

SOUTHERN CONFERENCE OF SEVENTH-DAY ADVENTISTS

Consolidated Financial Statements

December 31, 2014, 2013, 2012, and 2011



SEVENTH-DAY ADVENTIST CHURCH

SOUTHERN CONFERENCE OF SEVENTH-DAY ADVENTISTS

December 31, 2014, 2013, 2012, and 2011

TABLE OF CONTENTS

| | |
|---|---|
| Auditors' Opinion on the Financial Statements | 1 |
| Consolidated Statement of Financial Position..... | 3 |
| Consolidated Statement of Changes in Net Assets | 5 |
| Consolidated Statement of Cash Flows | 7 |
| Notes to the Consolidated Financial Statements | 9 |





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To the Constituents
Southern California Conference of Seventh-day Adventists
Glendale, California

We have audited the accompanying consolidated financial statements of Southern California Conference of Seventh-day Adventists, which comprise the consolidated statements of financial position as of December 31, 2014, 2013, 2012, and 2011, and the related consolidated statements of changes in net assets and statements of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, as internal auditors of the General Conference of Seventh-day Adventists, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Southern California Conference of Seventh-day Adventists as of December 31, 2014, 2013, 2012, and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with United States of America accounting principles generally accepted by the Seventh-day Adventist denomination.

Emphasis of Matter

As discussed in Note 28, during 2014, the Organization retroactively adopted Accounting Standards Update 2013-04.

General Conference Auditing Service

May 4, 2015

SOUTHERN CALIFORNIA CONFERENCE OF SEVENTH-DAY ADVENTISTS
Consolidated Statements of Financial Position, Page 1 of 2
December 31, 2014, 2013, 2012, and 2011

| | <u>2014*</u> | <u>2013*</u> | <u>2012*</u> | <u>2011*</u> |
|---|-----------------------|--------------------|--------------------|--------------------|
| ASSETS | | | | |
| <u>Current assets</u> | | | | |
| Cash and cash equivalents (Note 2) | \$ 1,593,871 | 580,840 | 784,604 | 730,331 |
| Investments (Note 3) | 6,734,845 | 6,363,115 | 5,903,151 | 5,714,591 |
| Accounts receivable, net (Note 4) | 3,736,891 | 4,108,591 | 4,723,150 | 5,264,337 |
| Cash held for agency (Note 2) | 192,557 | 501,816 | 132,207 | 227,806 |
| Notes and loans receivable, short-term (Note 5) | 57,511 | 190,940 | 490,880 | 60,428 |
| Inventory and prepaid expense (Note 6) | 486,346 | 290,064 | 276,136 | 291,670 |
| Total current assets | <u>12,802,021</u> | <u>12,035,366</u> | <u>12,310,128</u> | <u>12,289,163</u> |
| <u>Plant assets, net</u> (Note 7) | <u>60,092,558</u> | <u>61,195,975</u> | <u>58,470,651</u> | <u>57,974,684</u> |
| <u>Other assets</u> | | | | |
| Notes and loans receivable, long-term, net (Note 5) | 3,209,281 | 3,088,920 | 2,363,638 | 1,736,110 |
| Deferred charges (Note 8) | 2,236,755 | 2,428,390 | 2,433,190 | 2,433,190 |
| Investments in real estate (Note 10) | 5,008,079 | 5,268,312 | 4,241,620 | 4,220,328 |
| Deposits, long term | 26,370 | - | - | - |
| For other than operating funds: | | | | |
| Cash and investments (Note 3) | 8,383,198 | 8,099,735 | 11,131,073 | 10,104,069 |
| Accounts receivable | - | - | 675 | 675 |
| Assets held in trust (Note 11) | 18,757,915 | 19,463,317 | 20,316,688 | 22,772,298 |
| Total other assets | <u>37,621,598</u> | <u>38,348,675</u> | <u>40,486,884</u> | <u>41,266,670</u> |
| Total assets | <u>\$ 110,516,177</u> | <u>111,580,016</u> | <u>111,267,663</u> | <u>111,530,517</u> |

* Interfund and related party activity is eliminated in consolidated totals.
See accompanying notes.



SOUTHERN CALIFORNIA CONFERENCE OF SEVENTH-DAY ADVENTISTS
Consolidated Statements of Financial Position, Page 2 of 2
December 31, 2014, 2013, 2012, and 2011

| | <u>2014*</u> | <u>2013*</u> | <u>2012*</u> | <u>2011*</u> |
|---|-----------------------|--------------------|--------------------|--------------------|
| LIABILITIES | | | | |
| <u>Current liabilities</u> | | | | |
| Accounts payable (Note 12) | \$ 5,946,103 | 5,217,392 | 4,882,346 | 4,712,423 |
| Notes and mortgages payable, short-term (Note 13) | 16,043,168 | 14,795,084 | 14,841,304 | 9,627,162 |
| Trust funds (Note 15) | <u>192,557</u> | <u>501,816</u> | <u>132,207</u> | <u>227,806</u> |
| Total current liabilities | <u>22,181,828</u> | <u>20,514,292</u> | <u>19,855,857</u> | <u>14,567,391</u> |
| <u>Other liabilities</u> | | | | |
| Accounts payable | 18,531 | 18,732 | 16,871 | 17,572 |
| Retirement allowance | 17,363 | 11,126 | (43,047) | (20,866) |
| Notes and mortgages payable, long-term (Note 13) | 3,307,753 | 3,028,457 | 2,899,781 | 8,440,035 |
| Trust funds (Note 15) | 872,739 | 867,620 | 830,903 | 779,556 |
| For other than operating funds: | | | | |
| Accounts payable | 11,233 | 20,712 | 3,724 | 11,061 |
| Notes and mortgages payable (Note 13) | 827,816 | 826,321 | 980,165 | 1,286,457 |
| Liability to remainder beneficiaries (Note 17) | 7,405,552 | 7,454,923 | 7,987,470 | 7,804,232 |
| Present value of annuity liability (Note 20) | 638,214 | 639,821 | 935,281 | 945,388 |
| Liability to depositors (Note 16) | 7,308,039 | 6,993,908 | 7,693,706 | 7,934,773 |
| Liabilities held in trust (Note 17) | <u>8,809,333</u> | <u>9,357,612</u> | <u>9,720,256</u> | <u>10,200,227</u> |
| Total other liabilities | <u>29,216,573</u> | <u>29,219,232</u> | <u>31,025,110</u> | <u>37,398,435</u> |
| Total liabilities | <u>51,398,401</u> | <u>49,733,524</u> | <u>50,880,967</u> | <u>51,965,826</u> |
| NET ASSETS | | | | |
| Unrestricted: unallocated | (12,617,912) | (10,841,394) | (11,458,566) | (18,426,455) |
| Unrestricted: allocated | 8,437,805 | 8,182,744 | 9,926,806 | 15,878,271 |
| Unrestricted: net invested in plant | <u>59,264,742</u> | <u>60,369,654</u> | <u>57,490,486</u> | <u>55,969,866</u> |
| Total unrestricted | 55,084,635 | 57,711,004 | 55,958,726 | 53,421,682 |
| Temporarily restricted (Note 18) | <u>4,033,141</u> | <u>4,135,488</u> | <u>4,427,970</u> | <u>6,143,009</u> |
| Total net assets | <u>59,117,776</u> | <u>61,846,492</u> | <u>60,386,696</u> | <u>59,564,691</u> |
| Total liabilities & net assets | <u>\$ 110,516,177</u> | <u>111,580,016</u> | <u>111,267,663</u> | <u>111,530,517</u> |

* Interfund and related party activity is eliminated in consolidated totals.
See accompanying notes.



SOUTHERN CALIFORNIA CONFERENCE OF SEVENTH-DAY ADVENTISTS
Consolidated Statements of Changes in Net Assets, Page 1 of 2
December 31, 2014, 2013, 2012, and 2011

| | 2014* | 2013* | 2012* | 2011* |
|---|---------------|-------------|-------------|-------------|
| CHANGES IN UNRESTRICTED NET ASSETS | | | | |
| <u>Unrestricted revenues, gains, and support</u> | | | | |
| Gross tithe income | \$ 32,549,656 | 31,867,543 | 31,784,945 | 31,936,371 |
| Tithe percentages passed on | (8,451,754) | (8,274,447) | (8,253,698) | (8,236,592) |
| Net tithe income | 24,097,903 | 23,593,096 | 23,531,247 | 23,699,779 |
| Tithe exchanged with general conference | (349,860) | (354,793) | (357,534) | (371,966) |
| Non-tithe funds from general conference | 349,860 | 354,793 | 357,534 | 371,966 |
| Matured trusts and wills | 706,352 | 2,050,715 | 403,487 | 1,207,330 |
| Investment earnings | 92,583 | 262,441 | 252,277 | 95,715 |
| Church schools | 3,912,470 | 3,835,639 | 3,862,833 | 4,002,252 |
| Departmental fees and sales | 2,329,136 | 2,491,537 | 2,105,593 | 2,178,982 |
| Subsidies and donations | 193,195 | 204,479 | 199,943 | 251,820 |
| Residence rental income | 422,142 | 242,410 | 211,817 | 216,038 |
| Annuities, net earnings (loss) (Note 20) | (36,340) | (55,569) | (73,636) | (331,089) |
| Other | 1,540,759 | 1,382,831 | 1,041,145 | 1,188,095 |
| Adventist Book Centers | 679,484 | 439,935 | 409,342 | 368,102 |
| Total unrestricted revenues and gains | 33,937,685 | 34,447,513 | 31,944,048 | 32,877,024 |
| Net assets released from restrictions | 2,437,311 | 2,762,257 | 2,691,103 | 2,563,720 |
| Total unrestricted revenues, gains, and support | 36,374,995 | 37,209,770 | 34,635,151 | 35,440,744 |
| <u>Expenses and losses</u> | | | | |
| <u>Program services</u> | | | | |
| Church ministries | 16,518,240 | 16,967,817 | 16,716,707 | 16,651,871 |
| Education | 9,721,240 | 9,589,443 | 9,302,943 | 9,607,615 |
| Publishing | 89,580 | 163,477 | 170,805 | 178,902 |
| Special services | 431,986 | 159,603 | 30,571 | 75,847 |
| Retirement and other | 4,844,121 | 4,767,011 | 4,092,853 | 4,081,703 |
| Total program services | 31,605,168 | 31,647,351 | 30,313,879 | 30,595,938 |
| <u>Supporting services</u> | | | | |
| Administration-office resources | 1,711,624 | 1,588,049 | 1,589,370 | 1,459,168 |
| Conventions and meetings | 2,422 | (14,753) | 67,725 | 46,301 |
| Residence rentals | 186,765 | 165,656 | 134,931 | 157,173 |
| Other | 2,917,891 | 1,905,257 | 1,300,223 | 2,434,982 |
| Adventist Book Centers | 721,838 | 399,503 | 386,493 | 354,931 |
| Total supporting services | 5,540,540 | 4,043,712 | 3,478,742 | 4,452,555 |
| Total expenses and losses | 37,145,708 | 35,691,063 | 33,792,621 | 35,048,493 |
| Net increase (decrease) from operations | (770,712) | 1,518,707 | 842,530 | 392,251 |
| Increase (decrease) before non-operating activity | \$ (770,712) | 1,518,707 | 842,530 | 392,251 |

* Interfund and related party activity is eliminated in consolidated totals.
See accompanying notes.



SOUTHERN CALIFORNIA CONFERENCE OF SEVENTH-DAY ADVENTISTS
Consolidated Statements of Changes in Net Assets, Page 2 of 2
December 31, 2014, 2013, 2012, and 2011

| | 2014* | 2013* | 2012* | 2011* |
|---|---------------|-------------|-------------|-------------|
| CHANGES IN UNRESTRICTED NET ASSETS | | | | |
| Increase (decrease) before non-operating activity | \$ (770,712) | 1,518,707 | 842,530 | 392,251 |
| <u>Non-operating activity (Note 19)</u> | | | | |
| Non-operating revenue | 1,154,005 | 839,991 | 3,511,979 | 5,185,534 |
| Non-operating expense | (3,153,217) | (2,509,464) | (3,828,594) | (5,131,087) |
| Net gain (loss) on sale of assets | 143,556 | 1,903,045 | 2,011,128 | 59,417 |
| Net non-operating gains and (losses) | (1,855,656) | 233,572 | 1,694,513 | 113,864 |
| Increase (decrease) unrestricted net assets | (2,626,368) | 1,752,279 | 2,537,043 | 506,115 |
| CHANGES IN TEMPORARILY RESTRICTED NET ASSETS | | | | |
| <u>Restricted income</u> | | | | |
| Subsidies and appropriations | 2,180,398 | 2,217,141 | 2,239,960 | 2,331,550 |
| Offerings and donations | 262,317 | 210,819 | 894,982 | 148,170 |
| Irrevocable trusts, net earnings | (107,752) | 41,814 | (2,158,877) | 263,576 |
| Total restricted income received | 2,334,963 | 2,469,774 | 976,065 | 2,743,296 |
| Net assets released from restrictions - operating | (2,437,311) | (2,762,257) | (2,691,103) | (2,563,720) |
| Increase (decrease) | | | | |
| Temporarily restricted net assets | (102,348) | (292,483) | (1,715,038) | 179,576 |
| Increase (decrease) in net assets | (2,728,716) | 1,459,796 | 822,005 | 685,691 |
| Net assets, beginning of the year | 61,846,492 | 60,386,696 | 59,564,691 | 58,879,000 |
| Net assets, end of year | \$ 59,117,776 | 61,846,492 | 60,386,696 | 59,564,691 |

* Interfund and related party activity is eliminated in consolidated totals.
See accompanying notes.



SOUTHERN CALIFORNIA CONFERENCE OF SEVENTH-DAY ADVENTISTS
Consolidated Statements of Cash Flows, Page 1 of 2
December 31, 2014, 2013, 2012, and 2011

| | 2014* | 2013* | 2012* | 2011* |
|---|---------------------|------------------|------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Increase (decrease) in net assets | \$ (2,728,716) | 1,459,796 | 822,005 | 685,691 |
| Adjustments to reconcile change in net assets to net cash provided: | | | | |
| Depreciation expense | 1,819,631 | 1,796,510 | 1,734,791 | 1,716,800 |
| Provision for uncollectable accounts | (79,186) | - | (14,458) | (10,650) |
| Annuities actuarial adjustment | 46,475 | (163,834) | (56,499) | (106,985) |
| Annuity fund income less payments | 45,080 | 295,460 | 211,134 | 465,659 |
| (Gain) loss on disposal of plant asset | 457,715 | 37,226 | (2,023,447) | - |
| Church and school properties added | (1,000,000) | (175,933) | (1,896,738) | (5,975,926) |
| Unrealized (appreciation) decline in market value | (122,448) | (465,054) | 106,849 | (92,228) |
| (Increase) decrease accounts receivable, net | 329,122 | 612,816 | 555,646 | (390,814) |
| (Increase) decrease agency cash | 276,542 | (369,609) | 98,047 | (20,950) |
| (Increase) decrease inventory and prepaid expense | (222,650) | (14,181) | 15,535 | 1,829 |
| (Increase) Decrease in other current assets | 618,878 | (855,000) | - | - |
| Increase (decrease) accounts payable | 848,697 | 341,426 | 176,617 | 484,671 |
| Increase (decrease) trust funds | (304,139) | 410,985 | (46,700) | 313,861 |
| Net cash provided (used) from operating | <u>(14,999)</u> | <u>2,910,608</u> | <u>(317,218)</u> | <u>(2,929,042)</u> |
| CASH FLOWS FROM INVESTMENT ACTIVITIES | | | | |
| Proceeds from maturity of investments | 1,264,659 | 3,711,592 | 4,678,623 | 4,144,729 |
| Purchases of investments | (1,765,360) | (2,616,967) | (6,001,036) | (1,442,215) |
| (Proceeds) payments on accounts receivable | - | - | - | 4,937 |
| Payments received on notes receivable | 3,591,149 | 405,238 | (180,026) | 4,413,549 |
| New notes receivable issued | (771,211) | (726,450) | (916,200) | (458,125) |
| Purchases of plant assets | (173,256) | (2,441,114) | (350,395) | (88,676) |
| Proceeds from sale of plant assets | - | - | 2,039,822 | 96,371 |
| (Proceeds) payments investments in real estate | (358,643) | (171,693) | (21,291) | (931,584) |
| (Proceeds) payments assets held in trust | 705,403 | 853,371 | 2,455,609 | 466,990 |
| Net cash provided (used) from investing | <u>\$ 2,492,741</u> | <u>(986,023)</u> | <u>1,705,106</u> | <u>6,205,976</u> |

* Interfund and related party activity is eliminated in consolidated totals.
See accompanying notes.



SOUTHERN CALIFORNIA CONFERENCE OF SEVENTH-DAY ADVENTISTS
Consolidated Statements of Cash Flows, Page 2 of 2
December 31, 2014, 2013, 2012, and 2011

| | <u>2014*</u> | <u>2013*</u> | <u>2012*</u> | <u>2011*</u> |
|---|---------------------|--------------------|--------------------|--------------------|
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Proceeds (payments) on accounts payable | \$ (4,444) | 4,418 | (8,037) | (10,892) |
| Principal payments on notes payable | 1,135,241 | (301,501) | (4,109,128) | (824,067) |
| Proceeds from external borrowing | (2,218,824) | 190,809 | 3,488,540 | 235,000 |
| Proceeds from new gift annuities | 55,132 | - | 56,943 | 88,538 |
| Annuities investment income | 12,035 | 21,091 | 24,311 | 35,823 |
| Annuity payments | (140,876) | (142,278) | (183,449) | (170,144) |
| Distribution of matured annuities | (19,454) | (305,899) | (62,547) | (352,868) |
| Proceeds (payments) liability to depositors | 314,130 | (699,798) | (241,067) | (1,200,582) |
| Proceeds (payments) on remainder beneficiary | (49,372) | (532,547) | 183,238 | (428,227) |
| Proceeds (payments) liabilities held in trust | (548,279) | (362,644) | (482,419) | (302,339) |
| Net cash provided (used) from financing | <u>(1,464,711)</u> | <u>(2,128,349)</u> | <u>(1,333,615)</u> | <u>(2,929,758)</u> |
| | | | | |
| Net increase (decrease) cash and cash equivalents | 1,013,031 | (203,764) | 54,273 | 347,176 |
| | | | | |
| Cash and cash equivalents, beginning of year | <u>580,840</u> | <u>784,604</u> | <u>730,331</u> | <u>383,155</u> |
| | | | | |
| Cash and cash equivalents, end of year | <u>\$ 1,593,871</u> | <u>580,840</u> | <u>784,604</u> | <u>730,331</u> |
| | | | | |
| <u>Supplemental cash flow data:</u> | | | | |
| Cash paid during the year for interest | <u>\$ 744,876</u> | <u>771,018</u> | <u>667,334</u> | <u>859,174</u> |

Revenue for the year includes non-cash donations received, in the form of church and school properties added of \$1,000,000, \$175,922, \$1,896,738 and \$5,065,064 for the years ended December 31, 2014, 2013, 2012 and 2011, respectively.

* Interfund and related party activity is eliminated in consolidated totals.
See accompanying notes.



SOUTHERN CALIFORNIA CONFERENCE OF SEVENTH-DAY ADVENTISTS
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2014, 2013, 2012, and 2011

Note 1 – Organizational description and summary of significant accounting policies

Organization Description

Seventh-day Adventist congregations within Los Angeles and Ventura Counties, that part of Kern County that lies south and east of the Tehachapi Mountains, and that part of Santa Barbara County that lies to the east of the 120th meridian, have formed Southern California Conference of Seventh-day Adventists (Conference), Korean Adventist Press, Conference Education, Inc., Conference Retirement, Inc., and Glendale Retirement Residence, LP (Organizations) because of the relationship between these entities. The Conference also operates Adventist Book Center (ABC) as a department. The ABC sells religious literature and related merchandise to constituents and their families.

The Organizations' primary purpose is to spread the gospel of Jesus Christ throughout their territory. The Conference supports the operation of all churches and schools in its territory, and is a member organization of Pacific Union Conference of Seventh-day Adventists. The Conference holds legal title to all denominational property in its territory, and performs certain fiduciary duties. The Organizations receive most of their revenue in the form of contributions from members and other individuals in its constituent congregations.

The Conference and Korean Adventist Press are religious not-for-profit organizations, and are exempt from federal, state, and local income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code and corresponding sections of applicable state and local codes; except for taxes on Unrelated Business Income as described in section 511-514 of the Internal Revenue Code.

Conference Education, Inc., Conference Retirement, Inc., and Glendale Retirement Residence, LP are for profit subsidiaries and are taxed as corporations and partnerships.

Summary of Significant Accounting Policies

(a) The significant accounting policies of the Organizations are essentially the same as generally accepted accounting principles for not-for-profit organizations as promulgated by the Financial Accounting Standards Board. The significant policies are described below to enhance the usefulness of the financial statements. The financial statements of the Organizations have been prepared on the accrual basis of accounting. In conformity with the accrual basis of accounting, the Organizations have evaluated events that occurred subsequent to the financial statement date, up to May 4, 2015, which is the date the financial statements were issued.

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

(c) Restricted resources: The Organizations report gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

SOUTHERN CALIFORNIA CONFERENCE OF SEVENTH-DAY ADVENTISTS
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2014, 2013, 2012, and 2011

Note 1 – Organizational description and summary of significant accounting policies (continued)

The Organizations report gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets, are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organizations report expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

(d) Plant assets and depreciation: Plant assets are recorded at cost when purchased or at fair value at date of gift when donated. Plant assets that cost less than \$500 are not capitalized, but are charged to expense. Depreciation of land improvements, buildings, and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis. See Note 7 for disclosure of the estimated useful lives the Organizations have established for their various classes of plant assets. Depreciation expense is recorded in the Plant Fund, and is distributed among the operating expense reported in the Statement of Changes in Net Assets by the various program and supporting services functions that use those assets.

In its corporate capacity, the Conference holds legal title to the church and school properties used by the local church congregations. The value of these properties is included in the Plant Fund, and the related depreciation expense is recorded as non-operating expense in the Statement of Changes in Unrestricted Net Assets.

(e) Cash equivalents: Cash equivalents are highly-liquid assets of the Operating Funds, which are readily convertible to cash and have a maturity date of less than three months from date of acquisition.

Cash and investments of Funds Other than Operating are not classified as cash and cash equivalents. The increase or decrease in non-operating cash and investments is reported in the statement of cash flows as proceeds or purchases of investments.

(f) Fair value of financial instruments: Following are the major methods and assumptions used to estimate fair values:

Short-term financial instruments are valued at their carrying amounts included in the statement of financial position, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments. This applies to cash, cash equivalents, accounts receivable, and certain current liabilities.

Investment securities are valued at quoted market price or other reasonably obtainable market value estimate at the reporting date for those or similar securities. The difference between aggregate market value and historical cost for each type of security is recorded in a valuation account. The change in this account during each period is recognized as a gain or loss.

SOUTHERN CALIFORNIA CONFERENCE OF SEVENTH-DAY ADVENTISTS
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2014, 2013, 2012, and 2011

Note 1 – Organizational description and summary of significant accounting policies (continued)

Notes receivable and notes payable are valued at the amortized amount receivable or payable at the reporting date. Allowance has been made for notes which are not expected to be collected. The net total approximates the discounted value of future cash flows expected to be received or paid. Because of the difficulty and inherent subjectivity involved in determining fair values, which is not susceptible to independent substantiation, management has not attempted to estimate the fair value of loans receivable from related or affiliated entities. Such loans, by intent and practice, are expected to be held to maturity and are valued at face value.

(g) Current assets and liabilities: Assets and liabilities are classified as current or long-term depending on their characteristics. This excludes from current assets, cash and claims to cash that are restricted to use for other than current operations, committee allocated for the acquisition or construction of plant assets or for the liquidation of plant fund debt, or are held as agent for others. This excludes from current liabilities, the long-term portion of all debt, plant fund debt payable within the next fiscal year to the extent covered by designated plant fund liquid assets, or amounts held as fiscal agent for others. Working capital (current assets less current liabilities) for the Organizations usually reflect working capital of only the operating funds, since usually no assets or liabilities of the plant, annuity, agency fund, endowment, and trust funds are classified as current.

(h) Investment income: Ordinary income from investments, loans, and the like is accounted for in the fund owning the assets.

(i) Inventories: Inventories are valued at lower of cost or market using the first-in-first-out method.

(j) Split-interest agreements: The Organizations are at least a partial beneficiary in various kinds of trusts, annuities, and/or other split-interest agreements for which they act as trustees or administrators. Other organizations are partial beneficiaries of some of these agreements. For those agreements that are unconditional and irrevocable, assets are recorded by the Organizations at fair value at the date of gift or acceptance of agreement. For agreements that designate other beneficiaries, liabilities are recorded for the present value of the amount due to others. Conservative discount rates are used to compute the present value of such liabilities. Standard actuarial tables and conservative interest rates are used to compute liabilities due to annuitants. The Organizations' remainder interest is classified as unrestricted or temporarily restricted depending on the terms of each agreement; see Note 26 below. The State of California requires the Organizations to maintain a reserve amount in a separate fund for all California annuitants. California regulations provide restrictions on the types of investments that can be owned by the reserve. At December 31, 2014, 2013, 2012 and 2011, the Organizations maintained a reserve which was invested in accordance with California regulations of \$638,213, \$639,821, \$935,281 and \$945,388, respectively.

(k) Affiliated organizations: The Organizations operate through several organizations with which they are affiliated by reason of economic interest and/or shared membership on the respective governing committees. The financial statements of these other organizations are not combined with these Organizations because they do not meet the criteria for consolidation. Inter-organization transactions carried on in the ordinary course of business are handled through current accounts receivable and payable, and are settled generally on a monthly basis; (See Notes 4 and 12 below.) Other financial transactions involving appropriations and loans are detailed in Notes 5, 8, 13, 14, 16, 21, and 22 below: The specific organizations referred to above are:

SOUTHERN CALIFORNIA CONFERENCE OF SEVENTH-DAY ADVENTISTS
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2014, 2013, 2012, and 2011

Note 1 – Organizational description and summary of significant accounting policies (continued)

General Conference of Seventh-day Adventists (GC) - The GC is the world headquarters of the Seventh-day Adventist denomination and as such determines the operating and accounting policies to be followed by church institutions.

North American Division of the General Conference of Seventh-day Adventists (NAD) - The NAD is the organization responsible for church activities in North America. The NAD determines policies for institutions within North America in accordance with GC policies.

Pacific Union Conference of Seventh-day Adventists (PUC) - The PUC is the organization responsible for church activities in the states of Arizona, California, Hawaii, Nevada, and Utah. The PUC determines policies for institutions within the above states in accordance with NAD policies.

(I) Fund accounting: To ensure observance of limitations and restrictions placed on the use of resources available to the Organizations, the accounts are maintained in accordance with the principles of fund accounting. Resources are classified for accounting and reporting into funds established according to their nature and purposes. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds have been combined into groups and totals are presented for the Organizations as a whole. The funds and fund groups are described in further detail below.

Operating funds: Unrestricted and restricted resources available for current operations. This fund group reflects the combined operating activity of the Conference, Adventist Book Center, Korean Adventist Press and Conference Education, Inc.

Plant funds: The Unexpended Plant and Net Invested in Plant Funds. The Unexpended Plant Fund represents resources which were donor restricted or conference committee allocated for plant acquisitions. Since Operating Funds allocated by the conference committee can be returned to the Operating Funds by action of the committee, they are included in the unrestricted section of Net Assets, and appear as Allocated Net Assets. This balance includes the unused portion of funded depreciation, additional funds transferred for plant acquisitions, proceeds from sale of plant assets, and unrestricted plant fund investment earnings. The Net Invested in Plant Fund represents plant assets acquired, respective accumulated depreciation, and any respective debt.

Other funds: A combination of the Annuity Fund, Agency Fund and Trust Fund. Following are descriptions of them:

Annuity fund: Annuity fund represents funds that are subject to the conditions stated in annuity agreements. By denominational policy all funds received are to be held until maturity, and no portion of such funds received may be used except to meet the regular annuity payments when they exceed the earnings from investment of annuity funds.

Agency fund: Agency fund is an accounting entity where funds received by the Organizations as fiscal agents for other organizations are held.

Trust fund: Trust Fund is an accounting entity for assets that are held in a trustee capacity. This fund is limited to certain conditional and unconditional irrevocable trusts agreements that name the Organizations as the trustee.

SOUTHERN CALIFORNIA CONFERENCE OF SEVENTH-DAY ADVENTISTS
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2014, 2013, 2012, and 2011

Note 1 – Organizational description and summary of significant accounting policies (continued)

(m) Financial statement presentation: Certain amounts in the 2013, 2012 and 2011 columns were adjusted to conform to 2014 financial statement presentation.

Note 2 – Cash and cash equivalents

| | Total 2014 | Total 2013 | Total 2012 | Total 2011 |
|-------------------------------|---------------------|----------------|----------------|----------------|
| Imprest cash | \$ 8,940 | 6,440 | 6,540 | 6,440 |
| Checking accounts | 1,511,971 | 733,011 | 543,414 | 801,467 |
| Less cash held for agency | (192,557) | (501,816) | (132,207) | (227,806) |
| Total conference | 1,328,354 | 237,635 | 417,747 | 580,101 |
| Korean Adventist Press | 148,189 | 220,531 | 242,757 | 104,384 |
| Conference Education, Inc. | 117,329 | 122,674 | 124,100 | 45,846 |
| Total cash & cash equivalents | <u>\$ 1,593,871</u> | <u>580,840</u> | <u>784,604</u> | <u>730,331</u> |

The Organizations maintain their cash accounts primarily in banks that operate in the state of California. Total cash balances are insured by the FDIC up to \$250,000 per bank. The Organizations held cash balances on deposit with one bank at December 31, 2014, 2013, 2012 and 2011, which exceeded the balance insured by the FDIC by \$1,157,373, \$416,431, \$293,414 and \$538,542 respectively.

Note 3 – Investments

| | 2014 | | |
|---|---------------------|------------------|---------------------------|
| | Cost | Fair Value | Unrealized Appr (Decl) |
| <u>Carrying amount and fair value of</u> | | | |
| <u>Investments held for operating purposes:</u> | | | |
| Money market accounts | \$ 22,891 | 22,891 | - |
| Government bonds | 84,277 | 92,704 | 8,427 |
| Mutual funds | 1,000,593 | 1,356,474 | 355,881 |
| Denominational unitized funds | 5,049,811 | 5,262,776 | 212,965 |
| Total for operating purposes | <u>\$ 6,157,572</u> | <u>6,734,845</u> | <u>577,273</u> |
| 2013 | | | |
| | Cost | Fair Value | Unrealized Appr (Decl) |
| Money market accounts | \$ 22,853 | 22,853 | - |
| Certificates of deposit | 10,964 | 10,964 | - |
| Government bonds | 81,465 | 88,384 | 6,919 |
| Mutual funds | 912,183 | 1,265,344 | 353,161 |
| Denominational unitized funds | 4,827,669 | 4,975,571 | 147,902 |
| Total for operating purposes | <u>\$ 5,855,133</u> | <u>6,363,115</u> | <u>507,982</u> |
| 2012 | | | |
| | Cost | Fair Value | Unrealized Appr (Decl) |
| Money market accounts | \$ 22,681 | 22,681 | - |
| Certificates of deposit | 10,877 | 10,877 | - |
| Government bonds | 81,618 | 94,149 | 12,531 |
| Mutual funds | 865,192 | 1,022,593 | 157,401 |
| Denominational unitized funds | 4,706,078 | 4,752,851 | 46,773 |
| Total for operating purposes | <u>\$ 5,686,446</u> | <u>5,903,151</u> | <u>216,705</u> |
| 2011 | | | |
| | Cost | Fair Value | Unrealized Appr (Decl) |
| Money market accounts | \$ 22,655 | 22,655 | - |
| Certificates of deposit | 3,486,239 | 3,486,239 | - |
| Government bonds | 81,736 | 89,591 | 7,855 |
| Mutual funds | 805,221 | 911,880 | 106,659 |
| Denominational unitized funds | 1,181,195 | 1,204,226 | 23,031 |
| Total for operating purposes | <u>\$ 5,577,046</u> | <u>5,714,591</u> | <u>137,545</u> |



SOUTHERN CALIFORNIA CONFERENCE OF SEVENTH-DAY ADVENTISTS
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2014, 2013, 2012, and 2011

Note 3 – Investments (continued)

| | 2014 | | |
|--|---------------------|------------------|---------------------------|
| | Cost | Fair Value | Unrealized Appr (Decl) |
| <u>Cash and investments held for other than operating:</u> | | | |
| Checking accounts | \$ 317,159 | 317,159 | - |
| Certificates of deposit | 314,527 | 318,340 | 3,813 |
| Money market accounts | 13,635 | 13,635 | - |
| Corporate stock funds | 204,746 | 290,186 | 85,440 |
| Denominational unitized funds | 7,093,982 | 7,443,878 | 349,896 |
| Total for other than operating purposes | <u>\$ 7,944,049</u> | <u>8,383,198</u> | <u>439,149</u> |

| | 2013 | | |
|---|---------------------|------------------|---------------------------|
| | Cost | Fair Value | Unrealized Appr (Decl) |
| Checking accounts | \$ 221,312 | 221,312 | - |
| Certificates of deposit | 386,325 | 389,672 | 3,347 |
| Money market accounts | 10,516 | 10,516 | - |
| Corporate bonds | - | - | - |
| Corporate stock funds | 231,429 | 325,800 | 94,371 |
| Denominational unitized funds | 6,901,099 | 7,152,435 | 251,336 |
| Total for other than operating purposes | <u>\$ 7,750,681</u> | <u>8,099,735</u> | <u>349,054</u> |

| | 2012 | | |
|---|----------------------|-------------------|---------------------------|
| | Cost | Fair Value | Unrealized Appr (Decl) |
| Checking accounts | \$ 2,160,979 | 2,160,979 | - |
| Certificates of deposit | 444,184 | 444,184 | - |
| Money market accounts | 23,133 | 23,133 | - |
| Corporate bonds | - | - | - |
| Corporate stock funds | 605,798 | 606,702 | 904 |
| Denominational unitized funds | 7,800,820 | 7,896,075 | 95,255 |
| Total for other than operating purposes | <u>\$ 11,034,914</u> | <u>11,131,073</u> | <u>96,159</u> |

| | 2011 | | |
|---|----------------------|-------------------|---------------------------|
| | Cost | Fair Value | Unrealized Appr (Decl) |
| Checking accounts | \$ 202,318 | 202,318 | - |
| Certificates of deposit | 839,365 | 843,743 | 4,378 |
| Money market accounts | 268,189 | 268,189 | - |
| Corporate bonds | 85,000 | 85,027 | 27 |
| Corporate stock funds | 407,091 | 449,319 | 42,228 |
| Denominational unitized funds | 8,394,106 | 8,255,473 | (138,633) |
| Total for other than operating purposes | <u>\$ 10,196,069</u> | <u>10,104,069</u> | <u>(92,000)</u> |

| | Operating Activity | Non-Oper. Activity | Total 2014 | Total 2013 | Total 2012 | Total 2011 |
|--|-----------------------|-----------------------|----------------|----------------|----------------|----------------|
| <u>Composition of investment return</u> | | | | | | |
| Investment income | \$ 281,981 | 26,751 | 308,732 | 251,878 | 236,602 | 217,574 |
| Realized gain (loss) on Sale of investments | - | 19,592 | 19,592 | 70,991 | 16,594 | (67,291) |
| Unrealized gain (loss) in Market value of investments | 27,684 | (2,170) | 25,514 | 326,456 | 112,300 | 35,291 |
| Net gain (loss) on investments | 27,684 | 17,422 | 45,106 | 397,447 | 128,894 | (32,000) |
| Total investment return | <u>\$ 309,665</u> | <u>44,173</u> | <u>353,838</u> | <u>649,325</u> | <u>365,496</u> | <u>185,574</u> |



SOUTHERN CALIFORNIA CONFERENCE OF SEVENTH-DAY ADVENTISTS
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2014, 2013, 2012, and 2011

Note 3 – Investments (continued)

The market value of securities and investments changes based on economic conditions.

The Organizations' investment strategy places all its investments (except loans receivable and debt securities that qualify as "held to maturity") in a class in which accounting standards require the value to be fair value.

Fair values at December 31 are determined by reference to the following "levels" of information:

Level 1: Observable quoted market prices for similar items

Level 2: Observable quoted market prices for similar items, and other observable market data correlated to specific assets

Level 3: Unobservable other information from investment fund managers, which assert that they use market data to determine the unit value which are communicated to investors

| | 2014 | | |
|--|---------|------------|---------|
| | Level 1 | Level 2 | Level 3 |
| Government bonds, corporate bonds, corporate stock funds, mutual funds, denominational unitized funds | \$ - | 14,446,018 | - |
| Total investments at December 31, 2014 | \$ - | 14,446,018 | - |

| | 2013 | | |
|--|---------|------------|---------|
| | Level 1 | Level 2 | Level 3 |
| Government bonds, corporate bonds, corporate stock funds, mutual funds, denominational unitized funds | \$ - | 13,807,533 | - |
| Total investments at December 31, 2013 | \$ - | 13,807,533 | - |

| | 2012 | | |
|--|---------|------------|---------|
| | Level 1 | Level 2 | Level 3 |
| Government bonds, corporate bonds, corporate stock funds, mutual funds, denominational unitized funds | \$ - | 14,372,370 | - |
| Total investments at December 31, 2012 | \$ - | 14,372,370 | - |

| | 2011 | | |
|--|---------|------------|---------|
| | Level 1 | Level 2 | Level 3 |
| Government bonds, corporate bonds, corporate stock funds, mutual funds, denominational unitized funds | \$ - | 10,995,516 | - |
| Total investments at December 31, 2011 | \$ - | 10,995,516 | - |



SOUTHERN CALIFORNIA CONFERENCE OF SEVENTH-DAY ADVENTISTS
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2014, 2013, 2012, and 2011

Note 4 – Accounts receivable

| | Total 2014 | Total 2013 | Total 2012 | Total 2011 |
|---|---------------|---------------|---------------|---------------|
| Church remittances | \$ 3,039,858 | 3,464,327 | 4,155,944 | 4,002,853 |
| Churches | 562,055 | 480,267 | 510,587 | 970,476 |
| Schools | 586,225 | 699,688 | 544,671 | 660,471 |
| Workers' accounts | 7,846 | 2,278 | 7,775 | 9,254 |
| Other | 75,789 | 41,227 | 91,524 | 237,423 |
| Total accounts receivable | 4,271,774 | 4,687,787 | 5,310,501 | 5,880,477 |
| Less: allowances for uncollectable accounts | (610,714) | (689,900) | (689,900) | (704,359) |
| Total accounts receivable, net | 3,661,060 | 3,997,888 | 4,620,601 | 5,176,118 |
| Korean Adventist Press, net | 75,831 | 110,703 | 102,549 | 88,219 |
| Net accounts receivable | \$ 3,736,891 | 4,108,591 | 4,723,150 | 5,264,337 |

Note 5 – Notes and loans receivable

| | Current | Long-term | Total 2014 | Total 2013 | Total 2012 | Total 2011 |
|--|-----------|-----------|---------------|---------------|---------------|---------------|
| <u>Operating fund</u> | | | | | | |
| Churches and other institutions | \$ 28,224 | 27,657 | 55,881 | 199,450 | 199,523 | 21,784 |
| Schools | - | 2,813,322 | 2,813,322 | 2,674,871 | 2,294,784 | 1,379,305 |
| Churches/schools-offset | | | | | | |
| by payables, see Note 13 | 8,013 | 311,445 | 319,458 | 326,963 | 267,973 | 285,322 |
| Employees | 21,274 | 60,007 | 81,281 | 81,726 | 90,377 | 110,277 |
| Other | - | - | - | - | 5,011 | 3,000 |
| Less: allowance for uncollectable accounts | - | (3,150) | (3,150) | (3,150) | (3,150) | (3,150) |
| Net notes and loans | | | | | | |
| Receivable - operating | \$ 57,511 | 3,209,281 | 3,266,792 | 3,279,860 | 2,854,518 | 1,796,538 |

Note 6 – Inventory and prepaid expense

| | Operating | ABC | Korean Adventist Press | Total 2014 | Total 2013 | Total 2012 | Total 2011 |
|----------------------------------|------------|---------|------------------------------|---------------|---------------|---------------|---------------|
| Books | \$ - | 77,957 | 85,538 | 163,495 | 78,465 | 86,378 | 119,080 |
| Food | 10,252 | 108,404 | - | 118,656 | 14,778 | 14,572 | 13,121 |
| Other | 16,774 | 10,840 | 12,240 | 39,854 | 28,920 | 23,734 | 43,861 |
| Office and departmental supplies | 103,625 | - | - | 103,625 | 86,140 | 76,259 | 72,032 |
| Prepaid expense | 60,716 | - | - | 60,716 | 81,761 | 75,193 | 43,576 |
| Total inventory and | | | | | | | |
| Prepaid expense | \$ 191,367 | 197,201 | 97,778 | 486,346 | 290,064 | 276,136 | 291,670 |



SOUTHERN CALIFORNIA CONFERENCE OF SEVENTH-DAY ADVENTISTS
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2014, 2013, 2012, and 2011

Note 7 – Plant assets

| | Cost | Accum. Deprec. | Book Value | Depreciation Expense | |
|---|-----------------------|-------------------|-------------------|----------------------|------------------|
| | | | | Operating | Other |
| <u>2014</u> | | | | | |
| <u>Conference</u> | | | | | |
| Land | \$ 2,004,789 | - | 2,004,789 | - | - |
| Land improvements (lives of 10 to 15 years) | 862,150 | 643,783 | 218,367 | 18,217 | - |
| Buildings (lives of 20 to 75 years) | 11,716,079 | 7,695,000 | 4,021,079 | 338,836 | - |
| Equipment (lives of 3 to 10 years) | 2,132,075 | 1,914,868 | 217,207 | 64,314 | - |
| Leased Equipment (lives of 3 to 10 years) | 99,849 | 24,962 | 74,887 | 24,962 | - |
| <u>Churches/schools</u> | | | | | |
| Land | 22,279,304 | - | 22,279,304 | - | - |
| Land improvements (lives of 10 to 15 years) | 871,682 | 871,682 | - | - | - |
| Buildings (lives of 20 to 75 years) | 69,893,607 | 39,091,491 | 30,802,116 | - | 1,358,838 |
| Total Conference | 109,859,535 | 50,241,786 | 59,617,749 | 446,329 | 1,358,838 |
| <u>Korean Adventist Press</u> | | | | | |
| Land | 390,000 | - | 390,000 | - | - |
| Buildings (lives of 20 to 25 years) | 210,000 | 152,784 | 57,216 | 8,174 | - |
| Building improvements (lives of 15 to 20 years) | 163,611 | 163,611 | - | - | - |
| Equipment (lives of 3 to 5 years) | 119,380 | 91,787 | 27,593 | 6,290 | - |
| Total Korean Adv. Press | 882,991 | 408,182 | 474,809 | 14,464 | - |
| Total plant assets, net | \$ 110,742,526 | 50,649,968 | 60,092,558 | 460,793 | 1,358,838 |
| <u>2013</u> | | | | | |
| <u>Conference</u> | | | | | |
| Land | \$ 2,004,789 | - | 2,004,789 | - | - |
| Land improvements (lives of 10 to 15 years) | 869,673 | 625,942 | 243,731 | 18,736 | - |
| Buildings (lives of 20 to 75 years) | 11,709,902 | 7,355,788 | 4,354,113 | 339,869 | - |
| Equipment (lives of 3 to 10 years) | 2,089,636 | 1,851,226 | 238,410 | 24,380 | - |
| <u>Churches/schools</u> | | | | | |
| Land | 22,247,019 | - | 22,247,019 | - | - |
| Land improvements (lives of 10 to 15 years) | 871,682 | 871,682 | - | - | - |
| Buildings (lives of 20 to 75 years) | 69,383,607 | 37,732,653 | 31,650,954 | - | 1,404,025 |
| Total conference | 109,176,308 | 48,437,291 | 60,739,017 | 382,986 | 1,404,025 |
| <u>Korean Adventist Press</u> | | | | | |
| Land | 390,000 | - | 390,000 | - | - |
| Buildings (lives of 20 to 25 years) | 210,000 | 144,610 | 65,390 | 8,174 | - |
| Building improvements (lives of 15 to 20 years) | 163,611 | 163,611 | - | - | - |
| Equipment (lives of 3 to 5 years) | 107,065 | 105,497 | 1,568 | 1,325 | - |
| Total Korean Adv. Press | 870,676 | 413,718 | 456,958 | 9,499 | - |
| Total plant assets, net | \$ 110,046,984 | 48,851,009 | 61,195,975 | 392,485 | 1,404,025 |
| <u>2012</u> | | | | | |
| <u>Conference</u> | | | | | |
| Land | \$ 2,004,789 | - | 2,004,789 | - | - |
| Land improvements (lives of 10 to 15 years) | 862,150 | 607,206 | 254,944 | 8,607 | - |
| Buildings (lives of 20 to 75 years) | 11,709,902 | 7,015,919 | 4,693,983 | 292,116 | - |
| Equipment (lives of 3 to 10 years) | 1,154,545 | 982,237 | 172,308 | 67,266 | - |
| <u>Churches/schools</u> | | | | | |
| Land | 21,117,724 | - | 21,117,724 | - | - |
| Land improvements (lives of 10 to 15 years) | 871,682 | 871,682 | - | - | - |
| Buildings (lives of 20 to 75 years) | 66,090,817 | 36,328,629 | 29,762,188 | - | 1,355,646 |
| Total conference | 103,811,609 | 45,805,673 | 58,005,936 | 367,989 | 1,355,646 |
| <u>Korean Adventist Press</u> | | | | | |
| Land | 390,000 | - | 390,000 | - | - |
| Buildings (lives of 20 to 25 years) | 210,000 | 136,436 | 73,564 | 8,174 | - |
| Building improvements (lives of 15 to 20 years) | 163,611 | 163,611 | - | - | - |
| Equipment (lives of 3 to 5 years) | 105,323 | 104,172 | 1,151 | 2,982 | - |
| Total Korean Adv. Press | 868,934 | 404,219 | 464,715 | 11,156 | - |
| Total plant assets, net | \$ 104,680,543 | 46,209,892 | 58,470,651 | 379,145 | 1,355,646 |



SOUTHERN CALIFORNIA CONFERENCE OF SEVENTH-DAY ADVENTISTS
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2014, 2013, 2012, and 2011

Note 7 – Plant assets (continued)

| | Cost | Accum. Deprec. | Book Value | Depreciation Expense | |
|--|----------------|-------------------|------------|----------------------|-----------|
| | | | | Operating | Other |
| <u>2011</u> | | | | | |
| <u>Conference</u> | | | | | |
| Land | \$ 2,004,789 | - | 2,004,789 | - | - |
| Land improvements (lives of 10 to 15 years) | 680,037 | 598,599 | 81,438 | 3,749 | - |
| Buildings (lives of 20 to 75 years) | 10,664,787 | 6,723,803 | 3,940,984 | 294,715 | - |
| Construction in progress | 910,863 | - | 910,863 | - | - |
| Equipment (lives of 3 to 10 years) | 1,110,496 | 914,971 | 195,525 | 60,093 | - |
| <u>Churches/schools</u> | | | | | |
| Land | 20,354,226 | - | 20,354,226 | - | - |
| Land improvements (lives of 10 to 15 years) | 871,681 | 871,681 | - | - | 5,133 |
| Buildings (lives of 20 to 75 years) | 64,967,596 | 34,956,607 | 30,010,989 | - | 1,341,428 |
| Total conference | 101,564,475 | 44,065,661 | 57,498,814 | 358,557 | 1,346,561 |
| <u>Korean Adventist Press</u> | | | | | |
| Land | 390,000 | - | 390,000 | - | - |
| Buildings (lives of 20 to 25 years) | 210,000 | 128,262 | 81,738 | 6,131 | - |
| Building improvements (lives of 15 to 20 year) | 163,611 | 163,611 | - | - | - |
| Equipment (lives of 3 to 5 years) | 105,323 | 101,190 | 4,133 | 2,630 | - |
| Total Korean Adv. Press | 868,934 | 393,063 | 475,871 | 8,761 | - |
| Total plant assets, net | \$ 102,433,409 | 44,458,724 | 57,974,684 | 367,318 | 1,346,561 |

Note 8 – Deferred charges

| | 2014 | 2013 | 2012 | 2011 |
|--|--------------|-----------|-----------|-----------|
| Newbury Park and Ventura Estates Land Development* | \$ 2,236,755 | 2,428,390 | 2,433,190 | 2,433,190 |

* Expenditures associated with the development of the property for future sale to a commercial developer.

Note 9 – Investments in partnerships and LLCs

Consolidated:

Conference Education, Inc. (CEDU) is a for-profit California Corporation which is a wholly owned subsidiary of the Conference. CEDU was formed to operate as a holding company for real estate which is to be developed in Newbury Park, California. The entity is governed by a separate board of directors whose members include officers of the Conference.

Korean Adventist Press (KAP) is operated by the Conference, and whose members include other officers of the Conference. Its purpose is to provide and disseminate Korean language Christian literature. Most of KAP's dealings are with the Korean language congregations of NAD and with the Conference itself.

Equity method:

Investments in common stock and membership certificates representing 20% to 50% ownership, in Limited Liabilities Partnerships are reflected at fair market plus equity in the undistributed net earnings (losses) since acquisition, under the equity method. Minority interests in common stock of non-publicly traded companies and partnerships are reflected at original fair market value plus accumulated earnings and losses.

Conference Retirement, Inc. (CRET) was formed by the Conference and Colson & Colson Construction Company for the purpose of constructing and operating a retirement home facility. The Conference has 40% general partnership interest in Glendale Retirement Residence, LP.

Investments consist of the following at December 31, 2014, 2013, 2012 and 2011:

| | 2014 | 2013 | 2012 | 2011 |
|-----------------------------|--------------|-------------|-------------|-------------|
| Conference Retirement, Inc. | \$ 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 |
| Investment offset | (1,500,000) | (1,500,000) | (1,500,000) | (1,500,000) |
| Total investment | \$ - | - | - | - |



SOUTHERN CALIFORNIA CONFERENCE OF SEVENTH-DAY ADVENTISTS
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2014, 2013, 2012, and 2011

| Note 10 – Investments in real estate | Total 2014 | Total 2013 | Total 2012 | Total 2011 |
|--------------------------------------|---------------------|------------------|------------------|------------------|
| Association operating | \$ 481,268 | 1,100,145 | 227,538 | 210,533 |
| Conference Education, Inc. | 4,526,811 | 4,168,167 | 4,014,082 | 4,009,795 |
| Total investments in real estate | <u>\$ 5,008,079</u> | <u>5,268,312</u> | <u>4,241,620</u> | <u>4,220,328</u> |

| Note 11 – Assets held in trust | Total 2014 | Total 2013 | Total 2012 | Total 2011 |
|---|----------------------|---------------------|---------------------|--------------------|
| Academy land | \$ 918,372 | 918,372 | 918,372 | 918,372 |
| Academy land improvements | 2,051,064 | 2,054,821 | 2,054,821 | 2,042,840 |
| Academy buildings | 17,635,499 | 17,506,677 | 17,317,540 | 16,740,247 |
| Less: accumulated depreciation | <u>(11,795,602)</u> | <u>(11,122,258)</u> | <u>(10,570,477)</u> | <u>(9,501,232)</u> |
| Net value of academy property held in trust | 8,809,333 | 9,357,612 | 9,720,256 | 10,200,227 |
| Unconditional irrevocable trust assets | 9,948,581 | 10,105,705 | 10,596,432 | 12,572,071 |
| Total assets held in trust | <u>\$ 18,757,915</u> | <u>19,463,317</u> | <u>20,316,688</u> | <u>22,772,298</u> |

| Note 12 – Accounts payable | Total 2014 | Total 2013 | Total 2012 | Total 2011 |
|------------------------------|---------------------|------------------|------------------|------------------|
| PUC | \$ 2,066,203 | 1,747,785 | 1,940,286 | 1,905,056 |
| Payroll withholdings | 429,706 | 395,257 | 358,997 | 359,779 |
| Accrued wages and vacation | 1,304,948 | 1,244,963 | 1,009,185 | 944,695 |
| Accrued retirement allowance | 947,929 | 647,624 | 689,692 | 693,797 |
| Schools | - | - | - | 19,465 |
| Commercial payable | 108,048 | 62,506 | 207,620 | 54,803 |
| Property taxes | 376,480 | 239,883 | 356,528 | 335,914 |
| Other | 451,293 | 285,330 | 59,572 | 166,499 |
| Sub-total | <u>5,684,607</u> | <u>4,623,350</u> | <u>4,621,880</u> | <u>4,480,008</u> |
| Korean Adventist Press | 58,351 | 97,057 | 135,466 | 75,464 |
| Newbury Park development | 203,145 | 496,986 | 125,000 | 156,951 |
| Total accounts payable | <u>\$ 5,946,103</u> | <u>5,217,392</u> | <u>4,882,346</u> | <u>4,712,423</u> |

| Note 13 – Notes and mortgages payable | Current | Long-term | Total 2014 | Total 2013 | Total 2012 | Total 2011 |
|--|---------------|----------------|----------------|----------------|----------------|----------------|
| <u>Operating fund</u> | | | | | | |
| Hanmi Bank; \$330,000 at 4.5% Interest; due May 6, 2020; monthly payments of \$1,847; secured by Deed of Trust * | 8,013 | 307,753 | 315,766 | 323,269 | 241,612 | 255,482 |
| Pomona Valley Spanish; \$381,933 at 2.5%; monthly interest of principal only; unsecured callable loan. | <u>31,038</u> | <u>-</u> | <u>31,038</u> | <u>30,272</u> | <u>29,473</u> | <u>406,539</u> |
| Total operating fund | <u>39,051</u> | <u>307,753</u> | <u>346,804</u> | <u>353,541</u> | <u>271,085</u> | <u>662,021</u> |



SOUTHERN CALIFORNIA CONFERENCE OF SEVENTH-DAY ADVENTISTS
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2014, 2013, 2012, and 2011

Note 13 – Notes and mortgages payable (continued)

| | <u>Current</u> | <u>Long-term</u> | <u>Total 2014</u> | <u>Total 2013</u> | <u>Total 2012</u> | <u>Total 2011</u> |
|--|-------------------|------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| <u>Newbury Park Development fund</u> | | | | | | |
| Bank of America - Line of credit (See Note 14); \$3,500,000 at 2.54% interest; due July 31, 2012; monthly payments of interest only; unsecured. | - | - | - | - | - | 2,935,176 |
| GC - Line of credit (See Note 14) \$10,000,000 maximum borrowings; due June 30, 2014; interest payable quarterly at one-half percent above the prime or reference rate; secured by Deed of Trust. | 8,670,000 | - | 8,670,000 | 8,670,000 | 8,670,000 | 8,670,000 |
| PUC Line of credit (See Note 14); \$1,700,000 maximum borrowings; due January 31, 2015; at a variable interest payable monthly; unsecured. | 850,000 | - | 850,000 | - | - | - |
| PUC Line of credit (See Note 14); \$1,000,000 maximum borrowings; due June 30, 2014; at a variable interest payable monthly; unsecured. | 1,000,000 | - | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 |
| PUC Line of credit (See Note 14); \$4,800,000 maximum borrowings; at 6% interest; due June 30, 2014; secured by Deed of Trust. | 4,800,000 | - | 4,800,000 | 4,800,000 | 4,800,000 | 4,800,000 |
| PUC Line of credit (See Note 14); \$1,500,000 maximum borrowings; at a variable interest rate; due June 30, 2015; unsecured. | 671,991 | - | 671,991 | - | - | - |
| PUC Line of credit (See Note 14); \$3,000,000 maximum borrowings; at 4.75% interest; due June 30, 2017; secured by Deed of Trust. | 12,126 | 3,000,000 | 3,012,126 | 3,000,000 | 3,000,000 | - |
| Total Newbury Park Development fund | <u>16,004,117</u> | <u>3,000,000</u> | <u>19,004,117</u> | <u>17,470,000</u> | <u>17,470,000</u> | <u>17,405,176</u> |
| Total operating funds | <u>16,043,168</u> | <u>3,307,753</u> | <u>19,350,921</u> | <u>17,823,541</u> | <u>17,741,085</u> | <u>18,067,197</u> |



SOUTHERN CALIFORNIA CONFERENCE OF SEVENTH-DAY ADVENTISTS
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2014, 2013, 2012, and 2011

Note 13 – Notes and mortgages payable (continued)

| | <u>Current</u> | <u>Long-term</u> | <u>Total 2014</u> | <u>Total 2013</u> | <u>Total 2012</u> | <u>Total 2011</u> |
|---|----------------------|-------------------|------------------------|-----------------------|-----------------------|-----------------------|
| <u>Plant fund</u> | | | | | | |
| Bank of America - Line of credit (See Note 14); \$3,500,000 at 2.54% interest, due July 31, 2012; monthly payments of interest only; unsecured. | - | - | - | - | - | 192,501 |
| Mary Richards; \$150,000 at 7.0% fixed interest; due July 20, 2015; monthly payments of \$1,348; secured by Deed of Trust. | - | - | - | - | 38,143 | 51,154 |
| PUC; \$500,000 at a variable interest rate; due April 11, 2022; monthly payments of \$3,025; secured by Deed of Trust | 23,580 | 162,649 | 186,229 | 212,816 | 242,126 | 267,666 |
| PUC; \$21,681 at a variable interest rate; due April 11, 2022; monthly payments of \$190; secured by Deed of Trust. | 1,527 | 5,438 | 6,965 | 8,807 | 10,843 | 12,625 |
| PUC; \$437,000 at a variable interest rate; due January 9, 2022; monthly payments of \$3,750; secured by Deed of Trust. | 29,663 | 199,124 | 228,787 | 261,819 | 298,238 | 329,977 |
| PUC; \$574,157 at a variable interest rate; due April 11, 2022 monthly payments of \$4,925; secured by Deed of Trust. | - | - | - | 342,879 | 390,815 | 432,534 |
| PUC; \$345,000 at a variable interest rate; due March 6, 2019 monthly payments of \$2,230; secured by Deed of Trust. | 10,942 | 317,787 | 328,729 | - | - | - |
| Xerox Financial Services at 6.75% interest, 60 monthly payments of \$2,399. | 24,327 | 52,779 | 77,106 | - | - | - |
| Total plant fund | <u>90,039</u> | <u>737,777</u> | <u>827,816</u> | <u>826,321</u> | <u>980,165</u> | <u>1,286,457</u> |
| Total notes payable | <u>\$ 16,133,207</u> | <u>4,045,530</u> | <u>20,178,737</u> | <u>18,649,862</u> | <u>18,721,250</u> | <u>19,353,654</u> |
| Newbury Park Dev. Fund | | | | | | |
| Five year payout as follows: | <u>Operating</u> | <u>Fund</u> | <u>Plant Funds</u> | <u>Total</u> | | |
| 2015 | \$ 39,051 | 16,004,117 | 90,039 | 16,133,207 | | |
| 2016 | 8,382 | - | 95,786 | 104,168 | | |
| 2017 | 8,767 | 3,000,000 | 100,830 | 3,109,597 | | |
| 2018 | 9,169 | - | 78,647 | 87,816 | | |
| 2019 | 9,591 | - | 350,231 | 359,822 | | |
| Thereafter | 271,844 | - | 112,283 | 384,127 | | |
| Total | <u>\$ 346,804</u> | <u>19,004,117</u> | <u>827,816</u> | <u>20,178,737</u> | | |



SOUTHERN CALIFORNIA CONFERENCE OF SEVENTH-DAY ADVENTISTS
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2014, 2013, 2012, and 2011

Note 13 – Notes and mortgages payable (continued)

* One of these notes was incurred on behalf of a church in the Organizations' territory which amounts to \$315,766, \$323,269, \$241,612 and \$255,482 at December 31, 2014, 2013, 2012 and 2011, respectively. This is offset by notes receivable; see Note 5.

Note 14 – Lines of credit

The Organizations maintained a line of credit with Bank of America with covenants that include the following: presentation of quarterly and annual financial statements; maintenance of specific debt to equity ratios (Operating Fund); maintenance of net asset minimums; and the Organizations must obtain Bank of America's written consent before entering into any contingent debt covenants. This line of credit with Bank of America was established to assist member churches and schools for their capital and operating needs. Maximum borrowing is \$3,500,000. Interest only payments are made monthly at an interest rate of 2.46%. The balance on the line of credit is \$0, \$0, \$0 and \$3,127,677 at December 31, 2014, 2013, 2012 and 2011, respectively.

The Organizations entered into an agreement for a \$10,000,000 line of credit with the GC. The line of credit is secured by a deed of trust, and was due June 30, 2014. Interest is payable quarterly at one-half percent above the prime rate. The balance on the line of credit is \$8,670,000 at December 31, 2014, 2013, 2012 and 2011.

The Organizations maintained lines of credit with the PUC. Maximum borrowing is \$1,700,000, unsecured and is due January 31, 2015. The balance on the line of credit is \$850,000, \$0, \$0 and \$0 at December 31, 2014, 2013, 2012 and 2011, respectively, with interest at .25% less than prime rate. Maximum borrowing on the second line of credit is \$4,800,000, secured and is due June 30, 2015. The balance on the line of credit is \$4,800,000 at December 31, 2014, 2013, 2012 and 2011, with interest at 4%. Maximum borrowing on the third line of credit is \$1,000,000, unsecured and is due June 30, 2015. The balance on the line of credit is \$1,000,000 at December 31, 2014, 2013, 2012 and 2011, with interest at .25% less than prime rate. Maximum borrowing on the fourth line of credit is \$1,500,000, unsecured and is due June 30, 2015. The balance on the line of credit is \$671,991, \$0, \$0 and \$0 at December 31, 2014, 2013, 2012, and 2011, respectively, with interest at .25% less than prime rate. Maximum borrowing on the fifth line of credit is \$3,000,000, secured by Deed of Trust and is due June 30, 2017. The balance on the line of credit is \$3,012,126, \$3,000,000, \$3,000,000 and \$0 at December 31, 2014, 2013, 2012 and 2011, respectively, with interest at 4.75%.

Note 15 – Trust funds

| | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|---|-------------|-------------|-------------|-------------|
| <u>Conference Operating</u> | | | | |
| Miscellaneous mission project and other trust funds | \$ 192,557 | 501,816 | 132,207 | 227,806 |
| <u>Other operating funds</u> | | | | |
| Korean Adventist Press | \$ 872,739 | 867,620 | 830,903 | 779,556 |

Note 16 – Liability to depositors

| | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|-------------------------------|--------------|-------------|-------------|-------------|
| Churches | \$ 6,212,034 | 5,855,927 | 6,486,357 | 6,699,349 |
| Schools | 484,209 | 538,865 | 611,073 | 656,896 |
| Other | 611,795 | 599,116 | 596,276 | 578,528 |
| Total liability to depositors | \$ 7,308,039 | 6,993,908 | 7,693,706 | 7,934,773 |

Note 17 – Liabilities held in trust

| | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|--------------------------------------|--------------|-------------|-------------|-------------|
| Academy properties held in trust | \$ 8,809,333 | 9,357,612 | 9,720,256 | 10,200,227 |
| Liability to remainder beneficiaries | \$ 7,405,552 | 7,454,923 | 7,987,470 | 7,804,232 |



SOUTHERN CALIFORNIA CONFERENCE OF SEVENTH-DAY ADVENTISTS
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2014, 2013, 2012, and 2011

Note 18 – Temporarily restricted net assets

| | Balance 2014 | Balance 2013 | Balance 2012 | Balance 2011 |
|--|-----------------|-----------------|-----------------|-----------------|
| <u>Temporarily restricted net assets are available</u> | | | | |
| <u>for the following purposes or periods:</u> | | | | |
| Association agency fund | \$ - | - | - | 158,448 |
| Cedar Falls-development | 160,697 | 160,698 | 199,278 | 182,612 |
| Church building capital-reversion | 18,945 | 20,445 | 51,445 | 139,644 |
| Disaster relief | 45,515 | 45,603 | 40,368 | 30,524 |
| Emergency fund | 21,721 | 21,721 | 21,721 | 21,721 |
| General evangelism | 1 | 1 | - | - |
| Ingathering | 135,118 | 127,886 | 116,863 | 105,415 |
| Miscellaneous | 288,855 | 288,855 | 288,855 | 288,855 |
| Planned Giving/Trust Service | 495,000 | 495,000 | 675,000 | - |
| Prayer ministry | 3,561 | 3,800 | 3,801 | 5,960 |
| Publishing - GLOW | 3,779 | 3,779 | 3,779 | 3,779 |
| Region field - Hispanic | - | - | 3,766 | 3,766 |
| Religious liberty | 1,249 | 1,249 | 1,249 | 1,249 |
| Resource center | - | (1) | (1) | - |
| Scholarship - greater LA | 3,261 | 3,261 | 2,004 | 2,004 |
| Scholarship - Asian Pacific | 12,715 | 12,715 | 15,919 | 24,639 |
| Scholarship - Hispanic | 33,694 | 33,694 | 30,246 | 50,110 |
| Scholarship - LA metro | 242,939 | 242,939 | 341,655 | 341,654 |
| Scholarship - West region | 1,200 | 1,200 | 1,200 | 1,200 |
| Women's ministry - English | 2,883 | 2,883 | 2,883 | 2,883 |
| Worthy student | 10,572 | 10,572 | 10,572 | 2,303 |
| Sub-total | 1,481,705 | 1,476,301 | 1,810,603 | 1,366,766 |
| Korean Adventist Press | 8,405 | 8,405 | 8,406 | 8,405 |
| Total conference operating | | | | |
| Temporarily restricted | 1,490,110 | 1,484,706 | 1,819,009 | 1,375,171 |
| <u>Other funds</u> | | | | |
| Unconditional irrevocable trusts | 2,543,030 | 2,650,782 | 2,608,961 | 4,767,838 |
| Total Temporarily Restricted | | | | |
| Net assets | \$ 4,033,140 | 4,135,488 | 4,427,970 | 6,143,009 |



SOUTHERN CALIFORNIA CONFERENCE OF SEVENTH-DAY ADVENTISTS
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2014, 2013, 2012, and 2011

Note 18 – Temporarily restricted net assets (continued)

| | Balance 12-31-2014 | Balance 12-31-2013 | Balance 12-31-2012 | Balance 12-31-2011 |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| Sub-total | 1,481,705 | 1,476,301 | 1,810,603 | 1,366,766 |
| Korean Adventist Press | 8,405 | 8,406 | 8,406 | 8,405 |
| Total conference operating Temporarily restricted Other funds | 1,490,110 | 1,484,707 | 1,819,009 | 1,375,171 |
| Unconditional irrevocable trusts | 2,543,030 | 2,650,775 | 2,608,961 | 4,767,838 |
| Net assets | <u>\$ 4,033,140</u> | <u>4,135,482</u> | <u>4,427,970</u> | <u>6,143,009</u> |

Note 19 – Non-operating activity

| | Operating Funds | Plant Funds | Other Funds | Total 2014 | Total 2013 | Total 2012 | Total 2011 |
|---|---------------------|--------------------|----------------|--------------------|--------------------|--------------------|--------------------|
| Investment income | - | - | - | - | 25 | 657 | 16,089 |
| Church & school properties added | - | 1,000,000 | - | 1,000,000 | 175,922 | 1,896,738 | 5,065,064 |
| Insurance proceeds | - | - | - | - | 459,288 | 1,016,402 | - |
| Other income | 125,485 | 28,520 | - | 154,005 | 204,756 | 598,182 | 104,381 |
| Non-operating revenue | <u>\$ 125,485</u> | <u>1,028,520</u> | <u>-</u> | <u>1,154,005</u> | <u>839,991</u> | <u>3,511,979</u> | <u>5,185,534</u> |
| Interest paid on external borrowing | - | (40,075) | - | (40,075) | (41,033) | 6,000,674 | (77,231) |
| Depreciation on church & school Properties | - | (1,358,838) | - | (1,358,838) | (1,404,025) | (1,355,646) | (1,346,561) |
| Newbury Park Development | (995,047) | - | - | (995,047) | (1,056,650) | (8,462,466) | (3,695,614) |
| Other expense | - | (759,256) | - | (759,256) | (7,756) | (11,156) | (11,681) |
| Non-operating expense | <u>\$ (995,047)</u> | <u>(2,158,170)</u> | <u>-</u> | <u>(3,153,217)</u> | <u>(2,509,464)</u> | <u>(3,828,594)</u> | <u>(5,131,087)</u> |
| Net gain (loss) on sale of plant assets | - | 298,556 | - | 298,556 | 1,903,045 | 2,011,128 | 59,417 |
| Net gain (loss) on sale of other assets | (155,000) | - | - | (155,000) | - | - | - |
| Net non-operating gains and (losses) | <u>\$ (155,000)</u> | <u>298,556</u> | <u>-</u> | <u>143,556</u> | <u>1,903,045</u> | <u>2,011,128</u> | <u>59,417</u> |
| Other transfers | \$ (403,631) | 403,631 | - | - | - | - | - |
| Unexpended plant resources spent | - | (33,433) | - | (33,433) | (2,441,112) | (1,273,577) | (87,868) |
| Purchases added to net invested in plant | - | 33,433 | - | 33,433 | 2,441,112 | 1,273,577 | 87,868 |
| Net transfers between funds | <u>\$ (403,631)</u> | <u>403,631</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |



SOUTHERN CALIFORNIA CONFERENCE OF SEVENTH-DAY ADVENTISTS
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2014, 2013, 2012, and 2011

Note 20 - Change in annuities

| | 2014 | 2013 | 2012 | 2011 |
|--|-------------|-----------|-----------|-----------|
| <u>Changes in gift portion - annuity fund</u> | | | | |
| Interest income on annuity assets | \$ 12,035 | 21,091 | 24,311 | 35,823 |
| Investment expense | (5,027) | (7,538) | (17,909) | (11,112) |
| Actuarial adjustment from (to) present value | 46,475 | 295,460 | 56,499 | 106,985 |
| Required payments to annuitants and expenses | (140,876) | (142,278) | (183,449) | (170,144) |
| Net adjustment to value of annuities | (87,393) | 166,735 | (120,548) | (38,448) |
| Gift portion of new annuities added | 55,132 | - | 56,943 | 88,538 |
| Realized gain (loss) in value of investments | 19,592 | 70,991 | - | - |
| Unrealized gain (loss) in value of investments | (8,464) | 15,164 | 52,516 | (28,311) |
| Distributions from matured annuities | (15,207) | (308,459) | (62,547) | (352,868) |
| Increase (decrease) for the year | (36,340) | (55,569) | (73,636) | (331,069) |
| Net assets, beginning | (4,431) | 51,138 | 124,774 | 455,863 |
| Net assets, ending | \$ (40,771) | (4,431) | 51,138 | 124,774 |
| <u>Changes in liabilities to annuitants</u> | | | | |
| Present value of liability, beginning | \$ 639,821 | 935,281 | 945,388 | 985,365 |
| Actuarial adjustments (including maturities) | (46,475) | (295,460) | (10,107) | (39,977) |
| Liability for new annuities added | 44,868 | - | - | - |
| Present value of liability, ending | \$ 638,214 | 639,821 | 935,281 | 945,388 |

Note 21 - Contingencies and commitments

Pledging of assets and loan guarantees

The Organizations have pledged their assets as collateral for loans made by the PUC Church and School Loan Fund and the Pacific Union Conference Income Fund to various churches, schools, and organizations in their territory. The balances on these loans were \$12,924,045, \$13,004,904, \$16,939,471 and \$14,267,406 at December 31, 2014, 2013, 2012, and 2011, respectively. Additionally, the Organizations have guaranteed certain unsecured loans of churches and schools to PUC Church and School Loan Fund. Principal and interest payments on these loans are scheduled to be made by the churches and schools.

Workers Compensation self-insurance pool

The Organizations, along with the other California conferences, entered into an indemnification agreement with PUC to participate in a Workers Compensation Self-insurance Pool arrangement pursuant to the provisions of Section 3701 of the California Labor Code. The PUC has provided an irrevocable letter of credit to the State Treasurer and the Department of Industrial Relations as a security deposit to secure the incurred liabilities of the participants. Should the State draw on the letter of credit, the Organizations will indemnify the PUC for its share on the security deposit, based on actual claims and estimated future liability.



SOUTHERN CALIFORNIA CONFERENCE OF SEVENTH-DAY ADVENTISTS
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2014, 2013, 2012, and 2011

Note 22 – Related party transactions

Significant transactions occur between the Organizations and various other Seventh-day Adventist organizations. The following is a summary of those transactions:

| | 2014 | 2013 | 2012 | 2011 |
|--|----------------------|-------------------|-------------------|-------------------|
| <u>Appropriations received from</u> | | | | |
| North American Division of the General Conference | \$ 1,414,135 | 1,439,333 | 1,433,432 | 1,507,121 |
| Pacific Union Conference | 906,078 | 916,276 | 941,046 | 961,071 |
| Total | <u>\$ 2,320,213</u> | <u>2,355,609</u> | <u>2,374,478</u> | <u>2,468,192</u> |
| <u>Appropriations made to</u> | | | | |
| North American Division of the General Conferences | \$ 9,559,710 | 9,216,134 | 9,034,908 | 8,668,364 |
| Pacific Union Conference | 3,013,843 | 2,950,748 | 2,943,107 | 2,957,114 |
| Total | <u>\$ 12,573,553</u> | <u>12,166,882</u> | <u>11,978,015</u> | <u>11,625,478</u> |

See Note 1 for a description of these organizations.

Note 23 – Pension and other post-retirement benefits

Defined benefit plans

The Organizations participate in the following non-contributory, defined benefit plans:

1. The defined benefit pension plan known as the Seventh-day Adventist Retirement Plan of the North American Division (NADRP). This plan, which covers substantially all employees of the Organizations, is administered by the General Conference of Seventh-day Adventists, North American Division (NAD), in Silver Spring, Maryland, and is exempt from the Employee Retirement Income Security Act of 1974 as a "multi-employer" plan of a church-related agency. This plan provides primarily monthly pension benefits based on years of service and other factors.

The NAD Committee voted to freeze accrual of service credit in NADRP effective December 31, 1999, except for employees who chose the career completion option, and to start a new defined contribution plan effective January 1, 2000. Certain employees will continue to be eligible for future benefits under this plan. The Organizations continue to make contributions to this plan, at rates determined annually by the plan.

2. The defined benefit health care plan known as the General Conference of Seventh-day Adventist North American Division Retiree Auxiliary Healthcare Assistance and Death Benefit Plan (RAHAP). This plan, which covers substantially all employees of the Organizations, is administered by NAD in Silver Spring, Maryland, and is exempt from the Employee Retirement Income Security Act of 1974 as a "multi-employer" plan of a church-related agency. This plan provides primarily health-care benefits which supplement Medicare benefits. The extent of these benefits is based on years of service and the beneficiary's monthly contribution.



SOUTHERN CALIFORNIA CONFERENCE OF SEVENTH-DAY ADVENTISTS
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2014, 2013, 2012, and 2011

Note 23 – Pension and other post-retirement benefits (continued)

Accounting standards define these plans as "multiemployer" plans. As such, it is not required, nor is it possible to determine the actuarial value of accumulated benefits or plan net assets for employees of the Organizations apart from other plan participants.

Information about the required contributions to these plans, the actuarial obligation for future benefits, and the funded status of these plans, is presented in the tables below.

| | NADRP | RAHAP | TOTAL |
|--|--------------|------------|--------------|
| Required contributions from the Organizations: | | | |
| For the year ended 12-31-2014 | \$ 2,791,943 | \$ 988,220 | \$ 3,780,163 |
| For the year ended 12-31-2013 | \$ 2,668,927 | \$ 967,121 | \$ 3,636,048 |
| For the year ended 12-31-2012 | \$ 2,509,251 | \$ 867,853 | \$ 3,377,104 |
| For the year ended 12-31-2011 | \$ 2,465,421 | \$ 899,545 | \$ 3,364,966 |

Because the following information is not publicly available, it is required to be disclosed on the basis of information received from each plan

Total contributions received from all employers:

| | | |
|------------------------------------|----------------|---------------|
| For the plan year ended 12-31-2014 | \$ 101,806,557 | \$ 37,344,915 |
| For the plan year ended 12-31-2013 | \$ 91,820,841 | \$ 35,959,775 |
| For the plan year ended 12-31-2012 | \$ 88,144,315 | \$ 32,072,730 |
| For the plan year ended 12-31-2011 | \$ 88,687,413 | \$ 32,212,355 |

Whether the Organizations' contributions were more than or less than 5% of the total contributions received by each plan:

| | | |
|------------------------------------|-----------|-----------|
| For the plan year ended 12-31-2014 | Less than | Less than |
| For the plan year ended 12-31-2013 | Less than | Less than |
| For the plan year ended 12-31-2012 | Less than | Less than |
| For the plan year ended 12-31-2011 | Less than | Less than |

Plan net assets available for benefits :

| | | |
|------------------------------------|----------------|---------------|
| For the plan year ended 12-31-2014 | \$ 218,023,700 | \$ 66,446,449 |
| For the plan year ended 12-31-2013 | \$ 209,924,999 | \$ 71,035,285 |
| For the plan year ended 12-31-2012 | \$ 193,148,475 | \$ 62,771,811 |
| For the plan year ended 12-31-2011 | \$ 185,118,134 | \$ 59,165,497 |

Actuarial obligation and funded status

Because the following information is not publicly available, it is required to be disclosed on the basis of information received from each plan.

Date of plan year-end for latest actuarial information

Actuarial liability for future benefits

Value of net assets available for benefits

Plan funded status as of date of last actuarial data

| | NADRP | RAHAP |
|--|------------------|------------------|
| | 12-31-2013 | 12-31-2013 |
| | \$ 1,481,982,124 | \$ 1,013,326,701 |
| | \$ 209,924,999 | \$ 62,771,811 |
| | Less than 65% | Less than 65% |



SOUTHERN CALIFORNIA CONFERENCE OF SEVENTH-DAY ADVENTISTS
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2014, 2013, 2012, and 2011

Note 23 – Pension and other post-retirement benefits (continued)

Risks and other information

The risks of participating in multiemployer plans are different from single-employer plans, in the following aspects:

- Assets contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to a plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- If the Organizations choose to stop participating in a multiemployer plan, the Organizations may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

Other information about risks and contingencies related to these plans are as follows:

- Information about the plan is not publicly available, so no "certified zone status" has been determined.
- The Organizations' required contributions are not subject of any collective bargaining agreement.
- No funding improvement plans or rehabilitation plans had been implemented or were pending.
- The Organizations have not paid any "surcharge" to either of the plans.
- No minimum contribution for future period has been determined or required of the Organizations.

Defined Contribution plans

Effective January 1, 2000, the Organizations participate in a defined contribution retirement plan known as The Adventist Retirement Plan. This plan, which covers substantially all employees of the Organizations, is administered by NAD in Silver Spring, Maryland, and is exempt from the Employee Retirement Income Security Act of 1974 as a "multi-employer" plan of a church-related agency.

The Organizations contributed to the plan based on a stated percentage of each employee's earnings and a stated matching percentage of certain employee voluntary contributions. Administration of the accumulated contributions designated for each employees is provided under an agreement between NAD Corporation and VALIC. The contributions to this plan are as follows:

| | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|--------------------------------|---------------------|------------------|------------------|------------------|
| Southern California Conference | \$ 1,053,285 | 1,034,539 | 1,008,326 | 980,450 |
| Korean Adventist Press | 22,575 | 22,941 | 22,941 | 22,159 |
| Total | <u>\$ 1,075,860</u> | <u>1,057,480</u> | <u>1,031,267</u> | <u>1,002,609</u> |

Note 24 – Concentration of risk for long term receivable

On December 31, 1999, the Organizations entered into an agreement of trust with Los Angeles Adventist Academy (Academy). The agreement transferred the Organizations' equitable interest in the property legally owned by the Organizations, but used by the Academy, to the Academy. Over the past three years, the Academy has become increasingly indebted to the Organizations. As a result, the Organizations have reclassified this balance as a long-term account receivable of \$2,084,079, \$2,051,539, \$2,294,784 and \$1,379,305 as of December 31, 2014, 2013, 2012 and 2011, respectively.

An appraisal of the property has not been obtained, however, a recent sale of a smaller property within close proximity indicates that a reasonable estimation of fair market value of the property is \$4,000,000. The Organizations are using this property as collateral for the debt owed although no formal written agreement or payment plan is in place. In the event that the Academy defaults on its loan, and the Organizations were to sell the collateral property, the actual results could differ materially from this estimate.



SOUTHERN CALIFORNIA CONFERENCE OF SEVENTH-DAY ADVENTISTS
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2014, 2013, 2012, and 2011

Note 25 – Significant contracts

Western Adventist Foundation

On December 21, 1998, Southern California Association of Seventh-day Adventists entered into a contract for services with Western Adventist Foundation (WAF). WAF is a California religious corporation formed by PUC, a related organization. (See Note 1) Under the terms of the contract, WAF acts as the Organizations' agent in performing trust development and management. Discretionary power that must be exercised by the Organizations as trustee or obligor has not been delegated to WAF. This agreement may be terminated by either party at any time by giving one hundred eighty calendar days written notice to the other party.

H. C. Resources, Incorporated

On December 26, 1996, Southern California Association of Seventh-day Adventists signed a contract with H. C. Resources, Incorporated, to provide development services in connection with the design, development and construction of grading, on- and off-site work and other improvements for Phase I of the proposed Village at Newbury Park.

Ridgewood Associates, Inc.

On July 24, 2002, the Conference and Southern California Association of Seventh-day Adventists signed a contract for services with Ridgewood Associates, Inc., to oversee, coordinate, and manage the planning, development, construction and sale of the various project components on the owner's behalf. This agreement is in force for 3 years, after which it is renewable every 180 days unless either party submits a 60-day written notice of termination. On March 25, 2003, the Board of Directors of the Southern California Association of Seventh-day Adventists voted to amend the agreement. This amendment provided additional options to close Ventura Estates, transfer the Elementary School to the Newbury Park Adventist Academy site, renovate the new school ground, re-zone Ventura Estates and Conejo Adventist Elementary lands, stop plans of developing North Campus, and sell the new re-zoned areas and North Campus.

Note 26 – Split-interest agreements

As of December 31, 2014, 2013, 2012 and 2011, respectively, the Organizations served as trustee of 12, 12, 12 and 12 charitable remainder trusts and 23, 24, 4 and 4 other unconditional irrevocable trusts. In accordance with accounting principles generally accepted by the denomination, the assets, liabilities, and net assets related to these trusts have been included in these financial statements.

As of December 31, 2014, 2013, 2012 and 2011, respectively, the Organizations served as trustee of 35, 38, 65 and 52 revocable trusts. Since the trustors of these agreements have reserved the right to direct and control investment of the related assets, no assets or liabilities related to these trusts are included in these financial statements.

The Organizations are generally a remainder beneficiary of at least a portion of these various assets. Also, the Organizations may be a beneficiary of wills or trusts administered by other trustees, of which the Organizations may not be aware. The General Conference Auditing Service has performed a review of the Organizations' fiduciary administration of the agreements for which the Organizations are trustee, and has issued a separate report thereon dated September 6, 2012.

Note 27 – Re-acquisition of Adventist Book Center

On February 11, 2014, the Organizations entered into an agreement with Pacific Press Publishing Association to return the management of the Adventist Book Center (ABC) to the Organizations. On April 1, 2014, the Organizations assumed responsibility for the management of the ABC and payroll for its staff. The Organizations purchased the inventory and plant assets at a discounted rate.

Note 28 – Changes in accounting - Adoption of new accounting principles

During 2014, the Organization changed its method of accounting for joint and several liability arrangements for which the amounts are fixed at the reporting date, to reflect early adoption of Accounting Standards Update 2013-04. The effect of the change is to recognize as a liability only the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. Previously, the Organization recorded the entire amount the Organization and its co-obligors were obligated for, and recorded a loan receivable for amounts expected to be paid by co-obligors. The statements of financial position as of January 1 and December 31, 2013, 2012, and 2011, have been restated for these changes which resulted in a decrease in loans receivable and loans payable of \$2,548,740, \$2,978,712 and \$3,836,229 at January 1, 2013, 2012, and 2011, and \$2,322,218, \$2,548,740, and \$2,978,712 at December 31, 2013, 2012, and 2011, respectively. This restatement did not have any effect on any other amounts for 2011.



SOUTHERN CALIFORNIA CONFERENCE OF SEVENTH-DAY ADVENTISTS
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2014, 2013, 2012, and 2011

Note 29 – Financial condition

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted by the Seventh-day Adventist denomination, which contemplates continuation of the Organizations as a going concern. During 2014 and some previous years, the Organizations have suffered losses and corresponding decreases in net assets. The net increase (decrease) to total net assets was (\$2,728,716), \$1,459,796, \$822,005 and \$685,691 for the years ended December 31, 2014, 2013, 2012 and 2011, respectively. Current liabilities exceeded current assets by \$9,379,807, \$8,478,926, \$7,545,729 and \$2,278,228 for the years ended December 31, 2014, 2013, 2012 and 2011, respectively.

The Organizations' administration has maintained significant measures begun during 2009, in order to stay within budget, including reducing salaries by 5% (pastors and office staff effective March 1, 2009 and teachers effective July 1, 2009) and other reduction or elimination of discretionary expenses. The Organizations will maintain these measures for the foreseeable future in order to remain within budget.

Note 30 – Working capital and liquidity statement - Conference only

| | Total 2014 *** | Total 2013 *** | Total 2012 *** | Total 2011 *** |
|--|-------------------|-------------------|-------------------|-------------------|
| <u>Working capital</u> | | | | |
| Total current assets | \$ 19,598,840 | 20,627,456 | 19,043,412 | 18,096,386 |
| Total current liabilities | (5,239,169) | (4,766,403) | (4,388,782) | (4,349,697) |
| Working capital available | 14,359,671 | 15,861,053 | 14,654,630 | 13,746,689 |
| Working capital** | 9,561,243 | 9,456,538 | 9,714,152 | 9,187,096 |
| Working capital, excess (deficit) | \$ 4,798,428 | 6,404,515 | 4,940,478 | 4,559,593 |
| Percent of recommendation | 150.19% | 167.73% | 150.86% | 149.63% |
| Current ratio | 3.74 | 4.33 | 4.34 | 4.16 |
| <u>Liquidity statement</u> | | | | |
| Cash and cash equivalents | \$ 1,203,066 | 171,055 | 511,962 | 496,834 |
| Investments | 4,751,150 | 4,612,056 | 4,295,576 | 4,787,410 |
| A/R -church remittances | 3,039,858 | 3,464,327 | 4,155,944 | 4,002,853 |
| Cash held for agency | 192,557 | 501,816 | 132,207 | 227,806 |
| Total liquid assets | 9,186,631 | 8,749,254 | 9,095,689 | 9,514,903 |
| Current liabilities | (5,239,169) | (4,766,403) | (4,388,782) | (4,349,697) |
| Temporarily restricted net assets | (1,481,705) | (1,476,301) | (1,810,603) | (1,366,765) |
| Total commitments | (6,720,874) | (6,242,704) | (6,199,385) | (5,716,462) |
| Liquid assets surplus (deficit) | \$ 2,465,757 | 2,506,549 | 2,896,304 | 3,798,441 |
| Percent liquid assets to Commitments | 136.69% | 140.15% | 146.72% | 166.45% |
| | | | | |
| ** Calculation of working capital: | | | | |
| Total unrestricted revenue, Gains and support | \$ 32,318,153 | 31,920,947 | 31,614,197 | 31,281,325 |
| | | | | |
| % of above - 25% | \$ 8,079,538 | 7,980,237 | 7,903,549 | 7,820,331 |
| Temporarily restricted net assets | 1,481,705 | 1,476,301 | 1,810,603 | 1,366,765 |
| Total working capital | \$ 9,561,243 | 9,456,538 | 9,714,152 | 9,187,096 |

*** The total column is comprised of the conference operating fund only including interfund balances and excluding matured trusts and wills and releases from restrictions.



SOUTHERN CALIFORNIA CONFERENCE OF SEVENTH-DAY ADVENTISTS
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2014, 2013, 2012, and 2011

Note 31 - Working capital and liquidity statement - operating funds

| | Total 2014 *** | Total 2013 *** | Total 2012 *** | Total 2011 *** |
|---|-------------------|-------------------|-------------------|-------------------|
| <u>Working Capital</u> | | | | |
| Total current assets | \$ 12,802,021 * | 12,035,366 * | 12,310,128 * | 12,289,163 * |
| Total current liabilities | (22,181,828) * | (20,514,292) * | (19,855,857) * | (14,567,391) * |
| Working Capital | (9,379,807) | (8,478,926) | (7,545,729) | (2,278,228) |
| Recommended working capital** | 10,444,125 | 10,098,484 | 9,848,068 | 9,761,709 |
| Working capital, excess (deficit) | \$ (19,823,932) | (18,577,410) | (17,393,797) | (12,039,937) |
| Percent of recommendation | -89.81% | -83.96% | -76.62% | -23.34% |
| Current ratio | 0.58 | 0.59 | 0.62 | 0.84 |
| <u>Liquidity statement</u> | | | | |
| Cash and cash equivalents | \$ 1,593,871 | 580,840 | 784,604 | 730,331 |
| Investments | 6,734,845 | 6,363,115 | 5,903,151 | 5,714,591 |
| A/R - church remittances | 3,039,858 | 3,464,327 | 4,155,944 | 4,002,853 |
| Cash held for agency | 192,557 | 501,816 | 132,207 | 227,806 |
| Total liquid assets | 11,561,131 | 10,910,098 | 10,975,906 | 10,675,581 |
| Current liabilities | (22,181,828) | (20,514,292) | (19,855,857) | (14,567,391) |
| Temporarily restricted net assets | (1,490,110) | (1,484,713) | (1,819,008) | (1,375,171) |
| Total commitments | \$ (23,671,938) | (21,999,005) | (21,674,865) | (15,942,562) |
| Liquid assets surplus (deficit) | (12,110,807) | (11,088,907) | (10,698,959) | (5,266,981) |
| Percent liquid assets to Commitments | 48.84% | 49.59% | 50.64% | 66.96% |

* Interfund borrowing between operating funds is eliminated in the combined totals.

** Calculation of recommended working capital:

| | | | | |
|--|---------------|------------|------------|------------|
| Total unrestricted revenue, Gains and support (Conference operating) | \$ 32,760,655 | 32,179,602 | 31,204,855 | 31,632,681 |
| % of above - 25% | \$ 8,190,164 | 8,044,901 | 7,801,214 | 7,908,170 |
| Adventist Book Center operating (net accounts receivable, inventories and allocated net assets) | 456,098 | 253,262 | 227,846 | 237,403 |
| Long-term payables | 307,753 | 315,608 | - | 240,965 |
| Temporarily restricted net assets | 1,490,110 | 1,484,713 | 1,819,008 | 1,375,171 |
| Total recommended working capital | \$ 10,444,125 | 10,098,484 | 9,848,068 | 9,761,709 |

*** The total column is comprised of all Operating Funds and excludes matured trusts and wills and releases from restrictions.

