

Community of Christ and Consolidated Affiliates

Consolidated Financial Report
June 30, 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, which comprise the consolidated statements of financial position—contractual basis as of June 30, 2019 and 2018, the consolidated statements of activities—contractual basis, cash flows—contractual basis and expenses by function—contractual basis for the years then ended, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 June 30, 2019 and 2018, and the changes in their net assets and cash flows for the years then ended 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
January 10, 2020

Community of Christ and Consolidated Affiliates

**Consolidated Statements of Financial Position—Contractual Basis
June 30, 2019 and 2018
(Dollars in Thousands)**

	2019	2018
Assets		
Cash and cash equivalents	<u>\$ 16,454</u>	<u>\$ 14,488</u>
Receivables:		
Accounts and miscellaneous receivables, net (Note 3)	2,017	1,341
Notes and mortgages, net (Note 3)	<u>6,236</u>	<u>7,346</u>
	<u>8,253</u>	<u>8,687</u>
Investments:		
Bonds, stocks and other investments (Note 4)	169,862	157,262
Real estate (Note 4)	<u>42,098</u>	<u>42,518</u>
	<u>211,960</u>	<u>199,780</u>
Real estate and equipment, net (Note 6)	<u>60,727</u>	<u>61,979</u>
Other assets:		
Inventories	815	893
Prepaid expenses and deposits	1,924	1,097
Other assets	<u>327</u>	<u>1,296</u>
	<u>3,066</u>	<u>3,286</u>
	<u>\$ 300,460</u>	<u>\$ 288,220</u>

See notes to consolidated financial statements.

	2019	2018
Liabilities and Net Assets		
Payables and other liabilities:		
Accounts payable	\$ 1,095	\$ 1,149
Accrued expenses, deferred income and other liabilities	9,377	7,999
Annuities payable	2,998	3,006
	<u>13,470</u>	<u>12,154</u>
Funds held on behalf of others	<u>157,431</u>	<u>149,023</u>
Retirement responsibilities:		
Pension benefits (Note 7)	49,108	43,431
Postretirement benefits (Note 7)	16,508	16,095
Multinations benefits (Note 7)	4,140	3,584
	<u>69,756</u>	<u>63,110</u>
Net assets:		
Without donor restrictions	34,375	43,264
With donor restrictions	25,428	20,669
Total net assets	<u>59,803</u>	<u>63,933</u>
	<u>\$ 300,460</u>	<u>\$ 288,220</u>

Community of Christ and Consolidated Affiliates

**Consolidated Statement of Activities—Contractual Basis
Year Ended June 30, 2019
(Dollars in Thousands)**

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support:			
Contributions and bequests	\$ 10,572	\$ 7,690	\$ 18,262
Investment income	1,961	162	2,123
Unrealized gain on real estate	125	-	125
Services and sales, net	6,728	-	6,728
Gain on sale of property and equipment	1,248	-	1,248
Increase to fringe benefit reserve	450	-	450
Other	(260)	-	(260)
Total revenues, gains and other support	20,824	7,852	28,676
Expenses:			
Program expenses:			
Field ministry	1,964	-	1,964
Communications	540	-	540
Translations	273	-	273
Discipleship and priesthood	99	-	99
Seminary, staff and leadership development	76	-	76
Spiritual formation and blessing ministries	218	-	218
Field support	795	20	815
Vehicles and computers	463	-	463
Historic sites	739	55	794
Oblation and world hunger	405	344	749
Archives and records	125	-	125
Facilities	925	-	925
Fiscal services	445	-	445
Human resources	356	-	356
Office of general counsel and risk management	809	-	809
Office support	228	-	228
Security and hospitality	158	-	158
Technology, Herald House and customer service	1,028	-	1,028
Events and activities	634	400	1,034
World Church leadership	1,852	-	1,852
Gift annuity and charitable remainder trust payments	776	-	776
Total program expenses	12,908	819	13,727

(Continued)

Community of Christ and Consolidated Affiliates

Consolidated Statement of Activities—Contractual Basis (Continued)
Year Ended June 30, 2019
(Dollars in Thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Expenses (continued):			
Management and general expenses:			
Audit and World Church finance board	\$ 65	\$ -	\$ 65
Depreciation and capital funding	1,642	-	1,642
Insurance, claims and exchange	2,944	-	2,944
Total management and general expenses	4,651	-	4,651
Fundraising expenses:			
Mission funding	411	-	411
Retirement responsibility expenses:			
Defined benefit pension plan	3,480	2,274	5,754
Postretirement benefits plan	7,478	-	7,478
Multinations retirement plan	785	-	785
Total retirement responsibility expenses	11,743	2,274	14,017
Total expenses	29,713	3,093	32,806
Change in net assets	(8,889)	4,759	(4,130)
Net assets, beginning of year	43,264	20,669	63,933
Net assets, end of year	\$ 34,375	\$ 25,428	\$ 59,803

See notes to consolidated financial statements.

Community of Christ and Consolidated Affiliates

**Consolidated Statement of Activities—Contractual Basis
Year Ended June 30, 2018
(Dollars in Thousands)**

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support:			
Contributions and bequests	\$ 15,483	\$ 3,614	\$ 19,097
Investment income	1,204	649	1,853
Unrealized loss on real estate	(103)	-	(103)
Services and sales, net	5,923	-	5,923
Gain on sale of collection, net	31,500	-	31,500
Gain on sale of property and equipment	1,039	-	1,039
Increase to fringe benefit reserve	553	-	553
Other	17	-	17
Net assets released from restrictions	4,034	(4,034)	-
Total revenues, gains and other support	59,650	229	59,879
Expenses:			
Program expenses:			
Field ministry	1,908	119	2,027
Communications	559	-	559
Translations	374	-	374
Discipleship and priesthood	121	-	121
Seminary, staff and leadership development	62	-	62
Spiritual formation and blessing ministries	259	-	259
Field support	833	-	833
Vehicles and computers	401	-	401
Historic sites	729	120	849
Oblation and world hunger	508	-	508
Archives and records	127	-	127
Facilities	976	-	976
Fiscal services	493	-	493
Human resources	292	-	292
Office of general counsel and risk management	771	-	771
Office support	212	-	212
Security and hospitality	183	-	183
Technology, Herald House and customer service	736	-	736
Events and activities	313	-	313
World Church leadership	1,827	-	1,827
Gift annuity and charitable remainder trust payments	257	350	607
Total program expenses	11,941	589	12,530

(Continued)

Community of Christ and Consolidated Affiliates

Consolidated Statement of Activities—Contractual Basis (Continued)
Year Ended June 30, 2018
(Dollars in Thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Expenses (continued):			
Management and general expenses:			
Audit and World Church finance board	\$ 68	\$ -	\$ 68
Depreciation and capital funding	1,808	-	1,808
Insurance, claims and exchange	2,770	-	2,770
Total management and general expenses	4,646	-	4,646
Fundraising expenses:			
Mission funding	443	-	443
Retirement responsibility expenses:			
Defined benefit pension plan	(4,104)	-	(4,104)
Postretirement benefits plan	(2,036)	-	(2,036)
Multinations retirement plan	(559)	-	(559)
Total retirement responsibility expenses	(6,699)	-	(6,699)
Total expenses	10,331	589	10,920
Change in net assets	49,319	(360)	48,959
Net assets (deficit), beginning of year	(6,055)	21,029	14,974
Net assets, end of year	\$ 43,264	\$ 20,669	\$ 63,933

See notes to consolidated financial statements.

Community of Christ and Consolidated Affiliates

**Consolidated Statements of Cash Flows—Contractual Basis
Year Ended June 30, 2019 and 2018
(Dollars in Thousands)**

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ (4,130)	\$ 48,959
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,514	1,738
Unrealized gain on real estate	(125)	1,222
Unrealized gain on investment securities	(310)	4,049
Net loss on sale of investment securities and real estate	4,253	3,460
Net gain on sale of real estate and equipment	-	(557)
Net gain on sale of collection	60	(31,500)
Contributions and income restricted	-	547
Changes in:		
Accounts receivable	(676)	582
Inventories, prepaids and deposits	(749)	(55)
Other assets	969	(1,105)
Accounts payable	(54)	405
Accrued expenses, deferred income and other liabilities	1,378	793
Accrued retirement liability	6,646	(27,218)
Net cash provided by operating activities	8,776	1,320
Cash flows from investing activities:		
Proceeds from sale of investment securities and real estate	45,213	35,118
Purchase of investment securities and real estate	(61,211)	(68,026)
Increase in funds held on behalf of others	8,408	3,722
Issuance of notes and mortgages receivable	(508)	(663)
Payments from notes and mortgages receivable	1,618	2,399
Purchase of real estate and equipment	(460)	(319)
Proceeds from sale of real estate and equipment	138	666
Net proceeds from sale of collection	-	3,150
Net cash (used in) provided by investing activities	(6,802)	4,397

(Continued)

Community of Christ and Consolidated Affiliates

Consolidated Statements of Cash Flows—Contractual Basis (Continued)
Year Ended June 30, 2019 and 2018
(Dollars in Thousands)

	2019	2018
Cash flows from financing activities:		
Principal payments on long-term debt	\$ -	\$ (2,500)
Increase in annuities payable	(8)	141
Net cash used in financing activities	(8)	(2,359)
Increase in cash and cash equivalents	1,966	3,358
Cash and cash equivalents, beginning of year	14,488	11,130
Cash and cash equivalents, end of year	\$ 16,454	\$ 14,488
Supplemental disclosures of cash flow information:		
Cash payments for interest	\$ 29	\$ 71

See notes to consolidated financial statements.

Community of Christ and Consolidated Affiliates

**Consolidated Statement of Expenses by Function—Contractual Basis
Year Ended June 30, 2019
(Dollars in Thousands)**

	Program Expenses	Management and General	Mission Funding (Fundraising)	Retirement Responsibility	Total Expenses
Compensation costs	\$ 7,916	\$ 6	\$ 379	\$ 39	\$ 8,340
Retirement responsibility	-	-	-	13,687	13,687
Moving and relocation	91	-	-	200	291
Staff and leadership development	84	2	-	-	86
Events and activities	346	-	-	-	346
Office support	665	-	23	-	688
Insurance premiums and claims	61	2,555	-	-	2,616
Capital funding	275	39	-	-	314
Depreciation	303	1,242	-	-	1,545
Utilities, repair and maintenance	1,117	45	-	-	1,162
Bank fees and exchange	3	213	-	20	236
Contract services	626	241	-	71	938
Interest expense	-	29	-	-	29
Oblation and world hunger	388	-	-	-	388
Gift annuity and charitable remainder trust payments	757	-	-	-	757
Grants and payments	644	-	-	-	644
Other expenses	451	279	9	-	739
Total expenses	\$ 13,727	\$ 4,651	\$ 411	\$ 14,017	\$ 32,806

See notes to consolidated financial statements.

Community of Christ and Consolidated Affiliates

**Consolidated Statement of Expenses by Function—Contractual Basis
Year Ended June 30, 2018
(Dollars in Thousands)**

	Program Expenses	Management and General	Mission Funding (Fundraising)	Retirement Responsibility	Total Expenses
Compensation costs	\$ 8,224	\$ 8	\$ 410	\$ 29	\$ 8,671
Retirement responsibility	-	-	-	(7,665)	(7,665)
Moving and relocation	62	-	-	772	834
Staff and leadership development	88	-	-	-	88
Events and activities	312	-	-	-	312
Office support	707	-	28	-	735
Insurance premiums and claims	58	2,382	-	-	2,440
Capital funding	71	69	(1)	-	139
Depreciation	311	1,427	-	-	1,738
Utilities, repair and maintenance	864	45	-	-	909
Bank fees and exchange	6	163	-	12	181
Contract services	519	252	-	153	924
Interest expense	-	22	-	-	22
Oblation and world hunger	508	-	-	-	508
Gift annuity and charitable remainder trust payments	591	-	-	-	591
Grants and payments	100	69	-	-	169
Other expenses	109	209	6	-	324
Total expenses	\$ 12,530	\$ 4,646	\$ 443	\$ (6,699)	\$ 10,920

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 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 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, 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.

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 multi-nations retirement.

Community of Christ and Consolidated Affiliates

Notes to Consolidated Financial Statements

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

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*. During the prior year, the Church adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The standard changed the presentation and disclosure requirements with the intention of helping nonprofits provide more relevant information about their resources to donors, grantors, creditors and other financial statement users. This pronouncement decreased the number of net assets classes from three to two. The new classes are net assets with donor restrictions and net assets without donor restrictions.

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 restricted revenues, and a reclassification to net assets without donor restrictions is made to reflect the expiration of such restrictions.

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.

Community of Christ and Consolidated Affiliates

Notes to Consolidated Financial Statements

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

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.

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.

Contributions receivable reflect contributions received and reported by local jurisdictions as of June 30, 2019 and 2018, but not yet remitted to the Church. Contributions receivable are carried at estimated value based on jurisdictional reporting and remittances subsequent to year-end.

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.

The provision for bad debts, cancellations and other administrative reductions charged to expense was approximately \$87,000 and \$26,000 for the years ended June 30, 2019 and 2018, respectively.

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 included in net assets without donor restrictions. Other investment income, gains and losses are reflected in the consolidated statements of activities—contractual basis as restricted or unrestricted 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.

Community of Christ and Consolidated Affiliates

Notes to Consolidated Financial Statements

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

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.

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 \$46,488,000, 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 statements 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 \$122,000 and \$791,000 are included in deferred income at June 30, 2019 and 2018, respectively.

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 discount rates varying from 4.2% to 20.4%.

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.

Community of Christ and Consolidated Affiliates

Notes to Consolidated Financial Statements

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

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

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 based on the fund number associated with each transaction.

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 June 30, 2019 or 2018.

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 statements of financial position—contractual basis. For 2019 and 2018, program revenue of \$4,569,000 and \$4,201,000, respectively, is reported in the consolidated statements of activities—contractual basis as services and sales of auxiliary enterprises and affiliates. Associated premium and claims costs are in management and general expense included in insurance, claims and exchange.

Recently issued or implemented accounting pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 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 updated standard will be effective for annual reporting periods beginning after December 15, 2018. The Church has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the 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 2021. 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, 2018. Therefore, this ASU will be effective for the Church's short fiscal year ending December 31, 2019. Management is in the process of evaluating the impact of this new guidance.

Note 2. Liquidity and Availability of Resources

The Church receives substantial donor-restricted gifts to support endowments that will exist in perpetuity and contributions with donor purpose restrictions. The income generated from donor-restricted endowments may be donor restricted or unrestricted as to use. In addition, the Church receives support without donor restrictions; such support has historically represented approximately 48% of annual funding needs, with the remainder funded by investment income without donor restrictions and allocated earnings from gifts with donor restrictions.

Community of Christ and Consolidated Affiliates

Notes to Consolidated Financial Statements

Note 2. Liquidity and Availability of Resources (Continued)

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 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 semi-monthly basis.

The table below represents financial assets available for general expenditures within one year of June 30, 2019 and 2018 (in thousands):

	2019	2018
Financial assets at year-end:		
Cash and cash equivalents	\$ 16,454	\$ 14,488
Accounts and miscellaneous receivables, net	2,017	1,341
Notes and mortgages, net	6,236	7,346
Bonds, stocks and other investments	169,862	157,262
Real estate investments	42,098	42,518
Other assets	3,066	3,286
Total financial assets	<u>239,733</u>	<u>226,241</u>
Less amounts not available to be used within one year:		
Notes and mortgages due after one year, net	5,208	6,284
Real estate investments	42,098	42,518
Financial assets not available to be used within one year	<u>47,306</u>	<u>48,802</u>
Financial assets available to meet general expenditures within one year	<u>\$ 192,427</u>	<u>\$ 177,439</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 \$5,884,000 and \$6,464,000 at June 30, 2019 and 2018, respectively. Interest income related to these notes and receivables was approximately \$257,000 and \$269,000 for the years ended June 30, 2019 and 2018, respectively.

The Church evaluates its allowance for doubtful loans by identifying troubled accounts and using historical experience applied to the aging of past-due loans. During the years ended June 30, 2019 and 2018, the Church has not significantly changed its methodology for the allowance for doubtful loans.

The aging of the Church's notes and mortgages receivable (net of eliminations) as of June 30, 2019 and 2018, is presented as follows:

	2019		
	Current	Past Due	Total
Houses of worship loans	\$ 4,619,000	\$ 43,000	\$ 4,662,000
Various notes and mortgages	1,613,000	166,000	1,779,000
	<u>\$ 6,232,000</u>	<u>\$ 209,000</u>	<u>\$ 6,441,000</u>
As a percentage of the total loan portfolio	96.76%	3.24%	100.00%

	2018		
	Current	Past Due	Total
Houses of worship loans	\$ 5,013,000	\$ 333,000	\$ 5,346,000
Various notes and mortgages	2,019,000	186,000	2,205,000
	<u>\$ 7,032,000</u>	<u>\$ 519,000</u>	<u>\$ 7,551,000</u>
As a percentage of the total loan portfolio	93.13%	6.87%	100.00%

The allowance for doubtful accounts on the Church's notes and mortgages is \$205,000 at June 30, 2019 and 2018.

Note 4. Investments

At June 30, 2019 and 2018, investments in bonds, stocks and other investments consisted of the following (in thousands):

	2019	2018
Common and preferred stock and mutual funds	\$ 124,716	\$ 115,575
Alternative and other investments	45,146	41,687
Real estate	42,098	42,518
	<u>\$ 211,960</u>	<u>\$ 199,780</u>

Community of Christ and Consolidated Affiliates

Notes to Consolidated Financial Statements

Note 4. Investments (Continued)

Investment return for the years ended June 30, 2019 and 2018, consisted of the following (in thousands):

	2019	2018
Investment income	\$ 7,143	\$ 11,552
Net realized and unrealized losses on investments reported at fair value	(3,943)	(7,509)
Unrealized gain (loss) on real estate	125	(1,222)
Investment fees	(1,077)	(1,071)
	<u>\$ 2,248</u>	<u>\$ 1,750</u>

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 June 30, 2019 or 2018.

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 statements of activities—contractual basis.

Community of Christ and Consolidated Affiliates

Notes to Consolidated Financial Statements

Note 5. Fair Value Measurements (Continued)

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.

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.

	June 30, 2019				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Valued at Net Asset Value	Total
	(In Thousands)				
Investments:					
Common stocks:					
Health care	\$ 5,149	\$ -	\$ -	\$ -	\$ 5,149
Utilities	543	-	-	-	543
Financials	8,761	-	-	-	8,761
Consumer staples	2,019	-	-	-	2,019
Consumer discretionary	6,707	-	-	-	6,707
Materials	2,003	-	-	-	2,003
Energy	1,583	-	-	-	1,583
Information technology	7,221	-	-	-	7,221
Industrials	6,115	-	-	-	6,115
Telecommunication service	2,077	-	-	-	2,077
Other	63	-	-	-	63
Mutual funds:					
Fixed income	32,630	-	-	-	32,630
Domestic equity	43,434	-	-	-	43,434
International equity	6,411	-	-	-	6,411
Total common stocks and mutual funds	124,716	-	-	-	124,716
Alternative investments:					
Investments in limited partnerships	-	-	-	37,700	37,700
Investments in limited liability corporations	-	-	-	7,446	7,446
Total alternative and other investments	-	-	-	45,146	45,146
Real estate parcels primarily in Independence, Missouri	-	-	42,098	-	42,098
Total investments	\$ 124,716	\$ -	\$ 42,098	\$ 45,146	\$ 211,960
Liabilities:					
Charitable remainder trusts	\$ -	\$ -	\$ 3,400	\$ -	\$ 3,400
Annuities payable	\$ -	\$ -	\$ 2,998	\$ -	\$ 2,998

Community of Christ and Consolidated Affiliates

Notes to Consolidated Financial Statements

Note 5. Fair Value Measurements (Continued)

	June 30, 2018				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Valued at Net Asset Value	Total
	(In Thousands)				
Investments:					
Common stocks:					
Health care	\$ 5,003	\$ -	\$ -	\$ -	\$ 5,003
Utilities	690	-	-	-	690
Financials	6,990	-	-	-	6,990
Consumer staples	1,951	-	-	-	1,951
Consumer discretionary	7,168	-	-	-	7,168
Materials	1,799	-	-	-	1,799
Energy	1,180	-	-	-	1,180
Information technology	7,034	-	-	-	7,034
Industrials	4,583	-	-	-	4,583
Telecommunication service	319	-	-	-	319
Other	61	-	-	-	61
Mutual funds:					
Fixed income	34,731	-	-	-	34,731
Domestic equity	3,922	-	-	-	3,922
International equity	40,144	-	-	-	40,144
Total common stocks and mutual funds	115,575	-	-	-	115,575
Alternative investments:					
Investments in limited partnerships	-	-	-	34,528	34,528
Investments in limited liability corporations	-	-	-	7,159	7,159
Total alternative and other investments	-	-	-	41,687	41,687
Real estate parcels primarily in Independence, Missouri					
	-	-	42,518	-	42,518
Total investments	\$ 115,575	\$ -	\$ 42,518	\$ 41,687	\$ 199,780
Liabilities:					
Charitable remainder trusts	\$ -	\$ -	\$ 2,941	\$ -	\$ 2,941
Annuities payable	\$ -	\$ -	\$ 3,006	\$ -	\$ 3,006

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, June 30, 2017	\$ 45,250	\$ 2,777	\$ 2,866
Issuances	-	-	147
Settlements	(1,510)	-	(23)
Total gains (losses) (unrealized) included in change in net assets	(1,222)	164	16
Balance, June 30, 2018	42,518	2,941	3,006
Issuances	-	(1,505)	28
Settlements	(905)	-	(3)
Total gains (losses) (unrealized) included in change in net assets	485	1,964	(33)
Balance, June 30, 2019	<u>\$ 42,098</u>	<u>\$ 3,400</u>	<u>\$ 2,998</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 June 30, 2019 and 2018 (in thousands):

Investments	2019			
	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Investment in limited partnership (a)	\$ 16,744	\$ -	Quarterly	3 months
Investment in limited partnership (b)	10,306	-	Quarterly	15 days
Investment in limited partnership (c)	10,649	-	Quarterly	30 days
Investment in limited liability corporation (d)	7,447	-	Daily	1-3 days
	<u>\$ 45,146</u>			

Investments	2018			
	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Investment in limited partnership (a)	\$ 14,995	\$ -	Quarterly	3 months
Investment in limited partnership (b)	9,581	-	Quarterly	15 days
Investment in limited partnership (c)	9,952	-	Quarterly	30 days
Investment in limited liability corporation (d)	7,159	-	Daily	1-3 days
	<u>\$ 41,687</u>			

Community of Christ and Consolidated Affiliates

Notes to Consolidated Financial Statements

Note 5. Fair Value Measurements (Continued)

- (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 engages in investment activities the objective of which is to maximize total returns by investing primarily in debt securities of noninvestment-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 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.
- (d) 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.

Note 6. Real Estate and Equipment

At June 30, 2019 and 2018, real estate and equipment consisted of the following (in thousands):

	2019	2018
Land	\$ 571	\$ 571
Historical properties	68,840	68,783
Property, buildings and grounds	13,768	13,871
Furniture and equipment	12,245	12,228
Construction in progress	456	394
Autos, trucks and other mobile equipment	2,292	2,385
	<u>98,172</u>	<u>98,232</u>
Less accumulated depreciation	37,445	36,253
	<u>\$ 60,727</u>	<u>\$ 61,979</u>

Depreciation expense was approximately \$1,540,000 and \$1,738,000 for the years ended June 30, 2019 and 2018, respectively.

Community of Christ and Consolidated Affiliates

Notes to Consolidated Financial Statements

Note 7. Employee Benefit Plans

Pension plan: 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.

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 June 30 measurement date.

The following table sets forth information related to the plan for the years ended June 30, 2019 and 2018 (in thousands):

	2019	2018
Fair value of plan assets at beginning of year	\$ 38,738	\$ 25,137
Adjustment to beginning of year value	(3)	-
Actual return of plan assets	(1,344)	950
Employer contributions	5,134	17,662
Benefits paid	(5,912)	(5,011)
Fair value of plan assets at end of year	<u>36,613</u>	<u>38,738</u>
Benefit obligation at beginning of year	82,169	90,241
Service cost	177	199
Interest cost	3,296	3,236
Actuarial (gain) loss	5,991	(6,496)
Benefits paid	(5,912)	(5,011)
Benefit obligation at end of year	<u>85,721</u>	<u>82,169</u>
Plan assets in deficit of projected benefit obligation, accrued benefit liability on the consolidated statements of financial position—contractual basis	<u>\$ (49,108)</u>	<u>\$ (43,431)</u>

The Church expects to contribute at least \$2,724,000 to the pension plan in the fiscal year ending December 31, 2019.

Community of Christ and Consolidated Affiliates

Notes to Consolidated Financial Statements

Note 7. Employee Benefit Plans (Continued)

Following are the weighted-average assumptions used as of June 30, 2019 and 2018:

	2019	2018
Benefit obligations:		
Discount rate	3.30%	4.15%
Rate of compensation increases	2% through 2020; 1% thereafter	2% through 2020; 1% thereafter
Net costs:		
Discount rate	4.15%	3.70%
Expected return on plan assets	4.50%	5.65%
Rate of compensation increases	2% through 2020; 1% thereafter	0% through 2017; 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 June 30, 2019.

The breakdown of investments by type is as follows as of June 30, 2019 and 2018:

	2019	2018
Fixed-income securities	44.51%	33.76%
Mutual funds	41.77%	46.39%
Real estate	13.72%	19.85%

Community of Christ and Consolidated Affiliates

Notes to Consolidated Financial Statements

Note 7. Employee Benefit Plans (Continued)

The fair values of the Church's pension plan assets at June 30, 2019 and 2018, by asset category are as follows:

	June 30, 2019			Total
	Level 1	Level 2	Level 3	
	(In Thousands)			
Assets:				
Investments:				
Fixed-income securities:				
U.S. Treasuries	\$ 502	\$ -	\$ -	\$ 502
Agency bonds	4,080	-	-	4,080
Corporate bonds	10,032	-	-	10,032
Foreign bonds	1,214	-	-	1,214
Total fixed-income securities	15,828	-	-	15,828
Mutual funds:				
Fixed income	5,563	-	-	5,563
Domestic equity	6,695	-	-	6,695
International equity	2,597	-	-	2,597
Total mutual funds	14,855	-	-	14,855
Parcels in Independence, Missouri	-	-	4,880	4,880
Total investments	\$ 30,683	\$ -	\$ 4,880	\$ 35,563
Other assets:				
Cash and cash equivalents	\$ 1,226	\$ -	\$ -	\$ 1,226
Other assets	(162)	-	-	(162)
Total cash and other assets	\$ 1,064	\$ -	\$ -	\$ 1,064
Liabilities:				
Other liabilities	\$ -	\$ -	\$ -	\$ -

Community of Christ and Consolidated Affiliates

Notes to Consolidated Financial Statements

Note 7. Employee Benefit Plans (Continued)

	June 30, 2018			
	Level 1	Level 2	Level 3	Total
	(In Thousands)			
Assets:				
Investments:				
Fixed-income securities:				
U.S. Treasuries	\$ 796	\$ -	\$ -	\$ 796
Agency bonds	3,599	-	-	3,599
Corporate bonds	7,432	-	-	7,432
Foreign bonds	983	-	-	983
Total fixed-income securities	12,810	-	-	12,810
Mutual funds:				
Fixed income	7,695	-	-	7,695
Domestic equity	7,216	-	-	7,216
International equity	2,691	-	-	2,691
Total mutual funds	17,602	-	-	17,602
Parcels in Independence, Missouri	-	-	7,530	7,530
Total investments	\$ 30,412	\$ -	\$ 7,530	\$ 37,942
Other assets:				
Cash and cash equivalents	\$ 664	\$ -	\$ -	\$ 664
Other assets	147	-	-	147
Total cash and other assets	\$ 811	\$ -	\$ -	\$ 811
Liabilities:				
Other liabilities	\$ 15	\$ -	\$ -	\$ 15

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 years ended June 30, 2019 and 2018, are as follows (in thousands):

	2019	2018
Unfunded benefit obligation	\$ 16,508	\$ 16,095
Accrued postretirement benefit obligation recognized in consolidated statements of financial position—contractual basis	16,508	16,095
Interest cost	594	678
Benefit cost	64	95
Benefits paid	1,915	2,082

Community of Christ and Consolidated Affiliates

Notes to Consolidated Financial Statements

Note 7. Employee Benefit Plans (Continued)

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 and 2018, a weighted-average discount rate of 3.05% and 3.95%, 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 for 2019 and 2018 (in thousands):

	2019	2018
Effect on total service cost and interest cost components:		
One percentage point increase	\$ 18	\$ 25
One percentage point decrease	(12)	(23)
Effect on year-end benefit obligation:		
One percentage point increase	407	390
One percentage point decrease	(372)	(358)

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 statements 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 June 30, 2019 and 2018.

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 years ended June 30, 2019 and 2018, are as follows (in thousands):

	2019	2018
Projected benefit obligation	\$ 4,140	\$ 3,584
Accrued multination obligation recognized in consolidated statements of financial position—contractual basis	4,140	3,584
Discount rate	3.55%	4.25%
Rate of compensation increases	4% through 2020; 2% thereafter	4% through 2020; 2% thereafter

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 statements 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 June 30, 2019 and 2018.

Community of Christ and Consolidated Affiliates

Notes to Consolidated Financial Statements

Note 7. Employee Benefit Plans (Continued)

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:		
2019*	\$ 2,724	\$ 1,009
2020	5,411	1,956
2021	5,384	1,793
2022	5,417	1,619
2023	5,461	1,476

*Short 6 month fiscal year

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

Pension benefits	\$ 26,551
Postretirement benefits	5,662

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 years ended June 30, 2019 and 2018, was approximately \$257,000 and \$233,000, respectively. 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 June 30, 2019 and 2018, was approximately \$13,000 and \$50,000, respectively.

Note 8. Long-Term Debt

The Church has a revolving line-of-credit agreement with a bank that was modified on May 30, 2018. The new 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 paid off in full on October 2, 2017, and has a \$0 balance as of June 30, 2019 and 2018. Interest is payable monthly at the rate of one-month LIBOR plus 100 basis points. The average interest rate for fiscal year 2019 was 0.00% with a rate of 0.00% at June 30, 2019. The average interest rate for fiscal year 2018 was 2.24% with a rate of 0.00% at June 30, 2018. The interest total expense for the fiscal years ended June 30, 2019 and 2018, was approximately \$0, and \$22,000, respectively. 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 \$600,000 and \$750,000 for the years ended June 30, 2019 and 2018, respectively. The outstanding balance on the letter of credit is \$0 as of June 30, 2019 and 2018.

Community of Christ and Consolidated Affiliates

Notes to Consolidated Financial Statements

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 as donor-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, (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.

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% and 0.46% for the fiscal years ended June 30, 2019 and 2018, respectively.

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 June 30, 2019 and 2018, there were no donor-restricted endowment funds under water. This amount is reported in net assets without donor restriction. The Presiding Bishopric and Board determined that continued appropriation during the fiscal years ended June 30, 2019 and 2018, for certain programs was prudent.

Community of Christ and Consolidated Affiliates

Notes to Consolidated Financial Statements

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

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

	2019		
	Without Donor Restriction	With Donor Restriction	Total
	(In Thousands)		
Donor-restricted endowment funds	\$ -	\$ 19,886	\$ 19,886
World Conference (quasi) endowment funds	5,575	-	5,575
Total endowment funds	<u>\$ 5,575</u>	<u>\$ 19,886</u>	<u>\$ 25,461</u>

	2018		
	Without Donor Restriction	With Donor Restriction	Total
	(In Thousands)		
Donor-restricted endowment funds	\$ -	\$ 16,710	\$ 16,710
World Conference (quasi) endowment funds	9,655	-	9,655
Total endowment funds	<u>\$ 9,655</u>	<u>\$ 16,710</u>	<u>\$ 26,365</u>

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

	Without Donor Restrictions	With Donor Restrictions	Total
	(In Thousands)		
Endowment net assets, June 30, 2017	<u>\$ 9,590</u>	<u>\$ 16,512</u>	<u>\$ 26,102</u>
Investment return:			
Investment income	1	2	3
Net appreciation (depreciation) (realized and unrealized)	64	111	175
Total investment return	<u>65</u>	<u>113</u>	<u>178</u>
Contributions	<u>-</u>	<u>161</u>	<u>161</u>
Appropriation of endowment funds for expenditure	<u>-</u>	<u>(76)</u>	<u>(76)</u>
Endowment net assets, June 30, 2018	<u>9,655</u>	<u>16,710</u>	<u>26,365</u>
Investment return:			
Investment income	23	22	45
Net appreciation (depreciation) (realized and unrealized)	64	291	355
Total investment return	<u>87</u>	<u>313</u>	<u>400</u>
Contributions	<u>-</u>	<u>2,863</u>	<u>2,863</u>
Transfers from nonendowment assets	<u>(4,167)</u>	<u>-</u>	<u>(4,167)</u>
Endowment net assets, June 30, 2019	<u>\$ 5,575</u>	<u>\$ 19,886</u>	<u>\$ 25,461</u>

Community of Christ and Consolidated Affiliates

Notes to Consolidated Financial Statements

Note 10. Net Assets With Donor Restrictions

Donor restricted net assets at June 30, 2019 and 2018, consisted of the following (in thousands):

	2019	2018
Charitable remainder trust	\$ 4,399	\$ 2,747
Worldwide Mission endowment	1,763	1,622
General Operating endowment	3,557	3,287
Children's Peace Pavilion	124	124
Kirtland Temple	467	338
Annuity and life income funds	202	197
Disaster relief	168	502
World Conference	-	51
Temple endowment	14,726	11,801
Income Producing Microloans	22	-
	<u>\$ 25,428</u>	<u>\$ 20,669</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 years ended June 30, 2019 and 2018, were as follows (in thousands):

	2019	2018
Congregational leader support minister	\$ -	\$ 1,080
Bridge of Hope	-	2,684
Disaster relief	-	14
Peace Pathways	-	296
Other	-	(41)
Total restrictions released	<u>\$ -</u>	<u>\$ 4,033</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 Lamoni, Iowa. The University's consolidated 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 and 2018, is as follows:

Consolidated Statements of Financial Position
May 31, 2019 and 2018
(Dollars in Thousands)

	2019	2018
Assets		
University:		
Cash and cash equivalents	\$ 9,347	\$ 8,398
Student and other miscellaneous receivables, net allowance for cancellations and doubtful accounts, 2019, \$244,700; 2018, \$313,500	949	893
U.S. government receivables	1,300	1,235
Prepaid expenses and deposits	795	731
Inventories	291	340
Contributions receivable, net	2,785	660
U.S. government loans receivable, net of allowance for doubtful loans of \$60,000 for 2019 and 2018	2,136	2,560
Investments	41,280	42,268
Cash restricted for investment in land, buildings and equipment	3,492	1,425
Land, buildings and equipment, net	46,087	46,699
Funds held in trust by others	528	541
	108,990	105,750
Center:		
Cash and cash equivalents	3,464	7,564
Accounts receivable, net of allowance for doubtful accounts, 2019, \$166,339; 2018, \$275,468	2,853	3,669
Product inventories	543	679
Deferred seminar expenses	5,268	4,310
Prepaid expenses and other assets	861	902
Land, buildings and equipment, net	10,746	8,375
Intangible assets, net of amortization, 2019, \$3,384,642; 2018, \$2,771,778	1,766	2,166
Goodwill	1,085	1,085
	26,586	28,750
Total assets	\$ 135,576	\$ 134,500

(Continued)

Community of Christ and Consolidated Affiliates

Notes to Consolidated Financial Statements

Note 13. Graceland and Subsidiary (Continued)

Consolidated Statements of Financial Position (Continued)
 May 31, 2019 and 2018
 (Dollars in Thousands)

	2019	2018
Liabilities and Net Assets		
University:		
Accounts payable, including amounts owed to related parties of \$41,667 for 2019 and 2018	\$ 1,694	\$ 1,757
Funds held on behalf of others	429	502
Accrued expenses and deferred revenue	4,229	4,851
Accrued retirement liability	10,351	8,657
Annuities payable	1,064	1,121
Notes payable, net of unamortized issuance costs, 2019, \$317,728; 2018, \$338,334	27,497	28,245
Due to U.S. government, refundable loan program	3,152	3,108
	<u>48,416</u>	<u>48,241</u>
Center:		
Accounts payable	1,505	1,767
Accrued expenses	5,738	5,771
Deferred seminar income	8,507	9,209
Line of credit	1,035	
	<u>16,785</u>	<u>16,747</u>
Total liabilities	<u>65,201</u>	<u>64,988</u>
Net assets:		
Without donor restrictions:		
Operating reserve	1,000	200
Capital projects and other reserves	1,452	574
University portion of U.S. government loan program	310	310
Student loans	45	405
Endowed instruction and operational support funds	10,342	12,327
Endowed programs and chairs funds	2,713	2,762
Endowed scholarships	995	547
Annuity and life income funds	689	736
Minimum pension liability adjustment	(9,799)	(7,788)
Net investment in plant	17,302	16,953
	<u>25,049</u>	<u>27,026</u>
With donor restrictions:		
Instruction and operational support	2,049	2,483
Capital projects	5,097	1,389
Student loans	38	40
Annuity and life income funds	640	638
Endowed instruction and operational support funds	1,042	1,068
Endowed programs and chairs funds	16,055	16,546
Endowed scholarships	20,193	20,089
Other endowed or like funds	212	233
	<u>45,326</u>	<u>42,486</u>
Total net assets	<u>70,375</u>	<u>69,512</u>
Total liabilities and net assets	<u>\$ 135,576</u>	<u>\$ 134,500</u>

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, 2019, \$16,562,644; 2018, \$16,089,006	\$ 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 13. Graceland and Subsidiary (Continued)

Consolidated Statement of Activities

Year Ended May 31, 2018

(Dollars in Thousands)

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and other additions:			
University:			
Student tuition and fees, net of scholarship allowance, 2019, \$16,562,644; 2018, \$16,089,006	\$ 23,101	\$ -	\$ 23,101
Federal grants and contracts	333	1,150	1,483
Private gifts, grants and contracts	705	5,584	6,289
Investment gains	529	2,305	2,834
Sales and services of auxiliary enterprises	6,458	-	6,458
Other income, net	539	11	550
	<u>31,665</u>	<u>9,050</u>	<u>40,715</u>
Net assets released from restrictions	4,689	(4,689)	-
	<u>36,354</u>	<u>4,361</u>	<u>40,715</u>
Center:			
Seminars	60,648	-	60,648
Products	5,114	-	5,114
Interest income and other	463	-	463
	<u>66,225</u>	<u>-</u>	<u>66,225</u>
Total revenues and other additions	102,579	4,361	106,940
Expenses:			
University:			
Instruction	12,848	-	12,848
Public service	1,111	-	1,111
Academic support	2,361	-	2,361
Student services	9,391	-	9,391
Institutional support	6,757	-	6,757
Auxiliary enterprises	6,546	-	6,546
	<u>39,014</u>	<u>-</u>	<u>39,014</u>
Center:			
Seminars, products, interest expense and losses on foreign currency, net	37,361	-	37,361
General and administrative	26,855	-	26,855
	<u>64,216</u>	<u>-</u>	<u>64,216</u>
Total expenses	103,230	-	103,230
Change in net assets before other adjustments	(651)	4,361	3,710
Minimum pension liability adjustment	2,414	-	2,414
Change in net assets	1,763	4,361	6,124
Net assets at beginning of year	25,263	38,125	63,388
Net assets at end of year	<u>\$ 27,026</u>	<u>\$ 42,486</u>	<u>\$ 69,512</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 January 10, 2020, which is the date the financial statements were available to be issued.

Subsequent to year-end, management has elected to change the year-end to a calendar year-end. There will be a short fiscal year from the period July 1, 2019 through December 31, 2019. Then the Church will adopt a calendar year-end beginning January 1, 2020.

