



CONSOLIDATED FINANCIAL STATEMENTS

MAY 31, 2023

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
International Lutheran Laymen's League and Subsidiaries and
the Lutheran Hour Ministries Foundation
St. Louis, MO

Opinion

We have audited the accompanying consolidated financial statements of International Lutheran Laymen's League and Subsidiaries and the Lutheran Hour Ministries Foundation, which comprise the consolidated statements of financial position as of May 31, 2023 and 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of International Lutheran Laymen's League and Subsidiaries and the Lutheran Hour Ministries Foundation as of May 31, 2023 and 2022, 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 International Lutheran Laymen's League and Subsidiaries and the Lutheran Hour Ministries Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 these 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 consolidated 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 International Lutheran Laymen's League and Subsidiaries and the Lutheran Hour Ministries Foundation's 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 consolidated 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, including omissions, 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 consolidated 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 consolidated 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 consolidated 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 International Lutheran Laymen's League and Subsidiaries and the Lutheran Hour Ministries Foundation's 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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about International Lutheran Laymen's League and Subsidiaries and the Lutheran Hour Ministries Foundation's 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information on pages 33 - 36 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 audit 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

Armanino^{LLP}
St. Louis, Missouri

September 21, 2023

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Consolidated Statements of Financial Position

Years ended May 31, 2023 and 2022

	2023	2022
ASSETS		
Cash	\$ 782,325	\$ 2,388,205
Investments	28,364,532	28,922,086
Estate gifts and other receivables, net	5,179,238	7,194,128
Branch office cash advances	489,426	513,577
Prepaid expenses and other assets, net	654,950	805,645
Irrevocable deferred gifts	3,779,940	4,104,615
Beneficial interest in trusts	10,407,818	8,969,304
Property and equipment, net	15,354,755	15,656,928
TOTAL ASSETS	\$ 65,012,984	\$ 68,554,488
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accruals	\$ 995,180	\$ 1,772,314
Line of credit	400,000	-
Custodial funds	147,888	149,536
Other liabilities	784,215	848,161
Gift annuity liabilities	2,450,082	2,959,373
Notes payable	7,553,248	7,727,706
Total Liabilities	12,330,613	13,457,090
Net Assets		
Without donor restrictions		
Undesignated	4,734,013	4,345,523
Board designated	15,704,578	19,235,054
Total without donor restrictions	20,438,591	23,580,577
With donor restrictions		
Temporary in nature	5,887,843	7,107,140
Perpetual in nature	26,355,937	24,409,681
Total with donor restrictions	32,243,780	31,516,821
Total Net Assets	52,682,371	55,097,398
TOTAL LIABILITIES AND NET ASSETS	\$ 65,012,984	\$ 68,554,488

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, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Support, Revenue, and Losses:			
Contributions	\$ 11,367,509	\$ 522,088	\$ 11,889,597
In-kind gifts	12,623,761	171,655	12,795,416
Bequests, annuities, and trusts	9,930,954	267,020	10,197,974
Change in value of deferred gifts	199,938	1,113,838	1,313,776
Charitable gift annuities	35,671	-	35,671
Investment loss, net	(162,384)	(161,820)	(324,204)
Merchandise sales	146,494	-	146,494
Other loss	(17,657)	-	(17,657)
Building tenant rent	1,055,028	-	1,055,028
Net assets released from restrictions	1,185,822	(1,185,822)	-
Total support, revenue, and losses	36,365,136	726,959	37,092,095
Expenses:			
Program services - global ministries	28,344,824	-	28,344,824
Program services - building tenant services	1,182,157	-	1,182,157
Administration	4,038,421	-	4,038,421
Fundraising	5,941,720	-	5,941,720
Total expenses	39,507,122	-	39,507,122
CHANGE IN NET ASSETS	(3,141,986)	726,959	(2,415,027)
Net assets at beginning of year	23,580,577	31,516,821	55,097,398
Net assets at end of year	\$ 20,438,591	\$ 32,243,780	\$ 52,682,371

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, Revenue, and Losses:			
Contributions	\$ 11,981,910	\$ 658,176	\$ 12,640,086
In-kind gifts	11,876,499	5,304	11,881,803
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 loss, net	(202,991)	(1,043,400)	(1,246,391)
Merchandise sales	279,352	-	279,352
Other income	6,564	-	6,564
Building tenant rent	1,515,120	-	1,515,120
Net assets released from restrictions	972,081	(972,081)	-
Total support, revenue, and losses	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 Functional Expenses

Year ended May 31, 2023

	Global Ministries	Building Tenant Services	Administration	Fundraising	Total Expenses
Salaries	\$ 4,984,577	\$ 8	\$ 1,721,247	\$ 2,593,239	\$ 9,299,071
Employee benefits	1,712,638	-	845,521	553,191	3,111,350
Postage & freight	31,101	6	84,661	382,531	498,299
Printing	128,253	-	122,449	527,671	778,373
Media production	100,787	-	2,894	7,048	110,729
Media distribution	2,084,476	-	-	-	2,084,476
Contributed station time	12,502,809	-	-	-	12,502,809
Travel	473,618	-	243,607	730,039	1,447,264
Professional & consulting	79,601	2,021	56,273	258,176	396,071
Insurance, utilities & maintenance	238,845	427,973	74,943	162,343	904,104
District funding	15,643	-	15,182	15,182	46,007
Interest	77,000	97,004	24,040	41,554	239,598
Depreciation and amortization	93,586	432,182	195,751	58,558	780,077
Information processing	233,104	-	86,563	281,809	601,476
International office	4,711,098	-	-	27,647	4,738,745
Other expenses	877,688	222,963	565,290	302,732	1,968,673
	<u>\$ 28,344,824</u>	<u>\$ 1,182,157</u>	<u>\$ 4,038,421</u>	<u>\$ 5,941,720</u>	<u>\$ 39,507,122</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, 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 Statements of Cash Flows

Years ended May 31, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ (2,415,027)	\$ (1,413,426)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities -		
Depreciation	726,562	637,094
Realized and unrealized losses (gains)	948,750	1,628,403
In-kind contribution of property and investments	(171,655)	(1,000)
Change in value of beneficial interests in trusts	(1,438,514)	1,594,577
Change in value of irrevocable deferred gifts	324,675	1,201,930
Change in deferred value of gift annuity liabilities	(199,938)	(31,439)
Loss on disposal of property and equipment	1,895	3,941
(Increase) decrease in assets -		
Estate gifts and other receivables, net	2,014,890	(4,366,779)
Branch office cash advance	24,151	49,486
Prepaid expenses and other assets	150,695	92,015
Increase (decrease) in liabilities -		
Accounts payable and accruals	(777,134)	1,004,058
Custodial funds	(1,648)	(10,807)
Gift annuity liabilities	(309,353)	(299,078)
Other liabilities	(63,946)	(60,846)
Net cash provided by (used in) operating activities	(1,185,597)	28,129
Cash flows from investing activities:		
Purchases of investments	(56,162,539)	(18,983,742)
Proceeds from sale of investments	55,771,343	21,262,417
Purchases of property and equipment	(426,284)	(908,699)
Proceeds from sales of property, furniture and equipment	171,655	-
Net cash provided by (used in) investing activities	(645,825)	1,369,976
Cash flows from financing activities:		
Proceeds from line of credit	1,350,000	700,000
Payments on line of credit	(950,000)	(700,000)
Payments on notes payable	(174,458)	(173,413)
Net cash provided by (used in) financing activities	225,542	(173,413)
NET INCREASE (DECREASE) IN CASH	(1,605,880)	1,224,692
Cash, beginning of year	2,388,205	1,163,513
Cash, end of year	\$ 782,325	\$ 2,388,205
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for -		
Interest	\$ 239,598	\$ 225,668
Unrelated business income taxes paid	\$ 9,009	\$ 21,050

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, 2023 and 2022

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, 2023 and 2022

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. Promises to give are considered conditional when a measurable barrier and right of return or release exists. The promises to give become unconditional and are recognized when the barriers upon which they depend are overcome. When the satisfaction of a barrier is accomplished in the same period as the contribution is made, conditional contributions are recorded as unconditional.

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, 2023 and 2022.

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, 2023 and 2022

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 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 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. Since all estate gifts are expected to be received within 1 year, receivables are recorded as contributions without donor restriction unless the gift has a specific purpose restriction. Receivables are also established to recognize investment income due. Other receivables are those resulting from the normal course of operations such as accrued investment income, rent receivable, and life estate in pledged property.

Branch Office Cash Advances

Branch office cash advances held in foreign banks are reflected at the U.S. Dollar value after adjustments are made for differences in the exchange rates.

Property and Equipment

Property and equipment maintained in the United States are stated at cost, net of depreciation, which is computed using the straight-line method over the estimated useful service life of the assets (building and improvements - 50 years or remaining useful life, furniture and equipment and software - 3 to 10 years). Foreign property is expensed when purchased. Additions and betterments of \$1,000 for computer equipment and \$2,500 or more for other assets are capitalized, while repairs and maintenance that do not improve or extend the useful lives of the respective assets are expensed currently.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value and the carrying value of the asset. For the years ended May 31, 2023 and 2022, 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, 2023 and 2022

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.

The Organization's policy is to sell donated property and equipment as soon as practically possible, after the gift is received and not to be a long-term owner or manager of donated property, real estate, and equipment.

Donated Other Assets

Donated marketable securities and other noncash donations are recorded as in-kind gifts at their estimated fair values at the date of donation. The fair value for donated marketable securities is determined based upon the quoted prices in active markets for identical available and liquid asset for the date of the gift. Life insurance policies donated to the Organization are valued at the cash surrender value, at the date of donation. These life insurance policies can be held to maturity and the value is adjusted annually to represent the cash surrender value.

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 in-kind gifts without donor restrictions and as global ministries expenses in the accompanying consolidated financial statements at fair value on the date of the contribution.

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2023 and 2022

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

Donated Air Time (Continued)

For valuing radio airtime, the Organization uses an estimate based on the large volume of stations that are paid for directly by the Organization. First, a list is compiled of all stations that have paid time, including the weekly rate for a 30-minute program and the station's market ranking from Nielson. The Organization then takes the average weekly rate for each grouping of similar paid stations to determine a value to use when estimating free airtime broadcast in that size of a market.

To determine the value of donated television time, every three years, the Organization performs a survey of broadcast charges for airtime in various sized markets to determine an average rate. The airtime is broken down in two components – network/independent stations and large/mid/small markets. These rates and market breakdowns are used to calculate the estimated value for airings broadcast on television.

Advertising

Advertising expenses for ministry programs are included in Other expenses within the consolidated statements of functional expenses. The Organization incurred advertising expenses of \$243,050 and \$234,702 for the years ended May 31, 2023 and 2022, respectively.

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.

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2023 and 2022

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

Reclassification

Certain reclassifications have been made to the 2022 consolidated financial statements to conform to the current year presentation.

Subsequent Events

Management has evaluated all subsequent events and transactions through September 21, 2023, the date the consolidated financial statements were available to be issued. No subsequent events require recognition in the consolidated financial statements.

Note 2 – Change in Accounting Principles

In 2023, the Organization adopted ASU 2020-07, Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets. The new guidance requires nonprofit entities to present contributed nonfinancial assets as a separate line item in the consolidated statements of activities, apart from contributions of cash or other financial assets. The standard also increases the disclosure requirements around contributed nonfinancial assets, including disaggregating by category the types of contributed nonfinancial assets a nonprofit entity has received. Adoption of this standard had no significant impact on the Organization's consolidated financial statements, with the exception to the new financial statement disclosures.

In February 2016, FASB issued ASU 2016-02, Leases (Topic 842), including subsequently issued ASUs to clarify the implementation guidance in ASU 2016-02. Under the lease standard, lessees recognize a right-of-use asset and a lease liability for virtually all leases (other than short-term leases). This ASU may be applied retrospectively in each reporting period presented or modified retrospectively with the cumulative effect adjustment to the opening balance of net assets. The Organization adopted this ASU on June 1, 2022 on a modified basis, with no effect on net assets. The Organization does not have any leases greater than 12 months or significant to the consolidated financial statements as of May 31, 2023.

Note 3 - 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).

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2023 and 2022

Note 3 - Income Tax Status (Continued)

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 4 - 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 5 - Fair Value Measurements and Investments

The Organization follows FASB ASC 820 *Fair Value Measurements and Disclosures* which establishes a framework for measuring fair value and expands disclosures about fair value measurements.

FASB ASC 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC 820-10 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical available and liquid assets or liabilities.

Level 2: Observable inputs based on quoted prices in non-active markets or in active markets for similar assets or liabilities. Inputs other than quoted prices that are observable, or inputs that are not directly observable, but are corroborated by observable market data.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities requiring management judgments and estimations based on available market data.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position, as well as the general classification of such instruments pursuant to the valuation hierarchy.

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2023 and 2022

Note 5 - Fair Value Measurements and Investments (Continued)

Common stocks and U.S. government securities: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds: Valued at the daily closing price as reported by the funds. Mutual funds held by the Organization are open end mutual funds that are registered with the Securities Exchange Commission. These funds are required to publish their daily net asset value ("NAV") and to transact at that price. The NAV, as provided by the trustee, is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities. The mutual funds held by the Organization are deemed to be actively traded.

Collective Trust Funds: Valued at the NAV of units of a collective trust. The NAV, as provided by the custodian, is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities. This practical expedient is not used when it is determined to be probable that the fund will sell the investment for an amount different than the reported NAV. Transactions (purchased and sales) may occur daily.

Real estate investments: Valued at the most recent appraised value.

Deferred gifts: Irrevocable deferred gifts are valued at the present value of expected future cash receipts adjusted for the actuarial life expectancy of the gift annuitants including survivors. Beneficial interests in trust are valued at the present value of expected receipts for the duration of the trust where stated. Where the trust is perpetual, a life of 99 years was used.

Management determines the fair value measurement valuation policies and procedures, including those for Level 3 recurring and nonrecurring measurements. The Investment Committee of the Foundation Board of Directors and the Budget and Finance Committee of the Organization Board of Directors assess and approve these policies and procedures. At least annually, Management: (1) determines if the current valuation techniques used in fair value measurements are still appropriate, and (2) evaluates and adjusts the unobservable inputs used in the fair value measurements based on current market conditions and third-party information.

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, 2023 and 2022.

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2023 and 2022

Note 5 - Fair Value Measurements and Investments (Continued)

The following table presents the fair value measurements of assets recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the FASB ASC 820-10 fair value hierarchy in which the fair value measurements fall at May 31, 2023 and 2022:

<u>2023</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	\$ 35,268	\$ 35,268	\$ -	\$ -
Government securities	115,046	115,046	-	-
Real estate investments	-	-	-	-
Investment funds:				
Mutual funds				
Equity funds	16,248,871	16,248,871	-	-
Fixed income funds	8,683,780	8,683,780	-	-
Total mutual funds	<u>24,932,651</u>	<u>24,932,651</u>	<u>-</u>	<u>-</u>
Total levelled investments	<u>25,082,965</u>	<u>25,082,965</u>	<u>-</u>	<u>-</u>
Collective trust funds:				
Equity funds	1,548,029			
Fixed income funds	623,709			
Total collective trust funds	<u>2,171,738</u>			
Cash equivalents	1,104,829			
Certificates of deposit	5,000			
Total investments	<u>\$ 28,364,532</u>			
Deferred gifts				
Irrevocable deferred gifts	\$ 3,779,940	\$ -	\$ -	\$ 3,779,940
Beneficial interest in trusts	<u>10,407,818</u>	<u>-</u>	<u>-</u>	<u>10,407,818</u>
	<u>\$ 14,187,758</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,187,758</u>

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2023 and 2022

Note 5 - 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	<u>8,969,304</u>	<u>-</u>	<u>-</u>	<u>8,969,304</u>
	<u>\$ 13,073,919</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,073,919</u>

The following tables summarize investments measured at fair value based on NAV per share as of May 31, 2023 and 2022:

2023				
<u>Investment Name</u>	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Collective trust funds	\$ 2,171,738	-	Daily	Daily
2022				
<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

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2023 and 2022

Note 5 - 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, 2023:

Level 3 inputs by category	Real Estate	Deferred Gifts	Total
May 31, 2022	\$ -	\$ 13,073,919	\$ 13,073,919
Additions	171,655	139,717	311,372
Change in value	-	1,247,089	1,247,089
Sales or pay down of principal	(171,655)	(272,967)	(444,622)
May 31, 2023	\$ -	\$ 14,187,758	\$ 14,187,758

Changes in assets measured on a recurring basis using significant unobservable inputs (Level 3 inputs) for the year ended May 31, 2022:

Level 3 inputs by category	Real Estate	Deferred Gifts	Total
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	(1,266,093)	(664,855)	(1,930,948)
May 31, 2022	\$ -	\$ 13,073,919	\$ 13,073,919

Net investment income (loss) at May 31, 2023 consists of the following:

	Undesignated	Board Designated	Temporary In Nature	Total
Dividends and interest	\$ 11,521	\$ 242,706	\$ 470,626	\$ 724,853
Realized gain (loss)	(401)	63,061	(693,910)	(631,250)
Unrealized gain (loss)	-	(439,380)	121,880	(317,500)
Investment management fees	-	(39,891)	(60,416)	(100,307)
	\$ 11,120	\$ (173,504)	\$ (161,820)	\$ (324,204)

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

	Undesignated	Board Designated	Temporary In Nature	Total
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	(200)	(43,211)	(64,719)	(108,130)
	\$ 361,250	\$ (564,241)	\$ (1,043,400)	\$ (1,246,391)

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2023 and 2022

Note 5 - Fair Value Measurements and Investments (Continued)

The Foundation also manages custodial funds on behalf of certain of the League's districts and zones. Net investment income (losses) associated with custodial funds were \$(1,337) and \$(8,482) for the years ended May 31, 2023 and 2022, respectively.

Note 6 - Estate Gifts and Other Receivables

<u>May 31</u>	<u>2023</u>	<u>2022</u>
Estate gifts	\$ 4,792,840	\$ 7,020,776
Allowance for change in valuation	<u>(235,788)</u>	<u>(336,638)</u>
	4,557,052	6,684,138
Other receivables	<u>622,186</u>	<u>509,990</u>
Total estate gifts and other receivables	\$ <u>5,179,238</u>	\$ <u>7,194,128</u>

Note 7 - 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 \$3,779,940 at May 31, 2023, and \$4,104,615 at May 31, 2022, and have been reflected in these consolidated financial statements as irrevocable deferred gifts 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 the beneficiary of contracts at May 31, 2023 on which the beneficiary can be changed. The actuarial present value of these contracts amounted to \$925,418 and \$1,123,639 at May 31, 2023 and 2022, respectively. These amounts have not been reflected in these consolidated financial statements.

Note 8 - 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 \$10,407,818 and \$8,969,304 at May 31, 2023 and 2022, respectively.

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2023 and 2022

Note 9 - Prepaid Expenses and Other Assets

<u>May 31</u>	<u>2023</u>	<u>2022</u>
Unamortized capital leasing costs	\$ 263,264	\$ 315,568
Insurance policies – cash surrender value	370,367	386,442
Other prepaid expenses	<u>21,319</u>	<u>103,635</u>
Total prepaid expenses and other assets	<u>\$ 654,950</u>	<u>\$ 805,645</u>

Note 10 - Property and Equipment

<u>May 31</u>	<u>2023</u>	<u>2022</u>
Building and improvements	\$ 19,830,002	\$ 20,818,589
Equipment and furniture	1,511,375	1,582,322
Software	<u>517,630</u>	<u>666,260</u>
	21,859,007	23,067,171
Less accumulated depreciation	<u>(9,979,252)</u>	<u>(10,885,243)</u>
	11,879,755	12,181,928
Land	<u>3,475,000</u>	<u>3,475,000</u>
	<u>\$ 15,354,755</u>	<u>\$ 15,656,928</u>
Depreciation expense	<u>\$ 726,562</u>	<u>\$ 637,094</u>

Note 11 - 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 9.7% as of May 31, 2023, and 4.1% to 9.5% as of May 31, 2022. 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, 2023 and 2022

Note 11 - 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, 2023, and 2022. 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, 2023

	<u>League</u>	<u>Foundation</u>	<u>Total</u>
Beginning gift annuity liabilities	\$ 656,586	\$ 2,302,787	\$ 2,959,373
Liabilities from newly issued gift annuities	-	34,329	34,329
Payments to annuitants	(70,853)	(272,829)	(343,682)
Change in value of deferred gift annuities	<u>(156,891)</u>	<u>(43,047)</u>	<u>(199,938)</u>
Ending gift annuity liabilities	<u>\$ 428,842</u>	<u>\$ 2,021,240</u>	<u>\$ 2,450,082</u>

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>

Note 12 - 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 \$400,000 at May 31, 2023 and \$-0- at May 31, 2022.

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2023 and 2022

Note 13 - Notes Payable

<u>May 31</u>	<u>2023</u>	<u>2022</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% was fixed until October 31, 2022 when it changed to 3.125% through October 31, 2027, after which it is adjustable every five years.	<u>\$ 7,553,248</u>	<u>\$ 7,727,706</u>

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

2024	176,987
2025	182,598
2026	188,386
2027	194,358
2028	200,520
Thereafter	<u>6,610,399</u>
	<u>\$ 7,553,248</u>

Management has determined that it is not in compliance with the debt service coverage ratio loan covenant for the mortgage loan with the Lutheran Church Extension Fund ("LCEF") for the year ended May 31, 2023. The Organization has obtained a waiver from LCEF regarding the failure of compliance with the debt service coverage ratio as of May 31, 2023. 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, 2023 and 2022

Note 14 - Employee Benefits

The Organization participates in the worker benefit plans (the "Plans") of The Lutheran Church–Missouri Synod. Substantially all full-time employees are covered by the Concordia Retirement Plan (CRP), Concordia Retirement Savings Plan (CRSP), and the Concordia Disability and Survivor Plan (CDSP). The CRP and CRSP provide workers with income during retirement. All full-time workers (those employed more than 20 hours per week and more than 5 consecutive months a year) are eligible. Eligible members in the CRP are vested after five years of creditable service. Eligible members in the CRSP are 100% vested in all contributions and earnings. The CDSP provides a disability benefit (for the worker) and a pre-retirement lump-sum death benefit (for the worker and enrolled dependents). All full-time workers (those employed more than 20 hours per week and more than 5 consecutive months a year) must be offered the opportunity to enroll themselves and eligible dependents in the CDSP. The CDSP pays a monthly income benefit equal to 70% of an employee's monthly compensation when a worker becomes disabled due to a qualifying disability. The Organization contributes a fixed percentage of each participant's salary to the plans. The Plans also provide health and welfare benefits covering substantially all full-time employees (those employed 30 hours or more per week) and their families.

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

	<u>2023</u>	<u>2022</u>
CRP, CRSP, and CDSP plans	\$ 929,927	\$ 892,924
Health and welfare	\$1,500,646	\$1,461,355

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, 2023. There were no contingent liabilities associated with the Plans at May 31, 2023 and 2022. 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 15 - Net Assets Without Donor Restrictions - Board Designated

<u>May 31</u>	<u>2023</u>	<u>2022</u>
Gift annuities reserve	\$ 1,867,943	\$ 2,198,144
Other retained annuity excess earnings	39,238	39,238
Board designated endowment funds	21,205	252,482
Net investment in property and equipment	7,801,507	7,929,222
Operating reserve	<u>5,974,685</u>	<u>8,815,968</u>
	<u>\$15,704,578</u>	<u>\$19,235,054</u>

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2023 and 2022

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

<u>May 31</u>	<u>2023</u>	<u>2022</u>
Restricted by program		
Restricted contributions	\$ 460,381	\$ 255,371
Undistributed endowment earnings	322,478	600,562
Restricted by time		
Undistributed endowment earnings	1,264,281	2,088,584
Beneficial interest in trusts	60,763	58,008
Irrevocable deferred gifts	<u>3,779,940</u>	<u>4,104,615</u>
	<u>\$ 5,887,843</u>	<u>\$ 7,107,140</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 \$45,255 and \$38,697 and for time restrictions were \$1,140,567 and \$933,384 for the years ended May 31, 2023 and 2022, respectively.

Note 17 - Net Assets With Donor Restrictions – Perpetual In Nature

<u>May 31</u>	<u>2023</u>	<u>2022</u>
Donor-restricted endowments	\$ 16,008,885	\$ 15,498,387
Beneficial interest in trusts	<u>10,347,052</u>	<u>8,911,294</u>
	<u>\$ 26,355,937</u>	<u>\$ 24,409,681</u>

Note 18 - 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, 2023		
	<u>Point in Time</u>	<u>Over-Time</u>	<u>Total</u>
Merchandise sales			
Product sales	\$ 122,758	\$ -	\$ 122,758
Royalty income	-	23,736	23,736
Custodial account fees	-	311	311
Total	<u>\$ 122,758</u>	<u>\$ 24,047</u>	<u>\$ 146,805</u>

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2023 and 2022

Note 18 - Revenue (Continued)

	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>

Note 19 - 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.

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2023 and 2022

Note 19 - 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 \$(51,552) for thirty of seventy-one individually named endowments as of May 31, 2023, and \$(13,539) for twelve of sixty-nine endowments as of May 31, 2022. These deficiencies resulted from unfavorable market fluctuations.

The changes in and composition of endowment net assets for the year ended May 31, 2023 are as follows:

	Board Designated	With Donor Restrictions		Total
		Temporary In Nature	Perpetual In Nature	
Endowment net assets – Beginning of year	\$ 252,482	\$ 2,689,146	\$ 15,498,387	\$ 18,440,015
Contributions	-	-	510,498	510,498
Net investment income:				
Dividends and interest	3,098	470,626	-	473,724
Net realized losses	(9,226)	(693,910)	-	(703,136)
Net change in unrealized gains	742	121,880	-	122,622
Investment management fees	(411)	(60,416)	-	(60,827)
Total net investment loss	(5,797)	(161,820)	-	(167,617)
Release of endowment funds:				
Endowment distributions	(599)	(903,260)	-	(903,859)
Foundation expenses	(224,881)	(37,307)	-	(262,188)
Total endowment funds released	(225,480)	(940,567)	-	(1,166,047)
Endowment net assets – End of year	\$ 21,205	\$ 1,586,759	\$ 16,008,885	\$ 17,616,849

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2023 and 2022

Note 19 - Endowment Policies (Continued)

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	(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

Endowment net asset composition by type of funds as of May 31, 2023:

	With Donor Restrictions			Total
	Board Designated	Temporary In Nature	Perpetual In Nature	
Donor-designated gifts	\$ -	\$ -	\$ 16,008,885	\$ 16,008,885
Accum. earnings on donor gifts	-	1,586,759	-	1,586,759
Board-designated	21,205	-	-	21,205
	\$ 21,205	\$ 1,586,759	\$ 16,008,885	\$ 17,616,849

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

	With Donor Restrictions			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
	\$ 252,482	\$ 2,689,146	\$ 15,498,387	\$ 18,440,015

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2023 and 2022

Note 20 - In-kind Gifts

In-kind gifts consisted of the following as of May 31, 2023:

	Without Donor Restrictions	With Donor Restrictions	Total	Utilization in Programs/Activities
Marketable securities	\$ 120,952	\$ -	\$ 120,952	Global ministries/supporting services
Property and equipment	-	171,655	171,655	Global ministries
Donated air time	12,502,809	-	12,502,809	Global ministries
	\$ 12,623,761	\$ 171,655	\$ 12,795,416	

In-kind gifts consisted of the following as of May 31, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total	Utilization in Programs/Activities
Marketable securities	\$ 393,750	\$ 5,304	\$ 399,054	Global ministries/supporting services
Property and equipment	-	-	-	Global ministries
Donated air time	11,482,749	-	11,482,749	Global ministries
	\$ 11,876,499	\$ 5,304	\$ 11,881,803	

Note 21 - 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, 2023, 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, 2023 and 2022

Note 22 - 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 for future fiscal years is as follows:

2024	970,364
2025	975,260
2026	996,796
2027	936,868
2028	936,868
Thereafter	2,837,100

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

Subsequent to May 31, 2023, the Organization entered into an agreement to lease additional office space to a third party. The lease is scheduled to commence in September of 2023. The lease term is 63 months and requires escalating monthly payments ranging from \$15,651 to \$16,475. The expected future rental income has been excluded from the schedule above.

Note 23 - Liquidity and Availability of Resources

	<u>2023</u>	<u>2022</u>
Financial assets, at year end	\$ 34,815,521	\$ 39,017,996
Less those unavailable for general expenditures within one year, due to:		
Investments:		
Donor-imposed restrictions:		
Restricted by donor with time or purpose restrictions	(17,595,644)	(18,187,533)
Board-designations:		
Board-designated quasi-endowments and funds	(60,443)	(291,720)
Set aside for gift annuity liability and reserves	(4,318,025)	(5,157,518)
LHM Operating Reserve Fund	(5,974,685)	(8,815,968)
Custodial funds:		
Funds held as custodian for other organizations	(147,888)	(149,536)
Contributions and pledges with donor restrictions	<u>(460,381)</u>	<u>(255,371)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ <u>6,264,345</u>	\$ <u>6,160,350</u>

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Notes to Consolidated Financial Statements - Continued

May 31, 2023 and 2022

Note 23 - Liquidity and Availability of Resources (Continued)

The Organization is partially funded by restricted contributions to the League, gift annuity contributions, and endowment donations to the Foundation. Since 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.

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 \$1,867,943 of reserves above state regulatory requirements available to cover other expenses as of May 31, 2023.

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 \$60,443 on May 31, 2023, 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 \$950,000 in fiscal year 2023-2024.

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, 2023 was \$5,974,685 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 \$370,367 on May 31, 2023, 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, 2023

	Organization	Foundation	Total
ASSETS			
Cash	\$ 737,108	\$ 45,217	\$ 782,325
Investments	874,782	27,489,750	28,364,532
Estate gifts and other receivables, net	5,166,284	12,954	5,179,238
Branch office cash advances	489,426	-	489,426
Prepaid expenses and other assets, net	654,950	-	654,950
Irrevocable deferred gifts	3,779,940	-	3,779,940
Beneficial interest in trusts	10,407,818	-	10,407,818
Property and equipment, net	15,354,755	-	15,354,755
TOTAL ASSETS	\$ 37,465,063	\$ 27,547,921	\$ 65,012,984
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable and accruals	\$ 993,688	\$ 1,492	\$ 995,180
Line of credit	400,000	-	400,000
Custodial funds	-	147,888	147,888
Other liabilities	784,215	-	784,215
Intercompany (receivable) payable	(6,469,169)	6,469,169	-
Gift annuity liabilities	428,842	2,021,240	2,450,082
Notes payable	7,553,248	-	7,553,248
Total Liabilities	3,690,824	8,639,789	12,330,613
Net Assets			
Without donor restrictions			
Unrestricted	4,734,013	-	4,734,013
Board designated	14,392,090	1,312,488	15,704,578
Total without donor restrictions	19,126,103	1,312,488	20,438,591
With donor restrictions			
Temporary in nature	4,301,084	1,586,759	5,887,843
Perpetual in nature	10,347,052	16,008,885	26,355,937
Total with donor restrictions	14,648,136	17,595,644	32,243,780
Total Net Assets	33,774,239	18,908,132	52,682,371
TOTAL LIABILITIES AND NET ASSETS	\$ 37,465,063	\$ 27,547,921	\$ 65,012,984

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
Total without donor restrictions	21,980,971	1,599,606	23,580,577
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 with donor restrictions	13,329,288	18,187,533	31,516,821
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 Activities

Year ended May 31, 2023

	Organization	Foundation	Total
Support, Revenue, and Losses:			
Contributions	\$ 11,817,774	\$ 71,823	\$ 11,889,597
In-kind gifts	12,623,761	171,655	12,795,416
Bequests, annuities, and trusts	9,930,954	267,020	10,197,974
Change in value of deferred gifts	1,270,729	43,047	1,313,776
Charitable gift annuities	-	35,671	35,671
Investment loss, net	(70,239)	(253,965)	(324,204)
Merchandise sales	146,494	-	146,494
Other income (loss)	(30,670)	13,013	(17,657)
Building tenant rent	1,055,028	-	1,055,028
Total support, revenue, and losses	36,743,831	348,264	37,092,095
Expenses:			
Operating expenses			
Program services - global ministries	28,344,824	-	28,344,824
Program services - building tenant services	1,182,157	-	1,182,157
Administration	4,038,421	-	4,038,421
Fundraising	5,639,116	302,604	5,941,720
Total expenses	39,204,518	302,604	39,507,122
Transfers from Foundation to the League			
Endowment and other fund distributions	924,667	(924,667)	-
CHANGE IN NET ASSETS	(1,536,020)	(879,007)	(2,415,027)
Net assets at beginning of year	35,310,259	19,787,139	55,097,398
Net assets at end of year	\$ 33,774,239	\$ 18,908,132	\$ 52,682,371

INTERNATIONAL LUTHERAN LAYMEN'S LEAGUE AND SUBSIDIARIES

Consolidating Schedule of Activities

Year ended May 31, 2022

	Organization	Foundation	Total
Support, Revenue, and Losses:			
Contributions	\$ 12,220,817	\$ 419,269	\$ 12,640,086
In-kind gifts	11,881,803	-	11,881,803
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 (loss), net	11,703	(1,258,094)	(1,246,391)
Merchandise sales	279,352	-	279,352
Other income (loss)	(4,884)	11,448	6,564
Building tenant rent	1,515,120	-	1,515,120
Total support, revenue, and losses	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