

Community of Christ and Consolidated Affiliates

Consolidated Financial Report
December 31, 2019

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RSM US LLP

Independent Auditor's Report

First Presidency
Community of Christ and Consolidated Affiliates

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Community of Christ and Consolidated Affiliates (the Church), which comprise the consolidated statement of financial position—contractual basis as of December 31, 2019, the related consolidated statements of activities—contractual basis, cash flows—contractual basis and expenses by function—contractual basis for the period from July 1, 2019 to December 31, 2019, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Section 5.14(a) of the contract between Community of Christ and Consolidated Affiliates and BOK Financial dated May 30, 2018 (the contract). Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Community of Christ and Consolidated Affiliates as of December 31, 2019, and the changes in their net assets and their cash flows for the period from July 1, 2019 to December 31, 2019, in accordance with the financial reporting provisions of Section 5.14(a) of the contract.

Basis of Accounting

We draw attention to Note 1 to the financial statements, which describes the basis of accounting. The financial statements are prepared by Community of Christ and Consolidated Affiliates on the basis of the financial reporting provisions of Section 5.14(a) of the contract, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Restrictions on Use

Our report is intended solely for the information and use of Community of Christ and Consolidated Affiliates and BOK Financial and is not intended to be, and should not be, used by anyone other than these specified parties.

RSM US LLP

Kansas City, Missouri
June 29, 2020

Community of Christ and Consolidated Affiliates

**Consolidated Statement of Financial Position—Contractual Basis
December 31, 2019
(Dollars in Thousands)**

Assets	
Cash and cash equivalents	\$ 24,364
Receivables:	
Accounts and miscellaneous receivables, net	2,243
Notes and mortgages, net (Note 3)	5,996
	<u>8,239</u>
Investments:	
Bonds, stocks and other investments (Notes 4 and 5)	172,778
Real estate (Notes 4 and 5)	47,055
	<u>219,833</u>
Real estate and equipment, net (Note 6)	<u>60,146</u>
Other assets:	
Inventories	702
Prepaid expenses and deposits	2,794
Other assets	406
	<u>3,902</u>
	<u>\$ 316,484</u>

See notes to consolidated financial statements.

Liabilities and Net Assets

Payables and other liabilities:

Accounts payable	\$	822
Accrued expenses, deferred income and other liabilities		6,851
Charitable remainder trust		3,797
Annuities payable		2,958
		<u>14,428</u>

Funds held on behalf of others

167,010

Retirement responsibilities:

Pension benefits (Note 7)		47,851
Postretirement benefits (Note 7)		16,025
Multinationals benefits (Note 7)		4,319
		<u>68,195</u>

Commitments and contingencies (Note 12)

Net assets:

Without donor restrictions		40,842
With donor restrictions		26,009
Total net assets		<u>66,851</u>

\$ 316,484

Community of Christ and Consolidated Affiliates

**Consolidated Statement of Activities—Contractual Basis
Period From July 1, 2019 to December 31, 2019
(Dollars in Thousands)**

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support:			
Contributions and bequests	\$ 9,125	\$ 2,415	\$ 11,540
Investment income	1,304	539	1,843
Services and sales, net	3,008	-	3,008
Gain on sale of real estate and equipment	531	-	531
Increase to fringe benefit reserve	356	-	356
Other	207	-	207
Net assets released from restrictions	2,373	(2,373)	-
Total revenues, gains and other support	16,904	581	17,485
Expenses:			
Program expenses:			
Field ministry	826	-	826
Communications	264	-	264
Translations	135	-	135
Discipleship and priesthood	49	-	49
Seminary, staff and leadership development	42	-	42
Spiritual formation and blessing ministries	94	-	94
Field support	407	-	407
Vehicles and computers	223	-	223
Historic sites	358	-	358
Oblation and world hunger	273	-	273
Archives and records	64	-	64
Facilities	417	-	417
Human resources	163	-	163
Office support	152	-	152
Security and hospitality	83	-	83
Herald House and customer service	344	-	344
Events and activities	329	-	329
World Church leadership	809	-	809
Gift annuity and charitable remainder trust payments	648	-	648
Total program expenses	5,680	-	5,680

(Continued)

Community of Christ and Consolidated Affiliates

Consolidated Statement of Activities—Contractual Basis (Continued)
Period From July 1, 2019 to December 31, 2019
(Dollars in Thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Expenses (continued):			
Management and general expenses:			
Audit and World Church finance board	\$ 77	\$ -	\$ 77
Fiscal services	229	-	229
Office of general counsel and risk management	333	-	333
Technology support	248	-	248
Depreciation and capital funding	589	-	589
Insurance, claims and exchange	1,027	-	1,027
Total management and general expenses	2,503	-	2,503
Fundraising expenses:			
Mission funding	208	-	208
Retirement responsibility expenses:			
Defined benefit pension plan	1,261	-	1,261
Postretirement benefits plan	452	-	452
Multinations retirement plan	333	-	333
Total retirement responsibility expenses	2,046	-	2,046
Total expenses	10,437	-	10,437
Change in net assets	6,467	581	7,048
Net assets, beginning of period	34,375	25,428	59,803
Net assets, end of period	\$ 40,842	\$ 26,009	\$ 66,851

See notes to consolidated financial statements.

Community of Christ and Consolidated Affiliates

Consolidated Statement of Cash Flows—Contractual Basis
Period From July 1, 2019 to December 31, 2019
(Dollars in Thousands)

Cash flows from operating activities:	
Change in net assets	\$ 7,048
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	692
Unrealized gain on investment securities	(2,379)
Net gain on sale of investment real estate	(105)
Net gain on sale of real estate and equipment	(426)
Change in value of split-interest obligations	(228)
Changes in:	
Accounts and miscellaneous receivables	(226)
Inventories	113
Prepaid expenses and deposits	(870)
Other assets	(79)
Accounts payable	(273)
Accrued expenses, deferred income and other liabilities	874
Annuities and trusts payable	1,003
Retirement responsibilities	(1,561)
Net cash provided by operating activities	3,583
Cash flows from investing activities:	
Proceeds from sale of investment securities and real estate	44,001
Purchase of investment securities and real estate	(49,726)
Increase in funds held on behalf of others	9,579
Issuance of notes and mortgages receivable	(250)
Payments from notes and mortgages receivable	490
Purchase of real estate and equipment	(224)
Proceeds from sale of real estate and equipment	493
Net cash provided by investing activities	4,363

(Continued)

Community of Christ and Consolidated Affiliates

Consolidated Statement of Cash Flows—Contractual Basis (Continued)
Period From July 1, 2019 to December 31, 2019
(Dollars in Thousands)

Cash flows from financing activities:	
Contributions restricted for annuities and trusts	\$ 382
Payments on split-interest obligations	(418)
Net cash used in financing activities	<u>(36)</u>
Increase in cash and cash equivalents	7,910
Cash and cash equivalents, beginning of period	<u>16,454</u>
Cash and cash equivalents, end of period	<u><u>\$ 24,364</u></u>
Supplemental disclosures of cash flow information:	
Cash payments for interest	<u><u>\$ 33</u></u>
Non cash transfer from real estate and equipment to investment real estate	<u><u>\$ 46</u></u>

See notes to consolidated financial statements.

Community of Christ and Consolidated Affiliates

Consolidated Statement of Expenses by Function—Contractual Basis
Period From July 1, 2019 to December 31, 2019
(Dollars in Thousands)

	Program Expenses	Management and General	Mission Funding (Fundraising)	Retirement Responsibility	Total Expenses
Compensation costs	\$ 3,200	\$ 621	\$ 193	\$ 21	\$ 4,035
Retirement responsibility	-	-	-	1,992	1,992
Staff and leadership development	46	1	1	-	48
Events and activities	310	-	-	-	310
Office support	181	97	9	-	287
Insurance premiums and claims	17	827	-	-	844
Capital funding	95	10	-	-	105
Depreciation	134	558	-	-	692
Utilities, repair and maintenance	459	19	-	-	478
Bank fees and exchange	1	9	-	6	16
Contract services	204	234	-	27	465
Interest expense	-	33	-	-	33
Oblation and world hunger	252	-	-	-	252
Gift annuity and charitable remainder trust payments	646	-	-	-	646
Grants and payments	91	-	-	-	91
Other expenses	44	94	5	-	143
Total expenses	\$ 5,680	\$ 2,503	\$ 208	\$ 2,046	\$ 10,437

See notes to consolidated financial statements.

Community of Christ and Consolidated Affiliates

Notes to Consolidated Financial Statements

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

Nature of business: Community of Christ (the Church), also known as the Reorganized Church of Jesus Christ of Latter Day Saints, is an international Christian denomination with approximately 250,000 members in 1,100 congregations in 59 countries. The mission of the Church is to proclaim Jesus Christ and promote communities of joy, hope, love and peace.

Community of Christ, headquartered in Independence, Missouri, provides missional and administrative support, including leadership, staffing and resources, for mission centers, congregations and affiliates around the world.

Following is a summary of significant accounting policies:

Contractual basis: The Church reports on a contractual basis of accounting as specified in its agreement with its bank, BOK Financial (Bank of Kansas City). That agreement requires that the audited financial statements for Community of Christ include the Church's affiliates, other than Graceland University. This basis of reporting is in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) in all material respects except for the exclusion of the accounts of Graceland University and Graceland University's consolidated affiliates. Audited financial statements for Graceland University are issued separately. See Note 13 for summarized financial data of Graceland University.

In addition to the contract requirements, World Conference Resolution 1306 adopted June 7, 2016, establishes the Community of Christ audit process requirements and reporting, which require that the annual audit be approved by the World Church Finance Board and made available to the church membership.

Principles of consolidation: Consolidation of entities is required when there is both control and a material economic interest. These consolidated financial statements (collectively, the financial statements) include the Church and the accounts of the following affiliates, which meet the criteria for consolidation: Corporation of the Presiding Bishopric of the Community of Christ; Tiona 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; Surplus Disposition, LLC; for-profit, no asset, inactive entities are Community of Christ For Profit Holding Corporation; CPB, Inc.; and OBI, Inc. All transactions between consolidated entities have been eliminated in consolidation.

Programs: The Church operates the following programs:

Program Expenses: The programs included in program expenses encompass all programs and departments that assist in the Church in serving their mission to proclaim Jesus Christ and promote communities of joy, hope, love and peace.

Management and General Expenses: The programs included in management and general expenses include all programs that support the function of the program expenses. These include the Audit and World Church finance board, fiscal services, office of general council and risk management, technology support, depreciation of real estate and equipment, capital funding costs, insurance premiums and claims, and exchange rate changes.

Mission Funding: This program assists the World Church in all its fundraising efforts.

Community of Christ and Consolidated Affiliates

Notes to Consolidated Financial Statements

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

Retirement Responsibility Expenses: These programs cover the payments made and change in liability assumptions for all three retirement plans: defined benefit pension, postretirement benefit and multinationals retirement.

Use of estimates: The preparation of financial statements in conformity with a contractual basis of accounting 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 financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Significant estimates include depreciable life of property and equipment, estimated discount rate and expected long-term rate of return used in the actuarial determination of the postretirement and pension obligations, market value adjustment of real estate investments, gift annuity and charitable remainder trust liabilities. Actual results could differ from those estimates.

Basis of presentation: The Church presents their financial statements based on *FASB Accounting Standards Codification (ASC) 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 changes therein are classified and reported as follows:

Net assets without donor restrictions: Net assets are not subject to donor-imposed restrictions but may be subject to World Conference or Presiding Bishopric designations.

Net assets with donor restrictions: Net assets are subject to donor-imposed restrictions that may or will be met either by actions of the Church and/or the passage of time. Also included within this category are net assets subject to donor-imposed restrictions to be maintained permanently by the Church. Generally, the donors of these assets permit the Church to use all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on assets or liabilities are reported as increases or decreases in net assets without donor restrictions 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 revenues without donor restriction.

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 revenues without donor restriction.

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.

Community of Christ and Consolidated Affiliates

Notes to Consolidated Financial Statements

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

Concentration of credit risk: The Church maintains 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 has not experienced any losses due to this.

Receivables: 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 as revenue when received.

The allowance for doubtful accounts on the Church's accounts receivables is \$57,000 at December 31, 2019.

Notes and mortgages receivable are carried at the amount of unpaid principal 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. Loans receivable are written off when deemed uncollectible. Recoveries of loans receivable previously written off are recognized as revenue when received.

Investments: Investments in bonds, stocks and other investments 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 independent appraisal. Fair value of alternative investments is determined using the practical expedient. See Note 5 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 reported as revenues without donor restrictions. Other investment income, gains and losses are reflected in the consolidated statement of activities—contractual basis as with donor restriction or without donor restriction 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 effects could be significant.

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 nonprofit 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, and the values of the properties and their related debts are not reflected in the accompanying financial statements. The aforementioned indebtedness is normally retired by contributions received directly from the members of the Church. These contributions are also not reflected in the accompanying financial statements.

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.

Community of Christ and Consolidated Affiliates

Notes to Consolidated Financial Statements

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

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 \$46,502,000, 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 on a straight-line basis over their estimated useful lives.

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 deaccessions of these items are reflected in the consolidated statement of activities—contractual basis as changes in the appropriate net asset classes, depending on the existence and type of donor-imposed restrictions.

These assets are reviewed for impairment under the ASC Topic 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 the carrying amount and the fair value of the asset.

Inventories: Inventories of the Church, which consist of books, hymnals and resale supplies, are stated at the lower of cost (first-in, first-out) or net realizable value.

Accrued expenses, deferred income and other liabilities: Included in accrued expenses is the value of retirement benefits for ministers serving in countries with developing economies. Deferred income is recognized into revenue in the period earned. Advance billings of insurance premiums to Church affiliates of \$89,000 are included in deferred income at December 31, 2019.

Charitable remainder trust: The Church has entered into charitable remainder trust agreements with individuals or married couples in exchange for property, securities or cash. The fixed income liability to the beneficiary is calculated as the present value of the fixed income payments using a discount rate of 7%.

Annuities payable: The Church has entered into annuity agreements with individuals or married couples in exchange for property, securities or cash. The liability to the annuitants is calculated as the present value of the annuity payments using a discount rate of 7%.

Funds held on behalf of others: 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.

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

Community of Christ and Consolidated Affiliates

Notes to Consolidated Financial Statements

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

Functional classification: The Church has several types of program expenses that support worldwide mission. Expenses reported as management and general, fundraising, and retirement responsibility are incurred in support of the primary program activities. Natural expenses attributable to more than one functional expense category are allocated directly where such relationship is clear, typically based on the fund number associated with each transaction. Funds are based on the nature and use of specific resources.

Fundraising expenses: Fundraising expenses consist of staff time and materials associated with the work of the Presiding Bishopric and Mission Funding Team in helping members and friends of Community of Christ understand all the ways they can support mission, including sustained annual giving, gifts through their estates, and giving from their abundance to support the Bridge of Hope project, including endowments.

Income taxes: The Church has 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 is subject to federal income taxes only on any net unrelated business income under the provisions of section 511 of the Code. Uncertain tax positions, if any, are recorded in accordance with ASC Topic 740, Income Taxes. 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 December 31, 2019.

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 5.

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 3. Most notes and mortgages receivable are due from related parties.

Accounts payable: Due to the short-term nature of the balances, the carrying amount of accounts payable approximates fair value.

Accrued expenses, deferred income and other liabilities: Due to the short-term nature of the balances, the carrying amounts of accrued expenses, deferred income and other liabilities approximate 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.

Funds held on behalf of others: See Note 5.

Community of Christ and Consolidated Affiliates

Notes to Consolidated Financial Statements

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

Risk management: The Church has a formal program to manage risk, which includes the following: property insurance covering claims up to \$175,000,000 with a deductible of \$100,000 per occurrence; general liability insurance with limits totaling \$31,000,000, subject to a \$750,000 self-insured retention; and auto liability insurance coverage of \$100,000 per occurrence, also backed by general liability coverage. Workers' compensation claims are covered with a guaranteed cost policy.

Claims liabilities are reported in accrued expenses, deferred income and other liabilities on the consolidated statement of financial position—contractual basis. For 2019, program revenue of \$1,868,000 is reported in the consolidated statement of activities—contractual basis as services and sales, net. Associated premium and claims costs are in management and general expense included in insurance, claims and exchange.

Recently issued or implemented accounting pronouncements: Effective July 1, 2019 the Church adopted Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires 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 guidance replaced most existing revenue recognition guidance in U.S. GAAP. The Church adopted the new standard effective for the year ended December 31, 2019, using the modified retrospective method. The Church does not have any contracts with customers that would be impacted by this new standard and the Church's current revenue sources are outside the scope of this standard. Therefore, the adoption of this standard had no impact on the Church's financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in ASC Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal year 2022. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Church is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) with the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal transactions) subject to other guidance and (2) determining whether a contribution is conditional. ASU 2018-08 is effective for fiscal years beginning after December 15, 2019. Therefore, this ASU will be effective for fiscal year 2020. Management is in the process of evaluating the impact of this new guidance.

Community of Christ and Consolidated Affiliates

Notes to Consolidated Financial Statements

Note 2. Liquidity and Availability of Resources

Investment income without donor restrictions, earnings allocated from endowments with donor restrictions and World Conference–designated endowments (quasi-endowments), contributions without donor restrictions and contributions with donor restrictions for use in current activities are considered to be available to meet cash needs for general expenditures. General expenditures include operating expenses, general and administrative expenses, fundraising expenses and funding of retirement responsibilities. Annual operations are defined as activities occurring during, and included in the budget for, a fiscal year.

The Church manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability;
- Maintaining a sufficient level of asset liquidity; and
- Monitoring and maintaining reserves to provide reasonable assurance that long-term commitments and obligations related to endowments with donor restrictions and quasi-endowments will continue to be met.

The Church has an operating reserve fund to maintain financial assets available to meet general expenditures at a level that represents a minimum of 25% of annual expenses for operating expenses, general and administrative expenses, and fundraising expenses. To achieve this, the Church forecasts its future cash flows and monitors its liquidity on a semimonthly basis.

The table below represents financial assets available for general expenditures within one year of December 31, 2019 (in thousands):

Financial assets at year-end:

Cash and cash equivalents	\$ 24,364
Accounts and miscellaneous receivables, net	2,243
Notes and mortgages, net	5,996
Bonds, stocks and other investments	172,778
Real estate investments	47,055
Other assets	3,902
Total financial assets	<u>256,338</u>

Less amounts not available to be used within one year:

Notes and mortgages due after one year, net	5,020
Real estate investments	47,055
Funds held on behalf of others	167,010
Donor-restricted endowments	20,257
Financial assets not available to be used within one year	<u>239,342</u>
Financial assets available to meet general expenditures within one year	<u>\$ 16,996</u>

Community of Christ and Consolidated Affiliates

Notes to Consolidated Financial Statements

Note 3. Loans and Notes Receivable

The Church makes loans to congregations, and mission centers and affiliates at market interest rates with flexible repayment terms to assist with the development of the sponsored entities. The loans 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 Bishop as Trustee in Trust in the United States and to the extent allowable by national law outside of the United States. Total notes and accounts receivable due from affiliates were approximately \$4,909,000 at December 31, 2019. Interest income related to these notes and receivables was approximately \$121,000 for the period from July 1, 2019 to December 31, 2019.

The aging of the Church's notes and mortgages receivable (gross of eliminations) as of December 31, 2019, is presented as follows:

	Current	Past Due	Total
Houses of worship loans	\$ 4,303,000	\$ 43,000	\$ 4,346,000
Various notes and mortgages	1,690,000	165,000	1,855,000
	<u>\$ 5,993,000</u>	<u>\$ 208,000</u>	<u>\$ 6,201,000</u>
As a percentage of the total loan portfolio	96.65%	3.35%	100.00%

The allowance for doubtful accounts on the Church's notes and mortgages is \$205,000 at December 31, 2019.

Note 4. Investments

At December 31, 2019, investments in bonds, stocks and other investments consisted of the following (in thousands):

Common and preferred stock and mutual funds	\$ 137,265
Alternative and other investments	35,513
Real estate	47,055
	<u>\$ 219,833</u>

Investment return for the period from July 1, 2019 to December 31, 2019, consisted of the following (in thousands):

Investment income	\$ 3,400
Net realized and unrealized losses on investments reported at fair value	(968)
Investment fees	(589)
	<u>\$ 1,843</u>

Community of Christ and Consolidated Affiliates

Notes to Consolidated Financial Statements

Note 5. Fair Value Measurements

The Church follows ASC Topic 820, Fair Value Measurements and Disclosures, which establishes a framework for measuring fair value for assets and liabilities measured and reported at fair value. 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. ASC 820 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. 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: Inputs are 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: Inputs are 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. Alternative investments, including limited partnerships and limited liability corporations, are valued using the practical expedient.

Level 3: Inputs are 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.

The following is a description of valuation methodologies used for assets at fair value. There have been no changes in the methodologies used at December 31, 2019.

Common stocks: Common stocks are valued at quoted market prices.

Mutual funds: Mutual funds are valued at the published net asset value (NAV) of shares held at year-end.

Alternative investments: Alternative investments are valued using the practical expedient. The practical expedient allows for the use of NAV of shares held at year-end either as reported by the investee or as adjusted by the Church based on various factors, including capital calls, proceeds from distributions, and gains and losses that are included in earnings and recorded in the consolidated statement of activities—contractual basis.

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

Charitable remainder trusts: The value of charitable remainder trusts is derived from the underlying investments of the trusts. 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: 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 estimated risk-free interest rate.

Community of Christ and Consolidated Affiliates

Notes to Consolidated Financial Statements

Note 5. Fair Value Measurements (Continued)

The following tables summarize 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.

	December 31, 2019				
	Quoted Prices	Significant		Investments	Total
	in Active	Other	Significant	Valued at	
	Markets for	Observable	Unobservable	Net Asset	
Identical Assets	Inputs	Inputs	Value		
	(Level 1)	(Level 2)	(Level 3)		
	(In Thousands)				
Investments:					
Common stocks:					
Health care	\$ 6,094	\$ -	\$ -	\$ -	\$ 6,094
Utilities	510	-	-	-	510
Financials	8,547	-	-	-	8,547
Consumer staples	2,301	-	-	-	2,301
Consumer discretionary	6,331	-	-	-	6,331
Materials	1,734	-	-	-	1,734
Energy	1,414	-	-	-	1,414
Information technology	9,143	-	-	-	9,143
Industrials	5,994	-	-	-	5,994
Telecommunication service	2,854	-	-	-	2,854
Mutual funds:					
Fixed income	45,212	-	-	-	45,212
Domestic equity	45,348	-	-	-	45,348
International equity	1,783	-	-	-	1,783
Total common stocks and mutual funds	137,265	-	-	-	137,265
Alternative investments:					
Investments in limited partnerships	-	-	-	27,860	27,860
Investments in limited liability corporations	-	-	-	7,653	7,653
Total alternative and other investments	-	-	-	35,513	35,513
Real estate parcels primarily in Independence, Missouri					
	-	-	47,055	-	47,055
Total investments	\$ 137,265	\$ -	\$ 47,055	\$ 35,513	\$ 219,833
Liabilities:					
Charitable remainder trusts	\$ -	\$ -	\$ 3,797	\$ -	\$ 3,797
Annuities payable	\$ -	\$ -	\$ 2,958	\$ -	\$ 2,958

Community of Christ and Consolidated Affiliates

Notes to Consolidated Financial Statements

Note 5. 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 has utilized Level 3 inputs to determine fair value:

	Real Estate	Charitable Remainder Trusts	Annuities Payable
Balance, July 1, 2019	\$ 42,098	\$ 3,400	\$ 2,998
Issuances	5,346	382	-
Settlements	(389)	-	(3)
Total gains (losses) (unrealized) included in change in net assets	-	15	(37)
Balance, December 31, 2019	<u>\$ 47,055</u>	<u>\$ 3,797</u>	<u>\$ 2,958</u>

The following tables set forth additional disclosures of investments whose fair value is estimated using net asset value per share (or its equivalent) as of December 31, 2019 (in thousands):

Investments	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Investment in limited partnership (a)	\$ 17,135	\$ -	Quarterly	90 days
Investment in limited partnership (b)	10,725	-	Quarterly	30 days
Investment in limited liability corporation (c)	7,653	-	Daily	1-3 days
	<u>\$ 35,513</u>			

- (a) This limited partnership manages 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 that exceeds the National Council of Real Estate Investment Fiduciaries (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 approach focuses on superior property selection, leveraging local operating partners to identify attractive investments, and a disciplined approach to dispositions.
- (b) This limited partnership seeks to achieve a long-term aggregate return on investment equity of 7% to 9%, net of fees, with the majority of the return being realized from income. It further seeks to generate top-quartile performance among core real estate funds that comprise the NFI-ODCE.
- (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, exchange-traded funds/exchange-traded notes 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 and industrial), using the member manager's proprietary commodity trading strategies.

Community of Christ and Consolidated Affiliates

Notes to Consolidated Financial Statements

Note 6. Real Estate and Equipment

At December 31, 2019, real estate and equipment consisted of the following (in thousands):

Land	\$	571
Historical properties		68,845
Property, buildings and grounds		13,650
Furniture and equipment		12,249
Construction in progress		454
Autos, trucks and other mobile equipment		2,192
		<hr/>
		97,961
Less accumulated depreciation		37,815
		<hr/>
	\$	<u>60,146</u>

Depreciation expense was approximately \$692,000 for the period from July 1, 2019 to December 31, 2019.

Note 7. Employee Benefit Plans

Pension plan: The Church has an Appointee/Employee Retirement Plan Trust (AERPT), a defined benefit plan, which 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.

Effective January 1, 2016, the Church's defined benefit pension plan was frozen for all but a small group of qualifying employees who are close to retirement age. Most other existing and new employees are now covered by a defined contribution 403(b) retirement plan or a multinationals retirement plan for ministers serving in countries with developing economies.

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 Church plan uses a December 31 measurement date.

Community of Christ and Consolidated Affiliates

Notes to Consolidated Financial Statements

Note 7. Employee Benefit Plans (Continued)

The following table sets forth information related to the plan for the period from July 1, 2019 to December 31, 2019 (in thousands):

Fair value of plan assets at beginning of period	\$	36,613
Actual return of plan assets		1,339
Employer contributions		2,596
Benefits paid		(2,604)
Fair value of plan assets at end of period		<u>37,944</u>
Benefit obligation at beginning of period		85,720
Service cost		79
Interest cost		1,369
Actuarial loss		1,231
Benefits paid		(2,604)
Benefit obligation at end of period		<u>85,795</u>
Plan assets in deficit of projected benefit obligation, accrued benefit liability on the consolidated statement of financial position—contractual basis	\$	<u>(47,851)</u>

The Church expects to contribute at least \$1,621,000 to the pension plan in the fiscal year ending December 31, 2020.

Following are the weighted-average assumptions used as of December 31, 2019:

Benefit obligations:		
Discount rate		3.00%
Rate of compensation increases		2% per year
Net costs:		
Discount rate		3.30%
Expected return on plan assets		4.50%
Rate of compensation increases		2% through 2020; 1% thereafter

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.

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 December 31, 2019.

Community of Christ and Consolidated Affiliates

Notes to Consolidated Financial Statements

Note 7. Employee Benefit Plans (Continued)

The breakdown of investments by type is as follows as of December 31, 2019:

Fixed-income securities	43.63%
Mutual funds	56.37%

The fair values of the Church's pension plan assets at December 31, 2019, by asset category are as follows:

	Level 1	Level 2	Level 3	Total
	(In Thousands)			
Assets:				
Investments:				
Fixed-income securities:				
Agency bonds	\$ 3,575	\$ -	\$ -	\$ 3,575
Corporate bonds	7,475	-	-	7,475
Foreign bonds	710	-	-	710
Total fixed-income securities	<u>11,760</u>	<u>-</u>	<u>-</u>	<u>11,760</u>
Mutual funds:				
Fixed income	4,680	-	-	4,680
Domestic equity	7,233	-	-	7,233
International equity	3,283	-	-	3,283
Total mutual funds	<u>15,196</u>	<u>-</u>	<u>-</u>	<u>15,196</u>
Total investments	<u>\$ 26,956</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,956</u>
Other assets:				
Cash and cash equivalents	\$ 10,934	\$ -	\$ -	\$ 10,934
Other assets	139	-	-	139
Total cash and other assets	<u>\$ 11,073</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,073</u>
Liabilities:				
Other liabilities	<u>\$ 85</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 85</u>

Community of Christ and Consolidated Affiliates

Notes to Consolidated Financial Statements

Note 7. Employee Benefit Plans (Continued)

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

Significant balances, costs and assumptions as of and for the period from July 1, 2019 to December 31, 2019, are as follows (in thousands):

Unfunded benefit obligation	\$	16,025
Accrued postretirement benefit obligation recognized in consolidated statements of financial position—contractual basis		16,025
Interest cost		236
Benefit cost		32
Benefits paid		(954)

The Church expects to contribute at least \$2,096,000 to the pension plan in the fiscal year ending December 31, 2020.

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. For 2019, a weighted-average discount rate of 2.75% 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 for 2019 (in thousands):

Effect on total service cost and interest cost components:		
One percentage point increase	\$	6
One percentage point decrease		(6)
Effect on year-end benefit obligation:		
One percentage point increase		377
One percentage point decrease		(346)

In accordance with ASC Topic 715, Compensation—Retirement Benefits, the Church has recognized the underfunded status of a defined benefit postretirement plan as a liability in the consolidated statement of financial position—contractual basis and recognizes 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 December 31, 2019.

Community of Christ and Consolidated Affiliates

Notes to Consolidated Financial Statements

Note 7. Employee Benefit Plans (Continued)

Multinationals retirement: The Church has a retirement plan for World Church employee ministers that meet the eligibility requirements.

Significant balances, rates and assumptions as of and for the period from July 1, 2019 to December 31, 2019, are as follows (in thousands):

Projected benefit obligation	\$	4,319
Accrued multination obligation recognized in consolidated statement of financial position—contractual basis		4,319
Discount rate		3.25%
Rate of compensation increases		4% per year

In accordance with ASC Topic 715, Compensation—Retirement Benefits, the Church has recognized the underfunded status of a defined benefit postretirement plan as a liability in the consolidated statement of financial position—contractual basis and recognizes changes in that funded status in the year in which the changes in net assets without donor restrictions occur. The plan's benefit obligations are measured as of December 31, 2019.

Cash flows: The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as of December 31, 2019 (in thousands):

	Pension Benefits	Postretirement Benefits
Years ending December 31:		
2020	\$ 5,392	\$ 2,096
2021	5,353	1,854
2022	5,394	1,669
2023	5,396	1,481
2024	5,425	1,354

The aggregate benefits expected to be paid in the five years from 2024 to 2028 are as follows (in thousands):

Pension benefits	\$	26,020
Postretirement benefits		5,008

The Church has a defined contribution 403(b) retirement plan covering all eligible employees. In conjunction with the decision to freeze the Church's defined benefit pension plan, effective January 1, 2016, the Church began matching 50% of employees' contributions up to 6% of compensation for eligible employees, with a maximum of 3% match. Additional discretionary contributions are also possible under the plan. The total expense for the fiscal period from July 1, 2019 to December 31, 2019, was approximately \$111,000. The Church may approve additional discretionary contributions, up to 2%, payable to active employees at the end of the calendar year under the plan. At the end of each fiscal year, the Presiding Bishopric determines an appropriate accrual, if necessary, for contributions for the fiscal year. The accrual for employer contributions at December 31, 2019, was approximately \$99,000.

Community of Christ and Consolidated Affiliates

Notes to Consolidated Financial Statements

Note 8. Long-Term Debt

The Church has a revolving line-of-credit agreement with a bank. The terms allow for a borrowing limit up to \$10,000,000 to provide operating cash flow and to be used for the issuance of standby letters of credit. The balance on the line of credit was \$0 as of December 31, 2019. Interest is payable monthly at the rate of one-month LIBOR plus 100 basis points. The interest rate was 1.69% at December 31, 2019. The total interest expense for the fiscal period from July 1, 2019 to December 31, 2019, was \$0. The agreement expires May 30, 2023.

The Church has a letter of credit against the above line of credit as collateral for unpaid insurance claims as part of the self-insurance termination. The limit on the letter of credit was \$450,000 for the period from July 1, 2019 to December 31, 2019. The outstanding balance on the letter of credit is \$0 as of December 31, 2019.

Note 9. Endowment Fund and Net Asset Classification

The Church's endowment funds consist of various donor-restricted endowment funds and funds designated as endowment or quasi-endowment by the World Conference. 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 Church has 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 classifies net assets with donor restrictions as (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, (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 and (d) the present value of estimated future receipts for beneficial interests in perpetual trusts. The donor-restricted endowment fund is held in with donor restriction until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by the State of Missouri in their enacted versions of UPMIFA. In accordance with the State of Missouri in the enacted versions of UPMIFA, the Church considers 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 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 (7) the investment policies of the Church.

The Church has adopted investment and spending policies for their endowment funds. The objective of these policies is to provide the Church a predictable funding stream for its mission while achieving an investment return equal to the combination of the current spending formula and the current rate of inflation to protect the purchasing power of the endowment funds. The Church, through its investment policy, has established a target annualized rate of return over the long term of at least 6.0%; 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 expects 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.

Community of Christ and Consolidated Affiliates

Notes to Consolidated Financial Statements

Note 9. Endowment Fund and Net Asset Classification (Continued)

Distributions from endowment funds to support the purposes of the endowments are to be made in accordance with the distribution policies of the Church. It is the policy of the church to distribute a percentage of the fair market value of the endowment funds annually. The amount distributed, the spending rate, is an approved spending percentage of the three-year annual rolling average of the fair value of the endowment fund assets as of a date six months prior to the beginning of the fiscal year. This distribution may be made when the endowment fund balance is under water if the Presiding Bishopric deems it is prudent to do so, subject to the provisions of the Church's spending rate policy on endowments. The Presiding Bishopric-approved spending percentage was approximately 0.00% for the fiscal period from July 1, 2019 to December 31, 2019.

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 to retain as a fund of perpetual duration as underwater endowments. As of December 31, 2019 and 2018, there were no donor-restricted endowment funds under water. This amount is reported in net assets with donor restriction. The Presiding Bishopric and Board determined that continued appropriation during the fiscal period from July 1, 2019 to December 31, 2019, for certain programs was prudent.

Church endowment net assets as of December 31, 2019, are as follows:

	Without Donor Restriction	With Donor Restriction	Total
(In Thousands)			
Donor-restricted endowment funds	\$ -	\$ 20,257	\$ 20,257
World Conference (quasi) endowment funds	6,159	-	6,159
Total endowment funds	<u>\$ 6,159</u>	<u>\$ 20,257</u>	<u>\$ 26,416</u>

The changes in the Church's endowment net assets for the period from July 1, 2019 to December 31, 2019, were as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
(In Thousands)			
Endowment net assets, July 1, 2019	<u>\$ 5,575</u>	<u>\$ 19,886</u>	<u>\$ 25,461</u>
Investment return:			
Investment income	4	13	17
Net appreciation (depreciation) (realized and unrealized)	80	287	367
Total investment return	<u>84</u>	<u>300</u>	<u>384</u>
Contributions	<u>-</u>	<u>71</u>	<u>71</u>
Transfers from nonendowment assets	500	-	500
Endowment net assets, December 31, 2019	<u>\$ 6,159</u>	<u>\$ 20,257</u>	<u>\$ 26,416</u>

Community of Christ and Consolidated Affiliates

Notes to Consolidated Financial Statements

Note 10. Net Assets With Donor Restrictions

Donor restricted net assets at December 31, 2019, consisted of the following (in thousands):

Charitable remainder trust	\$	4,586
Worldwide Mission endowment		1,802
General Operating endowment		3,482
Children's Peace Pavilion		189
Kirtland Temple		579
Annuity and life income funds		222
Disaster relief		161
World Conference		1
Temple endowment		14,973
Income Producing Microloans		14
	\$	<u>26,009</u>

Note 11. Donor-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 period from July 1, 2019 to December 31, 2019, were as follows (in thousands):

Charitable remainder trust	\$	176
Bridge of Hope		1,937
Children's Peace Pavilion		95
Disaster relief		14
World Conference		1
Income Producing Microloans		8
Other		142
Total restrictions released	\$	<u>2,373</u>

Note 12. 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, believes that the ultimate resolution of these proceedings will have no material adverse effect on the consolidated financial position of the Church.

Community of Christ and Consolidated Affiliates

Notes to Consolidated Financial Statements

Note 13. Graceland and Subsidiary

Because of the nature of the relationship between the Church and Graceland University (the University), which includes both financial interest and legal control, U.S. GAAP would require that the University be included in the Church's consolidated financial report. However, the Church's contractual basis of accounting requires for the exclusion of the University's accounts. Graceland University is a private, nonprofit institution of higher education based in Lamosi, Iowa. The University's financial statements include the operations of the Graceland College Center for Professional Development and Lifelong Learning, Inc. (the Center), a nonprofit corporation in the state of Missouri controlled by the University. A summary of Graceland University and Subsidiary's financial activities and position as of May 31, 2019, is as follows:

Consolidated Statement of Financial Position
May 31, 2019
(Dollars in Thousands)

Assets

University:

Cash and cash equivalents	\$ 9,347
Student and other miscellaneous receivables, net allowance for cancellations and doubtful accounts, \$244,700	949
U.S. government receivables	1,300
Prepaid expenses and deposits	795
Inventories	291
Contributions receivable, net	2,785
U.S. government loans receivable, net of allowance for doubtful loans of \$60,000	2,136
Investments	41,280
Cash restricted for investment in land, buildings and equipment	3,492
Land, buildings and equipment, net	46,087
Funds held in trust by others	528
	<hr/> 108,990 <hr/>

Center:

Cash and cash equivalents	3,464
Accounts receivable, net of allowance for doubtful accounts, \$166,399	2,853
Product inventories	543
Deferred seminar expenses	5,268
Prepaid expenses and other assets	861
Land, buildings and equipment, net	10,746
Intangible assets, net of amortization, \$3,384,642	1,766
Goodwill	1,085
	<hr/> 26,586 <hr/>

Total assets **\$ 135,576**

(Continued)

Community of Christ and Consolidated Affiliates

Notes to Consolidated Financial Statements

Note 13. Graceland and Subsidiary (Continued)

Consolidated Statement of Financial Position (Continued)

May 31, 2019

(Dollars in Thousands)

Liabilities and Net Assets

University:

Accounts payable, including amounts owed to related parties of \$41,667	\$ 1,694
Funds held on behalf of others	429
Accrued expenses and deferred revenue	4,229
Accrued retirement liability	10,351
Annuities payable	1,064
Notes payable, net of unamortized issuance costs, \$317,728	27,497
Due to U.S. government, refundable loan program	3,152
	<u>48,416</u>

Center:

Accounts payable	1,505
Accrued expenses	5,738
Deferred seminar income	8,507
Line of credit	1,035
	<u>16,785</u>

Total liabilities

65,201

Net assets:

Without donor restrictions:

Operating reserve	1,000
Capital projects and other reserves	1,452
University portion of U.S. government loan program	310
Student loans	45
Endowed instruction and operational support funds	10,342
Endowed programs and chairs funds	2,713
Endowed scholarships	995
Annuity and life income funds	689
Minimum pension liability adjustment	(9,799)
Net investment in plant	17,302
	<u>25,049</u>

With donor restrictions:

Instruction and operational support	2,049
Capital projects	5,097
Student loans	38
Annuity and life income funds	640
Endowed instruction and operational support funds	1,042
Endowed programs and chairs funds	16,055
Endowed scholarships	20,193
Other endowed or like funds	212
	<u>45,326</u>

Total net assets

70,375

Total liabilities and net assets

\$ 135,576

Community of Christ and Consolidated Affiliates

Notes to Consolidated Financial Statements

Note 13. Graceland and Subsidiary (Continued)

Consolidated Statement of Activities
Year Ended May 31, 2019
(Dollars in Thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other additions:			
University:			
Student tuition and fees, net of scholarship allowance, \$16,562,644	\$ 23,018	\$ -	\$ 23,018
Federal grants and contracts	327	1,258	1,585
Private gifts, grants and contracts	1,346	6,290	7,636
Investment gains (loss)	174	(278)	(104)
Sales and services of auxiliary enterprises	6,791	-	6,791
Other income, net	468	11	479
	<u>32,124</u>	<u>7,281</u>	<u>39,405</u>
Net assets released from restrictions	4,440	(4,440)	-
	<u>36,564</u>	<u>2,841</u>	<u>39,405</u>
Center:			
Seminars	56,109	-	56,109
Products	4,970	-	4,970
Interest income and other	556	-	556
	<u>61,635</u>	<u>-</u>	<u>61,635</u>
Total revenues and other additions	<u>98,199</u>	<u>2,841</u>	<u>101,040</u>
Expenses:			
University:			
Instruction	12,126	-	12,126
Public service	1,237	-	1,237
Academic support	2,118	-	2,118
Student services	8,558	-	8,558
Institutional support	5,708	-	5,708
Auxiliary enterprises	6,397	-	6,397
	<u>36,144</u>	<u>-</u>	<u>36,144</u>
Center:			
Seminars, products, interest expense and losses on foreign currency, net	37,139	-	37,139
General and administrative	24,883	-	24,883
	<u>62,022</u>	<u>-</u>	<u>62,022</u>
Total expenses	<u>98,166</u>	<u>-</u>	<u>98,166</u>
Change in net assets before other adjustments	33	2,841	2,874
Minimum pension liability adjustment	(2,011)	-	(2,011)
Change in net assets	<u>(1,978)</u>	<u>2,841</u>	<u>863</u>
Net assets at beginning of year	<u>27,026</u>	<u>42,486</u>	<u>69,512</u>
Net assets at end of year	<u>\$ 25,048</u>	<u>\$ 45,327</u>	<u>\$ 70,375</u>

Community of Christ and Consolidated Affiliates

Notes to Consolidated Financial Statements

Note 14. Subsequent Events

Management has evaluated and disclosed subsequent events up to and including June 29, 2020, which is the date the financial statements were available to be issued.

The spread of COVID-19, a novel strain of coronavirus, is altering the behavior of businesses and people throughout the United States. Further, financial markets have recently experienced a significant decline attributed to COVID-19 concerns. The continued spread of COVID-19 may adversely impact the local, regional and national economies. The extent to which COVID-19 impacts the Church's results will depend on future developments, which are highly uncertain and cannot be predicted. The impact is highly dependent on the breadth and duration of the outbreak, and could be affected by other factors that cannot currently be predicted. Accordingly, management cannot presently estimate the overall operational and financial impact to the Church, but such an impact could have a material adverse effect on the financial condition of the Church.

The Church received a Small Business Administration (SBA) Paycheck Protection Plan (PPP) loan for \$1,533,900 on April 9, 2020. The loan bears interest at 1.00% and matures on April, 9, 2022. Starting on November 9, 2020, monthly payments of principal and interest will be due for 18 months, with a final payment of the entire unpaid principal and interest on April 9, 2022. The loan is only due if the SBA does not forgive the loan.

