THE NAVIGATORS AND AFFILIATES

Consolidated Financial Statements
With Independent Auditors' Report

August 31, 2018 and 2017

THE NAVIGATORS AND AFFILIATES

Table of Contents

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, 2018 and 2017, 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.

2435 Research Parkway, Suite 200
Colorado Springs, CO 80920
719.528.6225
capincrouse.com

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, 2018 and 2017, 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
January 4, 2019

THE NAVIGATORS AND AFFILIATES

Consolidated Statements of Financial Position
(in thousands)

	August 31, 2018	August 31, 2017
ASSETS:		
Cash and cash equivalents	$ 5,626	$ 3,878
Accounts and other receivables–net	1,340	1,298
Prepaid expenses and other assets	1,038	1,440
Investments	71,352	64,081
Investment in captive insurance company	2,086	1,996
Property, equipment, and other long-lived assets–net	20,647	21,078
Assets held for gift annuity, trust, and endowment agreements	3,065	3,343
Total Assets	$ 105,154	$ 97,114
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable	$ 1,707	$ 1,737
Accrued expenses	5,523	5,199
Other liabilities	638	1,449
Liabilities under gift annuity and trust agreements	1,889	1,968
	9,757	10,353
Net assets:		
Unrestricted:		
Specific purposes, projects, and investments	31,983	26,768
Gift annuity reserves	229	253
Non-controlling interest	873	-
Equity in property, equipment, and other long-lived assets–net	20,647	21,078
	53,732	48,099
Temporarily restricted	41,430	38,427
Permanently restricted–endowment funds	235	235
	95,397	86,761
Total Liabilities and Net Assets	$ 105,154	$ 97,114

See notes to consolidated financial statements

THE NAVIGATORS AND AFFILIATES

Consolidated Statements of Activities
(in thousands)

	Year Ended August 31,							
	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
OPERATING ACTIVITIES:								
SUPPORT AND REVENUE:								
Contributions	$ 8,881	$ 112,203	$ -	$ 121,084	$ 7,300	$ 107,759	$ -	$ 115,059
Conferences and camps	8,877	-	-	8,877	7,916	-	-	7,916
Royalty income	2,457	-	-	2,457	2,687	-	-	2,687
Net realized and unrealized gains	3,070	-	-	3,070	4,176	-	-	4,176
Interest and dividends	1,668	-	-	1,668	1,076	-	-	1,076
Change in value of gift annuities and trusts	(94)	(201)	-	(295)	(71)	242	-	171
Other income	1,129	-	-	1,129	1,279	-	-	1,279
Total Support and Revenue	25,988	112,002	-	137,990	24,363	108,001	-	132,364
NET ASSETS RELEASED:								
Purpose restrictions	108,999	(108,999)	-	-	106,464	(106,464)	-	-
EXPENSES:								
Program services:								
Field ministries	84,646	-	-	84,646	80,493	-	-	80,493
Conferences and camps	10,094	-	-	10,094	9,059	-	-	9,059
Materials publication	2,391	-	-	2,391	3,066	-	-	3,066
International ministries	6,982	-	-	6,982	6,755	-	-	6,755
	104,113	-	-	104,113	99,373	-	-	99,373

(continued)

See notes to consolidated financial statements

THE NAVIGATORS AND AFFILIATES

Consolidated Statements of Activities

(in thousands)
(continued)

	Year Ended August 31,							
	2018				2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
EXPENSES, continued:								
Supporting activities:								
General and administrative	13,400	-	-	13,400	12,798	-	-	12,798
Fundraising	11,841	-	-	11,841	10,887	-	-	10,887
	25,241	-	-	25,241	23,685	-	-	23,685
Total Expenses	129,354	-	-	129,354	123,058	-	-	123,058
Change in Net Assets	5,633	3,003	-	8,636	7,769	1,537	-	9,306
Net Assets, Beginning of Year	48,099	38,427	235	86,761	40,330	36,890	235	77,455
Net Assets, End of Year	$ 53,732	$ 41,430	$ 235	$ 95,397	$ 48,099	$ 38,427	$ 235	$ 86,761

See notes to consolidated financial statements

THE NAVIGATORS AND AFFILIATES

Consolidated Statements of Cash Flows

(in thousands)

	Year Ended August 31, 2018	Year Ended August 31, 2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 8,636	$ 9,306
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Net realized and unrealized gains	(3,070)	(4,176)
Reinvested interest and dividends	(1,418)	(893)
Changes in investment in captive insurance	(90)	(331)
Depreciation and amortization	1,389	1,324
Non-cash gifts for property, equipment, and other long-lived assets	-	(1,691)
Change in value of annuities and trusts	295	(171)
Proceeds from trusts	-	(250)
Change in operating assets and liabilities:		
Accounts and other receivables	(42)	628
Prepaid expenses and other assets	402	270
Accounts payable, accrued expenses, and other liabilities	294	(1)
Other liabilities	(811)	35
Net Cash Provided by Operating Activities	5,585	4,050
CASH FLOWS FROM INVESTING ACTIVITIES:		
Return of equity from captive insurance	-	60
Proceeds from sales of investments	14,398	9,229
Purchases of investments	(17,277)	(11,437)
Proceeds from sales of investments to rebalance/combine portfolios	129,114	-
Purchases of investments to rebalance/combine portfolios	(129,114)	-
Proceeds from sales of investments on annuities and trusts	568	268
Purchases of property, equipment, and other long-lived assets	(958)	(1,930)
Net Cash Used by Investing Activities	(3,269)	(3,810)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from trusts	-	250
Payments on annuities and trusts	(568)	(268)
Net Cash Used by Financing Activities	(568)	(18)
Net Change in Cash and Cash Equivalents	1,748	222
Cash and Cash Equivalents, Beginning of Year	3,878	3,656
Cash and Cash Equivalents, End of Year	$ 5,626	$ 3,878
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, Cull Canyon Ranch, LLC (CCR) and four additional LLCs. The four additional LLCs are included in the consolidated financial statements due to The Navigators being the sole member. The combined revenue of the four additional LLCs is $104,000 and $108,000 for the years ended August 31, 2018 and 2017, respectively. The combined expenses of the four additional LLCs is $207,000 and $215,000 for the years ended August 31, 2018 and 2017, respectively. Other disclosures and activities are considered immaterial to the overall consolidated financial statements. CCR is included in the consolidated financial statements due to an ownership interest of 68.8% by The Navigators. The non-controlling interest with a fair market value of $873,000 is reflected in the net asset section on the consolidated statements of financial position. The change in value based on current year activity, related to CCR’s minority interest, is reflected accordingly in the net asset section on the consolidated statements of financial position. 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.

THE NAVIGATORS AND AFFILIATES

Notes to Consolidated Financial Statements

August 31, 2018 and 2017

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 original maturities of three months or less at the time of acquisition. These accounts at times exceed federally insured limits. As of August 31, 2018 and 2017, amounts exceeding the federally insured limits were approximately $5,581,000 and $3,681,000, respectively. 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 and insurance payments. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

INVESTMENTS

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Investments in life insurance policies are reported at the cash surrender value of the policies based on contract value. The investment in a captive insurance company is valued based on The Navigators' ownership percentage in the net assets of the captive insurance company. 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. During the year ended August 31, 2018, management engaged a financial adviser to oversee and assist with the daily activity. The financial adviser is operating under and within the investment guidelines that management of The Navigators operated within during the year ended August 31, 2017, and has been approved by the finance committee of the board of directors. As a result of the engagement of the financial adviser, several portfolios were combined and rebalanced resulting in purchases and sales of $129,114,000.

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 $25,000 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

LIABILITIES UNDER GIFT ANNUITY AND TRUST AGREEMENTS, continued

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

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.

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

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.

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, 2018 and 2017 are (in thousands):

		Fair Value Measurements Using:		
	August 31, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Mutual funds:				
Money Market Funds	$ 3,642	$ 3,642	$ -	$ -
Fixed Income Funds				
Ultra Short Term	2,694	2,694	-	-
Short Term	17,943	17,943	-	-
Intermediate Term	11,995	11,995	-	-
Long Term	3,709	3,709	-	-
Floating Rate Loans	4,604	4,604	-	-
Equity Funds				
Large Cap Blended	17,997	17,997	-	-
Large Cap Growth	7,430	7,430	-	-
Real estate and other	842	-	842	-
Assets held for endowment agreements:				
Mutual funds:				
Fixed Income Funds				
Short Term	67	67	-	-
Intermediate Term	45	45	-	-
Long Term	18	18	-	-
Floating Rate Loans	25	25	-	-
Equity Funds				
Large Cap Blended	136	136	-	-
Large Cap Growth	55	55	-	-

3. FAIR VALUE MEASUREMENTS, continued:

		August 31, 2018	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:					
Money Market Funds		33	33	-	-
Fixed Income Funds					
Short Term		311	311	-	-
Intermediate Term		268	268	-	-
Long Term		88	88	-	-
Floating Rate Loans		134	134	-	-
Balanced Funds					
Large Cap Blended		500	500	-	-
Equity Funds					
Large Cap Value		20	20	-	-
Large Cap Blended		829	829	-	-
Large Cap Growth		325	325	-	-
Beneficial interest in other agreements		148	-	-	148
Total assets subject to fair value	$	73,858			
Reconciling items:					
Investments:					
Investments at contract value					
Cash surrender value of life insurance		496			
Investments at equity value					
Investment in captive insurance company		2,086			
Gift annuity, trust, and endowments:					
Cash and cash equivalents		63			
Total investments	$	76,503 *			

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

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)
Investments:				
Mutual funds:				
Fixed Income Funds				
Ultra Short Term	$ 2,833	$ 2,833	$ -	$ -
Short Term	20,540	20,540	-	-
Long Term	6,684	6,684	-	-
Equity Funds				
Large Cap Blended	29,067	29,067	-	-
Real estate and other	2,110	-	2,110	-
Assets held for endowment agreements:				
Mutual funds:				
Fixed Income Funds			-	-
Ultra Short Term	7	7	-	-
Short Term	85	85	-	-
Long Term	36	36	-	-
Equity Funds				
Large Cap Blended	196	196	-	-
Assets held for gift annuity and trust agreements:				
Fixed Income Funds				
Short Term	541	541	-	-
Long Term	203	203	-	-
Equity Funds				
Large Cap Blended	1,698	1,698	-	-
Real estate investments trusts	39	38		
Beneficial interest in other agreements	383	-	-	383
Total assets subject to fair value	$ 64,422			

3. FAIR VALUE MEASUREMENTS, continued:

Reconciling items:		
Investments:		
Cash and cash equivalents		871
Certificates of deposit		1,480
Investments at contract value:		
Cash surrender value of life insurance		496
Investments at equity value:		
Investment in captive insurance company		1,996
Gift annuity, trust, and endowments:		
Cash and cash equivalents		155
Total investments	$	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 consolidated statements of financial position.

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 is based on observable inputs other than the quoted prices included in Level 1 and thus is 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.

4. ACCOUNTS AND OTHER RECEIVABLES:

Accounts and other receivables consist of (in thousands):

	August 31, 2018	August 31, 2017
Accounts receivable	$ 1,320	$ 1,282
Ministry receivables	30	30
Allowance for doubtful accounts	(10)	(14)
	$ 1,340	$ 1,298

At August 31, 2018 and 2017, The Navigators was owed approximately $587,000 and $718,000 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). During both of the years ended August 31, 2018 and 2017, The Navigators owned 6.5% of SIL. The Navigators accounts for its investments based on the equity method of accounting, due to influence and oversight of operations. The Navigators' investment in captive insurance is based on the most recent data available, which is valued at $2,086,000 and $1,996,000, as of August 31, 2018 and 2017, respectively.

SIL 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. The Navigators has paid $778,000 and $873,000, in premiums to the captives during the years ended August 31, 2018 and 2017, respectively.

6. INVESTMENTS:

Investments consist of (in thousands):

	August 31, 2018	August 31, 2017
Cash and cash equivalents	$ 3,642	$ 871
Certificates of deposit	-	1,480
Mutual funds	66,372	59,124
Real estate	842	2,110
Cash surrender value of life insurance	496	496
	$ 71,352	$ 64,081

Investment income consists of the following (in thousands):

	Year Ended August 31, 2018	Year Ended August 31, 2017
Interest and dividends	$ 1,668	$ 1,076
Net realized and unrealized gains	3,070	4,176
	$ 4,738	$ 5,252

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

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

	August 31, 2018	August 31, 2017
Land	$ 2,237	$ 2,237
Works of art	304	304
Buildings and improvements	28,517	28,419
Equipment and furnishings	6,531	6,087
Vehicles	686	627
	38,275	37,674
Accumulated depreciation and amortization	(18,008)	(16,624)
	20,267	21,050
Construction in progress	380	28
	$ 20,647	$ 21,078

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

	August 31, 2018	August 31, 2017
Assets:		
Endowment:		
Cash and cash equivalents	$ -	$ 4
Mutual funds	346	324
	346	328
Gift annuity and trusts:		
Cash and cash equivalents	63	150
Mutual funds	2,502	2,383
Equity securities	6	60
Beneficial interest in other agreements	148	383
Real estate	-	39
	2,719	3,015
	$ 3,065	$ 3,343
Liabilities:		
Gift annuities	$ 597	$ 698
Irrevocable trusts	1,063	1,052
Revocable trusts	229	218
	$ 1,889	$ 1,968

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

	Year Ended August 31, 2018	Year Ended August 31, 2017
Change in value of gift annuities:		
Actuarial change	$ 108	$ 3
Annuitant payments	(202)	(74)
	(94)	(71)
Change in value of trusts:		
Gift income	-	250
Interest and dividends	33	28
Net realized and unrealized gains	138	176
Actuarial change	(6)	(18)
Trustor payments	(366)	(194)
	(201)	242
	$ (295)	$ 171

9. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets consist of (in thousands):

	August 31, 2018	August 31, 2017
Field ministries	$ 27,490	$ 25,204
International ministries	9,912	9,716
Conference and camp ministries	3,427	2,955
Irrevocable trusts	601	552
	$ 41,430	$ 38,427

10. 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, 2018 and 2017, are liabilities in the amount of approximately $1,000,000 and $1,050,000, respectively, for claims payable and estimated incurred but not reported claims.

11. 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 $3,507,000 and $3,404,000 during the years ended August 31, 2018 and 2017, respectively.

12. 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, 2018 and 2017 was approximately $4,811,000 and $4,393,000, respectively.

13. LINE OF CREDIT:

The Navigators has a $5,000,000 revolving line of credit with a bank that expires February 28, 2019. There was no outstanding balance as of August 31, 2018 and 2017. 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.

14. 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 $1,089,000 throughout the next three years on this contract. As of August 31, 2018, there were three years remaining on this contract at $363,000 annually.

15. SUBSEQUENT EVENTS:

Subsequent events were evaluated through January 4, 2019, which is the date the consolidated 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, 2018 and 2017, and our report thereon dated January 4, 2019, 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
January 4, 2019

2435 Research Parkway, Suite 200
Colorado Springs, CO 80920
719.528.6225
capincrouse.com

THE NAVIGATORS AND AFFILIATES

Consolidated Schedule of Functional Expenses

Year Ended August 31, 2018
(with comparative information for the year ended August 31, 2017)
(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	2017
2018:										
Salaries and benefits:										
Salaries	$ 55,172	$ 4,338	$ 403	$ 2,075	$ 61,988	$ 6,596	$ 2,407	$ 9,003	$ 70,991	$ 68,798
Benefits	9,548	735	66	276	10,625	336	303	639	11,264	9,615
Payroll taxes	965	300	29	31	1,325	394	136	530	1,855	1,831
Total salaries and benefits	65,685	5,373	498	2,382	73,938	7,326	2,846	10,172	84,110	80,244
Other operating expenses:										
Travel and transportation	7,253	137	38	435	7,863	241	207	448	8,311	7,891
Advertising and promotion	59	98	12	2	171	12	4,628	4,640	4,811	4,393
Professional and contract services	1,761	232	104	141	2,238	1,212	1,280	2,492	4,730	4,252
Conferences and meeting hosting	2,106	1,565	2	100	3,773	45	345	390	4,163	3,733
Gifts and grants	122	-	-	3,592	3,714	19	-	19	3,733	3,701
Meals and entertainment	3,132	44	16	82	3,274	101	54	155	3,429	3,197
Postage and shipping	300	14	1	16	331	404	2,115	2,519	2,850	2,532
Royalty expense	-	1	1,647	-	1,648	-	-	-	1,648	2,298
Office expense	1,161	108	1	51	1,321	184	67	251	1,572	1,555
Information technology	117	102	25	4	248	1,190	132	1,322	1,570	1,342
Insurance	542	431	16	19	1,008	341	21	362	1,370	1,161
Supplies	433	252	4	2	691	72	47	119	810	839
Equipment	311	222	18	29	580	222	32	254	834	815
Bank and credit card fees	70	143	-	3	216	739	2	741	957	797
Facilities	394	285	-	8	687	210	3	213	900	785
Employee development	563	12	2	20	597	144	46	190	787	768
Maintenance and repairs	-	346	-	17	363	223	1	224	587	586
Dues, books and subscriptions	390	13	4	16	423	61	9	70	493	466
Employee and public relations	189	7	-	4	200	43	4	47	247	200
Moving	45	-	-	-	45	-	2	2	47	170
Bad debt expense	-	6	-	-	6	-	-	-	6	9
Total Expenses Before Depreciation	84,633	9,391	2,388	6,923	103,335	12,789	11,841	24,630	127,965	121,734
Depreciation and amortization	13	703	3	59	778	611	-	611	1,389	1,324
Total Expenses After Depreciation	$ 84,646	$ 10,094	$ 2,391	$ 6,982	$ 104,113	$ 13,400	$ 11,841	$ 25,241	$ 129,354	$ 123,058
Percent of Total Expenses	65.5%	7.8%	1.8%	5.4%	80.5%	10.3%	9.2%	19.5%	100.0%	
2017:										
Total Expenses	$ 80,493	$ 9,059	$ 3,066	$ 6,755	$ 99,373	$ 12,798	$ 10,887	$ 23,685		$ 123,058
Percent of Total Expenses	65.4%	7.4%	2.5%	5.5%	80.8%	10.4%	8.8%	19.2%		100.0%