



# LACE

*Lutheran Association  
for Church Extension*

**National Offering Circular  
2021**



Serving congregations of the WELS & ELS since 1960.

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**NATIONAL OFFERING CIRCULAR  
\$12,000,000**

<b>Loan Certificates</b>	
Minimum Investment	\$25.00*
<b>Demand Certificate</b>	
Minimum Investment	\$25.00
<b>IRA Investment Certificate</b>	
Minimum Initial Investment	\$250.00

\*The minimum investment amount for Loan **Certificates** is subject to change, may vary based on term, and is reflected on the current rate sheet.

Lutheran Association for Church Extension, Inc. (“**LACE**”) is offering nationally (“**Offering**”) up to \$12 Million in aggregate principal amount of Demand, Loan (various terms) and IRA Investment Certificates (collectively, “**Certificates**”). The aggregate principal amount of **Certificates** offered in any particular state may be limited. **LACE** offers the **Certificates** to organizations and individuals who are or are members of, constituents of, participants in, or contributors to (collectively, “**Members**”), the Wisconsin Evangelical Lutheran Synod (“**WELS**”), the Evangelical Lutheran Synod (“**ELS**”), **LACE**, or churches, schools or other organizations that are affiliated with **WELS**, **ELS** or **LACE**.

The **Offering** is not underwritten and **LACE** does not compensate any individual in connection with their participation in the offer or sale of **Certificates** by the payment of commissions or other remuneration based, directly or indirectly, on the offer or sale of the **Certificates**. Accordingly, **LACE** will receive 100% of the proceeds from the sale of the **Certificates** and will bear all expenses incurred in the **Offering**, which are anticipated to be approximately one-half of one percent of the total **Offering** amount. No minimum offering is required so **LACE** will use the proceeds when received.

The **Offering** is subject to certain risk factors (see “Risk Factors” on pages 2 through 8). Potential investors should carefully review this Offering Circular before deciding to purchase **Certificates**. **Certificates** are not available in all states.

Interest is paid annually on the **Certificates**. Each Demand and Loan Certificate Holder has the option to reinvest the annual interest payments and thereby increase the outstanding principal amount of the **Certificate**. IRA Investment **Certificates** are required to reinvest interest payments annually.

**THE RATE OF INTEREST FOR EACH TYPE OF CERTIFICATE IS REFLECTED ON THE ENCLOSED INTEREST RATE SHEET. INTEREST RATES MAY BE ADJUSTED FROM TIME TO TIME AFTER THE DATE OF THE ENCLOSED RATE SHEET, AND THE CURRENT RATES MAY BE OBTAINED BY CALLING 1-888-550-5223 OR VISITING OUR WEB SITE AT WWW.LACEINC.ORG.**

**This Offering Circular is dated October 1, 2020, and may be used until the expiration of the periods of time authorized in the various states, which typically is twelve months.**

THE **CERTIFICATES** MAY EITHER BE REGISTERED OR EXEMPT FROM REGISTRATION IN THE VARIOUS STATES IN WHICH THEY ARE OFFERED OR SOLD. THIS OFFERING CIRCULAR HAS BEEN FILED WITH THE SECURITIES ADMINISTRATORS IN THE STATES THAT REQUIRE THE FILING OF THIS OFFERING CIRCULAR FOR REGISTRATION OR EXEMPTION.

THE **CERTIFICATES** ARE ISSUED PURSUANT TO A CLAIM OF EXEMPTION FROM REGISTRATION UNDER SECTION 3(a)(4) OF THE FEDERAL SECURITIES ACT OF 1933 AND SECTION 3(C)(10) OF THE FEDERAL INVESTMENT COMPANY ACT OF 1940. A REGISTRATION STATEMENT RELATING TO THE **CERTIFICATES** HAS NOT BEEN FILED WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION.

THE **CERTIFICATES** HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT DETERMINED THE ACCURACY, ADEQUACY, TRUTHFULNESS, OR COMPLETENESS OF THIS DOCUMENT AND HAVE NOT PASSED UPON THE MERIT OR VALUE OF THE **CERTIFICATES**, OR APPROVED, DISAPPROVED OR ENDORSED THE **OFFERING**. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

WHEN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF **LACE** AND THE TERMS OF THE **OFFERING**, INCLUDING THE DISCLOSURE, MERITS AND RISKS INVOLVED.

THE **CERTIFICATES** ARE NOT SAVINGS OR DEPOSIT ACCOUNTS OR OTHER OBLIGATIONS OF A BANK AND ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION, ANY STATE BANK INSURANCE FUND OR ANY OTHER GOVERNMENTAL AGENCY. THE PAYMENT OF PRINCIPAL AND INTEREST TO AN INVESTOR IN THE **CERTIFICATES** IS DEPENDENT UPON **LACE'S** FINANCIAL CONDITION. ANY PROSPECTIVE INVESTOR IS ENTITLED TO REVIEW **LACE'S** FINANCIAL STATEMENTS, WHICH SHALL BE FURNISHED AT ANY TIME DURING BUSINESS HOURS UPON REQUEST. THE **CERTIFICATES** ARE NOT OBLIGATIONS OF, NOR GUARANTEED BY, **WELS** OR **ELS**, OR BY ANY CHURCH, CONFERENCE, INSTITUTION OR AGENCY AFFILIATED WITH **WELS** OR **ELS**.

NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION IN CONNECTION WITH THIS **OFFERING** THAT IS INCONSISTENT WITH THIS OFFERING CIRCULAR, AND IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED ON AS HAVING BEEN MADE BY **LACE**.

INVESTORS ARE ENCOURAGED TO CONSIDER THE CONCEPT OF INVESTMENT DIVERSIFICATION WHEN DETERMINING THE AMOUNT OF **CERTIFICATES** THAT WOULD BE APPROPRIATE FOR THEM IN RELATION TO THEIR OVERALL INVESTMENT PORTFOLIO AND PERSONAL FINANCIAL NEEDS. INVESTORS SHOULD MAKE AN INDEPENDENT DECISION ABOUT WHETHER PURCHASING **CERTIFICATES** WILL AID THEM IN ACCOMPLISHING THEIR INVESTMENT OBJECTIVES AND WHETHER THE **CERTIFICATES** FIT WITHIN THEIR FINANCIAL RISK TOLERANCE.

## STATE - SPECIFIC INFORMATION

### California

Automatic renewal upon maturity of a Loan Certificate, as provided in this Offering Circular, is not available to investors who are California residents. All California investors will receive a maturity notice and a current Offering Circular within thirty days of each Loan Certificate maturity date, and California investors will have the opportunity to notify LACE if they intend to renew their investments. If renewal is not requested, investor's funds will be promptly returned. Renewals can be made only if LACE is qualified to make sales in the state of California.

LACE will not create, incur, or voluntarily permit any material lien upon any of its assets or otherwise incur material indebtedness having a prior claim to its assets or otherwise senior to Certificates issued to California investors, except for (1) liens or charges for current taxes, assessments or other governmental charges which are not delinquent or which remain payable without penalty or the validity of which are contested in good faith; (2) liens made to secure statutory obligations, surety or appeal bonds, or bonds for the release of attachments or for stay of execution; (3) purchase money security interests for property hereafter acquired; or (4) judgment liens. For purposes of this covenant, the term "material" shall mean an amount which equals or exceeds 10% of the tangible assets of LACE.

### Florida

THESE SECURITIES HAVE NOT BEEN REGISTERED WITH THE FLORIDA DIVISION OF SECURITIES AND INVESTOR PROTECTION. LACE IS REGISTERED AS AN ISSUER/DEALER TO SELL ITS OWN SECURITIES AND THE AUTHORIZED REPRESENTATIVE(S) OF LACE ARE REGISTERED AS ASSOCIATED PERSONS.

### Kentucky

These securities are issued pursuant to a claim of exemption from registration under Section KRS 292.400(9) of the Kentucky Securities Act.

### Kentucky and Oregon

Automatic renewal upon maturity of a Loan **Certificate**, as provided in this Offering Circular, is not available to investors who are Kentucky or Oregon residents. All investors in these states will receive a maturity notice and a current Offering Circular (if one has not been previously sent) at least thirty days in advance of the maturity date of their Loan **Certificate(s)**, and will have the opportunity to notify **LACE** if they intend to renew their investment. If renewal is not requested, investor's funds will be promptly returned. Renewals can be made only if **LACE** is qualified to make sales in the investor's state at the time of the renewal.

### Louisiana

**LACE** does not sell Demand **Certificates** in the State of Louisiana. Rather, Demand **Certificates** offered in Louisiana have a one year term, but are not subject to an early redemption penalty.

**Certificates** held by Louisiana residents will not renew automatically upon maturity. Instead, Louisiana investors will receive the same type of maturity notice as that described for Loan **Certificates**, and Louisiana investors will have the opportunity to notify **LACE** if they intend to renew their investments. Louisiana investors who do not request renewal will have their funds promptly returned. **LACE** has no obligation to pay interest and no one has the right to receive interest following the maturity of a Loan **Certificate**, unless the Loan **Certificate** is reinvested in accordance with the procedure stated above.

THESE SECURITIES HAVE BEEN REGISTERED WITH THE SECURITIES COMMISSIONER OF THE STATE OF LOUISIANA. THE SECURITIES COMMISSIONER, BY ACCEPTING REGISTRATION, DOES NOT IN ANY WAY ENDORSE OR RECOMMEND THE PURCHASE OF ANY OF THESE SECURITIES.

### **Oregon**

**LACE** is authorized to offer and sell \$400,000 in **Certificates** in Oregon during the registration period, which amount may be amended under Oregon Securities Law.

### **Pennsylvania**

Pennsylvania residents who purchase **Certificates** have the right to withdraw from the purchase pursuant to Section 207(m) of the Pennsylvania Securities Act of 1972. If you accept an offer to purchase **Certificates**, you may elect, within two business days after the first time you have received this Offering Circular, to withdraw your application to purchase and receive a full refund of all monies paid by you. Your withdrawal will be without any further liability to any person. To accomplish this withdrawal, you need only send a written notice in the form of a letter, telegram, facsimile or electronic mail to **LACE** indicating your intention to withdraw. Such notice should be sent and postmarked prior to the end of the aforementioned second business day. If you are sending a letter, it is prudent to send it by certified mail, return receipt requested, to ensure that it is received and also to evidence the time when it was mailed.

A registration statement with respect to the **Certificates** offered by this Offering Circular has been filed in the offices of the Pennsylvania Department of Banking and Securities. Such registration statement included certain exhibits only summarized or alluded to in this Offering Circular and such additional documents are available at the offices of the Pennsylvania Department of Banking and Securities, 17 North Second Street, Suite 1300, Harrisburg, Pennsylvania 17101, telephone (717) 787-8059, during regular business hours, which are Mondays through Fridays from 8:30 a.m. to 5:00 p.m.

It is the position of the Pennsylvania Department of Banking and Securities that indemnification in connection with violations of the securities laws is against public policy and void.

### **South Carolina**

Demand instruments are not permitted in South Carolina. As a result, Demand **Certificates** are not available for sale in the State of South Carolina, and IRA Investment **Certificates** sold to South Carolina residents will have a five-year term. IRA Investment **Certificates** may be

redeemed prior to this time only if approved by **LACE** in its sole discretion based upon hardship or other conditions affecting the investor.

If you were a resident of the State of South Carolina when you purchased a **Certificate**, you may declare an “event of default” on your **Certificate** only if one of the following occurs:

- **LACE** does not pay overdue principal and interest on the **Certificate** within thirty days after **LACE** receives written notice from you that **LACE** failed to pay the principal or interest when due; or
- A South Carolina resident who owns a **Certificate** of the “same issue” as your **Certificate** (i.e., the same type, term and offering) has rightfully declared an event of default as to his or her **Certificate**.

To declare an event of default, you must submit a written declaration to **LACE**. The rightful declaration of an event of default as to any one **Certificate** of an issue constitutes an event of default on the entire issue in South Carolina. Upon a rightful declaration of an event of default on a **Certificate**:

- The principal and interest on your **Certificate** becomes immediately due and payable;
- If you request in writing, **LACE** will send you a list of names and addresses of all investors in the State of South Carolina who own a **Certificate** of the same issue as your **Certificate**; and
- The owners of 25% or more of the total principal amount of debt securities of the same issue outstanding in the State of South Carolina can declare the entire issue in the State of South Carolina due and payable.

## **South Dakota**

THESE SECURITIES ARE OFFERED PURSUANT TO A CLAIM OF EXEMPTION FROM REGISTRATION UNDER SDCL 47-31B-201(7)(B) OF THE SOUTH DAKOTA SECURITIES ACT. NEITHER THE SOUTH DAKOTA DIVISION OF INSURANCE (DIVISION) NOR THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION HAS PASSED UPON THE VALUE OF THESE SECURITIES, MADE ANY RECOMMENDATIONS AS TO THEIR PURCHASE, APPROVED OR DISAPPROVED THE OFFERING, OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

## **Tennessee**

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD

EXCEPT AS PERMITTED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISK OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

### **Washington**

Automatic renewal upon maturity of a Loan Certificate, as provided in this Offering Circular, is not available to investors who are Washington residents. All Washington investors will receive a maturity notice and a current Offering Circular within thirty days of each Loan Certificate maturity date, and Washington investors will have the opportunity to notify LACE if they intend to renew their investments. If renewal is not requested, the investor's funds will be promptly returned. Renewals can be made only if LACE is then qualified to make sales in the state of Washington.

## SUMMARY

This summary is provided for your convenience. Before investing, you should read the entire Offering Circular, including the audited financial statements attached as **Exhibit A** to this Offering Circular (“**Financial Statements**”).

**LACE** is a Michigan non-profit, non-stock directorship corporation established to make loans primarily to self-supporting **WELS** and **ELS** churches, schools and other affiliated organizations. See “History and Organization – General” on page 9.

**LACE** will use the proceeds from this **Offering** primarily to make low interest loans to **Borrowers** for approved purposes. These loans are used for financing capital expansion projects (particularly for the construction, renovation, repair or purchase of facilities and real property for worship, education and ministry); refinancing existing capital indebtedness; making major purchases of equipment; and for other projects that serve to extend the Lutheran church and its mission. See “Lending Activities” on page 11.

**LACE** offers three types of **Certificates**: Demand, Loan (various terms) and IRA Investment **Certificates**. The rate of interest for each type of **Certificate** is set forth on the interest rate sheet enclosed with this Offering Circular. Interest rates may be adjusted from time to time after the date of the enclosed rate sheet, and current rates may be obtained by calling either 1-989-781-1600 or 1-888-550-LACE, or by visiting our website at [www.laceinc.org](http://www.laceinc.org). See “Description of Certificates” on page 19.

### SUMMARY FINANCIAL INFORMATION

The following chart summarizes certain financial information as of and for the fiscal year ended June 30, 2020, and should be read in conjunction with the **Financial Statements**:

Assets	
Cash and cash equivalents	\$ 2,497,260
Loans, net of allowance for loan losses*	52,101,113
Other assets	257,247
Total assets	<u>\$ 54,855,620</u>
Liabilities	
Investment certificates payable	\$ 48,414,888
Other liabilities	744,613
Total liabilities	<u>49,159,501</u>
Net assets, end of year	\$ 5,696,119
Net assets, beginning of year	<u>5,275,661</u>
Change in net assets	<u>\$ 420,458</u>
Certificates issued	\$ 5,758,994
Certificates redeemed	\$ 3,276,892

\* Of these loans, none were unsecured, and none were delinquent. See also “Lending Activities” on page 11.

**See also “Risk Factors” beginning on the next page.**

**-Not FDIC Insured**

**-Not a bank deposit**

**-No Synod guarantee**

## RISK FACTORS

The **Certificates** involve potential risks to Certificate Holders. Investors should carefully consider the following risk factors and should review the **Financial Statements** prior to making a commitment to purchase **Certificates**.

### **Unsecured and Uninsured Obligations**

The **Certificates** are unsecured and uninsured general obligations of **LACE**. Certificate Holders will be dependent solely upon the financial condition of **LACE** for principal repayment and interest payments on the **Certificates**. No **LACE** assets have been or will be pledged as security for repayment of principal or interest on the **Certificates**. The **Certificates** **LACE** has issued in the past are also unsecured debt obligations, and will have the same priority as **Certificates** issued pursuant to this **Offering**. The **Certificates** may be subordinated to senior indebtedness of up to ten percent (10%) of **LACE**'s tangible assets. See also "Financial and Operational Activities – Line of Credit" on page 16.

### **No FDIC or SIPC Insurance; No WELS or ELS Guarantee**

The **Certificates** are not issued by or obligations of a bank and therefore are not FDIC insured. Nor are they protected by the Securities Investor Protection Corporation. They also are not guaranteed by **WELS** or **ELS**. Certificate Holders must rely solely upon **LACE** to pay all interest and principal on the **Certificates**. Accordingly, the risk of an investment in the **Certificates** may be greater than implied by the interest rates offered on the **Certificates**.

### **No Sinking Fund and Limited Liquid Assets**

**LACE** has not established, and has no plans to establish, a sinking fund for repayment of principal on the **Certificates**. Accordingly, **LACE** has not set aside funds for repayment of the **Certificates** upon their maturity. **LACE**'s ability to repay a **Certificate** will be affected by the financial condition and liquidity of **LACE** at the time the **Certificate** matures.

### **No Trust Indenture**

**LACE** has not established, and does not intend to establish, a trust indenture to provide for the payment of principal on the **Certificates**. Accordingly, no trustee will monitor the ongoing affairs of **LACE** on behalf of Certificate Holders, no agreement will provide for joint action by Certificate Holders in the event **LACE** defaults on the **Certificates**, and Certificate Holders will not have the other protections a trust indenture would provide.

### **Interest Rate and Market Risks**

**LACE** may invest its cash and cash equivalents until those funds are needed to meet demands for loans or the redemption of **Certificates**. **LACE** may not always be able to obtain an average return on its investments and loans that is greater than its average interest obligations. Further, **LACE**'s investments are subject to market risks and their value may decline. Downward fluctuations in the value of **LACE**'s investments could have a material adverse impact on **LACE**'s ability to repay **Certificates**. See "Investment Activities" beginning on page 16 for information on **LACE**'s investment policies and returns. Past investment performance does not indicate future returns.

## Ability of WELS and ELS Religious Organizations to Repay LACE Loans

LACE extends loans primarily to **WELS and ELS Religious Organizations**. The ability of **Borrowers** to repay their loans generally will depend upon whether they receive sufficient gifts and contributions from their members. Gifts and contributions may fluctuate for a number of reasons, including, but not limited to, the strength of the economy, the economic health of major employers in the area, or population shifts in the region where the **Borrower** is located. To the extent a **Borrower** experiences a decrease in its revenues, including contributions from its members, the **Borrower's** ability to repay its loan may be affected adversely. As of June 30, 2020, LACE had total loans outstanding to **Borrowers** of \$52,101,113, net of an allowance for loan losses of \$285,000. LACE has not charged off any loans to **Borrowers** as uncollectible and has not had any loan delinquencies as of June 30 in the past nine years. The inability of **Borrowers** to make timely payments on their loans could adversely affect LACE's ability to make interest and principal payments on the **Certificates**.

## Repayment of Certificates Dependent on Adequacy of Cash Flows

Historically, approximately 80% to 85% of the principal amount of maturing **Certificates** has been reinvested. To the extent, however, that Certificate Holders elect to redeem their **Certificates** at maturity or upon demand, LACE must fund these redemptions, together with administrative and interest expenses, from its cash flows. LACE relies significantly upon the principal and interest payments received from its **Borrowers** to fund the interest payments and cash redemptions of **Certificates**. LACE also may utilize other sources of cash, including proceeds from the issuance of **Certificates** or other borrowings, for this purpose. For the years ended June 30, 2020, 2019, and 2018, LACE received payments of principal and interest on loans totaling \$6,111,030, \$4,748,845, and \$4,384,197, respectively. These payments were comprised of principal payments of \$3,713,430, \$2,478,147, and \$2,354,962, and interest payments of \$2,397,600, \$2,270,698, and \$2,029,235, respectively. LACE also received proceeds from the issuance of **Certificates** of \$5,758,994, \$5,959,416, and \$6,644,736, respectively. In comparison, LACE experienced cash redemptions of **Certificates** totaling \$3,276,892, \$3,593,051, and \$3,478,768, and made interest payments on **Certificates** totaling \$1,489,369, \$1,352,795, and \$1,297,889, respectively, for the years ended June 30, 2020, 2019, and 2018. If LACE were to experience an increase in **Certificate** redemptions at maturity or on demand, a decrease in new **Certificates** purchased, and/or a decrease in receipts of principal and interest payments from **Borrowers**, it could have a material adverse impact on the adequacy of LACE's cash flows to fund all redemptions and interest payments on outstanding **Certificates**.

## Uninsured or Inadequately Insured Risks

Before extending a loan secured by real property, LACE generally requires that the **Borrower** supply mortgage title insurance in the principal amount of the loan and name LACE as a beneficiary under the insurance policy. However, this policy may be waived when the loan amount is less than \$165,001 and the loan is amortized for less than 181 months. LACE also generally requires that the **Borrower** provide proof of continuing fire insurance and extended coverage with LACE named as a loss payee. LACE makes no assurance, however, that this insurance has been required or verified in every instance. Further, LACE makes no assurances that this insurance is adequate to protect LACE's security interest in the property or to allow LACE to recover the outstanding principal amount of any loan.

## **Redemptions at Maturity**

While the Loan **Certificates** may be renewable, and while **LACE** intends to encourage Certificate Holders to renew their **Certificates** at maturity, no assurance can be given that net redemptions will not exceed net additions through new purchases. Loans are generally made for terms of ten years or more. Since Loan **Certificates** usually mature before **LACE's** loan to the **Designated Organization**, a large number of redemption requests by Certificate Holders could create a cash flow problem for **LACE**, making it difficult for **LACE** to honor all redemptions. If this happens, **LACE** might be required to sell or liquidate assets, including loans receivable. **LACE** cannot assure Certificate Holders that the proceeds from such a sale or liquidation would cover all requests to redeem **Certificates** at maturity or otherwise.

## **Restricted Transferability/No Public Market**

The **Certificates** are not freely negotiable, are restricted pursuant to requirements imposed by applicable securities laws, and are transferable only to certain eligible persons upon notice to and approval by **LACE**. There is no market for the **Certificates** and it is highly unlikely that a market will develop. **LACE** is not obligated to repurchase the **Certificates** at the request of Certificate Holders until their maturity. Consequently, Certificate Holders may not be able to resell their **Certificates**. Certificate Holders should, therefore, view the purchase of a **Certificate** as an investment for the **Certificate's** full term. See "Description of Certificates – Transfer of the Certificates" on page 22.

## **Special Purpose Properties; Not All Collateral Appraised**

Most of **LACE's** loans are secured by special purpose properties that may have a limited resale market. If a **Borrower** defaults on its loan from **LACE**, the property that secures the loan may not sell for its appraised value, since the appraised value of property generally is based on its value as a special purpose property with a limited market. In addition, **LACE** does not always require appraisals of collateral as part of the loan application process. Even when an appraisal is required, **LACE** does not always obtain independent third-party appraisals, and relies to a large extent on the representations of **Borrowers**. As a result, the fair value of a specific property could be less than **LACE** believes and could be less than the outstanding amount of the loan. **LACE** cannot assure Certificate Holders that the proceeds from a foreclosure sale of a mortgaged property will be adequate to fully repay a defaulted loan. If **LACE** experiences a loss on a foreclosure sale, it would have an adverse impact on **LACE's** financial condition and could impair **LACE's** ability to make interest and principal payments on the **Certificates**. See "Lending Activities—Loan Criteria for Standard Loans" on page 13.

## **Lender Remedies May Be Limited**

**LACE's** remedies as a creditor upon default by a **Borrower** will be subject to various laws, regulations and legal principles that provide protections to **Borrowers**. Under existing law (including, without limitation, the Federal Bankruptcy Code), **LACE's** legal and contractual remedies may not be readily available or may be limited, and a court may refuse to order the specific performance of the covenants contained in **LACE's** loan documents. In addition, the laws of a particular jurisdiction may change or make it impractical or impossible to enforce specific covenants in **LACE's** loan documents.

## **LACE is Engaged in a Continuous Offering of Securities**

LACE has already offered, and anticipates offering in the future, certificates that are of equal standing and priority with the **Certificates** offered in this **Offering**. LACE reserves the right to offer additional **Certificates** or other securities that have a higher rate of return and/or that provide greater security and less risk than the **Certificates**. Although the total amount of **Certificates** to be sold pursuant to this particular Offering Circular is limited to \$12,000,000, this is not a limitation on LACE's ability to sell **Certificates** or other debt securities in future years or in other offerings pursuant to an effective registration or exemption under applicable securities laws. LACE has been selling debt securities for over 50 years and expects to sell additional **Certificates** or other debt securities as part of this continuous offering process.

## **Regulatory Environment**

Changes in state laws, rules, or regulations regarding the sale of debt obligations of charitable or other nonprofit organizations may make it more difficult and costly for LACE to offer and sell its **Certificates** in the future. Such an occurrence could result in a decrease in the amount of **Certificates** sold by LACE. There can be no assurance that LACE will continue to offer and sell its **Certificates** in the future. To the extent that LACE is dependent upon the proceeds from future sales of its **Certificates** to make principal payments on its outstanding indebtedness, including the **Certificates** offered in this **Offering**, a cessation or substantial decrease in such sales could adversely affect LACE's ability to meet its obligations in a timely fashion.

## **Right of Redemption**

LACE retains an absolute right to redeem any or all **Certificates** at any time upon 60 days' written notice to the Certificate Holders. See "Description of the Certificates – Redemption of the Certificates" on page 22.

## **Default**

The **Certificates** are unsecured debt obligations of LACE. In the event of LACE's liquidation or any distribution of LACE's assets upon bankruptcy, reorganization, or similar proceedings, all **Certificates** will have an equivalent claim to LACE's assets. LACE's failure to pay principal and interest when due as requested by a Certificate Holder will be an event of default by LACE, but only as to that **Certificate**.

## **Relationship to Borrowers**

LACE cannot be compared to a commercial lender. LACE has more lenient loan underwriting standards than commercial lenders and may make loans to **Borrowers** that typically cannot obtain financing from commercial sources. In view of LACE's relationship with the **Borrowers**, LACE also may be more willing to accommodate partial, deferred, or late payments from the **Borrowers**. LACE has, from time to time in the past, accepted late or deferred payments. As of the date of this Offering Circular, LACE has never sustained a loss on a loan based on a default by a **Borrower**, though past performance is no guarantee of future results.

## Loan Policies; Construction Risks

**LACE** typically does not conduct a site inspection or environmental audit before approving a loan. The existence of environmental pollution or other contamination could, in some cases, result in lender environmental liability for **LACE**, impair **LACE's** security for a loan, or substantially reduce the value of **LACE's** collateral for a loan. In addition, **LACE** may not require partial completion draws that restrict the **Borrower's** ability to receive the full amount of the loan. Construction may not be pursuant to a fixed-price contract, and the contractor may not post a completion bond. In addition, possible delays in completion may occur due to shortages of materials, possible strikes, acts of nature, delays in obtaining necessary building permits or architectural certificates, environmental regulations or fuel or energy shortages. Substantial increases in construction costs or delays in or failure to complete construction could adversely affect the **Borrower's** ability to repay its loan. See "Lending Activities" beginning on page 11.

## Small Loans

**LACE** makes some small loans. These loans are underwritten with limited or no mortgage title insurance, and may not be secured by first mortgages. Due to these factors, **LACE** may not be able to recover all of the principal and interest on these small loans if a **Borrower** defaults because the priority of **LACE's** secured position may be second or possibly third. See "Lending Activities – Outstanding Loans" on page 11, and "Lending Activities – Loan Criteria for Small Loans" on page 14.

## Income Tax Risk

There are no income tax benefits with respect to investment in the **Certificates** and interest paid or payable on **Certificates** is taxed as ordinary income regardless of whether interest is paid and distributed to the **Certificate Holder**, or reinvested by the **Certificate Holder** by increasing the outstanding principal amount of the **Certificate**. See "Tax Aspects" on page 25.

## Individual Retirement Accounts

A self-directed Individual Retirement Account ("**IRA**") may invest in **IRA Investment Certificates** if permitted by the **IRA** trustee or custodian. A self-directed **IRA** is an individual retirement account that allows the holder the option of selecting investment vehicles for the **IRA** account. **Certificate Holders** who invest through their **IRA** should consider whether the investment is in accordance with the documents and instruments governing the **IRA**; whether there is sufficient liquidity in the **IRA** should the **IRA's** beneficiary need to take a mandatory distribution; and whether the investment could constitute a non-exempted prohibited transaction under applicable law. Consultation with a competent financial and tax adviser is recommended. See "Description of **Certificates** – **IRA Investment Certificates**" on page 21.

## Geographic Concentration

There are risks related to geographic concentration of **Certificate Holders** and **Borrowers** within limited regions, such that changes in economic conditions of those regions could affect the redemption and reinvestment rates of **Certificate Holders** and the ability of **Borrowers** to repay their loans. Approximately 26%, 19%, 19%, 8% and 7% of **Certificates** are held by Michigan, Texas, Wisconsin, Minnesota, and Florida **Certificate Holders**, respectively, and approximately 15%, 14%, 11%, 10%, 9% and 6% of **LACE's** loans are to Wisconsin, Michigan, Texas, Washington, Florida, and Kansas **Borrowers**, respectively.

## **Certificates are Subordinated**

The **Certificates** are subordinated to **LACE**'s bank line of credit, and may in the future be subordinated to additional senior secured indebtedness. **LACE** had no outstanding balance on its bank line of credit as of June 30, 2020, but may choose to use the secured line of credit or obtain other secured loans in the future. The **Certificates** would be subordinate in ranking and priority in relation to those loans. It is currently **LACE**'s policy to limit the amount of its senior secured indebtedness to ten percent (10%) of its tangible assets. See "Financial and Operational Activities – Line of Credit" on page 16.

## **Use of Digital Technologies**

**LACE** utilizes digital and cloud-based technologies and services in its operations, many of which are provided by third party vendors. **LACE** relies upon these vendors and these technologies and services for maintaining, processing, delivering, transmitting, and storing proprietary data and other records related to its business. This data includes confidential customer information. Unauthorized disclosure of this information could lead to loss of faith in **LACE**'s ability to protect confidential information and therefore harm its ability to retain customers, **Borrowers** and Certificate Holders and gain new ones. Storing and delivering electronic data has inherent risks, including, without limit, intentional or unintentional unauthorized access to data, data theft, identity theft, temporary or permanent loss of data, and hardware and software failure. While **LACE** and its vendors have taken steps to protect against these risks, due in part to the evolving nature of these risks there is no guarantee these measures will be 100% effective in safeguarding the electronic data **LACE** maintains or the services it utilizes, and they may be insufficient, circumvented, or become obsolete. **LACE**'s insurance coverage may not be adequate to cover all the costs related to cyber incidents or disruptions resulting from such events. If you choose to utilize **LACE**'s digital services, including its online account access portal, **LACE** can offer no assurances or make any warranties as to the accuracy, availability and security of such technologies or the data contained therein.

## **Impact of Coronavirus**

The outbreak of the novel strain of coronavirus, SARS-CoV-2, which causes COVID-19, could adversely impact **LACE**'s business. The coronavirus situation and the related warnings, advice, guidance, and mandates of government authorities and infectious disease experts, including to avoid travel and in-person meetings and preferential or protective government actions, could interrupt **LACE**'s key activities, limit **LACE**'s employee resources, increase **LACE**'s use of digital technologies and the risks associated with them, and have a material adverse impact on **LACE**'s operations (including operations provided by third-party vendors), financial condition (including cash flow, liquidity, loan repayments, collateral values, loan defaults, loan loss reserves, and investment performance), compliance with loan covenants, and financial results. The coronavirus situation has resulted in significant financial market volatility and uncertainty, and **LACE** is exposed to the risks of an economic recession, market volatility, and economic and financial crisis. The coronavirus situation and any resultant economic recession or other severe economic disruption in the U.S. or a particular region may also result in decreased contributions to **Borrowers**, with whom **LACE** has a relationship that may differ from commercial lenders, and could adversely affect their ability to fulfill their obligations to **LACE** and the value of the collateral. **LACE** may defer loan payments or make other loan modifications to accommodate **Borrowers**, and these accommodations could negatively impact **LACE**'s operations.

Due to the speed with which the coronavirus situation is developing and the unknown duration and severity of the event, the extent to which the event may impact LACE's business will depend on future developments, which are highly uncertain and cannot be predicted with confidence, such as the ultimate geographic concentrations of the disease, the duration of the outbreak, travel restrictions and actions to contain the outbreak or treat its impact, such as social distancing and quarantines or lock-downs, business closures or business disruptions, the effectiveness of actions taken to contain and treat the disease, and the overall impact on the economy as well as on **Borrowers** and Certificate Holders.

### **Right to Change Policies**

This Offering Circular references LACE's policies at various points, such as its loan policies described on page 11, and its investment policies described on page 16. These descriptions are intended to help investors understand LACE's current operations. LACE reserves the right to change its policies, including its loan and investment policies and other policies and procedures in the future.

**This Offering Circular may contain forward-looking statements about LACE's plans, strategies, objectives, goals, and expectations. These forward-looking statements are identifiable by words or phrases indicating that LACE "expects," "anticipates," "projects," "plans," "believes," or "intends" that a particular event may or will occur in the future or similarly stated expectations. These forward-looking statements are subject to many factors, including the above Risk Factors and the other information contained in this Offering Circular that could cause actual results to differ materially from the stated expectations. LACE undertakes no obligation to update or revise any forward-looking statements to reflect developments or information obtained after the date of this Offering Circular.**

## HISTORY AND ORGANIZATION

### General

**LACE** is a Michigan nonprofit, non-stock directorship corporation formed on October 7, 1960, by pastors and lay members of **WELS** for the primary purpose of loaning funds to self-supporting **WELS** churches, schools and other organizations affiliated with **WELS** (“**WELS Religious Organizations**”). That purpose has expanded to include occasional loans to **ELS** churches, schools and other organizations affiliated with **ELS** (“**ELS Religious Organizations**”), and other churches, schools, and religious organizations. Organizations that borrow money from **LACE** are collectively referred to in this Offering Circular as “**Borrowers.**” **LACE** attempts to offer low interest rates on its loans consistent with meeting its internal funding obligations and loan commitments. **LACE** funds its operations from the sale of Demand, Loan, and IRA Investment **Certificates** to organizations and individuals who are or are **Members** of **WELS** or **ELS Religious Organizations**, from interest and fees earned on loans, and from income earned on investments. For detailed information regarding the **Certificates**, see “Description of Certificates” beginning on page 19.

**LACE** is organized and operated exclusively for charitable, religious and educational purposes and is exempt from federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (“**Code**”). The principal office of **LACE** is located at 7075 Gratiot Rd. Suite #3, Saginaw, Michigan 48609, and its mailing address is Post Office Box 6402, Saginaw, Michigan 48608.

### Organization of LACE

The Board of Directors of **LACE** annually elects officers and oversees the operation of the corporation. The affairs of **LACE** are governed by its Articles of Incorporation and Bylaws, which may be amended by the Board. **LACE** has no shareholders and is managed by its officers and directors. The Board holds regularly scheduled meetings for the purpose of approving **LACE** loans and reviewing and dealing with other matters. The officers of **LACE** serve at the pleasure of the Board.

The debts and liabilities of **LACE** are solely its debts and liabilities and are not guaranteed by any other Lutheran Synod or other church body. Likewise, **LACE** does not guarantee the debts and liabilities of any other entity. Upon dissolution of **LACE**, the assets of **LACE** will be distributed to **WELS Church Extension Fund, Inc.**, after payment of all creditors of **LACE**.

## RELATIONSHIPS WITH WELS AND ELS

### WELS and ELS

**WELS** was founded in 1850 and its headquarters are in Pewaukee, Wisconsin. **ELS** was founded in 1917 and its headquarters are in Mankato, Minnesota. Both **WELS** and **ELS** stand for orthodox, confessional Lutheranism. **WELS** is the third largest Lutheran group in the United States and **ELS** is the fourth largest.

**LACE** is an independent organization with no direct affiliation with either **WELS** or **ELS**. **LACE** has, however, received a resolution from **WELS** commending **LACE** as a free-standing operation serving within **WELS** by making low interest loans to **WELS Religious Organizations**.

**LACE** directors may participate in **WELS** meetings and may have served or may be serving as directors, officers, and members of boards and committees of **WELS**. The Bylaws of **LACE** state that two-thirds of the Board members should be **WELS** laymen and one-third should be **WELS** pastors. **LACE** is referenced in the national literature for **WELS**, provides folders, pamphlets, and other promotional materials for **WELS** meetings, conventions, conferences, seminars and retreats, and is permitted by **WELS** and **ELS** to solicit funds through the use of pre-printed church bulletin folders that contain a response form to obtain a copy of **LACE**'s current Offering Circular. **LACE** also has a practice of donating at least 10% of its net profits each year to **WELS/ELS** or a tax exempt **WELS/ELS** organization.

**LACE** complements the work of **WELS** and **ELS** by encouraging self-supporting churches and affiliated organizations to originate or refinance their existing capital indebtedness through **LACE**. By saving on interest payments, **WELS** and **ELS Religious Organizations** have more funds available for local and synodical use. **LACE** also reinforces the objectives of **WELS** and **ELS** by encouraging their **Members** to purchase **Certificates** for the overall benefit of **WELS** and **ELS**.

### **USE OF PROCEEDS**

**LACE** will use the proceeds of this **Offering** primarily to make low interest loans to **Borrowers** for approved purposes. These loans are primarily made to individual **WELS** or **ELS Religious Organizations**. Loans generally are secured by a first or second mortgage on real property. **LACE** may also participate in loans originated by other church extension funds that have policies, practices, and a financial condition satisfactory to **LACE**, in an aggregate amount of up to 10% of **LACE**'s loan portfolio. The "Loan Policies" section of this Offering Circular beginning on page 11 contains more detailed information on the use of proceeds for making loans.

In the normal course of its operations, **LACE** continuously makes loan commitments for specific projects based upon the availability of funds and in accordance with **LACE**'s loan policies. **LACE** may use the proceeds of this **Offering** to fund all or a portion of its loan commitments. **LACE** had one outstanding loan commitment of \$525,000 as of June 30, 2020.

**LACE** may also use a portion of the proceeds of this **Offering** or additional offerings of **Certificates** to meet interest and principal payments on the **Certificates**. This could be necessary if, for instance, revenues from **LACE**'s loans receivable are less than **LACE** anticipates, if repayment demands on maturing **Certificates** exceed the historical experience of **LACE**, or if other available funds are insufficient to satisfy these obligations. There can be no assurance that this **Offering** or additional offerings will be successful.

Proceeds of the **Offering** that are not used for one of the above purposes will be added to **LACE**'s general operating fund pending utilization for those purposes, for general operating expenses, or to maintain liquidity.

No underwriter is participating in this **Offering**, and **LACE** does not compensate any individual in connection with their participation in the offer or sale of **Certificates** by the payment of commissions or other remuneration based, directly or indirectly, on the offer or sale of the **Certificates**. **LACE** will conduct the **Offering** of the **Certificates** solely through **LACE**'s directors, officers and employees who are authorized to engage in such activities in the applicable jurisdiction. **LACE** will pay all expenses of this **Offering**, including printing and mailing expenses, attorneys' and accountants' fees, and securities registration and exemption filing fees.

## LENDING ACTIVITIES

### Outstanding Loans

As of June 30, 2020, **LACE** had 112 outstanding loans, with principal balances receivable aggregating \$52,386,113. Of these outstanding loans, 98 loans were to **WELS Religious Organizations** and 14 loans were to **ELS Religious Organizations**. All of the loans were secured.

### Principal Loans

As of June 30, 2020, **LACE** had the following outstanding loans:

<u>Principal Loan Balance</u>	<u>Number of Borrowers</u>	<u>Principal Outstanding</u>	<u>Percent of Loan Portfolio</u>
\$0 - \$ 250,000	47	4,771,926	9%
\$250,001 - \$ 500,000	21	5,336,765	10%
\$500,001 - \$ 999,999	28	15,453,745	30%
\$1,000,000 +	16	26,823,677	51%
Total:	112	52,386,113	100%

During the fiscal year ended June 30, 2020, **LACE** received \$3,713,430 in loan payoffs and refinancings and/or payments of principal and \$2,397,600 in payments of interest on outstanding loans.

As of June 30, 2020, the principal balances of **LACE**'s outstanding loans were scheduled to mature as follows:

<u>Fiscal year ending June 30,</u>	<u>Principal Maturing</u>
2021	\$ 21,581,467
2022	10,007,738
2023	9,917,073
2024	1,173,336
2025	1,916,353
2026 and after	8,790,146
Total	\$ 52,386,113

### Loan Policies

**LACE**'s loan policies and practices for establishing interest rates have been established by **LACE**'s Board. They may be changed only by the Board, and exceptions to the policies may be made by the Board on a case by case basis.

**LACE** loans funds primarily to **WELS** and **ELS Religious Organizations** that are self-supporting and do not depend on **WELS** or **ELS** for financial subsidies. **LACE** occasionally loans funds to **ELS Religious Organizations** that are not self-supporting, but only after **ELS** co-signs on the loan. **LACE** loans funds to **Borrowers** for (1) financing capital expansion projects (particularly for the construction, renovation, repair or purchase of facilities and real property for worship, education and ministry); (2) refinancing existing capital indebtedness; (3) making major purchases of equipment; and (4) for other projects that serve to extend the Lutheran church and its mission. If funds are available, **LACE** provides loans for the above purposes when **LACE** is

satisfied from its review of the application form and related documents that the potential **Borrower** (“**Loan Applicant**”) will be able to meet **LACE**’s repayment requirements. **LACE** generally does not loan funds for general operating expenses. As of the date of this Offering Circular, the maximum loan amount generally permitted for a single borrower is 10% of the total amount of **LACE**’s loan portfolio at any given time, including approved but undisbursed loans, though **LACE** may vary from this policy at the Board’s discretion and did so in one instance in 2017 to make a \$5.5 million dollar construction loan, which had an outstanding principal balance of \$3,530,829 as of June 30, 2020, constituting 6.7% of **LACE**’s total loan portfolio as of that same date.

When making a loan to a non-church organization, **LACE**’s policy is generally to require both a first mortgage on the property being purchased or improved by the affiliated organization as well as a mortgage on real estate owned by one or more **WELS** or **ELS** churches. In some circumstances **LACE** may also accept additional collateral from either the borrower or third parties, including pledged cash or cash equivalents, mutual funds, securities or **LACE Certificates**. If the affiliated organization is supported by multiple **WELS** and **ELS** churches, **LACE**’s policy is to require each supporting church to pledge their property as collateral for the loan. **LACE**’s policy is also to require each supporting church to submit their financial information as part of the loan application process.

Except for construction loans or special situations, **LACE** generally requires that **Borrowers** make minimum monthly payments that will amortize the loan in 30 years or less. In the case of construction loans, **LACE** typically requires interest only payments for up to the first six months of the construction period. Thereafter, the loan payment will typically be a fixed amount of principal and interest on the entire loan. Prepayments on loans may be made on any type of loan at any time without penalty. **LACE** requires **Borrowers** to retain their own legal counsel and to pay miscellaneous charges for recording fees and any special state, county or other governmentally imposed fees.

**LACE** retains the right to sell loans or portions of loans to provide additional liquidity for its operations. **LACE** directly administers all loans that it originates, even if those loans are sold in whole or in part. It is **LACE**’s policy not to securitize its loan portfolio.

### **Loan Application, Approval and Closing Procedures**

**Loan Applicants** may apply for a **LACE** loan by submitting a loan application form and supporting documents. Application forms are available upon request. After the initial documentation is reviewed by the **LACE** staff, the application is either suspended by the staff because it does not meet **LACE**’s established standards for loan approval, approved by the President and CEO if it is within his written authority, submitted to the loan committee for approval, or submitted for review by the entire Board. All loans approved by the President and CEO or the loan committee will be reviewed at the next Board meeting. All written authority shall be granted by the Board. Board approval may be conditioned on any number of factors deemed appropriate by the Board in its sole and absolute discretion.

After a **Loan Applicant** receives approval for a loan, it may begin to seek support from its **Members** for the purchase of **Certificates**. At that time, **LACE** will include the **Loan Applicant**’s loan and related **Certificate** purchases in **LACE**’s cash flow projections. **LACE** provides the **Loan Applicant** with the approximate date when **LACE** funds will be available, contingent on

**Members** of the **Loan Applicant** purchasing Loan or IRA Investment **Certificates** equal to a minimum percentage of the loan specified by the Board.

**LACE** may approve or disapprove a loan at any time during this process. Before **LACE** will disburse any money to a **Loan Applicant**, however, **LACE** must receive the completed loan application form and related documents. Closing procedures commence as soon as **LACE** approves the loan. Loan closing costs are the responsibility of the **Borrower**. **LACE** and the **Borrower** execute a promissory note for the approximate date that **LACE** will begin to disburse the loan proceeds. The first repayment due date is generally one month from the loan date, although a different date may be negotiated.

### **Loan Criteria for Standard Loans**

Before making a loan, **LACE** may require evidence of the current market value of the property that the **Loan Applicant** will offer as security. Such evidence may consist of one or more of the following:

- (a) a formal appraisal by a certified commercial appraiser;
- (b) local government valuations, if available, recorded as property tax assessment valuations. Most church properties are exempt from tax; however, some local government assessors identify a valuation within the property rolls;
- (c) photographic or architectural evidence with a property description affidavit signed by the trustees of the **Loan Applicant**, if the loan is for less than 50% of the purported current market value of the property being offered as security;
- (d) an insurance policy indicating building replacement values; or
- (e) three or more comparative sales within 10 miles, if made within the last three years.

Except for small loans, **LACE's** general policy is to make loans to **Loan Applicants** only if the loan does not exceed a specified percentage of the value of the property that is offered as security. Any exception to this policy requires approval of the full Board. The Board also considers available statistical and other information regarding the **Loan Applicant's** ability to repay the loan, including the **Loan Applicant's** current reports on financial matters, membership, demographics, contributions and similar pertinent data.

Except for small loans, **LACE** generally requires a first mortgage when making a loan. If a second mortgage (\$100,000 maximum) is offered as security, **LACE** may (1) require a professional appraisal of the property; and (2) review the **Loan Applicant's** repayment history. It is **LACE's** policy that at least 90% of its loans will be secured.

As noted in the Risk Factors section of this Offering Circular, most loans are secured by special purpose properties that may have a limited resale market. Accordingly, a value reported to **LACE** may or may not accurately reflect the property's true market value, depending upon whether or not the appraisal or other valuation method took into account this and other factors. **LACE** does not conduct independent investigations of property values and relies to a large extent on the representations of the **Loan Applicant** and the **Loan Applicant's** agents.

## Rate of Interest for Loans to Churches

Each **Borrower** that is a church pays one rate of interest on that portion of the loan represented by funds received by **LACE** on the sale of Loan and IRA Investment **Certificates** to **Members** of the **Borrower** and a second rate of interest on that portion of the loan represented by other funds of **LACE**. The interest rate payable on the portion of the loan represented by Loan and IRA Investment **Certificate** funds is determined by adding a stated interest rate differential over the weighted average interest rate payable on the outstanding Loan and IRA Investment **Certificates** that are designated to the **Borrower** as of the date the loan payment is received. **LACE** charges this differential rate to cover its operating expenses and maintain its reserves. The interest rate payable on the balance of the loan represented by **LACE** funds is determined by the Board and may be changed from time to time only by the Board.

## Loan Criteria for Small Loans

**LACE** may make small loans for up to \$165,000. The interest rate for these loans is determined by the Board in its sole discretion.

The following conditions apply to all small loans:

- (a) The loan may be for the purchase of equipment or capital improvements, but cannot be used for operating expenses, and
- (b) **Borrowers** must make a minimum monthly repayment of \$100.

For small loans of \$25,000 or less, the loan must be fully amortized over a period equal to or less than sixty (60) months. For small loans between \$25,001 and \$165,000, the loan must be fully amortized over a period not greater than one hundred eighty (180) months. **Members** of a **Loan Applicant** applying for a small loan may designate **Certificates** to their organization for that small loan. Small loans may be secured by collateral other than first mortgages on real estate. **LACE's** policy is to limit the total balance of all outstanding small loans to 5% or less of **LACE's** aggregate loan balance.

## Delinquent Loans

As of June 30, 2020, **LACE** had 8 loans with a \$5,530,243 aggregate principal balance that were contractually delinquent, though not 90 days past due. **LACE** considers a loan delinquent when it is past due 90 days or more. As of the date of this Offering Circular, **LACE** has never experienced a loss based on a loan default, though past performance is no guarantee of future results. **LACE** did not restructure any loans in its fiscal year ending June 30, 2020, due to delinquency.

## FINANCIAL AND OPERATIONAL ACTIVITIES

### Outstanding Certificates

In the most recent fiscal year period, **LACE** had an increase of \$2,482,102 in **Certificates** outstanding resulting from the issuance of \$5,758,994 of **Certificates**, and the redemption of

\$3,276,892 of **Certificates**. The following table sets forth the number of **Certificates** and the **Certificate** balances payable for which **LACE** was liable as of June 30, 2020:

<u>Description</u>	<u>Number of Certificates</u>	<u>Balance Payable</u>
Demand Certificates	68	\$ 741,549
Loan Certificates	2,121	38,102,280
IRA Investment Certificates	244	9,571,059
Total	<u>2,433</u>	<u>\$ 48,414,888</u>

As of June 30, 2020, the average interest rate for all outstanding **Certificates** was approximately 3.14%. The aggregate principal amount of the above **Certificates** that exceeded \$100,000 at June 30, 2020, was \$16,717,062. Generally, **LACE** pays or reinvests interest on each **Certificate** annually in the month of the anniversary of the **Certificate** purchase if the balance is less than \$25,000. However, if the balance is \$25,000 or greater, interest may be paid or reinvested semi-annually; if the balance is \$50,000 or greater, interest may be paid or reinvested quarterly; and if the balance is \$100,000 or greater, interest may be paid or reinvested monthly.

### **Maturity Information**

Assuming outstanding Loan **Certificates** are not renewed and interest payable on these **Certificates** is not reinvested to increase the outstanding principal amount of the **Certificates**, the following table reflects approximate Loan **Certificate** maturities during years ended:

<u>June 30</u>	<u>Payments Due</u>
2020	6,715,006
2021	6,708,931
2022	8,238,599
2023	7,672,230
2024	5,989,994
2025	2,777,520
Total	<u>\$ 38,102,280</u>

In addition to the above Loan **Certificate** maturities, **LACE** had outstanding Demand **Certificates** in the amount of \$741,549 and outstanding IRA Investment **Certificates** in the amount of \$9,571,059, each as of June 30, 2020. **LACE** is obligated to pay the outstanding principal balance on each Demand and IRA Investment **Certificate** upon receiving 30 days' notice from the Certificate Holder.

Historically, only a relatively small percentage of Loan **Certificates** have been redeemed at the end of the first maturity period. Redemptions of all maturing Loan **Certificates** in a given year have historically ranged between 20% and 40%. A very substantial percentage of Certificate Holders have historically either maintained their existing **Certificates** or reinvested the principal by purchasing additional **Certificates** at the then prevailing interest rates. Many Certificate Holders also historically elect to reinvest interest on their **Certificates**. Reinvestments of all maturing Loan **Certificates** in a given year have historically ranged between 60% and 80%.

## Renewal of Loan Certificates

The Loan **Certificates** offered in this **Offering** may be renewed for their respective maturity periods. The annual interest rate upon renewal of a Loan **Certificate** varies depending on several factors as described in the “Description of Certificates” section of this Offering Circular beginning on page 19. If the annual interest rate will change upon renewal of a Loan **Certificate**, **LACE** notifies the Certificate Holder through a letter accompanied by a copy of the current Offering Circular, if not previously provided. **LACE** will only renew a Loan **Certificate** if the Certificate Holder resides in a state in which **LACE** is then registered or is exempted from registering the **Certificate** and **LACE** salespeople.

## Line of Credit

**LACE** has a secured revolving line of credit with Fifth Third Bank. Pursuant to the line of credit, **LACE** may borrow up to \$3,000,000 at a variable interest rate equal to the greater of the bank’s current prime interest rate or 4% per year. Any amounts borrowed under the line of credit are due and payable on December 14, 2020, at which time **LACE** may or may not renew the line of credit. As of June 30, 2020, **LACE** had no outstanding balance on this loan.

## INVESTMENT ACTIVITIES

### Investments

As of June 30, 2020, **LACE** had \$1,009,665 in one fixed annuity account with an insurance company, which is classified as a cash equivalent. The fixed annuity account is interest-bearing and payable on demand. It is not a bank deposit and is not insured by the FDIC or any governmental agency. **LACE** maintains this asset to provide necessary liquidity and in anticipation of future lending activities. **LACE** experienced investment income of \$37,005, \$35,243, and \$36,178 for its fiscal years ending June 30, 2020, 2019, and 2018, respectively, from this source and its money market account.

### Investing Policies and Objectives

**LACE**’s investment policy has three major objectives:

- to ensure that the investment of funds is accomplished in a prudent manner, particularly with respect to limiting the exposure of **LACE** to unnecessary risk;
- to provide adequate liquidity to meet **LACE**’s interest and principal payment obligations on outstanding **Certificates** and to fund **LACE**’s loan commitments; and
- to structure an investment portfolio that will provide liquidity and competitive yields to Certificate Holders while maintaining sound investment criteria.

**LACE** currently employs an investment strategy that seeks to match dollar amounts and maturities with expected liquidity needs. Limiting the exposure of principle and interest to loss is one of the primary considerations in all investment decisions, though market risks and other factors beyond **LACE**’s control could adversely impact investment performance.

## Permissible Investments

Subject to the investment policies described above, **LACE** has no specific restrictions regarding how much or how little may be invested in a single investment. **LACE's** current policy permits it to invest in the following types of instruments:

- only securities issued or traded in U.S. dollars;
- debt obligations or debentures of, or those guaranteed by the full faith and credit of, the U.S. government or its agencies, that mature in five years or less;
- certificates of deposits of federally insured U.S.-chartered or state-chartered financial institutions;
- mutual funds;
- securities and other investment products issued by insurance companies with an A M Best rating of A or better;
- State and municipal securities with a rating of A or better by Moody's or the Standard & Poor's equivalent;
- WELS Investment Funds; and
- Securities and investment products or vehicles lawfully issued by WELS or ELS or their affiliated entities.

## Investment Responsibility and Authority

As of the date of this Offering Circular, **LACE's** Financial Management and Investment Committee ("**FMIC**") consists of two directors: Ned E. Kleinke and Donald H. Krueger. **FMIC** has regularly scheduled meetings, generally each month. **FMIC** is responsible for formulating the strategy used to accomplish the investment objectives stated above. **FMIC** directs **LACE's** President and CEO to buy and sell investments on behalf of **LACE**, subject to the investment guidelines described above. An analysis of **LACE's** investment activities and interest rate risk is regularly reported to **LACE's** Board of Directors. Information about the members of **FMIC** and the President and CEO is set forth in the "Management" section beginning on page 23.

## MANAGEMENT DISCUSSION OF FINANCIAL OPERATIONS

As of June 30, 2020, **LACE** had aggregate assets of \$54,855,620 and liabilities of \$49,159,501, leaving an unrestricted net assets balance aggregating \$5,696,119. On that same date, \$2,497,260 of **LACE's** assets were in the form of cash, cash equivalents and other investments, and \$48,414,888 of **LACE's** liabilities represented amounts due on **Certificates**. Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in asset values, the allowance for loan losses or net assets.

During the fiscal year ended June 30, 2017, **LACE** received the donation of a building from a church that previously had an outstanding loan due to **LACE**. The building was assessed to have a market value of \$800,000. The net amount of the donation after factoring in the pre-existing loans receivable balance was \$665,900. During the fiscal year ended June 30, 2018,

**LACE** sold the building for \$1,050,000, less \$56,620 closing and additional sale costs and a \$6,286 payment to the donor, resulting in a net gain to **LACE** of \$193,380.

The following financial information was derived from the audited financial statements of **LACE** for the past five years:

For or as of the Fiscal Year Ended (In thousands)	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016
<b>Assets</b>					
Cash & cash equivalents	\$ 2,497	\$ 2,965	\$ 1,314	\$ 4,658	\$ 4,015
Loans, net of allowance for loan losses	\$ 52,101	\$ 50,709	\$ 47,587	\$ 39,751	\$ 37,626
Other assets	\$ 257	\$ 177	\$ 157	\$ 923	\$ 115
Total assets	\$ 54,856	\$ 53,851	\$ 49,059	\$ 45,332	\$ 41,756
<b>Liabilities</b>					
Investment certificates payable	\$ 48,415	\$ 45,933	\$ 43,566	\$ 40,400	\$ 37,694
Other liabilities	\$ 745	\$ 2,642	\$ 619	\$ 570	\$ 530
Total liabilities	\$ 49,160	\$ 48,575	\$ 44,185	\$ 40,970	\$ 38,224
Unrestricted net assets, end of year	\$ 5,696	\$ 5,276	\$ 4,873	\$ 4,362	\$ 3,531
Less unrestricted net assets, beginning of year	\$ 5,276	\$ 4,873	\$ 4,362	\$ 3,531	\$ 3,361
Change in unrestricted net assets	\$ 420	\$ 403	\$ 511	\$ 831	\$ 170
<b>For or as of the Fiscal Year Ended (In thousands)</b>					
<b>Unsecured and Delinquent Loans</b>					
Unsecured – Amount	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Unsecured – Percent	0%	0%	0%	0%	0%
Delinquent – Amount	\$ 0	\$ 0	\$ 0	\$ 380	\$ 0
Delinquent – Percent	0%	0%	0%	0.9%	0%
<b>Certificates</b>					
Certificates issued	\$ 5,759	\$ 5,959	\$ 6,645	\$ 5,659	\$ 4,187
Certificates redeemed	\$ 3,277	\$ 3,593	\$ 3,479	\$ 2,953	\$ 1,512

The financial summary above and other financial information in this Offering Circular is based on the attached **Financial Statements**, which were prepared in accordance with accounting principles generally accepted in the United States of America. Financial information includes amounts that are based on management's best estimates and judgments.

## Compliance with Financial Standards

LACE’s performance under the financial standards set forth in the North American Securities Administrators Statement of Policy Regarding Church Extension Fund Securities (“NASAA Financial Standards”) as of LACE’s fiscal year end, was as follows:

Description of NASAA Financial Standard	Standard	LACE’s Performance
Limited Senior Secured Indebtedness	Total senior indebtedness <10% of tangible assets	0%.
General Standard Part 1	Offers and sells no more <b>Certificates</b> than it expects to repay in ordinary course of its business.	True.
General Standard Part 2	<b>Financial Statements</b> and Offering Circular disclose sufficient information to evaluate compliance with <b>NASAA Financial Standards</b> .	True, as set forth in this table.
Capital Adequacy	Net assets $\geq$ 5% of total assets.	10.4%.
Liquidity Status	Liquid assets $\geq$ 8% of outstanding <b>Certificates</b> .	7.2%.
Cash Flow Performance	Ratio of available cash to redemptions of at least 1:1 for last 3 years.	2.7:1, 2.0:1, and 3.2:1 in 2020, 2019, and 2018, respectively.
Loan Quality Part 1	Loan delinquencies not excessive and quality of loan portfolio allows compliance with the other <b>NASAA Financial Standards</b> .	No loan delinquencies, and performance under other <b>NASAA Financial Standards</b> as shown in this table.
Loan Quality Part 2	Lending policies that provide reasonable assurance of loan quality.	True – see “Lending Activities – Loan Policies” beginning on page 11.
Loan Quality Part 3	90+% of loans secured.	100% secured.
Operating Trends	Positive change in net assets 3 of last 5 years.	Positive change in net assets 5 out of last 5 years.

## DESCRIPTION OF CERTIFICATES

LACE offers three types of **Certificates**: Demand, Loan and IRA Investment **Certificates**. The rates of interest offered on the different types of **Certificates** are set forth on the interest rate sheet enclosed with this Offering Circular. The rate of interest for each type of **Certificate** may be adjusted from time to time after the date of the interest rate sheet, and the current rates may be obtained by calling 1-888-550-5223 or visiting LACE’s web site at [www.laceinc.org](http://www.laceinc.org). The interest rates offered on **Certificates** are set by the the **FMIC** committee.

Purchasers of Loan and IRA Investment **Certificates** have the option of designating a particular **Loan Applicant** or **Borrower** to which LACE will loan the proceeds from the sale of the **Certificate**. The **Loan Applicant** or **Borrower** designated on a particular **Loan Certificate** is referred to as the “**Designated Organization**.” Alternatively, **Members** may purchase **Certificates** without designating any particular **Loan Applicant** or **Borrower**. LACE may use the proceeds from the sale of **Certificates** not designated to a particular **Loan Applicant** or **Borrower** for any purpose described in this Offering Circular.

The purchase of a **LACE Certificate** requires a minimum investment of the amount reflected in the then-current rate sheet, which may vary based on the type of Certificate and the term of a Loan **Certificate**. A **Certificate** begins earning interest from the date LACE receives payment of the purchase price. LACE pays interest at least annually on the **Certificates**. Each

Demand and Loan Certificate Holder may elect to have interest either paid and distributed to them or reinvested to increase the principal amount of the **Certificate**. Interest earned on IRA Investment **Certificates** is automatically reinvested to increase the principal amount of the **Certificates**.

### **Demand Certificates**

Demand **Certificates** are payable within 30 days of demand by the Certificate Holder submitted to **LACE** on forms approved by **LACE**. Demand **Certificates** may not be designated to a particular **Loan Applicant** or **Borrower**. **LACE** may use the proceeds from the sale of Demand **Certificates** for any purpose described in this Offering Circular. **LACE** may change the interest rate payable on a Demand **Certificate** with 30 days' written notice to the Certificate Holder.

**LACE** uses a book entry system to record ownership and invested balances for all newly issued Demand **Certificates**. Under this system, **LACE** keeps an electronic record of each Demand Certificate Holder's investments in, and redemptions from, Demand **Certificates**. The actual terms of newly issued or replaced Demand **Certificates** will be as set forth in the Offering Circular, including the Summary of Demand Certificate Terms attached to the version of **LACE's** Offering Circular that is effective as of the date of the Certificate Holder's investment, or the date of any addition to a Demand **Certificate**, whichever is later. Instead of a paper **Certificate**, **LACE** sends Demand Certificate Holders confirmation of their initial investment and any subsequent additions to, or redemptions of, their Demand **Certificate**. **LACE** also sends periodic statements showing the amount Demand Certificate Holders have invested in their Demand **Certificates**. Before moving to its current book entry system **LACE** used to issue Demand **Certificates** in the form of paper certificates. Certificate Holders currently holding paper Demand **Certificates** will be converted to the book entry system when they next submit their paper Demand **Certificate** to **LACE** for an additional investment or redemption, after which they will receive a confirmation of their transaction with the resulting principal balance outstanding on their Demand **Certificate**, and **LACE** will retain the original paper **Certificate**. Funds will not be returned for redeemed paper Demand **Certificates** until the Certificate Holder returns the paper Demand **Certificate** or a lost document statement to **LACE**.

### **Loan Certificates**

If a **Member** purchases a **Loan Certificate**, and the **Member** designates the **Certificate** to a particular **Loan Applicant** or **Borrower**, **LACE** will use the proceeds from the sale of the **Certificate** to assist in making a loan to the **Designated Organization** specified by the **Member**. As the **Designated Organization** repays its loan, **LACE** may use any **Loan Certificate** funds in excess of the **Designated Organization's** outstanding principal loan balance for any purpose described in this Offering Circular.

The interest rate payable on a Loan **Certificate** is selected by the Certificate Holder at the time of purchase from within an available range of interest rate options. The specific rates may change from time to time and current rates may be obtained by calling 1-888-550-5223 or visiting **LACE's** web site at [www.laceinc.org](http://www.laceinc.org).

The Loan **Certificates** offered in this **Offering** may be renewable at their maturity for their respective terms. **LACE** will send all Certificate Holders a maturity notice at least thirty days before the maturity date of their Loan **Certificate**, together with a current Offering Circular if one

has not previously been sent. **LACE** will notify the Certificate Holder of the rate of interest on the **Certificate** if it is renewed and may provide the Certificate Holder the opportunity to renew the **Certificate** for its respective term. **LACE** will renew a **Certificate** only if (1) the Certificate Holder requests renewal, or in states that so allow, does not respond to the maturity notice prior to maturity, and (2) the Certificate Holder resides in a state in which the offering of **Certificates** is then registered or exempt from registration. **LACE** may redeem the **Certificate** at maturity if the Certificate Holder resides in a state in which the offering of **Certificates** is not then registered or exempt from registration.

The rate of interest payable by **LACE** at renewal of a Loan **Certificate** will be the lesser of (1) the rate of interest originally chosen by the Certificate Holder as stated on the face of the **Certificate**, (2) the then current maximum rate of interest for a new Loan **Certificate** with the corresponding term as stated on the **Certificate**, or (3) if the original Loan **Certificate** was designated to a particular **Loan Applicant** or **Borrower** and the **Designated Organization** has not fully repaid its loan, the maximum allowed by the Designated Organization per their loan application.

### **IRA Investment Certificates**

IRA Investment **Certificates** are payable within 30 days of **LACE's** receipt of a written demand for redemption by the Certificate Holder. **LACE** may change the interest rate payable on an IRA Investment **Certificate** with 30 days' written notice to the Certificate Holder. The principal amount of an IRA Investment **Certificate** may be increased or decreased thirteen times per year without penalty through the investment of additional funds or the redemption of all or a portion of the **Certificate's** outstanding principal balance. Additional investments must be at least \$250. More than thirteen redemptions in any calendar year will generally be subject to redemption penalties described below in the "Redemption of the Certificates" subsection, though exceptions may be granted in certain circumstances. The total outstanding principal balance of an IRA Investment **Certificate** is determined by adding all additional investments, including any accumulated interest, to the original face value of the **Certificate** and subtracting all redemptions from the face value of the **Certificate**.

In order to purchase an IRA Investment **Certificate**, you must own an IRA that will accept **Certificates** as investments. Prospective investors in IRA Investment Certificates should inquire of their existing IRA trustee or custodian to determine whether this is the case, or establish a new IRA with a trustee or custodian that will permit such an investment. There are different types of IRAs, and IRAs are subject to rules and regulations set forth in the Code and Treasury Regulations, as well as the terms of your IRA agreement with the trustee or custodian. Investors will need to confirm that an investment in an IRA Investment **Certificate** is a permitted, tax exempt transaction under all of the forgoing. Failure to do so could result in unexpected taxes, penalties or other consequences. IRAs are also subject to additional liquidity limitations prior to the investor reaching specified ages. Consultation with a financial and tax adviser is recommended.

### **Certificates Held as Custodian for Minors**

**LACE** permits Certificate Holders to hold **Certificates** in their capacities as custodians for the benefit of a minor under the Michigan Uniform Transfers to Minors Act ("UTMA"). **UTMA** allows an adult (usually a parent or grandparent) to make investments in a **Certificate** for the benefit of a minor without the complications of establishing a formal trust or guardianship. If an investor selects this option, **Certificate** ownership will be recorded in the Certificate Holder's

name as “custodian for minor under the Michigan Uniform Transfer to Minors Act.” By law, this ownership designation is irrevocable. The **Certificate** will be the legal property of the minor and will be subject to Certificate Holder’s control as the custodian until the minor turns 18, at which time the **Certificate** will become the unrestricted property of the minor. For more specific information about UTMA, including potential tax benefits and consequences, we recommend that you consult your tax advisor, attorney or financial advisor prior to investing in the **Certificates**.

### **Redemption of the Certificates**

**LACE** has the right to redeem any **Certificate** at any time upon 60 days’ written notice to the Certificate Holder. Loan **Certificates** mature on the last day of their term (such term commencing on the day of issuance), except that if the maturity date is not a business day of **LACE**, then the maturity date shall be the next following business day.

If **LACE** elects to permit an early redemption of a **Certificate** by a Certificate Holder, a penalty of up to six months interest may be applied to a Loan **Certificate** with a term of five or more years and a penalty of up to three months interest may be applied to a Loan **Certificate** with a term of less than five years. A Loan **Certificate** that has been renewed one or more times will not have a penalty imposed upon an early redemption. One full or thirteen partial redemptions will be allowed per calendar year from an IRA Investment **Certificate** without penalty. Additional redemptions from IRA Investment **Certificates** during the same calendar year will be subject to a penalty equal to 1% of the amount of the redemption, though exceptions may be granted in certain circumstances.

A Certificate Holder may request redemption of a **Certificate** by making a written request to **LACE** and surrendering the original **Certificate** signed by all Certificate Holder(s) of record, if certificated. A Certificate Holder may be required by **LACE** to provide verification of their signature. In the event a co-signor is deceased, has changed his or her name, or the identity of a Certificate Holder is otherwise called into question, **LACE** may require documentary evidence of identity or authority satisfactory to **LACE** prior to redemption.

### **Transfer of the Certificates**

**LACE** registers original ownership of the **Certificates** on its books and on the **Certificates** when certificated. Certificate Holders may transfer the **Certificates** only to **Members** who reside in a state in which the **Offering** is registered or exempt, and only with the prior approval of **LACE**. Transferring Certificate Holders must surrender the **Certificate** to **LACE**, if the **Certificate** is certificated, and request that **LACE** transfer the **Certificate**. The Certificate Holder must specify the date of transfer and the name and address of the person to whom the transfer is to be made. The request to transfer must be signed by the Certificate Holder, and **LACE** may require the Certificate Holder to provide verification of their signature. The **Certificates** are not negotiable and may not be pledged or otherwise encumbered except pursuant to the foregoing transfer provisions.

## **PLAN OF DISTRIBUTION**

**LACE** uses this Offering Circular, together with brochures and other advertising materials, to promote the sale of the **Certificates**. **LACE**’s primary means for advertising the **Certificates** is through information and materials provided to **Loan Applicants**; through the dissemination of materials at **WELS** and **ELS** meetings, conventions, conferences, seminars and retreats; through

**LACE's** website; and through the use of pre-printed church bulletin inserts. In addition, **LACE** may run advertisements in national and regional publications of **WELS** and **ELS Religious Organizations**, and may send materials directly to current and former Certificate Holders.

When a **Loan Applicant** requests information about a loan from **LACE**, a **LACE** employee, officer, or a member of the Board customarily communicates with a representative of the **Loan Applicant** to explain the **LACE** program. Either the **LACE** representative, or a person designated by the **Loan Applicant**, explains to **Members** of the **Loan Applicant** the relationship between the **LACE** loan program and the need for **Members** to purchase **LACE Certificates** for the **Loan Applicant** to qualify for a loan. The designated person coordinates the distribution of the Offering Circulars to the **Loan Applicant's Members**, or **LACE** sends Offering Circulars directly to individuals who request it. Requests for Offering Circulars typically arise from a request form that is inserted in a church bulletin or from the **Loan Applicant's** communications to its **Members**. **LACE** may prepare a package of supplemental sales literature to assist **Loan Applicants** in their communications with **Members**.

**LACE** will not knowingly accept funds or an offer to purchase a **Certificate** unless the **Member** has received an Offering Circular and meets any other applicable state requirements. Organizations or individuals wishing to purchase a **Certificate** may do so by completing the Application to Purchase attached as **Exhibit B** to this Offering Circular and sending it with a check to **LACE**. If **LACE** accepts the Application to Purchase, **LACE** notifies the investor by mail and sends the executed **Certificate** to the investor. **Members** seeking to purchase a **Certificate** must advise **LACE** in writing on the Application to Purchase that they have received an Offering Circular.

No broker-dealers are or will be participating in this **Offering**. No underwriting or selling agreement exists in connection with this **Offering**. **LACE** does not compensate any individual in connection with their participation in the offer or sale of **Certificates** by the payment of commissions or other remuneration based, directly or indirectly, on the offer or sale of the **Certificates**. **LACE** offers the **Certificates** solely through the Board members, officers and employees of **LACE** who have been registered or licensed, or are exempt from such requirements. **LACE's** Board members, officers and employees are not registered as broker-dealer salespersons with the Financial Industry Regulatory Authority ("**FINRA**"), but may be registered as agents or salespersons of **LACE** in certain states. These individuals answer Certificate Holders' questions and may occasionally give presentations to potential investors. **LACE** is not licensed as a broker-dealer with **FINRA**, but may be registered as an issuer-dealer in certain states.

Individuals may arrange for their investment in an IRA Investment **Certificate** to be handled so as to qualify for tax deferral under provisions of the applicable tax laws dealing with IRAs and other qualified retirement plans. Under such an arrangement, a qualified financial institution acts as the trustee of a self-directed IRA and invests the designated funds in an IRA Investment **Certificate** as directed by the Certificate Holder.

## **MANAGEMENT**

### **Board of Directors**

The management of **LACE's** affairs is conducted by a Board of Directors consisting of eight directors elected by a majority of directors of **LACE**. **LACE's** Bylaws provide that the Board may be composed of between 4 and 21 directors. The Board meets at regularly scheduled meetings

not less often than quarterly, and at special meetings as necessary. Any transaction in which any director has a conflict of interest is entered into only after approval by a majority of the directors who do not have an interest in the transaction, and the interested director is required to abstain from the vote. As of the date of this Offering Circular, the following individuals serve as the Board of Directors of **LACE** and hold other positions as indicated:

*Scott J. Carvey*, Muskegon, Michigan, age 57. Mr. Carvey has been a Board member since July 15, 2001. Mr. Carvey attended Muskegon Community College and DeVry Institutes. From 1980 to 1993, he worked in management/supervisory positions for various employers. Mr. Carvey has served as President of Interactive Media Design since 1993. Mr. Carvey's term expires September 2022.

*Alfred E. Cereske, Jr.*, Saginaw, Michigan, age 78. Mr. Cereske has been a Board member since May, 2011. He attended Central Michigan University, Mount Pleasant, Michigan, and participated in dozens of seminars and courses offered by the American Institute of Banking and the American Trust and Investing Institute during his 34 year career in the banking industry. Following his career in banking, Mr. Cereske served as a gift planning counselor for WELS from 1998 to 2005, and has been retired since that time. Mr. Cereske's term expires September 2020.

*James W. Freer*, Fremont, Wisconsin, age 74. Mr. Freer has been a Board member since August 11, 2012. Mr. Freer received a BA and MBA from the University of Wisconsin in Oshkosh, Wisconsin (1969 and 1975, respectively). Mr. Freer worked in accounting and finance positions at various University of Wisconsin locations throughout his career. His last position with the University was that of Vice Chancellor – Chief Financial Officer, and he held that position from 1989 through 2006, when he retired. Mr. Freer's term expires September 2021.

*Reverend Robert M. Frick*, Waukesha, Wisconsin, age 50. Reverend Frick has been a Board member since July 15, 2001. He received a B.A. in Liberal Arts from Northwestern College, Watertown, Wisconsin, and a Master of Divinity from Wisconsin Lutheran Seminary, Mequon, Wisconsin. Reverend Frick served as pastor at St. Mark's Evangelical Lutheran Church, Sterling Heights, Michigan, from 1996-2006. Since July 2006 through August 2012, he served as pastor at Crown of Life Lutheran Church, Warren, Michigan, and now serves as pastor at Mt. Calvary Evangelical Lutheran Church in Waukesha, Wisconsin. Reverend Frick's term expires September 2022.

*Ned. E. Kleinke*, CPA, Essexville, Michigan, age 65. Mr. Kleinke has been a Board member since January 2003. Mr. Kleinke received his BA in Business Administration from Saginaw Valley State University, Saginaw, Michigan in 1981. He passed the uniform CPA exam in March 1986. With three other partners, he helped form Quast, Janke and Company CPA's P.C. in 1989, where he was a partner until December, 2008. Since January, 2009, Mr. Kleinke has been self employed as a certified public accountant. Mr. Kleinke's term expires September 2021.

*Donald H. Krueger*, Saginaw, Michigan, age 69. Mr. Krueger has been a Board member since July 16, 2000, and LACE's President and Chief Executive Officer since October 1, 2010. Mr. Krueger received an A.A. in Business Administration from Northwood University, Midland, Michigan, and a B.B.A. in Business Administration from Northwood University, Midland, Michigan. Mr. Krueger was the Executive Vice-President

of Amalgamated Credit Union, Saginaw, Michigan, where he had been employed from 2005-2009. Prior to that position, Mr. Krueger was the President and CEO of Saginaw Automotive Employees Federal Credit Union for 25 years. Prior to that position, Mr. Krueger was employed by Family Federal Savings and Loan, Saginaw, Michigan. Mr. Krueger's term expires September 2022.

*Reverend David C. Naumann*, Saginaw, Michigan, age 40. Reverend Naumann became a Board member in 2014. He received a B.A. from Martin Luther College, New Ulm, Minnesota (2002), and a Master of Divinity from Wisconsin Lutheran Seminary, Mequon, Wisconsin (2006). Reverend Naumann was ordained as a tutor and instructor at Martin Luther College in 2006 and served there two years until June 2008. In 2008, he was assigned to be an assistant to the district president of the Minnesota District, where he served in the parish at St. Peter Evangelical Lutheran Church in St. Peter, Minnesota, until April 2013. Since April 2013, he has served as an associate pastor at St. Paul's Evangelical Lutheran Church, Saginaw, Michigan. Reverend Naumann's term expires September 2020.

*Reverend Stephen P. Schamber*, Wyoming, Michigan, age 57. Reverend Schamber became a Board member in 2005. He received a B.A. from Northwestern College, Watertown, Wisconsin (1989), and a Master of Divinity from Wisconsin Lutheran Seminary, Mequon, Wisconsin (1993). Reverend Schamber was a minister at Faith Lutheran Church, Tacoma, Washington from July 1993 to November 1994 and as a minister at Zion Lutheran Church, Rhinelander, Wisconsin from November 1994 to November 2004. Since November 2004, he has served as minister at Holy Trinity Lutheran Church, Wyoming, Michigan. Reverend Schamber's term expires September 2020.

## **Officers**

The Board meets annually to elect **LACE's** officers for the following year. The elective offices include the Chairman of the Board, President, Vice Chairman, Chief Financial Officer, and Secretary. The term of office for all officers expires in September of each year. As of the date of this Offering Circular, the officers are as follows:

Chairman – Reverend Robert M. Frick  
President and Chief Executive Officer – Donald H. Krueger  
Vice Chairman, Chief Financial Officer and Treasurer – Ned E. Kleinke  
Secretary – Reverend Stephen P. Schamber Sr.

## **Compensation**

Members of the Board do not receive compensation for their services to **LACE** but are reimbursed for expenses incurred in attending Board meetings. **LACE** has two full-time employees and one part-time employee. The total amount paid to the employees or for employee benefits during the fiscal year ending June 30, 2020, was \$175,536.

## **TAX ASPECTS**

The following summarizes the material federal income tax consequences of an investment in the **Certificates** based upon the **Code**, the regulations promulgated under the **Code** and existing administrative interpretations and court decisions as of the date of this Offering Circular. Future legislation, regulations, administrative interpretations, or court decisions could change such

authorities either prospectively or retroactively. As a result, this summary may not accurately reflect the tax consequences of an investment in the **Certificates** after the date of this Offering Circular. This summary does not address all aspects of federal income taxation that may be important to an individual Certificate Holder in light of the Certificate Holder's particular circumstances or if the Certificate Holder is subject to special rules, such as rules applicable to financial institutions or tax-exempt organizations or to Certificate Holders who are not citizens or residents of the United States. For instance, if you are purchasing the Certificates through an IRA or other qualified tax-deferred account, special rules apply to your account. This summary also does not address special rules that may apply if you are a financial institution or tax-exempt organization, or if you are not a citizen or resident of the United States. Furthermore, this summary does not address state, local or foreign tax laws that may be relevant to a Certificate Holder.

Upon the purchase of a **Certificate**, Certificate Holders will recognize neither gain nor loss for Federal income tax purposes, and will not be entitled to a charitable deduction. The interest paid or payable on the **Certificates** (other than those issued to IRAs and various other qualified retirement plans) will be taxable as ordinary income to the Certificate Holders in the year it is paid and distributed to the Certificate Holder, reinvested by the Certificate Holder by increasing the outstanding principal amount of the **Certificate**, or accrued by the Certificate Holder depending on the Certificate Holder's method of accounting. **LACE** will provide you a Federal Income Tax Form 1099-INT or the comparable form by January 31<sup>st</sup> of each year indicating the interest earned on your **Certificate** during the previous year. This amount reported to you is the interest that is taxable to you and should be included on your tax return. Certificate Holders who hold **Certificates** until their maturity or who transfer **Certificates** prior to maturity will not be taxed on the return of the purchase price of the **Certificates** or on the payment of previously recognized and taxed interest. **LACE** is required to comply with applicable reporting and withholding requirements. As a result, **LACE** may withhold federal income tax from each payment of interest if you fail to provide **LACE** with your social security number (for individuals) or employer identification number (for entities) when you make an investment or if **LACE** is notified that you have underreported your income to the Internal Revenue Service.

An individual Certificate Holder, or a husband and wife together, with **Certificates** and other investments and loans of more than \$250,000 in the aggregate with or to **LACE** and other charitable organizations that control, are controlled by or under common control with **LACE** (including districts, colleges and seminaries, and other synodically-controlled organizations) may be deemed to receive additional taxable interest under Section 7872 of the **Code** if the interest rate on a **Certificate** is less than the applicable federal rate, which is a minimum rate of interest which the Internal Revenue Service requires be included in certain loan transactions. A corresponding charitable contribution may be available to any Certificate Holder who is required to impute interest under Section 7872. Certificate Holders to whom this may apply should consult with their tax advisers regarding these special income tax rules.

Individuals may arrange with an independent trustee for their investment in an IRA Investment **Certificate** to be handled so as to qualify for tax deferral under provisions of the applicable tax laws dealing with IRAs and other qualified retirement plans. Under such an arrangement, a qualified financial institution acts as the trustee of a self-directed IRA and invests the designated funds in an IRA Investment **Certificate** as directed by the investor.

This discussion of federal income tax consequences was written to support the promotion or marketing of the **Certificates** and is not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding tax penalties. Investors should consult with their tax

advisors to determine their particular federal, state, local, foreign, and other tax consequences of an investment in the **Certificates** and regarding potential changes in applicable laws.

## LEGAL MATTERS

At the date of this Offering Circular, there were no material suits, actions, or other legal proceedings or claims pending against **LACE**.

## FINANCIAL MATTERS

### Financial Statements

**LACE's Financial Statements** consist of an independent auditors' report, statements of financial position, statements of activities, statements of cash flows, and notes to financial statements, for the fiscal years ending June 30, 2020, June 30, 2019, and June 30, 2018. The Financial Statements included in this Offering Circular have been audited by Yeo & Yeo, P.C., independent certified public accountants. It is **LACE's** policy to mail its annual audited financial statements to Certificate Holders within 120 days of its fiscal year end and upon written request.

## FURTHER INFORMATION AND ADMINISTRATIVE MATTERS

**LACE** has filed certain documents with the appropriate state agencies, including certain exhibits and amendments, for the offer and sale of the **Certificates**. The Offering Circular does not contain all the information filed with the state agencies. **LACE** refers potential investors to these documents as a further source of information with respect to **LACE**, **WELS**, **ELS** and the **Certificates**. Potential investors may also contact **LACE** at (989) 781-1600, (888) 550-LACE (5223), or [info@laceinc.org](mailto:info@laceinc.org), or visit **LACE's** website at [www.laceinc.org](http://www.laceinc.org). Except as otherwise indicated, the Offering Circular speaks as of its date. The **Certificates** are either registered in, or are exempt from the registration requirements of, the various states in which they are sold. The **Certificates** are not registered or exempt in all states, and **LACE** will offer and sell its **Certificates** only in states where authorized.

## HOW TO PURCHASE CERTIFICATES

Organizations and individuals wishing to purchase a **Certificate** may do so by completing the Application to Purchase that accompanies the Offering Circular, and sending it with a check to **LACE**. Prospective purchasers must indicate on the Application to Purchase that they have received an Offering Circular. **LACE** will not knowingly accept an Application to Purchase prior to the time that an investor receives an Offering Circular. If **LACE** accepts the Application to Purchase, **LACE** will notify the investor by mail and send the executed **Certificate** to the investor.

## SUMMARY OF DEMAND CERTIFICATE TERMS

The terms of Demand **Certificates** issued pursuant to this Offering Circular shall be as follows, and these terms together with LACE's books and records shall constitute the evidence of indebtedness owed:

- The principal dollar amount, initial interest rate, Certificate Holder, certificate number, and date of Demand **Certificates** will be as stated in the confirmation sent by LACE to the Certificate Holder at the time of the initial investment or the exchange of a paper Demand **Certificate** for a book entry Demand **Certificate**. Similarly, the date and amount of any addition to the Demand **Certificate**, and of any redemption of all or any portion of the Demand **Certificate**, will be as stated in the confirmation thereof sent by LACE to the Certificate Holder at the time of the event. LACE is authorized by the Certificate Holder to note all such facts on its books and records, as well as the amount of each accrual or payment of interest, which books and records shall constitute *prima facie* evidence of the information so noted.
- The interest rate on Demand **Certificates** is variable and may be changed from time to time by LACE with 30 days' written notice to the Certificate Holder.
- Demand **Certificates** may not be designated to a particular **Loan Applicant** or **Borrower**. LACE may use the proceeds from the sale of Demand **Certificates** for any purpose described in this Offering Circular.
- Certificates may be redeemed in whole or in part at any time upon at least thirty days' prior written notice to LACE on forms approved by LACE. Upon a partial or complete redemption, the principal amount requested by the Certificate Holder, up to the full principal amount of the Demand **Certificate** together with any accrued but unpaid interest, will be paid by LACE to the Certificate Holder within thirty days of LACE's receipt of a proper redemption request and any outstanding paper certificate representing the Demand **Certificate**, if any, or a lost certificate affidavit if an outstanding paper Demand **Certificate** cannot be located.
- The Demand **Certificate** will earn interest from the date of issuance until redeemed. Interest will be accrued daily based on the collected principal balance outstanding at the end of each day, and added to the principal balance of the Demand **Certificate** annually or upon redemption.
- LACE may at its option redeem any Demand **Certificate** at any time, without premium, but with accrued interest, upon 60 days' advance written notice to Certificate Holder.
- The Demand **Certificate** may not be pledged or assigned and is not negotiable or otherwise transferrable except when affirmatively permitted by LACE in its sole discretion.
- The Demand **Certificate** is issued in accordance with, and subject to the terms and conditions set forth in, the Application to Purchase and LACE's current offering circular, as it may be updated or supplemented from time to time.
- Each Demand **Certificate** is LACE's unsecured general debt obligation, and each Certificate Holder will have an equal claim against LACE's assets with other debt security holders and unsecured creditors. If LACE incurs senior secured indebtedness, the creditor issuing that debt will have a higher priority claim to LACE's assets than will the Certificate Holder.
- LACE's failure to pay principal and interest on the Demand **Certificate** when due and requested will be an event of default, but only as to that Demand **Certificate**.
- The offer and sale of **Certificates** is governed by the laws of the investor's state of residence as well as the laws of Michigan. The Demand **Certificate** shall be deemed to have been made in the State of Michigan, and any action arising out of it shall be governed by the laws of the State of Michigan that are applied to contracts made or to be performed in that state. Any action arising out of the Demand **Certificate** may be brought in any District or Circuit Court for the State of Michigan, or in any United States District Court located in Michigan. By acceptance of the Demand **Certificate**, the Certificate Holder consents that all such courts shall have personal jurisdiction of the Certificate Holder with respect to any such action.
- The Demand **Certificate** is not FDIC or SIPC insured.
- The Demand **Certificate** is not a bank instrument.
- The Demand **Certificate** is not guaranteed by WELS or ELS or any other guarantor.

## SUMMARY OF LOAN CERTIFICATE TERMS

The terms of Loan **Certificates** issued pursuant to this Offering Circular shall be as follows, and these terms together with **LACE**'s books and records and any paper certificate issued shall constitute the evidence of indebtedness owed:

- The principal dollar amount, initial interest rate, Certificate Holder, certificate number, and date of Loan **Certificates** will be as stated in the confirmation sent by **LACE** to the Certificate Holder at the time of the initial investment or the paper Loan **Certificate**. Similarly, the date and amount of any addition to the Loan **Certificate**, and of any redemption of all or any portion of the Loan **Certificate**, will be as stated in the confirmation thereof sent by **LACE** to the Certificate Holder at the time of the event. **LACE** is authorized by the Certificate Holder to note all such facts on its books and records, as well as the amount of each accrual or payment of interest, which books and records shall constitute *prima facie* evidence of the information so noted.
- The interest rate on Loan **Certificates** is selected by the Certificate Holder at the time of purchase from within an available range of interest rate options.
- If a Member designates a Loan **Certificate** to a particular **Loan Applicant** or **Borrower**, **LACE** will use the proceeds from the sale of the **Certificate** in making a loan to the **Designated Organization** specified by the **Member**. As the Designated Organization repays its loan, **LACE** may use any Loan **Certificate** funds in excess of the Designated Organization's outstanding principal loan balance for any purpose described in the Offering Circular.
- Loan **Certificates** mature on the last day of their term (such term commencing on the day of issuance), except that if the majority date is not a business day of **LACE**, then the maturity date shall be the next following business day.
- If **LACE** elects to permit an early redemption of a **Certificate**, a penalty of up to six months interest may be applied to a Loan **Certificate** with a term of five or more years and a penalty of up to three months interest may be applied to a Loan **Certificate** with a term of less than five years. A Loan **Certificate** that has been renewed one or more times will not have a penalty imposed upon an early redemption.
- The Loan **Certificate** will earn interest from the date of issuance until redeemed. Interest will be accrued daily based on the collected principal balance outstanding at the end of each day, and added to the principal balance of the Loan **Certificate** annually or upon redemption.
- **LACE** may at its option redeem any Loan **Certificate** at any time, without premium, but with accrued interest, upon 60 days' advance written notice to Certificate Holder.
- The Loan **Certificate** may not be pledged or assigned and is not negotiable or otherwise transferrable except when affirmatively permitted by **LACE** in its sole discretion.
- The Loan **Certificate** is issued in accordance with, and subject to the terms and conditions set forth in, the Application to Purchase and **LACE**'s current offering circular, as it may be updated or supplemented from time to time.
- Each Loan **Certificate** is **LACE**'s unsecured general debt obligation, and each Certificate Holder will have an equal claim against **LACE**'s assets with other debt security holders and unsecured creditors. If **LACE** incurs senior secured indebtedness, the creditor issuing that debt will have a higher priority claim to **LACE**'s assets than will the Certificate Holder.
- **LACE**'s failure to pay principal and interest on the Loan **Certificate** when due and requested will be an event of default, but only as to that Loan **Certificate**.
- The offer and sale of **Certificates** is governed by the laws of the investor's state of residence as well as the laws of Michigan. The Loan **Certificate** shall be deemed to have been made in the State of Michigan, and any action arising out of it shall be governed by the laws of the State of Michigan that are applied to contracts made or to be performed in that state. Any action arising out of the Loan **Certificate** may be brought in any District or Circuit Court for the State of Michigan, or in any United States District Court located in Michigan. By acceptance of the Loan **Certificate**, the Certificate Holder consents that all such courts shall have personal jurisdiction of the Certificate Holder with respect to any such action.
- The Loan **Certificate** is not FDIC or SIPC insured.
- The Loan **Certificate** is not a bank instrument.
- The Loan **Certificate** is not guaranteed by WELS or ELS or any other guarantor.

## SUMMARY OF IRA INVESTMENT CERTIFICATE TERMS

The terms of IRA Investment **Certificates** issued pursuant to this Offering Circular shall be as follows, and these terms together with LACE's books and records and any paper certificate issued shall constitute the evidence of indebtedness owed:

- The principal dollar amount, initial interest rate, Certificate Holder, certificate number, and date of Demand **Certificates** will be as stated in the confirmation sent by LACE to the Certificate Holder at the time of the initial investment or the paper IRA Investment **Certificate**. Similarly, the date and amount of any addition to the IRA Investment **Certificate**, and of any redemption of all or any portion of the IRA Investment **Certificate**, will be as stated in the confirmation thereof sent by LACE to the Certificate Holder at the time of the event. LACE is authorized by the Certificate Holder to note all such facts on its books and records, as well as the amount of each accrual or payment of interest, which books and records shall constitute *prima facie* evidence of the information so noted.
- The interest rate on IRA Investment **Certificates** is variable and may be changed from time to time by LACE with 30 days' written notice to the Certificate Holder.
- IRA Investment **Certificates** may not be designated to a particular **Loan Applicant** or **Borrower**. LACE may use the proceeds from the sale of IRA Investment **Certificates** for any purpose described in this Offering Circular.
- **Certificates** may be redeemed in whole or in part at any time upon at least thirty days' prior written notice to LACE on forms approved by LACE. The principal amount of an IRA Investment **Certificate** may be increased or decreased thirteen times per year without penalty through the investment of at least \$250 of additional funds or the redemption of all or a portion of the **Certificate's** outstanding principal balance. More than thirteen redemptions in any calendar year will generally be subject to a penalty equal to 1% of the amount of the redemption, though exceptions may be granted in certain circumstances.
- The IRA Investment **Certificate** will earn interest from the date of issuance until redeemed. Interest will be accrued daily based on the collected principal balance outstanding at the end of each day, and added to the principal balance of the IRA Investment **Certificate** annually or upon redemption.
- LACE may at its option redeem any IRA Investment **Certificate** at any time, without premium, but with accrued interest, upon 60 days' advance written notice to Certificate Holder.
- The IRA Investment **Certificate** may not be pledged or assigned and is not negotiable or otherwise transferrable except when affirmatively permitted by LACE in its sole discretion.
- The IRA Investment **Certificate** is issued in accordance with, and subject to the terms and conditions set forth in, the Application to Purchase and LACE's current offering circular, as it may be updated or supplemented from time to time.
- Each IRA Investment **Certificate** is LACE's unsecured general debt obligation, and each Certificate Holder will have an equal claim against LACE's assets with other debt security holders and unsecured creditors. If LACE incurs senior secured indebtedness, the creditor issuing that debt will have a higher priority claim to LACE's assets than will the Certificate Holder.
- LACE's failure to pay principal and interest on the IRA Investment **Certificate** when due and requested will be an event of default, but only as to that IRA Investment **Certificate**.
- The offer and sale of **Certificates** is governed by the laws of the investor's state of residence as well as the laws of Michigan. The IRA Investment **Certificate** shall be deemed to have been made in the State of Michigan, and any action arising out of it shall be governed by the laws of the State of Michigan that are applied to contracts made or to be performed in that state. Any action arising out of the IRA Investment **Certificate** may be brought in any District or Circuit Court for the State of Michigan, or in any United States District Court located in Michigan. By acceptance of the IRA Investment **Certificate**, the Certificate Holder consents that all such courts shall have personal jurisdiction of the Certificate Holder with respect to any such action.
- The IRA Investment **Certificate** is not FDIC or SIPC insured.
- The IRA Investment **Certificate** is not a bank instrument.
- The IRA Investment **Certificate** is not guaranteed by WELS or ELS or any other guarantor.

**EXHIBIT A**  
**Financial Statements**

**EXHIBIT B**  
**Application to Purchase**

**EXHIBIT A**  
**Financial Statements**

**Lutheran Association for  
Church Extension, Inc.**

**Financial Statements**

**June 30, 2020, 2019, and 2018**



## Board of Directors

Rev. Robert M. Frick	Chairman
Donald H. Krueger	President, Chief Executive Officer
Ned E. Kleinke	Treasurer, Vice-President, Chief Financial Officer
Rev. Stephen P. Schamber	Secretary
Rev. David Naumann	Director
Alfred E. Cereske	Director
Scott J. Carvey	Director
James W. Freer	Director

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## Independent Auditors' Report

Management and the Board of Directors  
Lutheran Association for Church Extension, Inc.  
Saginaw, Michigan

### Report on the Financial Statements

We have audited the accompanying financial statements of Lutheran Association for Church Extension, Inc. which comprise the statement of financial position as of June 30, 2020, 2019, and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Adoption of New Accounting Standard***

As described in Note 1 to the financial statements Lutheran Association for Church Extension, Inc. changed its method of accounting for revenue recognition in 2020 as required by the provisions of FASB Accounting Standards Update 2018-08 *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to that matter.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lutheran Association for Church Extension, Inc. as of June 30, 2020, 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.

*Yeo & Yeo, P.C.*

Saginaw, Michigan  
August 24, 2020

**Lutheran Association for Church Extension, Inc.**  
**Statement of Financial Position**  
**June 30, 2020, 2019 and 2018**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>Assets</b>			
Cash	\$ 1,487,595	\$ 1,989,617	\$ 371,931
Interest bearing deposits with an insurance company	<u>1,009,665</u>	<u>975,522</u>	<u>942,533</u>
Total cash and cash equivalents	<b>2,497,260</b>	2,965,139	1,314,464
Accrued interest receivable	<b>254,898</b>	172,277	149,735
Loans, net of allowance for loan losses (\$285,000 - 2020, 2019 and 2018)	<b>52,101,113</b>	50,708,831	47,586,788
Prepaid expenses	-	661	1,322
Equipment and software, net of accumulated depreciation of \$40,436 for 2020, \$39,022 for 2019, and \$36,573 for 2018	<u>2,349</u>	<u>3,763</u>	<u>6,212</u>
<b>Total assets</b>	<b><u>\$ 54,855,620</u></b>	<b><u>\$ 53,850,671</u></b>	<b><u>\$ 49,058,521</u></b>
<b>Liabilities and net assets</b>			
Liabilities			
Investment certificates payable	<b>\$ 48,414,888</b>	\$ 45,932,786	\$ 43,566,421
Line of credit payable	-	1,500,000	-
Payroll protection loan	<b>26,400</b>	-	-
Accrued interest payable and other liabilities	<u>718,213</u>	<u>1,142,224</u>	<u>619,075</u>
Total liabilities	<b>49,159,501</b>	48,575,010	44,185,496
Net assets without donor restrictions	<u>5,696,119</u>	<u>5,275,661</u>	<u>4,873,025</u>
<b>Total liabilities and net assets</b>	<b><u>\$ 54,855,620</u></b>	<b><u>\$ 53,850,671</u></b>	<b><u>\$ 49,058,521</u></b>

See Accompanying Notes to the Financial Statements

**Lutheran Association for Church Extension, Inc.**  
**Statement of Activities**  
**For the Years Ended June 30, 2020, 2019 and 2018**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Interest income			
Loans	\$ 2,397,600	\$ 2,270,698	\$ 2,029,235
Deposits with an insurance company	34,143	30,151	31,873
Deposits with banks and money market funds	<u>2,862</u>	<u>5,092</u>	<u>4,305</u>
Total interest income	<b>2,434,605</b>	2,305,941	2,065,413
Interest expense on investment certificates payable	<u>1,489,369</u>	<u>1,352,795</u>	<u>1,297,889</u>
Net interest income	<u>945,236</u>	<u>953,146</u>	<u>767,524</u>
Non-interest income			
Donation income	3	21,464	-
Gain on sale of asset held for sale	<u>-</u>	<u>-</u>	<u>193,380</u>
Total non-interest income	<u>3</u>	<u>21,464</u>	<u>193,380</u>
Non-interest expenses			
Program services	357,981	387,459	306,559
Management and general	<u>166,800</u>	<u>184,515</u>	<u>143,469</u>
Total	<u>524,781</u>	<u>571,974</u>	<u>450,028</u>
Change in net assets without donor restrictions	<b>420,458</b>	402,636	510,876
Net assets without donor restrictions, beginning of year	<u>5,275,661</u>	<u>4,873,025</u>	<u>4,362,149</u>
<b>Net assets without donor restrictions, end of year</b>	<b><u>\$ 5,696,119</u></b>	<b><u>\$ 5,275,661</u></b>	<b><u>\$ 4,873,025</u></b>

See Accompanying Notes to the Financial Statements

**Lutheran Association for Church Extension, Inc.**  
**Statement of Functional Expenses**  
**For the Year Ended June 30, 2020**

	Program Services	Management and General	Total
Salaries and related costs			
Salaries and wages	\$ 65,976	\$ 83,970	\$ 149,946
Payroll taxes	9,160	2,290	11,450
Employee benefits	11,312	2,828	14,140
	<u>86,448</u>	<u>89,088</u>	<u>175,536</u>
Total salaries and related costs	86,448	89,088	175,536
General liability insurance	-	3,846	3,846
Office machines expense	9,132	1,015	10,147
Postage and UPS expense	4,008	446	4,454
Printing and circulation	3,564	-	3,564
Data processing expense	27,040	-	27,040
Office rent expense	13,200	13,200	26,400
Office supplies and services	9,056	1,006	10,062
Telephone expense	5,556	617	6,173
Bank service charge	-	1,857	1,857
Travel and meals	38,018	-	38,018
Utilities expense	2,653	2,652	5,305
Workman's comp insurance	502	126	628
Board meeting expense	-	8,757	8,757
Publicity expense	6,698	-	6,698
Directors liability expense	-	4,676	4,676
Professional service	1,686	1,685	3,371
Audit expense	-	17,300	17,300
Legal expense	38,968	-	38,968
Credit line expense	44,896	-	44,896
State filing fees	10,830	-	10,830
Title search and loan expense	4,369	-	4,369
Staff training	650	-	650
Miscellaneous expense	-	149	149
Contributions to WELS/ELS	50,000	19,673	69,673
Depreciation expense	707	707	1,414
	<u>357,981</u>	<u>166,800</u>	<u>524,781</u>
Total non-interest expenses by function	357,981	166,800	524,781
Interest expense-certificates	1,489,369	-	1,489,369
	<u>1,489,369</u>	<u>-</u>	<u>1,489,369</u>
Interest expense-certificates	1,489,369	-	1,489,369
Total expenses by function	\$ 1,847,350	\$ 166,800	\$ 2,014,150

See Accompanying Notes to the Financial Statements

**Lutheran Association for Church Extension, Inc.**  
**Statement of Functional Expenses**  
**For the Year Ended June 30, 2019**

	Program Services	Management and General	Total
Salaries and related costs			
Salaries and wages	\$ 58,704	\$ 74,714	\$ 133,418
Payroll taxes	11,966	2,991	14,957
Employee benefits	8,342	2,086	10,427
	<u>79,011</u>	<u>79,791</u>	<u>158,802</u>
Total salaries and related costs	79,011	79,791	158,802
General liability insurance	-	3,610	3,610
Office machines expense	2,284	254	2,538
Postage and UPS expense	4,982	554	5,536
Printing and circulation	3,873	-	3,873
Data processing expense	38,669	-	38,669
Office rent expense	13,200	13,200	26,400
Office supplies and services	12,300	1,367	13,667
Telephone expense	5,775	642	6,417
Bank service charge	-	2,195	2,195
Travel and meals	69,088	-	69,088
Utilities expense	4,025	4,025	8,050
Workman's comp insurance	560	140	700
Board meeting expense	-	7,264	7,264
Publicity expense	25,154	-	25,154
Directors liability expense	-	4,543	4,543
Professional service	323	323	645
Audit expense	-	17,550	17,550
Legal expense	43,060	-	43,060
Credit line expense	74,979	-	74,979
State filing fees	8,800	-	8,800
Title search and loan expense	151	-	151
Miscellaneous expense	-	1,034	1,034
Contributions to WELS/ELS	-	46,800	46,800
Depreciation expense	1,225	1,225	2,449
	<u>387,459</u>	<u>184,515</u>	<u>571,974</u>
Total non-interest expenses by function	387,459	184,515	571,974
Interest expense-certificates	1,352,795	-	1,352,795
	<u>1,352,795</u>	<u>-</u>	<u>1,352,795</u>
Interest expense-certificates	1,352,795	-	1,352,795
	<u>1,352,795</u>	<u>-</u>	<u>1,352,795</u>
Total expenses by function	\$ 1,740,254	\$ 184,515	\$ 1,924,769

See Accompanying Notes to the Financial Statements

**Lutheran Association for Church Extension, Inc.**  
**Statement of Functional Expenses**  
**For the Year Ended June 30, 2018**

	Program Services	Management and General	Total
Salaries and related costs			
Salaries and wages	\$ 106,893	\$ 26,723	\$ 133,616
Payroll taxes	10,350	2,587	12,937
Employee benefits	8,222	2,056	10,278
Total salaries and related costs	125,465	31,366	156,831
General liability insurance	-	6,559	6,559
Office machines expense	195	22	217
Postage and UPS expense	4,730	526	5,256
Printing and circulation	3,271	-	3,271
Data processing expense	23,485	-	23,485
Office rent expense	14,300	14,300	28,600
Office supplies and services	7,362	818	8,180
Telephone expense	5,845	649	6,494
Bank service charge	-	2,487	2,487
Travel and meals	39,943	-	39,943
Utilities expense	2,033	2,032	4,065
Workman's comp insurance	1,346	337	1,683
Board meeting expense	-	7,554	7,554
Publicity expense	8,599	-	8,599
Directors liability expense	-	4,368	4,368
Audit expense	-	16,250	16,250
Legal expense	46,053	-	46,053
Credit line expense	1,034	-	1,034
State filing fees	7,245	-	7,245
Title search and loan expense	2,456	-	2,456
Seminar expense	667	74	741
Miscellaneous expense	-	1,621	1,621
Contributions to WELS/ELS	-	52,425	52,425
Depreciation expense	2,081	2,081	4,162
Hope Lutheran Church expenses	10,449	-	10,449
Total non-interest expenses by function	306,559	143,469	450,028
Interest expense-certificates	1,297,889	-	1,297,889
Total non-interest expenses by function	\$ 1,604,448	\$ 143,469	\$ 1,747,917

See Accompanying Notes to the Financial Statements

**Lutheran Association for Church Extension, Inc.**  
**Statement of Cash Flows**  
**For the Years Ended June 30, 2020, 2019 and 2018**

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>Cash flows from operating activities</b>			
Change in unrestricted net assets	\$ 420,458	\$ 402,636	\$ 510,876
Items not requiring cash			
Depreciation	1,414	2,449	4,162
Gain on sale of asset held for sale	-	-	(193,380)
Change in operating assets and liabilities			
Accrued interest receivable	(82,621)	(22,542)	(36,463)
Prepaid expenses	661	661	(1,322)
Accrued interest payable and other liabilities	<u>(424,011)</u>	<u>523,149</u>	<u>49,267</u>
Net cash provided by operating activities	<u>(84,099)</u>	<u>906,353</u>	<u>333,140</u>
<b>Cash flows from investing activities</b>			
Loans issued	(5,105,712)	(5,600,190)	(10,190,680)
Loan principal collected	3,713,430	2,478,147	2,354,962
Proceeds from sale of building held for sale	<u>-</u>	<u>-</u>	<u>993,380</u>
Net cash used by investing activities	<u>(1,392,282)</u>	<u>(3,122,043)</u>	<u>(6,842,338)</u>
<b>Cash flows from financing activities</b>			
Proceeds (payments) from line of credit payable	(1,500,000)	1,500,000	-
Proceeds from issuance of investment certificates payable	5,758,994	5,959,416	6,644,736
Proceeds from payroll protection loan	26,400	-	-
Redemptions of investment certificates payable	<u>(3,276,892)</u>	<u>(3,593,051)</u>	<u>(3,478,768)</u>
Net cash provided by financing activities	<u>1,008,502</u>	<u>3,866,365</u>	<u>3,165,968</u>
Change in cash and cash equivalents	(467,879)	1,650,675	(3,343,230)
Cash and cash equivalents, beginning of year	<u>2,965,139</u>	<u>1,314,464</u>	<u>4,657,694</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 2,497,260</u>	<u>\$ 2,965,139</u>	<u>\$ 1,314,464</u>

See Accompanying Notes to the Financial Statements

**Lutheran Association for Church Extension, Inc.**  
**Notes to the Financial Statements**  
**June 30, 2020, 2019 and 2018**

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**Note 1 - Mission and Summary of Significant Accounting Policies**

**Organization, Mission and Concentrations of Risk**

The Lutheran Association for Church Extension, Inc. (hereinafter referred to as the "Association") is a Michigan non-profit corporation. Its principal purpose is to provide loans to self-supporting Wisconsin Evangelical Lutheran Synod (WELS) and Evangelical Lutheran Synod (ELS) churches and schools and other organizations affiliated with WELS and ELS throughout the United States for the construction or renovation of their buildings and facilities (See Note 4). Individual congregation or organization members purchase investment certificates which help to provide the funds for the Association to lend (See Note 5). The Association's results of operations can be significantly affected by changes in interest rates or changes in the economic environment of the congregations or organizations that have received loans from the Association.

**Use of Estimates**

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

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions.

**Basis of Accounting**

The financial statements of the Association have been prepared on the accrual basis and, accordingly, reflect all significant receivables, payables and other liabilities.

As there are no restrictions on net assets, all changes in net assets have been classified and reported as net assets without donor restrictions.

**Cash and Cash Equivalents**

Cash and cash equivalents consist of demand deposits in banks, investments in a money market fund with an investment broker and interest-bearing deposits with an insurance company.

The demand deposit accounts in banks are insured by the Federal Deposit Insurance Corporation up to \$250,000. The bank balances at June 30, 2020 exceed this insured limit by approximately \$1,317,662.

Interest bearing deposits with an insurance company consist of deposits with Thrivent. Such deposits are redeemable on demand and earn interest at a variable rate, which is established annually (effective minimum rate of 3.50% at June 30, 2020). These deposits total \$1,009,665 and are not insured.

**Loans and Related Income**

The Association grants mortgage loans to Lutheran congregations and related Lutheran organizations throughout the United States. The ability of the Association's borrowers to honor their contracts is dependent upon general economic conditions in the borrower's respective local market areas.

Loans receivable are carried at their estimated collectible amounts. Interest income on loans receivable is recognized using the interest method. Interest income on impaired loans is recognized as cash is collected or on a cost-recovery basis. Origination costs are expensed when incurred. The amounts are not material to the financial statements.

**Lutheran Association for Church Extension, Inc.**  
**Notes to the Financial Statements**  
**June 30, 2020, 2019 and 2018**

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**Allowance for Loan Losses**

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan loss expense charged to earnings. The Association has not charged-off as uncollectible any loans made to congregations. However, an allowance for loan losses is recorded because some loans may not be repaid in full. The allowance is increased by a provision for loan losses charged to expense in the statement of activities. The allowance will be decreased as loans are charged off. A charge-off, in whole or in part, occurs once a significant probability of loss has been determined, with consideration given to such factors as the congregation's financial condition and underlying collateral. There was no change in the allowance in the year or in the Association's policies and methodology used to estimate the allowance.

The allowance is maintained by management at a level considered adequate to absorb estimated potential losses inherent in the loan portfolio. Management's evaluation of the allowance is based on loss experience, known and inherent risks in the loan portfolio, estimated value of underlying collateral and current economic conditions. Allowances for impaired loans are generally determined based on collateral value or the present value of estimated cash flows. In management's judgment, the allowance for loan losses is maintained at a level adequate to provide for estimated losses inherent in the loan portfolio. However, because of uncertainties inherent in the estimation process, it is possible that the allowance for loan losses may change in the near term.

A loan is considered impaired when, based on current information and events, it is probable that the Association will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

**Credit Quality**

The Association takes into account affordability and church cash flows to monitor credit quality of mortgage loans at the time of the initial loan. Loan payments past due at June 30, 2020, 2019 and 2018 are \$116,134, \$56,804, and \$37,500, respectively. Loan balances past due at June 30, 2020, 2019 and 2018 are \$5,530,243, \$1,837,762, and \$582,477, respectively.

**Equipment and Software and Depreciation**

Equipment and software is stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, which range from 2 to 10 years. The Association capitalizes purchases greater than \$1,000. Management annually reviews these assets to determine whether carrying values have been impaired.

**Income Taxes**

The Association is a not-for-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC") and is exempt from similar state and local taxes. As a religious organization, annual informational returns are not required. However, income from certain activities not directly related to the Association's tax-exempt purpose is subject to taxation as unrelated business income. The Association generated no such unrelated business taxable income during the years ended June 30, 2020, 2019 and 2018.

**Lutheran Association for Church Extension, Inc.**  
**Notes to the Financial Statements**  
**June 30, 2020, 2019 and 2018**

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**Donations**

Donations received during the years ended June 30, 2020, 2019 and 2018 were not restricted by the donors. Donations are recognized when a donor makes a contribution. Donations are recorded in the statement of activities as donation income.

**Functional Expenses**

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis.

**Change in Accounting Principle**

The Association adopted ASU 2018-08 Not-for-Profit Entities (Topic 958) *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* as of the beginning of the year ended June 30, 2020. This has been adopted prospectively. Net assets did not change as a result of this change.

**Subsequent Events**

Management has evaluated subsequent events through August 24, 2020, which is the date the financial statements were available to be issued.

**Note 2 - Liquidity and Availability**

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

	<u>Total</u>
Cash and cash equivalents	\$ 2,497,260
Loans receivable, net	21,296,467
Accrued interest receivable	<u>254,898</u>
	<u>\$ 24,048,625</u>

The Association manages projected cash inflows from loan payments and potential investments on a weekly basis in order to be able to fund newly requested loans. As part of the Association's liquidity management plan they have a \$3,000,000 line of credit available to meet cash flow needs.

**Note 3 - Supplementary Cash Flows Information**

Cash paid for interest on investment certificates payable for the years ended June 30, 2020, 2019 and 2018 amounted to \$1,420,196, \$1,337,830 and \$1,263,403, respectively.

**Note 4 - Loans**

The Association grants loans to congregations of the WELS and related Lutheran organizations that are self-supporting and to ELS congregations located throughout the United States. The loan portfolio consists primarily of fixed rate secured mortgage loans used for expansion of facilities, capital improvements and refinancing of loans. The interest rates on the loans range from 2% - 6% depending on the terms and conditions. Certain congregations of the ELS to which the Association has made loans are not self-supporting and the Synod is a co-obligor on these loans.

**Lutheran Association for Church Extension, Inc.**  
**Notes to the Financial Statements**  
**June 30, 2020, 2019 and 2018**

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The Association extends loan commitments in the normal course of business to meet the financing needs of qualifying congregations and related organizations. The Association follows the same credit policy to make such commitments, including collateral, as is followed for those loans recorded in the financial statements and does not anticipate any significant losses as a result of these commitments.

The Association had one outstanding loan commitment totaling \$525,000 as of June 30, 2020.

Nonaccrual of loans that were delinquent over 90 days and other impaired loans were \$0 at June 30, 2020, 2019 and 2018.

As of June 30, 2020, the gross principal balance of the outstanding loans were schedule to mature as follows:

2021	\$ 21,581,467
2022	10,007,738
2023	8,917,073
2024	1,173,336
2025	1,916,353
2026-2030	1,594,654
2031-2035	3,286,991
2036-2040	73,054
2041-2045	1,378,820
2046-2050	<u>2,456,627</u>
Total	<u>\$ 52,386,113</u>

**Note 5 - Investment Certificates Payable (Including Related Party)**

The following is a summary of the distribution of investment certificates payable at June 30:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Loan certificates	\$ 38,102,280	\$ 36,072,287	\$ 34,594,201
IRA investment certificates	9,571,059	8,986,683	8,062,883
Demand investment certificates	<u>741,549</u>	<u>873,816</u>	<u>909,337</u>
Total	<u>\$ 48,414,888</u>	<u>\$ 45,932,786</u>	<u>\$ 43,566,421</u>

Loan certificates are generally purchased by members of the borrowing congregation or organization to help meet the financial need of their specific building project. Individual congregation or organization members purchase the loan certificates which help to provide funds for the Association to loan. The average interest rate paid on investment certificates was approximately 3.14% for the year ended June 30, 2020.

The Association has investment certificates held by various officers, directors, employees, and their immediate families totaling \$203,665, \$366,164, \$339,234 at June 30, 2020, 2019 and 2018, respectively. All such investment certificate transactions are completed on substantially the same terms, including interest rates, as those prevailing at the time for other investment certificate holders. Interest paid on those investment certificates during the years ended June 30, 2020, 2019 and 2018 was not significant.

The aggregate principal amount of the 94 investment certificates that exceeded \$100,000 at June 30, 2020 was \$16,717,062.

**Lutheran Association for Church Extension, Inc.**  
**Notes to the Financial Statements**  
**June 30, 2020, 2019 and 2018**

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Investment certificates payable at June 30, 2020 by scheduled maturity are summarized as follows:

Due on demand - IRA investment certificates	9,571,059
2021	10,532,493
2022	8,226,336
2023	6,751,217
2024	6,624,708
2025	<u>5,967,526</u>
Total	<u><u>\$ 48,414,888</u></u>

**Note 6 - Operating Lease**

The Association leased office space under a non-cancelable operation lease agreement during years ending June 30, 2020, 2019 and 2018. Office rent expense was \$26,400, \$26,400, and \$26,400 for the years ended June 30, 2020, 2019 and 2018, respectively.

Future minimum annual lease commitments are as follows for the years ending June 30:

2023	26,400
2024	26,400
2025	26,400
2026	<u>4,400</u>
Total	<u><u>\$ 136,400</u></u>

**Note 7 - Revolving Line of Credit**

The Association has a \$3,000,000 line of credit with Fifth Third Bank through December 14, 2020, which had an outstanding balance of \$0 as of June 30, 2020. The line of credit is collateralized by all assets owned by the Association. Bank advances on the credit line carry an interest rate of prime or a minimum of 4%, per year. Prime was 5.5% as of June 30, 2020. Accrued interest is payable monthly.

**Note 8 - Retirement Plan**

The Association maintains a tax deferred plan for the Chief Executive Officer. The only contributions to the plan have been made by the employee.

**Note 9 - Statement of Policy Compliance**

In order to be permitted to sell investment certificates in some states, the Association must demonstrate compliance with the financial standards contained in the North American Securities Administrators Association, Inc.'s Statement of Policy Regarding Church Extension Fund Securities (NASAA SOP). The liquidity status standard requires the Association's cash, cash equivalents, readily marketable securities and available lines of credit (not to exceed 2% of the principal balance of outstanding investment certificates) have a value of at least 8% of the principal balance of its total outstanding investment certificates as of its fiscal year end. The Association has not satisfied this standard as of June 30, 2020, satisfied this standard as of June 30, 2019 and did not satisfy the standard as of June 30, 2020. The Association had, however, satisfied this requirement in each of the preceding 4 years, and may or may not have been deemed to have satisfied the standard under the seasoned issuer provisions of the NASAA SOP as a result.

**EXHIBIT B**  
**Application to Purchase**



**APPLICATION TO PURCHASE  
LOAN AND DEMAND CERTIFICATES**

Telephone: (989) 781-1600 (Local Calls) or 1-888-550-LACE(5223)  
Web Site: [www.laceinc.org](http://www.laceinc.org) E-mail: [info@laceinc.org](mailto:info@laceinc.org)

**Your savings can serve congregations through an investment in the Lutheran Association for Church Extension, Inc., a Michigan nonprofit corporation of Wisconsin Synod Lutherans that helps self-supporting congregations by providing funds for capital programs at low interest rates. PLEASE PRINT OR TYPE. FILL OUT APPLICATION COMPLETELY.**

Name \_\_\_\_\_

Address \_\_\_\_\_ City \_\_\_\_\_ ST \_\_\_\_\_ Zip \_\_\_\_\_ - \_\_\_\_\_

Telephone: ( ) \_\_\_\_\_

Church Membership: \_\_\_\_\_ Ev. Lutheran Church of (City): \_\_\_\_\_ ST \_\_\_\_\_

Check below for the requested certificate(s) and fill in the amount for each certificate requested:

<u>#of Certificates</u>	<u>Description</u>	<u>Minimum Amount</u>	<u>Investment Amount</u>	<u>Desired Interest Rate</u>
_____ <input type="checkbox"/>	Demand Certificate	\$25.00	\$ _____	_____ %
_____ <input type="checkbox"/>	Two Year Certificate	\$25.00	\$ _____	_____ %
_____ <input type="checkbox"/>	Three Year Certificate	\$25.00	\$ _____	_____ %
_____ <input type="checkbox"/>	Five Year Certificate	\$25.00	\$ _____	_____ %

**To Be Designated To ( 2, 3 and 5-Year Certificates only):** \_\_\_\_\_  
CHURCH
CITY
ST

I am enclosing a check in full payment for the following indicated certificate(s) in the total principal amount of \$ \_\_\_\_\_  
**Make your check payable to LACE and mail to: LACE, PO BOX 6402, SAGINAW, MI 48608-6402 Please allow a minimum of two weeks' time for certificate issuance, processing and mailing.**

**Interest rates may change at any time – call or visit our website for current rates! LACE may change the current interest rate payable on Demand Certificates upon 30 days' prior written notice to the holders of such Certificates. LACE may also change the rate of interest on the Term Certificates to be sold in the future at anytime.**

**Interest payments** - Check one option below as to how you wish certificate interest to be handled. (If no option is checked, interest will be retained and added to principal.)

- Add the annual interest to my certificate principal.
- Please send me the annual interest payments. (Interest will be paid within approximately 5 days after each annual period following the purchase date.)
- Interest may be paid Semi-Annual, Quarterly or Monthly if the investment is above \$25,000, \$50,000, or \$100,000 respectively (check and circle the appropriate interest interval if desired)**

Each person signing below represents, warrants and acknowledges that (1) they have received and had an opportunity to review the current LACE Offering Circular at least 48 hours prior to signing this Application; (2) each is, at the time of signing and delivering this Application, and was at the time of receiving the Offering Circular and all other communications of LACE concerning the Certificate(s) to be issued pursuant to this Application ("Certificate"), a resident of the state of residency noted above; (3) each is purchasing the Certificate for their own account and not on behalf of any other person; (4) the Certificate will be deemed to have been made in the State of Michigan, and any action arising out of it shall be governed by the laws of the State of Michigan that are applied to contracts made or to be performed in that state; (5) any action arising out of the Certificate may be brought in any District or Circuit Court for the State of Michigan, or in the United States District Court for the Western District of Michigan; and (6) by signing this Application each person consents and agrees that all such courts shall have personal jurisdiction over them with respect to any action related to the Certificate.

This offer and agreement to purchase is made as of the date stated below and the Certificates will be issued as of the date of acceptance by LACE.  
**Please issue the Certificate in the form of ownership and to the Investor(s) identified below and on reverse side:**

**Sole Owner**    **Joint Owner**    **Formal Trust**    **Minor Transfer Acct (UTMA)**    **Church or Organization**

Tax Exempt Organization    YES    NO

Name of Primary Owner (Please include title, e.g., Mr., Mrs., Dr. Rev., etc.; if a trust, state the name and date of the trust; if an UTMA account, the name of the Minor) Social Security Number or Tax I.D. Number Birth date

Name of Secondary Owner or UTMA Custodian Social Security Number or Tax I.D. Number Birth date

Sole Ownership - If the Certificate is to be registered only in the name of one person, please give us the name and address of your nearest relative who does not live with you. This person will be contacted only should we be unable to locate you. (Print name and address of nearest relative)

Joint Ownership - Registration of the Certificate in the names of two individuals results in ownership of the Certificate in "joint tenancy with right of survivorship." Interest will be reported to Internal Revenue Service using the social security number of the first named person unless otherwise directed. If the certificate will be owned by more than one person and you wish to require all owners to sign to redeem funds from the Certificate, please check here.

Formal Trust - Interest will be payable only to the Trustee. A copy of the trust agreement or a Certificate of Trust must be provided to LACE prior to opening a certificate.

Minor Transfer Act - We will issue the Certificate to you as the Custodian for the benefit of the Minor identified above under the Uniform Transfers to Minors Act (UTMA). This election is irrevocable and the Certificate will become the unrestricted property of the Minor when the Minor reaches the age of 18. If you desire to designate a successor custodian should the named Minor remain under 18 years of age after your death, please provide the below information for your designee. You may change or revoke the successor custodian designation by written notice to us.

Beneficiary (required) - We require that you specify the name of a person(s) or organization to receive the balance of the investment remaining at the time of your death, or on the death of the last of you to die if this is a jointly owned Certificate, or your successor custodian if this is a Minor Transfer Act account and the Minor is under 18 years of age.

Name of Beneficiary / (Successor Custodian if UTMA) Social Security Number or Tax I.D. Number

Address of Beneficiary / (Successor Custodian if UTMA)

Name of Beneficiary / (Successor Custodian if UTMA) Social Security Number or Tax I.D. Number

Address of Beneficiary / (Successor Custodian if UTMA) SEE PAGE 3 FOR ADDITIONAL BENEFICIARIES IF NEEDED

I hereby acknowledge receipt of LACE's Current Offering Circular. I represent that I am 18 years of age or older. I further represent that prior to receipt of the Offering Circular, that I /we are members of, constituents of, participants in, or contributors to (collectively, "Members"), the Wisconsin Evangelical Lutheran Synod ("WELS"), the Evangelical Lutheran Synod ("ELS"), LACE, or churches, schools or other organizations that are affiliated with WELS, ELS or LACE. (as defined in the Offering Circular).

- Substitute Form W-9: Under penalties of perjury, by signing below, each of the undersigned certifies that:
1. The taxpayer identification number shown for each primary owner, joint tenant, UTMA Custodian and UTMA Minor above is correct.
2. I am not subject to backup withholding because: (a) I am exempt from backup withholding, or (b) I have not been notified by the Internal Revenue Service (IRS) that I am subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding.
3. I am a U.S. person, including a U.S. resident alien. (Please request Form W-8 if you are a foreign person.)

Note: You must cross out item 2 above if you have been notified by the IRS that you are currently subject to backup withholding because you have failed to report all interest and dividends on your tax return. In this case, the backup withholding rate will be 28%.

Signature (Primary owner, trustee, UTMA Custodian or authorized representative) Date

Signature (Secondary owner or authorized representative) Date

NOTE: FOR ADDITIONAL OWNER'S, TRUSTEE'S OR CUSTODIAN' SIGNATURES SEE PAGE 3

The certificates are neither bank deposits nor bank obligations and are NOT insured by FDIC, SIPC, or any other state or federally regulated institution and NO WELS OR ELS GUARANTEE

Table with 6 columns: CTF#, DATE, AMT, DES#, INT, % PAY OR ADD. Header: FOR OFFICE USE ONLY

**ADDITIONAL OWNER'S, TRUSTEE'S OR CUSTODIAN' SIGNATURES**

Signature \_\_\_\_\_  
(Primary owner, trustee, UTMA Custodian or authorized  
representative)  
Date \_\_\_\_\_

Signature \_\_\_\_\_  
(Secondary owner or authorized representative)  
Date \_\_\_\_\_

Signature \_\_\_\_\_  
(Primary owner, trustee, UTMA Custodian or authorized  
representative)  
Date \_\_\_\_\_

Signature \_\_\_\_\_  
(Secondary owner or authorized representative)  
Date \_\_\_\_\_

Signature \_\_\_\_\_  
(Primary owner, trustee, UTMA Custodian or authorized  
representative)  
Date \_\_\_\_\_

Signature \_\_\_\_\_  
(Secondary owner or authorized representative)  
Date \_\_\_\_\_

Signature \_\_\_\_\_  
(Primary owner, trustee, UTMA Custodian or authorized  
representative)  
Date \_\_\_\_\_

Signature \_\_\_\_\_  
(Secondary owner or authorized representative)  
Date \_\_\_\_\_

**ADDITIONAL BENEFICIARIES**

\_\_\_\_\_  
Name of Beneficiary / (Successor Custodian if UTMA)

\_\_\_\_\_  
Social Security Number or Tax I.D. Number

\_\_\_\_\_  
Address of Beneficiary / (Successor Custodian if UTMA)

\_\_\_\_\_  
Name of Beneficiary / (Successor Custodian if UTMA)

\_\_\_\_\_  
Social Security Number or Tax I.D. Number

\_\_\_\_\_  
Address of Beneficiary / (Successor Custodian if UTMA)

\_\_\_\_\_  
Name of Beneficiary / (Successor Custodian if UTMA)

\_\_\_\_\_  
Social Security Number or Tax I.D. Number

\_\_\_\_\_  
Address of Beneficiary / (Successor Custodian if UTMA)

\_\_\_\_\_  
Name of Beneficiary / (Successor Custodian if UTMA)

\_\_\_\_\_  
Social Security Number or Tax I.D. Number

\_\_\_\_\_  
Address of Beneficiary / (Successor Custodian if UTMA)

**TAX INFORMATION**  
**THE LUTHERAN ASSOCIATION FOR CHURCH EXTENSION**

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**INSTRUCTIONS FOR SUBSTITUTE FORM W-9**

**PAYER'S REQUEST FOR TAXPAYER IDENTIFICATION NUMBER CERTIFICATION**

LACE (as well as all other payers of interest or dividends) must generally withhold 28% of taxable interest or dividends if:

- (1) You do not provide LACE with your taxpayer identification number (TIN), or
- (2) You do not certify your TIN when required, or
- (3) The Internal Revenue Service notifies LACE that you furnished an incorrect TIN, or
- (4) You are notified by the Internal Revenue Service that you are subject to backup withholding, or
- (5) You do not certify by signing this form that you are not subject to backup withholding under (4) above, or fail to certify your TIN.

To prevent backup withholding on interest paid, you must certify that you have provided your correct TIN to LACE; and, you must certify that you are not subject to backup withholding.

**PENALTIES**

Certain civil and criminal penalties may be imposed if you:

- (1) Fail to furnish your TIN to LACE unless the failure is due to reasonable cause and not willful neglect, or
- (2) Make a false statement with no reasonable basis that results in no backup withholding, or
- (3) Falsify certifications or affirmation

**INVESTORS EXEMPT FROM BACKUP WITHHOLDING**

Investors specifically exempted from backup withholding on all payments include organizations exempt from tax under Section 501(a), such as a member congregation the Wisconsin Evangelical Lutheran or Evangelical Lutheran Synods. However, such investors are still required by LACE to complete and sign the Application in order to avoid erroneous backup withholding.

All interest that accrues or is paid on any Certificate is subject to federal income tax in the year it is paid or accrued even though the interest is automatically added to the principal of the certificate. See Tax Aspects on page XX of the Offering Circular.