



Financial Statements  
with  
Independent Auditor's Report

**MAY 31, 2021**

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## Independent Auditor's Report

Board of Trustees  
The Lutheran Hour Ministries Foundation  
St. Louis, Missouri

### Report on the Financial Statements

We have audited the accompanying financial statements of The Lutheran Hour Ministries Foundation (the "Foundation"), which comprise the statement of financial position as of May 31, 2021 and the related statement of activities and cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the 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 Foundation'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 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 financial statements referred to above present fairly, in all material respects, the statement of financial position of The Lutheran Hour Ministries Foundation as of May 31, 2021, and its statement of activities, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Prior Period Financial Statements**

The financial statements as of May 31, 2020, were audited by Brown Smith Wallace, LLP, whose practice became part of Armanino<sup>LLP</sup> as of August 1, 2021, and whose report dated August 21, 2020, expressed an unmodified opinion on those statements.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino<sup>LLP</sup>  
St. Louis, Missouri

August 23, 2021

# THE LUTHERAN HOUR MINISTRIES FOUNDATION

## Statements of Financial Position

May 31, 2021 and 2020

(See Independent Auditor's Report)

	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>		
Cash	\$ 91,297	\$ 15,280
Investments	30,367,465	24,710,088
Other receivables	14,277	13,854
<b>TOTAL ASSETS</b>	<b><u>\$ 30,473,039</u></b>	<b><u>\$ 24,739,222</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Due to International Lutheran Laymen's League	\$ 294,126	\$ 428,115
Accounts payable	614	15,714
Gift annuity liabilities	2,569,268	2,397,648
Custodial funds	5,783,747	4,508,323
<b>Total Liabilities</b>	<b><u>8,647,755</u></b>	<b><u>7,349,800</u></b>
<b>Net Assets</b>		
<b>Without donor restrictions</b>		
Board designated	2,447,289	2,067,586
<b>With donor restrictions</b>		
Temporary in nature	4,665,929	1,146,318
Perpetual in nature	14,712,066	14,175,518
<b>Total with donor restrictions</b>	<b><u>19,377,995</u></b>	<b><u>15,321,836</u></b>
<b>Total Net Assets</b>	<b><u>21,825,284</u></b>	<b><u>17,389,422</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 30,473,039</u></b>	<b><u>\$ 24,739,222</u></b>

The accompanying notes are an integral part of these financial statements.

# THE LUTHERAN HOUR MINISTRIES FOUNDATION

## Statement of Activities

Year ended May 31, 2021

(See Independent Auditor's Report)

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Income:</b>			
Donations	\$ -	\$ 110,317	\$ 110,317
Bequests, annuities and trusts	-	426,231	426,231
Contributions to gift annuities	90,445	-	90,445
Change in value of deferred gifts	(341,574)	-	(341,574)
Donated services from related parties	118,460	-	118,460
Net investment income	1,295,592	4,378,968	5,674,560
Custodial fees and other income	6,319	-	6,319
Net assets released from restrictions	859,357	(859,357)	-
<b>Total income</b>	<b>2,028,599</b>	<b>4,056,159</b>	<b>6,084,758</b>
<b>Expenses:</b>			
<b>Program Expenses:</b>			
Annuity distributions to beneficiaries	114,876	-	114,876
Endowment distributions	880,185	-	880,185
Other fund distributions	1,825	-	1,825
<b>Total program expenses</b>	<b>996,886</b>	<b>-</b>	<b>996,886</b>
<b>Administrative Expenses:</b>			
Travel expenses	2,190	-	2,190
Management fees - gift annuity program	25,190	-	25,190
Other professional fees	21,000	-	21,000
Insurance	9,144	-	9,144
Service contract expense	471,764	-	471,764
Miscellaneous expense	4,262	-	4,262
Donated services - personnel expense	114,867	-	114,867
Donated services - rent expense	3,593	-	3,593
<b>Total administrative expenses</b>	<b>652,010</b>	<b>-</b>	<b>652,010</b>
<b>Total expenses</b>	<b>1,648,896</b>	<b>-</b>	<b>1,648,896</b>
<b>CHANGE IN NET ASSETS</b>	<b>379,703</b>	<b>4,056,159</b>	<b>4,435,862</b>
<b>Net assets at beginning of year</b>	<b>2,067,586</b>	<b>15,321,836</b>	<b>17,389,422</b>
<b>Net assets at end of year</b>	<b>\$ 2,447,289</b>	<b>\$ 19,377,995</b>	<b>\$ 21,825,284</b>

The accompanying notes are an integral part of these financial statements.

# THE LUTHERAN HOUR MINISTRIES FOUNDATION

## Statement of Activities

Year ended May 31, 2020

(See Independent Auditor's Report)

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Income:</b>			
Donations	\$ 1,906	\$ 41,467	\$ 43,373
Bequests, annuities and trusts	-	88,337	88,337
Contributions to gift annuities	149,743	-	149,743
Change in value of deferred gifts	(171,177)	-	(171,177)
Donated services from related parties	96,293	-	96,293
Net investment income	36,068	149,586	185,654
Custodial fees and other income	13,450	-	13,450
Net assets released from restrictions	861,472	(861,472)	-
<b>Total income</b>	<b>987,755</b>	<b>(582,082)</b>	<b>405,673</b>
<b>Expenses:</b>			
<b>Program Expenses:</b>			
Annuity distributions to beneficiaries	40,174	-	40,174
Endowment distributions	862,829	-	862,829
Other fund distributions	214,509	-	214,509
<b>Total program expenses</b>	<b>1,117,512</b>	<b>-</b>	<b>1,117,512</b>
<b>Administrative Expenses:</b>			
Travel expenses	28,977	-	28,977
Management fees - gift annuity program	23,390	-	23,390
Other professional fees	25,096	-	25,096
Insurance	10,232	-	10,232
Miscellaneous expense	2,563	-	2,563
Donated services - personnel expense	91,451	-	91,451
Donated services - rent expense	4,842	-	4,842
<b>Total administrative expenses</b>	<b>186,551</b>	<b>-</b>	<b>186,551</b>
<b>Total expenses</b>	<b>1,304,063</b>	<b>-</b>	<b>1,304,063</b>
<b>CHANGE IN NET ASSETS</b>	<b>(316,308)</b>	<b>(582,082)</b>	<b>(898,390)</b>
<b>Net assets at beginning of year</b>	<b>2,383,894</b>	<b>15,903,918</b>	<b>18,287,812</b>
<b>Net assets at end of year</b>	<b>\$ 2,067,586</b>	<b>\$ 15,321,836</b>	<b>\$ 17,389,422</b>

The accompanying notes are an integral part of these financial statements.

# THE LUTHERAN HOUR MINISTRIES FOUNDATION

## Statements of Cash Flows

Years ended May 31, 2021 and 2020  
(See Independent Auditor's Report)

	<u>2021</u>	<u>2020</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 4,435,862	\$ (898,390)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Realized and unrealized (gain)/loss on investments	(5,535,004)	(3,145)
Change in deferred value of gift annuity liabilities	171,620	281,705
(Increase) decrease in assets -		
Other receivables	(423)	(2,107)
Increase (decrease) in liabilities -		
Due to/due from International Lutheran Laymen's League	(133,989)	109,563
Custodial funds	1,275,424	(188,654)
Accounts payable	(15,100)	24
	<u>198,390</u>	<u>(701,004)</u>
<b>Net cash provided by (used in) operating activities</b>	<b>198,390</b>	<b>(701,004)</b>
<b>Cash flows from investing activities:</b>		
Purchases of investments	(87,473,913)	(13,399,646)
Proceeds from sales of investments	87,351,540	14,103,590
	<u>(122,373)</u>	<u>703,944</u>
<b>Net cash provided by (used in) investing activities</b>	<b>(122,373)</b>	<b>703,944</b>
<b>NET INCREASE IN CASH</b>	<b>76,017</b>	<b>2,940</b>
<b>Cash, beginning of year</b>	<u>15,280</u>	<u>12,340</u>
<b>Cash, end of year</b>	<u>\$ 91,297</u>	<u>\$ 15,280</u>

The accompanying notes are an integral part of these financial statements.

# THE LUTHERAN HOUR MINISTRIES FOUNDATION

## Notes to Financial Statements

May 31, 2021

(See Independent Auditor's Report)

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### Note 1 - Organization and Summary of Significant Accounting Policies

#### ***Organization***

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. On an annual basis, the Foundation provides funding to the League.

The League, doing business 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 League's purpose is to proclaim the Gospel of Jesus Christ on a domestic and international scale via the media of radio, television, and other forms of mass communication.

The Foundation, due to substantial organizational control by the League, was consolidated in the League's financial statements for the years ended May 31, 2021 and 2020. These financial statements only include the accounts of the Foundation.

#### ***Basis of Accounting and Presentation***

The 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) which requires the Foundation 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 Foundation'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 fund-raising activities and other purposes.

#### **Net Assets With Donor Restrictions**

Net assets that are temporary in nature represent undistributed investment earnings on donor-restricted endowments that are restricted for specific purposes or time periods.

Net assets that are perpetual in nature represent perpetual endowments established for the benefit of the League. These donor-imposed restrictions stipulate that the original contribution be maintained perpetually and permit the Foundation to distribute payouts according to the board approved endowment distribution policy.

# THE LUTHERAN HOUR MINISTRIES FOUNDATION

## Notes to Financial Statements - Continued

May 31, 2021

(See Independent Auditor's Report)

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

#### ***Cash***

The Foundation'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 are reported as investments.

#### ***Contributions and Other Revenues***

Substantially all of the Foundation's revenues result from contributions, estate gifts, 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.

#### ***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 Foundation's practice to establish a 5% holdback for additional fees and adverse market fluctuations. Receivables are also established to recognize investment income due.

#### ***Investments***

Investments are stated at fair value using quoted market prices. Investment income is recognized when earned. Unrealized gains and losses are included in the changes in net assets in the accompanying Statements of Activities.

Investment income restricted by a donor is reported as a change in net assets without donor restrictions if the restrictions are met (either by passage of time or by use) in the reporting period in which the income is recognized.

#### ***Revenue Recognition***

Fees are recognized as revenue during the period services are provided or according to the terms of the related custodial management fees and any other service agreements. Fees are primarily paid by individuals and organizations for services provided by the Foundation.

#### ***Donated Services***

Donated services include administrative services provided by the League. Since these services meet the criteria for recognition under FASB ASC 958-605, their cost value is recorded as contributions without donor restrictions and expenses in the accompanying Statements of Activities.

# THE LUTHERAN HOUR MINISTRIES FOUNDATION

## Notes to Financial Statements - Continued

May 31, 2021

(See Independent Auditor's Report)

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

#### *Use of Estimates in Financial Statements*

The preparation of 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 financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

#### *Change in Accounting Principle*

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)". The ASU and all subsequently issued clarifying ASUs replaced most existing revenue recognition guidance in U.S. GAAP. The ASU also required expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Organization adopted the new standard effective June 1, 2020, the first day of the Organization's fiscal year using the modified retrospective approach. Adoption of Topic 606 did not have a significant impact on the Organization.

#### *Reclassifications*

Certain reclassifications were made to prior year audited financial statements to conform to current year presentation.

#### *Subsequent Events*

Management has evaluated all subsequent events and transactions through August 23, 2021, the date the financial statements were available to be issued. No events require recognition in the financial statements or disclosures of the Foundation per the definitions and requirements of FASB ASC 855-10.

### Note 2 - Fair Value Measurements and Investments

FASB ASC 820 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.

# THE LUTHERAN HOUR MINISTRIES FOUNDATION

## Notes to Financial Statements - Continued

May 31, 2021

(See Independent Auditor's Report)

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### Note 2 - 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.

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying Statements of Financial Position, as well as the general classification of such instruments pursuant to the valuation hierarchy.

*Mutual Funds:* Valued at the daily closing price as reported by the funds. Mutual funds held by the Foundation 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 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. The mutual funds held by the Foundation 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.

Management determines the fair value measurement valuation policies and procedures. The Investment Committee of the Board of Directors assesses and approves 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 Foundation 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, 2021 and 2020.

The following table presents the fair value measurements of investments recognized in the accompanying 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, 2021 and 2020:

# THE LUTHERAN HOUR MINISTRIES FOUNDATION

## Notes to Financial Statements - Continued

May 31, 2021

(See Independent Auditor's Report)

### Note 2 - Fair Value Measurements and Investments (Continued)

<u>2021</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Mutual funds:				
Equity funds	\$ 18,933,342	\$ 18,933,342	\$ -	\$ -
Fixed income funds	<u>8,460,059</u>	<u>8,460,059</u>		
Total mutual funds	<u>27,393,401</u>	<u>27,393,401</u>	<u>-</u>	<u>-</u>
Cash equivalents	378,726			
Collective trust funds:				
Equity funds	2,055,852			
Fixed income funds	<u>539,486</u>			
Total collective trust funds	<u>2,595,338</u>			
Total investments	<u>\$ 30,367,465</u>			
<u>2020</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments:				
Mutual funds:				
Equity funds	\$ 1,626,542	\$ 1,626,542	\$ -	\$ -
Fixed income funds	<u>3,635,064</u>	<u>3,635,064</u>	<u>-</u>	<u>-</u>
Total mutual funds	<u>5,261,606</u>	<u>5,261,606</u>	<u>-</u>	<u>-</u>
Cash equivalents	237,594			
Collective trust funds:				
Equity funds	13,452,618			
Fixed income funds	<u>5,758,270</u>			
Total collective trust funds	<u>19,210,888</u>			
Total investments	<u>\$ 24,710,088</u>			

# THE LUTHERAN HOUR MINISTRIES FOUNDATION

## Notes to Financial Statements - Continued

May 31, 2021

(See Independent Auditor's Report)

### Note 2 - Fair Value Measurements and Investments (Continued)

The following tables summarize investments measured at fair value based on NAV per share as of May 31, 2021 and 2020:

Investment Name	2021			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Collective trust investments	\$ 2,595,338	\$ -	Daily	Daily

  

Investment Name	2020			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Collective trust investments	\$ 19,210,888	\$ -	Daily	Daily

Net investment income (loss) at May 31, 2021 and 2020 consists of the following:

2021	Total	Board Designated	Temporary In Nature
Dividends and interest	\$ 215,334	\$ 50,748	\$ 164,586
Realized gain on investments	4,223,103	516,051	3,707,052
Unrealized gain on investments	1,311,901	731,863	580,038
Investment management fees	(75,778)	(3,070)	(72,708)
	<u>\$ 5,674,560</u>	<u>\$ 1,295,592</u>	<u>\$ 4,378,968</u>

  

2020	Total	Board Designated	Temporary In Nature
Dividends and interest	\$ 270,642	\$ 70,723	\$ 199,919
Realized gain on investments	340,623	111,905	228,718
Unrealized loss on investments	(337,478)	(126,997)	(210,481)
Investment management fees	(88,133)	(19,563)	(68,570)
	<u>\$ 185,654</u>	<u>\$ 36,068</u>	<u>\$ 149,586</u>

In December of fiscal year 2021, the management and custodianship of investments for endowment and custodial funds were moved to Central Trust Company of St. Louis, Missouri. Investments for the gift annuity programs are held and managed by State Street Global Advisors (SSGA) of Boston, Massachusetts.

The Foundation also manages custodial funds on behalf of the League and in certain League districts and zones. Net investment income (loss) associated with custodial funds was \$1,288,834 and \$(44,431) at May 31, 2021 and 2020, respectively.

# THE LUTHERAN HOUR MINISTRIES FOUNDATION

## Notes to Financial Statements - Continued

May 31, 2021

(See Independent Auditor's Report)

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### Note 3 - Income Tax Status

The Foundation is exempt from Federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code except as to unrelated business income, if any. The Foundation 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 Foundation has evaluated its tax positions, expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings and believes that no provision for income taxes is necessary at this time to cover uncertain tax positions.

### Note 4 - Concentration of Risk

The Foundation'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 accompanying Statements of Financial Position.

### Note 5 - Gift Annuity Liabilities

Gift annuities are established by donors and related entities for the benefit of the International Lutheran Laymen's League 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 payments to the individuals are generally based on rates suggested by the American Council on Gift Annuities and the gift values are based on rates established by the Internal Revenue Service which range from 4.1% to 9.2% as of May 31, 2021, and 4.1% to 10.0% as of May 31, 2020. Under the counsel of State Street Global Advisors, the Foundation is in compliance with the reserve requirements and limitations on investments of the states in which the gift annuity contracts have been written.

Annuity reserves were determined by State Street Global Advisors (SSGA) using the 2012 IAR Mortality table with an assumed rate of interest of 3.75% at May 31, 2021, and 4.25% at May 31, 2020.

Because of state regulations, the annuity programs for the States of California, Wisconsin, Illinois, and New York are being operated by the League.

# THE LUTHERAN HOUR MINISTRIES FOUNDATION

## Notes to Financial Statements - Continued

May 31, 2021

(See Independent Auditor's Report)

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### Note 5 - Gift Annuity Liabilities (Continued)

Change in gift annuity liabilities:

<u>Years ended May 31,</u>	<u>2021</u>	<u>2020</u>
Beginning gift annuity liabilities	\$ 2,397,648	\$ 2,115,943
Liabilities from newly issued gift annuities	115,855	387,758
Payments to annuitants	(285,809)	(277,230)
Change in value of deferred gift annuities	341,574	171,177
Ending gift annuity liabilities	<u>\$ 2,569,268</u>	<u>\$ 2,397,648</u>

### Note 6 - Custodial Funds

Custodial accounts are held by the Foundation on behalf of tax-exempt affiliates of the League. The League's Operating Reserve is also held by the Foundation as a custodial fund.

### Note 7 - Related Party Transactions

The League donated administrative services to the Foundation based on the cost of actual services provided. These services meet the criteria for recognition under FASB ASC 958-605 and are recorded as donated services from related parties and expenses in the accompanying Statements of Activities. The donated services were valued at \$118,460 and \$96,293, respectively, for the years ended May 31, 2021 and 2020.

On May 31, 2018, the League transferred its Operating Reserve Fund to the Foundation to be managed as a custodial fund. The market value of the Operating Reserve custodial fund was \$5,623,299 and \$4,383,657, respectively, for the years ended May 31, 2021, and May 31, 2020.

Beginning in June 2020, the Foundation contracted for planned giving services with the League, which included personnel, consulting and other administrative expenses. The cost of the contracted service expenses was \$471,764 for the year ended May 31, 2021.

# THE LUTHERAN HOUR MINISTRIES FOUNDATION

## Notes to Financial Statements - Continued

May 31, 2021

(See Independent Auditor's Report)

### Note 8 - Revenue Recognition

Exchange revenue consists of fees charged to outside organization's for custodial services. 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 Foundation does not refund these fees and therefore, no liability for refunds is reported at May 31, 2021 and 2020.

#### Disaggregation of Revenue

The following tables present revenue disaggregated by revenue source and pattern of revenue recognition:

	Year Ended May 31, 2021	
	<u>Over-Time</u>	<u>Total</u>
<b>Custodial account fees</b>	<b>\$ 6,319</b>	<b>\$ 6,319</b>
	<b><u>\$ 6,319</u></b>	<b><u>\$ 6,319</u></b>

  

	Year Ended May 31, 2020	
	<u>Over-Time</u>	<u>Total</u>
Custodial account fees	\$ 13,450	\$ 13,450
	<u>\$ 13,450</u>	<u>\$ 13,450</u>

### Note 9 - Net Assets

The net assets without donor restrictions that were board designated at May 31, 2021 and 2020, include:

	<u>2021</u>	<u>2020</u>
Gift annuities reserve	<b>\$ 1,761,620</b>	\$ 1,105,801
Other retained annuity excess earnings	<b>39,238</b>	111,579
Board designated endowments	<b>646,431</b>	850,206
	<b><u>\$ 2,447,289</u></b>	<b><u>\$ 2,067,586</u></b>

# THE LUTHERAN HOUR MINISTRIES FOUNDATION

## Notes to Financial Statements - Continued

May 31, 2021

(See Independent Auditor's Report)

### Note 9 - Net Assets (Continued)

The net assets with donor restrictions at May 31, 2021 and 2020, include:

	<u>2021</u>	<u>2020</u>
Restricted due to purpose	\$ 1,092,205	\$ 288,961
Restricted due to timing	<u>3,573,724</u>	<u>857,357</u>
Total temporary in nature	4,665,929	1,146,318
Perpetual in nature	<u>14,712,066</u>	<u>14,175,518</u>
Total net assets with donor restrictions	<u>\$ 19,377,995</u>	<u>\$ 15,321,836</u>

### Note 10 - 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 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.

# THE LUTHERAN HOUR MINISTRIES FOUNDATION

## Notes to Financial Statements - Continued

May 31, 2021

(See Independent Auditor's Report)

### Note 10 - 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 \$-0- for all endowments as of May 31, 2021, and \$118,413 for twenty-five named endowments as of May 31, 2020. These deficiencies resulted from unfavorable market fluctuations.

The endowment assets were moved to Central Trust Company of St. Louis, MO 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, 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	164,586	-	172,868
Net realized gains	283,567	3,707,052	-	3,990,619
Net change in unrealized gain (loss)	(64,286)	580,038	-	515,752
Investment management fees	(3,740)	(72,708)	-	(76,448)
Total net investment gain	223,823	4,378,968	-	4,602,791
Release of endowment funds:				
Endowment distributions to the League	(45,413)	(834,772)	-	(880,185)
Foundation expenses	(382,185)	(24,585)	-	(406,770)
Total endowment funds released	(427,598)	(859,357)	-	(1,286,955)
Endowment net assets – End of year	\$ 646,431	\$ 4,665,929	\$ 14,712,066	\$ 20,024,426

# THE LUTHERAN HOUR MINISTRIES FOUNDATION

## Notes to Financial Statements - Continued

May 31, 2021

(See Independent Auditor's Report)

### Note 10 - Endowment Policies (Continued)

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 loss	(11,218)	(210,481)	-	(221,699)
Investment management fees	(3,775)	(68,570)	-	(72,345)
Total net investment loss	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

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

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

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
Accumulated earnings on donor gifts	-	1,146,318	-	1,146,318
Board-designated	850,206	-	-	850,206
	<b>\$ 850,206</b>	<b>\$ 1,146,318</b>	<b>\$ 14,175,518</b>	<b>\$ 16,172,042</b>

# THE LUTHERAN HOUR MINISTRIES FOUNDATION

## Notes to Financial Statements - Continued

May 31, 2021

(See Independent Auditor's Report)

### Note 11 - Liquidity and Availability of Resources

	<u>2021</u>	<u>2020</u>
Financial assets, at year end	\$ 30,473,039	\$ 24,739,222
Less those unavailable for general expenditures within one year, due to:		
Donor-imposed restrictions:		
Restricted by donor	(19,377,995)	(15,321,836)
Board-designations:		
Board-designated quasi-endowments and funds	(685,669)	(961,785)
Set aside for gift annuity liability and reserves	(4,330,888)	(3,504,499)
Custodial funds:		
Funds held as custodian for other organizations	(5,783,747)	(4,508,323)
Distributions due to International Lutheran Laymen's League	(294,126)	(428,115)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 614</u>	<u>\$ 14,664</u>

The Foundation is substantially funded by restricted contributions. Donor's restriction requires resources to be used in a particular manner or in a future period, the Foundation must maintain sufficient resources to meet those responsibilities. As part of the Foundation'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. There are three main categories of expenditures that need to be met during a fiscal year – gift annuity payments and distributions, endowment distributions and grants, and general administrative expenses of the Foundation.

Gift annuity obligations to annuitants and beneficiaries are supported by reserve funds held in the gift annuity investment portfolio. The investment mix provides a strategy for both long-term growth and short-term liquidity to meet the cash needs for annuity payments and distributions. The Foundation maintains these funds at a level that meets or exceeds state regulatory requirements to cover annuity liabilities and provides sufficient access to cash when needed. The Foundation has approximately \$1,247,766 of reserves in excess of state regulatory requirements available to cover other expenses at May 31, 2021.

Board designated quasi-endowments are funds set aside by the board for long-term purposes. The Foundation invests these funds for long-term growth and makes quarterly distributions to the League. All of these funds, totaling \$685,669 at May 31, 2021, are available to be released from designation by the Board if necessary, to meet the needs of the Foundation.

# THE LUTHERAN HOUR MINISTRIES FOUNDATION

## Notes to Financial Statements - Continued

May 31, 2021

(See Independent Auditor's Report)

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### Note 11 - Liquidity and Availability of Resources (Continued)

Donor-restricted endowments are funds set aside by the donor with either time or purpose restrictions. These funds are held in investments that have a mixed goal of providing long-term growth and short-term cash availability to meet the cash needs of the Foundation. The earnings on these funds are held until they satisfy the restrictions. The Foundation's endowment policy distributes 1.25% of the endowments on a quarterly basis to the League.

Board-designated funds, donor-designated endowments, and custodial funds are assessed an annual management fee that provides cash as needed for administrative and general expenditures. This fee is determined by the actual expenses of the Foundation up to 1% of the fund's balances.

### Note 12 - Risk and Uncertainties

The Foundation'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. COVID-19 has caused disruptions to businesses and financial markets worldwide. The full extent and duration of the impact of COVID-19 on the Foundation's operations and financial performance is currently unknown and depends on uncertain and unpredictable developments.