# Community of Christ and Affiliates

Consolidated Financial Report
June 30, 2014

McGladrey

Assurance ▪ Tax ▪ Consulting

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McGladrey

**Independent Auditor's Report**
**on the Financial Statements**

First Presidency
Community of Christ and Affiliates
Independence, Missouri

**Report on the Financial Statements**
We have audited the accompanying consolidated financial statements of Community of Christ and Affiliates which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, and the related consolidated statements of activities and cash flows for the years then ended and the related notes to the financial statements.

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

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

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

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

**Opinion**
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Community of Christ and Affiliates as of June 30, 2014 and 2013, 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.

**Other Matter**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The additional information for the World Church and Graceland University, and the related eliminating entries, presented on the consolidated statements of financial position and the consolidated statements of activities is presented for the purposes of additional analysis rather than to present the financial position and the results of operations of the individual entities, and is not a required part of the consolidated financial statements. Additionally, the accompanying supplementary information on pages 55 to 64 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The information for the World Church, Graceland University and the supplementary information on pages 55 to 64 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating and other supplementary information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

McGladrey LLP

Kansas City, Missouri
May 14, 2015

**Community of Christ and Affiliates**

**Consolidated Statements of Financial Position**
**June 30, 2014**
**(Dollars in Thousands)**

| **Assets** | **World Church** | **Graceland University** | **Eliminations** | | **Total** |
|---|---|---|---|---|---|
| Cash and cash equivalents | $ 12,783 | $ 10,007 | $ - | | $ 22,790 |
| Investments | | | | | |
| Bonds, stocks and other investments | 137,818 | 2,923 | (28,467) | (2) | 112,274 |
| Real estate | 20,194 | - | - | | 20,194 |
| | 158,012 | 2,923 | (28,467) | | 132,468 |
| Receivables | | | | | |
| Accounts, U.S. government and miscellaneous receivables, net | 3,553 | 5,920 | - | | 9,473 |
| Notes, mortgages, and student and U.S. government loans receivable, net | 16,640 | 5,325 | - | | 21,965 |
| Contributions receivable, net | 13,703 | 2,905 | (298) | (4) | 16,310 |
| | 33,896 | 14,150 | (298) | | 47,748 |
| Assets Limited as to Use | | | | | |
| Cash restricted for investment in land, buildings and equipment | - | 70 | - | | 70 |
| Endowed assets | 85,566 | 30,150 | - | | 115,716 |
| | 85,566 | 30,220 | - | | 115,786 |
| Real Estate and Equipment, net | 75,636 | 58,187 | - | | 133,823 |
| Other Assets | | | | | |
| Inventories | 1,006 | 897 | - | | 1,903 |
| Prepaid expenses and deposits | 688 | 1,095 | - | | 1,783 |
| Deferred expenses and other assets | 43 | 6,377 | - | | 6,420 |
| Funds held in trust by others | - | 1,281 | - | | 1,281 |
| | 1,737 | 9,650 | - | | 11,387 |
| | $ 367,630 | $ 125,137 | $ (28,765) | | $ 464,002 |

(2) To eliminate investment held at the Church for the University.
(4) To eliminate the contribution receivable from the Church to the University.

(Continued)

**Community of Christ and Affiliates**

**Consolidated Statements of Financial Position (Continued)**
**June 30, 2014**
**(Dollars in Thousands)**

| **Liabilities and Net Assets** | **World Church** | **Graceland University** | **Eliminations** | | **Total** |
|---|---|---|---|---|---|
| Payables and Other Liabilities | | | | | |
| Accounts payable | $ 3,941 | $ 3,310 | $ - | | $ 7,251 |
| Accrued expenses, deferred income and other liabilities | 7,889 | 13,756 | (298) | (4) | 21,347 |
| Annuities payable | 2,857 | 1,095 | - | | 3,952 |
| U.S. Government grants refundable | - | 3,057 | - | | 3,057 |
| | 14,687 | 21,218 | (298) | | 35,607 |
| Funds Held on Behalf of Others | 138,706 | 521 | (28,467) | (2) | 110,760 |
| Pension Benefits | 48,554 | 9,933 | - | | 58,487 |
| Post-Retirement Benefits | 23,467 | - | - | | 23,467 |
| | 72,021 | 9,933 | - | | 81,954 |
| Long-Term Debt | 24,620 | 32,054 | - | | 56,674 |
| Net Assets | | | | | |
| Unrestricted | 64,965 | 23,083 | - | | 88,048 |
| Temporarily restricted | 6,220 | 9,200 | - | | 15,420 |
| Permanently restricted | 46,411 | 29,128 | - | | 75,539 |
| Total net assets | 117,596 | 61,411 | - | | 179,007 |
| | $ 367,630 | $ 125,137 | $ (28,765) | | $ 464,002 |

(2) To eliminate investment held at the Church for the University.
(4) To eliminate the contribution receivable from the Church to the University.

See Notes to Consolidated Financial Statements.

**Community of Christ and Affiliates**

**Consolidated Statements of Financial Position**
**June 30, 2013**
**(Dollars in Thousands)**

| Assets | World Church | Graceland University | Eliminations | | Total |
|---|---|---|---|---|---|
| Cash and cash equivalents | $ 10,319 | $ 11,049 | $ - | | $ 21,368 |
| Investments | | | | | |
| Bonds, stocks and other investments | 127,933 | 2,568 | (26,982) | (2) | 103,519 |
| Real estate | 35,406 | - | - | | 35,406 |
| | 163,339 | 2,568 | (26,982) | | 138,925 |
| Receivables | | | | | |
| Accounts, U.S. government and miscellaneous receivables, net | 6,776 | 5,409 | (487) | (3) | 11,698 |
| Notes, mortgages, and student and U.S. government loans receivable, net | 21,472 | 5,620 | (4,475) | (1) | 22,617 |
| Contributions receivable, net | 11,953 | 6,626 | (440) | (4) | 18,139 |
| | 40,201 | 17,655 | (5,402) | | 52,454 |
| Assets Limited as to Use | | | | | |
| Cash restricted for investment in land, buildings and equipment | - | 71 | - | | 71 |
| Endowed assets | 83,843 | 28,375 | - | | 112,218 |
| | 83,843 | 28,446 | - | | 112,289 |
| Real Estate and Equipment, net | 76,685 | 59,731 | - | | 136,416 |
| Other Assets | | | | | |
| Inventories | 942 | 1,178 | - | | 2,120 |
| Prepaid expenses and deposits | 780 | 1,246 | - | | 2,026 |
| Deferred expenses and other assets | 141 | 6,810 | (71) | (1) | 6,880 |
| Funds held in trust by others | - | 1,094 | - | | 1,094 |
| | 1,863 | 10,328 | (71) | | 12,120 |
| | $ 376,250 | $ 129,777 | $ (32,455) | | $ 473,572 |

(1) To eliminate note payable from the University to the Church and related unamortized bond issue costs.
(2) To eliminate investment held at the Church for the University.
(3) To eliminate the interest rate swap liability included in the Church and the University.
(4) To eliminate the contribution receivable from the Church to the University.

(Continued)

**Community of Christ and Affiliates**

**Consolidated Statements of Financial Position (Continued)**
**June 30, 2013**
**(Dollars in Thousands)**

| **Liabilities and Net Assets** | **World Church** | **Graceland University** | **Eliminations** | | **Total** |
|---|---|---|---|---|---|
| Payables and Other Liabilities | | | | | |
| Accounts payable | $ 5,391 | $ 3,475 | $ - | | $ 8,866 |
| Accrued expenses, deferred income and other liabilities | 13,335 | 17,637 | (998) | (1) (3) (4) | 29,974 |
| Annuities payable | 2,933 | 1,074 | - | | 4,007 |
| U.S. Government grants refundable | - | 3,045 | - | | 3,045 |
| | 21,659 | 25,231 | (998) | | 45,892 |
| Funds Held on Behalf of Others | 121,032 | 486 | (26,982) | (2) | 94,536 |
| Pension Benefits | 45,074 | 11,059 | - | | 56,133 |
| Post-Retirement Benefits | 26,874 | - | - | | 26,874 |
| | 71,948 | 11,059 | - | | 83,007 |
| Long-Term Debt | 31,205 | 29,183 | (4,475) | (1) | 55,913 |
| Net Assets | | | | | |
| Unrestricted | 81,903 | 23,140 | - | | 105,043 |
| Temporarily restricted | 5,859 | 9,088 | - | | 14,947 |
| Permanently restricted | 42,644 | 31,590 | - | | 74,234 |
| Total net assets | 130,406 | 63,818 | - | | 194,224 |
| | $ 376,250 | $ 129,777 | $ (32,455) | | $ 473,572 |

(1) To eliminate note payable from the University to the Church and related unamortized bond issue costs.
(2) To eliminate investment held at the Church for the University.
(3) To eliminate the interest rate swap liability included in the Church and the University.
(4) To eliminate the contribution receivable from the Church to the University.

See Notes to Consolidated Financial Statements.

**Community of Christ and Affiliates**

**Consolidated Statements of Activities**
**Year Ended June 30, 2014**
**(Dollars in Thousands)**

| | World Church | | |
|---|---|---|---|
| | **Unrestricted** | **Temporarily Restricted** | **Permanently Restricted** |
| Revenues, Gains and Other Support | | | |
| Contributions, private gifts, grants and contracts | $ 12,602 | $ 1,299 | $ 3,019 |
| Seminars | - | - | - |
| Student tuition and fees | - | - | - |
| Products | - | - | - |
| Services and sales of auxiliary enterprises and affiliates | 9,457 | - | - |
| Income from investment activities | 5,340 | 26 | 709 |
| Unrealized (loss) on real estate | (3,064) | - | - |
| Government grants and contracts | - | - | - |
| Other | 2,009 | (225) | 39 |
| Net assets released from restrictions | 739 | (739) | - |
| **Total revenues, gains and other support** | 27,083 | 361 | 3,767 |
| Expenses | | | |
| Program expenses | | | |
| Congregation and mission support | 21,294 | - | - |
| Personal ministry | 1,553 | - | - |
| Assistance to the poor and needy | 2,371 | - | - |
| Education and leadership training | 4,953 | - | - |
| Communications | 4,878 | - | - |
| Capital development | 3,719 | - | - |
| Instruction | - | - | - |
| Public service | - | - | - |
| Academic support | - | - | - |
| Student services | - | - | - |
| Auxiliary enterprises | 2,459 | - | - |
| Seminars and products | - | - | - |
| **Total program expenses** | 41,227 | - | - |
| Management and general | 4,888 | - | - |
| Fundraising | 896 | - | - |
| **Total expenses** | 47,011 | - | - |
| **Change in net assets before other income (expense)** | (19,928) | 361 | 3,767 |
| Write-off of a contribution receivable | - | - | - |
| Minimum Pension Liability Adjustment | 2,939 | - | - |
| Realized Gain on Interest Rate Swap Agreements | 51 | - | - |
| **Change in net assets** | (16,938) | 361 | 3,767 |
| Net Assets, Beginning of Year | 81,903 | 5,859 | 42,644 |
| Net Assets, End of Year | $ 64,965 | $ 6,220 | $ 46,411 |

(1) To eliminate support from the Church to the University.
(2) To eliminate interest and fee reimbursements from the University to the Church.
(3) To eliminate accrued contributions from the Church to the University.

See Notes to Consolidated Financial Statements.

| Graceland University | | | | | Totals by Restriction | | | |
|---|---|---|---|---|---|---|---|---|
| Unrestricted | Temporarily Restricted | Permanently Restricted | Eliminations | | Unrestricted | Temporarily Restricted | Permanently Restricted | Consolidated Total |
| $ 850 | $ 1,158 | $ 646 | $ (173) | (1) (3) | $ 13,279 | $ 2,457 | $ 3,665 | $ 19,401 |
| 45,712 | - | - | - | | 45,712 | - | - | 45,712 |
| 21,347 | - | - | - | | 21,347 | - | - | 21,347 |
| 4,995 | - | - | - | | 4,995 | - | - | 4,995 |
| 6,883 | - | - | - | | 16,340 | - | - | 16,340 |
| 961 | 1,776 | (4) | (78) | (2) | 6,223 | 1,802 | 705 | 8,730 |
| - | - | - | - | | (3,064) | - | - | (3,064) |
| 281 | 1,068 | - | - | | 281 | 1,068 | - | 1,349 |
| 927 | 49 | - | (87) | (2) | 2,849 | (176) | 39 | 2,712 |
| 3,939 | (3,939) | - | - | | 4,678 | (4,678) | - | - |
| 85,895 | 112 | 642 | (338) | | 112,640 | 473 | 4,409 | 117,522 |
| | | | | | | | | |
| - | - | - | - | | 21,294 | - | - | 21,294 |
| - | - | - | - | | 1,553 | - | - | 1,553 |
| - | - | - | - | | 2,371 | - | - | 2,371 |
| - | - | - | (173) | (1) (3) | 4,780 | - | - | 4,780 |
| - | - | - | - | | 4,878 | - | - | 4,878 |
| - | - | - | - | | 3,719 | - | - | 3,719 |
| 15,276 | - | - | - | | 15,276 | - | - | 15,276 |
| 1,057 | - | - | - | | 1,057 | - | - | 1,057 |
| 2,108 | - | - | - | | 2,108 | - | - | 2,108 |
| 9,819 | - | - | - | | 9,819 | - | - | 9,819 |
| 6,497 | - | - | - | | 8,956 | - | - | 8,956 |
| 32,716 | - | - | - | | 32,716 | - | - | 32,716 |
| 67,473 | - | - | (173) | | 108,527 | - | - | 108,527 |
| 18,596 | - | - | (233) | (2) | 23,251 | - | - | 23,251 |
| 1,717 | - | - | - | | 2,613 | - | - | 2,613 |
| 87,786 | - | - | (406) | | 134,391 | - | - | 134,391 |
| (1,891) | 112 | 642 | 68 | | (21,751) | 473 | 4,409 | (16,869) |
| - | - | (3,104) | | | - | - | (3,104) | (3,104) |
| 875 | - | - | - | | 3,814 | - | - | 3,814 |
| 959 | | | (68) | (2) | 942 | - | - | 942 |
| (57) | 112 | (2,462) | - | | (16,995) | 473 | 1,305 | (15,217) |
| 23,140 | 9,088 | 31,590 | - | | 105,043 | 14,947 | 74,234 | 194,224 |
| $ 23,083 | $ 9,200 | $ 29,128 | $ - | | $ 88,048 | $ 15,420 | $ 75,539 | $ 179,007 |

**Community of Christ and Affiliates**

**Consolidated Statements of Activities**
**Year Ended June 30, 2013**
**(Dollars in Thousands)**

| | World Church | | |
|---|---|---|---|
| | **Unrestricted** | **Temporarily Restricted** | **Permanently Restricted** |
| Revenues, Gains and Other Support | | | |
| Contributions, private gifts, grants and contracts | $ 13,122 | $ 1,129 | $ 13,995 |
| Seminars | - | - | - |
| Student tuition and fees | - | - | - |
| Products | - | - | - |
| Services and sales of auxiliary enterprises and affiliates | 8,306 | - | - |
| Income from investment activities | 5,919 | - | 712 |
| Unrealized gain on real estate | 1,005 | - | - |
| Government grants and contracts | - | - | - |
| Other | 233 | 16 | 6 |
| Net assets released from restrictions | 2,837 | (2,837) | - |
| **Total revenues, gains and other support** | 31,422 | (1,692) | 14,713 |
| Expenses | | | |
| Program expenses | | | |
| Congregation and mission support | 19,729 | - | - |
| Personal ministry | 1,388 | - | - |
| Assistance to the poor and needy | 2,833 | - | - |
| Education and leadership training | 3,916 | - | - |
| Communications | 5,154 | - | - |
| Capital development | 2,227 | - | - |
| Instruction | - | - | - |
| Public service | - | - | - |
| Academic support | - | - | - |
| Student services | - | - | - |
| Auxiliary enterprises | 1,326 | - | - |
| Seminars and products | - | - | - |
| **Total program expenses** | 36,573 | - | - |
| Management and general | 6,574 | - | - |
| Fundraising | 684 | - | - |
| **Total expenses** | 43,831 | - | - |
| **Change in net assets before other income (expense)** | (12,409) | (1,692) | 14,713 |
| Minimum Pension Liability Adjustment | 10,664 | - | - |
| Unrealized Gain (Loss) on Interest Rate Swap Agreements | 224 | - | - |
| **Change in net assets** | (1,521) | (1,692) | 14,713 |
| Net Assets, Beginning of Year | 83,424 | 7,551 | 27,931 |
| Net Assets, End of Year | $ 81,903 | $ 5,859 | $ 42,644 |

(1) To eliminate support from the Church to the University.
(2) To eliminate interest and fee reimbursements from the University to the Church.
(3) To eliminate accrued contributions from the Church to the University.

See Notes to Consolidated Financial Statements.

| Graceland University | | | | | Totals by Restriction | | | |
|---|---|---|---|---|---|---|---|---|
| Unrestricted | Temporarily Restricted | Permanently Restricted | Eliminations | | Unrestricted | Temporarily Restricted | Permanently Restricted | Consolidated Total |
| $ 849 | $ 1,962 | $ 7,068 | $ (127) | (1) (3) | $ 13,844 | $ 3,091 | $ 21,063 | $ 37,998 |
| 47,923 | - | - | - | | 47,923 | - | - | 47,923 |
| 19,374 | - | - | - | | 19,374 | - | - | 19,374 |
| 5,791 | - | - | - | | 5,791 | - | - | 5,791 |
| 6,186 | - | - | - | | 14,492 | - | - | 14,492 |
| 5,730 | 1,629 | (16) | (120) | (2) | 11,529 | 1,629 | 696 | 13,854 |
| - | - | - | - | | 1,005 | - | - | 1,005 |
| 316 | 872 | - | - | | 316 | 872 | - | 1,188 |
| 929 | 25 | 61 | (70) | (2) | 1,092 | 41 | 67 | 1,200 |
| 9,431 | (9,431) | - | - | | 12,268 | (12,268) | - | - |
| 96,529 | (4,943) | 7,113 | (317) | | 127,634 | (6,635) | 21,826 | 142,825 |
| | | | | | | | | |
| - | - | - | - | | 19,729 | - | - | 19,729 |
| - | - | - | - | | 1,388 | - | - | 1,388 |
| - | - | - | - | | 2,833 | - | - | 2,833 |
| - | - | - | (127) | (1) (3) | 3,789 | - | - | 3,789 |
| - | - | - | - | | 5,154 | - | - | 5,154 |
| - | - | - | - | | 2,227 | - | - | 2,227 |
| 16,285 | - | - | - | | 16,285 | - | - | 16,285 |
| 1,293 | - | - | - | | 1,293 | - | - | 1,293 |
| 2,200 | - | - | - | | 2,200 | - | - | 2,200 |
| 8,390 | - | - | - | | 8,390 | - | - | 8,390 |
| 6,464 | - | - | - | | 7,790 | - | - | 7,790 |
| 36,474 | - | - | - | | 36,474 | - | - | 36,474 |
| 71,106 | - | - | (127) | | 107,552 | - | - | 107,552 |
| 19,414 | - | - | (294) | (2) | 25,694 | - | - | 25,694 |
| 1,674 | - | - | - | | 2,358 | - | - | 2,358 |
| 92,194 | - | - | (421) | | 135,604 | - | - | 135,604 |
| 4,335 | (4,943) | 7,113 | 104 | | (7,970) | (6,635) | 21,826 | 7,221 |
| 2,378 | - | - | - | | 13,042 | - | - | 13,042 |
| 974 | - | - | (104) | (2) | 1,094 | - | - | 1,094 |
| 7,687 | (4,943) | 7,113 | - | | 6,166 | (6,635) | 21,826 | 21,357 |
| 15,453 | 14,031 | 24,477 | - | | 98,877 | 21,582 | 52,408 | 172,867 |
| $ 23,140 | $ 9,088 | $ 31,590 | $ - | | $ 105,043 | $ 14,947 | $ 74,234 | $ 194,224 |

**Community of Christ and Affiliates**

**Consolidated Statements of Cash Flows**
**Years Ended June 30, 2014 and 2013**
**(Dollars in Thousands)**

| | **2014** | 2013 |
|---|---|---|
| Cash Flows from Operating Activities | | |
| Change in net assets | **$ (15,217)** | $ 21,357 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities | | |
| Depreciation | **4,867** | 4,595 |
| Amortization | **91** | 42 |
| Minimum pension liability adjustment | **(3,814)** | (13,042) |
| Unrealized loss (gain) on real estate | **3,064** | (1,005) |
| Unrealized (gain) on investment securities | **(47)** | (13,460) |
| Unrealized (gain) on interest rate swap agreements | **-** | (1,094) |
| Net (gain) on sale of investment securities and real estate | **(17,938)** | (5,802) |
| Net (gain) on sale of real estate and equipment | **(834)** | (35) |
| Realized (gain) on interest rate swap agreements | **(942)** | - |
| Contributions and income restricted | **(4,409)** | (21,063) |
| Write-off of a contribution receivable | **3,104** | - |
| Noncash contributions of investment securities and real estate | **(10)** | (2,580) |
| Changes in: | | |
| Receivables | **986** | (69) |
| Inventories, prepaids and deposits | **460** | 185 |
| Deferred expenses and other assets | **369** | 440 |
| Funds held in trust by others | **(187)** | (127) |
| Accounts payable | **(1,615)** | (5,723) |
| Accrued expenses, deferred income and other liabilities | **(5,152)** | 3,862 |
| Accrued retirement liability | **2,761** | 3,252 |
| **Net cash (used in) operating activities** | **(34,463)** | (30,267) |
| Cash Flows from Investing Activities | | |
| Proceeds from sale of investment securities and real estate | **209,145** | 127,025 |
| Purchase of investment securities and real estate | **(191,254)** | (117,155) |
| Increase (decrease) in funds held on behalf of others | **16,224** | 5,677 |
| Increase (decrease) in student and U.S. Government loans receivable, net | **205** | (2) |
| Issuance of notes and mortgages receivable | **(2,355)** | (5,512) |
| Payments from notes and mortgages receivable | **2,766** | 3,149 |
| Increase in U.S. Government grants refundable, net | **12** | 5 |
| Purchase of real estate and equipment | **(2,432)** | (8,538) |
| Proceeds from sale of real estate and equipment | **992** | 242 |
| Change in cash restricted for land, buildings and equipment | **-** | 4,420 |
| **Net cash provided by investing activities** | **33,303** | 9,311 |
| Cash Flows from Financing Activities | | |
| Proceeds from issuance of long-term debt | **25,950** | 5,500 |
| Principal payments on long-term debt | **(25,080)** | (5,800) |
| Payment to terminate interest rate swap agreements | **(2,533)** | - |
| Principal payments on capital lease obligation | **(109)** | (105) |
| (Decrease) in annuities payable | **(55)** | (101) |
| Contributions and income restricted for long-term investment | **4,409** | 5,021 |
| **Net cash provided by financing activities** | **2,582** | 4,515 |
| Increase (decrease) in Cash and Cash Equivalents | **1,422** | (16,441) |
| Cash and Cash Equivalents, Beginning of Year | **21,368** | 37,809 |
| Cash and Cash Equivalents, End of Year | **$ 22,790** | $ 21,368 |

(Continued)

**Community of Christ and Affiliates**

**Consolidated Statements of Cash Flows (Continued)**
**Years Ended June 30, 2014 and 2013**
**(Dollars in Thousands)**

| | | **2014** | | 2013 |
|---|---|---|---|---|
| Supplemental Disclosures of Cash Flow Information | | | | |
| Cash payments for interest | | | | |
| World Church | **$** | **680** | $ | 797 |
| University | | **802** | | 607 |
| | **$** | **1,482** | $ | 1,404 |
| Accounts payable incurred for purchase of property and equipment | **$** | **-** | $ | 366 |

Supplemental Disclosures of Investment Gains and Losses

| | | **2014** | | 2013 |
|---|---|---|---|---|
| Detail of Unrealized loss (gain) on investment securities: | | | | |
| Church-owned investment securities | **$** | **(111)** | $ | (16,374) |
| Funds Held on Behalf of Others | | **(24)** | | 5,770 |
| University | | **88** | | (2,856) |
| Total Unrealized loss (gain) on investment securities | **$** | **(47)** | $ | (13,460) |
| Detail of Net (gain) on sale of investment securities and real estate: | | | | |
| Church-owned Investment securities | **$** | **(5,030)** | $ | (3,148) |
| Funds Held on Behalf of Others | | **(10,632)** | | 1,412 |
| Church net loss (gain) on sale of real estate | | **(29)** | | 129 |
| University | | **(2,247)** | | (4,195) |
| Total Net (gain) on sale of investment securities and real estate | **$** | **(17,938)** | $ | (5,802) |

See Notes to Consolidated Financial Statements.

## Note 1. Nature of Business and Summary of Significant Accounting Policies

Nature of business: The Community of Christ (Church) is an international Christian denomination with 197,000 members in 1,139 congregations in 52 countries. The early church was founded in New York State in 1830 by Joseph Smith, Jr. The Reorganized Church of Jesus Christ of Latter Day Saints (now known as Community of Christ) was established in 1860 following Smith's death. The mission of the Church is to proclaim Jesus Christ and promote communities of joy, hope, love and peace.

Graceland University (University) is a private, nonprofit institution of higher education based in Lamoni, Iowa. The University offers liberal arts programs and graduate degrees to its students, who are primarily from the United States, but with enrollments spanning the globe. The University is accredited by the North Central Association of Colleges and Schools. The University is sponsored by the Church and participates in the Church's insurance pool for institutional coverage and risk management services.

The Graceland College Center for Professional Development and Lifelong Learning, Inc. (the Center) is a not-for-profit corporation controlled by the University. The primary nature of the Center's operations is to develop and market adult continuing education, training and self-improvement products, courses and tools. The Center operates in the United States, Canada, United Kingdom, New Zealand, and Australia under the trade names SkillPath Seminars, CompuMaster, and Human Resources Council.

Following is a summary of significant accounting policies.

Principles of consolidation: The consolidated financial statements include the accounts of the Church and University. The Church includes the accounts of its affiliates: Corporation of the Presiding Bishopric of the Community of Christ; Community of Christ For Profit Holding Corporation; PeacePathways; Community of Christ Historic Sites Foundation and Spectacular; real estate title-holding only entities are Central Development Association; Atherton Farms, LLC; Atherton Farms (Central) LLC; Atherton Farms (West) LLC; East M78, LLC; Independence Improvement Investments, LLC; Little Blue River Valley Property Holdings, LLC; Little Blue Valley (Northeast) LLC; Little Blue Valley (Northwest) LLC; Little Blue Valley (West) LLC and Surplus Disposition, LLC; for-profit, no asset, inactive entities are CPB, Inc. and OBI, Inc. The University includes the accounts of the Graceland College Center for Professional Development and Lifelong Learning, Inc., its wholly owned subsidiary. All transactions between consolidated entities have been eliminated in consolidation.

The University has a fiscal year-end of May 31. Eliminations between the Church and University are based on balances at May 31, 2014 and 2013 according to the Church's records. Differences between the amounts at May 31 and June 30 are immaterial.

Programs: The Church and University operate the following programs:

*Congregation and Mission Support:* Full-time ministers are provided to serve in congregations and mission centers. Headquarters ministers and other staff are available for guest ministry in support of congregations. Also includes activities in support of the Church's overall mission.

*Personal Ministry*: Programs of ministry designed to assist persons in preparing for ministry to singles, youth, women and other groups with special interests. Also offers programs for persons interested in promoting peace and helping others develop an abundant life.

## Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

*Assistance to the Poor and Needy*: Develops systems to deliver assistance to the poor and needy and provides direct financial support to persons in need. Provides grants to other organizations (Church- sponsored and community-sponsored), to assist them in providing such support.

*Education and Leadership Training*: Offers classes to members and friends of the Church to assist them in providing ministry to others. Presents conferences and other activities designed to develop skills of full-time and volunteer ministers and lay persons. Supports students in post-secondary education through grants and loans, as well as direct support to Church-sponsored institutions of higher education.

*Communications*: Produces materials to present the message of the Church in various formats, including print, audio, video and electronic delivery. Also presents the message of the Church and its historical context through development, maintenance and guided interpretation of historic sites.

*Capital Development*: Assists congregations with funds for capital development through loans and grants. Also provides funds for development of assets in harmony with the Church's goals of community involvement and development.

*Instruction*: Includes all activities that directly relate to the instruction of students, including academic, occupational and vocational instruction.

*Public Service:* Includes activities that are established primarily to provide non-instructional services beneficial to individuals and groups external to the institution.

*Academic Support*: Includes activities that provide support services for the institution's primary mission. It includes retention, preservation and display of educational materials, provided that these services directly assist the academic functions of the institution.

*Student Services*: Includes all student organization, program, social activities, athletics, and student administrative processes such as admissions, registrar, financial aid services, and health services.

*Auxiliary Enterprises*: Includes entities that exist to furnish goods or services to students, faculty, staff or the Church and that charge a fee directly related to the cost of the goods or services.

*Seminars and Products*: Includes the development and marketing of professional seminars and self-improvement products, courses and tools.

<u>Use of estimates</u>: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

## Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Basis of presentation: The Church and University present their consolidated financial statements based on Statement of Financial Accounting Standards Topic 958, *Presentation of Financial Statements*.

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

- Unrestricted net assets – Net assets that are not subject to donor-imposed restrictions but may be subject to Trustee (the Church) or Board (the University) designations.

- Temporarily restricted net assets – Net assets subject to donor-imposed restrictions that may or will be met either by actions of the Church or the University and/or the passage of time. Also includes net assets subject to World Conference (the Church) designations.

- Permanently restricted net assets – Net assets subject to donor-imposed restrictions that they be maintained permanently by the Church or the University. Generally, the donors of these assets permit the Church or the University to use all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets and are being recognized prospectively.

Contributions: Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions with donor-imposed restrictions that are met within the same reporting period are reported as temporarily restricted revenues, and a reclassification to unrestricted net assets is made to reflect the expiration of such restrictions.

Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of fundraising activity.

Contributions of land, buildings and equipment, at fair value based upon independent appraisal, without donor restrictions concerning the use of such long-lived assets are reported as unrestricted revenues. Contributions of cash or other assets to be used to acquire land, buildings and equipment are reported as temporarily restricted revenues; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

Cash and cash equivalents: Cash and cash equivalents include demand deposits, money market accounts, overnight repurchase agreements, and short-term investments with a maturity of less than three months at the date of purchase.

## Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Concentration of credit risk: The Church and University maintain cash accounts with various commercial banks. At times during the year, amounts on deposit with various commercial banks may have exceeded the insurance limits of the Federal Deposit Insurance Corporation. The Church and University have not experienced any losses due to this.

Investments: Investments in equity and debt securities are carried at fair value. Certain real estate is held for investment and is carried at fair value. Fair value of real estate is determined by appraisal. Fair value of alternative investments is determined using the practical expedient. See Note 4 for a discussion of fair value measurements.

Investment income and gains that are initially restricted by donor stipulation and for which the restriction will be satisfied in the same year are included in unrestricted net assets. Other investment income, gains and losses are reflected in the consolidated statements of activities as unrestricted, temporarily restricted, or permanently restricted, based upon the existence and nature of any donor or legally imposed restrictions.

Investments may be exposed to various risks, such as interest rate, market and credit risk. As a result, it is at least reasonably possible that changes in risks in the near term could affect investments balances, and those affects could be significant.

Assets limited as to use: Assets limited as to use consist of investments in equity securities, debt securities, and real estate and have been restricted by donors or other external parties. Assets limited as to use are stated at fair value. See Note 4 for a discussion of fair value measurements.

Real estate and equipment: Although title to individual Houses of Worship is held in the name of the Presiding Bishop as Trustee in Trust or in not-for-profit corporations organized by the Presiding Bishopric, such properties are held in trust for the use and benefit of the Church in mission centers and congregations, with the value of the properties and their related debts not being reflected in the accompanying consolidated financial statements. The aforementioned indebtedness is normally retired by contributions received directly from the members of the Church.

Purchased real estate and equipment are stated at cost or, if received by gift, at a value based upon the market or an appraisal at the date of gift. Depreciation, which includes depreciation on assets acquired under capital lease, is provided on the straight-line basis over the lesser of the estimated useful lives of depreciable property and equipment or the lease term.

The Temple, Auditorium, buildings on the National Register of Historical Places, and other properties having historical significance to the Church are considered to be historical treasures. The Church preserves and protects these historic assets in perpetuity for the benefit of current and future generations. As a result, the service potential of the original cost of these historic assets, totaling $46,498,000, is essentially undiminished and depreciation is not recorded. These assets are evaluated annually for indicators of impairment. Additions and betterments to the historical treasures, primarily an organ, and some other historical properties are capitalized and depreciated straight-line over their estimated useful life.

## Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Collection items acquired on or after June 1, 1995 by the Church are capitalized at cost if the items were purchased or at their appraised value on the accession date if the items were contributed. Such items consist primarily of books, manuscripts and artifacts. Gains or losses from de-accessions of these items are reflected in the consolidated statements of activities as changes in the appropriate net asset classes, depending on the existence and type of donor-imposed restrictions. Collections acquired by the University are not capitalized, and consist of donated artwork and historical documents and artifacts.

These assets are reviewed for impairment under FASB ASC 360, *Property Plant and Equipment*, when events or changes in circumstances indicate that the carrying amount may not be recoverable. If the carrying amount is no longer recoverable based upon the undiscounted future cash flows of the assets the amount of impairment is the difference between carrying amount and the fair value of the asset.

<u>Funds held in trust by others</u>: The value of funds held in trust by others is derived from the underlying investments of the unitrusts. The value of those investments is determined in the same manner as investments described previously. Future expected cash flows are discounted using a risk adjusted discount rate.

<u>Accounts, notes and mortgages receivable</u>: Accounts receivable are stated at the amount billed to the purchaser of services or goods less allowance for doubtful accounts. An allowance for doubtful accounts is established based upon a review of outstanding receivables and historical collection information. Accounts receivable are ordinarily due 30 days after the issuance of the invoice. Delinquent receivables are written off, based on individual credit evaluation and specific circumstances of the customer. Interest is not charged on past due accounts.

Notes and mortgages receivable are stated at their outstanding principal amount, net of allowance for uncollectible accounts. An allowance for uncollectible notes and mortgages is established based upon a review of outstanding receivables, historical collection information, and existing economic conditions. Outstanding notes and mortgages accrue interest based on the terms of the respective agreements. A note or mortgage receivable is considered delinquent when the debtor has missed three or more payments. At that time, the note is placed on nonaccrual status and interest accrual ceases and does not resume until the note is no longer classified as delinquent. Delinquent accounts are written off, based on individual credit evaluation and specific circumstances of the borrower. The provision for bad debts, write offs and other adjustments charged to expense was approximately $505,000 and $0 for the years ended June 30, 2014 and 2013, respectively.

<u>Accounts receivable and loans to students</u>: Accounts receivable from students are carried at the unpaid balance of the original amount billed to students, and loans receivable are carried at the amount of unpaid principal. Both accounts receivable and student loans are net of allowance for doubtful accounts and cancellations. Management determines the allowance for doubtful accounts by calculating a specific percent reserve on the aging of the accounts based on historical experience. Student accounts and loans receivable are written off when twelve months delinquent or when deemed uncollectible. Recoveries of student accounts and loans receivable previously written off are recognized as revenue when received. The provision for bad debts, cancellations and other administrative reductions charged to expense was approximately $128,000 and $27,000 for the years ended June 30, 2014 and 2013, respectively.

Interest is assessed on any unpaid balance for a student accounts receivable for any student who has withdrawn and continues to be assessed when sent to a collection agency. Interest is recognized as revenue when it is received.

## Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Interest is assessed on student loans receivable after a student is no longer enrolled in an institution of higher education and after a grace period. Interest is recognized as revenue when received. Late fees are assessed if payments are not paid by the payment due date and are recognized as revenue as they are received. Students may be granted a deferment, forbearance or cancellation of their student loan receivable based on eligibility requirements defined by the U.S. Department of Education or, in the case of University loan funds, based on the respective loan program.

Other accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a periodic basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and using historical experience applied to an aging of accounts. Unless specific arrangements are made, a trade receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 30 days. Accounts receivable are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received. Interest may be charged on past due accounts.

<u>Inventories</u>: Inventories of the Church, which consist of books, hymnals and resale supplies are stated at the lower of cost (first-in, first-out) or market.

Inventories of the University, composed of items in the bookstores, the print shop, a movie theater and physical plant, are stated at the lower of cost (first-in, first-out) or market.

Inventories of the Center, which consist of purchased products held for sale at seminars and online, are stated at the lower of cost (weighted-average cost method) or market.

<u>Deferred expenses and other assets</u>: Deferred expenses of the Church and University include bond issue costs and are being amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. The primary deferred expense for the University is the capital lease discount discussed more fully in Note 8.

Deferred expenses of the Church totaled $0 and $71,000 at year-end 2014 and 2013, respectively. Church bonds payable were redeemed in full in 2014 with the remaining issue costs included in amortization expense in 2014. Deferred expenses of the University totaled $2,568,000 and $2,341,000 at year-end 2014 and 2013, respectively.

<u>Funds held on behalf of others</u>: Funds held on behalf of others comprise funds held by the Church for investment in marketable securities, short-term investments and loans. These funds are sent to the Church by congregations and affiliates and are pooled for investment purposes. Included in the category for the University are deposits of students and others.

<u>Annuities payable</u>: The Church and University have entered into annuity agreements with individuals or couples in exchange for property, securities or cash. The liability to the annuitants is calculated as the present value of the annuity payments using discount rates varying from 4.5% to 11.7%.

<u>U.S. government grants refundable</u>: Funds provided by the United States Government under the Federal Perkins Loan program are loaned to qualified students and may be reloaned after collection. These funds are ultimately refundable to the United States Government and are included as a liability in the consolidated statements of financial position.

## Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

Revenue and expense recognition: Advance seminar enrollments for the Center are recorded as deferred revenue at the time of enrollment. Revenue and related seminar expense are recognized in the accounting period in which the seminar is presented. Seminar expenses (primarily lettershop, postage, printing, and list rental) incurred in advance are recorded as deferred expenses until the accounting period in which the seminar is presented.

Revenue from student tuition and fees, net of financial aid awarded to students, is recorded as revenue during the year the related academic services are rendered.

Deferred income and expenses of the Center relate to seminars to be presented primarily in June through August following the fiscal year-end. Deferred income of the University represents student tuition and fees received for the summer session.

Revenue from products and services is recognized when sold or when the services are performed.

Fundraising expenses: Fundraising expenses for the University consist of development, grant writing, alumni relations, and capital campaign costs. Fundraising expenses for the Church consist of mailings to members soliciting new and different ways to support the Mission of the organization as well as campaign costs associated with the Mission Endowment.

Income taxes: The Church and University have tax determination letters from the Internal Revenue Service stating that they qualify under the provisions of Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes. As such, the Church and University are subject to federal income taxes only on any net unrelated business income under the provisions of Section 511 of the Code. The Church and University are also exempt from income taxes in Canada. Uncertain tax positions, if any, are recorded in accordance with FASB ASC 740, Income Taxes. FASB ASC 740 requires the recognition of a liability for tax positions taken that do not meet the more-likely-than not standard that the position will be sustained upon examination by the taxing authorities. There is no liability for uncertain tax positions recorded at June 30, 2014 and 2013.

Forms 990 and 990-T filed by the University and the Center are subject to examination by the Internal Revenue Service (IRS) up to three years from the extended due date of each return. Forms 990 and 990-T filed by the University and the Center are no longer subject to examination for the fiscal years ended 2010 and prior.

Derivative financial instruments: As part of a strategy to maintain an acceptable level of exposure to the risk of interest rate fluctuations, the Church and University had entered into interest rate swap agreements. Under these agreements, the Church and University agreed to exchange the difference between fixed rate and variable rate amounts calculated by reference to an agreed notional principal amount.

The difference between the fixed interest rate and the variable interest rate is settled on a monthly basis and is reported as a component of interest expense in the consolidated statements of activities.

## Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

FASB Topic 815, *Derivatives and Hedging,* establishes accounting and reporting standards for derivative financial instruments. This Topic requires most derivative instruments to be reflected as assets or liabilities on the balance sheet at their fair values, with changes in fair values reflected in changes in net assets. Although management believes its interest rate swap agreements are economic hedges, none have been designated as a hedge for accounting purposes. The derivative instruments are recorded at their fair value, with subsequent changes in fair value included in changes in net assets. During the fiscal year ended June 30, 2014, the Church and University terminated these agreements at a gain of $942,000, which is reported in the statement of activities as realized gain on interest rate swap agreements.

Fair value of financial instruments: The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate fair value:

Cash and cash equivalents: For these short-term instruments, the carrying amount approximates fair value.

Investments: See Note 4.

Contributions receivable: For these assets, the carrying amount of short-term pledges approximates the fair value. Long-term pledges approximate fair value as pledges have been discounted to net present value.

Notes, accounts and mortgages receivable: The carrying value of third-party accounts receivable instruments approximates fair value, due to their short-term nature. Due to the lack of an arm's length relationship, it was not practical to estimate the fair value of notes, mortgages and accounts receivable from related parties. The nature of the amounts is more fully disclosed and discussed in Note 2. The majority of notes and mortgages receivable are due from related parties.

U.S. Government loans receivable and refundable loan program: The fair value of the student loans receivable and liability for U.S. Government loans refundable, in which the University acts as an agent for the U.S. government Perkins Loan Program, is not practical to determine as these loans are subject to restrictions on interest rate and transferability.

Debt: Rates currently available for debt with similar terms and remaining maturities are used in a discounted cash flow calculation to estimate fair value of existing debt. As the Industrial Revenue Bonds payable are remarketed weekly with the interest rate being adjusted to reflect current market conditions, the carrying amount reported in the consolidated statements of financial position approximates the bonds' fair value. The carrying amount of short-term debt approximates fair value.

Annuities payable: The liabilities are reported at fair value based on the present value of the annuity payments, discounted using an appropriate rate.

Interest rate swaps: The fair value of interest rate swaps was based on the estimated value to settle the obligations.

Advertising: Advertising costs, which consist of direct response advertising, are charged to expense in the period incurred. The amounts expensed for direct response advertising by the Center for the years ended June 30, 2014 and 2013 were approximately $14,521,000 and $16,913,000, respectively.

## Note 1. Nature of Business and Summary of Significant Accounting Policies (Continued)

The University charges advertising costs to expense as incurred. The University's advertising expense totaled approximately $863,000 and $740,000 for the years ended June 30, 2014 and 2013.

Risk management: The Church has a formal program to manage risk including property insurance covering claims up to $150,000,000 (with a deductible of $100,000 per occurrence) and General Liability and Auto Liability insurance covering claims up to $25,000,000 (with a $1,000,000 self-insured retention). Worker's Compensation claims are covered with a guaranteed cost policy. Program revenue of $4,132,000 and $3,778,000 for 2014 and 2013, respectively, is reported in the consolidated statements of activities as services and sales of auxiliary enterprises and affiliates. Associated premium and claims costs are allocated between the various expense categories in the consolidated statements of activities.

Asset retirement obligations: The University recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the cost of the retirement obligation is capitalized by increasing the carrying value of the related asset. Over time, the liability is accreted to its present value each year, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the consolidated statements of activities. The University reviews its estimates annually and adjusts the recorded liability as needed. The Church has no recorded asset retirement obligations.

Recently issued or implemented accounting pronouncements: In October 2012, the FASB issued ASU 2012-05, *Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*, which requires not-for-profit entities to classify cash receipts from the "nearly immediate" sale of donated financial assets as an operating activity in the consolidated statement of cash flows when received with no donor-imposed restrictions. When the donor has restricted the use of the cash receipts from the sale of donated financial assets, classification as a financing activity would be required. When financial assets are not "nearly immediately" sold, classification as an investing activity would be appropriate. The amendments in ASU 2012-05 are effective prospectively for fiscal years beginning after June 15, 2013. As such, the new pronouncement has been implemented for the fiscal year ended June 30, 2014 with minimal impact on the organization or the financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP, including industry-specific guidance, when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. The Church and University have not yet selected a transition method and are currently evaluating the effect that the updated standard will have on the financial statements. A current proposal exists that may defer Topic 606.

In April 2015, the FASB issued ASU 2015-03, *Interest – Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs*, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability, consistent with debt discounts. The amendments in ASU 2015-03 are effective for financial statements issued for fiscal years beginning after December 15, 2015. The Church and University are currently evaluating the effect that the updated standard will have on the financial statements.

## Note 2. Loans and Notes Receivable

The Church makes loans and advances to congregations and mission centers at below-market interest rates with flexible repayment terms, in order to assist with the development of the sponsored entities. The loans and advances are made to entities throughout the United States and in other countries in which the Church is established. The title to any real estate purchased with such loans is held in the name of the Presiding Bishopric. Total notes and accounts receivable due from affiliates were approximately $12,611,000 and $13,517,000 at June 30, 2014 and 2013, respectively. Interest income related to these notes and receivables was approximately $344,000 and $454,000 for the years ended June 30, 2014 and 2013, respectively.

The Church evaluated its allowance for doubtful loans by examining historic default rates and analyzing the aging of past due loans. During the year ended June 30, 2014, the Church has not significantly changed its methodology for the allowance for doubtful loans.

Included in the University's notes receivable is a loan to a third party for financing of construction costs for student housing. The outstanding balance of the note receivable as of June 30, 2014 and 2013 is $1,343,000 and $1,362,000, respectively, and there is no allowance associated with the note receivable, which would be evaluated for impairment individually, as the borrower is current in payments and has not defaulted since the inception of the note. The credit quality indicator on this note receivable is performance determined by delinquency status and the recorded investment would be considered performing as of June 30, 2014.

The University's student loans receivable consist of a revolving loan fund for Federal Perkins Loans for which the University acts as an agent for the federal government in administering the loan program and an institutional loan fund created by the University to assist students in funding their education.

The University determined their allowance for doubtful loans on these student loans by looking at historical default rates and analyzing the aging of the past due loans. During the year ended June 30, 2014, the University has not significantly changed its methodology for the allowance for doubtful accounts on student loans. The University also has an allowance for cancellations on institutional loans of $346,000 recorded as of June 30, 2014 and 2013.

## Note 2. Loans and Notes Receivable (Continued)

The aging of the Church's notes and mortgages receivable (net of eliminations), as of June 30, 2014 and 2013 is presented as follows:

| | Current | Past Due | Total |
|---|---|---|---|
| | | **2014** | |
| **Houses of Worship loans** | **$ 10,710,000** | **$ 161,000** | **$ 10,871,000** |
| **Various notes and mortgages** | **2,564,000** | **3,765,000** | **6,329,000** |
| | **$ 13,274,000** | **$ 3,926,000** | **$ 17,200,000** |
| **As a percentage of the total loan portfolio** | **77.17%** | **22.83%** | **100.00%** |
| | | 2013 | |
| Houses of Worship loans | $ 12,038,000 | $ 20,000 | $ 12,058,000 |
| Various notes and mortgages | 4,961,000 | 33,000 | 4,994,000 |
| | $ 16,999,000 | $ 53,000 | $ 17,052,000 |
| As a percentage of the total loan portfolio | 99.69% | 0.31% | 100.00% |

The allowance for doubtful accounts on the Church’s notes and mortgages is $560,000 and $55,000 at June 30, 2014 and 2013, respectively.

In August 2014, the Church reached a settlement with a past due borrower resulting in property collateralizing approximately $1,565,300 of notes receivable outstanding at June 30, 2014 being deeded back to the Church.

## Note 2. Loans and Notes Receivable (Continued)

The aging of the student loan portfolio by classes of loans for the University as of June 30, 2014 and 2013 is presented as follows:

**2014**

| Classes of Loans | Not in Repayment | Current & 1 Month Past Due | 2-5 Months Past Due | 6-24 Months Past Due | 25+ Months Past Due | Total |
|---|---|---|---|---|---|---|
| **Federal Perkins Loans** | **$ 1,384,000** | **$ 1,174,000** | **$ 181,000** | **$ 329,000** | **$ 811,000** | **$ 3,879,000** |
| **Institutional Loans** | **216,000** | **266,000** | **21,000** | **59,000** | **13,000** | **575,000** |
| | **$ 1,600,000** | **$ 1,440,000** | **$ 202,000** | **$ 388,000** | **$ 824,000** | **$ 4,454,000** |
| **As a percentage of total loan portfolio** | **35.92%** | **32.33%** | **4.54%** | **8.71%** | **18.50%** | **0.00%** |

2013

| Classes of Loans | Not in Repayment | Current & 1 Month Past Due | 2-5 Months Past Due | 6-24 Months Past Due | 25+ Months Past Due | Total |
|---|---|---|---|---|---|---|
| Federal Perkins Loans | $ 1,581,000 | $ 1,246,000 | $ 173,000 | $ 285,000 | $ 799,000 | $ 4,084,000 |
| Institutional Loans | 228,000 | 299,000 | 39,000 | 41,000 | 11,000 | 618,000 |
| | $ 1,809,000 | $ 1,545,000 | $ 212,000 | $ 326,000 | $ 810,000 | $ 4,702,000 |
| As a percentage of total loan portfolio | 38.47% | 32.86% | 4.51% | 6.93% | 17.23% | 100.00% |

The allowance for doubtful accounts on student loans in aggregate for the University is $98,000 at June 30, 2014 and 2013.

For each class of financing receivable for the University, the following presents the recorded investment by credit quality indicator as of June 30, 2014 and 2013:

| | **2014** | | | 2013 | | |
|---|---|---|---|---|---|---|
| | **Federal Perkins Loans** | **Institutional Loans** | **Total** | Federal Perkins Loans | Institutional Loans | Total |
| Performing | **$ 2,739,000** | **$ 503,000** | **$ 3,242,000** | $ 3,000,000 | $ 566,000 | $ 3,566,000 |
| Nonperforming | **1,140,000** | **72,000** | **1,212,000** | 1,084,000 | 52,000 | 1,136,000 |
| | **$ 3,879,000** | **$ 575,000** | **$ 4,454,000** | $ 4,084,000 | $ 618,000 | $ 4,702,000 |

For institutional loans and Federal Perkins loans, the credit quality indicator is performance determined by delinquency status. Delinquency status is updated monthly.

## Note 3. Investments and Assets Limited as to Use

At June 30, 2014 and 2013, investments in bonds, stocks and other investments consisted of the following:

| | 2014 | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Church** | **University** | **Eliminations** | **Total** | Church | University | Eliminations | Total |
| | **(in thousands)** | | | | (in thousands) | | | |
| Bonds, including U.S. Treasury and Canadian government notes and agency obligations | **$ 17,849** | **$ -** | **$ -** | **$ 17,849** | $ 26,841 | $ - | $ - | $ 26,841 |
| Common and preferred stock and mutual funds | **104,273** | **4,259** | **-** | **108,532** | 101,357 | 3,597 | - | 104,954 |
| Alternative and other investments | **32,817** | **347** | **-** | **33,164** | 26,053 | 364 | - | 26,417 |
| Community of Christ Investment Pool | **-** | **28,467** | **(28,467)** | **-** | - | 26,982 | (26,982) | - |
| Real estate | **88,639** | **-** | **-** | **88,639** | 92,931 | - | - | 92,931 |
| | **$ 243,578** | **$ 33,073** | **$ (28,467)** | **$ 248,184** | $ 247,182 | $ 30,943 | $ (26,982) | $ 251,143 |

These assets are presented in the consolidated statements of financial position as follows:

| | 2014 | | | | 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Church** | **University** | **Eliminations** | **Total** | Church | University | Eliminations | Total |
| | **(in thousands)** | | | | (in thousands) | | | |
| Investments | | | | | | | | |
| Bonds, stocks and other | **$ 137,818** | **$ 2,923** | **$ (28,467)** | **$ 112,274** | $ 127,933 | $ 2,568 | $ (26,982) | $ 103,519 |
| Real estate | **20,194** | **-** | **-** | **20,194** | 35,406 | - | - | 35,406 |
| Assets limited as to use - Endowment | **85,566** | **30,150** | **-** | **115,716** | 83,843 | 28,375 | - | 112,218 |
| | **$ 243,578** | **$ 33,073** | **$ (28,467)** | **$ 248,184** | $ 247,182 | $ 30,943 | $ (26,982) | $ 251,143 |

## Note 3. Investments and Assets Limited as to Use (Continued)

Investment return for the years ended June 30, 2014 and 2013 consisted of the following:

| | **2014** | | | 2013 | | |
|---|---|---|---|---|---|---|
| | **Church** | **University** | **Total** | Church | University | Total |
| | **(in thousands)** | | | (in thousands) | | |
| Investment income (after eliminations) | **$ 1,710** | **$ 767** | **$ 2,477** | $ 1,481 | $ 502 | $ 1,983 |
| Net realized and unrealized gains on investments reported at fair value (after eliminations) | **5,141** | **2,159** | **7,300** | 6,026 | 7,051 | 13,077 |
| Unrealized gain (loss) on real estate | **(3,064)** | **-** | **(3,064)** | 1,005 | - | 1,005 |
| Investment fees | **(854)** | **(193)** | **(1,047)** | (996) | (210) | (1,206) |
| | **$ 2,933** | **$ 2,733** | **$ 5,666** | $ 7,516 | $ 7,343 | $ 14,859 |

The above Church investment returns for 2014 and 2013 are net of amounts allocated to Funds Held on Behalf of Others totaling a gain of $10,951,000 and $6,764,000, respectively.

## Note 4. Fair Value Measurements

The Church and University follow FASB ASC 820, Fair Value Measurements and Disclosures, which establishes a framework for measuring fair value for assets and liabilities measured and reported at fair value. FASB ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. FASB ASC 820 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. FASB ASC 820 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date. Level 1 securities would include highly liquid government bonds and exchange traded equities.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions, and certain corporate, asset-backed and other securities.

Level 3: Significant unobservable inputs that reflect a reporting entity’s own assumptions about the assumptions that market participants would use in pricing an asset or liability, developed based on the best information available. Alternative investments, primarily investments in limited liability corporations, are valued using the practical expedient.

## Note 4. Fair Value Measurements (Continued)

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy.

The following is a description of valuation methodologies used for assets at fair value. There have been no changes in the methodologies used at June 30, 2014.

*Corporate bonds, governmental and agency securities*: Fair value is estimated using pricing models, quoted prices of securities with similar characteristics and other valuation methodologies.

*Common stocks*: Valued at quoted market prices.

*Mutual funds*: Valued at the published net asset value ("NAV") of shares held at year-end.

*Alternative investments*: Valued using the practical expedient. The practical expedient allows for the use of net asset value ("NAV") of shares held at year-end either as reported by the investee or as adjusted by the Church and University based on various factors, including capital calls, proceeds from distributions, and gains and losses that are included in earnings and recorded in the consolidated statements of activities.

*Real estate*: Investment real estate (held for sale) is valued based on independent appraisals and is deemed to represent net liquidation value.

*Funds held in trust by others*: The value of funds held in trust by others is derived from the underlying investments of the unitrusts. The value of those investments is determined in the same manner as investments described above. Future expected cash flows are discounted using a risk adjusted discount rate.

*Charitable lead/remainder unitrusts*: The value of charitable lead/remainder unitrusts is derived from the underlying investments of the unitrusts. The value of those investments is determined in the same manner as investments described above. Future expected cash flows are discounted using a risk-adjusted discount rate. The underlying investments are classified within Levels 1, 2 and 3 of the valuation hierarchy.

*Annuities payable*: Approximates fair value as it represents the net present value of payments to be made under the agreement using current life expectancy and interest rate.

*Interest rate swaps*: The fair value is estimated by the issuing bank using inputs that are observable or that can be corroborated by observable market data.

## Note 4. Fair Value Measurements (Continued)

The following table summarizes the assets and liabilities measured at fair value on a recurring basis, segregated by the general classification of such instruments pursuant to the valuation hierarchy. Prior year categories have been reclassified as needed, based on current year assessments.

| | June 30, 2014 | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| | (in thousands) | | | |
| **Collateral for securities on loans** | $ - | $ 6,265 | $ - | $ 6,265 |
| **Investments:** | | | | |
| Corporate bonds and securities | - | 9,409 | - | 9,409 |
| U.S. Government and agency securities | - | 7,853 | - | 7,853 |
| Canadian Government and agency securities | - | 587 | - | 587 |
| Total Bonds, including U.S. Treasury and Canadian government notes and agency obligations | - | 17,849 | - | 17,849 |
| Common stocks: | | | | |
| Health care | 3,202 | - | - | 3,202 |
| Utilities | 631 | - | - | 631 |
| Financials | 4,225 | - | - | 4,225 |
| Consumer staples | 2,420 | - | - | 2,420 |
| Consumer discretionary | 3,179 | - | - | 3,179 |
| Materials | 1,190 | - | - | 1,190 |
| Energy | 2,563 | - | - | 2,563 |
| Information technology | 3,614 | - | - | 3,614 |
| Industrials | 2,405 | - | - | 2,405 |
| Telecommunication service | 381 | - | - | 381 |
| Miscellaneous | - | - | - | - |
| ADRs | 1,031 | - | - | 1,031 |
| Mutual funds: | | | | |
| Fixed income | 34,389 | | - | 34,389 |
| Domestic equity | 14,107 | - | - | 14,107 |
| International equity | 35,181 | | - | 35,181 |
| Other Investments | - | - | 14 | 14 |
| Total Common stock and mutual funds | 108,518 | - | 14 | 108,532 |
| Alternative investments: | | | | |
| Prudential Property Investment Separate Account | - | 17,131 | - | 17,131 |
| Investments in Limited Partnerships | - | 10,074 | - | 10,074 |
| Investments in Limited Liability Corporations | - | 4,394 | 1,218 | 5,612 |
| Cash value of life insurance | - | - | 274 | 274 |
| Other Investments | 73 | - | - | 73 |
| Total alternative and other investments | 73 | 31,599 | 1,492 | 33,164 |

**(Continued)**

## Note 4. Fair Value Measurements (Continued)

| | June 30, 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | | Significant Other Observable Inputs (Level 2) | | Significant Unobservable Inputs (Level 3) | | Total | |
| | (in thousands) | | | | | | | |
| Real Estate Parcels primarily in Independence, Missouri | | - | | - | | 88,639 | | 88,639 |
| Total investments | $ | 108,591 | $ | 49,448 | $ | 90,145 | $ | 248,184 |
| Funds held in trust by others | $ | - | $ | - | $ | 1,281 | $ | 1,281 |
| Liabilities: | | | | | | | | |
| Charitable lead/remainder unitrusts | $ | - | $ | - | $ | 2,772 | $ | 2,772 |
| Annuities payable | $ | - | $ | - | $ | 3,952 | $ | 3,952 |
| Obligation to return collateral for loaned investments | $ | 7,453 | $ | - | $ | - | $ | 7,453 |

## Note 4. Fair Value Measurements (Continued)

| | June 30, 2013 | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| | (in thousands) | | | |
| Collateral for securities on loans | $ - | $ 590 | $ - | $ 590 |
| Investments: | | | | |
| Corporate bonds and securities | - | 12,419 | - | 12,419 |
| U.S. Government and agency securities | - | 13,620 | - | 13,620 |
| Canadian Government and agency securities | - | 802 | - | 802 |
| Total Bonds, including U.S. Treasury and Canadian government notes and agency obligations | - | 26,841 | - | 26,841 |
| Common stocks: | | | | |
| Health care | 5,712 | - | - | 5,712 |
| Utilities | 830 | - | - | 830 |
| Financials | 6,771 | - | - | 6,771 |
| Consumer staples | 3,360 | - | - | 3,360 |
| Consumer discretionary | 6,736 | - | - | 6,736 |
| Materials | 2,134 | - | - | 2,134 |
| Energy | 4,107 | - | - | 4,107 |
| Information technology | 8,120 | - | - | 8,120 |
| Industrials | 4,294 | - | - | 4,294 |
| Telecommunication service | 548 | - | - | 548 |
| Miscellaneous | 156 | - | - | 156 |
| ADRs | 2,570 | - | - | 2,570 |
| Mutual funds: | | | | |
| Fixed income | 24,193 | - | - | 24,193 |
| Domestic equity | 15,440 | - | - | 15,440 |
| International equity | 19,969 | - | - | 19,969 |
| Other Investments | - | - | 14 | 14 |
| Total Common stock and mutual funds | 104,940 | - | 14 | 104,954 |
| Alternative investments: | | | | |
| Prudential Property Investment Separate Account | - | 11,331 | - | 11,331 |
| Investments in Limited Partnerships | - | 13,066 | - | 13,066 |
| Investments in Limited Liability Corporations | - | - | 1,656 | 1,656 |
| Cash value of life insurance | - | - | 260 | 260 |
| Other Investments | 104 | - | - | 104 |
| Total alternative and other investments | 104 | 24,397 | 1,916 | 26,417 |

(Continued)

### Note 4. Fair Value Measurements (Continued)

| | June 30, 2013 | | | |
|---|---|---|---|---|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total |
| | (in thousands) | | | |
| Real Estate Parcels primarily in Independence, Missouri | - | - | 92,931 | 92,931 |
| Total investments | $ 105,044 | $ 51,238 | $ 94,861 | $ 251,143 |
| Funds held in trust by others | $ - | $ - | $ 1,094 | $ 1,094 |
| Liabilities: | | | | |
| Charitable lead/remainder unitrusts | $ - | $ - | $ 2,835 | $ 2,835 |
| Annuities payable | $ - | $ - | $ 4,007 | $ 4,007 |
| Obligation to return collateral for loaned investments | $ 1,935 | $ - | $ - | $ 1,935 |
| Interest rate swaps | $ - | $ 3,476 | $ - | $ 3,476 |

As of June 30, 2014 and 2013, investments under security lending agreements, included in the investments above, totaled $7,294,000 and $1,882,000, respectively. During 2013, management evaluated the redemption requirements for its investments in limited partnerships and limited liability corporations and transferred $18,899 of investments held at June 30, 2012 from Level 3 to Level 2

## Note 4. Fair Value Measurements (Continued)

The following table presents additional information about assets and liabilities measured at fair value on a recurring basis for which the Church and University have utilized Level 3 inputs to determine fair value.

| | Common stock and mutual funds | Alternative and Other Investments | Real Estate | Funds Held in Trust by Others | Charitable Lead/Remainder Unitrusts and Annuities Payable |
|---|---|---|---|---|---|
| | | | (in thousands) | | |
| Beginning balance, June 30, 2012 | $ 14 | $ 20,830 | $ 93,568 | $ 967 | $ 6,963 |
| Issuances | - | - | 139 | - | 65 |
| Settlements | - | - | (1,818) | - | (68) |
| Transfers to Level 2 | - | (18,899) | - | - | - |
| Total gains (losses) (unrealized) included in change in net assets | - | (15) | 1,042 | 127 | (118) |
| **Balance, June 30, 2013** | **14** | **1,916** | **92,931** | **1,094** | **6,842** |
| **Issuances** | **-** | **-** | **25** | **-** | **65** |
| **Settlements** | **-** | **-** | **(1,253)** | **-** | **(105)** |
| **Total gains (losses) (unrealized) included in change in net assets** | **-** | **(424)** | **(3,064)** | **187** | **(162)** |
| **Ending balance, June 30, 2014** | **$ 14** | **$ 1,492** | **$ 88,639** | **$ 1,281** | **$ 6,640** |
| **Net unrealized gains (losses) attributable to investments held at year end:** | | | | | |
| 2013 | $ - | $ (15) | $ 1,042 | $ 127 | $ (118) |
| **2014** | **$ -** | **$ (424)** | **$ (3,064)** | **$ 187** | **$ (162)** |

The following table sets forth additional disclosures of investments whose fair value is estimated using net asset value per share (or its equivalent) as of June 30, 2014.

| Investments | 2014 Fair Value (in thousands) | 2013 Fair Value (in thousands) | Unfunded Commitment | Redemption Frequency | Redemption Notice Period |
|---|---|---|---|---|---|
| Prudential Property Investment Separate Account (a) | $ 17,131 | $ 11,331 | - | Quarterly | 3 months |
| Investment in limited partnership (b) | 10,074 | 13,066 | - | Quarterly | 15 days |
| Investment in limited liability corporation (c) | 5,612 | - | - | Daily | 1 day |
| | $ 32,817 | $ 24,397 | | | |

(a) This pooled separate account is a core equity real estate portfolio that generates a high proportion of its total return from income with a goal to achieve a total return which exceeds the NCREIF Fund Index-Open-End Diversified Core Equity (NFI-ODCE). The account uses an integrated “Top-Down” and “Bottom-Up” approach to drive performance. The “Top-Down” approach focuses on diversification by property type and market, investing primarily in completed, well-leased income producing property and limiting portfolio leverage to 30%. The “Bottom-Up” focuses on superior property selection, leveraging local operating partners to identify attractive investments, and a disciplined approach to dispositions.

## Note 4. Fair Value Measurements (Continued)

(b) This limited partnership engages in investment activities the objective of which is to maximize total returns by investing primarily in debt securities of non-investment grade (high yield) companies. Such securities include publicly and privately issued debt securities of U.S. and non-U.S. corporate issuers (other than emerging markets). The partnership may also invest in floating rate loans of high yield companies, including secured and unsecured loans, first lien term loans, second lien term loans, bridge loans, letters of credit, synthetic letters of credit, delayed draw term loans and revolvers.

(c) This limited liability corporation's objectives are to add value to an investor's portfolio of financial investments, provide inflation protection and generate higher risk-adjusted returns than leading commodity market benchmarks, ETFs/ETNs and commodity mutual funds. These objectives are to be achieved by investing assets in a long-only, unleveraged, diversified portfolio of exchange-traded U.S. dollar-denominated futures and forward contracts in tangible commodities traded on U.S. and non-U.S. exchanges to obtain broad exposure to all principal groups in the global commodity markets, including energies, agriculture and metals (both precious & industrial) using the Member Manager's proprietary commodity trading strategies.

## Note 5. Endowment Fund and Net Asset Classification

The Church's and University's Endowment Funds consist of various donor-restricted endowment funds and funds designated as endowment, quasi-endowment, by the Board of Trustees. Net assets associated with endowment funds, including funds designated to function as endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The University and the Church have interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Church and University classify as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, (d) the present value of estimated future receipts for beneficial interests in perpetual trusts and (e) subsequent changes in the value of the University's share of trust assets in perpetual trusts. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by the State of Iowa and Missouri in their enacted versions of UPMIFA. In accordance with the State of Iowa and Missouri in the enacted versions of UPMIFA, the Church and University consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the Endowment Fund; (2) the purposes of the Church and University and the donor-restricted Endowment Fund; (3) general economic conditions; (4) the possible effect of inflation and deflation; (5) the expected total return from income and the appreciation of investments; (6) other resources of the Church and University; and (7) the investment policies of the Church and University.

## Note 5. Endowment Fund and Net Asset Classification (Continued)

The Church and University have adopted investment and spending policies for their Endowment Fund. The objective of these policies is to provide the Church and University a predictable funding stream for their programs while achieving an investment return equal to the combination of the current spending formula and the current rate of inflation in order to protect the purchasing power of the Endowment Fund. The Church and University, through their investment policy, have established a target annualized rate of return over the long-term of at least 8.3%; the total return during any single measurement period may deviate from the long-term return objective. To satisfy their long-term rate-of-return objective, the Church and University expect to maintain appropriate diversification among equity, fixed income, and alternative investment allocations. The purpose is to moderate the overall investment risk of the Endowment Fund.

The Presiding Bishopric may appropriate for expenditure or accumulate so much of the Endowment Fund as the Church determines is prudent for the uses, benefits, purposes, and duration for which the Endowment Fund is established. The amount appropriated, the spending policy, is an approved spending percentage of the five-year rolling average of the fair value of the Endowment Fund assets measured on December 31 each year. This appropriation may be made when the Endowment Fund assets are underwater if the Presiding Bishopric deems it is prudent to do so. The Presiding Bishopric approved spending percentages were 6% and 6.1% for the fiscal years ended June 30, 2014 and 2013, respectively. Special appropriations from unrestricted earnings of $1,621,000 in addition to the 6.1% were approved for the year ended June 30, 2013, $300,000 for continued funding of Lifelong Discipleship Formation ministries and $1,321,000 for facility capital maintenance projects. No special appropriations were made in the year ended June 30, 2014.

The Temple roof was in need of substantial repair to address water incursion problems. The Presiding Bishopric deemed this situation to be an unusual circumstance, which according to the Temple Endowment document would allow for the use of corpus to address such a need. The repair project began in fiscal year 2014 and will be completed in the latter part of fiscal year 2015 with an estimated cost of approximately $3,000,000. New Temple Endowment contributions will be used to offset the cost of the project being initially funded from unrestricted cash. Contributions received and used to offset project costs were $99,000 in 2014 and are reported in the consolidated statement of activities as both temporarily restricted contribution and as net assets released from restrictions.

The Board of Trustees of the University may appropriate for expenditure or accumulate so much of the Endowment Fund as the University determines is prudent for the uses, benefits, purposes, and duration for which the Endowment Fund is established. The amount appropriated, the spending policy, is based on the three-year rolling average of the fair value of the Endowment Fund assets measured on December 31 each year. This appropriation may be made when the Endowment Fund assets are underwater if the Board deems it is prudent to do so. The Board-approved spending percentage was 6% for the fiscal years ended June 30, 2014 and 2013, respectively. Special appropriations of $1,000,000, in addition to the 6%, were approved by the University for the years ending June 30, 2014 and 2013.

From time to time, the fair value of endowment funds associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Church and University to retain as a fund of perpetual duration, underwater endowments. As of June 30, 2014 and 2013, approximately $9,204,000 (Church - $8,239,000, University - $965,000), and $7,915,000 (Church $6,676,000, University - $1,239,000), respectively, of donor-restricted endowment funds were underwater. This amount is reported in unrestricted net assets. These deficiencies, which the Church and University believe are temporary, resulted from unfavorable market fluctuations. The Board determined that continued appropriation during the fiscal year ended June 30, 2014 and 2013 for certain programs was prudent.

## Note 5. Endowment Fund and Net Asset Classification (Continued)

Church and University endowment net assets as of June 30 are as follows:

| | 2014 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| | (in thousands) | | | |
| **Donor-restricted endowment funds** | **$ (9,204)** | **$ 2,179** | **$ 59,360** | **$ 52,335** |
| **Board-designated (quasi) endowment funds** | **60,282** | **3,099** | **-** | **63,381** |
| **Total endowment funds** | **$ 51,078** | **$ 5,278** | **$ 59,360** | **$ 115,716** |

| | 2013 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| | (in thousands) | | | |
| Donor-restricted endowment funds | $ (7,915) | $ 1,933 | $ 55,988 | $ 50,006 |
| Board-designated (quasi) endowment funds | 58,927 | 3,285 | - | 62,212 |
| Total endowment funds | $ 51,012 | $ 5,218 | $ 55,988 | $ 112,218 |

## Note 5. Endowment Fund and Net Asset Classification (Continued)

The changes in the Church and University's endowment net assets for the year ended June 30 were as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| | (in thousands) | | | |
| Endowment assets, June 30, 2012 | $ 50,300 | $ 4,821 | $ 50,250 | $ 105,371 |
| Investment return: | | | | |
| Investment income | 244 | 418 | (34) | 628 |
| Net appreciation/(depreciation) (realized and unrealized) | 1,202 | 1,707 | (26) | 2,883 |
| Total investment return | 1,446 | 2,125 | (60) | 3,511 |
| Contributions | - | - | 5,024 | 5,024 |
| Appropriation of endowment funds for expenditure | (622) | (2,456) | - | (3,078) |
| Other changes (transfer) | (112) | 728 | 774 | 1,390 |
| Endowment assets, June 30, 2013 | 51,012 | 5,218 | 55,988 | 112,218 |
| **Investment return:** | | | | |
| **Investment income** | **260** | **1,064** | **-** | **1,324** |
| **Net appreciation (realized and unrealized)** | **561** | **1,099** | **-** | **1,660** |
| **Total investment return** | **821** | **2,163** | **-** | **2,984** |
| **Contributions** | **-** | **-** | **2,672** | **2,672** |
| **Appropriation of endowment funds for expenditure** | **(440)** | **(2,936)** | **-** | **(3,376)** |
| **Other changes (transfer)** | **(315)** | **833** | **700** | **1,218** |
| **Endowment assets, June 30, 2014** | **$ 51,078** | **$ 5,278** | **$ 59,360** | **$ 115,716** |

## Note 6. Real Estate and Equipment

At June 30, 2014 and 2013, real estate and equipment consisted of the following:

| | **2014** | | | 2013 | | |
|---|---|---|---|---|---|---|
| | **Church** | **University** | **Total** | Church | University | Total |
| | **(in thousands)** | | | (in thousands) | | |
| Land | **$ 646** | **$ 3,223** | **$ 3,869** | $ 646 | $ 3,057 | $ 3,703 |
| Historical properties | **68,659** | **-** | **68,659** | 68,207 | - | 68,207 |
| Property, buildings and grounds | **14,731** | **87,457** | **102,188** | 15,144 | 86,545 | 101,689 |
| Furniture and equipment | **15,527** | **26,090** | **41,617** | 15,201 | 25,965 | 41,166 |
| Construction in progress | **202** | **202** | **404** | - | 557 | 557 |
| Autos, trucks and other mobile equipment | **3,997** | **-** | **3,997** | 4,031 | - | 4,031 |
| | **103,762** | **116,972** | **220,734** | 103,229 | 116,124 | 219,353 |
| Less accumulated depreciation | **28,126** | **58,785** | **86,911** | 26,544 | 56,393 | 82,937 |
| | **$ 75,636** | **$ 58,187** | **$ 133,823** | $ 76,685 | $ 59,731 | $ 136,416 |

Depreciation expense was approximately $4,867,000 and $4,595,000 for the years ended June 30, 2014 and 2013, respectively.

## Note 7. Long-Term Debt

At June 30, 2014 and 2013, long-term debt consisted of the following (after eliminations):

| | **2014** | | | 2013 | | |
|---|---|---|---|---|---|---|
| | **Church** | **University** | **Total** | Church | University | Total |
| | **(in thousands)** | | | (in thousands) | | |
| Industrial Development Revenue Bonds, Series 1997A (A) | **$ -** | **$ -** | **$ -** | $ 6,085 | $ - | $ 6,085 |
| Revolving Credit Agreement (B) | **23,000** | **-** | **23,000** | 23,500 | - | 23,500 |
| Private College Facility Variable Rate Revenue Bonds (C) | **-** | **-** | **-** | - | 18,285 | 18,285 |
| Note Payable, Dougherty Funding LLC (D) | **-** | **25,740** | **25,740** | - | - | - |
| Capital lease (Note 8) | **-** | **6,314** | **6,314** | - | 6,423 | 6,423 |
| Other notes payable | **1,620** | **-** | **1,620** | 1,620 | - | 1,620 |
| | **$ 24,620** | **$ 32,054** | **$ 56,674** | $ 31,205 | $ 24,708 | $ 55,913 |
| Interest expense for the year | **$ 617** | **$ 753** | **$ 1,370** | $ 439 | $ 607 | $ 1,046 |

(A) Industrial Development Revenue Bonds, Series 1997A (The Groves and Graceland University Nursing Arts Center Projects); interest adjustable weekly to reflect current market conditions, with average interest rate of .22% for fiscal year 2014. The bonds were redeemed in full in 2014.

(B) Provides for unsecured borrowing from a bank for up to $25,000,000, with $23,000,000 to be used to fund past and future House of Worship and other special loans to jurisdictions and the remaining $2,000,000 used for the issuance of letters of credit. In addition, the line is being used to fund deficits incurred in providing postretirement medical benefits. Interest is payable monthly. The interest rate is adjustable monthly and is equal to the one month LIBOR rate plus 1.75%, with the average interest rate of 1.918% for fiscal year 2014 (1.964% at June 30, 2013). The agreement will expire on September 30, 2014, extended to December 31, 2014 and then refinanced as discussed in the next paragraph.

In November 2014, this revolving credit agreement was partially refinanced with a revolving credit agreement with another financial institution with an initial draw of only $10,000,000. The new five year agreement provides for borrowing up to $17,000,000, with $15,000,000 available to finance postretirement medical benefits and $2,000,000 used for the issuance of standby letters of credit. Interest is due monthly at a rate equal to one month LIBOR plus 100 basis points. House of Worship and other special loans to jurisdictions will be internally financed.

## Note 7. Long-Term Debt (Continued)

(C) The bonds payable were issued by the Iowa Higher Education Loan Authority (IHELA) and Iowa Finance Authority with a variable weekly rate (.17% at year-end 2013). Interest is payable monthly, while principal is payable annually each February 1, with final payment scheduled for February 1, 2033. The Church guarantees the repayment of the debt. The bonds were redeemed in full in 2014 through refinancing of debt with Dougherty Funding LLC.

(D) This note payable includes the following initial amounts and details:

- $9,500,000 and $9,158,000 are tax exempt and supported by City of Lamoni, Iowa and Decatur County in Iowa, respectively, with a fixed interest rate of 3.75% for five years and will be adjusted on the date of the 60$^{th}$ loan payment to equal the five year Treasury Note Rate Constant Maturity Index plus 1.15%, subject to an interest rate floor of 3.75% and interest rate cap of 5.25%. Principal is payable monthly beginning July 30, 2018 with final payment due December 30, 2023.

- $2,292,000 with a fixed interest rate of 4.5%. Principal is payable monthly beginning January 30, 2014 with final payment due June 30, 2018.

- $5,000,000 with a fixed interest rate of 4.875% through December 30, 2018 and will be adjusted to equal the Prime Rate Index plus 1.75%, subject to an interest rate floor of 4.875% and interest rate cap of 6.625%. Principal is payable monthly beginning April 30, 2014 with final payment due December 30, 2023.

The Church guarantees repayment of the debt. The agreements provide for certain covenants, including financial ratios, measured annually commencing with the fiscal year ending June 30, 2015. The note is collateralized by the University's Lamoni, Iowa and Independence, Missouri campuses.

## Note 7. Long-Term Debt (Continued)

As discussed in Note 1, the Church and University had entered into interest rate swap agreements to hedge their exposure to interest rate risk related to their variable rate bonds. The specific goal of the Church and University was to lower (where possible) the cost of its borrowed funds over the borrowing term. Although the Church and University believe their interest rate swap agreements are economic hedges, none have been designated as a hedge for accounting purposes and they are recorded on the consolidated statement of financial position at their fair market value, with changes in fair value recognized in current period change in unrestricted net assets. The following amounts have been included in the consolidated statements of activities for the years ended 2014 and 2013. All interest rate swap agreements have been terminated by the Church and University during the year ended June 30, 2014.

| | **2014** | | | 2013 | | |
|---|---|---|---|---|---|---|
| | **Church** | **University** | **Total** | Church | University | Total |
| | **(in thousands)** | | | (in thousands) | | |
| Swap settlements, included in interest expense | **$ 91** | **$ 323** | **$ 414** | $ 126 | $ 660 | $ 786 |
| Unrealized (gain) on interest rate swaps | **-** | **-** | **-** | (224) | (870) | (1,094) |
| Realized (gain) on interest rate swaps | **(51)** | **(891)** | **(942)** | - | - | - |
| Net (gain) loss | **$ 40** | **$ (568)** | **$ (528)** | $ (98) | $ (210) | $ (308) |

### Note 7. Long-Term Debt (Continued)

Aggregate annual maturities and sinking fund requirements of long-term debt at June 30, 2014 are as follows:

| | Church | University | Total |
|---|---|---|---|
| | | (in thousands) | |
| 2015 | $ 23,000 | $ 585 | $ 23,585 |
| 2016 | - | 612 | 612 |
| 2017 | - | 641 | 641 |
| 2018 | - | 670 | 670 |
| 2019 | - | 802 | 802 |
| Thereafter | 1,620 | 22,430 | 24,050 |
| | $ 24,620 | $ 25,740 | $ 50,360 |

### Note 8. Capital Lease Obligations

During the year ended June 30, 2012, the University leased buildings located adjacent to the campus for use as student housing. Since the term of the lease is approximately the same as the estimated useful life of the assets, the lease is considered to be a capital lease. The assets were recorded at fair market value of $4,559,000, and the offsetting lease obligation, at the present value of the minimum lease payments of $6,632,000, as determined with a 4% discount rate. The liability is payable in monthly installments of $30,000 for principal and interest to January 2044 and shall be adjusted annually on March 1 of each calendar year based on the consumer price index. The discount on the obligation, $2,073,000, will be amortized in monthly installments of $5,000 to January 2044. The outstanding lease obligation at June 30, 2014 is $6,314,000.

The leased property was constructed and is owned by an unrelated third party. A loan was made to the third party by the University for financing of construction costs. The outstanding balance of the note receivable as of June 30, 2014 is $1,343,000, and there is no allowance associated with the note receivable, which would be evaluated for impairment individually, as the borrower is current in payments and has not defaulted since the inception of the note. The credit quality indicator on the note receivable is performance, determined by delinquency status, and the recorded investment would be considered performing as of June 30, 2014. Terms of the note receivable include monthly installments of $8,000 for principal and interest at a rate of 6% to May 2041.

## Note 8. Capital Lease Obligations (Continued)

The following is a schedule by years of lease payments and lease discount amortization and the related note receivable receipts as of June 30, 2014:

| Year Ending June 30: | Lease Payments | Lease Discount | Note Receivable |
|---|---|---|---|
| 2015 | $ 364,000 | $ 64,000 | $ 101,000 |
| 2016 | 364,000 | 64,000 | 101,000 |
| 2017 | 364,000 | 64,000 | 101,000 |
| 2018 | 364,000 | 64,000 | 101,000 |
| 2019 | 364,000 | 64,000 | 101,000 |
| Thereafter | 8,974,000 | 1,577,000 | 2,207,000 |
| **Total minimum payments/receipts** | 10,794,000 | 1,897,000 | 2,712,000 |
| Less amount representing interest expense/income | 4,480,000 | - | 1,369,000 |
| **Total** | $ 6,314,000 | $ 1,897,000 | $ 1,343,000 |

## Note 9. Deferred Income and Other Liabilities

Advance billings of insurance premiums to Church affiliates of $600,000 and $576,000 are included in deferred income at June 30, 2014 and 2013, respectively.

At June 30, 2014 and 2013, deferred income included $6,214,000 and $6,424,000, respectively, and expenses of $3,808,000 and $4,469,000, respectively, for the Center related to seminars to be presented subsequent to year-end.

## Note 10. Employee Benefit Plans

Pension plans: The Church has an Appointee/Employee Retirement Plan Trust (a defined benefit plan) that covers employees who meet the eligibility requirements. The Church funds its obligations over a 30-year life as computed by the most recent actuarial valuation.

The University has a defined benefit plan covering substantially all of its employees who meet the eligibility requirements. The University's funding policy is to make annual contributions to the Plan of no less than the amount required to maintain adequate funding as determined under Section 412 of the Internal Revenue Code. Effective August 1, 2006, the defined benefit plan was closed to new employees, who are now covered by a defined contribution 403(b) retirement plan.

The Church uses a combination of historical and projected returns on its securities portfolio and estimated future returns on its investment real estate portfolio to develop the long-term rate of return on assets of its plan. The University has estimated the long-term rate of return on assets of its plan based primarily on historical returns. The Church plan and the University plan use June 30 and May 31 measurement dates, respectively.

## Note 10. Employee Benefit Plans (Continued)

The following table sets forth information related to the plans for 2014 and 2013:

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | **Church** | **University** | **Total** | Church | University | Total |
| | | **(in thousands)** | | | (in thousands) | |
| Fair value of plan assets at beginning of period | **$ 33,285** | **$ 21,586** | **$ 54,871** | $ 33,112 | $ 17,647 | $ 50,759 |
| Actual return of plan assets | **2,879** | **2,498** | **5,377** | 2,571 | 2,618 | 5,189 |
| Employer contributions | **1,764** | **1,904** | **3,668** | 1,820 | 2,487 | 4,307 |
| Benefits paid | **(4,303)** | **(1,212)** | **(5,515)** | (4,218) | (1,166) | (5,384) |
| Fair value of plan assets at end of period | **33,625** | **24,776** | **58,401** | 33,285 | 21,586 | 54,871 |
| Benefit obligation at beginning of period | **78,359** | **32,645** | **111,004** | 83,454 | 31,476 | 114,930 |
| Plan amendment | **80** | **-** | **80** | 86 | - | 86 |
| Service cost | **1,559** | **666** | **2,225** | 1,758 | 711 | 2,469 |
| Interest cost | **3,304** | **1,357** | **4,661** | 3,039 | 1,310 | 4,349 |
| Actuarial (gain) loss | **3,180** | **1,253** | **4,433** | (5,760) | 314 | (5,446) |
| Benefits paid | **(4,303)** | **(1,212)** | **(5,515)** | (4,218) | (1,166) | (5,384) |
| Benefit obligation at end of period | **82,179** | **34,709** | **116,888** | 78,359 | 32,645 | 111,004 |
| Plan assets in deficit of projected benefit obligation, accrued benefit liability on the statement of financial position | **$ (48,554)** | **$ (9,933)** | **$ (58,487)** | $ (45,074) | $ (11,059) | $ (56,133) |

Following are the weighted average assumptions used as of June 30:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | **Church** | **University** | Church | University |
| Benefit Obligations | | | | |
| Discount rate | **3.95%** | **4.00%** | 4.35% | 4.25% |
| Rate of compensation increases | **1.00%** | **2.00%** | 2.00% | 2.00% |
| Net Costs | | | | |
| Discount rate | **4.35%** | **4.00%** | 3.75% | 4.25% |
| Expected return on plan assets | **8.00%** | **7.50%** | 8.00% | 7.60% |
| Rate of compensation increases | **2.00%** | **2.00%** | 2.00% | 2.00% |

Assets of the plans are held by third-party financial institutions, which invest the assets in accordance with the provisions of the agreement for each plan. These agreements permit investment in mutual funds, insurance company separate funds, common stocks, corporate bonds and debentures, U.S. Government securities, real estate, and other specified investments, based on certain target allocation percentages.

## Note 10. Employee Benefit Plans (Continued)

Asset allocation is primarily based on a strategy to provide stable earnings while still permitting the plans to recognize potentially higher returns through investment in equity securities. Assets are rebalanced periodically. Assets of the plans, by category, approximated target percentages at June 30, 2014 and 2013.

The breakdown of investment by type is as follows as of June 30, 2014 and 2013:

| | **2014** | | 2013 | |
|---|---|---|---|---|
| | **Church** | **University** | Church | University |
| Corporate bonds and securities | **4.29%** | **-** | 5.02% | - |
| U.S. Government and agency securities | **3.81%** | **-** | 7.67% | - |
| Equity securities | **10.96%** | **-** | 21.54% | - |
| Mutual funds | **39.68%** | **-** | 26.99% | - |
| Pooled separate accounts | **-** | **100%** | - | 100% |
| Real estate | **26.01%** | **-** | 26.61% | - |
| Alternative investments | **15.25%** | **-** | 12.17% | - |

## Note 10. Employee Benefit Plans (Continued)

The fair value of the Church's and University's pension plan assets at June 30, 2014 and 2013, by asset category are as follows:

| | June 30, 2014 | | | |
|---|---|---|---|---|
| Assets | Level 1 | Level 2 | Level 3 | Total |
| | | (in thousands) | | |
| Collateral for securities on loans | $ - | $ 232 | $ - | $ 232 |
| Investments: | | | | |
| Corporate bonds and securities | $ - | $ 1,458 | $ - | $ 1,458 |
| U.S. Government and agency securities | - | 1,294 | - | 1,294 |
| Common stocks: | | | | |
| Health care | 519 | - | - | 519 |
| Utilities | 88 | - | - | 88 |
| Financials | 577 | - | - | 577 |
| Consumer staples | 390 | - | - | 390 |
| Consumer discretionary | 485 | - | - | 485 |
| Materials | 182 | - | - | 182 |
| Energy | 307 | - | - | 307 |
| Information technology | 562 | - | - | 562 |
| Industrials | 398 | - | - | 398 |
| Telecommunication service | 45 | - | - | 45 |
| ADRs | 163 | - | - | 163 |
| Other common stock | 4 | - | - | 4 |
| Total common stock | 3,720 | - | - | 3,720 |
| Mutual funds: | | | | |
| Fixed income | 5,692 | - | - | 5,692 |
| Domestic equity | 2,284 | - | - | 2,284 |
| International equity | 5,498 | - | - | 5,498 |
| Pooled separate accounts: | | | | |
| Large U.S. equity | - | 7,611 | - | 7,611 |
| Small/mid U.S. equity | - | 1,867 | - | 1,867 |
| International equity | - | 3,194 | - | 3,194 |
| Balanced/asset allocation | - | 1,317 | - | 1,317 |
| Fixed income | - | 10,787 | - | 10,787 |
| Prudential property investment separate account | - | 2,862 | - | 2,862 |
| Investment in Limited Partnerships | - | 1,571 | - | 1,571 |
| Investment in Limited Liability Corporations | | 744 | | 744 |
| Parcel in Independence, Missouri | - | - | 8,830 | 8,830 |
| Total investments | $ 17,194 | $ 32,705 | $ 8,830 | $ 58,729 |
| Other Assets: | | | | |
| Cash and cash equivalents | $ 517 | $ - | $ - | $ 517 |
| Other assets | 154 | - | - | 154 |
| Total cash and other assets | $ 671 | $ - | $ - | $ 671 |
| **Liabilities** | | | | |
| Obligation to return collateral for loaned investments | $ 448 | $ - | $ - | $ 448 |
| Other liabilities | 783 | - | - | 783 |
| Total liabilities | $ 1,231 | $ - | $ - | $ 1,231 |

## Note 10. Employee Benefit Plans (Continued)

| | June 30, 2013 | | | |
|---|---|---|---|---|
| Assets | Level 1 | Level 2 | Level 3 | Total |
| | (in thousands) | | | |
| Collateral for securities on loans | $ - | $ 101 | $ - | $ 101 |
| Investments: | | | | |
| Corporate bonds and securities | $ - | $ 1,666 | $ - | $ 1,666 |
| U.S. Government and agency securities | - | 2,544 | - | 2,544 |
| Common stocks: | | | | |
| Health care | 903 | - | - | 903 |
| Utilities | 108 | - | - | 108 |
| Financials | 1,029 | - | - | 1,029 |
| Consumer staples | 538 | - | - | 538 |
| Consumer discretionary | 1,086 | - | - | 1,086 |
| Materials | 363 | - | - | 363 |
| Energy | 599 | - | - | 599 |
| Information technology | 1,320 | - | - | 1,320 |
| Industrials | 699 | - | - | 699 |
| Telecommunication service | 65 | - | - | 65 |
| ADRs | 414 | - | - | 414 |
| Other common stock | 25 | - | - | 25 |
| Total common stock | 7,149 | - | - | 7,149 |
| Mutual funds: | | | | |
| Fixed income | 3,733 | - | - | 3,733 |
| Domestic equity | 2,313 | - | - | 2,313 |
| International equity | 2,913 | - | - | 2,913 |
| Pooled separate accounts: | | | | |
| Large U.S. equity | - | 6,663 | - | 6,663 |
| Small/mid U.S. equity | - | 1,723 | - | 1,723 |
| International equity | - | 2,719 | - | 2,719 |
| Balanced/asset allocation | - | 1,056 | - | 1,056 |
| Fixed income funds | - | 9,425 | - | 9,425 |
| Prudential property investment separate account | - | 1,834 | - | 1,834 |
| Investment in Limited Partnerships | - | 2,205 | - | 2,205 |
| Parcel in Independence, Missouri | - | - | 8,830 | 8,830 |
| Total investments | $ 16,108 | $ 29,835 | $ 8,830 | $ 54,773 |
| Other Assets: | | | | |
| Cash and cash equivalents | $ 1,090 | $ - | $ - | $ 1,090 |
| Other assets | 762 | - | - | 762 |
| Total cash and other assets | $ 1,852 | $ - | $ - | $ 1,852 |
| Liabilities | | | | |
| Obligation to return collateral for loaned investments | $ 282 | $ - | $ - | $ 282 |
| Other liabilities | 1,573 | - | - | 1,573 |
| Total liabilities | $ 1,855 | $ - | $ - | $ 1,855 |

## Note 10. Employee Benefit Plans (Continued)

The following table sets forth additional disclosures of the Church and University's investments whose fair value is estimated using net asset value per share as of June 30, 2014 and 2013.

| | **2014 Fair Value** | 2013 Fair Value | Unfunded Commitment | Redemption Frequency | Redemption Notice Period |
|---|---|---|---|---|---|
| Pooled separate accounts: | | | | | |
| Large U.S. equity (a) | **$ 7,611** | $ 6,663 | $ - | Monthly | None |
| Small/mid U.S. equity (b) | **1,867** | 1,723 | - | Monthly | None |
| International equity (c) | **3,194** | 2,719 | - | Monthly | None |
| Balanced/asset allocation (d) | **1,317** | 1,056 | - | Monthly | None |
| Fixed income (e) | **10,787** | 9,425 | - | Monthly | None |
| Prudential property investment separate account (f) | **2,862** | 1,834 | - | Quarterly | 3 months |
| Investment in limited partnership (f) | **1,571** | 2,205 | - | Quarterly | 15 days |
| Investment in limited liability corporation (g) | **744** | - | - | Daily | 1 day |
| | **$ 29,953** | $ 25,625 | | | |

(a) The pooled separate accounts in this category primarily invest in equity securities of U.S. companies with large market capitalization. Selected funds within this category may invest in stocks of foreign companies, convertible debt securities, and real estate investment trusts. Investments in this category can be redeemed once every 30 days at the current net asset value per share based on the fair value of the underlying assets.

(b) The pooled separate accounts in this category seek long-term growth by primarily investing in U.S. equity securities of companies with small to mid-size market capitalization. Selected funds within this category may invest in stocks of foreign companies, U.S. and foreign preferred stocks, convertible debt securities, equity-equivalent securities, non-leveraged stock index futures contracts and options, notes, bonds, and other debt securities. Investments in this category can be redeemed once every 30 days at the current net asset value per share based on the fair value of the underlying assets.

(c) This category seeks long-term growth by investing in common stocks of non-U.S. companies with large market capitalization. Investments are normally diversified across different countries and regions of the world. Investments in this category can be redeemed once every 30 days at the current net asset value per share based on the fair value of the underlying assets.

(d) This asset class is generally comprised of a combination of fixed income and equity investment options. These investment options may include balanced, asset allocation, target-date, and target-risk investment options. Although typically lower risk than investment options that invest solely in equities, all investment options in this category have the potential to lose value.

(e) This category includes securities that are intermediate-term, fixed-income investments such as public and private corporate bonds, commercial and residential mortgages, asset-based securities, and U.S. Government and agency-backed securities. In addition to these securities, this category also includes fixed-income instruments of varying maturities which may be represented by forwards or derivatives such as options, futures, contracts or swap agreements. Investments in this category can be redeemed once every 30 days at the current net asset value per share based on the fair value of the underlying assets.

(f) (g) See Note 4 for a discussion of these investments.

**Note 10. Employee Benefit Plans (Continued)**

At June 30, 2014 and 2013 investments under security lending agreements was $439,000 and $274,000, respectively.

During 2013, management evaluated the redemption requirements for its investments in limited partnerships and limited liability corporations and transferred $2,998,000 of investments held at June 30, 2012 from level 3 to level 2.

Postretirement benefits: The Church provides certain unfunded health care and life insurance as well as other benefits to existing and retired appointees and employees.

Significant balances, costs and assumptions are as follows:

| | **2014** | 2013 |
|---|---|---|
| | (in thousands) | |
| Unfunded benefit obligation | **$ 23,467** | $ 26,874 |
| Accrued post-retirement benefit obligation recognized in consolidated statements of financial position | **23,467** | 26,874 |
| Interest cost | **996** | 900 |
| Benefit cost | **(1,280)** | 315 |
| Benefits paid | **2,128** | 2,067 |

The weighted average annual assumed rate of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) is assumed to increase 10% per year beginning July 1, 2009, decreasing at various rates per year until reaching an ultimate rate of 4.50% per year. A weighted average discount rate of 3.5% and 3.85% for 2014 and 2013, respectively, was used in determining the accumulated benefit obligation.

The effect of a one-percentage-point increase and the effect of a one-percentage-point decrease in the assumed health care cost trend rates on the aggregate of the service and interest cost components and the accumulated postretirement benefit obligation for health care benefits would be as follows:

| | **2014** | 2013 |
|---|---|---|
| Effect on total service cost and interest cost components | (in thousands) | |
| One-percentage-point increase | **$ 46** | $ 40 |
| One-percentage-point decrease | **(41)** | (45) |
| Effect on year-end benefit obligation | | |
| One-percentage-point increase | **1,114** | 1,115 |
| One-percentage-point decrease | **(1,008)** | (1,014) |

## Note 10. Employee Benefit Plans (Continued)

In accordance with FASB ASC Topic 715, *Compensation – Retirement Benefits*, the Church and University have recognized the underfunded status of a defined benefit postretirement plan as a liability in the consolidated statements of financial position and recognized changes in that funded status in the year in which the changes in unrestricted net assets occur. The plan's benefit obligations are measured as of June 30, 2014.

The Church and University expect to contribute $1,550,000 and $2,075,000, respectively, to each pension in the year ending 2015.

Cash flows: The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of June 30, 2014:

| | Pension Benefits | | Post-Retirement Benefits |
|---|---|---|---|
| | Church | University | Church |
| | (in thousands) | | (in thousands) |
| 2015 | $ 4,889 | $ 1,480 | $ 2,006 |
| 2016 | 5,017 | 1,550 | 2,132 |
| 2017 | 5,105 | 1,720 | 2,104 |
| 2018 | 5,289 | 1,820 | 2,052 |
| 2019 | 5,374 | 1,920 | 1,987 |

The aggregate benefits expected to be paid in the five years from 2020 to 2024 are as follows:

| Pension Benefits | | Post-Retirement Benefits |
|---|---|---|
| Church | University | Church |
| (in thousands) | | (in thousands) |
| $ 27,281 | $ 10,730 | $ 8,857 |

The University has a defined contribution pension plan covering substantially all of its employees hired August 1, 2006 or after. The total pension expense for the fiscal years ended 2014 and 2013 was approximately $258,000 and $210,000, respectively. After one year of service, employees hired August 1, 2006 or after will receive a base discretionary contribution in each month they are employed. Also after one year of service, the University will match employees' contributions at 50% up to 3% of pay.

The Center has a tax-deferred annuity plan (the Plan) pursuant to section 403 of the Code, whereby participants may contribute a percentage of compensation not in excess of the maximum allowed under the Code. All Center employees are eligible to make tax-deferred contributions. The Plan provides for matching contributions equal to 25% of employee contributions. Matching contributions were approximately $136,000 and $142,000, for the fiscal years 2014 and 2013, respectively. The Center's Board of Directors may approve additional discretionary contributions payable to active employees at the conclusion of the calendar year under the Plan. Contributions approved prior to and paid in the following fiscal years by the Center were approximately $117,000 and $129,000 for the calendar years 2014 and 2013, respectively. At the conclusion of each fiscal year, the Center's management determines an appropriate accrual, if necessary, for contributions for the fiscal year. The accrual for employer contributions at year-end 2014 and 2013 was approximately $66,000.

## Note 11. Restricted Net Assets

Temporarily restricted net assets at June 30, 2014 and 2013 are available for the following purposes:

| | **2014** | | | 2013 | | |
|---|---|---|---|---|---|---|
| | **Church** | **University** | **Total** | Church | University | Total |
| | **(in thousands)** | | | (in thousands) | | |
| Charitable remainder trust | **$ 2,708** | **$ -** | **$ 2,708** | $ 2,933 | $ - | $ 2,933 |
| Mission endowment | **26** | | **26** | - | - | - |
| Canada Mission | **515** | **-** | **515** | 347 | - | 347 |
| Temple Peace Center Grant | **115** | **-** | **115** | 91 | - | 91 |
| Donor Advised | **16** | **-** | **16** | 16 | - | 16 |
| Peace and justice ministry specialist | **93** | **-** | **93** | 32 | - | 32 |
| Leading congregations in mission | **791** | **-** | **791** | 787 | - | 787 |
| Supporting pastors and congregational leaders | **1,326** | **-** | **1,326** | 1,396 | - | 1,396 |
| Dome & Spire Foundation | **1** | **-** | **1** | 1 | - | 1 |
| Children's Peace Pavilion | **373** | **-** | **373** | - | - | - |
| Kirtland Temple | **201** | **-** | **201** | 201 | - | 201 |
| Other | **55** | **-** | **55** | 55 | - | 55 |
| Instruction and operational support | **-** | **2,460** | **2,460** | - | 2,471 | 2,471 |
| Student loans | **-** | **117** | **117** | - | 117 | 117 |
| Capital projects | **-** | **1,480** | **1,480** | - | 1,597 | 1,597 |
| Scholarships | **-** | **3,926** | **3,926** | - | 3,822 | 3,822 |
| Annuity and life income funds | **-** | **1,217** | **1,217** | - | 1,081 | 1,081 |
| | **$ 6,220** | **$ 9,200** | **$ 15,420** | $ 5,859 | $ 9,088 | $ 14,947 |

## Note 11. Restricted Net Assets (Continued)

Permanently restricted net assets at June 30, 2014 and 2013 consisted of the following:

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | **Church** | **University** | **Total** | Church | University | Total |
| | | **(in thousands)** | | | (in thousands) | |
| Temple endowment | **$ 25,066** | **$ -** | **$ 25,066** | $ 24,502 | $ - | $ 24,502 |
| Dome & Spire Foundation | **159** | **-** | **159** | 149 | - | 149 |
| General operating endowment | **4,032** | **-** | **4,032** | 3,863 | - | 3,863 |
| Charitable remainder trust | **422** | **-** | **422** | 386 | - | 386 |
| Mission endowment | **16,608** | **-** | **16,608** | 13,623 | - | 13,623 |
| Loans | **-** | **1,352** | **1,352** | - | 1,352 | 1,352 |
| Restricted endowments | **-** | **27,414** | **27,414** | - | 29,881 | 29,881 |
| Annuity and life income funds | **114** | **362** | **476** | 111 | 357 | 468 |
| Other | **10** | **-** | **10** | 10 | - | 10 |
| | **$ 46,411** | **$ 29,128** | **$ 75,539** | $ 42,644 | $ 31,590 | $ 74,234 |

The Mission Endowment of $16,608,000 at June 30, 2014 comprises $2,905,000 of invested cash (included in Note 5) and $13,703,000 in contributions receivable (see Note 14).

## Note 12. Temporarily Restricted Assets Released from Restriction

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Purpose restrictions accomplished for the years ended June 30:

| | **2014** | | | 2013 | | |
|---|---|---|---|---|---|---|
| | **Church** | **University** | **Total** | Church | University | Total |
| | | **(in thousands)** | | | (in thousands) | |
| Oblation fund | **$ 1** | **$ -** | **$ 1** | $ 127 | $ - | $ 127 |
| Charitable remainder trust | **-** | | **-** | 113 | | 113 |
| Temple Peace Center Grant | **6** | **-** | **6** | 39 | - | 39 |
| Lifelong discipleship formation | **-** | **-** | **-** | 42 | - | 42 |
| Peace and justice ministry specialist | **18** | **-** | **18** | 17 | - | 17 |
| Leading congregations in mission | **521** | **-** | **521** | 588 | - | 588 |
| Supporting pastors and congregational leaders | **70** | **-** | **70** | 70 | - | 70 |
| Temple Roof Repair Project | **99** | **-** | **99** | - | - | - |
| Children's Peace Pavilion | **23** | **-** | **23** | - | - | - |
| Other | **1** | **-** | **1** | 47 | - | 47 |
| Instruction and operational support | **-** | **438** | **438** | - | 2,482 | 2,482 |
| Scholarships | **-** | **2,371** | **2,371** | - | 1,792 | 1,792 |
| Passage of time | **-** | **69** | **69** | - | 75 | 75 |
| Capital projects | **-** | **1,061** | **1,061** | - | 5,082 | 5,082 |
| Changes in donor restrictions | **-** | **-** | **-** | 1,794 | - | 1,794 |
| Total restrictions released | **$ 739** | **$ 3,939** | **$ 4,678** | $ 2,837 | $ 9,431 | $ 12,268 |

## Note 13. Commitments and Contingencies

In the ordinary course of activities, there are various legal proceedings against the Church and its subsidiaries. Management, after consultation with legal counsel, is of the opinion that the ultimate resolution of these proceedings will have no material adverse effect on the consolidated financial position of the Church.

The Temple roof was in need of substantial repair to address water incursion problems. Initial evaluations and preliminary work began in fiscal year 2013 with repairs beginning in fiscal year 2014. The project should be completed in the latter part of fiscal year 2015 with an estimated cost of approximately $3,000,000. Costs incurred thus far of $1,500,000 and $100,000 in 2014 and 2013, respectively, are reported in the consolidated statements of activities as capital development expense. The remaining costs to complete the repairs are estimated at $1,400,000. The entire cost of the repair project is being expensed as it simply maintains the value of the Temple, which is deemed a historical treasure and not depreciated (see Note 1). Project funding is discussed further in Note 5.

## Note 14. Contributions Receivable

Net contributions receivable for the Church and University are summarized at June 30, 2014 and 2013 as follows:

| | **2014** | | 2013 | |
|---|---|---|---|---|
| | **Church** | **University** | Church | University |
| | (in thousands) | | | |
| Unconditional promises expected to be collected in: | | | | |
| Less than one year | **$ 469** | **$ 2,165** | $ 335 | $ 2,344 |
| One year to five years | **6,367** | **564** | 4,345 | 4,457 |
| Over five years | **16,044** | **178** | 15,870 | 211 |
| | **22,880** | **2,907** | 20,550 | 7,012 |
| Less: | | | | |
| Unamortized discount | **9,177** | **146** | 8,597 | 463 |
| Allowance for uncollectible accounts | **-** | **154** | - | 363 |
| | **$ 13,703** | **$ 2,607** | $ 11,953 | $ 6,186 |

Related party contributions receivable of $2,000,000 and $1,736,000 are included in the gross contributions receivable of the University at June 30, 2014 and 2013, respectively.

Discount rates used by the Church and University are determined by management, based on the risks inherent to the contributor. The rates used in 2014 and 2013 range from .5% to 4.7%.

The University had a permanently restricted contribution receivable in the amount of $3,104,000 that was written off during the year ended June 30, 2014.

## Note 15. Subsequent Events

Management has evaluated and disclosed subsequent events up to and including May 14, 2015, which is the date the financial statements were available to be issued. Through this date, there were no significant events requiring disclosure. In March 2015, the Center acquired a business for $6.7 million, paying $4.0 million in cash and signing a 12-month note for the balance. The revolving line of credit was refinanced in November 2014, as described in Note 7. Other than these items, there were no significant events that require disclosure.

# Supplementary Information

**Community of Christ and Affiliates**

**World Church Statements of Endowment Net Assets**
**(Dollars in Thousands)**

| | 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Unrestricted | | Temporarily Restricted | | Permanently Restricted | | Total |
| **Donor-restricted endowment funds** | **$** | **(8,239)** | **$** | **-** | **$** | **32,171** | **$** | **23,932** |
| **Board-designated (quasi) endowment funds** | | **60,282** | | **1,352** | | **-** | | **61,634** |
| **Total endowment funds** | **$** | **52,043** | **$** | **1,352** | **$** | **32,171** | **$** | **85,566** |

| | 2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Unrestricted | | Temporarily Restricted | | Permanently Restricted | | Total |
| Donor-restricted endowment funds | $ | (6,676) | $ | - | $ | 30,195 | $ | 23,519 |
| Board-designated (quasi) endowment funds | | 58,927 | | 1,397 | | - | | 60,324 |
| Total endowment funds | $ | 52,251 | $ | 1,397 | $ | 30,195 | $ | 83,843 |

**Community of Christ and Affiliates**

**World Church Statements of Changes in Endowment Net Assets**
**(Dollars in Thousands)**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment assets, June 30, 2012 | $ 52,186 | $ 1,466 | $ 27,439 | $ 81,091 |
| Investment return: | | | | |
| Investment gain | - | 248 | - | 248 |
| Net appreciation (realized and unrealized) | 69 | 477 | - | 546 |
| Total investment return | 69 | 725 | - | 794 |
| Contributions | - | - | 2,044 | 2,044 |
| Appropriation of endowment funds for expenditure | - | (1,522) | - | (1,522) |
| Other changes (transfer) | (4) | 728 | 712 | 1,436 |
| Endowment assets, June 30, 2013 | 52,251 | 1,397 | 30,195 | 83,843 |
| **Investment return:** | | | | |
| **Investment gain** | **-** | **696** | **-** | **696** |
| **Net (depreciation) (realized and unrealized)** | **-** | **(71)** | **-** | **(71)** |
| **Total investment return** | **-** | **625** | **-** | **625** |
| **Contributions** | **-** | **-** | **1,267** | **1,267** |
| **Appropriation of endowment funds for expenditure** | **-** | **(1,500)** | **-** | **(1,500)** |
| **Other changes (transfer)** | **(208)** | **830** | **709** | **1,331** |
| **Endowment assets, June 30, 2014** | **$ 52,043** | **$ 1,352** | **$ 32,171** | **$ 85,566** |

**Community of Christ and Affiliates**

**Consolidating Statements of Financial Position**
**for Graceland University and Subsidiaries**
**(Dollars in Thousands)**

| Assets | 2014 | | | |
|---|---|---|---|---|
| | University | Center | Eliminations | Total |
| Cash and Cash Equivalents | $ 2,307 | $ 7,700 | $ - | $ 10,007 |
| Investments | 14,930 | - | (12,007) [1] | 2,923 |
| Receivables | | | | |
| Accounts, U.S. government and miscellaneous receivables, net | 2,292 | 3,628 | - | 5,920 |
| Notes, mortgages and student and U.S. government loans receivable, net | 5,325 | - | - | 5,325 |
| Contributions receivable, net | 2,905 | - | - | 2,905 |
| | 10,522 | 3,628 | - | 14,150 |
| Assets Limited as to Use | | | | |
| Cash restricted for investment in land, buildings and equipment | 70 | - | - | 70 |
| Endowed assets | 30,150 | - | - | 30,150 |
| | 30,220 | - | - | 30,220 |
| Real Estate and Equipment | 51,348 | 6,839 | - | 58,187 |
| Other Assets | | | | |
| Inventories | 248 | 649 | - | 897 |
| Prepaid expenses and deposits | 562 | 533 | - | 1,095 |
| Deferred expenses and other assets | 2,569 | 3,808 | - | 6,377 |
| Funds held in trust by others | 1,281 | - | - | 1,281 |
| | 4,660 | 4,990 | - | 9,650 |
| | $ 113,987 | $ 23,157 | $ (12,007) | $ 125,137 |

(1) To eliminate the University's investment in the Center.

(Continued)

**Community of Christ and Affiliates**

**Consolidating Statements of Financial Position**
**for Graceland University and Subsidiaries (Continued)**
**(Dollars in Thousands)**

| Liabilities and Net Assets | 2014 | | | |
|---|---|---|---|---|
| | University | Center | Eliminations | Total |
| Liabilities | | | | |
| Accounts payable | $ 1,765 | $ 1,545 | $ - | $ 3,310 |
| Accrued expenses, deferred income and other liabilities | 4,151 | 9,605 | - | 13,756 |
| Annuities payable | 1,095 | - | - | 1,095 |
| U.S. Government grants refundable | 3,057 | - | - | 3,057 |
| | 10,068 | 11,150 | - | 21,218 |
| Funds Held for Others | 521 | - | - | 521 |
| Pension Benefits | 9,933 | - | - | 9,933 |
| | 10,454 | - | - | 10,454 |
| Long-Term Debt | 32,054 | - | - | 32,054 |
| Net Assets | | | | |
| Unrestricted | 23,083 | 12,007 | (12,007) (1) | 23,083 |
| Temporarily restricted | 9,200 | - | - | 9,200 |
| Permanently restricted | 29,128 | - | - | 29,128 |
| Total net assets | 61,411 | 12,007 | (12,007) | 61,411 |
| | $ 113,987 | $ 23,157 | $ (12,007) | $ 125,137 |

(1) To eliminate the University's investment in the Center.

**Community of Christ and Affiliates**

**Consolidating Statements of Financial Position
for Graceland University and Subsidiaries
(Dollars in Thousands)**

| Assets | 2013 | | | | |
|---|---|---|---|---|---|
| | University | Center | Eliminations | | Total |
| Cash and Cash Equivalents | $ 4,755 | $ 6,294 | $ - | | $ 11,049 |
| Investments | 13,332 | - | (10,764) | (1) | 2,568 |
| Receivables | | | | | |
| Accounts, U.S. government and miscellaneous receivables, net | 2,118 | 3,891 | (600) | (2) | 5,409 |
| Notes, mortgages, and student and U.S. government loans receivable, net | 5,620 | - | - | | 5,620 |
| Contributions receivable, net | 6,626 | - | - | | 6,626 |
| | 14,364 | 3,891 | (600) | | 17,655 |
| Assets Limited as to Use | | | | | |
| Cash restricted for investment in land, buildings and equipment | 71 | - | - | | 71 |
| Endowed assets | 28,375 | - | - | | 28,375 |
| | 28,446 | - | - | | 28,446 |
| Real Estate and Equipment | 52,593 | 7,138 | - | | 59,731 |
| Other Assets | | | | | |
| Inventories | 384 | 794 | - | | 1,178 |
| Prepaid expenses and deposits | 746 | 500 | - | | 1,246 |
| Deferred expenses and other assets | 2,341 | 4,469 | - | | 6,810 |
| Funds held in trust by others | 1,094 | - | - | | 1,094 |
| | 4,565 | 5,763 | - | | 10,328 |
| | $ 118,055 | $ 23,086 | $ (11,364) | | $ 129,777 |

(1) To eliminate the University's investment in the Center.
(2) To eliminate the miscellaneous receivables from the Center to the University.

(Continued)

**Community of Christ and Affiliates**

**Consolidating Statements of Financial Position**
**for Graceland University and Subsidiaries (Continued)**
**(Dollars in Thousands)**

| Liabilities and Net Assets | 2013 | | | | |
|---|---|---|---|---|---|
| | University | Center | Eliminations | | Total |
| Liabilities | | | | | |
| Accounts payable | $ 2,065 | $ 2,010 | $ (600) | (2) | $ 3,475 |
| Accrued expenses, deferred income and other liabilities | 7,325 | 10,312 | - | | 17,637 |
| Annuities payable | 1,074 | - | - | | 1,074 |
| U.S. Government grants refundable | 3,045 | - | - | | 3,045 |
| | 13,509 | 12,322 | (600) | | 25,231 |
| Funds Held for Others | 486 | - | - | | 486 |
| Pension Benefits | 11,059 | - | - | | 11,059 |
| | 11,545 | - | - | | 11,545 |
| Long-Term Debt | 29,183 | - | - | | 29,183 |
| Net Assets | | | | | |
| Unrestricted | 23,140 | 10,764 | (10,764) | (1) | 23,140 |
| Temporarily restricted | 9,088 | - | - | | 9,088 |
| Permanently restricted | 31,590 | - | - | | 31,590 |
| Total net assets | 63,818 | 10,764 | (10,764) | | 63,818 |
| | $ 118,055 | $ 23,086 | $ (11,364) | | $ 129,777 |

(1) To eliminate the University's investment in the Center.
(2) To eliminate the miscellaneous receivables from the Center to the University.

**Community of Christ and Affiliates**

**Consolidating Statements of Activities**
**for Graceland University and Subsidiaries**
**2014**
**(Dollars in Thousands)**

| | University | | | Center |
|---|---|---|---|---|
| | Unrestricted | Temporarily Unrestricted | Permanently Restricted | Unrestricted |
| Revenue, Gains and Other Support | | | | |
| Contributions, private gifts, grants and contracts | $ 800 | $ 1,158 | $ 646 | $ - |
| Seminars | - | - | - | 45,712 |
| Student tuition and fees | 21,347 | - | - | - |
| Products | - | | - | 4,995 |
| Service and sales of auxiliary enterprises and affiliates | 6,883 | - | - | - |
| Income (loss) from investment activities | 3,724 | 1,776 | (4) | - |
| Government grants and contracts | 281 | 1,068 | - | - |
| Other | 555 | 49 | - | 422 |
| Net assets released from restrictions | 3,939 | (3,939) | - | - |
| **Total revenues, gains and other support** | 37,529 | 112 | 642 | 51,129 |
| | | | | |
| Expenses | | | | |
| Program expenses | | | | |
| Instruction | 15,276 | - | - | - |
| Public service | 1,057 | - | - | - |
| Academic support | 2,108 | - | - | - |
| Student services | 9,819 | - | - | - |
| Auxiliary enterprises | 6,497 | - | - | - |
| Seminars and products | - | - | - | 32,716 |
| Distributions to Graceland University | - | - | - | 1,520 |
| **Total program expenses** | 34,757 | - | - | 34,236 |
| | | | | |
| Management and general | 2,946 | - | - | 15,650 |
| Fundraising | 1,717 | - | - | - |
| **Total expenses** | 39,420 | - | - | 49,886 |
| | | | | |
| | (1,891) | 112 | 642 | 1,243 |
| Changes in Net Assets from Operating Activities | | | | |
| Write-off of a contribution receivable | | | (3,104) | |
| Minimum pension liability adjustment | 875 | - | - | - |
| Realized gains on interest rate swap | 959 | - | - | - |
| **Change in net assets** | (57) | 112 | (2,462) | 1,243 |
| | | | | |
| Net Assets, Beginning of Year | 23,140 | 9,088 | 31,590 | 10,764 |
| Net Assets, End of Year | $ 23,083 | $ 9,200 | $ 29,128 | $ 12,007 |

(1) To eliminate distributions by the Center to the University and the current-year decrease in net assets of the Center recorded as investment income by the University.
(2) To reclass a Church contribution to the University reported as other income.

| | | Total | | | |
|---|---|---|---|---|---|
| Eliminations | | Unrestricted | Temporarily Restricted | Permanently Restricted | Consolidated Total |
| $ 50 | (2) | $ 850 | $ 1,158 | $ 646 | $ 2,654 |
| - | | 45,712 | - | - | 45,712 |
| - | | 21,347 | - | - | 21,347 |
| - | | 4,995 | - | - | 4,995 |
| | | - | - | - | |
| - | | 6,883 | - | - | 6,883 |
| (2,763) | (1) | 961 | 1,776 | (4) | 2,733 |
| - | | 281 | 1,068 | - | 1,349 |
| (50) | (2) | 927 | 49 | - | 976 |
| - | | 3,939 | (3,939) | - | - |
| (2,763) | | 85,895 | 112 | 642 | 86,649 |
| | | | | | |
| - | | 15,276 | - | - | 15,276 |
| - | | 1,057 | - | - | 1,057 |
| - | | 2,108 | - | - | 2,108 |
| - | | 9,819 | - | - | 9,819 |
| - | | 6,497 | - | - | 6,497 |
| - | | 32,716 | - | - | 32,716 |
| (1,520) | (1) | - | - | - | - |
| (1,520) | | 67,473 | - | - | 67,473 |
| - | | 18,596 | - | - | 18,596 |
| - | | 1,717 | - | - | 1,717 |
| (1,520) | | 87,786 | - | - | 87,786 |
| (1,243) | | (1,891) | 112 | 642 | (1,137) |
| - | | - | - | (3,104) | (3,104) |
| - | | 875 | - | - | 875 |
| - | | 959 | - | - | 959 |
| (1,243) | | (57) | 112 | (2,462) | (2,407) |
| (10,764) | | 23,140 | 9,088 | 31,590 | 63,818 |
| $ (12,007) | | $ 23,083 | $ 9,200 | $ 29,128 | $ 61,411 |

**Community of Christ and Affiliates**

**Consolidating Statements of Activities**
**for Graceland University and Subsidiaries**
**2013**
**(Dollars in Thousands)**

| | University | | | Center |
|---|---|---|---|---|
| | Unrestricted | Temporarily Unrestricted | Permanently Restricted | Unrestricted |
| Revenue, Gains and Other Support | | | | |
| Contributions, private gifts, grants and contracts | $ 849 | $ 1,962 | $ 7,068 | $ - |
| Seminars | - | - | - | 47,923 |
| Student tuition and fees | 19,374 | - | - | - |
| Products | - | - | - | 5,791 |
| Service and sales of auxiliary enterprises and affiliates | 6,186 | - | - | - |
| Income (loss) from investment activities | 7,098 | 1,629 | (16) | - |
| Government grants and contracts | 316 | 872 | - | - |
| Other | 573 | 25 | 61 | 356 |
| Net assets released from restrictions | 9,431 | (9,431) | - | - |
| **Total revenues, gains and other support** | 43,827 | (4,943) | 7,113 | 54,070 |
| Expenses | | | | |
| Program expenses | | | | |
| Instruction | 16,285 | - | - | - |
| Public service | 1,293 | - | - | - |
| Academic support | 2,200 | - | - | - |
| Student services | 8,390 | - | - | - |
| Auxiliary enterprises | 6,464 | - | - | - |
| Seminars and products | - | - | - | 36,474 |
| Distributions to Graceland University | - | - | - | 1,200 |
| **Total program expenses** | 34,632 | - | - | 37,674 |
| Management and general | 3,186 | - | - | 16,228 |
| Fundraising | 1,674 | - | - | - |
| **Total expenses** | 39,492 | - | - | 53,902 |
| | 4,335 | (4,943) | 7,113 | 168 |
| Changes in Net Assets from Operating Activities | | | | |
| Minimum pension liability adjustment | 2,378 | - | - | - |
| Unrealized gains on interest rate swap agreements | 974 | - | - | - |
| **Change in net assets** | 7,687 | (4,943) | 7,113 | 168 |
| Net Assets, Beginning of Year | 15,453 | 14,031 | 24,477 | 10,596 |
| Net Assets, End of Year | $ 23,140 | $ 9,088 | $ 31,590 | $ 10,764 |

(1) To eliminate distributions by the Center to the University and the current-year decrease in net assets of the Center recorded as investment income by the University.

| | | Total | | | |
|---|---|---|---|---|---|
| Eliminations | | Unrestricted | Temporarily Restricted | Permanently Restricted | Consolidated Total |
| $ - | | $ 849 | $ 1,962 | $ 7,068 | $ 9,879 |
| - | | 47,923 | - | - | 47,923 |
| - | | 19,374 | - | - | 19,374 |
| - | | 5,791 | - | - | 5,791 |
| | | - | - | - | - |
| - | | 6,186 | - | - | 6,186 |
| (1,368) | [1] | 5,730 | 1,629 | (16) | 7,343 |
| - | | 316 | 872 | - | 1,188 |
| - | | 929 | 25 | 61 | 1,015 |
| - | | 9,431 | (9,431) | - | - |
| (1,368) | | 96,529 | (4,943) | 7,113 | 98,699 |
| - | | 16,285 | - | - | 16,285 |
| - | | 1,293 | - | - | 1,293 |
| - | | 2,200 | - | - | 2,200 |
| - | | 8,390 | - | - | 8,390 |
| - | | 6,464 | - | - | 6,464 |
| - | | 36,474 | - | - | 36,474 |
| (1,200) | [1] | - | - | - | - |
| (1,200) | | 71,106 | - | - | 71,106 |
| - | | 19,414 | - | - | 19,414 |
| - | | 1,674 | - | - | 1,674 |
| (1,200) | | 92,194 | - | - | 92,194 |
| (168) | | 4,335 | (4,943) | 7,113 | 6,505 |
| - | | 2,378 | - | - | 2,378 |
| | | 974 | - | - | 974 |
| (168) | | 7,687 | (4,943) | 7,113 | 9,857 |
| (10,596) | | 15,453 | 14,031 | 24,477 | 53,961 |
| $ (10,764) | | $ 23,140 | $ 9,088 | $ 31,590 | $ 63,818 |