LIFEWAY CHRISTIAN RESOURCES OF THE SOUTHERN BAPTIST CONVENTION AND SUBSIDIARY

Consolidated Statements of Financial Position
September 30, 2019 and 2018

Assets	2019	2018
Current assets:		
Cash and cash equivalents	$ 82,074,000	$ 7,116,000
Cash - restricted	313,000	213,000
Reserve funds, at fair value	-	70,199,000
Accounts receivable, less allowance for doubtful accounts of $448,000 and $311,000 in 2019 and 2018, respectively	37,366,000	37,299,000
Inventories, net	45,273,000	43,463,000
Prepaid expenses and other current assets	11,710,000	14,555,000
Current assets held for sale (Note 16)	9,244,000	50,751,000
Total current assets	185,980,000	223,596,000
Reserve funds, at fair value	122,000	4,028,000
Fixed assets, net of accumulated depreciation and amortization	157,959,000	175,981,000
Goodwill, net	3,524,000	5,099,000
Intangible assets, net	3,622,000	6,681,000
Other long-term assets	14,702,000	2,969,000
Total assets	$ 365,909,000	$ 418,354,000

Liabilities and Net Assets	2019	2018
Current liabilities:		
Accounts payable	$ 16,603,000	$ 34,817,000
Accrued liabilities	29,072,000	11,383,000
Deferred income	8,960,000	9,015,000
Current portion of liabilities for pension and postretirement benefits other than pension	246,000	406,000
Lines of credit	-	29,788,000
Total current liabilities	54,881,000	85,409,000
Liabilities for pension and postretirement benefits other than pension	233,689,000	178,919,000
Deferred gain on sale of building	8,769,000	-
Other long-term liabilities	708,000	3,507,000
Total liabilities	298,047,000	267,835,000
Net assets:		
Without donor restrictions	67,549,000	150,306,000
With donor restrictions	313,000	213,000
Total net assets	67,862,000	150,519,000
	$ 365,909,000	$ 418,354,000

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Activities
Years ended September 30, 2019 and 2018

	2019	2018
Changes in net assets without donor restrictions:		
Revenue	$ 266,483,000	$ 251,800,000
Operating expenses:		
Variable	60,446,000	54,945,000
Fixed direct production	19,297,000	18,381,000
Fixed direct operating	196,329,000	214,846,000
Cooperative work with state boards	2,485,000	2,539,000
Southern Baptist Convention support	190,000	224,000
Total operating expenses	278,747,000	290,935,000
Decrease in net assets without donor restrictions from continuing operations	(12,264,000)	(39,135,000)
Change in pension and postretirement benefits other than pension prior service costs and net gains (losses)	(42,572,000)	78,658,000
Other income (loss), net	(5,780,000)	9,923,000
Increase (decrease) in net assets without donor restrictions from continuing operations	(60,616,000)	49,446,000

	2019	2018
Changes in net assets with donor restrictions:		
Net assets released from restriction	(43,000)	(5,000)
Net loss of the mission program	(76,000)	(49,000)
Net income from capital development	219,000	42,000
Increase (decrease) in net assets with donor restrictions from continuing operations	100,000	(12,000)
Increase (decrease) in net assets from continuing operations	(60,516,000)	49,434,000
Loss from discontinued operation (Note 16)	(22,141,000)	(28,142,000)
Increase (decrease) in net assets	(82,657,000)	21,292,000
Net assets at beginning of year, as originally reported	150,519,000	131,831,000
Cumulative-effect adjustment for change in accounting principle (Note 18)	-	(2,604,000)
Net assets at end of year, as adjusted	$ 67,862,000	$ 150,519,000

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows
Years ended September 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Increase (decrease) in net assets	$ (82,657,000)	$ 21,292,000
Adjustments to reconcile increase (decrease) in net assets to cash flows provided by operating activities:		
Depreciation and amortization	16,000,000	16,600,000
Net realized gains from reserve funds	(4,033,000)	(7,009,000)
Net unrealized (gain) loss on reserve funds	8,787,000	(1,251,000)
Loss on disposal of fixed assets, net	1,701,000	351,000
Impairment loss on assets held for sale	-	22,200,000
Impairment loss on intangible assets, including goodwill	4,428,000	25,000
Bad debt expense	195,000	418,000
Reserve for obsolete inventory and shrinkage	2,854,000	(2,222,000)
(Increase) decrease in operating assets:		
Cash - restricted	(100,000)	12,000
Accounts receivable, net	(366,000)	4,164,000
Inventories, net	32,949,000	11,041,000
Prepaid expenses and other current assets	2,845,000	415,000
Other long-term assets	(11,733,000)	1,059,000
Increase (decrease) in operating liabilities:		
Accounts payable	(18,214,000)	(11,079,000)
Retainage payable	-	(3,235,000)
Accrued liabilities	17,689,000	(1,945,000)
Deferred income	(55,000)	(366,000)
Liabilities for pension and postretirement benefits other than pension	54,610,000	(62,396,000)
Other long-term liabilities	(2,799,000)	(57,000)
Total adjustments	104,758,000	(33,275,000)
Net cash provided (used) by operating activities	22,101,000	(11,983,000)
Cash flows from investing activities:		
Proceeds from disposal of fixed assets	19,445,000	-
Purchases of fixed assets	(6,151,000)	(26,087,000)
Proceeds from sale of reserve funds, net of expenses	68,338,000	60,655,000
Purchases of reserve fund investments	-	(48,448,000)
Proceeds from sale of investments held for capital projects	-	3,058,000
Dividend and interest income from reserve funds	1,013,000	1,881,000
Net cash provided (used) by investing activities	82,645,000	(8,941,000)
Cash flows from financing activities:		
Net borrowings (payments) under lines of credit	(29,788,000)	26,890,000
Increase in cash and cash equivalents	74,958,000	5,966,000
Cash and cash equivalents at beginning of year	7,116,000	1,150,000
Cash and cash equivalents at end of year	$ 82,074,000	$ 7,116,000

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements
September 30, 2019 and 2018

(1) Nature of operations

LifeWay Christian Resources of the Southern Baptist Convention ("LifeWay") is a publisher, distributor and retailer of Christian books, literature, and music and is also a provider of church supplies and other Christian products. LifeWay's corporate office headquarters are in Nashville, Tennessee. Products are sold throughout the United States as well as directly to churches, third-party stores and distributors. Revenues are used to support achievement of LifeWay's mission statement.

In January 2019, LifeWay committed to a plan to close its retail store chain and conduct sales exclusively through direct online and third-party channels. See Note 16 for additional information on LifeWay's discontinued operation.

Through LifeWay's wholly-owned subsidiary LifeWay Global, Inc., a for-profit Tennessee corporation, LifeWay publishes and sells Christian content and conducts training events. LifeWay Global, Inc. is the sole owner of LifeWay Publishing India Pvt. Ltd. and majority-owner of Life Connection, LLC, a Tennessee limited liability company.

A large portion of the business activity of LifeWay is with churches and individuals affiliated with the Southern Baptist Convention.

(2) Summary of significant accounting policies

(a) Newly adopted accounting pronouncement

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This standard changes certain presentation and disclosure requirements of not-for-profit entities. The primary changes are a reduction in the number of net asset classes from three to two (with donor restrictions and without donor restrictions) and enhanced disclosures about how a not-for-profit entity manages its liquidity and requires reporting of expenses by functional and natural classification, as well as enhanced endowment disclosures. This standard was adopted effective October 1, 2018 and has been retrospectively applied to the 2018 consolidated financial statements.

(b) Principles of consolidation

These consolidated financial statements include the accounts of LifeWay and LifeWay Global, Inc. (collectively, "LifeWay"). All significant intercompany accounts and transactions have been eliminated. The consolidated financial statements of LifeWay are presented on the accrual basis of accounting.

(c) Cash and cash equivalents

LifeWay considers all highly liquid debt instruments, including instruments such as money market funds held in reserve funds, with an original maturity when purchased of three months or less to be cash equivalents. Cash received from contributors, which has been designated by the contributor for a specific purpose, is included in the accompanying consolidated statements of financial position as restricted.

Accounting overdrafts of cash balances in situations when a right of offset does not exist are presented as current liabilities and are included in accounts payable in the consolidated statements of financial position. As of September 30, 2018, bank overdrafts of $2,215,000 were included in accounts payable. There were no such balances as of September 30, 2019.

(d) Fair value measurements

Accounting Standards Codification ("ASC") 820 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under ASC 820 are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that LifeWay has the ability to access.

Level 2 - Inputs to the valuation methodology include:
- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. LifeWay's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and consideration of factors specific to the asset or liability.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2019 and 2018.

(i) *Money market funds*: These investments are public investment vehicles valued using $1 for the net asset value ("NAV"). The NAV is a quoted price in an active market and classified within Level 1 of the valuation hierarchy.

(ii) *Common stock*: These investments are valued at the closing price reported on the active market on which the individual securities are traded and are classified within Level 1 of the valuation hierarchy. This category also includes exchange traded funds as they are typically used by equity managers as a stock substitute.

(iii) *Mutual funds*: These investments are public investment vehicles valued using the NAV provided by the administrator of the fund. The NAV is based on the value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of shares outstanding. The NAV is a quoted price in an active market and classified within Level 1 of the valuation hierarchy.

(iv) *Hedge funds*: These investments undertake a wider range of investment and trading activities in order to hedge some of the risks inherent in the investment market using a variety of methods including short selling and derivatives. LifeWay's investments in hedge funds do not have any unfunded capital commitments. Further, LifeWay has the ability to redeem shares at the measurement date as long as appropriate advance notice is given (which generally ranges from 30-90 days).

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while management of LifeWay believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Refer to Note 6 for fair value measurement disclosures for LifeWay's reserve funds. Refer to Notes 12 and 13 for fair value measurement disclosures for the plan assets associated with LifeWay's retirement and postretirement benefit plans.

(e) Accounts receivable and allowance for doubtful accounts
LifeWay does not require collateral or other security in connection with its trade accounts receivable, and thus evaluates the collectibility of accounts receivable based on a combination of factors. In circumstances in which management is aware of a specific customer's likely inability to meet its financial obligations to LifeWay, a specific allowance is established for the amount considered to be uncollectible. For all other amounts, LifeWay recognizes the allowance for bad debts based on historical account write-off experience. If circumstances change, the estimates of recoverability of amounts due LifeWay could change by a material amount. Accounts receivable and the allowance are written-off, when in management's opinion, all collection efforts have been exhausted.

(f) Inventories
Inventories are valued at the lower of cost or market. Cost is determined using direct costing on an average costing method. LifeWay's reserve for excess and obsolete inventory is based on historical revenues and use of the inventory over a period of time. LifeWay records a separate reserve for shrinkage of inventory at its retail stores. At September 30, 2019, the reserve for retail store inventory shrinkage was based on management's estimated losses at stores in liquidation. In prior years, the inventory shrinkage was based on historical experience of its retail stores.

(g) Vendor rebates
LifeWay records vendor rebates when earned. The rebates are recorded as a reduction to inventory purchases, at cost, which has the effect of reducing cost of goods sold when such products are sold.

(h) Reserve funds
Reserve funds are reported at fair value in the consolidated statements of financial position, with related gains and losses included in the consolidated statements of activities.

The cost of these investments is determined using the average cost method. LifeWay's investments do not have a significant concentration of credit risk within any industry or specific institution.

(i) Fixed assets
Fixed assets are recorded at cost and are depreciated and amortized by the straight-line method over the following useful lives:

Land improvements	5 years
Buildings and improvements	5-50 years
Furniture, fixtures, and equipment	3-10 years
Roadways, sidewalks, utility systems, etc.	5-50 years
Automobiles and trucks	3-6 years
Leasehold improvements	5-10 years
Capitalized computer software development costs	3-8 years

Fixed assets include capitalized computer software development costs, which are comprised of both internal and external costs directly related to the development of the computer software.

The costs of assets and the related accumulated depreciation or amortization are removed from the accounts when such assets have been disposed.

LifeWay evaluates recoverability of fixed assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable, such as when historical operating losses are experienced, plans are made to close store locations, or disposal or selling of long-lived assets before the end of their previously estimated useful lives are planned. If management's evaluation indicates that the carrying amount of an asset may not be recoverable, the potential impairment is measured as the excess of the carrying value over the estimated salvage value of the impaired asset. The impairment assessment requires management to apply estimates of future cash flows and use judgments for qualitative factors such as local market conditions, operating environment, divisional performance, and other trends.

LifeWay recognizes impairment losses in the earliest period that it is determined a loss has occurred. The carrying value is adjusted to the new carrying value and any subsequent increases in fair value are not recorded. If it is determined that the estimated remaining useful life of the asset should be decreased, the periodic depreciation expense is adjusted based on the new carrying value of the asset.

Interest costs incurred in the construction or acquisition of fixed assets are capitalized.

Expenditures for maintenance and repairs are charged to expense when incurred. Expenditures for renewals and betterments are capitalized.

(j) Intangible assets, including goodwill

Intangible assets with definite lives are amortized on a straight-line basis over their estimated useful lives. Intangible assets with indefinite lives are subjected to an annual impairment assessment. Goodwill represents the excess of cost over the fair value of net assets acquired. Goodwill is not amortized, but instead is reviewed for impairment on an annual basis, or more frequently, as impairment indicators are identified.

(k) Deferred income

Amounts received for gift cards, publication subscriptions, conference center reservations or other program activities are recorded as deferred income and recognized as income when earned.

LifeWay has determined that sufficient historical gift card activity exists to estimate the amount of gift card breakage, or unredeemed gift cards. Breakage of $205,000 and $250,000 was recorded in fiscal years 2019 and 2018, respectively.

(l) Income taxes

LifeWay is recognized as an organization exempt from Federal income tax under Section 501(a) of the Internal Revenue Code (the "Code") as an organization described in Section 501(c)(3) whereby only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to federal income tax. Accordingly, no provision for income taxes has been made in the accompanying consolidated financial statements.

LifeWay has a small amount of unrelated business income for which it files a Form 990-T with the Internal Revenue Service on an annual basis.

LifeWay evaluates potential uncertain tax positions in accordance with generally accepted accounting principles for income taxes. LifeWay currently has not identified any uncertain tax positions requiring accrual in its consolidated financial statements.

(m) Classification of net assets

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of LifeWay and changes therein are classified and reported as follows:

Net assets without donor restriction - Expendable amounts utilized primarily for operations, which are not subject to donor-imposed restrictions.

Net assets with donor restrictions - Net assets subject to donor or other external restrictions that can be satisfied either by the passage of time or by donor specified actions. Net assets with donor restrictions at September 30, 2019 and 2018 are comprised of funds contributed for specific LifeWay sponsored programs and activities.

(n) Revenue recognition

Revenue from publishing sales is recognized upon shipment to the customer and revenue from retail sales is recognized at the point of sale. Provision is made for the estimated effect of sales returns where return privileges exist. Returns of products from customers are accepted in accordance with standard industry practice. Revenue for seminars, conferences and other event-based activities is recognized as the activities take place. Revenue from contributions of funds to LifeWay is recognized at the time the funds are received, as commitments received are considered intentions to give.

LifeWay is required to collect certain taxes from customers on behalf of government agencies and remit these back to the applicable governmental entity on a periodic basis. These taxes are collected from customers at the time of purchase, but are not included in revenue. LifeWay records a liability upon collection from the customer and relieves the liability when payments are remitted to the applicable government agency.

(o) Advertising costs
LifeWay expenses all advertising costs as incurred. Advertising expense for the fiscal years ended September 30, 2019 and 2018, was $20,162,000 and $25,731,000, respectively.

(p) Shipping and processing
Shipping and processing fees billed to customers in the aggregate amounts of $13,814,000 and $13,942,000 have been included in revenues from continuing and discontinued operations in the accompanying consolidated statements of activities for the fiscal years 2019 and 2018, respectively.

LifeWay incurred shipping and processing fees and costs in the aggregate amounts of $26,447,000 and $27,716,000 during fiscal years 2019 and 2018, respectively, which are included in variable operating expenses and discontinued operations in the accompanying consolidated statements of activities.

(q) Functional allocation of expenses
The costs of program and supporting services have been summarized on a functional basis in the notes to the consolidated financial statements. The tables in Note 4 present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the program and supporting service benefited. Costs related to employee compensation and benefits and information technology are allocated on the basis of estimates of time and effort or headcounts. Costs related to the operation and maintenance of fixed assets, including depreciation and amortization of fixed assets and occupancy related expenses are allocated to the program and supporting service using square footage and other similar estimates made by management.

(r) Exit activities
Costs associated with exit activities are recorded at their fair values when a liability has been incurred. Reserves for operating leases are established at the time of closure for the present value of any remaining operating lease obligations ("PVOL"), net of estimated sublease income. Severance is recorded over the service period required to be rendered in order to receive the termination benefits or, if employees will not be retained to render future service, a reserve is established when communication has occurred to the affected employees. Other exit costs are accrued when incurred. See Note 16 for more information on these costs and associated accruals.

(s) Change in accounting estimate
During fiscal year 2018, management elected to change the basis of estimating the discount rates used to measure the settlement of LifeWay's future pension and postretirement benefits other than pension obligations.

LifeWay's objective in selecting a discount rate is to select the best estimate of the rate at which the benefit obligations of the pension and postretirement and other benefits could be effectively settled on the measurement date, taking into account the nature and duration of the benefit obligations of the plans. In making this estimate, LifeWay historically used the Citigroup Pension Discount Curve, which used all AA rated bonds in the development of the curve. For 2018, management determined that the use of above median high-quality bonds expected to be available during the period to maturity of the benefits were a better indicator of the interest rates inherent in the price at which the pension and postretirement benefits other than pension obligations would ultimately be settled. Accordingly, the Findley Pension Discount Above Median AA-Curve, which uses only AA rated higher yielding bonds, was selected as the new basis to estimate the discount rates as of the September 30, 2018 measurement date. The effect of the change was a decrease to LifeWay's pension and postretirement benefits other than pension obligations as of September 30, 2018, and a corresponding increase in net assets without donor restrictions in the amount of approximately $10,635,000 for the year ended September 30, 2018. See Notes 12 and 13 for additional information on LifeWay's pension and postretirement benefits other than pension plans.

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

(u) Future accounting pronouncements, not yet adopted
In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), which is effective for LifeWay for the fiscal year beginning on October 1, 2019 (fiscal year 2020). This guidance is based on the principle that revenue is recognized in an amount that reflects the consideration to which an entity expects to be entitled in exchange for the transfer of goods or services to customers. The guidance also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The FASB also subsequently issued several amendments to the standard, including clarification on principal versus agent considerations, performance obligations and licensing, and certain scope improvements and practical expedients. Entities may use either a full retrospective or a modified retrospective approach at the adoption date.

The FASB's new lease accounting standard, ASU No. 2016-02, *Leases*, which was issued in February 2016, will generally require on-balance sheet (statement of financial position) recognition for all leases with terms that exceed twelve months. The new lease accounting model will continue to reflect two types of leases. Under the new rules, a lessee would account for most existing capital leases as finance leases (that is, recognizing amortization of the right-of-use ("ROU") asset, as well as separately recognizing interest on the lease liability in the statement of operations). Most existing operating leases will remain as operating leases (that is, recognizing a single total lease expense). Both finance leases and operating leases will result in the lessee recognizing a ROU asset and a lease liability. The guidance is effective for LifeWay in the 2022 fiscal year.

Management of LifeWay is reviewing these new pronouncements in order to determine what impact these standards will have on its consolidated financial statements and disclosures.

(v) Reclassification
Certain reclassifications have been made to the fiscal year 2018 consolidated financial statements in order for them to conform to the fiscal year 2019 presentation. These reclassifications have no effect on net assets or changes in net assets as previously reported.

(w) Events occurring after reporting date
Management of LifeWay has evaluated the events and transactions that occurred between September 30, 2019 and January 24, 2020 which is the date that the consolidated financial statements were available to be issued, for possible recognition or disclosure in the consolidated financial statements.

(3) Liquidity and availability

LifeWay regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. LifeWay has various sources of liquidity as its disposal, including cash and cash equivalents, accounts receivable, inventory, marketable securities, and lines of credit.

LifeWay's ongoing operations are typically budgeted so that revenues cover each year's expenditures and there is minimal expectation or need for donations. When cash needs surface that are in excess of what can be funded from ongoing operating cash flows, LifeWay will access long term investments or will draw funds from lines of credit with a combined maximum borrowing capacity of $50,000,000 and $32,000,000 at September 30, 2019 and 2018, respectively. LifeWay also can invest cash in excess of daily requirements in an interest-bearing money market account.

The following table reflects LifeWay's financial assets as of September 30, 2019 and 2018, available within one year of the consolidated statements of financial position date.

	2019	2018
Cash and cash equivalents	$ 82,074,000	$ 7,116,000
Cash - restricted	313,000	213,000
Reserve funds, at fair value	-	70,199,000
Accounts receivable, net	37,366,000	37,299,000
Inventories, net	45,273,000	43,463,000
Financial assets at end of year	165,026,000	158,290,000
Less: assets unavailable for general expenditure within one year:		
Cash - restricted by donor with purpose designations	313,000	213,000
Financial assets available to meet cash needs for general expenditure within one year	$ 164,713,000	$ 158,077,000

(4) Functional reporting

LifeWay was established by the Southern Baptist Convention for providing Church Enrichment Ministries. As such, LifeWay's sole program is to assist churches through its ministries. LifeWay delineates expenses by reflecting natural expense categories on a functional basis among its Church Enrichment Ministries program and management and general activities ("MGA"). MGA represents costs associated with providing corporate level support including executive oversight, financial reporting, human resources, legal services, and certain other costs from time to time that benefit the overall organization.

The following tables reflect LifeWay's functional view of operating expenses from continuing operations for the years ended September 30, 2019 and 2018:

	2019		
	Church Enrichment Ministries	Management and General Activities	Total
Product costs	$ 79,743,000	$ -	$ 79,743,000
Employee compensation	65,816,000	7,667,000	73,483,000
Employee benefits	25,242,000	3,066,000	28,308,000
Communications	2,425,000	219,000	2,644,000
Information technology	9,170,000	872,000	10,042,000
Office administration	4,207,000	201,000	4,408,000

	2019		
	Church Enrichment Ministries	Management and General Activities	Total
Facilities	3,776,000	216,000	3,992,000
Vehicle management	430,000	1,000	431,000
Advertising and promotion	14,106,000	118,000	14,224,000
Travel	7,454,000	283,000	7,737,000
Outside services	19,176,000	1,282,000	20,458,000
Postage/freight	12,791,000	-	12,791,000
Depreciation and amortization	13,637,000	445,000	14,082,000
Credit management	1,395,000	-	1,395,000
Convention support	2,675,000	-	2,675,000
Other	2,334,000	-	2,334,000
Total	$ 264,377,000	$ 14,370,000	$278,747,000

	2018		
	Church Enrichment Ministries	Management and General Activities	Total
Product costs	$ 73,326,000	$ -	$ 73,326,000
Employee compensation	71,902,000	7,800,000	79,702,000
Employee benefits	39,925,000	4,452,000	44,377,000
Communications	2,559,000	96,000	2,655,000
Information technology	9,090,000	1,149,000	10,239,000
Facilities	6,084,000	106,000	6,190,000
Vehicle management	403,000	-	403,000
Advertising and promotion	15,983,000	364,000	16,347,000
Travel	8,110,000	309,000	8,419,000
Outside services	18,843,000	1,367,000	20,210,000
Postage/freight	12,341,000	-	12,341,000
Depreciation and amortization	11,613,000	91,000	11,704,000
Credit management	399,000	-	399,000
Convention support	2,763,000	-	2,763,000
Other	1,727,000	133,000	1,860,000
Total	$ 275,068,000	$ 15,867,000	$290,935,000

(5) Inventories

Inventories are reported net of a reserve for obsolescence and shrinkage. At September 30, 2019 and 2018, inventories, net consisted of the following:

	2019	2018
Publishing	$ 44,892,000	$ 43,133,000
Conference center merchandise and supplies	178,000	126,000
LifeWay Global Inc.	203,000	204,000
	$ 45,273,000	$ 43,463,000

(6) Reserve funds

LifeWay’s reserve funds consist of investments internally restricted by LifeWay's investment policies. The maximum amount of short-term borrowings for operations, as provided by the Trustees, from LifeWay’s reserve funds or outside sources is calculated as ten percent of LifeWay's net assets without donor restrictions, excluding any pension liability, for the preceding fiscal year.

In 2019, LifeWay positioned the majority of its reserve funds in money market instruments providing access to cash needed to fund costs associated with closing its retail store chain (see Note 16). Additionally, management amended LifeWay's cash and cash equivalents policy to include reserve funds previously excluded from the policy. Accordingly, the balance of reserve funds in money market instruments at September 30, 2019 and 2018 of $44,389,000 and $5,968,000, respectively, are reported as cash and cash equivalents on the accompanying consolidated statements of financial position. Further, the investments held in reserve funds, with the exception of hedge funds, classified as long-term assets in the prior period have been reclassified as current assets at September 30, 2018 on the accompanying consolidated statements of financial position to reflect management's intention to use those funds within one year.

Marketable securities, excluding those considered cash equivalents, held in reserve funds at September 30, 2019 and 2018, are summarized as follows:

	2019		2018	
	Market Value	Cost	Market Value	Cost
Common stock	$ -	$ -	$ 49,002,000	$ 40,516,000
Mutual funds	-	-	21,197,000	21,225,000
Hedge funds	122,000	122,000	4,028,000	3,700,000
	$ 122,000	$ 122,000	$ 74,227,000	$ 65,441,000

Hedge funds are measured at NAV as a practical expedient to estimate fair value, and, therefore, are not classified in the fair value hierarchy.

The following table summarizes LifeWay's reserve funds measured at fair value on a recurring basis as of September 30, 2018, aggregated by the level in the fair value hierarchy within which those measurements fall:

	Assets at fair value			
	Level 1	Level 2	Level 3	Total
Common stocks	$ 49,002,000	$ -	$ -	$ 49,002,000
Mutual funds	21,197,000	-	-	21,197,000
Total asset values in the fair value hierarchy	$ 70,199,000	$ -	$ -	70,199,000
Hedge funds measured at NAV as a practical expedient[1]				4,028,000
Investments at fair value				$ 74,227,000

[1] The fair value amount presented in this table is intended to permit reconciliation of the fair value hierarchy to the line items presented in the consolidated statements of financial position.

The following table summarizes investments measured at fair value based on NAV per share as of September 30, 2019 and 2018, respectively.

Description	Fair Value 9/30/19	Fair Value 9/30/18	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge funds	$ 122,000	$ 4,028,000	n/a	Daily to Qrtly	30-90 days

The total return on reserve fund investments is retained and reinvested within the reserve funds and is included in other increases in net assets without donor restrictions, net, in the accompanying consolidated statements of activities (see Note 14). The following schedule summarizes the total return on investments.

	2019	2018
Change in unrealized gain (loss), net	$ (8,787,000)	$ 1,251,000
Realized gain, net	4,033,000	7,009,000
Dividend and interest income	1,013,000	1,881,000
Total return on investments	$ (3,741,000)	$ 10,141,000

Investment related expenses, which are included within realized gain, net above, were $204,000 and $477,000, for the years ended September 30, 2019 and 2018, respectively.

A detail of LifeWay's reserve funds at September 30, 2019 and 2018 is as follows:

	2019	2018
Contingency	$ 44,511,000	$ 79,695,000
Casualty insurance	-	500,000
	$ 44,511,000	$ 80,195,000

Reserve funds held in cash equivalents at September 30, 2019 and 2018 are $44,389,000 and $5,968,000, respectively.

(7) Fixed assets

A summary of fixed assets at September 30, 2019 and 2018, is as follows:

	2019	2018
Land and land improvements	$ 11,420,000	$ 13,370,000
Building and improvements	153,789,000	162,005,000
Furniture, fixtures and equipment	47,972,000	56,249,000
Roadways, sidewalks, utility systems, etc.	2,155,000	1,882,000
Automobiles and trucks	1,106,000	1,159,000
Leasehold improvements	-	195,000
Capitalized computer software development costs	41,744,000	44,910,000
Construction in progress	248,000	811,000
	258,434,000	280,581,000
Less accumulated depreciation and amortization	(100,475,000)	(104,600,000)
	$ 157,959,000	$ 175,981,000

Depreciation and amortization expense on fixed assets for fiscal years 2019 and 2018, which is included in fixed direct operating expenses and discontinued operations in the accompanying consolidated statements of activities, was $15,794,000 and $16,250,000, respectively.

On August 29, 2019, LifeWay sold its distribution center ("DC") for cash in the amount of $20,100,000. On that same day, LifeWay entered into an agreement with the buyer to lease the DC back. The sale-leaseback transaction resulted in a deferred gain of $8,830,000, which will be recognized over the 12 year term of the building lease. As of September 30, 2019, the deferred gain on the sale of the building was $8,769,000. Future minimum payments under the operating lease agreement associated with the sale-leaseback transaction are included in Note 15 to the consolidated financial statements.

(8) Intangible assets, including goodwill

As of September 30, 2019 and 2018, the balances of intangible assets were as follows:

	2019			
	Gross Carrying Amount	Accumulated Impairment	Accumulated Amortization	Net
Definite-lived intangible assets subject to amortization:				
Customer relationships	$ 2,658,000	$ 886,000	$ 1,772,000	$ -
Digital content	2,402,000	1,854,000	548,000	-
Other	264,000	-	264,000	-
	5,324,000	2,740,000	2,584,000	-
Indefinite-lived intangible assets not subject to amortization:				
Trade names and trademarks	3,735,000	113,000	-	3,622,000
	$ 9,059,000	$ 2,853,000	$ 2,584,000	$ 3,622,000

	2018			
	Gross Carrying Amount	Accumulated Impairment	Accumulated Amortization	Net
Definite-lived intangible assets subject to amortization:				
Customer relationships	$ 2,658,000	$ -	$ 1,617,000	$ 1,041,000
Digital content	2,402,000	-	499,000	1,903,000
Other	832,000	25,000	805,000	2,000
	5,892,000	25,000	2,921,000	2,946,000
Indefinite-lived intangible assets not subject to amortization:				
Trade names and trademarks	3,735,000	-	-	3,735,000
	$ 9,627,000	$ 25,000	$ 2,921,000	$ 6,681,000

During the years ended September 30, 2019 and 2018, respectively, LifeWay recognized $206,000 and $350,000 of amortization expense related primarily to customer relationships, digital content, non-compete agreements, and below market value license agreements. Additionally, impairment losses on intangible assets were recognized during 2019 and 2018 to reduce the carrying value of the assets to their fair value of $2,853,000 and $25,000, respectively. Amortization and impairment charges are included in fixed direct operating expenses and discontinued operations in the accompanying consolidated statements of activities.

The carrying amount of goodwill for the years ended September 30, 2019 and 2018 are as follows:

	2019	2018
Goodwill - gross	$ 5,746,000	$ 16,257,000
Less: accumulated impairment	(2,222,000)	(11,158,000)
	$ 3,524,000	$ 5,099,000

An impairment loss on goodwill of $1,575,000 was recognized in continuing operations for the year ended September 30, 2019. Additionally, fully impaired goodwill of $10,511,000 (net carrying value of $0) directly associated with retail stores closed as of September 30, 2019 was written off as of that date.

(9) Other long-term assets

A summary of other long-term assets at September 30, 2019 and 2018, is as follows:

	2019	2018
Bible project	$ 692,000	$ 895,000
Prepaid technology costs	143,000	424,000
SERP trust fund	1,113,000	1,280,000
Postretirement benefit plan (Note 13)	12,418,000	-
Other	336,000	370,000
	$ 14,702,000	$ 2,969,000

(10) Accrued liabilities

A summary of accrued liabilities as of September 30, 2019 and 2018, is as follows:

	2019	2018
Accrued payroll, benefits, and related taxes	$ 3,658,000	$ 6,165,000
Sales taxes	951,000	1,186,000
Reserve for sales returns	1,265,000	1,798,000
Postretirement benefits	1,235,000	263,000
Workers' compensation	803,000	902,000
Contract termination costs (Note 16)	14,666,000	-
Termination benefits (Note 16)	6,003,000	-
Other accrued liabilities	491,000	1,069,000
	$ 29,072,000	$ 11,383,000

(11) Lines of credit

LifeWay maintains a secured revolving line of credit agreement with The Northern Trust Company. The line bears interest at a rate selected by LifeWay at the time of each draw and includes options of overnight or one-month LIBOR Floating Rate plus 0.85%. Alternately, management of LifeWay may select a Prime based rate at the time of a draw or it may convert previously drawn funds at a LIBOR based rate to the Prime rate. There are no fees for any portion of the line of credit that is not used. The agreement is secured by various assets owned by LifeWay and held at The Northern Trust Company. LifeWay has a total borrowing capacity of $20,000,000 ($32,000,000 at September 30, 2018), including up to $4,000,000 ($3,000,000 at September 30, 2018) for use as letters of credit. The agreement with The Northern Trust Company is through July 22, 2020, and is expected to be renewed annually. Outstanding balances on the line were $0 and $29,288,000 as of September 30, 2019 and 2018, respectively. Letters of credit outstanding were $3,478,000 and $2,212,000 as of September 30, 2019 and 2018, respectively.

LifeWay also maintains a second line of credit with a bank effective April 10, 2019 to assist the company with restructuring costs, as needed (see Note 16). The line bears interest at a rate of LIBOR plus 3.5% and is secured by the LifeWay corporate headquarters building. There are no fees for any portion of the line of credit that is not used. LifeWay has a total original borrowing capacity of $30,000,000 and the capacity decreases by $500,000 on each annual anniversary. LifeWay must draw on this line by the end of the first anniversary of the agreement. There was no balance outstanding on this line as of September 30, 2019.

The provisions of these agreements place certain financial ratio and restriction requirements upon LifeWay. At September 30, 2019, management determined LifeWay was in compliance with these covenants.

(12) Pension plan

LifeWay has a defined benefit pension plan covering eligible employees. The plan was closed to new participants effective September 1, 2010. In 2019, LifeWay management approved an amendment to freeze benefit accruals as of January 1, 2020. Normal retirement age is 65 for employees who have attained age 40 as of September 30, 1993. For all others, normal retirement age is social security retirement age. Participants desiring to draw benefits at a reduced rate before their normal retirement age must have ten years of credited service, attained the age of 55, and left the employment of LifeWay. Benefits are based on years of service and average salary, as defined prior to retirement. The projected unit credit actuarial cost method is used to determine net periodic pension cost and to estimate pension benefit obligations.

Plan assets are stated at fair value and consist primarily of corporate equity and debt securities, U.S. government bonds and other collective investments.

GuideStone Financial Resources of the Southern Baptist Convention ("GuideStone"), a related-party, prepares the actuarial reports for LifeWay. The valuation of the plan as of September 30, 2019 incorporates the impact of the plan freeze effective January 1, 2020.

A reconciliation of the unfunded status of the plan at September 30, 2019 and 2018 (measurement date of September 30, 2019 and 2018, respectively), along with other significant plan information, is as follows:

	2019	2018
Projected benefit obligation	$ 546,812,000	$ 495,090,000
Fair value of plan assets	314,648,000	340,486,000
Unfunded status	$ 232,164,000	$ 154,604,000
Accumulated benefit obligation	$ 546,005,000	$ 485,968,000
Pension liability recognized in the consolidated statements of financial position (all noncurrent)	$ 232,164,000	$ 154,604,000
Employer contribution	$ -	$ 10,000,000
Benefits paid	$ 28,497,000	$ 27,713,000

The actuarial assumptions used to determine benefit obligations for the plan were as follows:

	2019	2018
Discount rate	3.05%	4.20%
Base pay salary scale	2.75%	2.75%
Weighted average remaining service - active participants	7.5 years	7.8 years

Based on the above discount rate, the pension plan was 57.5% funded at September 30, 2019, and 68.8% on September 30, 2018. In contrast, using the expected long-term rate of return ("ROR") on the plan's assets of 6.50%, the pension plan would be 83.5% funded at September 30, 2019 (6.75% ROR and 90.3% funded at September 30, 2018).

At September 30, 2019 and 2018, LifeWay had actuarial losses of $201,491,000 and $119,675,000, respectively, that had not yet been recognized in the net periodic pension cost and reflected as a reduction to net assets without donor restrictions.

Net periodic pension (income) expense is included as a component of fixed direct operating expenses in the accompanying consolidated statements of activities. During fiscal years 2019 and 2018, net periodic pension (income) expense was as follows:

	2019	2018
Service cost	$ 5,436,000	$ 5,963,000
Interest cost	20,437,000	19,146,000
Expected return on plan assets	(21,453,000)	(21,276,000)
Loss to the extent recognized	11,097,000	21,482,000
Amortization of unrecognized prior service cost	(1,475,000)	(1,475,000)
Special curtailment recognition [1]	(18,299,000)	-
	$ (4,257,000)	$ 23,840,000

The actuarial assumptions used to calculate net periodic pension (income) expense for the plan were as follows:

	2019	2018
Discount rate	4.20%	3.59%
Base pay salary scale	2.75%	2.75%
Expected return on assets	6.75%	6.75%
Weighted average remaining service - active participants	7.8 years	6.8 years

Changes in the plan's obligations and assets caused the following changes in net assets without donor restrictions during the year:

Amortization of loss	$ 11,097,000
Unrecognized prior service cost	1,475,000
Net actuarial loss during the year	85,242,000
2020 plan freeze	12,103,000
Curtailment impact [1]	18,299,000

[1] The plan freeze effective January 1, 2020, triggered a curtailment that caused an immediate recognition of both the 2016 and 2019 prior service cost bases.

The unrecognized loss included in net assets without donor restrictions and expected to be recognized in net periodic pension cost during fiscal 2020 is $18,907,000. The allocation of each major category of plan assets as of September 30, 2019 and 2018, along with the target percentages and approved ranges, is as follows:

Asset Class	2019	2018	Target	Approved Range
Domestic equity	42.0%	43.9%	40%	30-50%
International equity	14.5	14.3	15	5-25
Fixed income	30.7	28.0	30	20-40
Alternatives	7.0	7.5	10	0-20
Cash	5.8	6.3	5	0-10
	100.0%	100.0%	100%	

The plan assets are managed under the direction of a Trustee investment committee. This committee has established an investment policy which is used as a guide in the implementation of investment strategies, risk management, performance expectations, and operational guidelines. The operational guidelines of the investment policy address specifically such items as quality standards, maturity standards, diversification standards, liquidity standards, proxy voting, prohibited categories, special permitted categories, portfolio turnover, manager reporting, and notifications. Any deviation from these guidelines must be approved by the investment committee as an exception.

The overall expected long-term rate-of-return-on-assets assumption is determined through an analysis of actual historical returns, future market expectations, and targeted asset allocation.

In order to determine an appropriate discount rate to use for the pension liability, LifeWay's actuaries projected the expected liability cash flows for each year in the future based on the current plan population and applied the spot rates from the Findley Pension Discount Above Median AA-Curve to determine the single equivalent discount rate. In 2018, LifeWay changed the basis for estimating the discount rate from the Citigroup Pension Discount Curve to the Findley Pension Discount Above Median AA-Curve resulting in a $9,380,000 reduction to LifeWay's projected benefit obligation as of September 30, 2018.

Estimated employer contributions to the plan for the 2020 fiscal year are $1,068,000.

The estimated future benefits payable for the next five years and for the following five years in aggregate are as follows at September 30:

2020	$ 28,701,000
2021	29,240,000
2022	29,703,000
2023	30,204,000
2024	30,383,000
2025 - 2029	155,150,000

The following table summarizes the plan assets measured at fair value on a recurring basis as of September 30, 2019, aggregated by the level in the fair value hierarchy within which those measurements fall:

	Assets at fair value			
	Level 1	Level 2	Level 3	Total
Common stocks	$ 91,206,000	$ -	$ -	$ 91,206,000
Mutual funds	47,728,000	-	-	47,728,000
Debt securities	-	109,000	-	109,000
Total asset values in the fair value hierarchy	$138,934,000	$ 109,000	$ -	139,043,000
Investments measured at NAV as a practical expedient [2]				175,435,000
Investments at fair value				314,478,000
Non-invested cash				63,000
Interest and dividend income receivable				255,000
Administrative expenses payable				(368,000)
Pending investment trades receivable, net				220,000
Fair value of plan assets				$ 314,648,000

The following table summarizes the plan assets measured at fair value on a recurring basis as of September 30, 2018, aggregated by the level in the fair value hierarchy within which those measurements fall:

	Assets at fair value			
	Level 1	Level 2	Level 3	Total
Common stocks	$144,946,000	$ -	$ -	$ 144,946,000
Mutual funds	43,305,000	-	-	43,305,000
Cash and temporary/short-term investments	-	17,257,000	-	17,257,000
Debt securities	-	3,264,000	-	3,264,000
Total asset values in the fair value hierarchy	$188,251,000	$ 20,521,000	$ -	208,772,000
Investments measured at NAV as a practical expedient [2]				133,195,000
Investments at fair value				341,967,000
Non-invested cash				41,000
Interest and dividend income receivable				266,000
Administrative expenses payable				(408,000)
Pending investment trades payable, net				(1,380,000)
Fair value of plan assets				$ 340,486,000

[2] Certain investments are measured at NAV as a practical expedient to estimate fair value and, therefore, has not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the plan's separately issued statements of net assets available for benefits.

The following table summarizes investments measured at fair value based on NAV per share as of September 30, 2019 and 2018, respectively.

Description	Fair Value 9/30/19	Fair Value 9/30/18	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commingled funds	$ 66,030,000	$ 28,317,000	n/a	Daily	10-15 days
Collective trust funds	$ 87,432,000	$ 79,473,000	n/a	Daily	10-15 days
Hedge funds	$ 21,973,000	$ 25,405,000	n/a	Mthly/Qrtly	30-90 days

(13) Postretirement and other benefits

LifeWay provides certain health care and life insurance benefits for retired employees. The Defined Postretirement Medical Plan, Life Insurance Benefits Plan and Medicare Supplemental Benefits Plan specify the plan provisions, benefits and eligibility. LifeWay employees may become eligible for those benefits if they reach normal retirement age while working for LifeWay. LifeWay established a separate legal trust in the form of a Voluntary Employee Beneficiary Association ("VEBA") to administer the assets and liabilities related to these postretirement benefits. Any income earned on the assets of the trust is retained in the trust to reduce LifeWay contributions.

Effective January 1, 2011, benefits provided to those older than 65 years old were fixed.

In 2019, LifeWay approved amendments to its postretirement benefits effective January 1, 2020. The amendments include the elimination of pre-65 medical benefits for all participants, reduction of life insurance coverage to a maximum of $5,000 for all participants who retired before January 1, 2020, and elimination of life insurance coverage for those who retire on or after January 1, 2020. These amendments have been incorporated into the valuation of the postretirement benefit plan as of September 30, 2019.

GuideStone, a related party, prepares the actuarial reports for LifeWay.

A reconciliation of the combined unfunded status of the plans as of September 30, 2019 and 2018 (measurement date of September 30, 2019 and 2018, respectively), along with other significant plan information, is as follows:

	2019	2018
Benefit obligation	$ 22,302,000	$ 64,336,000
Fair value of plan assets	34,720,000	41,758,000
Unfunded status	$ (12,418,000)	$ 22,578,000
Postretirement benefit (asset) liability recognized in the consolidated statements of financial position (all non-current)	$ (12,418,000)	$ 22,578,000
Employer contribution	$ -	$ -
Gross benefits paid	$ 8,009,000	$ 1,997,000
Subsidy receipts	-	-
Net benefits paid	$ 8,009,000	$ 1,997,000

The actuarial assumptions used to determine benefit obligations for the plan were as follows:

	2019	2018
Discount rate	2.99%	4.18%
Expected return on assets	4.50%	6.75%
Weighted average remaining service - active participants	6.3 years	11.1 years

Based on the actuarial assumptions, the postretirement plans were 155.6% funded at September 30, 2019, and 64.9% on September 30, 2018.

At September 30, 2018, an initial blended health care cost trend rate of 7.18% was assumed based on allocated parameters of 80% medical (7.70% initial rate) and 20% prescription drug costs (10.30% initial rate). Additionally, health care cost trend rates were assumed to decrease linearly over a period of eight years reaching an ultimate blended trend rate of 4.85% at September 30, 2018.

Health care cost trend rate assumptions were not updated in the September 30, 2019 valuation because the plan changes effective January 1, 2020 eliminate the need for that contingency. A variation in the health care cost trend rates assumed would create no impact in those costs since the health care benefits will be of the defined dollar benefit variety.

The following amounts have not yet been recognized in the net periodic cost, and are recognized as an increase or reduction to net assets without donor restrictions:

	2019	2018
Actuarial (gains) losses	$ (377,000)	$ 20,759,000

Net periodic postretirement benefits cost is included as a component of fixed direct operating expenses in the accompanying consolidated statements of activities. During fiscal years 2019 and 2018, net periodic postretirement benefit cost was as follows:

	2019	2018
Service cost	$ 1,842,000	$ 1,904,000
Interest cost	2,690,000	2,427,000
Expected return on plan assets	(2,678,000)	(2,652,000)
Amortization of unrecognized prior service cost	-	(1,070,000)
Gain or loss to the extent recognized	1,315,000	2,087,000
Special curtailment recognitions [1]	(17,030,000)	-
	$ (13,861,000)	$ 2,696,000

Changes in the plan's obligations and assets caused the following changes in net assets without donor restrictions during the year:

Amortization of loss	$ 1,315,000
Net actuarial loss during the year	(8,963,000)
2020 plan changes	45,053,000
Curtailment impact (prorata recognition of prior service cost) [1]	(17,030,000)
Curtailment impact (recognition of previously unrecognized loss) [1]	760,000

[1] The restructuring of the Retail Division, specifically, the closing of retail stores in 2019 (Note 16), triggered a curtailment. This caused a prorata recognition of the prior service cost base set up for the plan changes effective January 1, 2020, plus an immediate offsetting recognition of the resulting gain against the prior outstanding loss.

The amortization of unrecognized prior service cost expected to be recognized in net periodic postretirement benefit cost (income) during fiscal year 2019 is $(5,495,000).

The allocation of each major category of plan assets as of September 30, 2019 and 2018, along with the target percentages and allowable ranges, as amended in 2019, is as follows:

Asset Class	2019	2018	Target	Approved Range
Domestic equity	0.0%	47.0%	0%	0%
International equity	0.0	14.1	0	0
Fixed income	93.3	24.5	100	80-100
Alternatives	0.0	8.6	0	0
Cash	6.7	5.8	0	0-20
	100%	100%	100%	

The plan assets are managed under the direction of a Trustee investment committee. The investment policies and strategies and the basis for determining the long-term rate of return on assets and the discount rate are the same as those used for the pension plan. The prior year change in the basis for estimating the discount rate from the Citigroup Pension Discount Curve to the Findley Pension Discount Above Median AA-Curve resulted in a $1,224,000 reduction to LifeWay's projected postretirement benefits obligation as of September 30, 2018.

There are no estimated employer contributions to the plans for the 2020 fiscal year.

The estimated future benefits payable for the next five years and for the following five years in aggregate are as follows at September 30:

2020	$ 2,145,000
2021	1,508,000
2022	1,423,000
2023	1,375,000
2024	1,338,000
2025 - 2029	6,216,000

The following table summarizes the plan assets measured at fair value on a recurring basis as of September 30, 2019, aggregated by the level in the fair value hierarchy within which those measurements fall:

	Assets at fair value			
	Level 1	Level 2	Level 3	Total
Mutual funds	$ 2,394,000	$ -	$ -	$ 2,394,000
Debt Securities	1,923,000	28,719,000	-	30,642,000
U.S. Gov. & Agency Obligations	-	2,806,000	-	2,806,000
Total asset values in the fair value hierarchy	$ 4,317,000	$ 31,525,000	$ -	35,842,000
Interest receivable				357,000
Postretirement benefits payable, net				(862,000)
Administrative expenses payable				(33,000)
Pending investment trades receivable				(584,000)
Fair value of plan assets				$ 34,720,000

The following table summarizes the plan assets measured at fair value on a recurring basis as of September 30, 2018, aggregated by the level in the fair value hierarchy within which those measurements fall:

	Assets at fair value			
	Level 1	Level 2	Level 3	Total
Common stocks	$ 12,474,000	$ -	$ -	$ 12,474,000
Mutual funds	20,712,000	-	-	20,712,000
Cash and temporary/short-term investments	-	499,000	-	499,000
Total asset values in the fair value hierarchy	$ 33,186,000	$ 499,000	$ -	33,685,000
Investments measured at NAV as a practical expedient [2]				7,999,000
Investments at fair value				41,684,000
Interest receivable				48,000
Postretirement benefits payable, net				60,000
Administrative expenses payable				(79,000)
Pending investment trades payable				45,000
Fair value of plan assets				$ 41,758,000

[2] Certain investments are measured at NAV as a practical expedient to estimate fair value and, therefore, has not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the plan's separately issued statements of net assets available for benefits.

The following table summarizes investments measured at fair value based on NAV per share as of September 30, 2019 and 2018, respectively.

Description	Fair Value 9/30/19	Fair Value 9/30/18	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Collective trust funds	$ 0	$ 6,656,000	n/a	Daily	10-15 days
Hedge fund	$ 0	$ 1,343,000	n/a	Mthly/Qrtly	30-90 days

In addition to the postretirement benefits discussed above, LifeWay also provides supplemental retirement benefits to certain current and former executives of LifeWay, whose benefits were limited under LifeWay's pension plan. Effective January 1, 2009, LifeWay amended its original Supplemental Executive Retirement Plan ("SERP") to eliminate all current and future active participants from the plan. Simultaneously, LifeWay established a replacement supplemental plan, the 457(f) Make-Whole Retirement Plan ("MWRP"), to provide benefits to a limited group of LifeWay executives whose benefits are capped under LifeWay's pension. Both plans are restoration only plans.

In conjunction with the approved freezing of the LifeWay pension plan (Note 12), LifeWay approved the termination of the MWRP effective as of January 1, 2020.

A reconciliation of the combined unfunded status of the SERP and MWRP as of September 30, 2019 and 2018 (measurement dates of September 30, 2019 and 2018, respectively), along with other significant plan information, is as follows:

	2019	2018
Projected benefit obligation of SERP	$ 1,700,000	$ 1,712,000
Projected benefit obligation of MWRP	72,000	431,000
Unfunded status	$ 1,772,000	$ 2,143,000
Accumulated benefit obligation	$ 1,772,000	$ 2,115,000
Pension liability recognized in the Statements of Financial Position (current)	$ 246,000	$ 406,000
Pension liability recognized in the Statements of Financial Position (non-current)	$ 1,525,000	$ 1,737,000
Employer contribution	$ -	$ -
Benefits paid	$ 418,000	$ 424,000

The actuarial assumptions used to determine benefit obligations for the SERP and MWRP were as follows:

	2019	2018
SERP discount rate	2.73%	4.05%
MWRP discount rate	1.84%	3.28%
Base salary scale	N/A	2.75%

The MWRP discount rate was relevant from December 2019, when the final payments from the MWRP were made, back to the valuation date. The prior year change in the basis for estimating the discount rates from the Citigroup Pension Discount Curve to the Findley Pension Discount Above Median AA-Curve as of September 30, 2018, resulted in a $31,000 reduction to LifeWay's projected SERP and MWRP benefit obligations as of September 30, 2018.

The following amounts have not yet been recognized in the net periodic cost, and are recognized as a reduction to net assets without donor restrictions:

	2019	2018
Actuarial losses	$ 1,076,000	$ 696,000
Prior service credit	-	88,000
Total	$ 1,076,000	$ 784,000

During fiscal 2019 and 2018, net periodic benefit (income) costs were as follows:

	2019	2018
Service cost	$ 60,000	$ 68,000
Interest cost	78,000	70,000
Amortization of unrecognized prior service cost	88,000	250,000
Actuarial (gain) loss to the extent recognized	(13,000)	(51,000)
Special curtailment recognition [1]	(458,000)	-
	$ (245,000)	$ 337,000

Changes in the plan's obligations and assets caused the following changes in net assets without donor restrictions during the year:

Amortization of prior service credit	$ 88,000
Amortization of gain	(13,000)
Net actuarial gain during the year	91,000
Curtailment impact (outstanding gain recognition) [1]	(458,000)

[1] The plan freeze effective January 1, 2020, triggered a curtailment due to the elimination of future service causing an immediate recognition of the total outstanding gain.

The unrecognized loss included in net assets without donor restrictions and expected to be recognized in net periodic pension cost during 2020 is $75,000. No prior service cost is expected to be recognized during 2020.

The estimated future benefits payable for the next five years and for the following five years in aggregate are as follows at September 30:

2020	$ 271,000
2021	169,000
2022	162,000
2023	155,000
2024	147,000
2025 - 2029	593,000

During fiscal year 2005, LifeWay established a Rabbi Trust and transferred assets to the Rabbi Trust that LifeWay has designated to fund payments to participants in the SERP. The Rabbi Trust held assets totaling $1,113,000 and $1,280,000 as of September 30, 2019 and 2018, respectively. These assets are included in other assets in the consolidated statements of financial position.

The following table summarizes the Rabbi Trust assets measured at fair value on a recurring basis as of September 30, 2019, aggregated by the level in the fair value hierarchy within which those measurements fall:

	Assets at fair value			
	Level 1	Level 2	Level 3	Total
Money market funds	$ 45,000	$ -	$ -	$ 45,000
Mutual funds	1,068,000	-	-	1,068,000
Total investments at fair value	$ 1,113,000	$ -	$ -	$ 1,113,000

The following table summarizes the Rabbi Trust assets measured at fair value on a recurring basis as of September 30, 2018, aggregated by the level in the fair value hierarchy within which those measurements fall:

	Assets at fair value			
	Level 1	Level 2	Level 3	Total
Money market funds	$ 53,000	$ -	$ -	$ 53,000
Mutual funds	1,227,000	-	-	1,227,000
Total investments at fair value	$ 1,280,000	$ -	$ -	$ 1,280,000

LifeWay has a voluntary contribution 401(k) savings plan for all eligible employees, as defined under the plan. Participating employees can contribute up to 100% of their annual earnings subject to certain limitations as defined in the plan and by law, with LifeWay matching a portion of employee contributions not in excess of 6% of the employees' annual earnings. For 2019 and 2018, LifeWay's expense related to the plan and attributable to both continuing and discontinued operations was, in the aggregate, $2,679,000 and $2,782,000, respectively.

(14) Other income (loss)

Other income (loss), net for the years ended September 30, 2019 and 2018, was comprised of the following:

	2019	2018
Return on investments (Note 6)	$ (3,741,000)	$ 10,141,000
Interest income, interest expense and bank fees, net	(79,000)	(426,000)
Loss on disposal of fixed assets	(1,690,000)	(131,000)
Other, net	(270,000)	339,000
	$ (5,780,000)	$ 9,923,000

(15) Rental expense and lease commitments

LifeWay rents certain buildings and computer equipment under operating lease arrangements. Total rent and related charges from continuing and discontinued operations for fiscal years 2019 and 2018 was $25,906,000 and $31,033,000, respectively. Total contingent rent expense for fiscal years 2019 and 2018 was insignificant.

Following is a summary of future minimum payments under operating leases that have initial or remaining noncancelable lease terms in excess of one year at September 30:

	Amount
2020	$ 21,027,000
2021	7,182,000
2022	5,059,000
2023	3,802,000
2024	2,580,000
2025 and later years	13,060,000
Total	$ 52,710,000

Of the $21,027,000 of minimum payments in 2020 above, $13,020,000 is the estimated amount of remaining lease obligations associated with retail stores closed as of September 30, 2019.

(16) Discontinued operation

In January 2019, LifeWay committed to a plan to close its retail store chain (170 stores) following a strategic decision to focus on the continued strength and growth of its retail sales through direct online and third-party channels. Management's decision to materially reduce the retail division operations was made after experiencing continued financial losses, along with negative sales and growth trends in its brick-and-mortar bookstores. As of September 30, 2019, 127 of 170 stores had been closed and vacated. The closure of the remaining 43 stores was completed between October 1, 2019 and November 30, 2019.

The retail store locations that have been closed constitute discontinued operations for financial reporting purposes. Accordingly, the comparative consolidated statements of financial position, after reclassification of previously reported amounts for September 30, 2018, separately present the assets and liabilities of the discontinued operation. Similarly, the comparative consolidated statements of activities, after reclassification of previously reported amounts for the year ended September 30, 2018, separately present the results of operations, including related gains and losses of the discontinued operation.

Assets and liabilities held for sale as of September 30, 2019 and 2018, are as follows:

	2019	2018
Carrying amounts of the major classes of assets included as part of discontinued operation		
Cash	$ 396,000	$ 620,000
Accounts receivable	1,902,000	4,266,000
Inventories	7,318,000	44,829,000
Prepaid expenses and other current assets	1,659,000	3,150,000
Fixed assets	1,926,000	5,922,000
Total major classes of assets of the discontinued operation	13,201,000	58,787,000
Assets included in discontinued operation not classified as held for sale	(3,957,000)	(8,036,000)
Total assets of the disposal group classified as held for sale	$ 9,244,000	$ 50,751,000
Carrying amounts of the major classes of liabilities included as part of discontinued operation		
Accounts payable	$ 2,185,000	$ 14,758,000
Accrued liabilities		
Contract termination costs	14,666,000	-
Termination benefits	6,003,000	-
Other accrued liabilities	148,000	3,384,000
Total major classes of liabilities of the discontinued operation	23,002,000	18,142,000

	2019	2018
Liabilities included in discontinued operation not classified as held for sale	(23,002,000)	(18,142,000)
Total liabilities of the disposal group classified as held for sale	$ -	$ -

Results of the discontinued operation for the years ended September 30, 2019 and 2018, are as follows:

	2019	2018
Major classes of line items constituting loss from discontinued operation		
Revenue	$ 172,280,000	$ 210,808,000
Variable expenses	(83,348,000)	(94,716,000)
Fixed direct operating expenses	(127,414,000)	(121,353,000)
Interest expense	(390,000)	(426,000)
Loss on disposal of fixed assets	(299,000)	(255,000)
Impairment loss	-	(22,200,000)
Curtailment gain	17,030,000	-
Total loss from discontinued operation	$ (22,141,000)	$ (28,142,000)

Operating and investing cash flows of the discontinued operation for the years ended September 30, 2019 and 2018, are as follows:

	2019	2018
Net cash provided by operating activities	$ 9,270,000	$ 7,250,000
Net cash provided (used) by investing activities	1,780,000	(10,412,000)
Net cash flows for the year	$ 11,050,000	$ (3,162,000)

(17) Commitments and contingencies

LifeWay is subject to various claims and lawsuits arising in the normal course of business. LifeWay maintains various insurance coverages in order to minimize financial risk associated with certain claims. In the opinion of management after consultation with legal counsel, additional uninsured losses, if any, resulting from the ultimate resolution of these other matters will not be material to LifeWay's financial position, results of activities, or cash flows.

(18) Change in accounting principle

During 2019, LifeWay made a change in inventory cost components related to the method by which certain distribution costs are included in inventory. The cumulative effect of this change in accounting principle was a $3,000,000 decrease to inventory (a component of current assets classified as held for sale) at September 30, 2018, an increase to the loss from discontinued operation in 2018 of $396,000 (overall decrease to the increase in net assets for 2018), and a decrease to net assets without donor restrictions as of October 1, 2017 of $2,604,000.

(19) Supplemental disclosures of cash flow statement information

	2019	2018
Interest paid	$ 390,000	$ 426,000

In September 2019, LifeWay sold and leased back a distribution center resulting in a deferred gain on the sale-leaseback of $8,830,000.

INDEPENDENT AUDITORS' REPORT

The Board of Trustees of
LifeWay Christian Resources of the Southern Baptist Convention and Subsidiary

We have audited the accompanying consolidated financial statements of LifeWay Christian Resources of the Southern Baptist Convention and Subsidiary, which comprise the consolidated statements of financial position as of September 30, 2019 and 2018, 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 the 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of 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 auditors' 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 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 consolidated financial statements.

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

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of LifeWay Christian Resources of the Southern Baptist Convention and Subsidiary as of September 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed in Note 2(s) to the consolidated financial statements, in 2018 management elected to change the basis of estimating discount rates used to measure the settlement of future pension and postretirement benefits other than pension obligations. Our opinion is not modified with respect to this matter.

LBMC, PC
Brentwood, Tennessee
January 24, 2020