



**LIVING CHURCH OF GOD (INTERNATIONAL),  
INC. AND AFFILIATES**

CONSOLIDATED FINANCIAL STATEMENTS AND  
ACCOMPANYING INFORMATION

*Years Ended December 31, 2015 and 2014*

*And Report of Independent Auditor*

**LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES**  
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## **Report of Independent Auditor**

To the Board of Directors  
Living Church of God (International), Inc. and Affiliates  
Charlotte, North Carolina

### **Report on Financial Statements**

We have audited the accompanying consolidated financial statements of Living Church of God (International), Inc. and Affiliates (the "Church"), which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, and the related consolidated statements of activities 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.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with 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 consolidated financial statements are free from material misstatement.

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

We believe 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 Living Church of God (International), Inc. and Affiliates as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information contained in the consolidating statements of financial position and activities (“Accompanying Information”) is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information in the Accompanying Information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 in the Accompanying Information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Cherry Bekaert LLP*

Charlotte, North Carolina  
April 29, 2016

**LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

DECEMBER 31, 2015 AND 2014

	December 31,	
	2015	2014
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 988,712	\$ 1,965,915
Investments	326,259	430,728
Receivables, net	1,123,877	702,590
Inventory	341,425	452,167
Prepaid expenses	286,552	266,207
Deposits	22,910	14,370
Total Current Assets	<u>3,089,735</u>	<u>3,831,977</u>
Property and equipment, net	<u>3,663,360</u>	<u>3,641,395</u>
<b>Total Assets</b>	<u><u>\$ 6,753,095</u></u>	<u><u>\$ 7,473,372</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities:		
Accounts payable	\$ 362,032	\$ 512,356
Accrued wages and other liabilities	366,695	360,747
Notes payable, current portion	261,118	163,132
Line of credit	-	288,288
Capital lease obligations, current portion	12,987	23,465
Total Current Liabilities	<u>1,002,832</u>	<u>1,347,988</u>
Noncurrent Liabilities:		
Notes payable, noncurrent portion	1,656,532	1,663,822
Capital lease obligations, noncurrent portion	-	12,986
Total Noncurrent Liabilities	<u>1,656,532</u>	<u>1,676,808</u>
<b>Total Liabilities</b>	<u>2,659,364</u>	<u>3,024,796</u>
Net Assets:		
Unrestricted net assets	3,891,536	4,251,417
Temporarily restricted net assets	202,195	197,159
<b>Total Net Assets</b>	<u>4,093,731</u>	<u>4,448,576</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 6,753,095</u></u>	<u><u>\$ 7,473,372</u></u>

**LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**

YEARS ENDED DECEMBER 31, 2015 AND 2014

	Year Ended December 31, 2015			Year Ended December 31, 2014		
	Unrestricted	Temporarily Restricted	Totals	Unrestricted	Temporarily Restricted	Totals
	Revenue and support					
Tithes and contributions	\$ 13,932,496	\$ -	\$ 13,932,496	\$ 13,037,877	\$ -	\$ 13,037,877
Holy Day offerings	3,339,872	-	3,339,872	3,226,974	-	3,226,974
Investment return	(27,137)	-	(27,137)	(64,800)	-	(64,800)
Estate gifts	509,000	-	509,000	25,337	-	25,337
Other revenue	460,339	-	460,339	588,616	-	588,616
Special project donations	-	92,185	92,185	-	60,618	60,618
Tuition and fees	82,702	-	82,702	163,434	-	163,434
	<u>18,297,272</u>	<u>92,185</u>	<u>18,389,457</u>	<u>16,977,438</u>	<u>60,618</u>	<u>17,038,056</u>
Net assets released from restrictions due to satisfaction of restricted purpose	87,149	(87,149)	-	39,694	(39,694)	-
Total revenue and support	<u>18,384,421</u>	<u>5,036</u>	<u>18,389,457</u>	<u>17,017,132</u>	<u>20,924</u>	<u>17,038,056</u>
Expenses						
Feeding the Flock:						
Support of local congregations	6,819,283	-	6,819,283	7,362,031	-	7,362,031
Assistance to the needy	1,570,219	-	1,570,219	1,194,581	-	1,194,581
Living Youth Programs	272,559	-	272,559	-	-	-
Living University	790,297	-	790,297	762,681	-	762,681
						-
Preaching the Gospel:						
Television and radio	4,677,088	-	4,677,088	5,529,123	-	5,529,123
Publishing and editorial	1,570,874	-	1,570,874	1,523,046	-	1,523,046
Mail processing and distribution	1,780,051	-	1,780,051	1,799,826	-	1,799,826
						-
General and administrative:						
Support services and other	1,263,931	-	1,263,931	1,297,256	-	1,297,256
Total expenses	<u>18,744,302</u>	<u>-</u>	<u>18,744,302</u>	<u>19,468,544</u>	<u>-</u>	<u>19,468,544</u>
Change in net assets	(359,881)	5,036	(354,845)	(2,451,412)	20,924	(2,430,488)
Net assets						
Beginning of year	<u>4,251,417</u>	<u>197,159</u>	<u>4,448,576</u>	<u>6,702,829</u>	<u>176,235</u>	<u>6,879,064</u>
End of year	<u>\$ 3,891,536</u>	<u>\$ 202,195</u>	<u>\$ 4,093,731</u>	<u>\$ 4,251,417</u>	<u>\$ 197,159</u>	<u>\$ 4,448,576</u>

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

**LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

YEARS ENDED DECEMBER 31, 2015 AND 2014

	<b>Years Ended December 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (354,845)	\$ (2,430,488)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	544,521	389,099
Net unrealized/realized losses on investments	30,562	70,634
(Gain)/loss on disposal of property and equipment	(22,666)	8,217
Change in operating assets and liabilities:		
Receivables	(421,287)	1,327,560
Inventory	110,742	(81,091)
Prepaid expenses	(20,345)	46,555
Deposits	(8,540)	(2,300)
Accounts payable	(150,324)	(371,874)
Accrued wages and other liabilities	5,948	16,070
Net cash used in operating activities	<u>(286,234)</u>	<u>(1,027,618)</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(275,246)	(428,749)
Proceeds from sale of property and equipment	16,194	17,494
Proceeds from sale of investments	80,080	-
Purchases of investments	(6,173)	(284,101)
Net cash used in investing activities	<u>(185,145)</u>	<u>(695,356)</u>
<b>Cash flows from financing activities:</b>		
Changes on notes	(194,072)	15,797
Draws from line of credit	11,179	578,288
Payments on line of credit	(299,467)	(589,267)
Principal payments on capital lease obligations	(23,464)	(36,248)
Net cash used in financing activities	<u>(505,824)</u>	<u>(31,430)</u>
Decrease in cash and cash equivalents	(977,203)	(1,754,404)
Cash and cash equivalents		
Beginning of year	<u>1,965,915</u>	<u>3,720,319</u>
End of year	<u>\$ 988,712</u>	<u>\$ 1,965,915</u>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid during the year	<u>\$ 83,522</u>	<u>\$ 66,895</u>
<b>Supplemental disclosure of non-cash investing activities:</b>		
Acquisition of property and equipment by issuing notes payable	<u>\$ 284,768</u>	<u>\$ 153,051</u>

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

# LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

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### Note 1—Organization and summary of significant accounting policies

*Organization and Nature of Activities* – Living Church of God (International), Inc. and Affiliates (the “Church”), a North Carolina nonprofit religious corporation, is involved in preaching the Gospel of the Kingdom of God and providing for the spiritual and material needs of its members. The Church is primarily funded by unrestricted tithes and offerings. It is headquartered in Charlotte, North Carolina.

*Consideration of Reporting Entity* – The Church is comprised of various legal entities in the United States. Entities affiliated with the Church have been included in the accompanying consolidated financial statements. These entities include El Mundo De Mañana, LLC, Heads Up, LLC, Le Monde de Demain, LLC, Living Church of God, Inc., Living Youth Programs, LLC, Tomorrow’s World, Inc., and Tomorrow’s World, LLC. Pursuant to an analysis regarding indirect control and economic dependence, Living University is also included in the accompanying consolidated financial statements.

Living University (the “University”) was established in 2007 to offer online course work for the development of the whole person by educating men and women in the skills, concepts, and values that lead to success in life, while helping them prepare for leadership and worthwhile service to God and humanity. The University is a separate nonprofit educational corporation, with Regents appointed by the University Board and ratified by the Church. While several Board of Regents members are also members of the Church’s Board, the Church does not have direct control in the University and has no powers or duties over the affairs of the University. All transactions between the Church and the University, including facility rental and shared personnel are arms-length in nature. The Church provided 74% of the financial support to the University in 2015. Because of this economic dependence and indirect control in ratifying Board of Regent members, the University has been consolidated with the Church in these financial statements.

The operations of foreign affiliates are not included in the accompanying consolidated financial statements as they are independent entities in which the Church does not hold a controlling interest.

All significant intercompany balances and transactions have been eliminated in consolidation.

*Basis of Presentation* – The accompanying consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Unrestricted Net Assets* - Net assets that are both undesignated and designated in nature. Undesignated unrestricted net assets are those currently available for use in the day-to-day operations of the Church and those resources invested in property and equipment. The Church may designate certain amounts to be utilized/invested to meet specific objectives of the Church.

*Temporarily Restricted Net Assets* - Net assets subject to donor-imposed restrictions that may or will be met by specific actions of the Church and/or passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Consolidated Statement of Activities as net assets released from restriction.

*Permanently Restricted Net Assets* - Net assets that are subject to donor-imposed stipulations that they be maintained permanently by the Church. Generally, the donors of these assets permit the Church to use all or part of the income earned on any related investments for general or specific purposes. As of December 31, 2015 and 2014, the Church had no permanently restricted net assets.



# LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

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### **Note 1—Organization and summary of significant accounting policies (continued)**

*Contribution Revenue*—Tithes and offerings are recorded as revenue in the year the contribution is paid. Members of the Church practice tithing, the donation of ten percent of one's income for the Church's unrestricted use. These tithes (known as first tithe), plus unrestricted offerings given at each of seven annual Holy Days, comprise the majority of Church support and revenue.

In addition to first tithe and offerings, members save a second tithe for personal use to be able to attend the annual Holy Days. Those who are able give ten percent of this personal second tithe and/or excess second tithe to the Church. The Church uses these funds to help pay for expenses incurred by the Church to conduct the Holy Days and assist the needy members to be able to attend the Church festivals.

Members, who are financially able, also contribute an additional tithe in the third and sixth years of every seven year cycle. These contributions are used first to assist widows, orphans and the poor; and secondly, for retirees and missionary support.

Restricted donations are received primarily for disaster relief and assistance to foreign affiliates in need and are recorded as special project donations in the accompanying consolidated statements of activities.

*Cash and Cash Equivalents* – The Church considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

*Investments* – Investments consist of equities, including precious metal equities, precious metals, preferred stock and mutual funds stated at fair value. Realized and unrealized gains and losses are included as investment return in the consolidated statements of activities.

*Receivables* – Receivables consist of contributions receivable, estates receivable, amounts due from foreign affiliates, employees, the state of North Carolina for sales tax paid and vendor receivables. Management's determination of the allowance for doubtful accounts is based on an evaluation of the receivable, past experience, current economic conditions, and other risks. Accounts receivable are written off when, in the opinion of management, such receivables are deemed to be uncollectible.

*Inventories* – Inventories consist of various books and publications and are stated at the lower of cost (first-in, first-out method) or market. A physical inventory of the publications is taken semi-annually (mid-year and year-end).

*Prepaid Expenses and Deposits* – Prepaid expenses consist of television time, publications, vehicle leases, Church meeting hall rentals, insurance and other, which includes postage paid in advance. Deposits include funds to secure hall rentals, youth camp and festival sites.

Programming costs of television time are paid in advance of the scheduled air date. The expense is recognized in the month that the program is aired.

Prepaid church meeting hall rentals are expensed in the month the meeting is held. The majority of the church hall rentals are on a month-to-month basis.

Prepaid vehicle lease costs are paid at the inception of the lease and amortized over the term of the original lease, usually 12 to 48 months.

# LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

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### Note 1—Organization and summary of significant accounting policies (continued)

*Property and Equipment* – Property and equipment is stated at cost. Depreciation of property is computed on the straight-line method over the estimated useful lives of 30 years for buildings and improvements and 3 to 5 years for office furniture and equipment. The costs of major improvements are capitalized, while the costs of maintenance and repairs, which do not improve or extend the life of the respective properties, are expensed when incurred. The cost and accumulated depreciation of property are eliminated from the accounts upon disposal, and any resulting gain or loss is included in the Consolidated Statements of Activities.

*Accrued Wages and Other Liabilities* – Accrued liabilities primarily pertain to amounts accrued for compensated absences, salaries and wages.

*Income Taxes* – The Church and the University are exempt from income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code and applicable state statutes. The Church's controlled entities are non-profit organizations with no taxable activity. The Church and the University are liable for federal and state taxes on any unrelated business income, as defined in the Code. The Church's policy is to record a liability for any tax position taken that is beneficial to the Church, including any related interest and penalties, when it is more likely than not the position taken by management with respect to a transaction or class of transactions will be overturned by a taxing authority upon examination. Management believes there are no such positions as of December 31, 2015 and 2014 and, accordingly, no liability has been accrued.

*Donated Services* – No amounts have been reflected in the consolidated financial statements for donated services. The Church pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that include assisting the Church with specific programs and service on various assigned crews. Such donated services have not been quantified and do not meet the criteria for recognition in consolidated financial statements.

*Tuition and Fees* – The University charges tuition and fees for online study courses. Revenue is recognized pro-rata over the time that the online course is offered. Payments received for future study courses are reported as deferred revenue in other liabilities in the consolidated statements of financial position.

*Programs and Support Services* – The Church sponsors a number of programs and support services. Those programs and services consist of the following:

*Support of Local Congregations* - Represents the cost incurred and paid by the Church at the local congregation level to provide for the spiritual needs of its members. Included are pastoral expenses such as salaries, health care, vehicles and other travel related costs; as well as weekly meeting hall rentals, mailing of DVD sermons, expenses to conduct the annual Holy Days, youth programs, the direct support of foreign affiliates and other support.

*Assistance to the Needy* - Provides for the material needs of Church members primarily as assistance for widows, orphans and the poor; including assistance to enable some members to attend the annual Holy Days. Assistance to foreign affiliates in need is also included.

*Living Youth Programs, LLC* - Includes direct financial support, allocated facility costs, and church employee personnel costs associated with operating Living Youth Programs, LLC.

*Living University* - Includes direct financial support, allocated facility costs, studio time and church employee personnel costs associated with operating the University.

*Television and Radio* - Primarily represents the cost of purchasing air time for the Church's weekly television program, *Tomorrow's World*. Also included are the production costs associated with creating the program and costs for video tape and answering service.

**LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2015 AND 2014

**Note 1—Organization and summary of significant accounting policies (continued)**

*Publishing and Editorial* - Includes editorial and publishing costs of the Church's bi-monthly magazine, *Tomorrow's World*, and an array of booklets, primarily intended for non-members. Also included are costs of printing all other Church materials.

*Mail Processing and Distribution* - Represents the costs of fulfilling literature, audiotape and compact disk requests generated by preaching the Gospel of the Kingdom of God through television, radio and publishing. Computer support of mailing lists is also included.

*Support Services and Other* - Includes administrative expenses not directly attributable to specific programs. This includes the full cost of all finance, accounting, purchasing, human resources and legal support. It also includes general insurance and other miscellaneous expenses.

*Functional Expenses* – The costs of providing programs and other activities have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

*Advertising Expense* – Advertising costs are expensed as incurred. Total advertising expense for the years ended December 31, 2015 and 2014 was \$333,016 and \$384,516, respectively.

*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 reported amounts of 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.

**Note 2—Investments**

The fair value of investments at December 31 is summarized below:

	<b>2015</b>	<b>2014</b>
Gold shares	\$ 157,314	\$ 165,755
Precious metals coins	139,629	149,498
US equities	5,338	84,202
Silver shares	22,844	29,518
International equities	663	1,138
US mutual funds	471	617
Total investments	<u>\$ 326,259</u>	<u>\$ 430,728</u>

Investment return on the accompanying consolidated statement of activities consists of the following at December 31:

	<b>2015</b>	<b>2014</b>
Interest and dividends	\$ 3,425	\$ 5,834
Unrealized and realized losses	(30,562)	(70,634)
Total	<u>\$ (27,137)</u>	<u>\$ (64,800)</u>

**LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2015 AND 2014

**Note 3—Receivables**

Receivables at December 31 are as follows:

	<b>2015</b>	<b>2014</b>
Contributions receivable	\$ 303,691	\$ 275,512
Estates receivable	777,000	277,000
Due from affiliated entities	23,473	43,384
Other receivables	33,713	120,694
	<u>1,137,877</u>	<u>716,590</u>
Less allowance for uncollectible receivables	(14,000)	(14,000)
Total receivables	<u>\$ 1,123,877</u>	<u>\$ 702,590</u>

**Note 4—Prepaid expenses**

Prepaid expenses at December 31 consist of the following:

	<b>2015</b>	<b>2014</b>
Television	\$ 130,990	\$ 151,405
Church hall rent	92,703	85,725
Postage	27,334	22,962
Insurance	21,765	-
Vehicle lease	-	1,558
Other	13,760	4,557
Total prepaid expenses	<u>\$ 286,552</u>	<u>\$ 266,207</u>

**Note 5—Property and equipment**

The following is a summary of property and equipment at December 31:

	<b>2015</b>	<b>2014</b>
Land	\$ 517,100	\$ 517,100
Land improvements	10,670	10,670
Building and improvements	3,517,411	3,481,732
Equipment, furniture and software	2,605,385	2,624,987
Vehicles	690,828	459,481
Construction in progress	31,790	13,551
	<u>7,373,184</u>	<u>7,107,521</u>
Less accumulated depreciation	(3,709,824)	(3,466,126)
Property and equipment, net	<u>\$ 3,663,360</u>	<u>\$ 3,641,395</u>

Depreciation expense, including amortization on equipment and vehicles under capital lease, was \$544,521 and \$389,099 for the years ended December 31, 2015 and 2014, respectively.

**LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2015 AND 2014

**Note 6—Capital lease obligations**

The Church leases certain equipment and vehicles under agreements that are classified as capital leases. These obligations require monthly payments varying from \$864 to \$956 and extend through June 2016. The cost of equipment and vehicles under capital leases is included as property and equipment and is summarized at December 31, as follows:

	<u>2015</u>	<u>2014</u>
Vehicles and equipment	\$ 71,001	\$ 71,001
Less accumulated amortization	(61,898)	(40,052)
	<u>\$ 9,103</u>	<u>\$ 30,949</u>

The amortization expense is included with the depreciation expense. For the year ended December 31, 2016, the current required minimum lease payments amount to \$12,987.

**Note 7—Notes payable**

The Church has notes payable at December 31, 2015 and 2014 as summarized below:

	<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>
Mortgage payable - bank; variable interest rate based on 0.875% below the bank's prime rate. First year was an interest only loan with a payment of \$6,521. Starting in April of 2013, escalating fixed principal and accrued interest is payable in monthly installments through February 2023 with the final payment of the balance plus accrued interest, if any, due April 2023. As of December 31, 2015 and 2014, the loan held an interest rate of 2.625% and 2.375%, respectively. The mortgage is collateralized by the Church's headquarters and studio located in Charlotte, North Carolina.	\$ 1,547,272	\$ 1,681,815
Vehicle loans payable to a finance company due in monthly installments ranging from \$498 to \$2,001, bearing interest rates ranging from 3.58% to 4.11%, maturing between April 2017 and December 2020, collateralized by vehicles with a total net book value of \$371,101 and \$144,374 at December 31, 2015 and 2014, respectively.	370,378	145,139
	<u>1,917,650</u>	<u>1,826,954</u>
Less current portion	(261,118)	(163,132)
	<u>\$ 1,656,532</u>	<u>\$ 1,663,822</u>

**LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

DECEMBER 31, 2015 AND 2014

**Note 7—Mortgage payable (continued)**

Future maturities of the notes payable are as follows:

2016	\$	261,118
2017		250,416
2018		216,346
2019		215,442
2020		185,440
2021 and thereafter		788,888
	<u>\$</u>	<u>1,917,650</u>

In 2012, the Church entered into an interest rate swap on the bank mortgage. The economic substance of the swap agreement was to effectively convert the variable interest rate on this debt to a fixed rate of 3.03%. The notional amount outstanding under the swap agreement equals the scheduled principal amount outstanding under the debt, through the expiration of the swap agreement. Any payments made or received under the swap agreement are recognized when due as an increase or decrease in the related interest expense. At December 31, 2015, the fair value of the interest rate swap was considered immaterial to the consolidated financial statements and has therefore not been reflected in these consolidated financial statements.

Total interest expense for the years ended December 31, 2015 and 2014 was \$83,522 and \$66,895, respectively. The Church is subject to certain financial covenants under terms of this agreement and was not in compliance with all such covenants as of December 31, 2015 and 2014, but obtained waivers by the financial institution which waived the requirement for the respective periods.

**Note 8—Temporarily restricted net assets**

Temporarily restricted net assets are restricted for the following purposes at December 31:

	<u>2015</u>	<u>2014</u>
Disaster relief	\$ 202,195	\$ 188,796
International assistance	-	8,363
	<u>\$ 202,195</u>	<u>\$ 197,159</u>

# LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

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### Note 9—Commitments

The Church leases fleet vehicles and equipment under various non-cancelable operating leases. These leases require monthly payments varying from \$477 to \$847 and extend through 2017. Lease expense for vehicles and equipment under various operating leases amount to \$263,776 and \$255,951 at December 31, 2015 and 2014, respectively.

Required minimum lease payments on items under operating leases as of December 31, 2015 are as follows:

2016	\$	131,072
2017		49,863
	\$	<u>180,935</u>

### Note 10—Benefit plan

The Church has a 403(b) Tax Deferred Annuity Plan for all eligible employees. Eligible employees may elect to exclude up to the maximum contribution permitted by the Internal Revenue Code. The Church does not contribute to this plan.

The Church has a Simplified Employee Pension Plan (SEP) covering all eligible employees. Matching contributions have been at the discretion of the Church and have been 2.5% of eligible participants' compensation. There were no contributions made by the Church for the years ended December 31, 2015 and 2014.

### Note 11—Contingencies

The Church provides discretionary post-employment retirement payments and healthcare benefits to select ministers' widows and retired employees that meet certain objective and subjective criteria. Although one of the criteria includes an employee's years of service (with the Church and its predecessors), an accrual for these future benefits has not been recorded due to the Church's ability to deny payments at its sole discretion. For the years ended December 31, 2015 and 2014, the Church expensed payments for this purpose totaling approximately \$449,000 and \$377,000, respectively.

### Note 12—Concentration of credit risk

The Church places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation ("FDIC") covers \$250,000 for substantially all depository accounts. The Church from time to time may have amounts on deposit in excess of the insured limits.

### Note 13—Related party

The Church has affiliated entities throughout the world that are related by some common board members but are not included in the consolidated financial statements. For the years ended December 31, 2015 and 2014, the Church expended \$492,723 and \$252,445, respectively, related to these affiliates. The Church also had accounts receivables of \$23,473 and \$43,384 due from affiliated entities at December 31, 2015 and 2014 as well as accounts payable due to affiliated entities of \$60,350 and \$129,000 at December 31, 2015 and 2014, respectively, included in the accompanying Consolidated Statements of Financial Position.

**LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*DECEMBER 31, 2015 AND 2014*

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**Note 14—Fair value measurements of assets and liabilities**

The Church utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Under the fair value guidance, the Church groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1: Financial instruments with unadjusted, quoted prices listed on active market exchanges. All investments owned by the Church and shown in Note 2 are considered Level 1 assets. As such, the Church has Level 1 assets of \$326,259 and \$430,728 shown as investments in the accompanying Consolidated Statements of Financial Position at December 31, 2015 and 2014, respectively.
- Level 2: Financial instruments valued using inputs that include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. The Church has no Level 2 assets or liabilities at December 31, 2015 or 2014.
- Level 3: Financial instruments that are not actively traded on a market exchange and require using significant unobservable inputs in determining fair value. The Church has no assets or liabilities subject to Level 3 valuations at December 31, 2015 or 2014.

**Note 15—Subsequent events**

The Church has evaluated subsequent events through April 29, 2016, in connection with the preparation of these consolidated financial statements which is the date the consolidated financial statements were available to be issued.



## **ACCOMPANYING INFORMATION**

**LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**

DECEMBER 31, 2015

	<b>Living Church of God and Affiliates</b>	<b>Living University</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>ASSETS</b>				
Current Assets:				
Cash and cash equivalents	\$ 811,043	\$ 177,669	\$ -	\$ 988,712
Investments	732,850	891	(407,482)	326,259
Receivables, net	1,128,902	2,666	(7,691)	1,123,877
Inventory	334,562	6,863	-	341,425
Prepaid expenses	283,452	3,100	-	286,552
Deposits	22,535	375	-	22,910
<b>Total Current Assets</b>	<b>3,313,344</b>	<b>191,564</b>	<b>(415,173)</b>	<b>3,089,735</b>
Property and equipment, net	3,409,865	253,495	-	3,663,360
<b>Total Assets</b>	<b>\$ 6,723,209</b>	<b>\$ 445,059</b>	<b>\$ (415,173)</b>	<b>\$ 6,753,095</b>
<b>LIABILITIES AND NET ASSETS</b>				
Current Liabilities:				
Accounts payable	\$ 361,796	\$ 7,927	\$ (7,691)	\$ 362,032
Accrued wages and other liabilities	337,045	29,650	-	366,695
Notes payable, current portion	261,118	-	-	261,118
Capital lease obligations, current portion	12,987	-	-	12,987
<b>Total Current Liabilities</b>	<b>972,946</b>	<b>37,577</b>	<b>(7,691)</b>	<b>1,002,832</b>
Notes payable	1,656,532	-	-	1,656,532
<b>Total long-term liabilities</b>	<b>1,656,532</b>	<b>-</b>	<b>-</b>	<b>1,656,532</b>
<b>Total Liabilities</b>	<b>2,629,478</b>	<b>37,577</b>	<b>(7,691)</b>	<b>2,659,364</b>
Net Assets:				
Unrestricted net assets	3,891,536	407,482	(407,482)	3,891,536
Temporarily restricted net assets	202,195	-	-	202,195
<b>Total Net Assets</b>	<b>4,093,731</b>	<b>407,482</b>	<b>(407,482)</b>	<b>4,093,731</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 6,723,209</b>	<b>\$ 445,059</b>	<b>\$ (415,173)</b>	<b>\$ 6,753,095</b>

**LIVING CHURCH OF GOD (INTERNATIONAL), INC. AND AFFILIATES**  
**CONSOLIDATING STATEMENT OF ACTIVITIES**

YEAR ENDED DECEMBER 31, 2015

	Living Church of God and Affiliates			Living	Eliminations	Consolidated	Consolidated	
	Unrestricted	Temporarily Restricted	Totals	University Unrestricted		Unrestricted	Temporarily Restricted	Totals
Revenue and Support:								
Tithes and contributions	\$ 13,932,496	\$ -	\$ 13,932,496	\$ -	\$ -	\$ 13,932,496	\$ -	\$ 13,932,496
Holy Day offerings	3,339,872	-	3,339,872	-	-	3,339,872	-	3,339,872
Investment return	(27,137)	-	(27,137)	-	-	(27,137)	-	(27,137)
Estate gifts	509,000	-	509,000	-	-	509,000	-	509,000
Other revenue	590,072	-	590,072	755,094	(884,827)	460,339	-	460,339
Special project donations	-	92,185	92,185	-	-	-	92,185	92,185
Tuition and fees, net	-	-	-	82,702	-	82,702	-	82,702
	<u>18,344,303</u>	<u>92,185</u>	<u>18,436,488</u>	<u>837,796</u>	<u>(884,827)</u>	<u>18,297,272</u>	<u>92,185</u>	<u>18,389,457</u>
Net assets released from restrictions due to satisfaction of restricted purpose	87,149	(87,149)	-	-	-	87,149	(87,149)	-
Total Revenue and Support	<u>18,431,452</u>	<u>5,036</u>	<u>18,436,488</u>	<u>837,796</u>	<u>(884,827)</u>	<u>18,384,421</u>	<u>5,036</u>	<u>18,389,457</u>
Expenses:								
Feeding the Flock:								
Support of local congregations	7,656,611	-	7,656,611	-	(837,328)	6,819,283	-	6,819,283
Assistance to the needy	1,570,219	-	1,570,219	-	-	1,570,219	-	1,570,219
Living Youth Programs	272,559	-	272,559	-	-	272,559	-	272,559
Living University	-	-	-	790,297	-	790,297	-	790,297
Preaching the Gospel:								
Television and radio	4,677,088	-	4,677,088	-	-	4,677,088	-	4,677,088
Publishing and editorial	1,570,874	-	1,570,874	-	-	1,570,874	-	1,570,874
Mail processing and distribution	1,780,051	-	1,780,051	-	-	1,780,051	-	1,780,051
General and administrative:								
Support services and other	1,263,931	-	1,263,931	-	-	1,263,931	-	1,263,931
Total Expenses	<u>18,791,333</u>	<u>-</u>	<u>18,791,333</u>	<u>790,297</u>	<u>(837,328)</u>	<u>18,744,302</u>	<u>-</u>	<u>18,744,302</u>
Change in net assets	(359,881)	5,036	(354,845)	47,499	(47,499)	(359,881)	5,036	(354,845)
Net Assets:								
Beginning of year	4,251,417	197,159	4,448,576	359,983	(359,983)	4,251,417	197,159	4,448,576
End of year	<u>\$ 3,891,536</u>	<u>\$ 202,195</u>	<u>\$ 4,093,731</u>	<u>\$ 407,482</u>	<u>\$ (407,482)</u>	<u>\$ 3,891,536</u>	<u>\$ 202,195</u>	<u>\$ 4,093,731</u>