



Financial Statements
with
Independent Auditor's Report

May 31, 2023

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of The Lutheran Hour Ministries Foundation (the "Organization"), which comprise the statements of financial position as of May 31, 2023 and 2022, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

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, 2023 and 2022, 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.

Basis of 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 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 financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about 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.



Armanino^{LLP}
St. Louis, Missouri

August 21, 2023

THE LUTHERAN HOUR MINISTRIES FOUNDATION
 Statements of Financial Position
 May 31, 2023 and 2022

| | 2023 | 2022 |
|---|----------------------|----------------------|
| ASSETS | | |
| Cash | \$ 45,217 | \$ 76,628 |
| Investments | 27,489,750 | 27,546,809 |
| Other receivables | 12,954 | 10,826 |
| Due from International Lutheran Laymen's League | - | 3,426,172 |
| TOTAL ASSETS | \$ 27,547,921 | \$ 31,060,435 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Due to International Lutheran Laymen's League | \$ 500,369 | - |
| Accounts payable | 1,492 | 5,000 |
| Gift annuity liabilities | 2,021,240 | 2,302,787 |
| Custodial funds | 6,116,688 | 8,965,509 |
| Total Liabilities | 8,639,789 | 11,273,296 |
| Net Assets | | |
| Without donor restrictions | | |
| Board designated | 1,312,488 | 1,599,606 |
| With donor restrictions | | |
| Temporary in nature | 1,586,759 | 2,689,146 |
| Perpetual in nature | 16,008,885 | 15,498,387 |
| Total with donor restrictions | 17,595,644 | 18,187,533 |
| Total Net Assets | 18,908,132 | 19,787,139 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 27,547,921 | \$ 31,060,435 |

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

THE LUTHERAN HOUR MINISTRIES FOUNDATION

Statement of Activities

Year ended May 31, 2023

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|----------------------------------|-------------------------------|------------------|
| Income: | | | |
| Contributions | \$ - | \$ 71,823 | \$ 71,823 |
| Donated services | 107,941 | - | 107,941 |
| Donated property and real estate | - | 171,655 | 171,655 |
| Bequests, annuities and trusts | - | 267,020 | 267,020 |
| Contributions to gift annuities | 35,671 | - | 35,671 |
| Change in value of deferred gifts | 43,047 | - | 43,047 |
| Net investment income (loss) | (92,145) | (161,820) | (253,965) |
| Custodial fees and other income | 13,013 | - | 13,013 |
| Net assets released from restrictions | 940,567 | (940,567) | - |
| Total income | 1,048,094 | (591,889) | 456,205 |
| Expenses: | | | |
| Program Expenses: | | | |
| Annuity distributions to beneficiaries | 20,808 | - | 20,808 |
| Endowment distributions | 903,859 | - | 903,859 |
| Total program expenses | 924,667 | - | 924,667 |
| Administrative Expenses: | | | |
| Travel expenses | 14,474 | - | 14,474 |
| Management fees - gift annuity program | 22,443 | - | 22,443 |
| Other professional fees | 17,534 | - | 17,534 |
| Insurance | 13,654 | - | 13,654 |
| Service contract expense | 224,868 | - | 224,868 |
| Miscellaneous expense | 9,631 | - | 9,631 |
| Donated services - personnel expense | 104,469 | - | 104,469 |
| Donated services - rent expense | 3,472 | - | 3,472 |
| Total administrative expenses | 410,545 | - | 410,545 |
| Total expenses | 1,335,212 | - | 1,335,212 |
| CHANGE IN NET ASSETS | (287,118) | (591,889) | (879,007) |
| Net assets at beginning of year | 1,599,606 | 18,187,533 | 19,787,139 |
| Net assets at end of year | \$ 1,312,488 | \$ 17,595,644 | \$ 18,908,132 |

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

THE LUTHERAN HOUR MINISTRIES FOUNDATION

Statement of Activities

Year ended May 31, 2022

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|----------------------------------|-------------------------------|---------------|
| Income: | | | |
| Contributions | \$ - | \$ 419,269 | \$ 419,269 |
| Donated services | 106,282 | - | 106,282 |
| Donated property and real estate | - | - | - |
| Bequests, annuities and trusts | - | 367,052 | 367,052 |
| Contributions to gift annuities | 27,968 | - | 27,968 |
| Change in value of deferred gifts | 51,885 | - | 51,885 |
| Net investment income (loss) | (214,694) | (1,043,400) | (1,258,094) |
| Custodial fees and other income | 11,448 | - | 11,448 |
| Net assets released from restrictions | 933,383 | (933,383) | - |
| | 916,272 | (1,190,462) | (274,190) |
| Expenses: | | | |
| Program Expenses: | | | |
| Annuity distributions to beneficiaries | 303,964 | - | 303,964 |
| Endowment distributions | 933,063 | - | 933,063 |
| | 1,237,027 | - | 1,237,027 |
| Administrative Expenses: | | | |
| Travel expenses | 16,219 | - | 16,219 |
| Management fees - gift annuity program | 25,711 | - | 25,711 |
| Other professional fees | 27,406 | - | 27,406 |
| Insurance | 9,101 | - | 9,101 |
| Service contract expense | 338,233 | - | 338,233 |
| Miscellaneous expense | 3,976 | - | 3,976 |
| Donated services - personnel expense | 102,628 | - | 102,628 |
| Donated services - rent expense | 3,654 | - | 3,654 |
| | 526,928 | - | 526,928 |
| | 1,763,955 | - | 1,763,955 |
| CHANGE IN NET ASSETS | (847,683) | (1,190,462) | (2,038,145) |
| Net assets at beginning of year | 2,447,289 | 19,377,995 | 21,825,284 |
| Net assets at end of year | \$ 1,599,606 | \$ 18,187,533 | \$ 19,787,139 |

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

THE LUTHERAN HOUR MINISTRIES FOUNDATION
 Statements of Cash Flows
 Years ended May 31, 2023 and 2022

| | 2023 | 2022 |
|---|--------------|----------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ (879,007) | \$ (2,038,145) |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Realized and unrealized loss on investments | 701,977 | 1,543,437 |
| Change in deferred value of gift annuity liabilities | (281,547) | (266,481) |
| (Increase) decrease in assets - | | |
| Other receivables | (2,128) | 3,451 |
| Increase (decrease) in liabilities - | | |
| Due to/due from International Lutheran Laymen's League | 3,926,541 | (3,720,298) |
| Custodial funds | (2,848,821) | 3,181,762 |
| Accounts payable | (3,508) | 4,386 |
| | 613,507 | (1,291,888) |
| Net cash (used in) operating activities | | |
| Cash flows from investing activities: | | |
| Purchases of investments | (54,274,939) | (17,594,192) |
| Proceeds from sales of investments | 53,630,021 | 18,871,411 |
| | (644,918) | 1,277,219 |
| Net cash provided by (used in) investing activities | | |
| NET DECREASE IN CASH | (31,411) | (14,669) |
| Cash, beginning of year | 76,628 | 91,297 |
| Cash, end of year | \$ 45,217 | \$ 76,628 |

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

THE LUTHERAN HOUR MINISTRIES FOUNDATION

Notes to Financial Statements

May 31, 2023

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 a quarterly 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, 2023 and 2022. These financial statements only include the accounts of the Foundation.

Basis of Accounting and Presentation

The financial statements have been prepared using the accrual basis of accounting. Additionally, the financial statement presentation follows the requirements of Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) which requires the Foundation to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions, and net assets with donor restrictions which are either temporary or perpetual in nature.

Net Assets Without Donor Restrictions

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

Net Assets With Donor Restrictions

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

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

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.

THE LUTHERAN HOUR MINISTRIES FOUNDATION

Notes to Financial Statements - Continued

May 31, 2023

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

Contributions and Other Revenues

Substantially all of the Foundation's revenues result from contributions, estate gifts, and investment income, which are recognized as income when received or accrued and are recorded as without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions.

Estate Gifts and Other Receivables

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

Investments

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

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

Revenue Recognition

Exchange revenue consists of fees that are recognized as revenue during the period services are provided or according to the terms of the related custodial management fees. 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.

Donated Services, Property, and Real Estate

In-kind gifts meeting recognition criteria under U.S. GAAP are recorded as donated services or donated property and real estate, and as an expense, based on estimated fair values at the date of donation. Such donations are reported as support without donor restrictions unless the donor has restricted the donated asset to a specified purpose. Donations of property and real estate are valued at the appraised value (or fair market value if an appraisal is not possible) and are sold as soon as practicable rather than being held as an investment. Contributed services are recognized as contributions if the services create or enhance nonfinancial assets or require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Donated services include administrative services provided by the League, classified as in-kind support and expenses in the accompanying statements of activities. These services meet the criteria for recognition under Financial Accounting Standards Board ("FASB ASC") 958-605-30, Revenue Recognition. The Foundation values personnel administrative services based upon an estimated allocation of employee's time dedicated to the Foundation, multiplied by the specific employee's labor cost per hour. Additionally, the Foundation estimates donated office space by calculating the percentage of square feet provided to the Foundation (from the League) multiplied by the total rental cost.

THE LUTHERAN HOUR MINISTRIES FOUNDATION
Notes to Financial Statements - Continued
May 31, 2023

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

Use of Estimates in Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

Management has evaluated all subsequent events and transactions through August 21, 2023, the date the financial statements were available to be issued. No events require recognition in the financial statements or disclosures of the Foundation per the definitions and requirements of FASB ASC 855-10.

Note 2 – 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 combined 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 Foundation's financial statements.

Note 3 - Fair Value Measurements and Investments

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

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

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

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.

THE LUTHERAN HOUR MINISTRIES FOUNDATION
Notes to Financial Statements - Continued
May 31, 2023

Note 3 - Fair Value Measurements and Investments (Continued)

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

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

Management determines the fair value measurement valuation policies and procedures. The Investment Committee of the Board of Directors assesses and approves these policies and procedures. At least annually, management: (1) determines if the current valuation techniques used in fair value measurements are still appropriate, and (2) evaluates and adjusts the unobservable inputs used in the fair value measurements based on current market conditions and third-party information.

The Foundation recognizes transfers between levels in the fair value hierarchy at the end of the reporting period. There were no transfers between levels for the years ended May 31, 2023 and 2022.

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, 2023 and 2022:

THE LUTHERAN HOUR MINISTRIES FOUNDATION
Notes to Financial Statements - Continued
May 31, 2023

Note 3 - Fair Value Measurements and Investments (Continued)

| <u>2023</u> | <u>Fair Value</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|------------------------------|----------------------|-------------------|----------------|----------------|
| Investments: | | | | |
| Mutual funds: | | | | |
| Equity funds | \$ 16,008,716 | \$ 16,008,716 | \$ - | \$ - |
| Fixed income funds | <u>8,631,165</u> | <u>8,631,165</u> | <u>-</u> | <u>-</u> |
| Total mutual funds | <u>24,639,881</u> | <u>24,639,881</u> | <u>-</u> | <u>-</u> |
| Cash equivalents | 982,069 | | | |
| Collective trust funds: | | | | |
| Equity funds | 1,331,379 | | | |
| Fixed income funds | <u>536,421</u> | | | |
| Total collective trust funds | <u>1,867,800</u> | | | |
| Total investments | <u>\$ 27,489,750</u> | | | |
| | | | | |
| <u>2022</u> | <u>Fair Value</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Investments: | | | | |
| Mutual funds: | | | | |
| Equity funds | \$ 15,252,245 | \$ 15,252,245 | \$ - | \$ - |
| Fixed income funds | <u>9,750,661</u> | <u>9,750,661</u> | <u>-</u> | <u>-</u> |
| Total mutual funds | <u>25,002,906</u> | <u>25,002,906</u> | <u>-</u> | <u>-</u> |
| Cash equivalents | 360,613 | | | |
| Collective trust funds: | | | | |
| Equity funds | 1,582,424 | | | |
| Fixed income funds | <u>600,866</u> | | | |
| Total collective trust funds | <u>2,183,290</u> | | | |
| Total investments | <u>\$ 27,546,809</u> | | | |

THE LUTHERAN HOUR MINISTRIES FOUNDATION
Notes to Financial Statements - Continued
May 31, 2023

Note 3 - Fair Value Measurements and Investments (Continued)

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

| 2023 | | | | |
|------------------------|--------------|-------------------------|-------------------------|-----------------------------|
| Investment Name | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
| Collective trust funds | \$ 1,867,800 | \$ - | Daily | Daily |

| 2022 | | | | |
|------------------------|--------------|-------------------------|-------------------------|-----------------------------|
| Investment Name | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
| Collective trust funds | \$ 2,183,290 | \$ - | Daily | Daily |

Net investment income (loss) at May 31, 2023 and 2022 consists of the following:

| 2023 | Total | Board Designated | Temporary In Nature |
|------------------------------------|--------------|---------------------|------------------------|
| Dividends and interest | \$ 522,875 | \$ 52,249 | \$ 470,626 |
| Realized gain(loss) on investments | (500,727) | 193,183 | (693,910) |
| Unrealized loss on investments | (201,251) | (323,131) | 121,880 |
| Investment management fees | (74,862) | (14,446) | (60,416) |
| | \$ (253,965) | \$ (92,145) | \$ (161,820) |

| 2022 | Total | Board Designated | Temporary In Nature |
|--------------------------------|----------------|---------------------|------------------------|
| Dividends and interest | \$ 368,836 | \$ 52,165 | \$ 316,671 |
| Realized gain on investments | 1,411,416 | 466,635 | 944,781 |
| Unrealized loss on investments | (2,954,853) | (714,720) | (2,240,133) |
| Investment management fees | (83,493) | (18,774) | (64,719) |
| | \$ (1,258,094) | \$ (214,694) | \$ (1,043,400) |

The Foundation also manages custodial funds on behalf of the League and in certain League districts and zones. Net investment income (loss) associated with custodial funds was \$(61,446) and \$(299,793) at May 31, 2023 and 2022, respectively.

THE LUTHERAN HOUR MINISTRIES FOUNDATION
Notes to Financial Statements - Continued
May 31, 2023

Note 4 - Income Tax Status

The Foundation is exempt from Federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code except as to unrelated business income, if any. The Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

The Foundation has evaluated its tax positions, expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings and believes that no provision for income taxes is necessary at this time to cover uncertain tax positions.

Note 5 - 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 6 - 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 ranged from 4.1% to 9.7% in the fiscal year ended May 31, 2023 and ranged from 4.1% to 9.2% in the fiscal year ended 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.

Annuity reserves were determined by State Street Global Advisors (SSGA) using the 2012 IAR Mortality table with an assumed rate of interest of 5.25% at May 31, 2023, and 3.75% at May 31, 2022.

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

THE LUTHERAN HOUR MINISTRIES FOUNDATION
Notes to Financial Statements - Continued
May 31, 2023

Note 6 - Gift Annuity Liabilities (Continued)

Change in gift annuity liabilities:

| <u>Years ended May 31,</u> | <u>2023</u> | <u>2022</u> |
|--|---------------------|---------------------|
| Beginning gift annuity liabilities | \$ 2,302,787 | \$ 2,569,268 |
| Liabilities from newly issued gift annuities | 34,329 | 52,346 |
| Payments to annuitants | (272,829) | (266,942) |
| Change in value of deferred gift annuities | <u>(43,047)</u> | <u>(51,885)</u> |
| Ending gift annuity liabilities | <u>\$ 2,021,240</u> | <u>\$ 2,302,787</u> |

Note 7 - 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 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 \$107,941 and \$106,282, respectively, for the years ended May 31, 2023 and 2022.

On May 31, 2018, the League transferred its Operating Reserve Fund to the Foundation to be managed as a custodial fund. The market value of the Operating Reserve custodial fund was \$5,968,795 and \$8,815,968, respectively, for the years ended May 31, 2023, and May 31, 2022.

Beginning in June 2020, the Foundation contracted for planned giving services with the League, which included personnel, consulting, and other administrative expenses. The cost of the contracted service expenses was \$224,868 and \$338,233 for the years ended May 31, 2023, and May 31, 2022, respectively.

Note 9 - Net Assets

The net assets without donor restrictions that were board designated at May 31, 2023 and 2022, include:

| | <u>2023</u> | <u>2022</u> |
|--|---------------------|---------------------|
| Gift annuities reserve | \$ 1,252,045 | \$ 1,307,886 |
| Other retained annuity excess earnings | 39,238 | 39,238 |
| Board designated endowments | <u>21,205</u> | <u>252,482</u> |
| | <u>\$ 1,312,488</u> | <u>\$ 1,599,606</u> |

THE LUTHERAN HOUR MINISTRIES FOUNDATION
Notes to Financial Statements - Continued
May 31, 2023

Note 9 - Net Assets (Continued)

The net assets with donor restrictions at May 31, 2023 and 2022, include:

| | 2023 | 2022 |
|--|----------------|----------------|
| Restricted due to purpose | \$ 322,478 | \$ 600,562 |
| Restricted due to timing | 1,264,281 | 2,088,584 |
| Total temporary in nature | 1,586,759 | 2,689,146 |
| Perpetual in nature | 16,008,885 | 15,498,387 |
| Total net assets with donor restrictions | \$ 17,595,644 | \$ 18,187,533 |

Note 10 - Endowment Policies

The investment objectives of the Foundation endowment funds are designed to produce the desired long-term real growth over inflation and sufficient income for expenses and the desired annual spending from the Foundation funds. The assets are to be invested with the care, skill, prudence, and diligence that a prudent person acting at those times in a like capacity and familiar with such matters would use in the investment of a fund of like character, with like aims and consideration given to the tax-exempt status of the Foundation. Effective as of April 2021, the targeted investment asset mix is 64.5% equities, 20.5% fixed income, 10% real assets, and 5% alternative investments. The Foundation honors donors' specific, written restrictions or directives. The endowment distribution policy follows the requirements of the State of Missouri's Uniform Prudent Management of Institutional Funds Act. The distribution is a quarterly distribution of 1.25% of the average market value of endowment assets for the preceding twelve quarters. No distributions will be made from new named endowments during the first four quarters after initial receipt of funds.

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

THE LUTHERAN HOUR MINISTRIES FOUNDATION
Notes to Financial Statements - Continued
May 31, 2023

Note 10 - Endowment Policies (Continued)

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the total amount of the gifts made to the endowment by the donor. Cumulative deficiencies of this nature that are reported with donor restrictions were \$(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 | - | 173,724 |
| Net realized losses | (9,226) | (693,910) | - | (703,136) |
| Net change in unrealized gain | 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 to the League | (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 |

THE LUTHERAN HOUR MINISTRIES FOUNDATION

Notes to Financial Statements - Continued

May 31, 2023

Note 10 - 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 (losses) | (19,306) | 944,781 | - | 925,475 |
| Net change in unrealized losses | (2,581) | (2,240,133) | - | (2,242,714) |
| Investment management fees | (1,574) | (64,719) | - | (66,293) |
| Total net investment loss | (15,741) | (1,043,400) | - | (1,059,141) |
| Release of endowment funds: | | | | |
| Endowment distributions to the League | (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:

| | Board Designated | With Donor Restrictions | | Total |
|-------------------------------------|---------------------|-------------------------|------------------------|---------------|
| | | Temporary In Nature | Perpetual In Nature | |
| Donor-designated gifts | \$ - | \$ - | \$ 16,008,885 | \$ 16,008,885 |
| Accumulated 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:

| | Board Designated | With Donor Restrictions | | Total |
|-------------------------------------|---------------------|-------------------------|------------------------|---------------|
| | | Temporary In Nature | Perpetual In Nature | |
| Donor-designated gifts | \$ - | \$ - | \$ 15,498,387 | \$ 15,498,387 |
| Accumulated 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 |

THE LUTHERAN HOUR MINISTRIES FOUNDATION
Notes to Financial Statements - Continued
May 31, 2023

Note 11 - Liquidity and Availability of Resources

| | 2023 | 2022 |
|---|---------------|---------------|
| Financial assets, at year end | \$ 27,547,921 | \$ 31,060,435 |
| Less those unavailable for general expenditures within one year, due to: | | |
| Donor-imposed restrictions: | | |
| Restricted by donor | (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 | (3,273,285) | (3,610,673) |
| Custodial funds: | | |
| Funds held as custodian for other organizations | (6,116,688) | (8,965,509) |
| Distributions due to International Lutheran Laymen's League | (500,369) | - |
| Financial assets available to meet cash needs for general expenditures within one year | \$ 1,492 | \$ 5,000 |

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 \$847,798 of reserves in excess of state regulatory requirements available to cover other expenses at 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. All of these funds, totaling \$60,443 at May 31, 2023, are available to be released from designation by the Board if necessary, to meet the needs of the Foundation.

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.