

**SOUTHEASTERN CALIFORNIA  
CONFERENCE OF SEVENTH-DAY  
ADVENTISTS  
AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL  
STATEMENTS  
WITH  
INDEPENDENT AUDITORS' REPORT**

**FOR THE YEARS ENDED  
DECEMBER 31, 2012 AND 2011, RESTATED**

## TABLE OF CONTENTS

	<b>Page</b>
Independent Auditors' Report	1-2
Consolidated Statements of Financial Position	3-4
Consolidated Statements of Activities and Changes in Net Assets	5-6
Consolidated Statements of Cash Flows	7-9
Notes to Consolidated Financial Statements	10-43

Michael R. Adcock, CPA  
Shannon M. Carlson, CPA  
Linda S. Devlin, CPA  
Andrew Steinke, CPA

Of Counsel  
Thomas E. Ahern, CPA  
Nora L. Teasley, CPA

A California Limited Liability Partnership  
Certified Public Accountants



**AHERN-ADCOCK-DEVLIN-LLP**  
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

Members  
American Institute of  
Certified Public Accountants  
Private Companies  
Practice Section  
Employee Benefit Plan  
Audit Quality Center  
Governmental Audit  
Quality Center  
California Society of  
Certified Public Accountants

## **Independent Auditors' Report**

To the Executive Committee  
Southeastern California Conference of  
Seventh-day Adventists and Subsidiaries

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Southeastern California Conference of Seventh-day Adventists and its subsidiaries (the "Conference") as of and for the years ended December 31, 2012 and 2011 and the related consolidated statements of activities, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

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

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

### **Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of 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 Conference'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 Conference's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Southeastern California Conference of Seventh-day Adventists and its subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Ahira Adcock Devlin LLP*

Riverside, California  
July 25, 2013

**SOUTHEASTERN CALIFORNIA CONFERENCE  
OF SEVENTH-DAY ADVENTISTS  
and Subsidiaries**

**Consolidated Statements of Financial Position**

	<b>December 31,</b>	<b>2012</b>	<b>2011</b>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$	8,293,694	\$ 7,707,670
Investments		54,562,625	50,797,075
Accounts receivable, current portion, net of allowance for doubtful accounts (Note 5)		11,447,773	11,229,839
Interest receivable		325,730	248,090
Advances to churches, current portion		30,000	145,977
Notes receivable, current portion		7,632,048	8,887,858
Inventory		363,694	307,657
Prepaid expenses		137,582	116,439
<b>Total current assets</b>		<u>82,793,146</u>	<u>79,440,605</u>
<b>Plant assets, net</b>		<u>219,923,517</u>	<u>217,938,129</u>
<b>Other assets</b>			
Restricted cash and cash equivalents		450,083	447,152
Accounts receivable, noncurrent portion		1,229,006	1,094,672
Advances to churches, noncurrent portion		1,362,500	392,500
California annuity reserve investments		2,191,256	2,273,606
Investments in real estate		19,954,669	22,739,671
Notes receivable, noncurrent portion, net of allowance for doubtful accounts (Note 7)		82,092,097	71,858,151
Assets held in trust		12,408,127	12,277,743
Receivable for affiliate lease guarantees			375,482
Bond issuance costs, net		505,343	530,602
<b>Total other assets</b>		<u>120,193,081</u>	<u>111,989,579</u>
<b>Total assets</b>		<u>\$422,909,744</u>	<u>\$409,368,313</u>

*The accompanying notes are an integral part of these consolidated financial statements.*

**SOUTHEASTERN CALIFORNIA CONFERENCE  
OF SEVENTH-DAY ADVENTISTS  
and Subsidiaries**

**Consolidated Statements of Financial Position**

	<b>December 31,</b>	<b>2012</b>	<b>2011</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable	\$	4,766,032	\$ 3,650,658
Accrued wages and benefits		5,397,571	4,513,945
Other accrued liabilities		69,279	45,793
Deposits		262,513	262,687
Deferred revenue		1,205,233	1,218,775
Lines of credit		2,833,603	3,853,241
Notes payable, current portion		4,840,436	4,549,862
Bonds payable, current portion		955,000	900,000
Capital lease obligations, current portion		92,270	81,855
Refundable advances		42,225	45,351
Total current liabilities		<u>20,464,162</u>	<u>19,122,167</u>
<b>Other liabilities</b>			
Notes payable, noncurrent portion		34,979,036	27,016,816
Bonds payable, noncurrent portion		47,945,000	48,900,000
Capital lease obligations, noncurrent portion		215,485	307,755
Present value of annuity liability		1,473,181	1,761,025
Liabilities to depositors		728,004	918,118
Liabilities held in trust		10,273,283	10,313,999
Guarantees for affiliate leases			375,482
Other noncurrent liabilities		3,944,304	3,906,243
Total other liabilities		<u>99,558,293</u>	<u>93,499,438</u>
Total liabilities		<u>120,022,455</u>	<u>112,621,605</u>
<b>NET ASSETS</b>			
<b>Unrestricted</b>			
Undesignated		239,232,092	237,802,461
Designated		58,465,901	54,422,629
		<u>297,697,993</u>	<u>292,225,090</u>
Temporarily restricted		5,126,964	4,459,286
Permanently restricted		62,332	62,332
Total net assets		<u>302,887,289</u>	<u>296,746,708</u>
Total liabilities and net assets		<u>\$422,909,744</u>	<u>\$409,368,313</u>

**SOUTHEASTERN CALIFORNIA CONFERENCE  
OF SEVENTH-DAY ADVENTISTS  
and Subsidiaries**

**Consolidated Statements of Activities and Changes in Net Assets**

	<b>For the Years Ended December 31,</b>	<b>2012</b>	<b>2011</b>
<b>UNRESTRICTED NET ASSETS</b>			
<b>Revenues, gains, and support</b>			
Gross tithe income		\$ 48,939,374	\$ 48,159,356
Tithe percentages passed on		(12,597,079)	(12,348,603)
Net tithe income		36,342,295	35,810,753
Offerings and donations		221,122	362,263
Subsidies		862,481	795,335
Auxiliary income		1,925,383	1,987,231
Matured trusts, wills, and bequests		605,733	418,180
Payroll, benefits, and other expense reimbursement		29,026,390	28,203,103
Tuition		1,462,035	1,272,345
Other		1,125,504	893,183
Revenues, gains, and support before reclassifications		71,570,943	69,742,393
Released from restrictions		4,520,441	5,452,153
Revenues, gains, and support after reclassifications		76,091,384	75,194,546
<b>Expenses</b>			
<b>Program services</b>			
Church ministries		42,402,902	40,572,917
Education		37,120,206	35,577,684
Outreach ministries		2,771,090	3,033,474
Auxiliary services		1,777,969	2,077,115
Total program services		84,072,167	81,261,190
<b>Supporting services</b>			
General and administrative		7,190,207	6,971,893
Fundraising		81,488	17,199
Total supporting services		7,271,695	6,989,092
Total expenses		91,343,862	88,250,282
Change in net assets before nonoperating activity		\$(15,252,478)	\$(13,055,736)

**SOUTHEASTERN CALIFORNIA CONFERENCE  
OF SEVENTH-DAY ADVENTISTS  
and Subsidiaries**

**Consolidated Statements of Activities and Changes in Net Assets**

<b>For the Years Ended December 31,</b>	<b>2012</b>	<b>2011</b>
Change in net assets before nonoperating activity	\$ (15,252,478)	\$ (13,055,736)
<b>Nonoperating activity</b>		
Donated plant assets and investment real estate	11,020,364	14,779,271
Investment income	6,930,295	2,143,730
Rental income	9,560,158	9,269,423
Rental properties expenses	(3,656,407)	(3,842,800)
Net gain (loss) on sale of plant assets and investment real estate	(754,037)	1,175,320
Bond costs	(830,278)	(811,579)
Other expense	(35,980)	(1,994,513)
Interest expense	(1,508,734)	(1,581,571)
Increase from nonoperating activity	<u>20,725,381</u>	<u>19,137,281</u>
Increase in unrestricted net assets	<u>5,472,903</u>	<u>6,081,545</u>
<b>TEMPORARILY RESTRICTED NET ASSETS</b>		
Offerings and donations	1,161,632	1,504,260
Subsidies	3,048,353	3,019,381
Investment income	7,849	3,455
Matured trusts, wills, and bequests	960,184	579,445
Other	10,101	61,744
Total temporarily restricted income	<u>5,188,119</u>	<u>5,168,285</u>
Released from restrictions	<u>(4,520,441)</u>	<u>(5,452,153)</u>
Increase (decrease) in temporarily restricted net assets	<u>667,678</u>	<u>(283,868)</u>
Increase in net assets	<u>6,140,582</u>	<u>5,797,677</u>
Net assets, beginning of year, as previously stated	296,746,708	290,044,373
Prior period adjustments		<u>904,658</u>
Net assets, beginning of year, as restated	<u>296,746,708</u>	<u>290,949,031</u>
Net assets, end of year	<u>\$302,887,289</u>	<u>\$296,746,708</u>

*The accompanying notes are an integral part of these consolidated financial statements.*



**SOUTHEASTERN CALIFORNIA CONFERENCE  
OF SEVENTH-DAY ADVENTISTS  
and Subsidiaries**

**Consolidated Statements of Cash Flows**

	<b>For the Years Ended December 31,</b>	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities</b>			
Increase in net assets		\$ 6,140,582	\$ 5,797,677
Adjustment to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		8,646,924	8,152,758
Provision for doubtful accounts		(598,644)	(541,468)
Donated plant assets		(11,020,364)	(14,779,271)
Unrealized loss on swap contracts		38,061	2,041,158
Net (gain) loss on sale of plant assets and investment real estate		754,037	(1,175,320)
Unrealized gain on investments		(3,089,215)	(189,053)
Realized (gain) loss on sale of investments		(1,181,008)	1,200,482
Unrealized (gain) loss on assets held in trust		138,068	(127,999)
Unrealized gain on gift annuities		(287,844)	(210,645)
(Increase) decrease in:			
Accounts receivable		(426,659)	(1,295,910)
Interest receivable		(77,640)	32,581
Other receivables			6,000
Inventory		(56,037)	61,361
Prepaid expenses		(21,143)	7,436
Increase (decrease) in:			
Accounts payable		1,115,373	703,740
Accrued wages and benefits		883,626	383,648
Deposits		(174)	23,529
Deferred revenue		23,486	135,371
Other accrued liabilities		(190,114)	(43,892)
Liabilities to depositors		(13,542)	2,958
Refundable advances		(3,126)	2,620
Net cash provided by operating activities		<u>774,647</u>	<u>187,761</u>

**SOUTHEASTERN CALIFORNIA CONFERENCE  
OF SEVENTH-DAY ADVENTISTS  
and Subsidiaries**

**Consolidated Statements of Cash Flows**

	<b>For the Years Ended December 31,</b>	<b>2012</b>	<b>2011</b>
<b>Cash flows from investing activities</b>			
Change in restricted cash		\$ (2,931)	\$ 2,675,904
Proceeds from sale of investments		6,248,539	15,064,903
Purchase of investments		(5,907,689)	(15,010,443)
Proceeds from sale of plant assets		64,657	288,605
Purchase of plant assets		(1,113,380)	(212,553)
Purchase of real estate investments		(61,692)	(170,976)
Advances to churches		(854,023)	156,383
Advances from notes receivable		(230,000)	(3,355,363)
Payments received on notes receivable		1,900,779	885,244
Net cash provided by investing activities		<u>44,260</u>	<u>321,704</u>
<b>Cash flows from financing activities</b>			
Principal payments on notes payable		(167,188)	(128,104)
Net change in lines of credit		230,000	1,552,750
Proceeds from note payable		750,000	
Principal payments on bonds payable		(900,000)	(855,000)
Principal payments on capital lease obligations		(81,855)	(72,949)
Proceeds from gift annuities		4,626,032	3,344,620
Purchase of investments for gift annuities		(4,689,026)	(3,167,569)
Loan costs		(846)	403
Proceeds from the sale of site leases			<u>485,000</u>
Net cash (used in) provided by financing activities		<u>(232,883)</u>	<u>1,159,151</u>
Net increase in cash and cash equivalents		586,024	1,668,616
<b>Cash and cash equivalents</b>			
Balance, beginning of year		<u>7,707,670</u>	<u>6,039,054</u>
Balance, end of year		<u>\$ 8,293,694</u>	<u>\$ 7,707,670</u>

**SOUTHEASTERN CALIFORNIA CONFERENCE  
OF SEVENTH-DAY ADVENTISTS  
and Subsidiaries**

**Consolidated Statements of Cash Flows**

	<b>For the Years Ended December 31,</b>	<b>2012</b>	<b>2011</b>
<b>Supplemental disclosure</b>			
Cash paid for interest		\$1,619,513	\$1,710,925
<b>Noncash transactions</b>			
Notes receivable increased by guarantee of related party notes payable		\$1,178,832	\$2,539,664
Notes receivable reduced through related party payment on lines of credit		\$1,249,638	\$423,906
Notes receivable increased (decreased) by related party notes payable		\$(6,491,150)	\$963,408
Notes receivable reduced by an increase (decrease) in ownership allocation of investments in real estate and change in resulting interest receivable		\$(3,632,536)	\$292,636
Plant assets transferred to investments in real estate		\$1,374,000	
Receivable increased (decreased) by guarantee of related party equipment leases		\$(375,482)	\$39,673
Sale of fixed assets financed through notes receivable			\$1,400,000

*The accompanying notes are an integral part of these consolidated financial statements.*

**SOUTHEASTERN CALIFORNIA CONFERENCE  
OF SEVENTH-DAY ADVENTISTS  
and Subsidiaries**

**Notes to Consolidated Financial Statements**

**1. Reporting Entity and Significant Accounting Policies**

The Southeastern California Conference of Seventh-day Adventists and subsidiaries (the “Conference”) was formed by Seventh-day Adventist Church congregations within Imperial, Orange, Riverside, San Bernardino and San Diego Counties in 1915. Each congregation elects its own board of directors in addition to a calculated number of delegates to represent the congregation in governing the Conference. The Conference’s primary purpose is the expansion of God’s Kingdom through the preaching, teaching, publishing, and living of the everlasting gospel throughout the cross-cultural communities of its territory.

The Conference supports the operation of all congregations and schools in its territory. The Conference holds title to all denominational property in its territory and performs certain fiduciary duties. As part of the mission of the Conference, 25 schools providing education in a religious school environment are operated for grades ranging from kindergarten through grade twelve. The schools are governed by the board of education whose members are approved and authorized by the executive committee of the Conference. The board of education develops policy and creates rules and regulations to which the schools must adhere. These consolidated financial statements include the operations of only one school, Calexico Mission School, because the Conference has majority voting rights over Calexico Mission School board as well as operational and financial control.

Besides the Calexico Mission School which has been consolidated by the Conference due to common control, the Conference is affiliated with 25 other schools and academies (“the institutions”) throughout Imperial, Orange, Riverside, San Bernardino, and San Diego counties. The institutions are supported and governed by the Seventh-day Adventist churches appointed by the Conference. However, the Conference provides all of the facilities, employs all the school administration and faculty, as well as, sets the curriculum for each institution. As a result, the Conference has control and financial interest in the institutions but has no ownership in the institutions and no majority voting rights over their governance. Under FASB ASC No. 951-810, the Conference has the option but not the requirement to consolidate the institutions but has elected not to consolidate the institutions as of December 31, 2012 or 2011. The schools have a June 30 fiscal year-end; as such, there are timing differences between the school financial data provided below and the Conference’s consolidated financial statements.

The Conference is a member organization of Pacific Union Conference of Seventh-day Adventists; see Affiliated Conferences.

The Conference formed SECC-ECF, LLC on October 17, 2007 as a nonprofit limited liability company. The sole purpose of SECC-ECF, LLC is to provide funding for the educational facilities of the Conference. The sole member is the Conference, and no other members may be admitted.

**Consolidation**

The accompanying consolidated financial statements include the accounts of the Conference, Calexico Mission School, and SECC-ECF, LLC, all of which are under common control. All significant intercompany transactions and balances have been eliminated in consolidation.

**SOUTHEASTERN CALIFORNIA CONFERENCE  
OF SEVENTH-DAY ADVENTISTS  
and Subsidiaries**

**Notes to Consolidated Financial Statements**

**1. Reporting Entity and Significant Accounting Policies (Continued)**

**Financial Statement Presentation**

The consolidated financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards Board Accounting Standards (FASB ASC) No. 958, *Not-for-Profit Entities*. Under FASB ASC No. 958, the Conference is required to report information regarding its financial position and activities according to the following classes of net assets:

*Unrestricted net assets* include resources that are not temporarily or permanently restricted by the donor and are available for operations of the Conference without limitation.

*Temporarily restricted net assets* include those resources whose use is restricted by donor-imposed criteria that either expires with the passage of time or by actions of the Conference.

*Permanently restricted net assets* include those resources in which donor-imposed stipulations require that the resources be maintained permanently but permit the Conference to use part or all of the income derived from the donor assets for either specified or unspecified purposes.

**Cash and Cash Equivalents**

The Conference has cash in financial institutions which is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each institution. Through December 31, 2012, all noninterest-bearing transaction accounts are fully insured, regardless of the balance of the account, at all FDIC-insured institutions. At various times throughout the year, the Conference may have cash balances in financial institutions which exceed the FDIC insurance limit. Management reviews the financial condition of these financial institutions on a periodic basis and does not believe this concentration of cash results in a high level of risk for the Conference.

The Conference considers all highly liquid investments with an initial maturity date of three months or less to be cash equivalents.

The Conference maintains separate bank accounts for undistributed tax-exempt and taxable bond proceeds, which are represented as noncurrent restricted cash equivalents in the accompanying consolidated statements of financial position. The balance in these accounts at December 31, 2012 and 2011, was \$450,083 and \$447,152, respectively. The use of this cash is restricted by bond documents.

**Estimations of Fair Values**

The following summarizes the major methods and assumptions used in estimating fair values of financial instruments:

*Short-term financial instruments* are valued at their carrying amounts included in the statements 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, receivables, and certain current liabilities.

**SOUTHEASTERN CALIFORNIA CONFERENCE  
OF SEVENTH-DAY ADVENTISTS  
and Subsidiaries**

**Notes to Consolidated Financial Statements**

**1. Reporting Entity and Significant Accounting Policies (Continued)**

*Marketable 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 an unrealized gain or loss.

*Notes and bonds payable* are valued at the amortized amount payable as of the reporting date. Because these loans, by intent and practice, are expected to be amortized to maturity, the carrying amount approximates the discounted value of the future cash flows expected to be paid. Because of the difficulty and inherent subjectivity involved in determining fair values, which is not susceptible to independent substantiation, management has concluded that the amortized face value of loans payable to related or affiliated entities approximates fair value. Further, because a reasonable estimate of fair value could not be made without incurring excessive costs, management has not attempted to estimate the fair value of any loans payable to creditors that are not related or affiliated entities.

**Derivative Instruments**

The Conference has entered into derivative financial instruments in the form of interest rate swaps to manage its exposure to interest rate risk. Further details of the interest rate swaps are disclosed at Note 13 to the consolidated financial statements. Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to fair value at each balance sheet date. The resulting gain or loss is recognized in the consolidated statements of activities immediately unless the derivative is designated effective as a hedging instrument. The Conference has not designated its interest rate swaps as hedge instruments. A derivative with a positive fair value is recognized as a financial asset and a derivative with a negative fair value is recognized as a financial liability. If the maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months, the derivative is considered to be noncurrent for financial statement presentation.

**Gift Annuities**

Gift annuities are recorded using the actuarial method. Under this method, assets are recorded at fair value at the date of the gift. The corresponding credit is to annuities payable for the present value of the future annuity payments based upon acceptable life expectancy tables. Investment income and gains are credited, and the contractual periodic payments to the annuitant and investment losses are charged to the annuities payable liability. The actuarial present value of annuities payable is recalculated periodically based upon revised life expectancies and interest assumptions.

Upon maturity of an annuity, the remaining net assets are generally distributed to current operating funds. The Conference administers numerous gift annuities for residents of California. California Insurance Code Sections 11520–11524 require that these assets be held in a legally and physically segregated reserve, which is reflected in the consolidated financial statements as California Annuity Reserve. California statutes allow investments in high grade government and corporate bonds, publicly traded securities on major exchanges, and insured mortgages. The Conference is in compliance with these statutes.

**SOUTHEASTERN CALIFORNIA CONFERENCE  
OF SEVENTH-DAY ADVENTISTS  
and Subsidiaries**

**Notes to Consolidated Financial Statements**

**1. Reporting Entity and Significant Accounting Policies (Continued)**

**Split-interest Agreements**

The Conference is at least a partial beneficiary in various kinds of trusts, annuities, and/or other split-interest agreements for which it acts as trustee or administrator. Other organizations are partial beneficiaries of some of these agreements. For those agreements that are unconditional and irrevocable, assets are recorded by the Conference 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 amounts 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 Conference's remainder interest is classified as temporarily restricted. (See Notes 10, 15, and 16.) For those agreements that are revocable, assets are recorded at fair value at date of acceptance or agreement, except for investments which are adjusted to fair value annually.

**Affiliated Organizations**

The Conference operates through several organizations with which it is affiliated, by reason of economic interest and/or shared membership on the respective governing committees. The financial statements of these organizations are not combined with the Conference. Interorganization transactions carried on in the ordinary course of business are handled through current accounts receivable and payable and are settled on a monthly basis. Other financial transactions involve appropriations, loans, and other long-term financing. Related party transactions are summarized in Note 21. These other organizations are as follows:

General Conference of Seventh-day Adventists (GC)

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)

NAD is the organization responsible for church activities in North America. NAD determines policies for institutions within North America in accordance with GC policies.

Pacific Union Conference of Seventh-day Adventists (PUC) and Pacific Union Association of Seventh-day Adventists (PUA)

PUC is the organization responsible for church activities in the states of Arizona, California, Hawaii, Nevada, and Utah. PUA determines policies for institutions within the above states in accordance with NAD policies.

La Sierra University (LSU)

The president of the Conference is a member of the board of trustees of LSU.

**SOUTHEASTERN CALIFORNIA CONFERENCE  
OF SEVENTH-DAY ADVENTISTS  
and Subsidiaries**

**Notes to Consolidated Financial Statements**

**1. Reporting Entity and Significant Accounting Policies (Continued)**

**Accounts, Notes, Interest, and Other Receivables**

Accounts, notes, interest, and other receivables are reported at their net realizable value, less an allowance for uncollectible accounts and notes receivable. The Conference uses the allowance method for the write-off of bad debts. The Conference considers such factors as historical trends for collections and knowledge of financial stability of debtors to establish the allowance for doubtful accounts. Receivables are written off when management determines that the amount will not be collectible.

**Plant Assets and Depreciation**

Property, plant, and equipment are recorded at cost when purchased or fair value at date of gift for items in excess of \$3,000 which also have a useful life in excess of one year. Cost includes labor, materials, and indirect charges for such items as engineering, supervision, and transportation. The Conference follows the policy of capitalizing interest as a component of property and equipment constructed for its own use. Depreciation expense is calculated using the straight-line method. Depreciation of land improvements, buildings, and equipment is provided over the estimated useful lives of the respective assets, ranging from 3 to 75 years.

The Conference holds legal title to the real properties used by the Conference, congregations, schools, and academies. The book value of these properties is included in these consolidated financial statements.

**Revenue Recognition**

The Conference recognizes tithes and offerings when recorded by each congregation. Rental income is recognized as earned.

**Expiration of Donor-Imposed Restrictions**

The Conference reports 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 restrictions are accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions.

The Conference reports contributions 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 revenues in temporarily restricted net assets. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Conference reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.



**SOUTHEASTERN CALIFORNIA CONFERENCE  
OF SEVENTH-DAY ADVENTISTS  
and Subsidiaries**

**Notes to Consolidated Financial Statements**

**1. Reporting Entity and Significant Accounting Policies (Continued)**

**Income Tax**

The Conference is a religious not-for-profit organization and is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue and Code Section 23701(d) of the California Revenue and Taxation Code. However, income from certain activities not directly related to the Conference's tax exempt purpose is subject to taxation as unrelated business income, for which the Conference files income tax returns in the United States of America federal jurisdiction and the State of California jurisdiction. The Conference is no longer subject to United States of America federal or state examinations by tax authorities for the years before 2009 and 2008, respectively. There are no other activities subject to taxation as unrelated business income not included in the returns. During the years ended December 31, 2012 and 2011, the Conference did not recognize any interest or penalties associated with any tax positions.

**New Accounting Pronouncements**

In May 2011, the FASB issued Accounting Standards Update (ASU) 2011-04, *Fair Value Measurement (Topic 820)*, and modified in January 2013 by ASU 2013-01, *Balance Sheet (Topic 210)*, which modifies the guidance on disclosures of fair value measurements of assets and liabilities. The change requires disclosure of quantitative information about unobservable inputs used in fair value measurements that are categorized within level 3 and a description of the valuation processes and sensitivity to unobservable inputs for assets and liabilities categorized within level 3. Management has considered the impact of this statement on the Conference's consolidated financial statements, and there were no significant changes required to disclosures upon adoption in 2012.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and disclosures made in the accompanying notes to the consolidated financial statements. While management believes these estimates are adequate, actual results could differ from those estimates.

**Reclassifications and Restatement**

Certain reclassifications have been made to the 2011 consolidated financial statements to conform to the 2012 presentation. In addition, the accompanying consolidated financial statements for 2011 have been restated to correct an error made in 2011 and previous years for plant asset additions and disposals totaling \$904,658 which were not previously reported.

**2. Cash and Cash Equivalents**

At December 31, cash was included in the consolidated statements of financial position in the following captions:

	2012	2011
Cash and cash equivalents	\$8,293,694	\$7,707,670
Restricted cash and cash equivalents	450,083	447,152
	\$8,743,777	\$8,154,822

**SOUTHEASTERN CALIFORNIA CONFERENCE  
OF SEVENTH-DAY ADVENTISTS  
and Subsidiaries**

**Notes to Consolidated Financial Statements**

**2. Cash and Cash Equivalents (Continued)**

At December 31, cash held by the Conference was comprised of the following:

	2012	2011
Imprest cash	\$ 10,050	\$ 10,450
Checking account	7,360,152	6,674,960
Money market savings accounts	1,373,575	1,469,412
	<u>\$8,743,777</u>	<u>\$8,154,822</u>

**3. Investments**

At December 31, 2012, investments consisted of the following:

	Cost	Fair Value
<i>California Annuity Reserve</i>		
Checking accounts	\$ 20,580	\$ 20,580
Money market savings accounts	28,217	28,217
Mutual funds	15,987	15,880
Corporate bonds	540,246	565,451
Fixed income	468,096	484,443
Equity securities	893,950	1,076,685
	<u>1,967,076</u>	<u>2,191,256</u>
Unrealized appreciation in value	224,180	
Carrying amount at fair value	<u>\$2,191,256</u>	<u>\$2,191,256</u>
<i>Other Investments</i>		
Mutual funds	\$ 8,975,781	\$ 8,875,613
Fixed income mutual funds	16,504,341	17,155,840
Pacific Union Income Fund	8,144,432	8,478,128
Equity securities	8,934,051	11,409,571
International equity mutual funds	6,614,808	7,669,618
International equities	81,024	101,615
Money market cash funds	872,240	872,240
	<u>50,126,677</u>	<u>54,562,625</u>
Unrealized appreciation in value	4,435,948	
Carrying amount at fair value	<u>\$54,562,625</u>	<u>\$54,562,625</u>

**SOUTHEASTERN CALIFORNIA CONFERENCE  
OF SEVENTH-DAY ADVENTISTS  
and Subsidiaries**

**Notes to Consolidated Financial Statements**

**3. Investments (Continued)**

	Cost	Fair Value
<i>Derivative Instruments</i>		
Interest rate swap	\$ -	\$ -
Unrealized depreciation in value	(3,944,304)	(3,944,304)
Carrying amount at fair value	\$(3,944,304)	\$(3,944,304)

At December 31, investments are presented in the consolidated statements of financial position as follows:

	2012
Investments, current portion	\$54,562,625
California annuity reserve investments	2,191,256
Other noncurrent liabilities	(3,944,304)
	\$52,809,577

As discussed in Note 4 to these consolidated financial statements, the Conference is required to report its fair value measurements in one of three levels, which are based on the ability to observe in the marketplace the input to the Conference's valuation techniques. Level 1, the most observable level of inputs, is for investments measured at quoted prices in the active markets to identical investments as of December 31, 2012. Level 2 is for investments measured using inputs such as quoted prices for similar assets, quoted prices for the identical asset in inactive markets, and investments measured at net asset value that can be redeemed in the near term. Level 3 is for investments measured using inputs that are unobservable, and is used in situations for which there is little, if any, market activity for the investment.

The following table summarizes the levels in the fair value hierarchy of the Conference's investments at December 31, 2012:

	Total	Level 1	Level 2
<i>Assets</i>			
Money market funds	\$ 921,036	\$ 921,036	
Mutual funds	8,891,493	8,891,493	
Fixed income mutual funds	17,640,284	17,640,284	
Equity securities	12,486,256	12,486,256	
Corporate bonds	565,451	565,451	
Pacific Union Income Fund	8,478,128		\$8,478,128
International equity mutual funds	7,669,618	7,669,618	
International equities	101,615	101,615	
	\$56,753,881	\$48,275,753	\$8,478,128
<i>Liabilities</i>			
Derivative (interest rate swap)	\$(3,944,304)		\$(3,944,304)

**SOUTHEASTERN CALIFORNIA CONFERENCE  
OF SEVENTH-DAY ADVENTISTS  
and Subsidiaries**

**Notes to Consolidated Financial Statements**

**3. Investments (Continued)**

At December 31, 2012, the Conference does not have any investments measured using level 3 inputs.

At December 31, 2011, investments consisted of the following:

	<u>Cost</u>	<u>Fair Value</u>
<i>California Annuity Reserve</i>		
Checking accounts	\$ 2,155	\$ 2,155
Money market savings accounts	18,499	18,499
Mutual funds	34,216	34,239
Corporate bonds	68,055	70,387
Fixed income	975,443	1,024,949
Equity securities	1,044,548	1,123,377
	<u>2,142,916</u>	<u>2,273,606</u>
Unrealized appreciation in value	130,690	
Carrying amount at fair value	<u>\$2,273,606</u>	<u>\$2,273,606</u>
<i>Other Investments</i>		
Mutual funds	\$ 7,828,397	\$ 7,509,534
Fixed income mutual funds	15,679,661	15,810,967
Pacific Union Income Fund	8,072,648	8,307,775
Equity securities	9,764,307	11,134,721
International equity mutual funds	6,935,978	6,965,872
International equities	41,673	41,166
Money market cash funds	1,027,040	1,027,040
	<u>49,349,704</u>	<u>50,797,075</u>
Unrealized appreciation in value	1,447,371	
Carrying amount at fair value	<u>\$50,797,075</u>	<u>\$50,797,075</u>
<i>Derivative Instruments</i>		
Interest rate swap	\$ -	\$ -
Unrealized depreciation in value	<u>(3,906,243)</u>	<u>(3,906,243)</u>
Carrying amount at fair value	<u>\$(3,906,243)</u>	<u>(3,906,243)</u>

**SOUTHEASTERN CALIFORNIA CONFERENCE  
OF SEVENTH-DAY ADVENTISTS  
and Subsidiaries**

**Notes to Consolidated Financial Statements**

**3. Investments (Continued)**

At December 31, investments are presented in the consolidated statements of financial position as follows:

	2011
Investments, current portion	\$50,797,075
California annuity reserve investments	2,273,606
Other noncurrent liabilities	<u>(3,906,243)</u>
	<u>\$49,164,438</u>

The following table summarizes the levels in the fair value hierarchy of the Conference's investments at December 31, 2011:

	Total	Level 1	Level 2
<b><i>Assets</i></b>			
Money market funds	\$ 1,047,694	\$ 1,047,694	
Mutual funds	7,543,774	7,543,774	
Fixed income mutual funds	16,835,916	16,835,916	
Equity securities	12,258,097	12,258,097	
Corporate bonds	70,387	70,387	
Pacific Union Income Fund	8,307,775		\$ 8,307,775
International equity mutual funds	6,965,872	6,965,872	
International equities	41,166	41,166	
	<u>\$53,070,681</u>	<u>\$44,762,906</u>	<u>\$ 8,307,775</u>
<b><i>Liabilities</i></b>			
Derivative (interest rate swap)	\$ (3,906,243)		\$(3,906,243)

At December 31, 2011, the Conference did not have any investments measured using level 3 inputs.

**SOUTHEASTERN CALIFORNIA CONFERENCE  
OF SEVENTH-DAY ADVENTISTS  
and Subsidiaries**

**Notes to Consolidated Financial Statements**

**3. Investments (Continued)**

For the years ended December 31, 2012 and 2011, net investment income (loss) is presented in the consolidated statements of activities and changes in net assets as follows:

	2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Investment income	\$3,612,843	\$7,849		\$3,620,692
Unrealized gains	3,089,214			3,089,214
Realized gains	1,181,008			1,181,008
Investment fees	(143,349)			(143,349)
Other	(809,421)			(809,421)
	<u>6,930,295</u>	<u>7,849</u>	<u>\$ -</u>	<u>6,938,144</u>
Unrealized loss on interest rate swap included in other expense	<u>(38,061)</u>			<u>(38,061)</u>
Investment income, net	<u>\$6,892,234</u>	<u>\$7,849</u>	<u>\$ -</u>	<u>\$6,900,083</u>
	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Investment income	\$ 3,473,419	\$3,455		\$ 3,476,874
Unrealized gains	189,053			189,053
Realized losses	(1,200,482)			(1,200,482)
Investment fees	(137,660)			(137,660)
Other	(180,600)			(180,600)
	<u>2,143,730</u>	<u>3,455</u>	<u>\$ -</u>	<u>2,147,185</u>
Unrealized loss on interest rate swap included in other expense	<u>(2,041,158)</u>			<u>(2,041,158)</u>
Investment income, net	<u>\$ 102,572</u>	<u>\$3,455</u>	<u>\$ -</u>	<u>\$ 106,027</u>

The Conference maintains accounts with several stock brokerage firms of which 83.1 percent is held by one broker and 16.9 percent by PUC. The accounts contain cash and securities. Balances held by brokers are insured up to \$500,000 (with a limit of \$100,000 for cash) by the Securities Investor Protection Corporation.

**4. Fair Value Measurements**

The Conference reports its fair value measures using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by accounting principles generally accepted in the United States of America, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

**SOUTHEASTERN CALIFORNIA CONFERENCE  
OF SEVENTH-DAY ADVENTISTS  
and Subsidiaries**

**Notes to Consolidated Financial Statements**

**4. Fair Value Measurements (Continued)**

The three levels of inputs used to measure fair value are as follows:

- Level 1 Quoted prices for identical assets or liabilities in active markets to which the Conference has access at the measurement date.
- Level 2 Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include the following:
- Quoted prices for similar assets or liabilities in active markets;
  - Quoted prices for identical or similar assets in markets that are not active;
  - Observable inputs other than quoted prices for the asset or liability (for example, interest rates and yield curves); and
  - Inputs derived principally from, or corroborated by, observable market data by correlation or by other means.
- Level 3 Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2012 or 2011:

*Money market funds:* Valued at \$1 per share in accordance with industry practice.

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

*Corporate bonds:* Valued at the closing price reported on the active market on which the bonds are traded.

*International equities and equity securities:* Valued at the closing price reported in the active market on which the individual equities are traded.

*Fixed income and international equities mutual funds:* Valued at the NAV of shares held by the Conference at year-end.

*Pacific Union Income Fund:* Valued at the NAV of underlying shares held by a banking institution at year-end.

*Interest rate swap:* Valued at observable interest rates.

**SOUTHEASTERN CALIFORNIA CONFERENCE  
OF SEVENTH-DAY ADVENTISTS  
and Subsidiaries**

**Notes to Consolidated Financial Statements**

**4. Fair Value Measurements (Continued)**

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Conference believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

When available, the Conference measures fair value using level 1 inputs because they generally provide the most reliable evidence of fair value. However, level 1 inputs are not available for many of the assets and liabilities that the Conference is required to measure at fair value (for example, in-kind contributions).

The primary uses of fair value measures in the Conference's consolidated financial statements are the following:

- Initial measurement of noncash gifts, including gifts of investment assets and real property,
- Recurring measurement of short-term investments as disclosed in Note 3, and
- Recurring measurement of derivative instruments as disclosed in Note 13.

**5. Accounts Receivable**

Accounts receivable are recorded at their net realizable value. At December 31, accounts receivable consisted of the following:

	2012	2011
Congregation tithe and offering	\$ 9,245,419	\$ 9,064,148
Congregations other reimbursements	1,644,280	1,885,984
Schools	1,596,520	1,300,998
Rental properties	17,579	7,363
Student accounts	218,212	82,717
Other	180,427	211,569
	12,902,437	12,552,779
Less allowance for doubtful accounts	(225,658)	(228,268)
	<b>\$12,676,779</b>	<b>\$12,324,511</b>

At December 31, accounts receivable are presented in the consolidated statements of financial position as follows:

	2012	2011
Accounts receivable, current portion, net of allowance for doubtful accounts	\$11,447,773	\$11,229,839
Accounts receivable, noncurrent portion	1,229,006	1,094,672
	<b>\$12,676,779</b>	<b>\$12,324,511</b>



**SOUTHEASTERN CALIFORNIA CONFERENCE  
OF SEVENTH-DAY ADVENTISTS  
and Subsidiaries**

**Notes to Consolidated Financial Statements**

**6. Advances to Churches**

The Conference advanced funds to related parties, which are noninterest bearing and recorded at their net realizable value. At December 31, advances to churches consisted of the following:

	<u>2012</u>	<u>2011</u>
Rubidoux Spanish Church		\$ 115,977
Yucaipa Valley Spanish Church	\$ 265,000	265,000
Campus Hill Church	127,500	157,500
Escondido Church	<u>1,000,000</u>	
	1,392,500	<u>538,477</u>
Less current portion	<u>(30,000)</u>	<u>(145,977)</u>
	<u>\$1,362,500</u>	<u>\$ 392,500</u>

**7. Notes Receivable**

The Conference finances activities on behalf of its affiliated organizations. Notes receivable are recorded at their net realizable value, and earned interest is recorded at rates from 3.5 percent to 10.0 percent for the years ended December 31, 2012 and 2011. At December 31, notes receivable consisted of:

	<u>2012</u>	<u>2011</u>
Affiliate promissory notes with offsetting lines of credit (See Note 12)	\$ 1,833,604	\$ 2,853,241
Affiliate promissory notes with offsetting notes payable (See Note 13)	38,070,083	30,400,101
Affiliate promissory notes related to bonds payable (See Note 13)	48,074,966	45,711,468
Other affiliated promissory notes	336,569	336,569
Third party promissory note	<u>1,436,000</u>	<u>2,067,743</u>
	89,751,222	81,369,122
Less allowance for doubtful accounts	<u>(27,077)</u>	<u>(623,113)</u>
	89,724,145	80,746,009
Less current portion	<u>(7,632,048)</u>	<u>(8,887,858)</u>
	<u>\$82,092,097</u>	<u>\$71,858,151</u>

Amounts are receivable from the following:

	<u>2012</u>	<u>2011</u>
Congregations	\$55,073,070	\$48,774,483
Schools	33,242,152	30,526,896
Third party	<u>1,436,000</u>	<u>2,067,743</u>
	<u>\$89,751,222</u>	<u>\$81,369,122</u>

**SOUTHEASTERN CALIFORNIA CONFERENCE  
OF SEVENTH-DAY ADVENTISTS  
and Subsidiaries**

**Notes to Consolidated Financial Statements**

**8. Plant Assets**

Plant assets at December 31, 2012 and 2011 include property, plant, and equipment held and used by the Conference. The Conference also holds title to real estate for the use of certain affiliated organizations, including congregations, schools, and academies. All property donated, including construction in progress, by affiliated organizations is recorded at fair value on the date of donation. Revenue recorded for donated plant assets from affiliated organizations for the years ended December 31, 2012 and 2011 was \$11,010,385 and \$14,410,358, respectively, which included \$74,455 and \$167,648 in donated services and \$209,065 and \$318,335, respectively, in capitalized interest.

The following are the plant assets for the year ended December 31, 2012:

	Conference and Subsidiaries	Congregations	Elementary Schools	Academies	Total
Construction in progress	\$ 194,260	\$ 18,248,784	\$ 2,003,544	\$ 452,914	\$ 20,899,502
Land	656,641	25,335,638	1,464,822	5,731,231	33,188,332
Land improvements	3,949,122	12,005,335	1,071,380	8,192,472	25,218,309
Buildings and improvements	14,520,185	147,156,821	6,639,482	59,508,030	227,824,518
Equipment	3,670,481				3,670,481
Subtotal	22,990,689	202,746,578	11,179,228	73,884,647	310,801,142
Less accumulated depreciation	(11,811,991)	(57,379,462)	(2,966,828)	(18,719,344)	(90,877,625)
Plant assets, net	<u>\$11,178,698</u>	<u>\$145,367,116</u>	<u>\$8,212,400</u>	<u>\$55,165,303</u>	<u>\$219,923,517</u>

The following are the plant assets for the year ended December 31, 2011:

	Conference and Subsidiaries	Congregations	Elementary Schools	Academies	Total
Construction in progress	\$ 93,154	\$ 15,773,314	\$ 1,992,841	\$ 145,299	\$ 18,004,608
Land	656,641	24,684,819	1,464,822	5,731,231	32,537,513
Land improvements	3,928,746	11,874,973	1,066,042	7,908,399	24,778,160
Buildings and improvements	13,653,173	142,191,970	6,802,135	59,379,908	222,027,186
Equipment	3,722,478				3,722,478
Subtotal	22,054,192	194,525,076	11,325,840	73,164,837	301,069,945
Less accumulated depreciation	(11,262,387)	(52,115,376)	(2,816,816)	(16,937,237)	(83,131,816)
Plant assets, net	<u>\$ 10,791,805</u>	<u>\$142,409,700</u>	<u>\$ 8,509,024</u>	<u>\$ 56,227,600</u>	<u>\$217,938,129</u>

**SOUTHEASTERN CALIFORNIA CONFERENCE  
OF SEVENTH-DAY ADVENTISTS  
and Subsidiaries**

**Notes to Consolidated Financial Statements**

**8. Plant Assets (Continued)**

Depreciation expense for the years ended December 31, 2012 and 2011 was \$7,981,404 and \$7,502,427, respectively, which is included in the consolidated statements of activities and changes in net assets as follows:

	<u>2012</u>	<u>2011</u>
Church ministries	\$5,169,508	\$4,874,741
Education	2,208,823	2,017,484
Auxiliary services	603,073	369,144
General and administrative		<u>241,058</u>
	<u>\$7,981,404</u>	<u>\$7,502,427</u>

The use of property, plant, and equipment constructed by academies that were financed with the proceeds of Colorado Education and Cultural Facilities Authority-Series 2008 tax-exempt bonds are legally restricted to prohibit the use of the property primarily for religious worship or sectarian instruction. At December 31, 2012 and 2011, the Conference was in compliance with the legal requirement.

At December 31, assets restricted for this purpose were included in the following balances:

	<u>2012</u>	<u>2011</u>
Land	\$ 4,821,280	\$ 4,821,280
Land improvements	2,343,367	2,343,367
Buildings and improvements	23,872,182	23,859,220
Construction in progress	<u>23,916</u>	<u>36,105</u>
	<u>\$31,060,745</u>	<u>\$31,059,972</u>

**9. Investments in Real Estate**

At December 31, investments in real estate were comprised of the following components:

	<u>2012</u>	<u>2011</u>
Rental properties		
Land	\$ 7,941,589	\$ 9,482,119
Land improvements	505,832	477,459
Buildings	18,163,107	20,146,218
Building improvements	201,631	220,309
Equipment	<u>129,032</u>	<u>147,310</u>
	26,941,191	30,473,415
Land held for sale	100,000	100,000
Vacant land	2,183,114	806,654
Cemetery plots	<u>247</u>	<u>247</u>
	29,224,552	31,380,316
Accumulated depreciation	<u>(9,269,883)</u>	<u>(8,640,645)</u>
	<u>\$19,954,669</u>	<u>\$22,739,671</u>

**SOUTHEASTERN CALIFORNIA CONFERENCE  
OF SEVENTH-DAY ADVENTISTS  
and Subsidiaries**

**Notes to Consolidated Financial Statements**

**9. Investments in Real Estate (Continued)**

Depreciation expense for investments in real estate for the years ended December 31, 2012 and 2011 was \$639,415 and \$624,225, respectively, and is included in rental properties expense.

Assets held for sale at December 31, 2012 and 2011 include congregation land which was not occupied and is actively marketed. Expected disposal is uncertain due to economic factors within the real estate market.

**10. Assets Held in Trust**

At December 31, 2012, assets held in trust consisted of the following:

	Revocable Trusts	Irrevocable Trusts	Total
Cash and cash equivalents	\$ 728,872	\$1,343,246	\$ 2,072,118
Investments	847,065	3,563,222	4,410,287
Notes receivable	138,832	304,736	443,568
Real property	4,942,954	473,608	5,416,562
PUC trusts		65,592	65,592
	<u>\$6,657,723</u>	<u>\$5,750,404</u>	<u>\$12,408,127</u>

At December 31, 2011, assets held in trust consisted of the following:

	Revocable Trusts	Irrevocable Trusts	Total
Cash and cash equivalents	\$ 898,148	\$1,894,151	\$ 2,792,299
Investments	963,986	2,722,073	3,686,059
Notes receivable	143,500	336,566	480,066
Real property	4,930,869	322,857	5,253,726
PUC trusts		65,593	65,593
	<u>\$6,936,503</u>	<u>\$5,341,240</u>	<u>\$12,277,743</u>

The PUC trusts are administered by Western Adventist Foundation and are charitable remainder trusts.

**SOUTHEASTERN CALIFORNIA CONFERENCE  
OF SEVENTH-DAY ADVENTISTS  
and Subsidiaries**

**Notes to Consolidated Financial Statements**

**10. Assets Held in Trust (Continued)**

	<u>2012</u>	<u>2011</u>
FMV of irrevocable trusts donated	\$ 4,117,232	\$1,703,414
Less portion due to others	(2,554,976)	(990,380)
Revenue from irrevocable trusts donated	1,562,256	713,034
Change in present value	<u>184,853</u>	<u>389,289</u>
Net income related to irrevocable trusts	<u>\$1,747,109</u>	<u>\$1,102,323</u>

This information is reflected in the consolidated financial statements in totals for matured trusts, wills and bequests, and investment income.

**11. Accounts Payable**

At December 31, accounts payable consisted of the following:

	<u>2012</u>	<u>2011</u>
Pacific Union Conference	\$3,732,654	\$2,405,853
Affiliated congregations	52,876	149,259
Conference academies	114,251	175,882
Conference schools	8,231	717
Other	<u>858,020</u>	<u>918,947</u>
	<u>\$4,766,032</u>	<u>\$3,650,658</u>

**12. Lines of Credit**

The Conference maintains a \$5,000,000 line of credit with Bank of America of which \$1,000,000 is available for working capital and \$4,000,000 is available for the acquisition or renovation of facilities. The line of credit is unsecured and has a renewal date of April 15, 2013. The Conference pays interest monthly at the BBA LIBOR Daily Floating Rate plus 1.25 percent which was 1.46 and 1.54 percent at December 31, 2012 and 2011, respectively.

At December 31, 2012 and 2011, the outstanding balance was \$2,833,603 and \$3,853,241, respectively.

Both lines of credit with Bank of America contain covenants pertaining to total debt to net asset balance and liquidity. Specifically, the Conference is required to maintain a total debt to net asset balance not to exceed 0.50:1 and unrestricted liquid assets of at least \$5,000,000. The Conference is also required to submit audited financial statements within 270 days of the end of each year. At December 31, 2012 and 2011, the Conference was in compliance with these covenants.

**SOUTHEASTERN CALIFORNIA CONFERENCE  
OF SEVENTH-DAY ADVENTISTS  
and Subsidiaries**

**Notes to Consolidated Financial Statements**

**13. Notes Payable and Bonds Payable**

In addition to debt acquired for Conference operations, the Conference also obtains or guarantees debt on behalf of affiliated congregations, schools, and academies.

At December 31, notes payable consisted of the following:

	2012	2011
<u>Notes payable in the name of the Conference</u>		
Bank of America - High Desert Bilingual SDA Church; due October 31, 2015; payable in monthly installments of \$11,514 including interest at 7.350% with a balloon payment due at maturity; secured by property with net book value on December 31, 2012 and 2011 of \$1,653,262 and \$1,714,077, respectively. <sup>(1)(3)</sup>	\$ 1,153,558	\$ 1,203,878
La Loma Federal Credit Union - Yucaipa Samoan SDA Church; due February 1, 2035; payable in monthly installments of \$2,369 including interest at 5.375%; secured by property with net book value on December 31, 2012 and 2011 of \$807,294 and \$844,226, respectively. <sup>(1)(3)</sup>	366,975	375,974
Paradise Valley Federal Credit Union - Blythe Spanish/English SDA Church; due December 1, 2021; payable in monthly installments of \$5,200 including interest at 6.500% with a balloon payment due at maturity; secured by property with net book value on December 31, 2012 and 2011 of \$1,131,852 and \$1,179,155, respectively. <sup>(1)(3)</sup>	568,912	591,474
Paradise Valley Federal Credit Union - Paradise Valley Spanish SDA Church; due December 1, 2020; payable in monthly installments of \$9,000 including variable interest initially at 6.510% and 6.000% at December 31, 2012; balloon payment due at maturity; secured by property with net book value on December 31, 2012 and 2011 of \$1,784,915 and \$1,822,631, respectively. <sup>(1)(3)</sup>	1,149,544	1,173,923
Commonwealth Business Bank - Orange Central Korean SDA Church; due August 27, 2017; payable in monthly installments of \$12,409 and \$14,126, including variable interest at 4.490% and 5.750% at December 31, 2012 and 2011, respectively; balloon payment due at maturity; secured by property with net book value on December 31, 2012 and 2011 of \$4,160,007 and \$4,259,599, respectively. <sup>(1)</sup>	2,207,933	2,116,780

**SOUTHEASTERN CALIFORNIA CONFERENCE  
OF SEVENTH-DAY ADVENTISTS  
and Subsidiaries**

**Notes to Consolidated Financial Statements**

**13. Notes Payable and Bonds Payable (Continued)**

	2012	2011
Paradise Valley Federal Credit Union – Murrieta Springs SDA Church; due December 1, 2027; payable in monthly installments of \$10,575 through June 1, 2020 including interest of 6.890% and 7.500% at December 31, 2012 and 2011, respectively; balloon payment due at maturity; secured by property with a net book value on December 31, 2012 and 2011 of \$5,795,996 and \$5,388,641, respectively; includes one assignment of rents on December 31, 2012 and 2011 as additional security. <sup>(1)(3)</sup>	\$ 1,182,981	\$ 954,620
Paradise Valley Federal Credit Union – New Hope SDA Church; due May 1, 2035; payable in monthly installments from June 1, 2010 through May 31, 2015 of \$1,872 including interest at 6.500%, from June 1, 2015 through May 1, 2035 of \$1,961 including interest at 7.000%; secured by property with a net book value of \$435,491 and \$449,267 on December 31, 2012 and 2011, respectively; includes one assignment of rents on December 31, 2012 and 2011 as additional security. <sup>(1)(3)</sup>	259,156	265,745
Paradise Valley Federal Credit Union – New Hope SDA Church; due May 1, 2020; payable in monthly installments of \$488 including interest at 8.000%; secured by property with a net book value of \$435,491 and \$449,267 on December 31, 2012 and 2011, respectively; includes one assignment of rents on December 31, 2012 and 2011 as additional security. <sup>(1)(3)</sup>	26,742	30,485
Paradise Valley Federal Credit Union – Vista Spanish SDA Church; due March 10, 2020; payable in monthly installments of \$1,430 through March 10, 2020 and a final installment of \$1,294, including interest of 6.000%; secured by property with a net book value of \$195,913 and \$211,309 on December 31, 2012 and 2011, respectively; includes one assignment of rents on December 31, 2012 and 2011 as additional security. <sup>(1)(3)</sup>	100,620	111,390
Pacific Union Conference Church and School Loan Fund – Calexico Mission School; due October 22, 2014; payable in monthly installments of \$7,495 including interest at 6.000% and 4.000% at December 31, 2012 and 2011, respectively; secured by property with net book value including building on December 31, 2012 and 2011 of \$1,131,843 and \$1,166,668, respectively. <sup>(2)</sup>	155,859	237,890

**SOUTHEASTERN CALIFORNIA CONFERENCE  
OF SEVENTH-DAY ADVENTISTS  
and Subsidiaries**

**Notes to Consolidated Financial Statements**

**13. Notes Payable and Bonds Payable (Continued)**

	2012	2011
SDA Layman's - Yucaipa Samoan SDA Church; due June 1, 2015; payable in monthly installments of \$1,582 including interest at 5.000%; balloon payment due at maturity; unsecured. <sup>(1) (2) (3)</sup>	\$ 138,745	\$ 139,745
Pacific Union Conference Revolving Fund; due October 7, 2023; payable in monthly installments of \$9,315 including interest at 6.250% and 4.000% at December 31, 2012 and 2011, respectively; secured by property with net book value of \$2,775,000 and \$2,812,500 on December 31, 2012 and 2011, respectively. <sup>(2)</sup>	852,470	928,687
Bank of America – Redlands Church; due December 31, 2025; payable in monthly installments of \$35,000 plus interest equal to the BBA LIBOR Daily Floating Rate plus 105 basis points, which was 1.253% at December 31, 2012; secured by property with a net book value of \$3,547,108 on December 31, 2012; and is subject to the same covenants under the Bank of America letter of credit and reimbursement agreement. <sup>(1) (2)</sup>	6,300,000	
Citizens Business Bank; due November 15, 2019; payable in monthly installments of \$10,358 including interest at 4.250%; balloon payment at maturity; unsecured.	741,058	
	15,204,553	8,130,591

Notes payable guaranteed by the Conference

Pacific Union Conference Church and School Fund Loans guaranteed by Conference; maturity dates vary; variable interest rate at 6.000% and 4.000% at December 31, 2012 and 2011, respectively; secured by property with net book value on December 31, 2012 and 2011 of \$32,480,344 and \$32,208,479, respectively; includes ten assignments of rents on December 31, 2012 and fourteen assignments of rents on December 31, 2011 as additional security. <sup>(1) (2)</sup>	8,721,681	7,756,357
--	-----------	-----------



**SOUTHEASTERN CALIFORNIA CONFERENCE  
OF SEVENTH-DAY ADVENTISTS  
and Subsidiaries**

**Notes to Consolidated Financial Statements**

**13. Notes Payable and Bonds Payable (Continued)**

	2012	2011
Pacific Union Conference Income Fund Loans; maturity dates vary; variable interest rate at 6.750% and 4.750% at December 31, 2012 and 2011, respectively; secured by property with net book value on December 31, 2012 and 2011 of \$48,568,209 and \$46,895,782, respectively; includes eleven assignments of rents on December 31, 2012 and twelve assignments of rents on December 31, 2011 for additional security. <sup>(1)(2)</sup>	<u>\$15,893,238</u>	<u>\$15,679,730</u>
	<u>24,614,919</u>	<u>23,436,087</u>
	39,819,472	31,566,678
Less current portion	<u>(4,840,436)</u>	<u>(4,549,862)</u>
	<u>\$34,979,036</u>	<u>\$27,016,816</u>
 At December 31, bonds payable consisted of the following:		
Colorado Educational and Cultural Facilities Authority – adjustable rate demand tax exempt revenue bonds Series 2008; variable weekly interest rate at 0.14% and 0.10% at December 31, 2012 and 2011; monthly interest-only payments; annual principal payments beginning June 1, 2025 and maturing June 1, 2038; secured by irrevocable letter of credit issued by Bank of America and property with a net book value of \$45,169,866 and \$45,801,270 on December 31, 2012 and 2011, respectively.	\$32,330,000	\$32,330,000
Southeastern California Conference of Seventh-day Adventists – adjustable rate demand taxable revenue bonds, Series 2008; variable weekly interest rate at 0.20% and 0.25% at December 31, 2012 and 2011; monthly interest-only payments; annual principal payments beginning June 1, 2009 and maturing June 1, 2025; secured by irrevocable letter of credit issued by Bank of America property with a net book value of \$45,242,998 and \$45,801,270 on December 31, 2012 and 2011, respectively.	<u>16,570,000</u>	<u>17,470,000</u>
	<u>48,900,000</u>	<u>49,800,000</u>
Less current portion	<u>(955,000)</u>	<u>(900,000)</u>
	<u>\$47,945,000</u>	<u>\$48,900,000</u>

**SOUTHEASTERN CALIFORNIA CONFERENCE  
OF SEVENTH-DAY ADVENTISTS  
and Subsidiaries**

**Notes to Consolidated Financial Statements**

**13. Notes Payable and Bonds Payable (Continued)**

Future maturities of long-term debt and related party obligations at December 31, 2012 were as follows:

<u>Year Ending December 31,</u>	<u>With Related Note Receivable</u>	<u>Other Notes Payable</u>	<u>Bond Issue</u>	<u>Total</u>
2013	\$ 4,161,839	\$ 678,598	\$ 955,000	\$ 5,795,437
2014	3,823,518	671,307	1,005,000	5,499,825
2015	3,158,795	5,648,383	1,060,000	9,867,178
2016	3,125,437	196,335	1,110,000	4,431,772
2017	10,111,376	204,730	1,180,000	11,496,106
Thereafter	7,389,118	650,036	43,590,000	51,629,154
	<u>\$31,770,083</u>	<u>\$8,049,389</u>	<u>\$48,900,000</u>	<u>\$88,719,472</u>

Interest Rate Swaps

As a means to achieve a greater level of interest rate stability in connection with the Series 2008 taxable and tax-exempt revenue bonds, the Conference entered into two interest rate swaps in February 2009 (2009-1 Swap and 2009-2 Swap), a third in March 2009 (2009-3 Swap), and a fourth in July 2010 (2010-1), all of which effectively change the interest rate on the bonds to synthetic fixed rates.

The interest rate swaps are, among other things, subject to credit, basis, and termination risk. The credit and termination risks have been mitigated with collateral posting requirements by the counterparty in the event of a ratings downgrade below a specified threshold. The swaps are subject to basis risk should the relationship between the variable rates applicable to the swaps converge with that of the bonds which would change the synthetic interest rate on the bonds.

The swap policy adopted by the Conference requires determination of the fair termination values of its swaps at least annually. The calculation of the fair termination value takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction, and any upfront payments that were received, if any. Fair valuations of termination values are realized only if the swaps were to be terminated at the valuation date, and only the Conference retains the right to optionally terminate the transactions.

**SOUTHEASTERN CALIFORNIA CONFERENCE  
OF SEVENTH-DAY ADVENTISTS  
and Subsidiaries**

**Notes to Consolidated Financial Statements**

**13. Notes Payable and Bonds Payable (Continued)**

As of December 31, 2012 and 2011, the net negative fair values for the swaps were estimated to be \$3,944,304 and \$3,906,243, respectively, which would approximate the amount the Conference would have paid to Bank of America as a termination payment if the swaps had been terminated at December 31, 2012 and 2011, respectively, and are a result of the change in interest rate levels and certain interest rate relationships. The net fair values of the swaps are recorded as a part of other noncurrent liabilities in the consolidated statements of financial position at December 31, 2012 and 2011. The change in fair values from inception of the swaps through December 31, 2012 and 2011 was \$38,061 and \$2,041,158, respectively, and is recorded as part of other expense in the consolidated statements of activities and changes in net assets as of December 31, 2012 and 2011.

The terms, fair values, and credit ratings of the outstanding swaps as of December 31, 2012 are as follows:

Associated Debt Issue	Counter- party	Notional Amount	Effective Date	Fixed Rate to be Paid	Variable Rate to be Received	Fair Value	Swap Termination Date	Counterparty Credit Rating
2008 Taxable Revenue Bonds	Bank of America	\$16,570,000	02/10/2009	3.249%	One- Month LIBOR	\$1,911,274	02/01/2019	Aa3/A+/A+
2008 Non- Taxable Revenue Bonds	Bank of America	16,525,000	02/10/2009	2.560%	SIFMA	456,557	02/03/2014	Aa3/A+/A+
2008 Non- Taxable Revenue Bonds	Bank of America	9,000,000	03/23/2009	2.710%	SIFMA	703,294	04/01/2016	Aa3/A+/A+
2008 Non- Taxable Revenue Bonds	Bank of America	<u>6,800,000</u>	07/16/2010	2.820%	SIFMA	<u>873,179</u>	07/01/2020	Aa3/A+/A+
		<u>\$48,895,000</u>				<u>\$3,944,304</u>		

**SOUTHEASTERN CALIFORNIA CONFERENCE  
OF SEVENTH-DAY ADVENTISTS  
and Subsidiaries**

**Notes to Consolidated Financial Statements**

**13. Notes Payable and Bonds Payable (Continued)**

The terms, fair values, and credit ratings of the outstanding swaps as of December 31, 2011 are as follows:

Associated Debt Issue	Counter-party	Notional Amount	Effective Date	Fixed Rate to be Paid	Variable Rate to be Received	Fair Value	Swap Termination Date	Counterparty Credit Rating
2008 Taxable Revenue Bonds	Bank of America	\$17,470,000	02/10/2009	3.249%	One-Month LIBOR	\$(1,762,062)	02/01/2019	Aa3/A+/A+
2008 Non-Taxable Revenue Bonds	Bank of America	16,525,000	02/10/2009	2.560%	SIFMA	(754,552)	02/03/2014	Aa3/A+/A+
2008 Non-Taxable Revenue Bonds	Bank of America	9,000,000	03/23/2009	2.710%	SIFMA	(721,023)	04/01/2016	Aa3/A+/A+
2008 Non-Taxable Revenue Bonds	Bank of America	<u>6,800,000</u>	07/16/2010	2.820%	SIFMA	<u>(668,606)</u>	07/01/2020	Aa3/A+/A+
		<u>\$49,795,000</u>				<u>\$(3,906,243)</u>		

Interest charged to expense during the years ended December 31, 2012 and 2011 was \$1,619,513 and \$1,697,386, respectively, with \$75,215 and \$58,659 included in general and administrative expense, \$35,564 and \$57,156 in rental properties expense, and \$1,508,734 and \$1,581,571 in interest expense, respectively.

Loan agreements with Bank of America contain covenants pertaining to debt to net asset balance and liquidity. Specifically, the Conference is required to maintain a total debt to net assets balance of no more than 0.5:1, and unrestricted liquid assets of at least \$5,000,000. The Conference is also required to submit audited financial statements within 270 days of the end of each year. At December 31, 2012 and 2011, the Conference was in compliance with these covenants.

**SOUTHEASTERN CALIFORNIA CONFERENCE  
OF SEVENTH-DAY ADVENTISTS  
and Subsidiaries**

**Notes to Consolidated Financial Statements**

**13. Notes Payable and Bonds Payable (Continued)**

On June 26, 2008 the Conference issued \$52,580,000 in adjustable rate demand revenue bonds through its limited liability company, SECC-ECF, LLC. The bonds were issued in two series: taxable and tax-exempt. The taxable bond issue totaled \$20,250,000 and will mature June 1, 2025; proceeds were used to finance and refinance the costs of the acquisition, construction, renovation, installation, and equipping of certain church and/or educational facilities and to pay costs incurred in connection with the issuance of bonds. The tax-exempt bond issue totaled \$32,330,000 and will mature June 1, 2038, and the majority proceeds were used to finance and refinance the costs of certain cultural facilities and K-12 educational facilities and to pay costs incurred in connection with the issuance of bonds. At December 31, 2012, \$405,083 in tax-exempt bond funds had not been expended. These funds will be held by the Conference until February 2014, when they will be used to extinguish a portion of the bond debt. The bonds are subject to conversion to a term interest rate. The repayments of interest and principal initially will be supported by irrevocable direct draw letters of credit which will automatically terminate September 26, 2014 unless renewed or terminated sooner.

The letters of credit contain covenants regarding audited financial statements, debt service ratio, and liquidity. Specifically, the Conference is required to submit audited financial statements within 180 days of the end of each year and quarterly financial statements within 45 days of the end of each quarter, maintain a debt service ratio of not less than 1.10:1.00 at June 30 and December 31, and maintain an unrestricted liquid assets to total debt percentage of at least 80 percent measured each June 30 and December 31. The Conference complied with these covenants except for submitting audited financial statements within 180 days of year-end and the debt service ratio of not less than 1.10:1.00 at December 31, 2012. The bond purchase agreement also requires the Conference to provide audited comparative financial statements to the bond underwriter within 270 days of the end of each year. Bank of America waived the covenant regarding receipt of audited financial statements within 180 days of year-end and the debt service ratio not met for the year ended December 31, 2012 and 2011.

<sup>(1)</sup>The note was incurred on behalf of and is offset by a note receivable from congregation, school or academy within the Conference.

<sup>(2)</sup>Related party. See Note 21.

<sup>(3)</sup>The note reflects the Conference and the congregation, school, or academy as parties to the note.

**14. Capital Leases**

Minimum future lease payments under capital leases as of December 31, 2012 for each of the next five years and aggregate are:

	2012
Year ending December 31,	
2013	\$131,850
2014	131,850
2015	108,694
2016	10,137
Total minimum lease payments	382,531
Less amount representing interest	(74,776)
Present value of net minimum lease payments	<b>\$307,755</b>

**SOUTHEASTERN CALIFORNIA CONFERENCE  
OF SEVENTH-DAY ADVENTISTS  
and Subsidiaries**

**Notes to Consolidated Financial Statements**

**14. Capital Leases (Continued)**

The interest rate on capital leases is 6.23 percent. Lease agreements contain purchase options which are either at fixed prices or at prices representing the expected fair value of the property at the expiration of the lease term.

The cost less accumulated depreciation of the equipment under capitalized leases included on the consolidated statements of financial position as of December 31, 2012 and 2011, are \$285,754 and \$377,648, respectively.

**15. Liabilities to Depositors**

At December 31, 2012 and 2011, liabilities to depositors consisted of \$728,004 and \$918,118, respectively, in investments held on behalf of affiliated congregations.

**16. Liabilities Held in Trust**

At December 31, liabilities held in trust consisted of the following:

	2012	2011
Liabilities to remainder beneficiaries	\$ 1,986,932	\$ 1,858,594
Present value of payments to income beneficiaries	1,628,628	1,518,901
Liabilities under irrevocable trusts	3,615,560	3,377,495
Liabilities under revocable trusts	6,657,723	6,936,504
	<u>\$10,273,283</u>	<u>\$10,313,999</u>

**17. Net Assets**

At December 31, unrestricted net assets designated by the board of directors included the following:

	2012	2011
Quasi endowments	\$56,158,895	\$52,170,886
Property insurance reserves	2,307,006	2,251,743
	<u>\$58,465,901</u>	<u>\$54,422,629</u>

At December 31, temporarily restricted net assets were available for the following purposes:

	2012	2011
Church ministries	\$2,510,522	\$1,721,846
Education	358,455	768,291
Auxiliary services	1,305	907
Outreach ministries	154,844	152,117
Other	2,101,838	1,816,125
	<u>\$5,126,964</u>	<u>\$4,459,286</u>

**SOUTHEASTERN CALIFORNIA CONFERENCE  
OF SEVENTH-DAY ADVENTISTS  
and Subsidiaries**

**Notes to Consolidated Financial Statements**

**17. Net Assets (Continued)**

At December 31, permanently restricted net assets consisted of the following:

	2012	2011
Junior Camp	\$10,000	\$10,000
San Marcos Seventh-day Adventist Church	52,332	52,332
	\$62,332	\$62,332

**18. Employee Benefit Plans**

*Defined Benefit Plan*

The Conference participates in a noncontributory, defined benefit retirement plan known as the Seventh-day Adventist Retirement Plan for North America (the “Defined Benefit Plan”). The Defined Benefit Plan is administered by the General Conference of Seventh-day Adventists in Silver Spring, Maryland and is exempt from the Employee Retirement Income Security Act of 1974 as a plan of a church-related agency. The Conference contributed \$4,016,734 and \$3,595,223 to the Defined Benefit Plan for the years ended December 31, 2012 and 2011, respectively, for general retirement benefits.

The Defined Benefit Plan is defined by the Financial Accounting Standards Board as a multi-employer plan. As such, it is not required, nor is it possible, to determine the actuarial present value of accumulated benefits or plan net assets for employees of the Conference apart from other plan participants. However, based on the latest actuarial evaluation of the Defined Benefit Plan, as of December 31, 2009, the actuarially computed value of accumulated plan benefits exceeded the estimated market value of plan assets.

The Conference contributed \$1,321,363 and \$1,304,708 for the years ended December 31, 2012 and 2011 to the Health Care Assistance Plan for Participants in the Seventh-day Adventist Retirement Plan of the North American Division (the “Healthcare Plan”) on behalf of retired employees participating in the Defined Benefit Plan. Additional information regarding the Healthcare Plan is outlined in Note 19 to the consolidated financial statements.

In January 2000, the Defined Benefit Plan was left as an option for those close to retirement who wanted to remain on this plan. At this time, a new 403(b) plan was put in place for all new employees and nonvested employees.

**SOUTHEASTERN CALIFORNIA CONFERENCE  
OF SEVENTH-DAY ADVENTISTS  
and Subsidiaries**

**Notes to Consolidated Financial Statements**

**18. Employee Benefit Plans (Continued)**

*Defined Contribution Plan*

Effective January 1, 2000, the Conference participates in a defined contribution retirement plan known as “The Adventist Retirement Plan” (the “Defined Contribution Plan”). The Defined Contribution Plan, which covers substantially all employees of the Conference, is administered by the General Conference of Seventh-day Adventists in Silver Spring, Maryland and is exempt from the Employee Retirement Income Security Act of 1974 as a plan of a church-related agency. Employer contributions are made directly to the employee’s retirement account managed by Variable Annuity Life Insurance Conference (VALIC). In addition to this benefit, employees are also able to contribute to their account maximum amounts allowed by current tax laws and the Conference will match according to maximum amounts approved on the Adventist retirement policy and tax laws. This new plan is intended to replace the older one incrementally and is available to all North American Division employees participating in the Defined Benefit Plan. The Conference contributed \$1,810,112 and \$1,784,318 under the basic requirements and \$716,696 and \$601,444 as employer matching to the Defined Contribution Plan for the years ended December 31, 2012 and 2011, respectively.

**19. Self-Insurance**

The Conference is self-insured for chiropractic and wellness programs in the year ended June 30, 2012 and for dental, vision, chiropractic, and wellness programs for the year ended June 30, 2011. The Conference expended \$340,475 and \$317,759 during the years ended December 31, 2012 and 2011.

The Conference participates in a Worker’s Compensation Self-Insurance Pool (the “Plan”) that is coordinated by the PUC. PUC is considered to be a “fully participating member” of the Plan and is not required to arrange for a security deposit or surety bond. The Plan calculates an annual assessment which is billed to each organization for their prorated portion of the assessment. The amount of the annual contributions to the Plan, including contributions for affiliated organizations, are calculated based on prior year’s claims, and totaled \$613,368 and \$587,163 for the years ended December 31, 2012 and 2011, respectively.

**20. Operating Leases**

The Conference is the lessor under operating leases which allow limited use of real property and expire in various years through 2017. Property held for lease is described in Note 9.

Minimum future rentals to be received on noncancelable leases as of December 31, 2012 for each of the next five years and in the aggregate are as follows:

Year ended December 31,	
2013	\$ 667,342
2014	532,968
2015	283,505
2016	151,693
2017	<u>48,818</u>
	<u>\$1,684,326</u>

As noted in Note 21, the Conference appropriates the associated revenues to the affiliate church or school which shares in the use of the property.



**SOUTHEASTERN CALIFORNIA CONFERENCE  
OF SEVENTH-DAY ADVENTISTS  
and Subsidiaries**

**Notes to Consolidated Financial Statements**

**21. Related Party Transactions**

As described in Note 1, the Conference is associated with various Seventh-day Adventist organizations. At December 31, 2012 and 2011, and the years then ended, the Conference had the following transactions with related parties. The following represents assets and liabilities held with related parties at December 31:

	2012			Total
	Congregations	Schools and Academies	PUC	
Accounts receivable (Note 5)	\$10,889,698	\$ 1,596,520		\$ 12,486,218
Investments (Note 3)			\$ 8,478,128	8,478,128
Interest receivable	165,447	95,180		260,627
Advances to churches (Note 6)	1,392,500			1,392,500
Notes receivable (Note 7)	55,073,070	33,242,152		88,315,222
Accounts payable (Note 11)	(52,876)	(122,482)	(3,732,654)	(3,908,012)
Notes payable (Note 13)*	(138,745)		(25,623,249)	(25,761,994)
Accrued wages and benefits (retirement)			(1,247,159)	(1,247,159)
	<u>\$67,329,094</u>	<u>\$34,811,370</u>	<u>\$(22,124,934)</u>	<u>\$80,015,530</u>
	2011			
	Congregations	Schools and Academies	PUC	Total
Accounts receivable (Note 5)	\$10,950,132	\$ 1,300,998		\$ 12,251,130
Investments (Note 3)			\$ 8,307,775	8,307,775
Interest receivable	95,079	78,409		173,488
Advances to churches (Note 6)	538,477			538,477
Receivable for guarantees of equipment leases	201,829	173,653		375,482
Notes receivable (Note 7)	48,774,483	30,526,896		79,301,379
Accounts payable (Note 11)	(149,259)	(176,599)	(2,405,853)	(2,731,711)
Guarantees of equipment leases	(201,829)	(173,653)		(375,482)
Notes payable (Note 13)*	(139,745)		(24,602,664)	(24,742,409)
Accrued wages and benefits (retirement)			(851,940)	(851,940)
	<u>\$60,069,167</u>	<u>\$31,729,704</u>	<u>\$(19,552,682)</u>	<u>\$ 72,246,189</u>

\*See detail of notes payable held by PUC on page 41.

**SOUTHEASTERN CALIFORNIA CONFERENCE  
OF SEVENTH-DAY ADVENTISTS  
and Subsidiaries**

**Notes to Consolidated Financial Statements**

**21. Related Party Transactions (Continued)**

Reflected in the consolidated statement of activities are the following related party revenues (expenses) for the years ended December 31:

	2012			Total
	Congregations	Schools and Academies	PUC	
Tithe percentage passed on Subsidies			\$(12,597,079)	\$(12,597,079)
Payroll, benefits and other expense reimbursements	\$ 8,314,438	\$20,711,554	3,783,760	29,025,992
Donated plant assets	10,221,362	764,927		10,986,289
Investment income			(325,181)	(325,181)
Payroll and benefits	(18,579,662)	(20,279,301)		(38,858,963)
Appropriations	(1,004,276)	(3,198,785)	(1,857,015)	(6,060,076)
Rental income appropriations	(2,686,822)	(153,854)		(2,840,676)
Interest expense			(52,253)	(52,253)
	<u>\$(3,734,960)</u>	<u>\$ (2,155,459)</u>	<u>\$(11,047,768)</u>	<u>\$(16,938,187)</u>
	2011			
	Congregations	Schools and Academies	PUC	Total
Tithe percentage passed on Subsidies			\$(12,348,603)	\$(12,348,603)
Payroll, benefits and other expense reimbursements	\$ 7,522,662	\$ 20,680,441	3,674,589	28,203,103
Donated plant assets	9,031,655	5,378,703		14,410,358
Investment income			326,995	326,995
Interest income	45,657			45,657
Payroll and benefits	(17,472,417)	(20,246,381)		(37,718,798)
Appropriations	(1,576,523)	(3,534,468)	(1,832,842)	(6,943,833)
Rental income appropriations	(2,585,649)	(102,351)		(2,688,000)
Interest expense			(73,481)	(73,481)
	<u>\$(5,034,615)</u>	<u>\$ 2,175,944</u>	<u>\$(10,253,342)</u>	<u>\$(13,112,013)</u>

Within accounts receivable balance at December 31, 2012 and 2011, there is one congregation that represents more than 10 percent of the total balance and that accounts for more than 10 percent of annual gross tithe revenue. Additionally, there are two academies which each represent more than 10 percent of the total note receivable balance at December 31, 2012 and 2011.

**SOUTHEASTERN CALIFORNIA CONFERENCE  
OF SEVENTH-DAY ADVENTISTS  
and Subsidiaries**

**Notes to Consolidated Financial Statements**

**21. Related Party Transactions (Continued)**

*Tithe percentages passed on* represents the portion of tithe revenue received by the Conference which is allocable to affiliate organizations in accordance with policy. *Subsidies* represent amounts received in support of Conference operations or specific education or evangelism projects. *Payroll, benefits, and other expense reimbursements* represents those costs incurred by the Conference for which the affiliate congregation or schools is responsible for reimbursing the Conference. Under the guidelines of the Seventh-day Adventist denomination, churches and schools are not to own real property. As such, acquired or constructed plant assets by an affiliated church or school are donated to the local conference and are included in *donated plant assets*. In turn, the Conference allows the affiliated church or school to use the property at no cost. *Appropriations* represents amounts paid to affiliates for operations or other support; whereas, *rental income appropriations* represent the amount of rental income for use of Conference-owned property from which the Conference allows the affiliate to collect from third parties and retain. The Conference provides faculty and administration personnel for the schools, as well as ministerial and administrative staff for affiliate churches within its territories. Of the total payroll and related benefit expenses, the affiliate school or church may be responsible for a portion of the associated personnel costs. Reimbursements of personnel related costs are included in payroll, benefits, and other expense reimbursements.

Notes payable held by the PUC are as follows:

	<u>2012</u>	<u>2011</u>
PUC Church and School Loan Fund - Calexico Mission School	\$ 155,859	\$ 237,890
PUC Revolving Fund – Seacoast Property	<u>852,471</u>	<u>928,688</u>
	<u>1,008,330</u>	<u>1,166,578</u>
Loans received by affiliate schools and academies from Pacific Union Conference of Seventh-day Adventists, guaranteed with Conference fixed assets*		
Church and School Fund loans	8,721,681	7,756,357
Income Fund loans	<u>15,893,238</u>	<u>15,679,730</u>
	<u>24,614,919</u>	<u>23,436,087</u>
Total	<u>\$25,623,249</u>	<u>\$24,602,665</u>

\*The Conference has guaranteed these notes until repaid by the schools and academies as detailed in Note 13. In the event the schools or academies default on repayment, the Conference would be required to repay the remaining debt balance. In the event the parties default on these loans, the Conference has no recourse; however, the Conference believes the loans will be fully repaid by the related parties.

**SOUTHEASTERN CALIFORNIA CONFERENCE  
OF SEVENTH-DAY ADVENTISTS  
and Subsidiaries**

**Notes to Consolidated Financial Statements**

**21. Related Party Transactions (Continued)**

On September 1, 1986, the Conference entered into an agreement with Loma Linda University, a Seventh-day Adventist University, for the Conference to lease land from Loma Linda University for a nominal amount, which is in turn sublet to the Loma Linda University Church, an affiliated congregation, for a nominal value, to be used by the congregation as a children's center. The lease expires on August 31, 2085.

The financial data provided for the affiliate schools which have not been consolidated as explained in Note 1, is as follows:

	<u>Unaudited, June 30,</u>	
	<u>2012</u>	<u>2011</u>
Total assets	\$ 19,687,879	\$26,940,206
Total liabilities	<u>34,962,548</u>	<u>34,878,146</u>
Net assets (deficit)	<u>\$(15,274,669)</u>	<u>\$ (7,937,940)</u>
Total revenue	\$37,929,220	\$44,115,861
Total expenses	<u>45,341,201</u>	<u>43,467,431</u>
Net income (loss)	<u>\$(7,411,981)</u>	<u>\$ 648,430</u>

See Notes 3, 5, 6, 7, 8, 10, 11, 12, 13, 15 and 19 for investments, accounts receivable, advances to churches, notes receivable, plant assets, assets held in trust, accounts payable, lines of credit, notes payable, liabilities to depositors, and insurance, respectively, for additional information.

**22. Prior Period Adjustments**

In the consolidated financial statements for the year ended December 31, 2011, errors were made in accounting for plant assets.

These errors have been corrected and have had the following effect on the beginning net assets for the year ended December 31, 2011:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Beginning net assets, as previously reported December 31, 2011	<u>\$285,522,755</u>	<u>\$4,459,286</u>	<u>\$62,332</u>	<u>\$290,044,373</u>
Adjustments:				
Net additions and deletions of plant assets not previously reported	<u>904,658</u>			<u>904,658</u>
Increase in net assets	<u>904,658</u>			<u>904,658</u>
Beginning net assets, as restated December 31, 2011	<u>\$286,427,413</u>	<u>\$4,459,286</u>	<u>\$62,332</u>	<u>\$290,949,031</u>

**SOUTHEASTERN CALIFORNIA CONFERENCE  
OF SEVENTH-DAY ADVENTISTS  
and Subsidiaries**

**Notes to Consolidated Financial Statements**

**23. Commitments and Contingencies**

The Conference sold property which included fuel tanks. At December 31, 2012, the Conference was evaluating the soil for potential environmental remediation requirements. The cost, if any, was undeterminable as of December 31, 2012.

As reflected in Note 13, the Conference guarantees certain notes payable of affiliate churches and schools. The Conference's maximum credit risk associated with these notes payable guarantees.

**24. Subsequent Events**

In 2013, the Conference guaranteed notes payable with Pacific Union Conference on behalf of five affiliates which total \$4,686,950. To date, \$4,686,950 has been drawn on these notes; \$4,144,700 of these funds were used to repay existing debt which was also guaranteed by the Conference. These note payable guarantees and line of credit draws were offset by equivalent notes receivable from the affiliates.

On July 15, 2013, there was a fire at the Pine Springs Ranch location which destroyed some buildings, inventory, and equipment. Management anticipates that most, if not all, of the losses will be recovered through insurance.

In the preparation of these consolidated financial statements, the Conference considered subsequent events through July 25, 2013 which is the date these consolidated financial statements were issued.