

**THE INTERNATIONAL ASSOCIATION
OF LIONS CLUBS**

FINANCIAL STATEMENTS

June 30, 2018 and 2017

THE INTERNATIONAL ASSOCIATION OF LIONS CLUBS

FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
The International Association of Lions Clubs
Oak Brook, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of The International Association of Lions Clubs (the "Association"), which comprise the statements of financial position as of June 30, 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The International Association of Lions Clubs as of June 30, 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.

Crowe LLP

Crowe LLP

Chicago, Illinois
December 10, 2018

THE INTERNATIONAL ASSOCIATION OF LIONS CLUBS
STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 11,451,847	\$ 17,184,109
Accounts receivable, net	354,754	160,113
Due from Lions Clubs International Foundation	1,558,802	-
Accrued investment income receivable	138,275	105,883
Inventory, net of reserve	1,128,003	931,933
Prepaid expenses and other assets	<u>1,725,141</u>	<u>1,766,673</u>
Total current assets	16,356,822	20,148,711
Investments	129,130,136	137,279,669
Restricted cash	4,163,322	3,851,649
Property and equipment		
Land	1,015,000	1,015,000
Building and improvements	17,912,168	17,516,753
Furniture and equipment	32,322,469	30,405,316
Capital assets in progress	<u>2,835,885</u>	<u>928,432</u>
Total property and equipment	54,085,522	49,865,501
Less accumulated depreciation	<u>(42,561,848)</u>	<u>(41,361,276)</u>
Property and equipment, net	<u>11,523,674</u>	<u>8,504,225</u>
	<u><u>\$ 161,173,954</u></u>	<u><u>\$ 169,784,254</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 8,805,355	\$ 10,177,010
Accrued expenses	6,691,989	5,959,292
Due to Lions Clubs International Foundation	-	721,519
Self-insurance reserve, current	<u>997,780</u>	<u>1,087,092</u>
Total current liabilities	16,495,124	17,944,913
Non-current liabilities		
Self-insurance reserve, non-current	3,786,333	3,443,592
Accrued pension benefits	15,078,744	17,395,405
Other non-current liabilities	<u>5,507</u>	<u>109,097</u>
Total non-current liabilities	<u>18,870,584</u>	<u>20,948,094</u>
Total liabilities	35,365,708	38,893,007
Unrestricted net assets	<u>125,808,246</u>	<u>130,891,247</u>
	<u><u>\$ 161,173,954</u></u>	<u><u>\$ 169,784,254</u></u>

The accompanying notes are an integral part of these statements.

THE INTERNATIONAL ASSOCIATION OF LIONS CLUBS
STATEMENTS OF ACTIVITIES
Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Changes in unrestricted net assets		
Operating revenue, gains and losses		
Dues and fees		
Dues	\$ 59,110,624	\$ 57,531,013
Entrance fees	4,198,851	3,320,755
Charter fees	1,818,835	1,421,810
Leo Club levy	731,730	719,164
Less provision for doubtful accounts	<u>(456,000)</u>	<u>(456,000)</u>
Net dues and fees	65,404,040	62,536,742
Other revenue, gains and losses		
Gross profit on merchandise sales, net of direct costs	2,325,227	2,764,115
Royalties, net	496,877	423,465
Convention registration and related fees	2,160,159	3,873,190
Advertising and miscellaneous magazine revenue	17,631	53,496
Contributions	663,365	1,363,412
Other (losses) gains	<u>(352,466)</u>	<u>209,230</u>
Total other revenue, gains and losses	5,310,793	8,686,908
Total operating revenue, gains and losses	70,714,833	71,223,650
Non-operating revenue, gains and losses		
Investment return, net of expenses	9,882,859	13,240,345
Loss on currency exchange	<u>(1,345,036)</u>	<u>(390,519)</u>
Net non-operating revenue, gains and losses	8,537,823	12,849,826
Total revenue, gains and losses	79,252,656	84,073,476
Expenses		
Elected officers' travel and office		
International officers	2,394,090	2,567,936
International directors	682,288	658,796
Past officers and directors	900,698	589,916
Board, committee and other meetings	6,443,274	5,532,391
District governors and district governors-elect	<u>8,129,055</u>	<u>8,015,728</u>
Total elected officers' travel and office	18,549,405	17,364,767

(Continued)

THE INTERNATIONAL ASSOCIATION OF LIONS CLUBS
STATEMENTS OF ACTIVITIES
Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Administrative divisions		
Executive Administration	\$ 1,550,122	\$ 1,483,414
Global Development	1,038,464	1,156,525
Treasurer and Human Resources	772,829	736,580
Facilities Maintenance and Services	2,574,289	2,458,313
Legal	718,546	727,904
Risk Management	2,531,890	2,597,491
Club Supplies and Fulfillment	3,208,744	3,036,807
Finance	2,731,883	2,554,123
Information Technology	8,655,290	7,757,618
District and Club Administration	4,562,678	4,149,668
Service Activities	2,962,406	1,717,377
Public Relations and Communications	10,299,275	9,619,335
LION Magazine	6,992,289	7,766,918
Operation at Convention	6,794,259	8,182,466
Membership and Extension	3,820,731	3,796,280
Non-U.S. operations	1,911,934	1,185,407
Convention	2,216,087	2,115,163
Leadership	3,541,077	3,223,510
Global Action Team	2,539,879	-
Total administrative divisions	<u>69,422,672</u>	<u>64,264,899</u>
 Total expenses	 <u>87,972,077</u>	 <u>81,629,666</u>
 Change in net assets before pension and postretirement benefit changes other than net periodic benefit costs	 (8,719,421)	 2,443,810
 Pension benefit changes other than net periodic benefit costs	 <u>3,636,420</u>	 <u>5,533,888</u>
 Change in unrestricted net assets	 (5,083,001)	 7,977,698
 Unrestricted net assets at beginning of year	 <u>130,891,247</u>	 <u>122,913,549</u>
 Unrestricted net assets at end of year	 <u><u>\$ 125,808,246</u></u>	 <u><u>\$ 130,891,247</u></u>

The accompanying notes are an integral part of these statements.

THE INTERNATIONAL ASSOCIATION OF LIONS CLUBS
STATEMENTS OF CASH FLOWS
Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Change in net assets	\$ (5,083,001)	\$ 7,977,698
Adjustments to reconcile change in net assets to net cash used in operating activities		
Pension and postretirement liability adjustment	(3,636,420)	(5,533,888)
Depreciation and amortization	1,200,572	974,933
Net realized and unrealized (gains) losses on investments	(8,778,637)	(11,941,110)
Provision for doubtful accounts	456,000	456,000
Changes in operating assets and liabilities		
Accounts receivable	(650,641)	(295,477)
Accrued investment income receivable	(32,392)	80,340
Inventories, prepaid expenses and other assets	(154,538)	(292,101)
Due to Lions Clubs International Foundation	(2,280,321)	(504,682)
Accounts payable and accrued expenses	(638,958)	4,849,330
Self-insurance reserve	253,429	(117,216)
Accrued pension benefits	1,319,759	1,537,605
Other non-current liabilities	(103,590)	14,698
Net cash used in operating activities	(18,128,738)	(2,793,870)
Cash flows from investing activities		
Proceeds from the sale of investments	66,818,128	173,810,613
Purchases of investments	(49,889,958)	(170,190,190)
Purchases of property and equipment	(4,220,021)	(3,485,689)
Net cash provided by investing activities	12,708,149	134,734
Change in cash, cash equivalents, and restricted cash	(5,420,589)	(2,659,136)
Cash, cash equivalents, and restricted cash, beginning of year	21,035,758	23,694,894
Cash, cash equivalents, and restricted cash, end of year	<u>\$ 15,615,169</u>	<u>\$ 21,035,758</u>

The accompanying notes are an integral part of these statements.

THE INTERNATIONAL ASSOCIATION OF LIONS CLUBS
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 1 - ORGANIZATION AND RELATED-PARTY DATA

The International Association of Lions Clubs (the Association) was incorporated in the state of Illinois on August 25, 1919. The purpose of the Association is to support charitable causes through the chartering and administration of individual Lions Clubs throughout the world.

The financial statements include the accounts of the administrative organization of the Association. The statement are presented by division, with functional expense included at Note 8. The accounts of individual Lions Clubs operated by local club organizations are excluded due to their independent legal status and activities. The Lions Clubs International Foundation (the Foundation), an affiliated not-for-profit corporation, is administered by a 22 member Board of Trustees, which includes five voting and two non-voting members from the Board of Directors of the Association. The financial statements of the Foundation are not included herein because the Association does not have control over nor an economic interest in the Foundation.

The Association and the Foundation administer transactions on behalf of each other. The balances resulting from these transactions are settled periodically. As of June 30, 2018 and 2017, the Association had a receivable of \$1,558,802 and a payable of \$721,519, respectively, for such transactions. In addition, the Association allocates costs to the Foundation for the cost of operating and maintaining facilities, general administration and general expenses, such as salaries and expenses of employees. The Association charged the Foundation \$2,822,098 and \$2,660,029 in 2018 and 2017, respectively, for such costs and services. These amounts are reflected in the statements of activities as a reduction of the appropriate expense categories.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue Recognition: Revenue for dues, entrance fees, charter fees, Leo Club levy and convention registration is recognized in the membership year to which it relates. Entrance fees are charged for new members in existing clubs, while charter fees are charged for new members in new clubs. The Leo Club levy is charged annually for each Leo Club sponsored by a Lions Club.

Merchandise sales, royalties, and advertising and miscellaneous magazine revenue are recognized in the period in which they are earned. Gross profit on merchandise sales is presented net of direct costs of \$1,465,535 and \$3,296,841 for the fiscal years ended June 30, 2018 and 2017, respectively.

Cash and Cash Equivalents: Cash and cash equivalents consist of demand deposits with banks, short-term investments and other securities with original maturities not in excess of three months when purchased. Due to its short-term nature, the carrying value of cash and cash equivalents approximates fair value. The Association maintains foreign and domestic cash accounts, the majority of which exceed the Federal Deposit Insurance Corporation's insured limitations. The Association believes it is not exposed to significant credit risk on cash and cash equivalents.

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THE INTERNATIONAL ASSOCIATION OF LIONS CLUBS
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments: Investments consist of cash held for investment purposes, money market funds, mutual funds, equity securities, commingled trust funds and hedge funds. The Association records all investments at fair value, with the exception of cash, which is valued at cost. These investments are presented in the statements of financial position and investment returns (including realized and unrealized gains and losses on investments and interest and dividends, net of management fees) are included in the statements of activities. The fair value of money market funds, mutual funds and equity securities is based on quoted market prices. Commingled trust funds and hedge funds are recorded at net asset value (NAV), or its equivalent, as determined by the respective investment managers.

Receivables: Accounts receivable represents billings for dues and merchandise sales net of allowance for doubtful accounts. The carrying value of accounts receivable approximates fair value due to its short-term nature. The allowance for doubtful accounts represents the Association's best estimate of probable losses in the receivable balance as determined from a review of past due balances and other specific account data. Accounts that are outstanding longer than 120 days are considered past due. Accounts considered uncollectible are written off after 180 days. The allowance for doubtful accounts was approximately \$431,000 and \$428,000 as of June 30, 2018 and 2017, respectively.

Inventories: Inventories, consisting of merchandise for sale to individual Lions Clubs, are stated at the lower of cost (average cost) or market. The inventory reserve balance was approximately \$31,000 and \$133,000 as of June 30, 2018 and 2017, respectively.

Property and Equipment: The Association capitalizes any asset \$3,000 or greater. Property and equipment are recorded at cost. Depreciation of property and equipment is determined by using the straight-line method over the estimated useful lives of the related assets ranging between 3 and 45 years.

Fair Value of Financial Instruments: The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Quoted prices for identical instruments in active markets, which includes listed money market funds, mutual funds and equity securities. The Association does not adjust the quoted price for such instruments, even in situations where the Association holds a large position and a sale could reasonably impact the quoted price.

Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in inactive markets; or derived from inputs that are observable.

Level 3 - Significant unobservable inputs that reflect assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy. Investments using Net Asset Value (NAV) per share (or its equivalent) as a fair value expedient have not been classified in the fair value hierarchy. These investments are presented as "NAV" in Note 4 to permit reconciliation of the fair value hierarchy table to the total investments at fair value presented in the Statement of Financial Position.

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THE INTERNATIONAL ASSOCIATION OF LIONS CLUBS
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The levels for financial instruments are evaluated on an annual basis and transfers between levels are recognized as of the end of each fiscal year.

Recent Accounting Guidance: In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities: Topic 958*. The amendments in this Update affect not-for-profit entity's (NFP's) and the users of their general purpose financial statements. The amendments in this Update make certain improvements to the current net asset classification requirements and the information presented in financial statements and notes about a NFP's liquidity, financial performance, and cash flows. The amendments in the ASU are effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The Association has not yet implemented this ASU and is in the process of assessing the effect on the Association's financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers: Topic 606*. This ASU affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. This ASU will supersede the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in this ASU are effective retrospectively for fiscal years beginning after December 15, 2018. The Association has not yet implemented this ASU and is in the process of assessing the effect on the Association's financial statements.

In March 2017, the FASB issued ASU 2017-07, *Presentation of Net Periodic Pension and Postretirement Benefit Costs*. This ASU affects the reporting of pension expense. Rather than reporting pension expense as a net amount, the service cost component will be presented consistent with similar compensation for the same employees, and the other components will be separately presented in the income statement. Nonpublic business entities should apply the amendments for fiscal years beginning after December 15, 2018. The Association has not yet implemented this ASU and is in the process of assessing the effect on the Association's financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*. This ASU affects any entity that enters into a lease, with some specified scope exemptions. The main difference between previous GAAP and this ASU is the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous GAAP. Nonpublic business entities should apply the amendments for fiscal years beginning after December 15, 2019. The Association has not yet implemented this ASU and is in the process of assessing the effect on the Association's financial statements.

Income Taxes: The Association has received a favorable determination letter from the Internal Revenue Service, stating that it is exempt from federal income taxes under the provisions of Section 501(c)(4) of the Internal Revenue Code (IRC) of 1986, as amended, except for income taxes pertaining to unrelated business income. The Financial Accounting Standards Board (FASB) issued guidance that requires tax effects from uncertain tax positions to be recognized in the financial statements only if the position is more likely than not to be sustained if the position were to be challenged by a taxing authority.

Management has determined there are no material uncertain positions that require recognition in the financial statements. Additionally, no provision for income taxes is reflected, and there is no interest or penalties recognized in the statements of activities or statements of financial position.

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THE INTERNATIONAL ASSOCIATION OF LIONS CLUBS
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 3 - RESTRICTED CASH

At June 30, 2018 and 2017, \$4,163,322 and \$3,851,649, respectively, of cash was government restricted for use in the countries in which such funds were deposited.

NOTE 4 - INVESTMENTS

The following table summarizes the fair value classification of investments as of June 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	<u>Total</u>
Money market funds	\$ 1,349,821	\$ -	\$ -	\$ -	\$ 1,349,821
Mutual funds	39,237,519	-	-	-	39,237,519
Equity securities	43,904,350	-	-	-	43,904,350
Commingled trust funds and hedge funds	-	-	-	44,638,447	44,638,447
Total	<u>\$ 84,491,689</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 44,638,447</u>	<u>\$ 129,130,136</u>

The following table summarizes the fair value classification of investments as of June 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	<u>Total</u>
Money market funds	\$ 1,484,227	\$ -	\$ -	\$ -	\$ 1,484,227
Mutual funds	35,840,853	-	-	-	35,840,853
Equity securities	53,674,350	-	-	-	53,674,350
Commingled trust funds and hedge funds	-	-	-	46,280,239	46,280,239
Total	<u>\$ 90,999,430</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 46,280,239</u>	<u>\$ 137,279,669</u>

Commingled funds include investments in real estate and fixed income. Real estate consists of a global portfolio of real estate investment trusts and other publicly traded real estate companies worldwide. The fixed income fund invests primarily in a diversified portfolio of intermediate and long-term debt securities. The NAV of the funds are calculated by the investment manager of the fund and have daily or monthly liquidity.

Hedge funds include two managers that invest in diversified strategies, including managed futures, merger arbitrage, commodities, etc. Redemptions are granted at month end with 90 days' written notice.

Management believes the investment portfolio is diversified to minimize the concentration of risk of any single security, class of security, or asset class.

(Continued)

THE INTERNATIONAL ASSOCIATION OF LIONS CLUBS
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 4 - INVESTMENTS (Continued)

Investment returns for the General Fund and the Emergency Reserve Fund are summarized for the years ended June 30, 2018 and 2017, in the table below. Also included in dividends and interest for the General Fund is interest on cash and cash equivalents in the amount of \$76,897 and \$298,975 for the years ended June 30, 2018 and 2017, respectively.

	<u>General Fund</u>	<u>Emergency Reserve Fund</u>	<u>Total</u>
<u>2018</u>			
Dividends and interest	\$ 1,699,268	\$ -	\$ 1,699,268
Net realized and unrealized gain	8,778,637	-	8,778,637
Management fee expense	<u>(595,046)</u>	<u>-</u>	<u>(595,046)</u>
 Total	 <u>\$ 9,882,859</u>	 <u>\$ -</u>	 <u>\$ 9,882,859</u>
	<u>General Fund</u>	<u>Emergency Reserve Fund</u>	<u>Total</u>
<u>2017</u>			
Dividends and interest	\$ 1,931,801	\$ -	\$ 1,931,801
Net realized and unrealized gain	11,941,110	-	11,941,110
Management fee expense	<u>(632,566)</u>	<u>-</u>	<u>(632,566)</u>
 Total	 <u>\$ 13,240,345</u>	 <u>\$ -</u>	 <u>\$ 13,240,345</u>

NOTE 5 - PENSION AND OTHER BENEFIT PLANS

The Association sponsors a non-contributory, defined benefit pension plan (the Plan) for employees that meet age and service requirements. Benefits are provided based on years of service and compensation. Employees hired on or after January 1, 2007, are not eligible to participate in the Plan. Active employees older than age 55 as of January 1, 2007, are eligible to receive retiree medical insurance if they retire before age 65.

FASB Accounting Standards Codification (ASC) 715-60, *Defined Benefit Plans - Other Postretirement*, requires the Association to recognize the funded status of a defined benefit retirement plan as an asset or liability in its statements of financial position and to recognize changes in that funded status in unrestricted net assets in the year in which the change occurs.

The benefit cost for the years ended June 30 is as follows:

	<u>2018</u>	<u>2017</u>
Benefit cost	\$ 2,919,759	\$ 3,537,605

(Continued)

THE INTERNATIONAL ASSOCIATION OF LIONS CLUBS
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 5 - PENSION AND OTHER BENEFIT PLANS (Continued)

Benefit obligation and funded status as of June 30 are as follows:

	<u>2018</u>	<u>2017</u>
Benefit cost	\$ 2,919,759	\$ 3,537,605
	<u>2018</u>	<u>2017</u>
Change in benefit obligation		
Benefit obligation, beginning of year	\$ 77,886,071	\$ 81,935,013
Service cost	1,020,575	1,278,087
Interest cost	2,916,001	2,880,803
Plan participants' contributions	-	-
Actuarial (gain) loss	(3,868,231)	(4,008,078)
Benefits paid	<u>(4,328,798)</u>	<u>(4,199,754)</u>
Benefit obligation, end of year	73,625,618	77,886,071
Fair value of plan assets	<u>58,546,874</u>	<u>60,490,666</u>
Funded status	<u>\$ (15,078,744)</u>	<u>\$ (17,395,405)</u>
Accumulated benefit obligation	\$ 71,788,004	\$ 75,686,032

Amounts recognized in the statements of financial position as of June 30 consist of:

	<u>2018</u>	<u>2017</u>
Current liabilities	\$ -	\$ -
Non-current liabilities	15,078,744	17,395,405

Amounts recognized in unrestricted net assets as of June 30, 2018 and 2017, consist of the following:

	<u>2018</u>	<u>2017</u>
Net actuarial loss	\$ 22,588,534	\$ 26,339,583
Prior service credit	<u>(74,797)</u>	<u>(189,426)</u>
Total	<u>\$ 22,513,737</u>	<u>\$ 26,150,157</u>

(Continued)

THE INTERNATIONAL ASSOCIATION OF LIONS CLUBS
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 5 - PENSION AND OTHER BENEFIT PLANS (Continued)

Amounts recognized in the pension and postretirement benefit changes other than net periodic benefit cost for the years ended June 30, consist of the following:

	<u>2018</u>	<u>2017</u>
Unrecognized actuarial (gain) loss arising during the year	\$ (2,000,643)	\$ (3,367,239)
Amortization of unrecognized actuarial gain	(1,750,406)	(2,281,278)
Amortization of unrecognized prior service credit	<u>114,629</u>	<u>114,629</u>
Total	<u>\$ (3,636,420)</u>	<u>\$ (5,533,888)</u>

The estimated net actuarial loss and prior service credit for the Plan that will be amortized into net periodic benefit cost over the next fiscal year are \$1,550,535 and \$42,169, respectively, as of June 30, 2018.

The assumptions used in the measurement of the benefit obligations at June 30 are as follows:

	<u>2018</u>	<u>2017</u>
Discount rate (benefit expense)	3.80%	3.55%
Discount rate (benefit obligation)	4.20	3.80
Expected long-term return on plan assets	4.50	4.50
Rate of compensation increase	3.00	3.00

The discount rate assumption is set annually for each of the Association's retirement-related benefit plans to reflect the yield of high-quality corporate debt instruments. The expected long-term return on plan assets is the weighted-average return of the target asset allocation of each individual asset class. The expected return on plan assets is compared to historical returns for reasonableness.

The actual allocations for the pension assets and target allocations by asset class as of June 30 are as follows:

	Percentage of Plan Assets		Target Allocations	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Fixed income	74%	75%	74%	75%
Equity securities	21%	20%	21%	20%
Real estate	1%	1%	1%	1%
Hedge funds	<u>4%</u>	<u>4%</u>	<u>4%</u>	<u>4%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

(Continued)

THE INTERNATIONAL ASSOCIATION OF LIONS CLUBS
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 5 - PENSION AND OTHER BENEFIT PLANS (Continued)

The Association's investment strategy for its defined benefit plan is to generate rates of return that will provide for funding of the obligations incurred under the Plan, while minimizing the volatility of the funding target. The asset allocation policy for the Plan reflects the demographics and status of the plan participants, benefit payments, risk and return objectives, liquidity requirements, capital market expectations, and funding status. The long-term, strategic asset allocations are reviewed periodically, taking into account the Plan's time horizon, risk tolerances, performance expectations and asset class preferences.

Cash equivalent investments used to accommodate monthly benefit payouts are held in non-marketable money market funds. Plan assets to be held in cash reserves may range between one and six months of anticipated amount of monthly benefit payouts. Cash represents less than 1% of the total portfolio. The Association also invests in money market funds, which are publicly traded.

Mutual funds include small cap funds, international equity funds, international fixed income bond funds and real estate, and are valued based on quoted prices for identical instruments in active markets.

Equity securities are comprised primarily of large cap equity securities and are valued based on quoted prices for identical instruments in active markets.

Commingled funds include investments in fixed income and a guaranteed deposit account (GDA). The fixed income fund invests primarily in a diversified portfolio of intermediate and long-term debt securities. The NAVs of the funds are calculated by the investment manager of the fund and have daily or monthly liquidity. The GDA declares interest rates in advance for six-month periods. In determining the rate of interest to be guaranteed for the upcoming six-month period, the manager considers the projected investment earnings, the current interest environment, its investment expense, and a profit and risk component for the six-month period. The GDA fund does have penalties for early withdrawals.

Hedge funds include two managers that invest in diversified strategies, including managed futures, merger arbitrage, commodities, etc. Redemptions are granted at month end with 90 days' written notice.

The following table summarizes the fair value classifications of the defined benefit plan as of June 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	<u>Total</u>
Money market funds	\$ 177,570	\$ -	\$ -	\$ -	\$ 177,570
Mutual funds	5,796,336	-	-	-	5,796,336
Equity securities	6,687,706	-	-	-	6,687,706
Commingled trust funds and hedge funds	-	-	-	44,926,963	44,926,963
Total	<u>\$ 12,661,612</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 44,926,963</u>	<u>\$ 57,588,575</u>

The following table summarizes the fair value classifications of the defined benefit plan as of June 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>NAV</u>	<u>Total</u>
Money market funds	\$ 1,427,533	\$ -	\$ -	\$ -	\$ 1,427,533
Mutual funds	6,017,916	-	-	-	6,017,916
Equity securities	6,105,561	-	-	-	6,105,561
Commingled trust funds and hedge funds	-	-	-	45,918,480	45,918,480
Total	<u>\$ 13,551,010</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 45,918,480</u>	<u>\$ 59,469,490</u>

(Continued)

THE INTERNATIONAL ASSOCIATION OF LIONS CLUBS
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 5 - PENSION AND OTHER BENEFIT PLANS (Continued)

The defined benefit plan assets also include cash totaling \$958,299 and \$1,021,176 as of June 30, 2018 and 2017, respectively.

The Association's funding policy with respect to its pension plan is to contribute annually not less than the minimum required by applicable law and regulations. The Association expects to contribute approximately \$1,000,000 to its defined benefit pension plan during the 2019 fiscal year. The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the fiscal years ending June 30:

2019	\$ 4,455,230
2020	4,460,647
2021	4,471,763
2022	4,513,851
2023	4,556,630
2024-2026	23,228,635

The Association also sponsors The International Association of Lions Clubs 401(k) Plan, a contributory, defined contribution plan in which all employees are eligible to participate after 60 days of active employment. The Association will match the first 6% of employee contributions, excluding catch-up contributions, for eligible participants, as defined by the defined contribution plan. Participants are immediately 100% vested in all participant and matching contributions. The 401(k) match expense is \$973,140 and \$814,466 for the years ended June 30, 2018 and 2017, respectively.

NOTE 6 - INSURANCE

The Association carries a broad range of insurance coverage for safeguarding of assets and members from certain risks, including non-owned auto and general liability. The current program has a per occurrence deductible of \$1,000,000, with regard to non-owned auto and general liability claims, subject to an aggregate of \$7,000,000. The deductible reserve is approximately \$4,784,000 and \$4,531,000 as of June 30, 2018 and 2017, respectively.

NOTE 7 - LETTER OF CREDIT

The Association has an unused letter of credit in the amount of \$8,643,779 at both June 30, 2018 and 2017, respectively. The letter of credit was established for the benefit of the Association's insurers as collateral for payments made by the insurers on the deductible portion of claims.

(Continued)

THE INTERNATIONAL ASSOCIATION OF LIONS CLUBS
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 8 - FUNCTIONAL EXPENSES

Operating expenses directly identified with a functional area are charged to that area directly, and supporting services and universally beneficial costs have been allocated amount the programs benefited. Functional expenses incurred for providing membership programs and services, management and general, and development expenses related to membership for the years ended June 30, are as follows:

	<u>2018</u>	<u>2017</u>
Program		
Elected officers	\$ 18,549,315	\$ 17,364,767
Administrative	<u>57,892,771</u>	<u>52,730,933</u>
Total program	76,442,086	70,095,700
Management and general		
Administrative	<u>10,879,559</u>	<u>10,557,825</u>
Total management and general	10,879,559	10,557,825
Development	<u>650,432</u>	<u>976,141</u>
Total expenses	<u><u>\$ 87,972,077</u></u>	<u><u>\$ 81,629,666</u></u>

NOTE 9 - COMMITMENTS AND CONTINGENCIES

Minimum Lease Payment Obligations

The Association has entered into several non-cancelable operating leases that expire at various dates through 2019. Several of these leases contain options to extend the terms. For the years ended June 30, 2018 and 2017, office rent expense was \$535,930 and \$413,853, respectively, and equipment rental expense was \$1,431,240 and \$1,455,382, respectively. Such expenses are included in the corresponding department to which the equipment or office space relates. These expenses are recognized using the straight-line method over the life of the lease. The minimum future lease payments under these non-cancelable lease agreements as of June 30, 2018, are as follows:

2019	\$ 411,910
2020	98,120
2021	<u>30,325</u>
	<u><u>\$ 540,355</u></u>

Litigation: The Association is a defendant in various legal actions. In the opinion of management of the Association, claims arising as a result of these actions will not have a material adverse impact on the Association's financial statements.

NOTE 10 - SUBSEQUENT EVENTS

The Association evaluated its June 30, 2018, financial statements for subsequent events through December 10, 2018, the date the financial statements were available to be issued, and is not aware of any subsequent events that would require recognition or disclosure in the financial statements.
