CRISTA
A FAMILY OF MINISTRIES

Consolidated Financial Statements

For the Years Ended June 30, 2013 and 2012

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***Independent Auditors' Report***

***Board of Trustees***
***CRISTA Ministries***
***Shoreline, Washington***

We have audited the accompanying consolidated financial statements of CRISTA Ministries ("the Organization") which comprise the consolidated balance sheets as of June 30, 2013 and 2012, and the related consolidated statements of unrestricted activities, 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 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 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 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CLARK NUBER

Certified Public

Accountants

and Consultants

***Report on Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 33 through 34 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Clark Nuber P S

Certified Public Accountants
September 19, 2013

*CRISTA MINISTRIES*

***Consolidated Balance Sheets - Assets***
***June 30, 2013 and 2012***
***(In Thousands)***

| | 2013 | 2012 |
|---|---|---|
| ***Assets*** | | |
| **Current Assets:** | | |
| Cash and cash equivalents (Note 2)- | | |
| Available for current ministries | $ 4,777 | $ 4,014 |
| Held for donor restricted ministry purposes | 5,365 | 5,531 |
| Held by field operations | 2,298 | 2,537 |
| Total cash and cash equivalents | 12,440 | 12,082 |
| Grants receivable | 1,137 | 2,319 |
| Pledges receivable, current portion (Note 3) | 605 | 489 |
| Trade receivables, net | 3,980 | 3,834 |
| Prepaid expenses and supplies | 504 | 375 |
| **Total Current Assets** | **18,666** | **19,099** |
| Cash and cash equivalents for capital project funds (Note 2)- | | |
| Cash designated for long-term expansion | | 7,054 |
| Loan funds held for capital project | | 116 |
| Total capital project funds | | 7,170 |
| Investments (Note 4)- | | |
| Available for current ministries | 14,788 | 13,450 |
| Endowment accounts | 5,862 | 4,921 |
| Other investments | 930 | 1,068 |
| Total investments | 21,580 | 19,439 |
| Long-term pledges receivable, net (Note 3) | 1,068 | 999 |
| Planned giving program assets (Notes 4 and 7) | 3,492 | 3,789 |
| Property and equipment used in ministries, net (Note 6) | 68,065 | 61,045 |
| Assets held by field operations (Note 8) | 4,420 | 3,821 |
| Radio licenses and other intangibles | 6,495 | 6,526 |
| **Total Assets** | **$ 123,786** | **$ 121,888** |

*See accompanying notes.*

*CRISTA MINISTRIES*

## *Consolidated Balance Sheets - Liabilities and Net Assets*
*June 30, 2013 and 2012*
*(In Thousands)*

| | 2013 | 2012 |
|---|---|---|
| ***Liabilities and Net Assets*** | | |
| **Current Liabilities:** | | |
| Accounts payable and accrued expenses | $ 7,968 | $ 6,964 |
| Accounts payable held in field offices | 2,294 | 1,792 |
| Deferred revenue | 708 | 593 |
| Current portion of long-term obligations (Note 10) | 752 | 725 |
| **Total Current Liabilities** | **11,722** | **10,074** |
| Long-term obligations (Note 10) | 11,886 | 12,712 |
| Refundable entry fees | 5,769 | 5,595 |
| Nonrefundable entry fees | 5,484 | 6,061 |
| Deposits and deferred rent | 93 | 88 |
| Planned giving program obligations (Note 7) | 1,966 | 1,973 |
| **Total Liabilities** | **36,920** | **36,503** |
| Commitments and contingencies (Note 13) | | |
| **Net Assets:** | | |
| Unrestricted- | | |
| General | 5,592 | 8,661 |
| Represented by property, equipment and intangibles owned by the Organization | 62,827 | 55,231 |
| | 68,419 | 63,892 |
| Temporarily restricted- | | |
| Restricted for program activities | 9,965 | 9,977 |
| Restricted for capital acquisitions | 615 | 4,194 |
| The Organization's portion of irrevocable trust agreements | 43 | 70 |
| Restricted for endowment funds (Note 11) | 3,653 | 3,386 |
| | 14,276 | 17,627 |
| Permanently restricted- | | |
| Endowments for student financial aid and teacher excellence (Note 11) | 1,686 | 1,463 |
| Endowment for senior financial aid (Note 11) | 1,103 | 1,103 |
| Perpetual trust (Note 7) | 1,382 | 1,300 |
| | 4,171 | 3,866 |
| **Total Net Assets** | **86,866** | **85,385** |
| **Total Liabilities and Net Assets** | **$ 123,786** | **$ 121,888** |

*See accompanying notes.*

*CRISTA MINISTRIES*

***Consolidated Statements of Unrestricted Activities***
***For the Years Ended June 30, 2013 and 2012***
***(In Thousands)***

| | 2013 | 2012 |
|---|---|---|
| **Revenues, Gains and Losses:** | | |
| Fees for services | $ 57,023 | $ 56,063 |
| Contributions | 13,144 | 11,634 |
| Contributions released from restrictions | 15,451 | 13,512 |
| Gifts-in-kind (Note 9) | 10,395 | 10,042 |
| Government grants | 3,665 | 7,495 |
| Other program revenue | 616 | 851 |
| Income on investments | 416 | 472 |
| Net realized and unrealized gains (losses) on investments and planned giving program | 1,746 | (865) |
| Foreign exchange gains (losses) | 126 | (229) |
| Miscellaneous income | 238 | 324 |
| **Total Revenues, Gains and Losses** | **102,820** | **99,299** |
| **Expenses:** | | |
| Program services | 87,811 | 92,072 |
| Fundraising | 4,870 | 4,376 |
| Management and general | 5,612 | 5,583 |
| **Total Expenses** | **98,293** | **102,031** |
| **Change in Unrestricted Net Assets** | **$ 4,527** | **$ (2,732)** |

*See accompanying notes.*

*CRISTA MINISTRIES*

***Consolidated Statements of Changes in Net Assets***
***For the Years Ended June 30, 2013 and 2012***
***(In Thousands)***

| | *2013* | *2012* |
|---|---|---|
| **Unrestricted Net Assets:** | | |
| Total unrestricted revenue, gains and losses | $ 87,369 | $ 85,787 |
| Contributions released from restrictions | 15,451 | 13,512 |
| Total unrestricted expenses and losses | (98,293) | (102,031) |
| **Change in Unrestricted Net Assets** | **4,527** | **(2,732)** |
| **Temporarily Restricted Net Assets:** | | |
| Contributions | 11,676 | 18,138 |
| Contributions released from restrictions | (15,451) | (13,512) |
| Income on investments | 104 | 97 |
| Net realized and unrealized gains (losses) on investments and planned giving program | 320 | (101) |
| **Change in Temporarily Restricted Net Assets** | **(3,351)** | **4,622** |
| **Permanently Restricted Net Assets:** | | |
| Contributions | 223 | 12 |
| Net realized and unrealized gains (losses) on investments | 82 | (88) |
| **Change in Permanently Restricted Net Assets** | **305** | **(76)** |
| **Total Change in Net Assets** | **1,481** | **1,814** |
| Net assets, beginning of year | 85,385 | 83,571 |
| **Net Assets, End of Year** | **$ 86,866** | **$ 85,385** |

*See accompanying notes.*

## *CRISTA MINISTRIES*

### *Consolidated Statements of Cash Flows*
### *For the Years Ended June 30, 2013 and 2012*
### *(In Thousands)*

| | *2013* | *2012* |
|---|---|---|
| **Cash Flows from Operating Activities:** | | |
| Change in net assets | $ 1,481 | $ 1,814 |
| Adjustments to reconcile change in net assets to | | |
| net cash provided by operating activities- | | |
| Items considered financing activities: | | |
| Capital campaign contributions | (4,471) | (3,305) |
| Permanently restricted endowment contributions | (223) | (12) |
| Noncash changes: | | |
| Depreciation and amortization | 4,790 | 4,625 |
| Entry fees earned - noncash | (1,570) | (1,643) |
| Loss on sale of property | 23 | 84 |
| Net realized and unrealized (gains) losses | | |
| on long-term investments and planned giving program | (2,148) | 1,054 |
| Nonrefundable entry fees received | 1,107 | 353 |
| Changes in assets and liabilities: | | |
| Grants receivable | 1,182 | (783) |
| Pledges receivable | (403) | (881) |
| Trade receivables | (146) | 471 |
| Prepaid expenses and supplies | (129) | 13 |
| Planned giving program | 877 | 75 |
| Assets held by field operations | (599) | (343) |
| Accounts payable and accrued expenses | 1,506 | (874) |
| Deferred revenue, deposits and deferred rent | 120 | (63) |
| Withdrawn entry fees | | 16 |
| Planned giving program obligations | (7) | (156) |
| **Net Cash Provided by Operating Activities** | **1,390** | **445** |
| **Cash Flows from Investing Activities:** | | |
| Acquisition of property and equipment | (11,804) | (9,218) |
| Proceeds from disposal of property and equipment | 4 | 18 |
| Purchases of investments | (11,366) | (11,612) |
| Proceeds from sale of investments | 10,791 | 11,116 |
| **Net Cash Used by Investing Activities** | **(12,375)** | **(9,696)** |

*See accompanying notes.*

*CRISTA MINISTRIES*

***Consolidated Statements of Cash Flows (Continued)***
***For the Years Ended June 30, 2013 and 2012***
***(In Thousands)***

| | 2013 | 2012 |
|---|---|---|
| **Cash Flows from Financing Activities:** | | |
| Principal payments on long-term obligations | (799) | (769) |
| Refundable entry fees received | 696 | 139 |
| Entry fee refunds paid | (636) | (1,122) |
| Proceeds from capital campaign contributions | 4,689 | 3,305 |
| Proceeds from permanently restricted endowment contributions | 223 | 12 |
| **Net Cash Provided by Financing Activities** | **4,173** | **1,565** |
| **Decrease in Cash and Cash Equivalents** | **(6,812)** | **(7,686)** |
| **Cash and Cash Equivalents:** | | |
| Beginning of year | 19,252 | 26,938 |
| **End of Year** | **$ 12,440** | **$ 19,252** |
| **Supplemental Disclosure of Cash Flow Information:** | | |
| Cash paid during the year for interest | $ 486 | $ 481 |
| Capital acquisitions included in accounts payable | $ 766 | $ 576 |
| **Reconciliation of Cash on Balance Sheet to End of Year Cash:** | | |
| Cash and cash equivalents | $ 12,440 | $ 12,082 |
| Cash designated for long-term expansion | | 7,054 |
| Loan funds held for capital project | | 116 |
| **Cash and Cash Equivalents** | **$ 12,440** | **$ 19,252** |

*See accompanying notes.*

## *Note 1 - Nature of Operations and Significant Accounting Policies*

**Business Purpose and Organization -** To Love God by Serving People.

CRISTA Ministries, headquartered at 19303 Fremont Avenue North, Shoreline, Washington 98133-3800, is a Christian not-for-profit organization made up of seven distinct ministries with one common purpose. The mission of CRISTA Ministries is to love God by serving people - meeting practical and spiritual needs so that those we serve locally and internationally will be built up in love, united in faith and maturing in Christ. We seek to see people drawn into a transformational relationship with Christ.

CRISTA Ministries was founded in 1948 as King's Garden. Today, its seven ministries serving locally and internationally are: CRISTA Senior Living, World Concern, King's Schools, CRISTA Broadcasting, CRISTA Camps, Christian Veterinary Mission, and Seattle Urban Academy.

World Concern Development Organization ("WCDO"), a separate not-for-profit organization, is the non-ecclesiastical arm of World Concern, shares common facilities and management with World Concern, and is reported in these consolidated financial statements as part of World Concern. WCDO is responsible for administering governmental and other grants.

CRISTA Ministries Canada ("CRISTA Canada") is a not-for-profit organization incorporated under the Canada Corporation Act and registered as a Charitable Organization. CRISTA Canada has an agreement with CRISTA Broadcasting to provide programming designed to support individuals in their commitment to practice their Christian beliefs and live the Christian life. CRISTA Canada also has an agreement with World Concern and Christian Veterinary Mission to help provide for the spiritual and physical needs of families in the poorest countries of the world.

**Principles of Consolidation -** The consolidated financial statements include the accounts of CRISTA Ministries, WCDO, and CRISTA Canada (collectively, the "Organization"). All significant inter-organization transactions have been eliminated upon consolidation.

**Use of Estimates -** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents -** Cash in excess of daily requirements is invested in interest-bearing instruments with maturities of three months or less. Such investments are considered to be cash equivalents, except for those included in the Organization's investment portfolio and subject to its investment policy.

**Cash Held by Field Operations -** Cash held by field operations represents cash forwarded to project field sites for use in carrying out ministry activities.

## *Note 1 - Continued*

**Grants Receivable -** Grants receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to grants receivable. Grants receivable are due primarily from government agencies and are deemed by management to be fully collectible. Therefore, an allowance for doubtful accounts was not recorded at June 30, 2013 and 2012.

**Pledges Receivable -** Pledges receivable, unconditional promises to give, that are expected to be collected within one year are recorded at net realizable value. Management provides for probable uncollectible amounts through a charge to contribution revenue and a credit to a valuation allowance based on historical trends. The allowance for doubtful accounts was $678,000 and $1,007,000 at June 30, 2013 and 2012, respectively.

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on these amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. A present value discount was deemed immaterial and thus not recorded at June 30, 2013 and 2012.

**Trade Receivables -** Trade receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade receivables. The allowance for doubtful accounts was $800,000 and $752,000 at June 30, 2013 and 2012, respectively.

**Property, Equipment and Depreciation -** The Organization capitalizes assets with a cost greater than $5,000 and an estimated useful life of three or more years. Purchased property is carried at cost. Donated property is recorded at fair value when received. Depreciation is computed using the straight-line method based on estimated useful lives as follows:

| | |
|---|---|
| Buildings and improvements | 10 - 50 years |
| Furniture and equipment | 3 - 5 years |
| Vehicles | 3 - 7 years |

**Investments and Planned Giving Program Assets -** Investments and planned giving program assets consist primarily of marketable debt and equity securities as well as mutual funds and nonmarketable securities. Investments in marketable securities are stated at fair value. Investments in nonmarketable securities are stated at the lower of cost or net realizable value.

## *Note 1 - Continued*

**Captive Insurance Company -** The Organization has contracted with a captive insurance company to insure against professional liability, property damage, and business income/extra expense, and to reinsure against a portion of its general liability, auto liability, and physical damage. The Organization owns a noncontrolling share of the common stock of the captive insurance company and is accounting for this investment under the cost method of investment accounting. The value of this investment in the amount of $366,000 at June 30, 2013 and 2012, is included in investments.

**Development Loans Receivable -** Development loans receivable represent loans outstanding under the Micro-enterprise Loan Program (MLP) in the countries of Bangladesh, Haiti and Bolivia. The purpose of the MLP is to assist impoverished persons to become self-reliant, successful entrepreneurs. The MLP is administered in accordance with guidelines published by World Concern and is tailored to specific conditions of the host country. The majority of these loans mature in one to two years. Based on management's intent and ability to reinvest collected amounts in the MLP in those countries, the balance has been classified as a long-term receivable and included in assets held by field operations on the consolidated balance sheets.

**Radio Licenses and Other Intangibles -** The Organization has capitalized financing fees associated with the issuance of tax-exempt bonds and radio license fees. Financing fees are amortized to expense on a straight-line basis over the bond term. Radio licenses are considered indefinite-lived assets and thus are not amortized but are reviewed on an annual basis for any possible impairment. Management determined there were no events or changes in circumstance indicating an impaired value of the radio licenses at June 30, 2013 and 2012. Total accumulated amortization on intangible assets was $529,000 and $497,000 at June 30, 2013 and 2012, respectively.

**Concentration of Credit Risk -** Financial instruments that potentially subject the Organization to concentration of credit risk consist primarily of receivables, cash and cash equivalents, and investments. As of June 30, 2013 and 2012, concentration of credit risk with respect to receivables is limited due to a large base of customers consisting of public and private companies representing a variety of industries, government agencies, and individuals in the Pacific Northwest. Cash and cash equivalents are held with banks located in and outside of the United States. As of June 30, 2013 and 2012, 18% and 13% of cash and cash equivalents are held in banks outside of the United States. Investments are held with a variety of financial institutions. Cash, cash equivalents, and investment balances may at times exceed FDIC and SIPC insurance limits.

**Financial Instruments -** The carrying amount of financial instruments, including cash and cash equivalents, receivables, investments, development loans receivable, payables, and long-term obligations, approximates fair value as of June 30, 2013 and 2012, with the exception of investments carried at cost. It is not practical to estimate the fair value of investments carried at cost.

**Deferred Revenue -** Cash from certain fees for services is received prior to the Organization providing the intended program services. These revenues are deferred until the period in which the services are rendered.

**Entry Fees -** Entry fees represent advance payment for use of retirement facilities. Entry fees are subject to contractual refunds upon death or other termination of residency. The refunds on a majority of the contracts range from 0% to 80% of the entry fees paid, depending upon length of residency. The nonrefundable portion of the entry fee is recorded as deferred revenue and is amortized to income based upon the life expectancy of the residents.

## *Note 1 - Continued*

The present value of the net cost of future services to current residents is calculated annually to determine if an unfunded liability for those services should be recorded. A discount rate of 6% was used as of June 30, 2013 and 2012. No unfunded liability exists for obligations to provide future services as of June 30, 2013 or 2012.

**Basis of Presentation -** Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

> <u>Unrestricted Net Assets</u> - Net assets on which there are no donor-imposed restrictions for use or such donor-imposed restrictions were temporary and expired or were met during the current or previous years.
>
> <u>Temporarily Restricted Net Assets</u> - Net assets subject to donor-imposed restrictions that will be met either by actions of the Organization, the passage of time, or for endowment funds.
>
> <u>Permanently Restricted Net Assets</u> - Net assets subject to donor-imposed restrictions to be maintained permanently by the Organization.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor stipulated purpose has been fulfilled or the stipulated time period has lapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions that the donor requires to be used to acquire long-lived assets (e.g., building improvements, furniture, fixtures, and equipment) are reported as temporarily restricted. When the long-lived assets are acquired, the Organization reflects the expiration of the donor-imposed restriction as a reclassification included in contributions released from restrictions.

**Foreign Currency Translation -** The functional currency of World Concern's field offices is the local currency in which the office is located. Assets and liabilities of the office have been translated into U.S. dollars at year-end exchange rates. Revenues and expenses have been translated at average monthly exchange rates. Any translation adjustments are included in the consolidated statements of unrestricted activities.

**Revenues and Gains -** Fees for services, government grants, and miscellaneous income consist of revenues earned during the year. Earned revenue is recognized in the period the service is performed. Government grant revenue is recognized in the period the related expenses are incurred. Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions also include noncash gifts (gifts-in-kind), which are valued at estimated fair value at the date of gift (Note 9).

Senior Living recognizes revenue based on estimated net realizable amounts from patients and third-party payors, which includes the Medicaid and Medicare programs. Laws and regulations governing the Medicaid and Medicare programs are extremely complex and subject to interpretation. As a result, there is a possibility that recorded estimates may change.

## *Note 1 - Continued*

**Functional Allocation of Expenses -** The cost of providing program services, fundraising, and general administration of the Organization has been summarized on a functional basis in a supplemental statement to the consolidated financial statements. Accordingly, certain costs have been allocated between program services, fundraising, and management and general expenses based on actual usage or square footage.

**Income Taxes -** The Internal Revenue Service (IRS) has determined that CRISTA and WCDO are exempt from federal income taxes under Sections 501(c)(3) and 509(a)(1) of the Internal Revenue Code, with the exception of certain activities that result in unrelated business income which are therefore taxable. There was no federal income tax expense recognized for the years ended June 30, 2013 and 2012 due to loss carry forwards from prior years. There are open tax years that are subject to IRS review; however, management has determined that no provision for uncertain tax positions was required at June 30, 2013 or 2012.

CRISTA Canada is registered as a Charitable Organization under tax laws established by the Canada Revenue Agency. It had no taxable income for the years ended June 30, 2013 and 2012.

**Financial Statement Reclassifications -** Certain reclassifications have been made to the prior year consolidated financial statements to conform to the current year presentation. Such reclassifications have no effect on the change in net assets or net asset balances as previously reported.

**Subsequent Events -** The Organization has evaluated subsequent events through September 19, 2013, the date on which the consolidated financial statements were available to be issued.

## *Note 2 - Cash and Cash Equivalents*

Cash and cash equivalents consisted of the following as of June 30:

| | *(In Thousands)* | |
|---|---|---|
| | *2013* | *2012* |
| Cash | $ 5,409 | $ 9,246 |
| CD's, commercial paper, and other | 7,031 | 10,006 |
| **Total Cash and Cash Equivalents** | **$ 12,440** | **$ 19,252** |

Cash and cash equivalents include $2,298,000 and $2,537,000 at June 30, 2013 and 2012, respectively, of funds on deposit in banks in foreign countries.

## *Note 2 - Continued*

Cash and cash equivalents are presented on the consolidated balance sheets as follows as of June 30:

| | *(In Thousands)* | |
|---|---|---|
| | *2013* | *2012* |
| Current assets - total cash and cash equivalents | $ 12,440 | $ 12,082 |
| Total capital project funds | | 7,170 |
| **Total Cash and Cash Equivalents** | **$ 12,440** | **$ 19,252** |

Cash and cash equivalents designated for construction of the new Science, Technology, Engineering and Math (STEM) building totaled $7,054,000 as of June 30, 2012. There were no funds designated for the STEM building at June 30, 2013.

## *Note 3 - Pledges Receivable*

Pledges receivable are due as follows as of June 30:

| | *(In Thousands)* | |
|---|---|---|
| | *2013* | *2012* |
| Pledges due in less than one year | $ 1,507 | $ 1,009 |
| Pledges due in one to five years | 844 | 1,486 |
| | 2,351 | 2,495 |
| Less allowance for uncollectible pledges | (678) | (1,007) |
| **Pledges Receivable, Net** | **$ 1,673** | **$ 1,488** |

### *Note 3 - Continued*

The allowance for uncollectible pledges was determined by management based on historical trends. Pledges receivable for the STEM building (Note 2) totaled $581,000 and $820,900, gross, at June 30, 2013 and 2012, respectively, and are classified as long-term on the consolidated balance sheets since they will be used for long-term purposes when collected. A present value discount was deemed immaterial and thus not recorded at June 30, 2013 and 2012.

Pledges receivable are presented on the consolidated balance sheets as follows at June 30:

| | *(In Thousands)* | |
|---|---|---|
| | *2013* | *2012* |
| Pledges receivable, current portion | $ 605 | $ 489 |
| Long-term pledges receivable, net | 1,068 | 999 |
| **Pledges Receivable, Net** | **$ 1,673** | **$ 1,488** |

### *Note 4 - Investments and Planned Giving Program Assets*

Investments and planned giving program assets consisted of the following as of June 30:

| | *(In Thousands)* | |
|---|---|---|
| | *2013* | *2012* |
| Investments- | | |
| Cash and cash equivalents | $ 523 | $ 747 |
| Marketable equity securities | 14,235 | 9,291 |
| Marketable debt securities | 5,901 | 8,335 |
| Nonmarketable debt securities | 305 | 450 |
| Nonmarketable equity securities | 366 | 366 |
| Real property | 250 | 250 |
| | 21,580 | 19,439 |
| Planned giving program assets- | | |
| Cash and cash equivalents | 11 | 10 |
| Marketable equity securities | 926 | 969 |
| Marketable debt securities | 1,173 | 1,503 |
| Nonmarketable debt securities | | 7 |
| Beneficial interest in perpetual trust held by third party | 1,382 | 1,300 |
| | 3,492 | 3,789 |
| **Total Investments and Planned Giving Program Assets** | **$ 25,072** | **$ 23,228** |

## *Note 4 - Continued*

**Impairment Loss on Investments and Trusts -** In fiscal years 2003 through 2005, the Organization invested $3,015,000 of its investments available for current ministries and $290,000 of its endowment investments with an investment company (the Company). During subsequent years, $1,633,000 of cumulative interest was added to the investments. In July 2010, the Organization was notified that the Company had filed for bankruptcy. Based on information received from the bankruptcy trustee, management believes the recoverable value of the investments is $477,000. Unrestricted loss on investments of $4,411,000 and temporarily restricted loss on investments of $76,000 were recognized during the year ended June 30, 2010. Any future recoveries or losses over or under the estimated recovery amount will be reflected as income or loss in the year received. A plan was approved by the bankruptcy court during the year ended June 30, 2011, for the disposition of the bankruptcy estate assets. The actual disposition of the bankrupt estate will take several years to conclude. During the year ended June 30, 2013, $146,000 was recovered. The remaining unrecovered amount of $331,000 is still considered recoverable.

## *Note 5 - Fair Value Measurements*

U.S. GAAP establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The three levels of the fair value hierarchy are described as follows:

Level 1 - Unadjusted quoted prices available in active markets for identical assets or liabilities;

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or

Level 3 - Unobservable inputs that are significant to the fair value measurement.

A financial instrument's level within the fair value hierarchy is based upon 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. These financial instruments were valued using a market approach.

The 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 June 30, 2013 and 2012.

Mutual Funds - Valued at quoted market prices in active markets, which represent the net asset value (NAV) of shares held by the Organization at year-end.

Mortgage Backed Securities and Annuity Contracts - Valued using the NAV provided by the investment's manager. The NAV is based on the fair value of the underlying assets owned by the fund, minus its liabilities, and then divided by the number of units outstanding at the valuation date. The investments are traded on a private market that is not active.

Perpetual Trust - Valued at the Organization's share of the trust's assets, which are reported at fair value.

## *Note 5 - Continued*

Assets recorded at fair value on a recurring basis were as follows at June 30, 2013:

| | *(In Thousands)* | | | |
|---|---|---|---|---|
| | *Level 1* | *Level 2* | *Level 3* | *Total* |
| Mutual funds- | | | | |
| Growth | $ 3,043 | $ - | $ - | $ 3,043 |
| Value | 1,741 | | | 1,741 |
| Blended | 4,581 | | | 4,581 |
| International | 3,212 | | | 3,212 |
| Bond | 6,508 | | | 6,508 |
| Long/short equity | 1,073 | | | 1,073 |
| Managed futures | 1,183 | | | 1,183 |
| Private equity | 121 | | | 121 |
| Commodity | 201 | | | 201 |
| Total mutual funds | 21,663 | | | 21,663 |
| Mortgage backed securities | | | 572 | 572 |
| Perpetual trust held by third party | | | 1,382 | 1,382 |
| **Total at June 30, 2013** | **$ 21,663** | **$ -** | **$ 1,954** | **$ 23,617** |

## *Note 5 - Continued*

Assets recorded at fair value on a recurring basis were as follows at June 30, 2012:

| | (In Thousands) | | | |
|---|---|---|---|---|
| | *Level 1* | *Level 2* | *Level 3* | *Total* |
| Mutual funds- | | | | |
| Growth | $ 88 | $ - | $ - | $ 88 |
| Value | 22 | | | 22 |
| Blended | 5,020 | | | 5,020 |
| International | 1,706 | | | 1,706 |
| Bond | 7,813 | | | 7,813 |
| Commodity | 572 | | | 572 |
| Total mutual funds | 15,221 | | | 15,221 |
| Mortgage backed securities | | | 617 | 617 |
| Annuity contracts | | | 4,261 | 4,261 |
| Perpetual trust held by third party | | | 1,300 | 1,300 |
| **Total at June 30, 2012** | **$ 15,221** | **$ -** | **$ 6,178** | **$ 21,399** |

### *Note 5 - Continued*

A reconciliation of the beginning and ending balances, by each major category of assets, for fair value measurements made using significant unobservable inputs (Level 3) follows:

| | Fair Value Measurements (In Thousands) | | | |
|---|---|---|---|---|
| | *Mortgage Backed Securities* | *Annuity Contracts* | *Perpetual Trust* | *Total Level 3* |
| Balance at July 1, 2011 | $ 617 | $ 4,873 | $ 1,387 | $ 6,877 |
| Total gains or losses (realized/unrealized) | 40 | (422) | (87) | (469) |
| Purchases | | 18,090 | | 18,090 |
| Sales | (40) | (18,280) | | (18,320) |
| **Balance at June 30, 2012** | **617** | **4,261** | **1,300** | **6,178** |
| Total gains or losses (realized/unrealized) | 2 | 671 | 82 | 755 |
| Purchases | 108 | 2,382 | | 2,490 |
| Sales | (155) | (7,314) | | (7,469) |
| **Balance at June 30, 2013** | **$ 572** | **$ -** | **$ 1,382** | **$ 1,954** |

The annuity contracts generally have terms over the lives of the annuitants. The contracts allow for certain periodic withdrawals without penalty; however, the contracts may be liquidated at cash surrender values, which approximates fair value, at any time. Mortgage backed securities are held in a real estate trust. While this asset is intended as a long-term holding, shares may be redeemed under the Trust's redemption program. Any shareholder that has held shares for at least one year from the date of acquisition may present all or any portion of such shares for redemption at any time. However, share redemptions may be limited by the Trust's available cash flow. There are no unfunded commitments on these investments at June 30, 2013 or 2012. The perpetual trust represents the Organization's interest in trust assets (Note 7). Annual distributions are made from the trust by the trustees; therefore, no redemption terms or restrictions apply.

A reconciliation of the investments and planned giving assets measured at fair value on a recurring basis to total investments is as follows as of June 30:

| | (In Thousands) | |
|---|---|---|
| | *2013* | *2012* |
| Assets recorded at fair value on a recurring basis | $ 23,617 | $ 21,399 |
| Assets recorded at cost | 1,455 | 1,829 |
| **Total Investments and Planned Giving** | **$ 25,072** | **$ 23,228** |

## *Note 6 - Property and Equipment*

Property and equipment consisted of the following as of June 30:

| | *(In Thousands)* | |
|---|---|---|
| | *2013* | *2012* |
| Land | $ 9,535 | $ 9,505 |
| Buildings and improvements | 96,662 | 95,490 |
| Furniture, equipment, and other | 17,296 | 16,617 |
| Construction in progress | 10,008 | 1,355 |
| Total property and equipment before depreciation | 133,501 | 122,967 |
| Less accumulated depreciation | (65,436) | (61,922) |
| **Property and Equipment, Net** | **$ 68,065** | **$ 61,045** |

## *Note 7 - Planned Giving Program*

**Irrevocable Trusts -** The Organization is a beneficiary of irrevocable unitrusts and testamentary trusts administered by the Organization. The trusts provide for annual distributions of 6% to 7% of the value of trust assets to be paid to the trust grantors. The trusts all terminate upon the death of the various grantors, at which time the remaining assets will be distributed to the Organization and other beneficiaries. The trust assets are valued at fair value and totaled $1,106,000 and $1,078,000 at June 30, 2013 and 2012, respectively. The trust liabilities are valued at the present value of the estimated future distributions to be paid to the trust grantors discounted at rates of 6% to 7% and totaled $1,063,000 and $1,009,000 at June 30, 2013 and 2012, respectively.

Gains or losses from the change in trust liabilities are recorded as temporarily restricted contribution revenue. When trusts are initially established the Organization records temporarily restricted contribution revenue equal to the value of trust assets received less the trust liability. The Organization recorded a loss of $27,000 and $17,000 during the years ended June 30, 2013 and 2012, respectively, related to the change in trust assets and liabilities. This gain or loss is included in the temporarily restricted net realized and unrealized gains (losses) on investments on the consolidated statements of changes in net assets. There were no contributions to irrevocable trusts during the years ended June 30, 2013 and 2012.

**Annuities -** The Organization administers gift annuities for which it is obligated to make periodic distributions to designated beneficiaries. When contributed assets are initially received, the assets are recorded at fair value as general assets of the Organization and temporarily restricted contribution revenue is recorded equal to the value of contributed assets received less the annuity liability. The fair value of annuity assets totaled $901,000 and $1,296,000 as of June 30, 2013 and 2012, respectively. The present values of the payments due to the beneficiaries are recorded as liabilities and totaled $799,000 and $849,000 as of June 30, 2013 and 2012, respectively. Net present values are calculated based on the expected life of the beneficiaries and using the applicable federal discount rate at the date of the gift. The annuity liability is revalued annually based upon actuarially computed present values. The liability recorded and the segregated funds the Organization maintains exceed the actuarial value of the annuity liability as required by Washington state law.

## *Note 7 - Continued*

**Gift Loan Agreements -** Gift loan agreements represent demand notes with interest rates of 5% that become contributions to the Organization upon the death of the note holder. Gift loan agreement liabilities totaled $104,000 and $115,000 at June 30, 2013 and 2012, respectively, and the Organization has set aside sufficient assets to cover these liabilities.

**Perpetual Trust -** The Organization is named as one of several beneficiaries of a perpetual trust. Under the terms of the trust, an independent trustee will make annual distributions, in perpetuity, to the Organization based upon the Organization's 3% percent share of the trust assets' fair value. That share totaled $1,382,000 and $1,300,000 at June 30, 2013 and 2012, respectively, and is included in permanently restricted net assets. The Organization received distributions totaling $64,000 and $96,000 for the years ended June 30, 2013 and 2012, respectively. The distributions are available for general operations. Changes in the value of the underlying assets of $82,000 and ($87,000) for the years ended June 30, 2013 and 2012, respectively, have been recorded in the accompanying consolidated statements of changes in permanently restricted net assets as net realized and unrealized gains or losses on investments.

Planned giving program assets were as follows at June 30:

| | *(In Thousands)* | |
|---|---|---|
| | *2013* | *2012* |
| Irrevocable trusts | $ 1,106 | $ 1,078 |
| Annuities | 900 | 1,296 |
| Gift loan agreements | 104 | 115 |
| Perpetual trust | 1,382 | 1,300 |
| **Total Planned Giving Assets** | **$ 3,492** | **$ 3,789** |

Planned giving program liabilities were as follows at June 30:

| | *(In Thousands)* | |
|---|---|---|
| | *2013* | *2012* |
| Irrevocable trusts | $ 1,063 | $ 1,009 |
| Annuities | 799 | 849 |
| Gift loan agreements | 104 | 115 |
| **Total Planned Giving Liabilities** | **$ 1,966** | **$ 1,973** |

## *Note 8 - Development Loans Receivable*

The Organization makes loans under the Micro-enterprise Loan Program (MLP) to assist impoverished persons to become self-reliant, successful entrepreneurs in the countries of Bangladesh, Haiti and Bolivia. The loans are funded by temporarily restricted contributions, and amounts collected on these loans are reinvested in the MLP to fund future loans. The MLP balance is included in the consolidated balance sheets as a part of assets held by field operations.

Development loans receivable, by country, and the allowance for doubtful accounts is as follows at June 30:

| | *(In Thousands)* | |
|---|---|---|
| | *2013* | *2012* |
| Receivables from individuals in- | | |
| Bangladesh | $ 3,519 | $ 2,951 |
| Haiti | 924 | 842 |
| Bolivia | | 9 |
| | 4,443 | 3,802 |
| Less allowance for doubtful accounts- | | |
| Beginning balance | (267) | (243) |
| Provision for loan losses | (130) | (163) |
| Loans written off | 50 | 139 |
| | (347) | (267) |
| **Microloans Receivable, Net** | **$ 4,096** | **$ 3,535** |

## *Note 8 - Continued*

The following amounts were past due under the MLP at June 30:

| | (In Thousands) | |
|---|---|---|
| | *2013* | *2012* |
| Less than two years | $ 505 | $ 306 |
| Two to five years | 72 | 30 |
| Five years or greater | 4 | 6 |
| **Total Loans Past Due** | **$ 581** | **$ 342** |

The average loan size was $268 and $236 at June 30, 2013 and 2012, respectively. Maturities on the loans range from two months to two years. Allowances for doubtful accounts are established based on prior collection experience, current economic factors and management's review of individual account balances. Loans under the MLP are written off only when they are deemed to be permanently uncollectible, and interest continues to accrue until the loan balances are paid in full. Assessed impairment of certain loans is included in the allowance for doubtful accounts.

The Organization is subject to certain business risks that could affect net assets. These risks include the geographic concentration in the following developing countries which represent 15% or more of the total development loans receivable at June 30:

| *Country* | *2013* | *2012* |
|---|---|---|
| Bangladesh | 79% | 79% |
| Haiti | 21% | 21% |

## *Note 9 - Gifts-In-Kind*

The Organization receives contributions of clothing, health supplies, and other commodities for use in its various programs and medicines at significantly below fair value. Such gifts are recorded as inventory and revenue at the time received and as a reduction of inventory and as a program services expense when the distributing agency has received the goods. These gifts are recorded at their fair value based on product like-kind analysis and current estimated wholesale prices as available. Gifts-in-kind (GIK) are recorded in accordance with U.S. GAAP and in consideration of Accord GIK Interagency Standards.

The Organization obtains deworming medicine that is distributed to children and adults in several countries in Africa and Asia. The Organization purchases this deworming medicine and records such purchases at cost and records any difference between cost and fair market value as a contribution, per applicable accounting standards, where fees paid are significantly below fair values.

### *Note 9 - Continued*

The Organization obtains market data that it believes is representative of fair value for the deworming medicine it distributes in multiple relevant international markets. Such industry standards are subject to review and adjustment; therefore, estimates of fair value of donated medicines may vary in the future.

The Organization did not facilitate unrecorded GIK to be used by other not-for-profits. The Organization only records the value of GIK for which the Organization was the original recipient of the gift, was the end use agency, was involved in partnership with another organization for distribution internationally, or used the GIK in its own programs.

A summary of GIK revenue is as follows for the years ended June 30:

| | *(In Thousands)* | |
|---|---|---|
| | *2013* | *2012* |
| Medicines and medical supplies | $ 10,046 | $ 9,150 |
| Clothing | | 84 |
| Seeds, food, and agricultural supplies | 36 | 251 |
| Other supplies | 313 | 557 |
| **Total Gifts-In-Kind Revenue** | **$ 10,395** | **$ 10,042** |

For the year ended June 30, 2013, the Organization distributed approximately 8.6 million deworming pills to children and adults in several countries compared to approximately 7.8 million pills distributed during the year ended June 30, 2012. Of the total gifts for the years ended June 30, 2013 and 2012, 97% and 91%, respectively, came from a single source.

## *Note 10 - Long-Term Obligations*

Long-term obligations consisted of the following as of June 30:

| | *(In Thousands)* | |
|---|---|---|
| | *2013* | *2012* |
| Tax exempt private placement bonds issued in December, 2010 to refinance prior bonds and provide for refurbishment of senior living facilities - fixed rate of 3.7%, due in monthly installments through January 1, 2026 | $ 11,732 | $ 12,457 |
| Deferred employee benefits | 280 | 424 |
| Obligations for future services | 626 | 556 |
| | 12,638 | 13,437 |
| Less current portion | (752) | (725) |
| **Total Long-Term Obligations** | **$ 11,886** | **$ 12,712** |

The tax-exempt bonds are secured by land, buildings, and equipment with an aggregate net book value of $19,418,000 and $19,797,000, at June 30, 2013 and 2012, respectively. The Organization is in compliance with all restrictive covenants.

Interest expense, including letter of credit fees, was $486,000 and $515,000, for the years ended June 30, 2013 and 2012, respectively.

Principal maturities on long-term obligations are as follows:

| *For the Year Ending June 30,* | *(In Thousands)* |
|---|---|
| 2014 | $ 752 |
| 2015 | 781 |
| 2016 | 810 |
| 2017 | 840 |
| 2018 | 872 |
| Thereafter | 8,583 |
| | **$ 12,638** |

## *Note 10 - Continued*

The Organization has a line-of-credit agreement expiring November 30, 2013, which provides for a total commitment of $2,500,000. There was no outstanding balance at June 30, 2013 or June 30, 2012. The Organization was in compliance with covenants on the line-of-credit agreement during fiscal years 2013 and 2012.

Deferred employee benefits include a salary continuation agreement with a former key officer and a reserve for workers' compensation liability (Note 13).

## *Note 11 - Endowment*

The Organization's endowments consist of a number of funds established for a variety of purposes. Its endowments include both donor-restricted permanent endowment funds and temporarily restricted funds set up to function as endowments but allowing for the possibility of spending of corpus, if necessary. As required by U.S. GAAP and as disclosed below, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the Organization has reviewed the Washington State Prudent Management of Institutional Funds Act (PMIFA) and, having considered its rights and obligations thereunder, has determined that it is desirable to preserve, on a long-term basis, the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this determination, the Organization classifies as permanently restricted net assets the original value of gifts to the permanent endowment, the original value of subsequent gifts to the permanent endowment, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by PMIFA. In accordance with PMIFA, the Organization considers the:

- Duration and preservation of the fund;
- Purposes of the Organization and the donor-restricted endowment fund;
- General economic conditions;
- Possible effect of inflation and deflation;
- Expected total return from income and the appreciation of investments;
- Other resources of the Organization; and
- Investment policies of the Organization.

## *Note 11 - Continued*

Endowment net assets consisted of the following as of June 30, 2013:

| | *(In Thousands)* | | | |
|---|---|---|---|---|
| | *Unrestricted* | *Temporarily Restricted* | *Permanently Restricted* | *Total* |
| Donor restricted permanent endowments- | | | | |
| Student financial aid and teacher excellence | $ (360) | $ - | $ 1,686 | $ 1,326 |
| Senior financial aid | (241) | | 1,103 | 862 |
| Total donor restricted permanent endowments | (601) | | 2,789 | 2,188 |
| Temporarily restricted, functioning as endowments- | | | | |
| General program | | 861 | | 861 |
| Schools | | 992 | | 992 |
| Christian Veterinary Mission | | 1,026 | | 1,026 |
| Seattle Urban Academy | | 448 | | 448 |
| Camps | | 318 | | 318 |
| World Concern | | 8 | | 8 |
| Total temporarily restricted functioning as endowments | | 3,653 | | 3,653 |
| **Endowment Net Assets, June 30, 2013** | **$ (601)** | **$ 3,653** | **$ 2,789** | **$ 5,841** |

### *Note 11 - Continued*

Endowment net assets consisted of the following as of June 30, 2012:

| | *(In Thousands)* | | | |
|---|---|---|---|---|
| | *Unrestricted* | *Temporarily Restricted* | *Permanently Restricted* | *Total* |
| Donor restricted permanent endowments- | | | | |
| Student financial aid and teacher excellence | $ (431) | $ - | $ 1,463 | $ 1,032 |
| Senior financial aid | (444) | | 1,103 | 659 |
| Total donor restricted permanent endowments | (875) | | 2,566 | 1,691 |
| Temporarily restricted, functioning as endowments- | | | | |
| General program | | 814 | | 814 |
| Schools | | 921 | | 921 |
| Christian Veterinary Mission | | 922 | | 922 |
| Seattle Urban Academy | | 417 | | 417 |
| Camps | | 305 | | 305 |
| World Concern | | 7 | | 7 |
| Total temporarily restricted functioning as endowments | | 3,386 | | 3,386 |
| **Endowment Net Assets, June 30, 2012** | **$ (875)** | **$ 3,386** | **$ 2,566** | **$ 5,077** |

## *Note 11 - Continued*

Changes to endowment net assets are as follows for the year ended June 30, 2013:

| | *(In Thousands)* | | | |
|---|---|---|---|---|
| | *Unrestricted* | *Temporarily Restricted* | *Permanently Restricted* | *Total* |
| Endowment net assets June 30, 2012 | $ (875) | $ 3,386 | $ 2,566 | $ 5,077 |
| Endowment investment return- | | | | |
| Interest and dividends | | 104 | | 104 |
| Realized and unrealized gains | 274 | 298 | | 572 |
| Total endowment investment return | 274 | 402 | | 676 |
| Contributions | | 72 | 223 | 295 |
| Write-offs | | (20) | | (20) |
| Distributions | | (187) | | (187) |
| **Endowment Net Assets, June 30, 2013** | **$ (601)** | **$ 3,653** | **$ 2,789** | **$ 5,841** |

Changes to endowment net assets are as follows for the year ended June 30, 2012:

| | *(In Thousands)* | | | |
|---|---|---|---|---|
| | *Unrestricted* | *Temporarily Restricted* | *Permanently Restricted* | *Total* |
| Endowment net assets June 30, 2011 | $ (709) | $ 3,572 | $ 2,555 | $ 5,418 |
| Endowment investment return- | | | | |
| Interest and dividends | | 96 | | 96 |
| Realized and unrealized losses | (166) | (114) | | (280) |
| Total endowment investment return | (166) | (18) | | (184) |
| Contributions | | 94 | 11 | 105 |
| Distributions | | (262) | | (262) |
| **Endowment Net Assets, June 30, 2012** | **$ (875)** | **$ 3,386** | **$ 2,566** | **$ 5,077** |

## *Note 11 - Continued*

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or U.S. GAAP requires the Organization to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature that are reported in unrestricted net assets were $601,000 and $875,000 as of June 30, 2013 and 2012, respectively. These deficiencies resulted from unfavorable market fluctuations and impairment of investments (Note 4) that occurred after the investment of new permanently restricted contributions and continued appropriation for certain programs that were deemed prudent by the Board of Trustees. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment assets. Endowment assets include those assets of donor restricted funds that the Organization must hold in perpetuity or for a donor specified period. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce an average annual rate of return of approximately 7%, or the Consumer Price Index plus a risk premium of 3%, whichever is greater over a five-year investment horizon in a manner that seeks to minimize principal fluctuations over the investment time horizon. Actual returns may vary significantly from this objective in any given year.

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation, realized and unrealized gains, and current yield such as interest and dividends. The Organization targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints.

The Organization has a policy of appropriating for distribution approximately 5% of the market value of endowment assets as of the beginning of the calendar year. In establishing this policy, the Organization considered the long-term expected return on its endowment and its desire to maintain a predictable stream of funding to programs supported by its endowment assets. Accordingly, over the long-term, the Organization expects the current spending policy to allow its endowment to grow at an average 2% annually. This is consistent with the Organization’s objective to provide real growth to its endowment through new gifts and investment returns.

## *Note 12 - Crosspoint Academy Lease*

On June 29, 2012, the Organization signed an agreement to lease its Crosspoint Academy building to another entity (the “Lessee”). Crosspoint Academy is a K-12 school located in Bremerton, Washington. The Lessee operated its own Christian school in the Crosspoint building beginning July 1, 2012. The agreement allows for below market rent beginning in July 2012 and includes clauses increasing rent during the term of the lease based on enrollment. The agreement also includes a purchase option that must be exercised in writing no later than sixty days prior to the end of the lease term on June 30, 2017.

## *Note 13 - Commitments and Contingencies*

**Leases -** The Organization is obligated under various operating leases for office equipment, office and radio tower space. Lease expense for the years ended June 30, 2013 and 2012, was $573,000 and $562,000, respectively. Future minimum lease payments for operating leases that have initial or remaining noncancelable lease terms in excess of one year are as follows:

| *For the Year Ending June 30,* | | *(In Thousands)* |
|---|---|---|
| 2014 | $ | 488 |
| 2015 | | 495 |
| 2016 | | 480 |
| 2017 | | 378 |
| 2018 | | 352 |
| Thereafter | | 1,458 |
| | **$** | **3,651** |

**Employee Retirement Benefits -** The Organization offers a Section 403(b) savings plan to eligible employees. Employees may contribute amounts from their salaries to the plan up to the limits specified by the Internal Revenue Service. The Organization contributes 3% of earnings annually to each eligible employee's account. The Organization matches up to 4% additional contributions to an eligible employee's account based upon years of service to the Organization. Employer provided funds are vested to the employee at 20% per year until fully vested after five years. Total employer contributions expensed during the years ended June 30, 2013 and 2012, were $1,476,000 and $1,471,000, respectively.

**Other Employee Benefits -** The Organization offers employees an option to participate in a self-insured health plan. The Organization also maintains a self-insured workers' compensation plan. Claims under these plans are self-insured with stop-loss umbrella policies in place to limit maximum potential liability for both individual claims and total claims for a plan year. Claims are paid as they are submitted to the plan administrators. The Organization maintains an accrual for claims that have been incurred but not yet paid (IBNP) to the plan administrators. The IBNP reserve is based on the historical lag period and current payment trends of health insurance claims (generally 2-3 months) and workers compensation claims (generally 1-3 years). The IBNP reserve for health care is based on the historical claims as computed by the insurance broker's actuaries (generally 15 months), less payments made and is included in accounts payable and accrued expenses on the consolidated balance sheets. The liability for the workers' compensation benefit claims due in less than one year are recorded in accounts payable and accrued expenses while the liability for claims greater than one year are recorded in long-term obligations (Note 10) in the accompanying consolidated balance sheets.

## *Note 13 - Continued*

**Contingencies -** Amounts received under federal grant-in-aid programs are subject to audit and adjustment by the granting agency. Any adjusted amounts, including funds already received, may constitute a liability of the Organization. Management believes adjustments required, if any, as a result of audits will not have a material effect on the Organization's financial position or results of activities.

In the normal course of business, the Organization has various claims in process, matters in litigation, and other contingencies. In management's opinion, the outcome from these matters will not materially impact the Organization's financial position or results of activities.

**Purchase Commitment -** The Organization is under contract with a contractor for a multi-year construction project on its main campus. The total commitment to this contractor was approximately $700,000 and $7,000,000 at June 30, 2013 and 2012, respectively.

***SUPPLEMENTARY INFORMATION***

*CRISTA MINISTRIES*

***Consolidated Schedule of Functional Expenses***
***For the Year Ended June 30, 2013***
***(In Thousands)***

| | Program Services | Fundraising | Management and General | Total |
|---|---|---|---|---|
| Salaries | $ 34,242 | $ 1,847 | $ 2,513 | $ 38,602 |
| Payroll taxes | 3,000 | 168 | 172 | 3,340 |
| Employee benefits | 6,459 | 229 | 351 | 7,039 |
| Professional services | 1,651 | 102 | 400 | 2,153 |
| Advertising and promotion | 776 | 42 | 5 | 823 |
| Office expenses | 1,824 | 263 | 199 | 2,286 |
| Information technology | 615 | 120 | 96 | 831 |
| Occupancy | 3,696 | 30 | 301 | 4,027 |
| Travel | 2,057 | 118 | 108 | 2,283 |
| Conferences and training | 389 | 94 | 119 | 602 |
| Interest | 486 | | | 486 |
| Depreciation and amortization | 4,789 | 1 | | 4,790 |
| Insurance | 1,459 | | 165 | 1,624 |
| Dues and fees | 545 | 5 | 106 | 656 |
| Purchased services | 1,468 | 1,562 | 784 | 3,814 |
| Taxes | 27 | | 54 | 81 |
| Grants | 74 | | | 74 |
| Program supplies | 24,124 | 289 | 14 | 24,427 |
| Other | 130 | | 225 | 355 |
| **Total Expenses** | **$ 87,811** | **$ 4,870** | **$ 5,612** | **$ 98,293** |

*See independent auditors' report.*

*CRISTA MINISTRIES*

***Consolidated Schedule of Functional Expenses***
***For the Year Ended June 30, 2012***
***(In Thousands)***

| | Program Services | Fundraising | Management and General | Total |
|---|---|---|---|---|
| Salaries | $ 34,920 | $ 1,546 | $ 2,419 | $ 38,885 |
| Payroll taxes | 3,053 | 126 | 150 | 3,329 |
| Employee benefits | 6,367 | 200 | 310 | 6,877 |
| Professional services | 1,527 | 106 | 409 | 2,042 |
| Advertising and promotion | 842 | 38 | 6 | 886 |
| Office expenses | 1,746 | 259 | 197 | 2,202 |
| Information technology | 670 | 167 | 93 | 930 |
| Occupancy | 4,060 | 30 | 319 | 4,409 |
| Travel | 2,634 | 116 | 121 | 2,871 |
| Conferences and training | 605 | 87 | 109 | 801 |
| Interest | 515 | | | 515 |
| Depreciation and amortization | 4,625 | | | 4,625 |
| Insurance | 1,439 | | 146 | 1,585 |
| Dues and fees | 582 | 8 | 110 | 700 |
| Purchased services | 1,834 | 1,425 | 796 | 4,055 |
| Taxes | (228) | (5) | 54 | (179) |
| Grants | 60 | | | 60 |
| Program supplies | 26,754 | 273 | 27 | 27,054 |
| Other | 67 | | 317 | 384 |
| **Total Expenses** | **$ 92,072** | **$ 4,376** | **$ 5,583** | **$ 102,031** |

*See independent auditors' report.*