THE NAVIGATORS AND AFFILIATES

Consolidated Financial Statements
With Independent Auditors' Report

August 31, 2017 and 2016

THE NAVIGATORS AND AFFILIATES

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CAPINCROUSE LLP

INDEPENDENT AUDITORS' REPORT

Board of Directors
The Navigators and Affiliates
Colorado Springs, Colorado

We have audited the accompanying consolidated financial statements of The Navigators and Affiliates, which comprise the consolidated statements of financial position as of August 31, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 organization'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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Board of Directors
The Navigators and Affiliates
Colorado Springs, Colorado

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Navigators and Affiliates as of August 31, 2017 and 2016, and the changes in their net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Capin Crouse LLP

Colorado Springs, Colorado
December 5, 2017

THE NAVIGATORS AND AFFILIATES

Consolidated Statements of Financial Position
(in thousands)

	August 31, 2017	August 31, 2016
ASSETS:		
Cash and cash equivalents	$ 3,878	$ 3,656
Accounts and other receivables–net	1,298	1,926
Prepaid expenses and other assets	1,440	1,710
Investment in captive insurance company	1,996	1,726
Investments	64,081	56,338
Property, equipment, and other long-lived assets–net	21,078	18,531
Assets held for gift annuity, trust, and endowment agreements	3,343	2,775
Total Assets	$ 97,114	$ 86,662
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable	$ 1,737	$ 1,602
Accrued expenses	5,199	5,335
Other liabilities	1,449	535
Liabilities under gift annuity and trust agreements	1,968	1,735
	10,353	9,207
Net assets:		
Unrestricted:		
Specific purposes, projects, and investments	26,768	21,647
Gift annuity reserves	253	152
Equity in property, equipment, and other long-lived assets–net	21,078	18,531
	48,099	40,330
Temporarily restricted	38,427	36,890
Permanently restricted–endowment funds	235	235
	86,761	77,455
Total Liabilities and Net Assets	$ 97,114	$ 86,662

See notes to consolidated financial statements

THE NAVIGATORS AND AFFILIATES

Consolidated Statements of Activities

(in thousands)

	Year Ended August 31,							
	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING ACTIVITIES:								
SUPPORT AND REVENUE:								
Contributions	$ 7,300	$ 107,759	$ -	$ 115,059	$ 4,847	$ 104,646	$ -	$ 109,493
Conferences and camps	7,916	-	-	7,916	7,598	-	-	7,598
Royalty income	2,687	-	-	2,687	2,782	-	-	2,782
Investment income	5,252	-	-	5,252	2,749	-	-	2,749
Change in value of gift annuities and trusts	(71)	242	-	171	(39)	242	-	203
Other income	1,279	-	-	1,279	1,294	-	-	1,294
Total Support and Revenue	24,363	108,001	-	132,364	19,231	104,888	-	124,119
NET ASSETS RELEASED:								
Purpose restrictions	106,464	(106,464)	-	-	101,292	(101,252)	(40)	-
EXPENSES:								
Program services:								
Field ministries	80,493	-	-	80,493	79,234	-	-	79,234
Conferences and camps	9,059	-	-	9,059	8,552	-	-	8,552
Materials publication	3,066	-	-	3,066	2,724	-	-	2,724
International ministries	6,755	-	-	6,755	6,607	-	-	6,607
	99,373	-	-	99,373	97,117	-	-	97,117

(continued)

See notes to consolidated financial statements

THE NAVIGATORS AND AFFILIATES

Consolidated Statements of Activities

(in thousands)
(continued)

	Year Ended August 31,							
	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
EXPENSES, continued:								
Supporting activities:								
General and administrative	12,798	-	-	12,798	13,845	-	-	13,845
Fundraising	10,887	-	-	10,887	8,596	-	-	8,596
	23,685	-	-	23,685	22,441	-	-	22,441
Total Expenses	123,058	-	-	123,058	119,558	-	-	119,558
Change in Net Assets	7,769	1,537	-	9,306	965	3,636	(40)	4,561
Net Assets, Beginning of Year	40,330	36,890	235	77,455	39,365	33,254	275	72,894
Net Assets, End of Year	$ 48,099	$ 38,427	$ 235	$ 86,761	$ 40,330	$ 36,890	$ 235	$ 77,455

See notes to consolidated financial statements

THE NAVIGATORS AND AFFILIATES

Consolidated Statements of Cash Flows

(in thousands)

	Year Ended August 31, 2017	Year Ended August 31, 2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 9,306	$ 4,561
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	1,324	1,308
Change in value of annuities and trusts	171	203
Non-cash gifts for property, equipment, and other long-lived assets	(1,691)	-
Changes in investment in captive insurance	(331)	(339)
Net realized and unrealized (gains) losses	(4,176)	(1,854)
Change in operating assets and liabilities:		
Accounts and other receivables	628	(597)
Prepaid expenses and other assets	270	(445)
Accounts payable, accrued expenses, and other liabilities	(1)	297
Other liabilities	35	-
Net Cash Provided by Operating Activities	5,535	3,134
CASH FLOWS FROM INVESTING ACTIVITIES:		
Return of equity from captive insurance	60	223
Proceeds from sales of investments	7,808	24,710
Purchases of investments	(11,437)	(26,140)
Purchases of property, equipment, and other long-lived assets	(1,930)	(907)
Net Cash Used by Investing Activities	(5,499)	(2,114)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of annuities	250	-
Payments on annuities and trusts and administrative expenses	(268)	(587)
Investment (income) loss on trusts	204	167
Net Cash Provided (Used) by Financing Activities	186	(420)
Net Change in Cash and Cash Equivalents	222	600
Cash and Cash Equivalents, Beginning of Year	3,656	3,056
Cash and Cash Equivalents, End of Year	$ 3,878	$ 3,656
Supplemental Disclosure:		
Investments transferred to property, equipment, and other long-lived assets	$ 474	$ -

See notes to consolidated financial statements

1. NATURE OF ORGANIZATIONS:

The Navigators is a nonprofit Christian organization, unaffiliated with any denomination, that aims to serve God by helping people to have a personal relationship with Jesus Christ. Working with people primarily on a one-to-one basis, staff with The Navigators also train men and women to have their own outreach to others.

The Navigators is a nonprofit organization that is exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code (IRC) and comparable state laws. However, The Navigators is subject to federal income tax on any unrelated business taxable income. In addition, The Navigators is not classified as a private foundation within the meaning of Section 509(a) of the IRC. The Affiliates are considered as disregarded entities and do not impact the status of The Navigators. The Navigators is a church and a religious order and is therefore exempt from filing federal Form 990, Return of Organization Exempt from Income Tax.

The Navigators' work began in the United States in 1933. In 1949, it spread to foreign countries when the first Navigator missionary left to serve in China. Today, Navigators' staff serve in Africa, Asia, Australia, Europe, Latin America, South America, and the Middle East, as well as in North America. At home and abroad, staff work with college students, military personnel, professional men and women, church leaders, young people, and a diversity of others.

PRINCIPLES OF CONSOLIDATION

These consolidated financial statements include the operations of The Navigators, Metro Real Estate Holdings, LLC (MREH), Global Initiatives Resourcing Group, LLC (GIRG), Urban Hope Holdings, LLC (UHH), and Rancho del Senor (RDS), LLC. MREH, GIRG, UHH, and RDS are included in the consolidated financial statements due to The Navigators being the sole member of the respective LLCs. Cull Canyon Ranch, LLC (CCR) is included in the consolidated financial statements because The Navigators received a donation during the year ended August 31, 2017 which caused the organization to became the majority owner of CCR. All material transactions and balances between these entities have been eliminated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Navigators maintains its accounts and prepares its consolidated financial statements on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could vary from the estimates that were assumed in preparing the consolidated financial statements. The significant accounting policies followed are described below to enhance the usefulness of the consolidated financial statements to the reader.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

OVERSEAS OPERATIONS

The consolidated financial statements include all activities of the U.S. Corporation of The Navigators and do not include any of the activities of foreign Navigators' corporations. The financial statements of foreign Navigators' corporations are not required to be consolidated with those of The Navigators under the requirements of the Reporting of Related Entities by Not-for-Profit Organizations Topic of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC).

CASH AND CASH EQUIVALENTS

For purposes of the consolidated statements of cash flows, cash and cash equivalents are considered to be all unrestricted, highly liquid investments with maturities of three months or less at the time of acquisition. These accounts at times exceed federally insured limits. The Navigators, however, has not experienced any losses on these accounts and does not believe it is exposed to any significant credit risk.

ACCOUNTS RECEIVABLE

Accounts receivable become past due when they exceed their contractual due date; management generally does not charge interest or late fees on past due accounts. The allowance for doubtful accounts is maintained at a level that, in management’s judgment, is adequate to absorb possible losses. The amount is based upon an analysis of overall trade receivables by management. Management’s evaluation of the allowance for doubtful accounts includes, but is not limited to, the historical experience of payment patterns from the customer, financial condition of the customer, other known facts and circumstances, and general economic conditions. This process is based on estimates, and ultimate losses may vary from current estimates. It is possible that this estimate may change by a material amount in the subsequent year. As changes in estimates occur, adjustments to the level of the allowance are recorded in the provision for doubtful accounts in the period in which they become known. Accounts receivable are written off when all methods of collection have been exhausted.

PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other assets is mostly comprised of author advances. Payments to authors are made prior to the book being published and are earned-off based on actual sales. During the year ended August 31, 2017, The Navigators made a one-time adjustment to write-off an additional $744,000 of author advances that have been evaluated and determined by management that they will not earn back through future sales.

INVESTMENTS

Investments are recorded at fair market value and cash surrender value for life insurance policies. Unrealized gains or losses in fair value are recognized in the year in which they occur and are reflected on the consolidated statements of activities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

PROPERTY, EQUIPMENT, AND LONG-LIVED ASSETS

Property, equipment, and other long-lived assets are stated at cost or, if donated, at fair value as of the date of the gift. All vehicles, land, and buildings are capitalized. Other acquisitions of property and equipment are generally capitalized if their recorded cost is $10,000 or more. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets which are as follows:

Land improvements and buildings and improvements	10-50 years
Equipment and furnishings	3-25 years
Vehicles	3-10 years
Intangibles and other	3-10 years

LIABILITIES UNDER GIFT ANNUITY AND TRUST AGREEMENTS

Gift annuity liabilities

The Navigators has established a gift annuity plan whereby donors may contribute assets in exchange for the right to receive a fixed dollar annual return during their lifetimes. The difference between the original annuity amount invested and the discounted liability for future payments, determined on an actuarial basis, is recognized as contribution income at the date of gift. The actuarial liability is revalued annually and any surplus or deficiency is recognized as a change in value in the consolidated statements of activities.

Trust liabilities

As trustee, The Navigators administers irrevocable trusts. These trusts provide for the payment of lifetime distributions to the grantor or other designated beneficiaries. The trust liability is the actuarially determined present value of future payments to beneficiaries and is revalued annually and any surplus or deficiency is recognized as a change in value in the consolidated statements of activities. At the death of the lifetime beneficiaries, certain trusts contain provisions to distribute assets to remaindermen (other charitable organizations) in addition to The Navigators. The trust liability includes the remainder interest due other remaindermen.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

CLASSES OF NET ASSETS
The net assets of The Navigators are reported in the following categories:

Unrestricted net assets represent those net assets whose use is not restricted by the donors. Included in unrestricted net assets are resources that are used to support current operations, property, equipment, and other long-lived assets and gift annuity reserves. In addition, amounts designated by the board of directors for specific purposes, projects and investments are included in unrestricted net assets.

Temporarily restricted net assets include the net assets provided by irrevocable charitable trusts, term endowments, and donor restricted projects.

Permanently restricted net assets include permanent endowments where it is stipulated by donors that the principal remain in perpetuity.

The management of The Navigators has interpreted the Colorado Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, The Navigators classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. Thus, the permanently restricted net assets reflect the historical cost value of the endowment.

The Navigators has a policy consistent with the intent of the endowment agreement. The primary investment objective of endowment funds is to follow those policies that will preserve the principal value, provide predictable income, and, to the extent possible with prudence, increase the principal to offset the long-term effects of inflation. Accordingly, over the long-term, The Navigators expect the current spending policy to allow its endowment to grow on an annual basis. Actual results in any given year may vary.

SUPPORT AND REVENUE
Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, The Navigators reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Navigators reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair values at the date of donation.

Other income is recorded when earned.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing various program services and supporting activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs, such as depreciation and salaries, have been allocated among the program services and supporting activities benefited.

CONCENTRATION OF INVESTMENT RISK

The Finance Committee of the board of directors monitors and oversees the investment operations of The Navigators. Financial instruments that potentially subject The Navigators to concentrations of investment risk consist principally of cash, marketable securities, and receivables. The Navigators places substantially all of its cash and liquid investments with high-quality financial institutions and limits the amount of exposure to any one financial institution. These accounts, from time to time, may exceed federally insured limits. However, The Navigators has not experienced, and does not expect to experience, any losses on these concentrations. Marketable securities, consisting of both debt and equity instruments, are generally placed in a variety of managed funds administered by different investment managers in order to limit investment risk.

RECLASSIFICATIONS

Other liabilities in the amount of $535,000 has been broken out of accrued expenses on the consolidated statements of financial position for the year ended August 31, 2016. The prior year amount has been reclassified in order to conform to current year presentation.

3. FAIR VALUE MEASUREMENTS:

The Navigators use appropriate valuation techniques to determine fair value based on inputs available. When available, The Navigators measure fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available.

Fair values of assets measured on a recurring basis at August 31, 2017 and 2016 are (in thousands):

		Fair Value Measurements Using:		
	August 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Mutual funds:				
Blended bond funds	$ 17,017	$ 17,017	$ -	$ -
Government bond funds	13,040	13,040	-	-
International funds	11,546	11,546	-	-
Index funds	9,002	9,002	-	-
Value funds	5,769	5,769	-	-
Balanced funds	-	-	-	-
Growth funds	2,750	2,750	-	-
Real estate and other	2,110	-	2,110	-
Cash surrender value of life insurance	496	-	496	-
Assets held for endowment agreements:				
Mutual funds				
Index funds	78	78	-	-
Blended bond funds	80	80	-	-
International funds	64	64	-	-
Government bond funds	48	48	-	-
Value funds	41	41	-	-
Growth funds	13	13	-	-

3. FAIR VALUE MEASUREMENTS, continued:

	August 31, 2017	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets held for gift annuity and trust agreements:				
Mutual funds:				
Blended bond funds	549	549	-	-
International funds	621	621	-	-
Index funds	466	466	-	-
Growth funds	166	166	-	-
Value funds	385	385	-	-
Government bond funds	196	196	-	-
Real estate and other	39	-	39	-
Equity securities:				
Energy	35	35	-	-
Financial	25	25	-	-
Beneficial interest in other agreements	383	-	-	383
Total assets subject to fair value	$ 64,919			
Reconciling items:				
Investments:				
Cash and cash equivalents	871			
Certificates of deposit	1,480			
Investments at net asset value				
Investment in captive insurance company	1,996			
Gift annuity, trust, and endowments:				
Cash and cash equivalents	154			
Statement of financial position	$ 69,420 *			

* This total includes the sum of investment in captive insurance company, investments, and assets held for gift annuity, trust, and endowment agreements from the statement of financial position.

3. FAIR VALUE MEASUREMENTS, continued:

	August 31, 2016	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Mutual funds:				
Blended bond funds	$ 15,123	$ 15,123	$ -	$ -
Government bond funds	11,804	11,804	-	-
International funds	9,238	9,238	-	-
Index funds	7,934	7,934	-	-
Value funds	3,452	3,452	-	-
Balanced funds	1,324	1,324	-	-
Growth funds	1,965	1,965	-	-
Real estate and other	2,417	-	2,417	-
Cash surrender value of life insurance	407	-	407	-
Assets held for endowment agreements:				
Mutual funds				
Index funds	86	86	-	-
Blended bond funds	87	87	-	-
International funds	64	64	-	-
Government bond funds	48	48	-	-
Value funds	35	35	-	-
Growth funds	11	11	-	-

3. FAIR VALUE MEASUREMENTS, continued:

		Fair Value Measurements Using:		
	August 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets held for gift annuity and trust agreements:				
Mutual funds:				
Blended bond funds	505	505	-	-
International funds	534	534	-	-
Index funds	513	513	-	-
Growth funds	139	139	-	-
Value funds	337	337	-	-
Government bond funds	155	155	-	-
Real estate and other	60	-	60	-
Equity securities:				
Energy	17	17	-	-
Financial	25	25	-	-
Beneficial interest in other agreements	123	-	-	123
Total assets subject to fair value	$ 56,403			
Reconciling items:				
Investments:				
Cash and cash equivalents	909			
Certificates of deposit	1,765			
Investments at net asset value:				
Investment in captive insurance company	1,726			
Gift annuity, trust, and endowments:				
Cash and cash equivalents	36			
Statement of financial position	$ 60,839 *			

* This total includes the sum of investment in captive insurance company, investments, and assets held for gift annuity, trust, and endowment agreements from the statement of financial position.

3. FAIR VALUE MEASUREMENTS, continued:

Valuation techniques: The fair values of fixed income securities, mutual funds, and equity securities are based on quoted prices in active markets for identical assets or liabilities. The fair values of real estate and cash surrender value of life insurance are based on observable inputs other than the quoted prices included in Level 1 and thus are based on yields for securities and assets of comparable maturity, quality, and type as obtained from market makers. The fair value of items identified as Level 3 is estimated from unobservable inputs. Changes in valuation techniques: None.

The following table provides further details of the Level 3 fair value measurements (in thousands):

	Year Ended August 31,	
	2017	2016
Beginning balance	$ 123	$ 117
Change in value of beneficial interest receivable	260	6
Ending balance	$ 383	$ 123

4. ACCOUNTS AND OTHER RECEIVABLES:

Accounts and other receivables consist of (in thousands):

	August 31,	
	2017	2016
Accounts receivable	$ 1,282	$ 1,921
Ministry receivables	30	14
Allowance for doubtful accounts	(14)	(9)
	$ 1,298	$ 1,926

At August 31, 2017 and 2016, The Navigators was owed approximately $718,000 and $605,000 from one customer, respectively.

5. INVESTMENT IN CAPTIVE INSURANCE COMPANY:

The Navigators and eight other not-for-profit organizations are members of an offshore captive insurance holding company entitled Stewardship Insurance, Ltd. (SIL). There is one wholly-owned subsidiary of SIL, Stewardship Reinsurance, Ltd (SRL). As of August 31, 2017 and 2016, As of August 31 ,2017 and 2016, The Navigators owns 6.5% and 6.8%, respectively, of SIL. The Navigators accounts for its investments based on the equity method of accounting, due to influence and oversight of operations.

SIL captive insures claims relating to workers' compensation, property, general liability, and auto liability. SIL reinsures the first $1,000,000 of any claim, of that $1,000,000 SIL pays the first $250,000, which directly impacts the equity position of The Navigators in SIL, and SRL pays the next $750,000 and the next $1,000,000 is reinsured with a primary insurance carrier. The policy limits are $2,000,000 with statutory workers' compensation benefits. Umbrella insurance coverage is purchased for claims exceeding $2,000,000. Claim experience will be identified to each participating entity and subsequent premiums will be modified based on an entity's experience.

Included within investments is $1,996,000 and $1,726,000, which represents The Navigators' investment in captive insurance as of August 31, 2017 and 2016, respectively. Investment balances are measured as of July 31, which represent the most recent data available. The Navigators is not aware of any material changes to these balances as of August 31. The Navigators has paid $873,000 and $665,000, in premiums to the captives during the years ended August 31, 2017 and 2016, respectively.

Summary financial information of SIL is as follows (in thousands):

	April 30, *	
	2017	2016
Total assets	$ 48,087	$ 47,170
Total liabilities	$ 18,008	$ 23,357
Comprehensive income (net of dividends)	$ 6,266	$ (619)

* SIL's fiscal year end is April 30, therefore, amounts represent audited balances and activities through and for the years ended April 30. The opinion on the financials is a qualified opinion, but was determined not to have a material impact on the amounts reflected in the consolidated statements of financial position.

6. INVESTMENTS:

Investments consist of (in thousands):

	August 31, 2017	August 31, 2016
Cash and cash equivalents	$ 871	$ 909
Certificates of deposit	1,480	1,765
Mutual funds	59,124	50,840
Real estate	2,110	2,417
Cash surrender value of life insurance	496	407
	$ 64,081	$ 56,338

Investment income consists of the following (in thousands):

	Year Ended August 31, 2017	Year Ended August 31, 2016
Interest and dividends	$ 1,076	$ 895
Net realized and unrealized gains	4,176	1,854
	$ 5,252	$ 2,749

7. PROPERTY, EQUIPMENT, AND OTHER LONG-LIVED ASSETS–NET:

Property, equipment, and other long-lived assets–net consist of (in thousands):

	August 31, 2017	August 31, 2016
Land	$ 2,237	$ 1,117
Works of art	304	304
Buildings and improvements	28,419	25,908
Equipment and furnishings	6,087	5,868
Vehicles	627	578
	37,674	33,775
Accumulated depreciation and amortization	(16,624)	(15,297)
	21,050	18,478
Construction in progress	28	53
	$ 21,078	$ 18,531

8. GIFT ANNUITY, TRUST, AND ENDOWMENT AGREEMENTS:
The assets, liabilities, and change in value are (in thousands):

	August 31, 2017	August 31, 2016
Assets:		
Endowment:		
Cash and cash equivalents	$ 4	$ -
Mutual funds	324	331
	328	331
Gift annuity and trusts:		
Cash and cash equivalents	150	36
Mutual funds	2,383	2,183
Equity securities	60	42
Beneficial interest in other agreements	383	123
Real estate	39	60
	3,015	2,444
	$ 3,343	$ 2,775
Liabilities:		
Gift annuities	$ 698	$ 491
Irrevocable trusts	1,052	1,039
Revocable trusts	218	205
	$ 1,968	$ 1,735

8. GIFT ANNUITY, TRUST, AND ENDOWMENT AGREEMENTS, continued:

	Year Ended August 31, 2017	Year Ended August 31, 2016
Change in value of gift annuities:		
Actuarial change	$ 3	$ 21
Annuitant payments and administrative expenses	(74)	(60)
	(71)	(39)
Change in value of trusts:		
Gift income	250	-
Interest and dividends	28	42
Net realized and unrealized gains	176	125
Actuarial change	(18)	602
Trustor payments and administrative expenses	(194)	(527)
	242	242
	$ 171	$ 203

9. ROYALTY AGREEMENTS:

Though the alliance agreement with Tyndale Publishing House (Tyndale) shifted the responsibilities of sales, marketing, publishing, and the distribution of NavPress products to Tyndale, NavPress has entered into several royalty agreements with the authors of the books and resources it publishes. Included in accrued expenses and other liabilities are royalties payable of approximately $410,000 and $546,000 as of August 31, 2017 and 2016, respectively.

10. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets consist of (in thousands):

	August 31, 2017	August 31, 2016
Field ministries	$ 25,204	$ 25,795
Property and equipment	-	46
International ministries	9,716	9,525
Conference and camp ministries	2,955	965
Irrevocable trusts	552	559
	$ 38,427	$ 36,890

11. MEDICAL PLAN:

The Navigators provides medical benefits (hospital, surgical, and major medical) through a self-funded plan. Contributions are received from The Navigators and its employees and medical benefits are paid from the general assets of The Navigators. Included in the consolidated financial statements as of August 31, 2017 and 2016, are liabilities in the amount of approximately $1,089,000 and $1,260,000 respectively, for claims payable and estimated incurred but not reported claims.

12. DEFINED CONTRIBUTION RETIREMENT PLAN:

The Navigators has a defined contribution retirement plan (the Plan) covering all employees who are at least 21 years of age with at least one year and 1,000 hours of service. The Navigators makes a contribution to the Plan each year equal to 5.5% of eligible personnel's compensation. Total contributions made to the Plan were approximately $3,404,000 and $3,292,000 during the years ended August 31, 2017 and 2016, respectively.

13. ADVERTISING:

The Navigators uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. Advertising expense for the years ended August 31, 2017 and 2016 was approximately $4,393,000 and $3,398,000 respectively.

14. LINE OF CREDIT:

The Navigators has a $5,000,000 revolving line of credit with a bank that expires February 28, 2018. There was no outstanding balance as of August 31, 2017 and 2016. The line of credit bears a fluctuating interest rate, which is based off the current London InterBank Offered Rate. There are no minimum monthly principal or interest payments. The line of credit is secured by specifically identified assets in The Navigators' investment portfolio and has an annual renewal option.

15. COMMITMENTS:

During the year ended August 31, 2017, The Navigators entered into a contract with Workday, Inc. for software services. The Navigators is committed to paying $1,369,000 throughout the next four years on this contract. As of August 31, 2017, there were four years remaining on this contract at $342,000 annually.

16. SUBSEQUENT EVENTS:

Subsequent events were evaluated through December 5, 2017, which is the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

Board of Directors
The Navigators and Affiliates
Colorado Springs, Colorado

We have audited the consolidated financial statements of The Navigators and Affiliates as of and for the years ended August 31, 2017 and 2016, and our report thereon dated December 5, 2017, which expresses an unmodified opinion on those consolidated financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Capin Crouse LLP

Colorado Springs, Colorado
December 5, 2017

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THE NAVIGATORS AND AFFILIATES

Consolidated Schedule of Functional Expenses

Year Ended August 31, 2017
(with comparative information for the year ended August 31, 2016)
(in thousands)

	Program Services					Supporting Activities				
	Field Ministries	Conferences and Camps	Materials Publication	International Ministries	Program Services Total	General and Administrative	Fund-raising	Supporting Activities Total	Total	2016
2017:										
Salaries and benefits:										
Salaries	$ 53,449	$ 4,263	$ 421	$ 2,270	$ 60,403	$ 6,085	$ 2,310	$ 8,395	$ 68,798	$ 67,260
Payroll taxes	973	295	30	34	1,332	377	122	499	1,831	1,777
Benefits	8,148	388	75	97	8,708	626	281	907	9,615	10,699
Total salaries and benefits	62,570	4,946	526	2,401	70,443	7,088	2,713	9,801	80,244	79,736
Other operating expenses:										
Advertising and promotion	49	116	29	-	194	10	4,189	4,199	4,393	3,398
Bad debt expense	-	7	-	-	7	2	-	2	9	5
Bank and credit card fees	-	60	-	-	60	737	-	737	797	670
Gifts and grants	198	-	-	3,473	3,671	30	-	30	3,701	3,214
Conferences and meeting hosting	1,896	1,354	-	34	3,284	74	375	449	3,733	3,993
Professional and contract services	1,583	208	93	127	2,011	1,091	1,150	2,241	4,252	4,058
Dues, books and subscriptions	363	12	4	19	398	59	9	68	466	420
Employee development	581	23	1	16	621	108	39	147	768	488
Employee and public relations	158	6	-	3	167	26	7	33	200	212
Equipment	328	111	12	15	466	309	40	349	815	579
Facilities	341	271	-	7	619	159	7	166	785	1,037
Insurance	523	396	11	21	951	151	59	210	1,161	1,208
Maintenance and repairs	9	203	-	22	234	352	-	352	586	481
Meals and entertainment	2,892	67	18	63	3,040	105	52	157	3,197	3,074
Moving	165	-	-	2	167	3	-	3	170	204
Office expense	1,171	100	3	50	1,324	162	69	231	1,555	1,578
Postage and shipping	290	15	-	20	325	379	1,828	2,207	2,532	2,203
Royalty expense	-	1	2,297	-	2,298	-	-	-	2,298	1,914
Supplies	435	266	3	4	708	107	24	131	839	794
Information technology	107	89	22	4	222	1,000	120	1,120	1,342	1,216
Travel and transportation	6,821	107	46	415	7,389	296	206	502	7,891	7,768
Total Expenses Before Depreciation	80,480	8,358	3,065	6,696	98,599	12,248	10,887	23,135	121,734	118,250
Depreciation and amortization	13	701	1	59	774	550	-	550	1,324	1,308
Total Expenses After Depreciation	$ 80,493	$ 9,059	$ 3,066	$ 6,755	$ 99,373	$ 12,798	$ 10,887	$ 23,685	$ 123,058	$ 119,558
Percent of Total Expenses	65.4%	7.4%	2.5%	5.5%	80.8%	10.4%	8.8%	19.2%	100.0%	
2016:										
Total Expenses	$ 79,234	$ 8,552	$ 2,724	$ 6,607	$ 97,117	$ 13,845	$ 8,596	$ 22,441		$ 119,558
Percent of Total Expenses	66.3%	7.1%	2.3%	5.5%	81.2%	11.6%	7.2%	18.8%		100.0%