



FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

MAY 31, 2018

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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 statements of financial position as of May 31, 2018 and 2017, and the related statements of activities and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the 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 financial position of The Lutheran Hour Ministries Foundation as of May 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Brown Smith Wallace, LLP

St. Louis, Missouri
August 21, 2018

THE LUTHERAN HOUR MINISTRIES FOUNDATION

Statements of Financial Position

May 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash	\$ 198,650	\$ 158,322
Investments	25,553,779	20,709,411
Other receivables	6,095	6,869
Prepaid expenses	-	13,240
Due from International Lutheran Laymen's League	43,913	-
TOTAL ASSETS	\$ 25,802,437	\$ 20,887,842
LIABILITIES AND NET ASSETS		
Liabilities		
Due to International Lutheran Laymen's League	\$ -	\$ 746,969
Accounts payable	16,989	16,581
Gift annuity liabilities	2,215,255	2,115,092
Custodial funds	4,986,611	25,056
Total Liabilities	7,218,855	2,903,698
Net Assets		
Unrestricted - undesignated	-	-
Unrestricted - board designated	3,444,315	3,360,351
Temporarily restricted	2,820,698	2,512,496
Permanently restricted	12,318,569	12,111,297
Total Net Assets	18,583,582	17,984,144
TOTAL LIABILITIES AND NET ASSETS	\$ 25,802,437	\$ 20,887,842

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

THE LUTHERAN HOUR MINISTRIES FOUNDATION

Statement of Activities

Year ended May 31, 2018

	Unrestricted		Temporarily Restricted	Permanently Restricted	Total
	Undesignated	Board Designated			
Income:					
Donations	\$ 791	\$ -	\$ -	\$ 17,010	\$ 17,801
Bequests, annuities and trusts	-	-	-	190,262	190,262
Contributions to gift annuities	-	665,000	-	-	665,000
Donated services from related parties	73,684	-	-	-	73,684
Net investment income	-	462,117	1,140,882	-	1,602,999
Management fees and other income	562	-	-	-	562
Net assets released from restrictions and designations	1,875,833	(1,043,153)	(832,680)	-	-
Total income	1,950,870	83,964	308,202	207,272	2,550,308
Expenses:					
Payments to annuitants	282,280	-	-	-	282,280
Change in deferred value of gift annuities	100,163	-	-	-	100,163
Annuity distributions to beneficiaries	255,059	-	-	-	255,059
Travel expenses	21,746	-	-	-	21,746
Management and custodial fees	117,091	-	-	-	117,091
Other professional fees	23,899	-	-	-	23,899
Insurance	13,240	-	-	-	13,240
Miscellaneous expense	1,705	-	-	-	1,705
Donated services from related parties	73,684	-	-	-	73,684
Total expenses	888,867	-	-	-	888,867
Changes in net assets before distributions and transfers	1,062,003	83,964	308,202	207,272	1,661,441
Transfers to International Lutheran Laymen's League:					
Endowment distributions	(1,044,376)	-	-	-	(1,044,376)
Other fund distributions	(17,627)	-	-	-	(17,627)
Total transfers	(1,062,003)	-	-	-	(1,062,003)
CHANGE IN NET ASSETS	-	83,964	308,202	207,272	599,438
Net assets at beginning of year	-	3,360,351	2,512,496	12,111,297	17,984,144
Net assets at end of year	\$ -	\$ 3,444,315	\$ 2,820,698	\$ 12,318,569	\$ 18,583,582

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

THE LUTHERAN HOUR MINISTRIES FOUNDATION

Statement of Activities

Year ended May 31, 2017

	Unrestricted		Temporarily Restricted	Permanently Restricted	Total
	Undesignated	Board Designated			
Income:					
Donations	\$ 1,025	\$ -	\$ -	\$ 63,430	\$ 64,455
Bequests, annuities and trusts	-	179,083	-	1,073,071	1,252,154
Contributions to gift annuities	-	294,486	-	-	294,486
Donated services from related parties	99,300	-	-	-	99,300
Net investment income	-	594,962	1,599,728	-	2,194,690
Management fees and other income	167	-	-	-	167
Net assets released from restrictions and designations	1,433,944	(673,046)	(760,898)	-	-
Total income	1,534,436	395,485	838,830	1,136,501	3,905,252
Expenses:					
Payments to annuitants	261,512	-	-	-	261,512
Change in deferred value of gift annuities	42,534	-	-	-	42,534
Annuity distributions to beneficiaries	36,316	-	-	-	36,316
Travel expenses	21,363	-	-	-	21,363
Management and custodial fees	106,691	-	-	-	106,691
Other professional fees	20,128	-	-	-	20,128
Insurance	13,190	-	-	-	13,190
Miscellaneous expense	961	-	-	-	961
Donated services from related parties	99,300	-	-	-	99,300
Total expenses	601,995	-	-	-	601,995
Changes in net assets before distributions and transfers	932,441	395,485	838,830	1,136,501	3,303,257
Transfers to International Lutheran Laymen's League:					
Endowment distributions	(806,399)	-	-	-	(806,399)
Other fund distributions	(126,042)	-	-	-	(126,042)
Total transfers	(932,441)	-	-	-	(932,441)
CHANGE IN NET ASSETS	-	395,485	838,830	1,136,501	2,370,816
Net assets at beginning of year	-	2,964,866	1,673,666	10,974,796	15,613,328
Net assets at end of year	\$ -	\$ 3,360,351	\$ 2,512,496	\$ 12,111,297	\$ 17,984,144

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

THE LUTHERAN HOUR MINISTRIES FOUNDATION

Statements of Cash Flows

Years ended May 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ 599,438	\$ 2,370,816
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Unrealized gain on investments	(1,087,032)	(1,886,154)
Change in deferred value of gift annuity liabilities	100,163	42,534
(Increase) decrease in assets -		
Other receivables	774	(1,130)
Prepaid expenses	13,240	(13,240)
Increase (decrease) in liabilities -		
Due to/due from International Lutheran Laymen's League	(790,882)	(135,353)
Custodial funds	4,961,555	(5,026)
Accounts payable	408	6,273
	<hr/>	<hr/>
Net cash provided by operating activities	3,797,664	378,720
Cash flows from investing activities:		
Purchases of investments	(15,732,991)	(7,779,230)
Proceeds from sales of investments	11,975,655	7,507,277
	<hr/>	<hr/>
Net cash used in investing activities	(3,757,336)	(271,953)
	<hr/>	<hr/>
NET INCREASE IN CASH	40,328	106,767
Cash, beginning of year	158,322	51,555
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Cash, end of year	\$ 198,650	\$ 158,322
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The accompanying notes are an integral part of these financial statements.

THE LUTHERAN HOUR MINISTRIES FOUNDATION

Notes to Financial Statements

May 31, 2018

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, 2018 and 2017. 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 their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted Net Assets

Unrestricted net assets are neither permanently nor temporarily restricted by donor-imposed stipulations and include revenue from fees, certain investment income, and all unrestricted gifts, grants, and contributions. Unrestricted 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.

Temporarily Restricted Net Assets

Temporarily restricted net assets account for undistributed investment earnings on donor-restricted endowments that are restricted for specific purposes or time periods.

THE LUTHERAN HOUR MINISTRIES FOUNDATION

Notes to Financial Statements - Continued

May 31, 2018

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

Basis of Accounting and Presentation (Continued)

Permanently Restricted Net Assets

Permanently restricted net assets represent perpetual endowments established for the benefit of the League. These donor-imposed restrictions stipulate that the original contribution be maintained permanently and permit the Foundation to distribute payouts according to the board approved endowment distribution policy.

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, bequests, and investment income, which are recognized as income when received or accrued and are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor 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 and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

THE LUTHERAN HOUR MINISTRIES FOUNDATION

Notes to Financial Statements - Continued

May 31, 2018

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

Change in Accounting Policy

In May 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-07, Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). This standard removes the requirement to categorize within the fair value hierarchy investments for which fair values are estimated using the net asset value practical expedient provided by Accounting Standards Codification 820, Fair Value Measurement. The Foundation adopted this standard for the year ended May 31, 2018 and retrospectively for the year ended May 31, 2017.

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 unrestricted contributions and expenses in the accompanying Statements of Activities.

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.

Reclassifications

Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 presentation.

Subsequent Events

Management has evaluated all subsequent events and transactions through August 21, 2018, 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.

THE LUTHERAN HOUR MINISTRIES FOUNDATION

Notes to Financial Statements - Continued

May 31, 2018

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 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.

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.

THE LUTHERAN HOUR MINISTRIES FOUNDATION

Notes to Financial Statements - Continued

May 31, 2018

Note 2 - Fair Value Measurements and Investments (Continued)

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, 2018 and 2017.

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, 2018 and 2017:

2018	Fair Value	Level 1	Level 2	Level 3
Investments:				
Cash equivalents	\$ 252,409	\$ 252,409	\$ -	\$ -
Mutual funds:				
Equity funds	1,836,094	1,836,094	-	-
Fixed income funds	3,113,603	3,113,603	-	-
Total mutual funds	<u>4,949,697</u>	<u>4,949,697</u>	-	-
Total levelled investments	<u>5,202,106</u>	<u>5,202,106</u>	-	-
Collective trust funds:				
Equity funds	14,950,016			
Fixed income funds	<u>5,401,657</u>			
Total collective trust funds	<u>20,351,673</u>			
Total investments	<u>\$ 25,553,779</u>			

THE LUTHERAN HOUR MINISTRIES FOUNDATION

Notes to Financial Statements - Continued

May 31, 2018

Note 2 - Fair Value Measurements and Investments (Continued)

2017	Fair Value	Level 1	Level 2	Level 3
Investments:				
Cash equivalents	\$ 484,905	\$ 484,905	\$ -	\$ -
Mutual funds:				
Equity funds	1,505,676	1,505,676	-	-
Fixed income funds	2,777,555	2,777,555	-	-
Total mutual funds	4,283,231	4,283,231	-	-
Total levelled investments	4,768,136	4,768,136	-	-
Collective trust funds:				
Equity funds	12,298,481			
Fixed income funds	3,642,794			
Total collective trust funds	15,941,275			
Total investments	\$ 20,709,411			

The following tables summarize investments measured at fair value based on NAV per share as of May 31, 2018 and 2017:

Investment Name	2018			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Collective trust investments	\$ 20,351,673	-	Daily	Daily

Investment Name	2017			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Collective trust investments	\$ 15,941,275	-	Daily	Daily

THE LUTHERAN HOUR MINISTRIES FOUNDATION

Notes to Financial Statements - Continued

May 31, 2018

Note 2 - Fair Value Measurements and Investments (Continued)

Investment income at May 31, 2018 and 2017 consists of the following:

2018	Total	Board Designated	Temporarily Restricted	Permanently Restricted
Dividends and interest	\$ 192,333	\$ 55,740	\$ 136,593	\$ -
Realized gain on investments	323,634	173,048	150,586	-
Unrealized gain on investments	1,087,032	233,329	853,703	-
	<u>\$ 1,602,999</u>	<u>\$ 462,117</u>	<u>\$ 1,140,882</u>	<u>\$ -</u>

2017	Total	Board Designated	Temporarily Restricted	Permanently Restricted
Dividends and interest	\$ 205,940	\$ 56,049	\$ 149,891	\$ -
Realized gain on investments	102,596	63,912	38,684	-
Unrealized gain on investments	1,886,154	475,001	1,411,153	-
	<u>\$ 2,194,690</u>	<u>\$ 594,962</u>	<u>\$ 1,599,728</u>	<u>\$ -</u>

The Foundation also manages custodial funds on behalf of certain League districts and zones. Net investment income associated with custodial funds was \$460,691 and \$2,891 at May 31, 2018 and 2017, respectively.

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.

THE LUTHERAN HOUR MINISTRIES FOUNDATION

Notes to Financial Statements - Continued

May 31, 2018

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 10.0% as of May 31, 2018 and May 31, 2017. 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) at May 31, 2018 and May 31, 2017 using the Annuity 2000 M&F table with an assumed rate of interest of 4.25% for gifts prior to January 1, 2015 and the 2012 IAR Mortality table with an assumed rate of interest of 4.25% for gifts on or after January 1, 2015.

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

Change in gift annuity liabilities:

Years ended May 31,	2018	2017
Beginning gift annuity liabilities	\$ 2,115,092	\$ 2,072,558
Increase in liabilities on gift annuities issued before payouts	449,807	167,792
Other net changes in liabilities including terminations	(349,644)	(125,258)
Ending gift annuity liabilities	<u>\$ 2,215,255</u>	<u>\$ 2,115,092</u>

THE LUTHERAN HOUR MINISTRIES FOUNDATION

Notes to Financial Statements - Continued

May 31, 2018

Note 6 - Custodial Funds

Custodial accounts are held by the Foundation on behalf of tax exempt affiliates of the League. 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 at May 31, 2018 was \$4,860,208.

Note 7 - Administrative and Fund Raising Expenses

Administrative expenses were \$177,681 and \$162,333 respectively, for the years ended May 31, 2018 and May 31, 2017. The Foundation did not incur fund raising expenses for the years ended May 31, 2018 and 2017.

Note 8 - 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 \$73,684 and \$99,300, respectively, for the years ended May 31, 2018 and May 31, 2017.

Note 9 - Board Designated Unrestricted Net Assets

The board designated unrestricted net assets at May 31, 2018 and 2017 include:

	<u>2018</u>	<u>2017</u>
Gift annuities reserve	\$ 1,933,763	\$ 1,624,322
Other retained annuity excess earnings	342,570	329,932
Board designated endowments	1,167,982	1,406,097
	<u>\$ 3,444,315</u>	<u>\$ 3,360,351</u>

THE LUTHERAN HOUR MINISTRIES FOUNDATION

Notes to Financial Statements - Continued

May 31, 2018

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. The targeted investment asset mix is currently 55% equities, 40% fixed income, 4% alternative investments and 1% cash equivalents. The Foundation honors donors' specific, written restrictions or directives. The endowment distribution policy follows the requirements of the State of Missouri's Uniform Prudent Management of Institutional Funds Act. The distribution policy is based on 5% of the average market value of endowment assets for the preceding twelve quarters. No distributions will be made from new named endowments during the first four quarters after initial receipt of funds.

To ensure a perpetual source of payout to support the League, the Foundation strives to maintain the market value of the endowments on an aggregate basis equal to their total historic dollar value when received. The distribution policy has been established to provide predictable and consistent endowment distributions through most investment market cycles. Since prolonged or unusual investment market declines may push endowments underwater (market value less than historic gift value), the Board of Directors will review the status of underwater endowments prior to the end of the fiscal year and determine whether distributions will be made for the following year. Most of the endowment funds permit invasion of corpus not to exceed 10% on an annual basis in the event of extraordinary circumstances requiring the emergency expenditure of funds and only with the approval of the Foundation Board of Trustees.

THE LUTHERAN HOUR MINISTRIES FOUNDATION

Notes to Financial Statements - Continued

May 31, 2018

Note 10 - Endowment Policies (Continued)

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

	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets – Beginning of year	\$ 1,406,097	\$ 2,512,496	\$ 12,111,297	\$ 16,029,890
Contributions	-	-	207,272	207,272
Investment earnings:				
Dividends and interest	11,341	136,593	-	147,934
Net realized gains	12,529	150,586	-	163,115
Net change in unrealized gains	74,802	853,703	-	928,505
Total investment gains	98,672	1,140,882	-	1,239,554
Release of endowment funds:				
Endowment distributions to the League	(327,792)	(716,584)	-	(1,044,376)
Foundation expenses	(8,995)	(116,096)	-	(125,091)
Total endowment funds released	(336,787)	(832,680)	-	(1,169,467)
Endowment net assets – End of year	<u>\$ 1,167,982</u>	<u>\$ 2,820,698</u>	<u>\$ 12,318,569</u>	<u>\$ 16,307,249</u>

The changes in and composition of endowment net assets for the year ended May 31, 2017 are as follows:

	Board Designated	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets – Beginning of year	\$ 1,405,886	\$ 1,673,666	\$ 10,974,796	\$ 14,054,348
Contributions	-	-	1,136,501	1,136,501
Investment earnings:				
Dividends and interest	14,662	149,891	-	164,553
Net realized gains	3,524	38,684	-	42,208
Net change in unrealized gains	139,064	1,411,153	-	1,550,217
Total investment gains	157,250	1,599,728	-	1,756,978
Release of endowment funds:				
Endowment distributions to the League	(147,241)	(659,158)	-	(806,399)
Foundation expenses	(9,798)	(101,740)	-	(111,538)
Total endowment funds released	(157,039)	(760,898)	-	(917,937)
Endowment net assets – End of year	<u>\$ 1,406,097</u>	<u>\$ 2,512,496</u>	<u>\$ 12,111,297</u>	<u>\$ 16,029,890</u>

THE LUTHERAN HOUR MINISTRIES FOUNDATION

Notes to Financial Statements - Continued

May 31, 2018

Note 10 - Endowment Policies (Continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-designated	\$ -	\$ 2,820,698	\$ 12,318,569	\$ 15,139,267
Board-designated	1,167,982	-	-	1,167,982
	\$ 1,167,982	\$ 2,820,698	\$ 12,318,569	\$ 16,307,249

Endowment net asset composition by type of funds as of May 31, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-designated	\$ -	\$ 2,512,496	\$ 12,111,297	\$ 14,623,793
Board-designated	1,406,097	-	-	1,406,097
	\$ 1,406,097	\$ 2,512,496	\$ 12,111,297	\$ 16,029,890