restrictions were \$933,384 and \$859,356 for the years ended May 31, 2022 and 2021, respectively.

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2022 and 2021

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

<u>May 31</u>	<u>2022</u>	<u>2021</u>
Donor-restricted endowments	\$ 15,498,387	\$ 14,712,066
Beneficial interest in trusts	<u>8,911,294</u>	<u>10,502,540</u>
	<u>\$ 24,409,681</u>	<u>\$ 25,214,606</u>

Note 17 - Revenue

Disaggregation of Revenue

The following tables present exchange contracts with customers disaggregated by revenue source and pattern of revenue recognition:

	Year Ended May 31, 2022		
	<u>Point in Time</u>	<u>Over-Time</u>	<u>Total</u>
Merchandise sales			
Product sales	\$ 256,025	\$ -	\$ 256,025
Royalty income	-	23,327	23,327
Custodial account fees	-	324	324
Total	<u>\$ 256,025</u>	<u>\$ 23,651</u>	<u>\$ 279,676</u>

	Year Ended May 31, 2021		
	<u>Point in Time</u>	<u>Over-Time</u>	<u>Total</u>
Merchandise sales			
Product sales	\$ 209,292	\$ -	\$ 209,292
Royalty income	-	20,731	20,731
Custodial account fees	-	6,319	6,319
Total	<u>\$ 209,292</u>	<u>\$ 27,050</u>	<u>\$ 236,342</u>

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2022 and 2021

Note 18 - 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. Effective as of April 2021, the targeted investment asset mix is currently 64.5% equities, 20.5% fixed income, 10% real assets, and 5% alternative investments. 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 is a quarterly distribution of 1.25% 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. Cumulative deficiencies of this nature that are reported with donor restrictions were \$(13,539) for twelve of sixty-nine individually named endowments as of May 31, 2022, and \$0 for all endowments as of May 31, 2021. These deficiencies resulted from unfavorable market fluctuations.

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2022 and 2021

Note 18 - Endowment Policies (Continued)

The endowment assets were moved to Central Trust Company of St. Louis, Missouri in December 2020. The funds were invested under the Foundation's Investment Plan Statement revised in April 2021.

The changes in and composition of endowment net assets for the year ended May 31, 2022 are as follows:

	Board Designated	With Donor Restrictions		Total
		Temporary In Nature	Perpetual In Nature	
Endowment net assets – Beginning of year	\$ 646,431	\$ 4,665,929	\$ 14,712,066	\$ 20,024,426
Contributions	-	-	786,321	786,321
Net investment income:				
Dividends and interest	7,720	316,671	-	324,391
Net realized gains (losses)	(19,306)	944,781	-	925,475
Net change in unrealized gains (losses)	(2,581)	(2,240,133)	-	(2,242,714)
Investment management fees	(1,574)	(64,719)	-	(66,293)
Total net investment gain (loss)	(15,741)	(1,043,400)	-	(1,059,141)
Release of endowment funds:				
Endowment distributions	(39,265)	(893,797)	-	(933,062)
Foundation expenses	(338,943)	(39,586)	-	(378,529)
Total endowment funds released	(378,208)	(933,383)	-	(1,311,591)
Endowment net assets – End of year	\$ 252,482	\$ 2,689,146	\$ 15,498,387	\$ 18,440,015

The changes in and composition of endowment net assets for the year ended May 31, 2021 are as follows:

	Board Designated	With Donor Restrictions		Total
		Temporary In Nature	Perpetual In Nature	
Endowment net assets – Beginning of year	\$ 850,206	\$ 1,146,318	\$ 14,175,518	\$ 16,172,042
Contributions	-	-	536,548	536,548
Net investment income:				
Dividends and interest	8,282	164,585	-	172,867
Net realized gains	283,567	3,707,052	-	3,990,619
Net change in unrealized gains (losses)	(64,286)	580,038	-	515,752
Investment management fees	(3,740)	(72,708)	-	(76,448)
Total net investment gain (loss)	223,823	4,378,967	-	4,602,790
Release of endowment funds:				
Endowment distributions	(45,413)	(834,772)	-	(880,185)
Foundation expenses	(382,185)	(24,584)	-	(406,769)
Total endowment funds released	(427,598)	(859,356)	-	(1,286,954)
Endowment net assets – End of year	\$ 646,431	\$ 4,665,929	\$ 14,712,066	\$ 20,024,426

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2022 and 2021

Note 18 - Endowment Policies (Continued)

Endowment net asset composition by type of funds as of May 31, 2022:

	<u>With Donor Restrictions</u>			Total
	Board Designated	Temporary In Nature	Perpetual In Nature	
Donor-designated gifts	\$ -	\$ -	\$ 15,498,387	\$ 15,498,387
Accum. earnings on donor gifts	-	2,689,146	-	2,689,146
Board-designated	252,482	-	-	252,482
	<u>\$ 252,482</u>	<u>\$ 2,689,146</u>	<u>\$ 15,498,387</u>	<u>\$ 18,440,015</u>

Endowment net asset composition by type of funds as of May 31, 2021:

	<u>With Donor Restrictions</u>			Total
	Board Designated	Temporary In Nature	Perpetual In Nature	
Donor-designated gifts	\$ -	\$ -	\$ 14,712,066	\$ 14,712,066
Accum. earnings on donor gifts	-	4,665,929	-	4,665,929
Board-designated	646,431	-	-	646,431
	<u>\$ 646,431</u>	<u>\$ 4,665,929</u>	<u>\$ 14,712,066</u>	<u>\$ 20,024,426</u>

Note 19 - Contributed Radio and Television Station Time

A portion of the Organization's radio station time has been donated by local sponsors. The value of the time contributed by local sponsors was \$2,325,598 and \$1,950,673 for the years ended May 31, 2022 and 2021, respectively. In addition, the Organization also received free radio and television time from local stations valued at \$9,157,151 and \$9,193,697 for the years ended May 31, 2022 and 2021, respectively.

Note 20 - 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, 2022, 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, 2022 and 2021

Note 21 - 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:

2023	988,230
2024	970,364
2025	975,260
2026	996,796
2027	936,868
Thereafter	3,755,236

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

Note 22 - Liquidity and Availability of Resources

	<u>2022</u>	<u>2021</u>
Financial assets, at year end	\$ 39,017,996	\$ 37,382,089
Less those unavailable for general expenditures within one year, due to:		
Investments:		
Donor-imposed restrictions:		
Restricted by donor with time or purpose restrictions	(18,187,533)	(19,377,995)
Board-designations:		
Board-designated quasi-endowments and funds	(291,720)	(685,669)
Set aside for gift annuity liability and reserves	(5,157,518)	(6,057,124)
LHM Operating Reserve Fund	(8,815,968)	(5,623,304)
Custodial funds:		
Funds held as custodian for other organizations	(149,536)	(160,343)
Contributions and pledges with donor restrictions	<u>(255,371)</u>	<u>(49,857)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ <u>6,160,350</u>	\$ <u>5,427,797</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, 2022 and 2021

Note 22 - 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 \$1,606,270 of reserves above state regulatory requirements available to cover other expenses as of May 31, 2022.

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 \$291,720 on May 31, 2022, 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 2022-2023.

The Organization maintains a line of credit in the amount of \$3,500,000 to provide liquidity when necessary.

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, 2022 was \$8,815,968 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 \$386,442 on May 31, 2022, which would be available to management if needed to cover expenses.

Supplemental Information

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Consolidating Schedule of Financial Position

Year ended May 31, 2022

	Organization	Foundation	Total
ASSETS			
Cash	\$ 2,311,577	\$ 76,628	\$ 2,388,205
Investments	1,375,277	27,546,809	28,922,086
Estate gifts and other receivables, net	7,183,302	10,826	7,194,128
Branch office cash advances	513,577	-	513,577
Prepaid expenses and other assets, net	805,645	-	805,645
Irrevocable deferred gifts	4,104,615	-	4,104,615
Beneficial interest in trusts	8,969,304	-	8,969,304
Property and equipment, net	15,656,928	-	15,656,928
TOTAL ASSETS	\$ 40,920,225	\$ 27,634,263	\$ 68,554,488
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable and accruals	\$ 1,767,314	\$ 5,000	\$ 1,772,314
Line of credit	-	-	-
Custodial funds	-	149,536	149,536
Other liabilities	848,161	-	848,161
Intercompany (receivable) payable	(5,389,801)	5,389,801	-
Gift annuity liabilities	656,586	2,302,787	2,959,373
Notes payable	7,727,706	-	7,727,706
Total Liabilities	5,609,966	7,847,124	13,457,090
Net Assets			
Without donor restrictions			
Unrestricted	4,345,523	-	4,345,523
Board designated	17,635,448	1,599,606	19,235,054
With donor restrictions			
Temporary in nature	4,417,994	2,689,146	7,107,140
Perpetual in nature	8,911,294	15,498,387	24,409,681
Total Net Assets	35,310,259	19,787,139	55,097,398
TOTAL LIABILITIES AND NET ASSETS	\$ 40,920,225	\$ 27,634,263	\$ 68,554,488

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Consolidating Schedule of Financial Position

Year ended May 31, 2021

	Organization	Foundation	Total
ASSETS			
Cash	\$ 1,072,216	\$ 91,297	\$ 1,163,513
Investments	2,460,699	30,367,465	32,828,164
Estate gifts and other receivables, net	2,813,072	14,277	2,827,349
Branch office cash advances	563,063	-	563,063
Prepaid expenses and other assets, net	897,660	-	897,660
Irrevocable deferred gifts	5,306,545	-	5,306,545
Beneficial interest in trusts	10,563,881	-	10,563,881
Property and equipment, net	15,389,264	-	15,389,264
TOTAL ASSETS	\$ 39,066,400	\$ 30,473,039	\$ 69,539,439
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable and accruals	\$ 767,642	\$ 614	\$ 768,256
Line of credit	-	-	-
Custodial funds	-	160,343	160,343
Other liabilities	909,007	-	909,007
Intercompany (receivable) payable	(5,917,530)	5,917,530	-
Gift annuity liabilities	720,622	2,569,268	3,289,890
Notes payable	7,901,119	-	7,901,119
Total Liabilities	4,380,860	8,647,755	13,028,615
Net Assets			
Without donor restrictions			
Unrestricted	4,760,866	-	4,760,866
Board designated	14,004,394	2,447,289	16,451,683
With donor restrictions			
Temporary in nature	5,417,740	4,665,929	10,083,669
Perpetual in nature	10,502,540	14,712,066	25,214,606
Total Net Assets	34,685,540	21,825,284	56,510,824
TOTAL LIABILITIES AND NET ASSETS	\$ 39,066,400	\$ 30,473,039	\$ 69,539,439

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Consolidating Schedule of Activities

Year ended May 31, 2022

	Organization	Foundation	Total
Support and Revenue:			
Contributions	\$ 12,619,871	\$ 419,269	\$ 13,039,140
In-kind gifts	11,482,749	-	11,482,749
Bequests, annuities, and trusts	12,533,657	367,052	12,900,709
Change in value of deferred gifts	(2,816,951)	51,885	(2,765,066)
Charitable gift annuities	3,150	27,968	31,118
Investment income, net	11,703	(1,258,094)	(1,246,391)
Merchandise sales	279,352	-	279,352
Other income	(4,884)	11,448	6,564
PPP loan forgiveness	-	-	-
Building tenant rent	1,515,120	-	1,515,120
Total support and revenue	35,623,767	(380,472)	35,243,295
Expenses:			
Operating expenses			
Program services - global ministries	26,257,893	-	26,257,893
Program services - building tenant services	1,236,801	-	1,236,801
Administration	3,892,807	-	3,892,807
Fundraising	4,848,574	420,646	5,269,220
Total expenses	36,236,075	420,646	36,656,721
Transfers from Foundation to the League			
Endowment and other fund distributions	1,237,027	(1,237,027)	-
CHANGE IN NET ASSETS	624,719	(2,038,145)	(1,413,426)
Net assets at beginning of year	34,685,540	21,825,284	56,510,824
Net assets at end of year	\$ 35,310,259	\$ 19,787,139	\$ 55,097,398

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Consolidating Schedule of Activities

Year ended May 31, 2021

	Organization	Foundation	Total
Support and Revenue:			
Contributions	\$ 12,001,249	\$ 110,317	\$ 12,111,566
In-kind gifts	11,144,370	-	11,144,370
Bequests, annuities, and trusts	9,666,615	426,231	10,092,846
Change in value of deferred gifts	1,744,853	(341,574)	1,403,279
Charitable gift annuities	15,153	90,445	105,598
Investment income, net	1,589,298	5,674,560	7,263,858
Merchandise sales	230,023	-	230,023
Other income	11,566	6,319	17,885
PPP loan forgiveness	1,890,700	-	1,890,700
Building tenant rent	1,610,387	-	1,610,387
Total support and revenue	39,904,214	5,966,298	45,870,512
Expenses:			
Operating expenses			
Program services - global ministries	24,966,060	-	24,966,060
Program services - building tenant services	1,150,835	-	1,150,835
Administration	3,278,242	-	3,278,242
Fundraising	4,630,228	533,550	5,163,778
Total expenses	34,025,365	533,550	34,558,915
Transfers from Foundation to the League			
Endowment and other fund distributions	996,886	(996,886)	-
CHANGE IN NET ASSETS	6,875,735	4,435,862	11,311,597
Net assets at beginning of year	27,809,805	17,389,422	45,199,227
Net assets at end of year	\$ 34,685,540	\$ 21,825,284	\$ 56,510,824