



FINANCIAL STATEMENTS  
WITH  
INDEPENDENT AUDITOR'S REPORT

**MAY 31, 2019**

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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, 2019 and 2018, 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, 2019 and 2018, 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 23, 2019

# THE LUTHERAN HOUR MINISTRIES FOUNDATION

## Statements of Financial Position

May 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>ASSETS</b>		
Cash	\$ 12,340	\$ 198,650
Investments	25,410,887	25,553,779
Other receivables	11,747	6,095
Due from International Lutheran Laymen's League	-	43,913
<b>TOTAL ASSETS</b>	<b>\$ 25,434,974</b>	<b>\$ 25,802,437</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Due to International Lutheran Laymen's League	\$ 318,552	\$ -
Accounts payable	15,690	16,989
Gift annuity liabilities	2,115,943	2,215,255
Custodial funds	4,696,977	4,986,611
<b>Total Liabilities</b>	<b>7,147,162</b>	<b>7,218,855</b>
<b>Net Assets</b>		
<b>Without donor restrictions</b>		
Undesignated	-	-
Board designated	2,383,894	3,444,315
<b>Total without donor restrictions</b>	<b>2,383,894</b>	<b>3,444,315</b>
<b>With donor restrictions</b>		
Temporary in nature due to timing	1,858,204	2,820,698
Perpetual in nature	14,045,714	12,318,569
<b>Total with donor restrictions</b>	<b>15,903,918</b>	<b>15,139,267</b>
<b>Total Net Assets</b>	<b>18,287,812</b>	<b>18,583,582</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 25,434,974</b>	<b>\$ 25,802,437</b>

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

# THE LUTHERAN HOUR MINISTRIES FOUNDATION

## Statement of Activities

Year ended May 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Income:</b>			
Donations	\$ 1,619	\$ 1,083,941	\$ 1,085,560
Bequests, annuities and trusts	-	643,204	643,204
Contributions to gift annuities	3,818	-	3,818
Change in value of deferred gifts	(158,059)	-	(158,059)
Donated services from related parties	88,953	-	88,953
Net investment income	(99,578)	(190,802)	(290,380)
Custodial fees and other income	10,570	-	10,570
Net assets released from restrictions	771,692	(771,692)	-
<b>Total income</b>	<b>619,015</b>	<b>764,651</b>	<b>1,383,666</b>
<b>Expenses:</b>			
<b>Program Expenses:</b>			
Annuity distributions to beneficiaries	490,661	-	490,661
Endowment distributions	995,866	-	995,866
Other fund distributions	22,962	-	22,962
<b>Total program expenses</b>	<b>1,509,489</b>	<b>-</b>	<b>1,509,489</b>
<b>Administrative Expenses:</b>			
Travel expenses	17,074	-	17,074
Management fees - gift annuity program	27,574	-	27,574
Other professional fees	20,392	-	20,392
Insurance	13,302	-	13,302
Miscellaneous expense	2,652	-	2,652
Donated services from related parties	88,953	-	88,953
<b>Total administrative expenses</b>	<b>169,947</b>	<b>-</b>	<b>169,947</b>
<b>Total expenses</b>	<b>1,679,436</b>	<b>-</b>	<b>1,679,436</b>
<b>CHANGE IN NET ASSETS</b>	<b>(1,060,421)</b>	<b>764,651</b>	<b>(295,770)</b>
Net assets at beginning of year	3,444,315	15,139,267	18,583,582
Net assets at end of year	\$ 2,383,894	\$ 15,903,918	\$ 18,287,812

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

# THE LUTHERAN HOUR MINISTRIES FOUNDATION

## Statement of Activities

Year ended May 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Income:</b>			
Donations	\$ 791	\$ 17,010	\$ 17,801
Bequests, annuities and trusts	-	190,262	190,262
Contributions to gift annuities	215,193	-	215,193
Change in value of deferred gifts	67,364	-	67,364
Donated services from related parties	73,684	-	73,684
Net investment income	438,412	1,075,454	1,513,866
Custodial fees and other income	40	-	40
Net assets released from restrictions	767,252	(767,252)	-
<b>Total income</b>	<b>1,562,736</b>	<b>515,474</b>	<b>2,078,210</b>
<b>Expenses:</b>			
<b>Program Expenses:</b>			
Annuity distributions to beneficiaries	255,059	-	255,059
Endowment distributions	1,044,376	-	1,044,376
Other fund distributions	17,627	-	17,627
<b>Total program expenses</b>	<b>1,317,062</b>	<b>-</b>	<b>1,317,062</b>
<b>Administrative Expenses:</b>			
Travel expenses	21,746	-	21,746
Management fees - gift annuity program	27,436	-	27,436
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
<b>Total administrative expenses</b>	<b>161,710</b>	<b>-</b>	<b>161,710</b>
<b>Total expenses</b>	<b>1,478,772</b>	<b>-</b>	<b>1,478,772</b>
<b>CHANGE IN NET ASSETS</b>	<b>83,964</b>	<b>515,474</b>	<b>599,438</b>
Net assets at beginning of year	3,360,351	14,623,793	17,984,144
Net assets at end of year	\$ 3,444,315	\$ 15,139,267	\$ 18,583,582

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

# THE LUTHERAN HOUR MINISTRIES FOUNDATION

## Statements of Cash Flows

Years ended May 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (295,770)	\$ 599,438
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Unrealized (gain)/loss on investments	1,025,462	(1,087,032)
Change in deferred value of gift annuity liabilities	(99,312)	100,163
(Increase) decrease in assets -		
Other receivables	(5,652)	774
Prepaid expenses	-	13,240
Increase (decrease) in liabilities -		
Due to/due from International Lutheran Laymen's League	362,465	(790,882)
Custodial funds	(289,634)	4,961,555
Accounts payable	(1,299)	408
	<u>696,260</u>	<u>3,797,664</u>
<b>Net cash provided by operating activities</b>	<b>696,260</b>	<b>3,797,664</b>
<b>Cash flows from investing activities:</b>		
Purchases of investments	(9,856,260)	(15,732,991)
Proceeds from sales of investments	8,973,690	11,975,655
	<u>(882,570)</u>	<u>(3,757,336)</u>
<b>Net cash used in investing activities</b>	<b>(882,570)</b>	<b>(3,757,336)</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(186,310)</b>	<b>40,328</b>
<b>Cash, beginning of year</b>	<b>198,650</b>	<b>158,322</b>
<b>Cash, end of year</b>	<b>\$ 12,340</b>	<b>\$ 198,650</b>

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

# THE LUTHERAN HOUR MINISTRIES FOUNDATION

## Notes to Financial Statements

May 31, 2019

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

#### **Organization**

The Lutheran Hour Ministries Foundation (the Foundation) was established to generate interest in and funds for the ministries of the International Lutheran Laymen's League (the League) and manage the assets of the Foundation. On an annual basis, the Foundation provides funding to the League.

The League, doing business as Lutheran Hour Ministries, is a not-for-profit organization which serves as the media evangelism auxiliary of the Lutheran Church—Missouri Synod and the Lutheran Church-Canada. The League's purpose is to proclaim the Gospel of Jesus Christ on a domestic and international scale via the media of radio, television, and other forms of mass communication.

The Foundation, due to substantial organizational control by the League, was consolidated in the League's financial statements for the years ended May 31, 2019 and 2018. 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 two classes of net assets: net assets without donor restrictions, and net assets with donor restrictions which are either temporary or perpetual in nature.

#### **Net Assets Without Donor Restrictions**

Net assets without donor restrictions are not restricted by donor-imposed stipulations, either temporary or perpetual in nature, and include revenue from fees, certain investment income, and all unrestricted gifts, grants, and contributions. Undesignated amounts are those currently available at the discretion of the Board for use in the Foundation's operations. In addition, the Board has designated certain funds for the purposes of providing additional security for its gift annuities and endowments for funding certain fund raising activities and other purposes.

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

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

# THE LUTHERAN HOUR MINISTRIES FOUNDATION

## Notes to Financial Statements - Continued

May 31, 2019

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

#### **Basis of Accounting and Presentation (Continued)**

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

#### **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 without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions.

#### **Estate Gifts and Other Receivables**

Estate gifts which are due and not received as of the financial statement date are accrued as receivables. Unless affirmed by subsequent events, it is the Foundation's practice to establish a 5% holdback for additional fees and adverse market fluctuations. Receivables are also established to recognize investment income due.

#### **Investments**

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

Investment income 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.

# THE LUTHERAN HOUR MINISTRIES FOUNDATION

## Notes to Financial Statements - Continued

May 31, 2019

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

#### **Change in Accounting Policy**

On August 18, 2016, FASB issued Account Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements for Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classifications, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundation has implemented ASU 2016-14 and has adjusted the presentation of these financial statements accordingly. The ASU has been applied retroactively to all periods presented.

#### **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 2018 financial statements to conform to the 2019 presentation.

#### **Subsequent Events**

Management has evaluated all subsequent events and transactions through August 23, 2019, 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, 2019

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### 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, 2019

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### 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, 2019 and 2018.

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, 2019 and 2018:

<b>2019</b>	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Investments:				
Mutual funds:				
Equity funds	\$ 1,508,705	\$ 1,508,705	\$ -	\$ -
Fixed income funds	4,097,253	4,097,253	-	-
Total mutual funds	<u>5,605,958</u>	<u>5,605,958</u>	-	-
Cash equivalents	623,184			
Collective trust funds:				
Equity funds	13,960,711			
Fixed income funds	<u>5,221,034</u>			
Total collective trust funds	<u>19,181,745</u>			
Total investments	<u>\$ 25,410,887</u>			

# THE LUTHERAN HOUR MINISTRIES FOUNDATION

## Notes to Financial Statements - Continued

May 31, 2019

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

2018	Fair Value	Level 1	Level 2	Level 3
Investments:				
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>	-	-
Cash equivalents	252,409			
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 following tables summarize investments measured at fair value based on NAV per share as of May 31, 2019 and 2018:

Investment Name	2019			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Collective trust investments	\$ 19,181,745	-	Daily	Daily
Investment Name	2018			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Collective trust investments	\$ 20,351,673	-	Daily	Daily

# THE LUTHERAN HOUR MINISTRIES FOUNDATION

## Notes to Financial Statements - Continued

May 31, 2019

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

Net investment income at May 31, 2019 and 2018 consists of the following:

2019	Total	Board Designated	Temporary In Nature	Perpetual In Nature
Dividends and interest	\$ 195,702	\$ 50,861	\$ 144,841	\$ -
Realized gain on investments	625,854	476,163	149,691	-
Unrealized loss on investments	(1,025,462)	(607,638)	(417,824)	-
Investment management fees	(86,474)	(18,964)	(67,510)	-
	<u>\$ (290,380)</u>	<u>\$ (99,578)</u>	<u>\$ (190,802)</u>	<u>\$ -</u>
2018	Total	Board Designated	Temporary In Nature	Perpetual In Nature
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	-
Investment management fees	(89,133)	(23,705)	(65,428)	-
	<u>\$ 1,513,866</u>	<u>\$ 438,412</u>	<u>\$ 1,075,454</u>	<u>\$ -</u>

The Foundation also manages custodial funds on behalf of certain League districts and zones. Net investment income (loss) associated with custodial funds was \$(79,180) and \$2,369 at May 31, 2019 and 2018, 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, 2019

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### 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, 2019 and May 31, 2018. 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, 2019 and May 31, 2018 using the Annuity 2000 M&F table with an assumed rate of interest of 4.75% for gifts prior to January 1, 2015 and the 2012 IAR Mortality table with an assumed rate of interest of 4.75% 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,	2019	2018
Beginning gift annuity liabilities	\$ 2,215,255	\$ 2,115,092
Liabilities from newly issued gift annuities	6,181	449,807
Payments to annuitants	(263,552)	(282,280)
Change in value of deferred gift annuities	158,059	(67,364)
Ending gift annuity liabilities	<u>\$ 2,115,943</u>	<u>\$ 2,215,255</u>

# THE LUTHERAN HOUR MINISTRIES FOUNDATION

## Notes to Financial Statements - Continued

May 31, 2019

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### Note 6 - Custodial Funds

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

### Note 7 - Related Party Transactions

The League donated administrative services to the Foundation based on the cost of actual services provided. These services meet the criteria for recognition under FASB ASC 958-605 and are recorded as donated services from related parties and expenses in the accompanying Statements of Activities. The donated services were valued at \$88,953 and \$73,684, respectively, for the years ended May 31, 2019 and May 31, 2018.

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 League Operating Reserve custodial fund was \$4,572,955 and \$4,860,208, respectively, for the years ended May 31, 2019 and May 31, 2018.

### Note 8 - Net Assets Without Donor Restrictions - Board Designated

The net assets without donor restrictions that were board designated at May 31, 2019 and 2018 include:

	<b>2019</b>	2018
Gift annuities reserve	<b>\$ 1,177,439</b>	\$ 1,933,763
Other retained annuity excess earnings	<b>315,365</b>	342,570
Board designated endowments	<b>891,090</b>	1,167,982
	<b><u>\$ 2,383,894</u></b>	<u>\$ 3,444,315</u>

# THE LUTHERAN HOUR MINISTRIES FOUNDATION

## Notes to Financial Statements - Continued

May 31, 2019

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### Note 9 - Endowment Policies

The investment objectives of the Foundation endowment funds are designed to produce the desired long-term real growth over inflation and sufficient income for expenses and the desired annual spending from the Foundation funds. The assets are to be invested with the care, skill, prudence, and diligence that a prudent person acting at those times in a like capacity and familiar with such matters would use in the investment of a fund of like character, with like aims and consideration given to the tax-exempt status of the Foundation. The targeted investment asset mix is currently 55% equities, 40% fixed income, 4% alternative investments and 1% cash equivalents. The Foundation honors donors' specific, written restrictions or directives. The endowment distribution policy follows the requirements of the State of Missouri's Uniform Prudent Management of Institutional Funds Act. The distribution policy beginning with the year ending May 31, 2019 was changed to a quarterly distribution of 1.25% of the average market value of endowment assets for the preceding twelve quarters. Previously the policy was for an annual distribution of 5% of the average market value of endowment assets for the preceding twelve quarters. No distributions will be made from new named endowments during the first four quarters after initial receipt of funds.

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

# THE LUTHERAN HOUR MINISTRIES FOUNDATION

## Notes to Financial Statements - Continued

May 31, 2019

### Note 9 - 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. Deficiencies of this nature that are reported with donor restrictions were \$5,820 and \$2,826 as of May 31, 2019 and 2018, respectively. These deficiencies resulted from unfavorable market fluctuations.

The changes in and composition of endowment net assets for the year ended May 31, 2019 are as follows:

	Board Designated	With Donor Restrictions		Total
		Temporary In Nature	Perpetual In Nature	
Endowment net assets – Beginning of year	\$ 1,167,982	\$ 2,820,698	\$ 12,318,569	\$ 16,307,249
Contributions	-	-	1,727,145	1,727,145
Net investment income:				
Dividends and interest	8,337	144,841	-	153,178
Net realized gains	142,342	149,691	-	292,033
Net change in unrealized loss	(162,614)	(417,824)	-	(580,438)
Investment management fees	(4,327)	(67,510)	-	(71,837)
Total net investment loss	(16,262)	(190,802)	-	(207,064)
Release of endowment funds:				
Endowment distributions to the League	(259,826)	(736,040)	-	(995,866)
Foundation expenses	(804)	(35,652)	-	(36,456)
Total endowment funds released	(260,630)	(771,692)	-	(1,032,322)
Endowment net assets – End of year	\$ 891,090	\$ 1,858,204	\$ 14,045,714	\$ 16,795,008

# THE LUTHERAN HOUR MINISTRIES FOUNDATION

## Notes to Financial Statements - Continued

May 31, 2019

### Note 9 - Endowment Policies (Continued)

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

	Board Designated	With Donor Restrictions		Total
		Temporary In Nature	Perpetual In Nature	
Endowment net assets – Beginning of year	\$ 1,406,097	\$ 2,512,496	\$ 12,111,297	\$ 16,029,890
Contributions	-	-	207,272	207,272
Net investment income:				
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
Investment management fees	(5,064)	(65,428)	-	(70,492)
Total net investment income	93,608	1,075,454	-	1,169,062
Release of endowment funds:				
Endowment distributions to the League	(327,792)	(716,584)	-	(1,044,376)
Foundation expenses	(3,931)	(50,668)	-	(54,599)
Total endowment funds released	(331,723)	(767,252)	-	(1,169,467)
Endowment net assets – End of year	\$ 1,167,982	\$ 2,820,698	\$ 12,318,569	\$ 16,307,249

Endowment net asset composition by type of funds as of May 31, 2019:

	Board Designated	With Donor Restrictions		Total
		Temporary In Nature	Perpetual In Nature	
Donor-designated gifts	\$ -	\$ -	\$ 14,045,714	\$ 14,045,714
Earnings on donor gifts	-	1,858,204	-	1,858,204
Board-designated	891,090	-	-	891,090
	\$ 891,090	\$ 1,858,204	\$ 14,045,714	\$ 16,795,008

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

	Board Designated	With Donor Restrictions		Total
		Temporary In Nature	Perpetual In Nature	
Donor-designated gifts	\$ -	\$ -	\$ 12,318,569	\$ 12,318,569
Earnings on donor gifts	-	2,820,698	-	2,820,698
Board-designated	1,167,982	-	-	1,167,982
	\$ 1,167,982	\$ 2,820,698	\$ 12,318,569	\$ 16,307,249

# THE LUTHERAN HOUR MINISTRIES FOUNDATION

## Notes to Financial Statements - Continued

May 31, 2019

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### Note 10 - Liquidity and Availability of Resources

Financial assets, at year end	\$ 25,434,974
Less those unavailable for general expenditures within one year, due to:	
Donor-imposed restrictions:	
Restricted by donor with time or purpose restrictions	(15,903,918)
Board-designations:	
Board-designated quasi-endowments and funds	( 1,206,455)
Set aside for gift annuity liability and reserves	( 3,293,382)
Custodial funds:	
Funds held as custodian for other organizations	( 4,696,977)
Distributions due to International Lutheran Laymen's League	( <u>318,552</u> )
Financial assets available to meet cash needs for general expenditures within one year	\$ <u>15,690</u>

The Foundation is substantially funded by restricted contributions. Donor's restriction requires resources to be used in a particular manner or in a future period, the Foundation must maintain sufficient resources to meet those responsibilities. As part of the Foundation's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. There are three main categories of expenditures that need to be met during a fiscal year – gift annuity payments and distributions, endowment distributions and grants, and general administrative expenses of the Foundation.

Gift annuity obligations to annuitants and beneficiaries are supported by reserve funds held in the gift annuity investment portfolio. The investment mix provides a strategy for both long-term growth and short-term liquidity to meet the cash needs for annuity payments and distributions. The Foundation maintains these funds at a level that meets or exceeds state regulatory requirements to cover annuity liabilities and provides sufficient access to cash when needed. The Foundation has approximately \$750,000 of reserves in excess of state regulatory requirements available to cover other expenses at May 31, 2019.

Board designated quasi-endowments are funds set aside by the board for long-term purposes. The Foundation invests these funds for long-term growth and makes quarterly distributions to the League. All of these funds, totaling \$1,206,455 at May 31, 2019, are available to be released from designation by the Board if necessary, to meet the needs of the Foundation.

# THE LUTHERAN HOUR MINISTRIES FOUNDATION

## Notes to Financial Statements - Continued

May 31, 2019

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### Note 10 - Liquidity and Availability of Resources (Continued)

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

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