

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

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

**FOR THE YEARS ENDED
DECEMBER 31, 2015 AND 2014**

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A California Limited Liability Partnership
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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") which comprise the consolidated statements of financial position as of and for the years ended December 31, 2015 and 2014 and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated 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, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Ahern Adcock Devlin LLP

Riverside, California
June 29, 2016

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

Consolidated Statements of Financial Position

	December 31,	2015	2014
ASSETS			
Current assets			
Cash and cash equivalents	\$	4,676,075	\$ 5,724,031
Investments		60,132,708	58,670,982
Accounts receivable, current portion, net of allowance for doubtful accounts (Note 5)		11,124,532	12,632,083
Interest receivable		220,064	203,877
Advances to churches, current portion			2,700
Notes receivable, current portion		8,363,439	13,608,865
Inventory		658,178	820,330
Prepaid expenses		256,162	127,105
		<u>85,431,158</u>	<u>91,789,973</u>
Plant assets, net		<u>224,644,329</u>	<u>226,617,676</u>
Other assets			
Accounts receivable, noncurrent portion		1,575,523	762,133
Advances to churches, noncurrent portion		265,000	265,000
California annuity reserve investments		2,029,711	2,079,610
Investments in real estate, net		14,668,113	17,587,944
Notes receivable, noncurrent portion, net of allowance for doubtful accounts (Note 7)		86,188,421	79,909,569
Assets held in trust		16,952,863	14,088,788
		<u>121,679,631</u>	<u>114,693,044</u>
Total assets		<u>\$431,755,118</u>	<u>\$433,100,693</u>

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

Consolidated Statements of Financial Position

	December 31,	2015	2014
LIABILITIES			
Current liabilities			
Accounts payable		\$ 3,577,891	\$ 3,358,047
Accrued wages and benefits		5,548,013	6,234,837
Other accrued liabilities		16,544	20,762
Deposits		291,815	267,780
Deferred revenue		1,123,014	1,206,612
Lines of credit			4,654,877
Notes payable, current portion		3,473,046	9,210,340
Capital lease obligations, current portion		63,483	112,498
Refundable advances		65,372	87,698
		<u>14,159,178</u>	<u>25,153,451</u>
Total current liabilities			
Other liabilities			
Lines of credit		4,757,395	
Notes payable, noncurrent portion		52,437,093	46,991,405
Bonds payable, noncurrent portion		32,330,000	32,330,000
Capital lease obligations, noncurrent portion		115,313	130,505
Present value of annuity liability		1,452,201	1,421,577
Liabilities to depositors		222,508	461,180
Liabilities held in trust		15,272,696	12,043,796
Other noncurrent liabilities		1,397,186	1,820,080
		<u>107,984,392</u>	<u>95,198,543</u>
Total other liabilities			
Total liabilities			
		<u>122,143,570</u>	<u>120,351,994</u>
NET ASSETS			
Unrestricted			
Undesignated		244,945,993	245,143,315
Designated		60,761,018	63,325,053
		<u>305,707,011</u>	<u>308,468,368</u>
Temporarily restricted		3,842,205	4,217,999
Permanently restricted		62,332	62,332
		<u>309,611,548</u>	<u>312,748,699</u>
Total net assets			
Total liabilities and net assets			
		<u>\$431,755,118</u>	<u>\$433,100,693</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 Activities and Changes in Net Assets

	For the Years Ended December 31,	2015	2014
UNRESTRICTED NET ASSETS			
Revenues, gains, and support			
Gross tithe income		\$ 51,645,135	\$ 51,467,357
Tithe percentages passed on		(13,293,629)	(13,248,147)
Net tithe income		38,351,506	38,219,210
Offerings and donations		256,923	474,482
Subsidies		958,031	912,404
Auxiliary income		2,852,610	3,448,472
Matured trusts, wills, and bequests		899,551	5,159
Payroll, benefits, and other expense reimbursement		34,557,016	32,359,266
Tuition		1,744,293	1,712,600
Other		898,393	597,671
Revenues, gains, and support before reclassifications		80,518,323	77,729,264
Released from restrictions		4,901,362	5,479,224
Revenues, gains, and support after reclassifications		85,419,685	83,208,488
Expenses			
Program services			
Church ministries		55,641,760	50,450,946
Education		39,296,716	37,801,981
Outreach ministries		4,285,878	4,403,566
Auxiliary services		1,552,512	2,069,570
Total program services		100,776,866	94,726,063
Supporting services			
General and administrative		8,203,423	7,112,695
Total supporting services		8,203,423	7,112,695
Total expenses		108,980,289	101,838,758

**SOUTHEASTERN CALIFORNIA CONFERENCE
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Consolidated Statements of Activities and Changes in Net Assets

	For the Years Ended December 31,	2015	2014
Change in net assets before nonoperating activity		\$(23,560,604)	\$(18,630,270)
Nonoperating activity			
Donated plant assets and investment in real estate		7,411,492	12,306,452
Investment income		663,250	5,007,610
Rental income		10,703,342	10,002,472
Rental properties expenses		(4,596,927)	(4,253,817)
Net gain on disposal of plant assets and other assets		8,067,132	649,334
Bond costs		(155,949)	(203,971)
Other gain		422,894	1,970,545
Interest expense		(1,715,987)	(1,760,004)
Increase from nonoperating activity		<u>20,799,247</u>	<u>23,718,621</u>
Increase (decrease) in unrestricted net assets		<u>(2,761,357)</u>	<u>5,088,351</u>
TEMPORARILY RESTRICTED NET ASSETS			
Offerings and donations		887,109	735,961
Subsidies		3,523,438	3,310,530
Investment income		4,726	6,323
Matured trusts, wills, and bequests		80,295	180,986
Other		30,000	83,769
Total temporarily restricted income		<u>4,525,568</u>	<u>4,317,569</u>
Released from restrictions		<u>(4,901,362)</u>	<u>(5,479,224)</u>
Decrease in temporarily restricted net assets		<u>(375,794)</u>	<u>(1,161,655)</u>
Increase (decrease) in net assets		(3,137,151)	3,926,696
Net assets, beginning of year		<u>312,748,699</u>	<u>308,822,003</u>
Net assets, end of year		<u>\$309,611,548</u>	<u>\$312,748,699</u>

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

**SOUTHEASTERN CALIFORNIA CONFERENCE
OF SEVENTH-DAY ADVENTISTS
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Consolidated Statements of Cash Flows

	For the Years Ended December 31,	2015	2014
Cash flows from operating activities			
Increase (decrease) in net assets		\$ (3,137,151)	\$ 3,926,696
Adjustment to reconcile change in net assets to net cash used in operating activities:			
Depreciation and amortization		9,702,654	9,154,715
Provision for doubtful accounts		18,427	31,630
Donated plant assets and investment in real estate		(7,411,492)	(12,306,452)
Unrealized gain on swap contracts		(422,894)	(327,585)
Net gain on disposal of plant assets and other assets		(8,067,132)	(649,334)
Unrealized (gain) loss on investments		3,998,813	(70,667)
Realized gain on sale of investments		(1,970,407)	(1,428,650)
Unrealized (gain) loss on assets held in trust		485,605	(470,205)
Unrealized (gain) loss on gift annuities		30,624	(124,846)
(Increase) decrease in:			
Accounts receivable		675,734	(1,084,224)
Interest receivable		(16,187)	159,573
Inventory		162,152	(517,937)
Prepaid expenses		(129,057)	20,656
Increase (decrease) in:			
Accounts payable		219,844	(166,631)
Accrued wages and benefits		(686,824)	679,660
Deposits		24,035	3,726
Deferred revenue		(83,598)	(41,218)
Other accrued liabilities		(4,218)	(12,281)
Liabilities to depositors		(238,670)	(2,023)
Refundable advances		(22,326)	39,647
Net cash used in operating activities		<u>(6,872,068)</u>	<u>(3,185,750)</u>

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

Consolidated Statements of Cash Flows

For the Years Ended December 31,	2015	2014
Cash flows from investing activities		
Change in restricted cash		\$ 454,156
Proceeds from sale of investments	\$ 14,248,622	6,505,426
Purchase of investments	(17,701,070)	(4,209,785)
Proceeds from sale of plant assets	8,370,365	214,755
Purchase of plant assets	(534,608)	(1,416,702)
Proceeds from sale of real estate investments	3,109,336	2,330,765
Purchase of real estate investments	(312,764)	(39,481)
Change in advances to churches	2,700	94,800
Advances from notes receivable	(1,405,271)	(2,513,084)
Payments received on notes receivable	1,425,721	768,793
Net cash provided by investing activities	<u>7,203,031</u>	<u>2,189,643</u>
Cash flows from financing activities		
Principal payments on notes payable	(1,646,830)	(1,266,081)
Net change in lines of credit	485,000	1,695,000
Principal payments on capital lease obligations	(108,522)	(102,706)
Proceeds from gift annuities	2,226,196	2,064,594
Purchase of investments for gift annuities	<u>(2,334,763)</u>	<u>(1,469,178)</u>
Net cash provided by (used in) financing activities	<u>(1,378,919)</u>	<u>921,629</u>
Net decrease in cash and cash equivalents	(1,047,956)	(74,478)
Cash and cash equivalents		
Balance, beginning of year	<u>5,724,031</u>	<u>5,798,509</u>
Balance, end of year	<u>\$ 4,676,075</u>	<u>\$ 5,724,031</u>
Supplemental disclosure		
Cash paid for interest	\$1,715,987	\$1,809,477
Noncash transactions		
Notes receivable increased by guarantee of related party notes payable	\$840,150	\$2,040,768
Notes receivable reduced through related party payment on lines of credit	\$382,482	\$870,233
Notes receivable increased (decreased) by related party notes payable	\$515,073	\$(753,577)

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, 22 schools providing education in a religious school environment are operated for grades ranging from preschool through grade twelve. In addition to each school being governed by its own board, the schools are monitored 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 21 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, and 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 Financial Accounting Standards Board Accounting Standards Codification (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, 2015 or 2014. The schools have a June 30 fiscal year-end; as such, there are timing differences between the school financial data provided on page 40 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.

**SOUTHEASTERN CALIFORNIA CONFERENCE
OF SEVENTH-DAY ADVENTISTS
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Notes to Consolidated Financial Statements

1. Reporting Entity and Significant Accounting Policies (Continued)

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.

Financial Statement Presentation

The consolidated financial statement presentation follows the recommendations of the Financial Accounting Standards Board in 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. 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.

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
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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 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.

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

Notes to Consolidated Financial Statements

1. Reporting Entity and Significant Accounting Policies (Continued)

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 investments. 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.

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, 16, and 17). For those agreements that are revocable, assets are recorded at fair value at date of acceptance or agreement, except for investments and real property 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.

**SOUTHEASTERN CALIFORNIA CONFERENCE
OF SEVENTH-DAY ADVENTISTS
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Notes to Consolidated Financial Statements

1. Reporting Entity and Significant Accounting Policies (Continued)

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.

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 donation for items in excess of \$3,000 which also have a useful life in excess of one year except as noted below. 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 three 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.

Effective January 1, 2015, the Conference changed its policy for capitalizing donated real property. Donated capital improvements are only capitalized if they exceed \$20,000. Major remodels that do not add square footage are not recognized as a donated asset until the project is completed. Construction of new facilities and capital improvements that add square footage are still recorded as construction in progress annually.

Revenue Recognition

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

**SOUTHEASTERN CALIFORNIA CONFERENCE
OF SEVENTH-DAY ADVENTISTS
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Notes to Consolidated Financial Statements

1. Reporting Entity and Significant Accounting Policies (Continued)

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.

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 2012 and 2011, respectively. There are no other activities subject to taxation as unrelated business income not included in the returns.

As required by FASB ASC No. 740, *Income Taxes*, the Conference evaluated its tax positions and the certainty as to whether those positions will be sustained in the event of an audit by taxing authorities at the federal and state levels. The primary tax positions evaluated are related to the Conference's continued qualification as a tax-exempt organization and whether there are unrelated business income activities conducted that would be taxable. Management has determined that all income tax positions are more likely than not of being sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required.

During the years ended December 31, 2015 and 2014, the Conference did not recognize any interest or penalties associated with any tax positions.

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.

**SOUTHEASTERN CALIFORNIA CONFERENCE
OF SEVENTH-DAY ADVENTISTS
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Notes to Consolidated Financial Statements

1. Reporting Entity and Significant Accounting Policies (Continued)

Reclassifications and Restatement

Certain reclassifications have been made to the 2014 consolidated financial statements to conform to the 2015 presentation.

Currently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue Recognition (Topic 606)*. This accounting principle's effective date for fiscal years beginning after December 15, 2017 for nonpublic entities has been postponed for one year by ASU 2015-14. Early adoption is permitted for fiscal years beginning after December 15, 2016 and retrospective application is required. The update outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The Conference is currently assessing the potential impact of implementing this standard.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This accounting principle's effective date for most nonpublic entities is for fiscal years beginning after December 15, 2019, with early application permitted. The update requires lessees to be recognized in the statement of financial position as a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. Previous GAAP did not require lease assets and liabilities to be recognized for most leases. The Company is currently assessing the potential impact of implementing this standard.

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330)*. This accounting principle's effective date for nonpublic entities is for fiscal years beginning after December 15, 2016, with earlier application permitted. The update does not apply to inventory measured using last-in, first-out or the retail inventory method. The Conference should measure inventory at the lower of cost and net realizable value. Net realizable value has now been defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The Conference is currently assessing the potential impact of implementing this standard.

2. Cash and Cash Equivalents

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

	2015	2014
Imprest cash	\$ 10,000	\$ 10,750
Checking account	4,233,834	5,307,484
Money market savings accounts	432,241	405,797
	<u>\$4,676,075</u>	<u>\$5,724,031</u>

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3. Investments

At December 31, 2015, investments consisted of the following:

	Cost	Fair Value
<i>California Annuity Reserve</i>		
Checking accounts	\$ 32,206	\$ 32,206
Money market funds	94,910	94,910
Mutual funds	15,326	15,326
Corporate bonds	250,667	256,522
Fixed income	649,096	646,945
Equity securities	801,834	983,802
	1,844,039	2,029,711
Unrealized appreciation in value	185,672	
Carrying amount at fair value	\$2,029,711	\$2,029,711
<i>Other Investments</i>		
Mutual funds	\$ 5,761,521	\$ 6,030,777
Fixed income mutual funds	23,677,536	23,049,856
Pacific Union Income Fund	11,458,107	12,005,083
Equity securities	6,124,443	9,786,807
International equity mutual funds	8,446,509	8,621,026
International equities	238,606	255,750
Money market funds	383,409	383,409
	56,090,131	60,132,708
Unrealized appreciation in value	4,042,577	
Carrying amount at fair value	\$60,132,708	\$60,132,708
<i>Derivative Instruments</i>		
Unrealized depreciation in value of interest rate swaps	\$(1,397,186)	\$(1,397,186)
Carrying amount at fair value	\$(1,397,186)	\$(1,397,186)

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

	2015
Investments, current portion	\$60,132,708
California annuity reserve investments	2,029,711
Other noncurrent liabilities	(1,397,186)
	\$60,765,233

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3. Investments (Continued)

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, 2015. 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, 2015:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
<i>Assets</i>			
Money market funds	\$ 510,525	\$ 510,525	
Mutual funds	6,046,103	6,046,103	
Fixed income mutual funds	23,696,801	23,696,801	
Equity securities	10,770,609	10,770,609	
Corporate bonds	256,522	256,522	
Pacific Union Income Fund	12,005,083		\$12,005,083
International equity mutual funds	8,621,026	8,621,026	
International equities	255,750	255,750	
	<u>\$62,162,419</u>	<u>\$50,157,336</u>	<u>\$12,005,083</u>
<i>Liabilities</i>			
Derivative (interest rate swap)	<u>\$(1,397,186)</u>		<u>\$(1,397,186)</u>

At December 31, 2015, the Conference did not have any investments measured using level 3 inputs.

At December 31, 2014, investments consisted of the following:

	<u>Cost</u>	<u>Fair Value</u>
<i>California Annuity Reserve</i>		
Checking accounts	\$ 9,959	\$ 9,959
Money market funds	44,201	44,201
Mutual funds	15,964	15,964
Corporate bonds	365,656	373,226
Fixed income	636,292	636,289
Equity securities	716,476	999,971
	1,788,548	2,079,610
Unrealized appreciation in value	291,062	
Carrying amount at fair value	<u>\$2,079,610</u>	<u>\$2,079,610</u>

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3. Investments (Continued)

	Cost	Fair Value
<i>Other Investments</i>		
Mutual funds	\$ 4,232,943	\$ 5,797,287
Fixed income mutual funds	24,255,609	23,494,903
Pacific Union Income Fund	7,255,164	7,753,307
Equity securities	7,641,767	13,179,509
International equity mutual funds	6,655,202	7,717,956
International equities	146,363	182,273
Money market funds	545,747	545,747
	50,732,795	58,670,982
Unrealized appreciation in value	7,938,187	
Carrying amount at fair value	\$58,670,982	\$58,670,982
<i>Derivative Instruments</i>		
Unrealized depreciation in value of interest rate swaps	\$(1,820,080)	\$(1,820,080)
Carrying amount at fair value	\$(1,820,080)	\$(1,820,080)

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

	2014
Investments, current portion	\$58,670,982
California annuity reserve investments	2,079,610
Other noncurrent liabilities	(1,820,080)
	\$58,930,512

The following table summarizes the levels in the fair value hierarchy of the Conference's investments at December 31, 2014:

	Total	Level 1	Level 2
<i>Assets</i>			
Money market funds	\$ 599,907	\$ 599,907	
Mutual funds	5,813,251	5,813,251	
Fixed income mutual funds	24,131,192	24,131,192	
Equity securities	14,179,480	14,179,480	
Corporate bonds	373,226	373,226	
Pacific Union Income Fund	7,753,307		\$7,753,307
International equity mutual funds	7,717,956	7,717,956	
International equities	182,273	182,273	
	\$60,750,592	\$52,997,285	\$7,753,307
<i>Liabilities</i>			
Derivative (interest rate swap)	\$(1,820,080)		\$(1,820,080)

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3. Investments (Continued)

At December 31, 2014, the Conference did not have any investments measured using level 3 inputs.

For the years ended December 31, 2015 and 2014, net investment income is presented in the consolidated statements of activities and changes in net assets as follows:

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Investment income	\$ 3,534,744	\$4,726		\$ 3,539,470
Unrealized losses	(3,998,813)			(3,998,813)
Realized gains	1,970,407			1,970,407
Investment fees	(186,235)			(186,235)
Other	(656,853)			(656,853)
	<u>663,250</u>	<u>4,726</u>	<u>\$ -</u>	<u>667,976</u>
Unrealized gain on interest rate swap included in other gains	<u>422,894</u>			<u>422,894</u>
Investment income, net	<u>\$ 1,086,144</u>	<u>\$4,726</u>	<u>\$ -</u>	<u>\$ 1,090,870</u>
	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Investment income	\$3,539,606	\$ 7		\$3,539,613
Unrealized gains	64,351	6,316		70,667
Realized gains	1,428,650			1,428,650
Investment fees	(155,253)			(155,253)
Other	130,256			130,256
	<u>5,007,610</u>	<u>6,323</u>	<u>\$ -</u>	<u>5,013,933</u>
Unrealized gain on interest rate swap included in other gains	<u>327,585</u>			<u>327,585</u>
Investment income, net	<u>\$5,335,195</u>	<u>\$6,323</u>	<u>\$ -</u>	<u>\$5,341,518</u>

The Conference maintains accounts with several stock brokerage firms of which 80.0 percent and 86.0 percent were held by one broker and 20.0 percent and 13.2 percent by PUC at December 31, 2015 and 2014, respectively. 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.

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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 assets' 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, 2015 or 2014:

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.

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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:

	2015	2014
Congregation tithe and offering	\$ 9,319,356	\$ 9,286,056
Congregations other reimbursements	3,083,419	3,833,432
Schools	190,181	245,380
Student accounts	41,582	77,497
Other	397,957	265,864
	13,032,495	13,708,229
Less allowance for doubtful accounts	(332,440)	(314,013)
	\$12,700,055	\$13,394,216

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

	2015	2014
Accounts receivable, current portion, net of allowance for doubtful accounts	\$11,124,532	\$12,632,083
Accounts receivable, noncurrent portion	1,575,523	762,133
	\$12,700,055	\$13,394,216

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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>2015</u>	<u>2014</u>
Yucaipa Valley Spanish Church	\$265,000	\$265,000
Other advances		2,700
	<u>265,000</u>	<u>267,700</u>
Less current portion		(2,700)
	<u>\$265,000</u>	<u>\$265,000</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, 2015 and 2014. At December 31, notes receivable consisted of:

	<u>2015</u>	<u>2014</u>
Affiliate promissory notes with offsetting lines of credit (See Note 12)	\$ 4,757,395	\$ 4,154,877
Affiliate promissory notes with offsetting notes payable (See Note 13)	41,914,641	40,559,417
Affiliate promissory notes related to bonds payable (See Note 13)	29,033,876	29,362,815
Other affiliated promissory notes	17,391,891	18,056,403
Third party promissory note	<u>1,481,135</u>	<u>1,412,000</u>
	94,578,938	93,545,512
Less allowance for doubtful accounts	<u>(27,078)</u>	<u>(27,078)</u>
	94,551,860	93,518,434
Less current portion	<u>(8,363,439)</u>	<u>(13,608,865)</u>
	<u>\$86,188,421</u>	<u>\$ 79,909,569</u>

Amounts are receivable from the following:

	<u>2015</u>	<u>2014</u>
Congregations	\$61,730,643	\$59,151,584
Schools	31,367,160	32,981,928
Third party	<u>1,481,135</u>	<u>1,412,000</u>
	<u>\$94,578,938</u>	<u>\$93,545,512</u>

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8. Plant Assets

Plant assets at December 31, 2015 and 2014 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, 2015 and 2014 was \$7,411,492 and \$12,306,452, respectively, which included \$76,356 and \$265,316 in donated services and \$205,378 and \$341,236, respectively, in capitalized interest.

The following were the plant assets for the year ended December 31, 2015:

	Conference and Subsidiaries	Congregations	Elementary Schools	Academies	Total
Construction in progress	\$ 686,507	\$ 7,901,021	\$ 48,601	\$ 43,318	\$ 8,679,447
Land	656,641	31,274,451	1,464,822	5,731,232	39,127,146
Land improvements	3,618,637	16,652,311	3,120,058	8,900,027	32,291,033
Buildings and improvements	15,472,647	171,277,909	6,674,690	62,389,602	255,814,848
Equipment	4,123,640				4,123,640
Subtotal	24,558,072	227,105,692	11,308,171	77,064,179	340,036,114
Less accumulated depreciation	(13,424,275)	(73,858,942)	(3,859,868)	(24,248,700)	(115,391,785)
Plant assets, net	<u>\$ 11,133,797</u>	<u>\$ 153,246,750</u>	<u>\$ 7,448,303</u>	<u>\$ 52,815,479</u>	<u>\$ 224,644,329</u>

The following were the plant assets for the year ended December 31, 2014:

	Conference and Subsidiaries	Congregations	Elementary Schools	Academies	Total
Construction in progress	\$ 442,508	\$ 15,418,823	\$ 1,995,644	\$ 414,451	\$ 18,271,426
Land	656,641	28,250,652	1,464,822	5,731,231	36,103,346
Land improvements	3,614,069	14,224,903	1,123,287	8,867,115	27,829,374
Buildings and improvements	15,472,648	163,709,052	6,649,690	61,617,211	247,448,601
Equipment	3,851,734				3,851,734
Subtotal	24,037,600	221,603,430	11,233,443	76,630,008	333,504,481
Less accumulated depreciation	(12,692,154)	(68,290,459)	(3,526,372)	(22,377,820)	(106,886,805)
Plant assets, net	<u>\$ 11,345,446</u>	<u>\$ 153,312,971</u>	<u>\$ 7,707,071</u>	<u>\$ 54,252,188</u>	<u>\$ 226,617,676</u>

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8. Plant Assets (Continued)

Depreciation expense for the years ended December 31, 2015 and 2014 was \$ 9,061,230 and \$8,505,540 respectively, which is included in the consolidated statements of activities and changes in net assets as follows:

	<u>2015</u>	<u>2014</u>
Church ministries	\$6,040,581	\$5,632,460
Education	2,386,758	2,265,005
Auxiliary services	<u>633,891</u>	<u>608,075</u>
	<u>\$9,061,230</u>	<u>\$8,505,540</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 2009 tax-exempt bonds are legally restricted to prohibit the use of the property primarily for religious worship or sectarian instruction. At December 31, 2015 and 2014, the Conference was in compliance with the legal requirement.

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

	<u>2015</u>	<u>2014</u>
Land	\$ 4,821,280	\$ 4,821,280
Land improvements	2,343,367	2,343,367
Buildings and improvements	23,872,182	23,872,182
Construction in progress	<u>23,916</u>	<u>23,916</u>
	<u>\$31,060,745</u>	<u>\$31,060,745</u>

9. Investments in Real Estate

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

	<u>2015</u>	<u>2014</u>
Rental properties		
Land	\$ 6,630,041	\$ 7,937,650
Land improvements	621,738	533,012
Buildings	16,770,792	18,106,902
Building improvements	388,803	330,636
Equipment	162,721	162,721
Construction in progress	<u>5,336</u>	
	24,579,431	27,070,921
Land held for sale		100,000
Vacant land	931,047	786,322
Cemetery plots	2,001	32
Other		<u>182,497</u>
	25,512,479	28,139,772
Accumulated depreciation	<u>(10,844,366)</u>	<u>(10,551,828)</u>
	<u>\$ 14,668,113</u>	<u>\$ 17,587,944</u>

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9. Investments in Real Estate (Continued)

Depreciation expense for investments in real estate for the years ended December 31, 2015 and 2014 was \$641,424 and \$649,175, respectively, and is included in rental properties expense.

10. Assets Held in Trust

At December 31, 2015, assets held in trust consisted of the following:

	Revocable Trusts	Irrevocable Trusts	Total
Cash and cash equivalents	\$ 856,641	\$ 783,804	\$ 1,640,445
Investments	2,918,100	3,221,602	6,139,702
Real property	8,351,624	755,500	9,107,124
PUC trusts		65,592	65,592
	<u>\$12,126,365</u>	<u>\$4,826,498</u>	<u>\$16,952,863</u>

At December 31, 2014, assets held in trust consisted of the following:

	Revocable Trusts	Irrevocable Trusts	Total
Cash and cash equivalents	\$ 747,315	\$ 429,351	\$ 1,176,666
Investments	2,736,486	3,387,666	6,124,152
Notes receivable	23,104	178,818	201,922
Real property	5,568,956	951,500	6,520,456
PUC trusts		65,592	65,592
	<u>\$9,075,861</u>	<u>\$5,012,927</u>	<u>\$14,088,788</u>

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

	<u>2015</u>	<u>2014</u>
FMV of irrevocable trusts donated	\$ 1,461,196	\$ 383,862
Less portion due to others	(1,075,874)	(198,517)
Revenue from irrevocable trusts donated	385,322	185,345
Change in present value	(482,720)	344,159
Net income related to irrevocable trusts	<u>\$ (97,398)</u>	<u>\$ 529,504</u>

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

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11. Accounts Payable

At December 31, accounts payable consisted of the following:

	2015	2014
Pacific Union Conference	\$2,360,226	\$2,468,277
Affiliated congregations	23,038	94,329
Conference academies	230,273	65,497
Other	964,354	729,944
	\$3,577,891	\$3,358,047

12. Lines of Credit

The Conference maintains a \$6,000,000 line of credit with Bank of America of which \$1,000,000 is available for working capital and \$5,000,000 is available for the acquisition or renovation of facilities. The line of credit is unsecured and has a renewal date of December 31, 2017. The Conference pays interest monthly at the BBA LIBOR Daily Floating Rate plus 1.25 percent which was 1.67 and 1.41 percent at December 31, 2015 and 2014, respectively.

At December 31, 2015 and 2014, the outstanding balance was \$4,757,395 and \$4,654,877, 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 1.10:1.00. The Conference is also required to submit audited financial statements within 270 days of the end of each year. Management of the Conference believes they are in compliance with these covenants at December 31, 2015 and 2014.

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:

	2015	2014
<u>Notes payable in the name of the Conference</u>		
Citizens Business Bank – High Desert Bilingual SDA Church; due June 18, 2029; payable in monthly installments of \$9,776 including interest at 5.250%; secured by real property with net book value on December 31, 2015 and 2014 of \$1,429,319 and \$1,497,984, respectively. ⁽¹⁾	\$ 1,122,155	\$ 1,180,714

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13. Notes Payable and Bonds Payable (Continued)

	2015	2014
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 real property with net book value on December 31, 2015 and 2014 of \$696,500 and \$733,431, respectively. ⁽¹⁾⁽³⁾	\$ 336,851	\$ 348,051
Paradise Valley Federal Credit Union - Blythe Spanish/English SDA Church; due December 1, 2021; payable in monthly installments of \$5,200 including interest at 6.000% and 6.500% at December 31, 2015 and 2014, respectively; balloon payment due at maturity; secured by real property with net book value on December 31, 2015 and 2014 of \$989,941 and \$1,037,245, respectively. ⁽¹⁾⁽³⁾	512,861	537,417
Paradise Valley Federal Credit Union - Paradise Valley Spanish SDA Church; due December 1, 2020; payable in monthly installments of \$9,000 including interest at 6.000% at December 31, 2015 and 2014; balloon payment due at maturity; secured by real property with net book value on December 31, 2015 and 2014 of \$1,764,290 and \$1,812,643, respectively. ⁽¹⁾⁽³⁾	1,100,059	1,118,036
Commonwealth Business Bank - Orange Central Korean SDA Church; due August 27, 2017; payable in monthly installments of \$12,409 including variable interest at 4.490% at December 31, 2015 and 2014; balloon payment due at maturity; secured by real property with net book value on December 31, 2015 and 2014 of \$3,822,043 and \$3,934,698, respectively. ⁽¹⁾	2,052,787	2,106,865
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 6.875% at December 31, 2015 and 2014; balloon payment due at maturity; secured by real property with a net book value on December 31, 2015 and 2014 of \$6,514,584 and \$6,708,891, respectively; includes one assignment of rents on December 31, 2015 and 2014 as additional security. ⁽¹⁾⁽³⁾	1,039,111	1,086,697

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Notes to Consolidated Financial Statements

13. Notes Payable and Bonds Payable (Continued)

	2015	2014
First Northern Bank – Paradise Valley SDA Church; due January 1, 2025; payable in monthly installments of \$2,128 including interest at 5.149%; secured by real property with a net book value of \$773,403 on December 31, 2015. ⁽¹⁾⁽³⁾	\$ 307,063	
SDA Layman’s - Yucaipa Samoan SDA Church; due June 1, 2020; payable in monthly installments of \$1,582 including interest at 5.000%; balloon payment due at maturity; unsecured. ⁽¹⁾⁽²⁾⁽³⁾	125,369	\$ 133,686
Pacific Union Conference Revolving Fund; due October 7, 2023; payable in monthly installments of \$9,315 including interest at 4.000%; secured by real property with a net book value of \$2,709,987 on December 31, 2014. ⁽²⁾		484,020
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 1.210% at December 31, 2014; secured by real property with a net book value of \$8,016,974 on December 31, 2014; and is subject to the same covenants under the Bank of America letter of credit and reimbursement agreement. ⁽¹⁾		5,495,000
Citizens Business Bank – Redlands SDA Church; due April 21, 2025; payable in monthly installments of \$27,976 including interest at 3.750%; balloon payment due at maturity; secured by real property with a net book value of \$8,016,974 on December 31, 2015; includes three assignments of rents on December 31, 2015. ⁽¹⁾	5,925,284	
Citizens Business Bank; due November 15, 2019; payable in monthly installments of \$10,358 including interest at 4.250%; balloon payment at maturity; unsecured.	445,498	548,307
Bank of America; due December 31, 2020; variable monthly interest rate of LIBOR rate plus 1.53% annum, which was 1.958% and 1.700% at December 31, 2015 and 2014, respectively; monthly interest-only payments; annual principal payments beginning June 1, 2014; balloon payment due at maturity; secured by real property with net book value of \$42,769,249 and \$44,369,211 at December 31, 2015 and 2014, respectively; includes ten assignments of rent on December 31, 2015 and 2014 for additional security.	13,550,000	14,610,000
	26,517,038	27,648,793

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Notes to Consolidated Financial Statements

13. Notes Payable and Bonds Payable (Continued)

	2015	2014
<u>Notes payable guaranteed by the Conference</u>		
Pacific Union Conference Church and School Fund Loans guaranteed by Conference; maturity dates vary; variable interest rate at 4.000% at December 31, 2015 and 2014; secured by real property with a net book value on December 31, 2015 and 2014 of \$27,144,627 and \$27,494,686, respectively; includes ten assignments of rents on December 31, 2015 and nine assignments of rents on December 31, 2014 as additional security. ⁽¹⁾⁽²⁾	\$ 6,352,715	\$ 6,213,956
Pacific Union Conference Income Fund Loans; maturity dates vary; variable interest rate at 4.750% at December 31, 2015 and 2014; secured by real property with net book value on December 31, 2015 and 2014 of \$73,811,222 and \$76,457,414, respectively; includes eighteen assignments of rents on December 31, 2015 and seventeen assignments of rents on December 31, 2014 for additional security. ⁽¹⁾⁽²⁾	<u>23,040,386</u>	<u>22,338,996</u>
	<u>29,393,101</u>	<u>28,552,952</u>
	55,910,139	56,201,745
Less current portion	<u>(3,473,046)</u>	<u>(9,210,340)</u>
	<u>\$52,437,093</u>	<u>\$46,991,405</u>

At December 31, bonds payable consisted of the following:

California Municipal Finance Authority – tax exempt revenue bonds Series 2013; variable monthly interest rate of 67.00% of the LIBOR rate plus 1.19% per annum, which was 1.478% and 1.297% at December 31, 2015 and 2014, respectively; annual principal payments beginning June 1, 2025 and maturing June 1, 2038; secured by real property with net book value of \$42,769,249 and \$44,369,211 at December 31, 2015 and 2014, respectively; includes ten assignments of rent on December 31, 2015 and 2014.	<u>\$32,330,000</u>	<u>\$32,330,000</u>
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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, 2015 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>
2016	\$ 2,255,844	\$ 1,217,202		\$ 3,473,046
2017	7,350,873	1,291,915		8,642,788
2018	8,452,057	1,356,835		9,808,892
2019	4,056,883	1,419,546		5,476,429
2020	8,846,830	1,380,000		10,226,830
Thereafter	<u>10,952,154</u>	<u>7,330,000</u>	<u>\$32,330,000</u>	<u>50,612,154</u>
	<u>\$41,914,641</u>	<u>\$13,995,498</u>	<u>\$32,330,000</u>	<u>\$88,240,139</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. On December 31, 2013, the Conference refinanced the taxable bonds to a note payable and reissued tax-exempt revenue bonds, and all interest rate swaps attached to the new debt by amendment. In February 2014, one of the two interest rate swaps entered into in February 2009 matured.

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.

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Notes to Consolidated Financial Statements

13. Notes Payable and Bonds Payable (Continued)

As of December 31, 2015 and 2014, the net negative fair values for the swaps were estimated to be \$1,397,186 and \$1,820,080, 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, 2015 and 2014, 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, 2015 and 2014. The change in fair values from inception of the swaps through December 31, 2015 and 2014 was \$(422,894) and \$(327,585), respectively, and is recorded as part of other gain (loss) in the consolidated statements of activities and changes in net assets as of December 31, 2015 and 2014.

The terms, fair values, and credit ratings of the outstanding swaps as of December 31, 2015 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	\$13,550,000	02/10/2009	3.2490%	One-Month LIBOR	\$ 753,900	02/01/2019	A+ / A1 / A
2008 Non-Taxable Revenue Bonds	Bank of America	9,000,000	03/23/2009	2.7050%	SIFMA	77,800	04/01/2016	A+ / A1 / A
2008 Non-Taxable Revenue Bonds	Bank of America	<u>6,800,000</u>	07/16/2010	2.8243%	SIFMA	<u>565,486</u>	07/01/2020	A+ / A1 / A
		<u>\$29,350,000</u>				<u>\$1,397,186</u>		

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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, 2014 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	\$14,610,000	02/10/2009	3.2490%	One-Month LIBOR	\$ 957,338	02/01/2019	A+/A2/A
2008 Non-Taxable Revenue Bonds	Bank of America	9,000,000	03/23/2009	2.7050%	SIFMA	296,752	04/01/2016	A+/A2/A
2008 Non-Taxable Revenue Bonds	Bank of America	<u>6,800,000</u>	07/16/2010	2.8243%	SIFMA	<u>565,990</u>	07/01/2020	A+/A2/A
		<u>\$30,410,000</u>				<u>\$1,820,080</u>		

Interest charged to expense during the years ended December 31, 2015 and 2014 was \$1,715,987 and \$1,809,477, respectively, with \$16,004 and \$28,260 included in general and administrative expense, \$14,584 and \$21,213 in rental properties expense, and \$1,685,399 and \$1,760,004 in interest expense, respectively.

Loan agreements with Bank of America as of December 31, 2015 and 2014, contain covenants pertaining to debt balances and liquidity. Specifically, the Conference is required to maintain a debt service coverage ratio of not less than 1.10 to 1.00 and net unrestricted liquid assets of not less than 80 percent of total debt. The Conference is also required to submit audited financial statements within 180 days of the end of each year. At December 31, 2015 and 2014, management of the Conference believes they were in compliance with these covenants.

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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 was refinanced as a note payable on December 31, 2013; 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 bonds were reissued December 31, 2013 with substantially the same terms. 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. The bonds are subject to conversion to a term interest rate.

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

⁽²⁾Related party. See Note 21.

⁽³⁾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, 2015 for each of the next five years and aggregate are:

	2015
Year ending December 31,	
2016	\$ 70,441
2017	60,302
2018	50,556
2019	6,142
2020	4,606
Total minimum lease payments	192,047
Less amount representing interest	(13,251)
Present value of net minimum lease payments	\$178,796

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, 2015 and 2014, was \$204,996 and \$254,056, respectively.

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Notes to Consolidated Financial Statements

15. Liabilities to Depositors

At December 31, 2015 and 2014, liabilities to depositors consisted of \$222,508 and \$461,180, 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:

	<u>2015</u>	<u>2014</u>
Liabilities to remainder beneficiaries	\$ 1,771,693	\$ 1,562,478
Present value of payments to income beneficiaries	<u>1,374,638</u>	<u>1,405,457</u>
Liabilities under irrevocable trusts	3,146,331	2,967,935
Liabilities under revocable trusts	<u>12,126,365</u>	<u>9,075,861</u>
	<u>\$15,272,696</u>	<u>\$12,043,796</u>

17. Net Assets

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

	<u>2015</u>	<u>2014</u>
Quasi endowments	\$58,578,428	\$61,052,784
Property insurance reserves	<u>2,182,590</u>	<u>2,272,269</u>
	<u>\$60,761,018</u>	<u>\$63,325,053</u>

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

	<u>2015</u>	<u>2014</u>
Church ministries	\$1,512,658	\$1,798,744
Education	183,421	217,729
Auxiliary services	2,644	2,178
Outreach ministries	219,465	228,264
Other	<u>1,924,017</u>	<u>1,971,084</u>
	<u>\$3,842,205</u>	<u>\$4,217,999</u>

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

	<u>2015</u>	<u>2014</u>
Junior Camp	\$10,000	\$10,000
San Marcos Seventh-day Adventist Church	<u>52,332</u>	<u>52,332</u>
	<u>\$62,332</u>	<u>\$62,332</u>

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Notes to Consolidated Financial Statements

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 \$4,458,250 and \$4,272,810 to the Defined Benefit Plan for the years ended December 31, 2015 and 2014, 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, 2010, the actuarially computed value of accumulated plan benefits exceeded the estimated market value of plan assets.

The Conference contributed \$1,549,354 and \$1,544,021 for the years ended December 31, 2015 and 2014 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.

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 Great-West Life and Annuity Insurance (Great-West). 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 \$2,056,934 and \$1,951,338 under the basic requirements and \$922,627 and \$797,842 as employer matching to the Defined Contribution Plan for the years ended December 31, 2015 and 2014, respectively.

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Notes to Consolidated Financial Statements

19. Self-Insurance

The Conference is self-insured for dental, vision, and wellness programs in the plan years ended June 30, 2015 and 2014. The Conference expended \$305,778 and \$294,801 during the years ended December 31, 2015 and 2014, respectively.

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 \$597,061 and \$546,554 for the years ended December 31, 2015 and 2014, respectively.

In 2015, the Conference used a combination of insurance and self-insurance mechanisms to provide for potential liabilities for employee healthcare benefits. Liabilities associated with the risks that are retained by the Conference are not discounted and are estimated, in part, by considering historical claims. The estimated accrual for these liabilities could be affected if future occurrences and claims differ from these assumptions and historical trends. For the year ended December 31, 2015, the self-insurance liability, which is specific to employee healthcare benefits, was \$161,802, and is included in accrued wages and benefits in the consolidated statements of financial position.

20. Operating Leases

The Conference is the lessor under operating leases which allow limited use of real property and expire in various years through 2020. Property held for lease is described in Note 9.

Minimum future rentals to be received on noncancelable leases as of December 31, 2015 for each of the next five years and in the aggregate are as follows:

Year ended December 31,	
2016	\$ 612,194
2017	572,979
2018	495,224
2019	478,854
2020	<u>210,806</u>
	<u>\$2,370,057</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.

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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, 2015 and 2014, 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:

	2015			Total
	Congregations	Schools and Academies	PUC	
Accounts receivable (Note 5)	\$12,402,775	\$ 190,181		\$ 12,592,956
Investments (Note 3)			\$ 12,005,083	12,005,083
Interest receivable	69,629	88,554		158,183
Advances to churches (Note 6)	265,000			265,000
Notes receivable (Note 7)	61,730,643	31,367,160		93,097,803
Accounts payable (Note 11)	(23,038)	(230,273)	(2,360,226)	(2,613,537)
Notes payable (Note 13)*			(29,393,101)	(29,393,101)
Accrued wages and benefits (retirement)			(933,462)	(933,462)
	<u>\$74,445,009</u>	<u>\$31,415,622</u>	<u>\$(20,681,706)</u>	<u>\$ 85,178,925</u>
	2014			
	Congregations	Schools and Academies	PUC	Total
Accounts receivable (Note 5)	\$13,119,488	\$ 245,380		\$ 13,364,868
Investments (Note 3)			\$ 7,753,307	7,753,307
Interest receivable	71,854	90,929		162,783
Advances to churches (Note 6)	267,700			267,700
Notes receivable (Note 7)	59,151,584	32,981,928		92,133,512
Accounts payable (Note 11)	(94,329)	(65,497)	(2,468,277)	(2,628,103)
Notes payable (Note 13)*			(29,036,972)	(29,036,972)
Accrued wages and benefits (retirement)			(979,586)	(979,586)
	<u>\$72,516,297</u>	<u>\$33,252,740</u>	<u>\$(24,731,528)</u>	<u>\$ 81,037,509</u>

*See detail of notes payable held by PUC on page 39.

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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:

	2015			Total
	Congregations	Schools and Academies	PUC	
Tithe percentage passed on Subsidies			\$(13,293,629)	\$(13,293,629)
			4,183,645	4,183,645
Payroll, benefits and other expense reimbursements	\$ 17,346,745	\$ 16,860,347		34,207,092
Donated plant assets	6,902,593	508,899		7,411,492
Investment income			(302,752)	(302,752)
Payroll and benefits	(20,553,427)	(22,966,083)		(43,519,510)
Appropriations	(9,759,273)	(3,271,278)	(1,976,950)	(15,007,501)
Rental income appropriations	(2,969,707)	(125,341)		(3,095,048)
Interest expense			(14,584)	(14,584)
	<u>\$ (9,033,069)</u>	<u>\$ (8,993,456)</u>	<u>\$(11,404,270)</u>	<u>\$(29,430,795)</u>

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

	2014			Total
	Congregations	Schools and Academies	PUC	
Tithe percentage passed on Subsidies			\$(13,248,147)	\$(13,248,147)
			3,839,663	3,839,663
Payroll, benefits and other expense reimbursements	\$ 11,358,817	\$ 20,678,144		32,036,961
Donated plant assets	11,725,875	580,577		12,306,452
Investment income			369,418	369,418
Payroll and benefits	(19,829,697)	(21,541,204)		(41,370,901)
Appropriations	(4,854,433)	(3,486,860)	(1,966,895)	(10,308,188)
Rental income appropriations	(2,762,126)	(147,476)		(2,909,602)
Interest expense			(22,333)	(22,333)
	<u>\$ (4,361,564)</u>	<u>\$ (3,916,819)</u>	<u>\$(11,028,294)</u>	<u>\$(19,306,677)</u>

Within accounts receivable balance at December 31, 2015 and 2014, 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, 2015 and 2014.

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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:

	2015	2014
PUC Revolving Fund – Seacoast Property		\$ 484,020
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	\$ 6,352,715	6,213,956
Income Fund loans	<u>23,040,386</u>	<u>22,338,996</u>
	<u>29,393,101</u>	<u>28,552,952</u>
Total	<u>\$29,393,101</u>	<u>\$29,036,972</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.

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.

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Notes to Consolidated Financial Statements

21. Related Party Transactions (Continued)

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>2015</u>	<u>2014</u>
Total assets	\$ 24,643,468	\$ 24,231,633
Total liabilities	<u>37,444,682</u>	<u>37,247,680</u>
Net assets deficit	<u>\$(12,801,214)</u>	<u>\$(13,016,047)</u>
Total revenue	\$49,167,757	\$49,809,929
Total expenses	<u>48,718,383</u>	<u>48,129,978</u>
Net income	<u>\$ 449,374</u>	<u>\$ 1,679,951</u>

Net deficits are primarily a result of all real property used by the schools being owned and recorded by the Conference, while many schools have recorded the associated debt.

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 self-insurance, respectively, for additional information.

22. Commitments and Contingencies

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 totaled \$29,393,101 at December 31, 2015.

23. Subsequent Events

In March 2016, real property was sold with leaseback provisions for \$1,800,000 under a seller financed loan. The loan in the amount of \$1,400,000 bears no interest and includes payments to be made over a three year period.

In the preparation of these consolidated financial statements, the Conference considered subsequent events through June 29, 2016 which is the date these consolidated financial statements were issued.