



Consolidated Financial Statements
For the Years Ended June 30, 2019 and 2018

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Independent Auditor's Report

**To the 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, 2019 and 2018, and the related consolidated statements of changes in net assets without donor restrictions, changes in net assets, functional expenses, 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.

Auditor's 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 auditor's 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.



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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, 2019 and 2018, and the results of its activities and change in net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Effect of Adopting New Accounting Standard

As discussed in Note 1, the Organization adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended June 30, 2019. Our opinion is not modified with respect to this matter.

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 32 to 33 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

October 17, 2019

CRISTA MINISTRIES

Consolidated Balance Sheets - Assets
June 30, 2019 and 2018
(In Thousands)

	<u>2019</u>	<u>2018</u>
Assets		
Current Assets:		
Cash and cash equivalents (Note 2)-		
Available for current ministries	\$ 4,133	\$ 6,566
Held for donor restricted ministry purposes	7,170	6,948
Held by field operations	<u>1,317</u>	<u>2,051</u>
Total cash and cash equivalents	12,620	15,565
Grants receivable	408	248
Pledges receivable, current portion (Note 3)	703	945
Trade receivables, net	4,362	4,206
Note receivable, current portion (Note 12)	124	123
Short-term investments (Note 4)	1,080	393
Prepaid expenses and supplies	<u>1,000</u>	<u>948</u>
Total Current Assets	20,297	22,428
Long-term investments (Note 4)-		
Available for current ministries	21,918	21,407
Endowment accounts	14,026	15,589
Other investments	<u>366</u>	<u>366</u>
Total long-term investments	36,310	37,362
Long-term pledges receivable, net (Note 3)	1,418	826
Planned giving program assets (Notes 4 and 7)	4,136	4,001
Property and equipment used in ministries, net (Note 6)	71,412	70,262
Assets held by field operations (Note 8)	4,090	4,165
Long-term note receivable, net (Note 12)	1,495	1,567
Deferred rent receivable	295	
Radio licenses, net (Note 1)	<u>4,822</u>	<u>6,218</u>
Total Assets	<u>\$ 144,275</u>	<u>\$ 146,829</u>

See accompanying notes.

CRISTA MINISTRIES

Consolidated Balance Sheets - Liabilities and Net Assets
June 30, 2019 and 2018
(In Thousands)

	<u>2019</u>	<u>2018</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 8,938	\$ 8,107
Accounts payable held in field offices	2,755	2,453
Deferred revenue	1,813	1,921
Current portion of long-term obligations (Note 10)	3,251	905
Total Current Liabilities	16,757	13,386
Long-term obligations, net (Note 10)	9,087	9,955
Refundable entry fees	5,880	6,614
Nonrefundable entry fees	6,492	5,856
Deposits and deferred rent	438	344
Planned giving program obligations (Note 7)	2,180	2,061
Total Liabilities	40,834	38,216
Commitments and contingencies (Note 13)		
Net Assets:		
Without donor restrictions-		
General	9,080	14,687
Represented by property, equipment and intangibles owned by the Organization	66,462	65,803
Total net assets without donor restrictions	75,542	80,490
With donor restrictions-		
Restricted for program activities	9,856	10,322
Restricted for capital acquisitions	547	413
The Organization's portion of irrevocable trust agreements	141	162
Student financial aid and teacher excellence endowment (Note 11)	3,609	3,167
Senior living resident financial aid endowment (Note 11)	2,342	2,154
World Concern term endowment (Note 11)	5,417	6,012
Other (restricted for endowment funds) (Note 11)	4,322	4,255
Perpetual trust (Note 7)	1,665	1,638
Total net assets with donor restrictions	27,899	28,123
Total Net Assets	103,441	108,613
Total Liabilities and Net Assets	\$ 144,275	\$ 146,829

See accompanying notes.

CRISTA MINISTRIES

**Consolidated Statements of Changes in Net Assets Without Donor Restrictions
For the Years Ended June 30, 2019 and 2018
(In Thousands)**

	<u>2019</u>	<u>2018</u>
Revenues, Gains and Losses:		
Fees for services	\$ 69,245	\$ 68,011
Contributions	14,793	16,064
Contributions released from restrictions	14,961	14,023
Gifts-in-kind (Note 9)	14,546	15,647
Government grants		71
Other program revenue	1,159	842
Foreign currency exchange losses	(83)	(96)
Gain on sale of property, net		1
Impairment loss on radio license	(1,381)	
Miscellaneous income	1,218	691
Investment return, net-		
Income on investments	793	967
Net realized and unrealized gains on investments and planned giving program	<u>907</u>	<u>710</u>
Investment return, net	<u>1,700</u>	<u>1,677</u>
Total Revenues, Gains and Losses	116,158	116,931
Expenses:		
Program services	99,439	98,223
Fundraising	8,663	8,053
Management and general	<u>13,004</u>	<u>12,608</u>
Total Expenses	121,106	118,884
Change in Net Assets Without Donor Restrictions	<u>\$ (4,948)</u>	<u>\$ (1,953)</u>

See accompanying notes.

CRISTA MINISTRIES

**Consolidated Statements of Changes in Net Assets
For the Years Ended June 30, 2019 and 2018
(In Thousands)**

	<u>2019</u>	<u>2018</u>
Net Assets Without Donor Restrictions:		
Total unrestricted revenues, gains and losses	\$ 101,197	\$ 102,908
Contributions released from restrictions	14,961	14,023
Total unrestricted expenses	<u>(121,106)</u>	<u>(118,884)</u>
Change in Net Assets With Donor Restrictions	(4,948)	(1,953)
Net Assets With Donor Restrictions:		
Contributions	13,824	19,859
Contributions released from restrictions	(14,961)	(14,023)
Investment return, net-		
Income on investments	328	322
Net realized and unrealized gains on investments and planned giving program	<u>585</u>	<u>305</u>
Investment return, net	<u>913</u>	<u>627</u>
Change in Net Assets With Donor Restrictions	(224)	6,463
Total Change in Net Assets	(5,172)	4,510
Net assets, beginning of year	<u>108,613</u>	<u>104,103</u>
Net Assets, End of Year	<u>\$ 103,441</u>	<u>\$ 108,613</u>

See accompanying notes.

CRISTA MINISTRIES

**Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2019
(In Thousands)**

	Program Services	Fundraising	Management and General	Total
Salaries	\$ 40,557	\$ 3,874	\$ 6,666	\$ 51,097
Payroll taxes	3,441	341	548	4,330
Employee benefits	6,406	405	735	7,546
Professional services	1,533	1,193	950	3,676
Advertising and promotion	372	777	1,199	2,348
Office expenses	1,192	440	373	2,005
Information technology	556	259	393	1,208
Occupancy	4,776		179	4,955
Travel	1,836	184	143	2,163
Conferences and training	498	27	129	654
Interest	382		1	383
Depreciation and amortization	6,388	155	448	6,991
Insurance	1,266	21	338	1,625
Dues and fees	623	8	94	725
Purchased services	2,503	34	30	2,567
Taxes	222		78	300
Grants	36		27	63
Program supplies	26,852	945	222	28,019
Other			451	451
Total Expenses	\$ 99,439	\$ 8,663	\$ 13,004	\$ 121,106

See accompanying notes.

CRISTA MINISTRIES

**Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2018
(In Thousands)**

	Program Services	Fundraising	Management and General	Total
Salaries	\$ 39,291	\$ 3,708	\$ 6,191	\$ 49,190
Payroll taxes	3,330	319	468	4,117
Employee benefits	6,295	449	804	7,548
Professional services	1,773	1,052	818	3,643
Advertising and promotion	287	604	1,157	2,048
Office expenses	1,264	428	431	2,123
Information technology	421	220	289	930
Occupancy	4,506	1	266	4,773
Travel	1,613	279	160	2,052
Conferences and training	414	23	119	556
Interest	331		1	332
Depreciation and amortization	6,011	129	481	6,621
Insurance	1,208	20	352	1,580
Dues and fees	640	8	84	732
Purchased services	2,694	70	30	2,794
Taxes	188		41	229
Grants	45		28	73
Program supplies	27,912	743	413	29,068
Other			475	475
Total Expenses	\$ 98,223	\$ 8,053	\$ 12,608	\$ 118,884

See accompanying notes.

CRISTA MINISTRIES

**Consolidated Statements of Cash Flows
For the Years Ended June 30, 2019 and 2018
(In Thousands)**

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ (5,172)	\$ 4,510
Adjustments to reconcile change in net assets to net cash provided by operating activities-		
Items considered financing activities:		
Capital campaign contributions	(118)	(160)
Perpetual endowment contributions	(299)	(412)
Noncash changes:		
Depreciation and amortization	6,991	6,621
Amortization of financing costs	16	16
Entry fees earned	(1,423)	(1,080)
Gain on sale of property		(1)
Impairment loss	1,381	
Net realized and unrealized gains on long-term investments and planned giving program	(1,492)	(1,015)
Nonrefundable entry fees received	1,982	1,206
Changes in assets and liabilities:		
Grants receivable	(160)	314
Pledges receivable	(508)	(1,382)
Trade receivables	(156)	873
Prepaid expenses and supplies	(52)	(130)
Assets held by field operations	75	(630)
Deferred rent receivable	(295)	
Accounts payable and accrued expenses	1,432	(1,491)
Deferred revenue, deposits and deferred rent	(14)	245
Planned giving program obligations	119	358
Net Cash Provided by Operating Activities	2,307	7,842
Cash Flows From Investing Activities:		
Acquisition of property and equipment	(8,425)	(3,681)
Proceeds from sale of property		1
Purchases of investments	(22,637)	(28,007)
Proceeds from sale of investments	24,359	19,319
Net Cash Used by Investing Activities	(6,703)	(12,368)
Cash Flows From Financing Activities:		
Principal payments on long-term obligations	(933)	(872)
Proceeds from long-term obligations	2,395	
Principal payment received on note receivable	71	
Refundable entry fees received	397	673
Entry fee refunds paid	(1,054)	(422)
Proceeds from capital campaign contributions	276	188
Proceeds from perpetual endowment contributions	299	412
Net Cash Provided (Used) by Financing Activities	1,451	(21)
Net Change in Cash and Cash Equivalents	(2,945)	(4,547)
Cash and Cash Equivalents:		
Beginning of year	15,565	20,112
End of Year	\$ 12,620	\$ 15,565

See accompanying notes.

CRISTA MINISTRIES

Consolidated Statements of Cash Flows (Continued)
For the Years Ended June 30, 2019 and 2018
(In Thousands)

	<u>2019</u>	<u>2018</u>
Supplemental Disclosure of Cash Flow Information:		
Cash transactions-		
Cash paid during the year for interest	\$ 389	\$ 339
Noncash investing activity-		
Capital acquisitions included in accounts payable	\$ -	\$ 299

See accompanying notes.

CRISTA MINISTRIES

Notes to Consolidated Financial Statements For the Years Ended June 30, 2019 and 2018

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. CRISTA Ministries is a family of ministries empowered to serve the needs of the world with the Gospel of Jesus 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 Media, CRISTA Camps, Christian Veterinary Mission, and Seattle Urban Academy.

World Concern Development Organization ("WCDO"), a separate not-for-profit organization, 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 Media 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.

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 implementing partner organizations and are deemed by management to be fully collectible. Therefore, an allowance for doubtful accounts was not recorded at June 30, 2019 and 2018.

CRISTA MINISTRIES

Notes to Consolidated Financial Statements For the Years Ended June 30, 2019 and 2018

Note 1 - Continued

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 \$133,000 and \$127,000 at June 30, 2019 and 2018, 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. The present value discount was approximately \$97,000 and \$87,000 at June 30, 2019 and 2018, respectively.

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 \$574,000 and \$626,000 at June 30, 2019 and 2018, respectively.

Note Receivable - The note receivable consists of a note for real property that had been held for sale (Note 12). The note is recorded at its outstanding principal balance. Management considers the outstanding balance to be fully collectible and has, therefore, not recorded an allowance against the note.

Investments and Planned Giving Program Assets - Investments and planned giving program assets consist primarily of marketable debt and equity securities, mutual funds, private equity, real estate investment trust, nonmarketable securities, and an interest in a perpetual trust. Investments in marketable securities, real estate investment trust, and the perpetual trust are stated at fair value. Investments in private equity are reported at their net asset value.

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, 2019 and 2018, is included in investments.

Property and Equipment Used in Ministries and Depreciation - The Organization capitalizes assets with a cost greater than \$3,000 and an estimated useful life of three or more years for equipment and \$5,000 and an estimated useful life of five years for property and improvements, except for assets purchased for use in Senior Ministries, which capitalizes assets of \$750 or more to meet state Medicare guidelines. Certain technology items with a cost greater than \$750 and estimated life of three or more years are also capitalized. 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	5 - 50 years
Furniture and equipment	3 - 10 years
Vehicles	3 - 7 years

Development Loans Receivable - Development loans receivable represent loans outstanding under the Micro-enterprise Loan Program (MLP) in the country of Bangladesh.

CRISTA MINISTRIES

Notes to Consolidated Financial Statements For the Years Ended June 30, 2019 and 2018

Note 1 - Continued

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 (Note 8).

Radio Licenses - The Organization has several radio licenses. In accordance with current U.S. GAAP, radio licenses are considered indefinite-lived assets and thus are not amortized but are reviewed on an annual basis for any possible impairment. During the year ended June 30, 2019, management performed an impairment assessment due to changes in the broadcast environment and recognized an impairment loss of \$1,381,000, which is recorded on the consolidated statement of changes in net assets without donor restrictions. Management determined there were no events or changes in circumstance indicating an impaired value of the radio licenses at June 30, 2018. Radio licenses obtained prior to June 30, 2012 are being amortized over an estimated useful life 40 years. Total accumulated amortization of such radio licenses was \$577,000 and \$562,000 at June 30, 2019 and 2018, respectively.

Financing Costs - Financing costs are recorded as a deduction from the related debt liability on the consolidated balance sheets. Financing costs are amortized over the term of the applicable debt using the straight-line method. U.S. GAAP requires that the effective yield method be used to amortize finance costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method. Amortization of financing costs is included as a component of interest expense on the schedule of functional expenses.

Concentration of Credit Risk - Financial instruments that potentially subject the Organization to concentration of credit risk consist primarily of receivables, cash and cash equivalents, investments, and development loans receivable (Note 8). As of June 30, 2019 and 2018, 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, 2019 and 2018, 12% and 15% 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. Development loans receivable are due from a large number of loans granted under the Organization's MLP in Bangladesh.

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. Refundable entry fees are reported as a liability on the consolidated balance sheets. The nonrefundable portion of the entry fee is considered deferred revenue and is amortized to income based upon the life expectancy of the residents.

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, 2019 and 2018. No unfunded liability exists for obligations to provide future services as of June 30, 2019 and 2018.

CRISTA MINISTRIES

Notes to Consolidated Financial Statements For the Years Ended June 30, 2019 and 2018

Note 1 - Continued

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:

Net Assets Without Donor Restrictions - Net assets without donor restrictions include all net assets on which there are no donor-imposed restrictions for use, or such donor-imposed restrictions that expired or were met during the current or previous years.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed restrictions that will be met either by actions of the Organization, the passage of time, or must be maintained permanently by the Organization.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of 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 where restrictions are satisfied within the same year are reported as revenue without donor restrictions.

Contributions that the donor requires to be used to acquire long-lived assets (e.g., building improvements, furniture, and equipment) are reported as net assets with donor restrictions. The Organization reflects the expiration of the donor-imposed restriction as a reclassification included in contributions released from restrictions when the asset is placed into service.

Foreign Currency Translation - The functional currency of CRISTA Canada is the Canadian dollar and World Concern's field offices is the local currency in which the office is located. Assets and liabilities of the offices 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 changes in net assets without donor restrictions.

Revenues and Gains - Fees for services 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 are recognized as revenues in the period received, except for unconditional promises to give, which are recognized in the period the unconditional promise is made. 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.

Methods Used for Allocation of Expenses Among Programs - The financial statements report certain categories of expenses that are attributable to program or supporting services of the Organization. Those expenses include the Executive Office, ministry management departments, the legal department, the information technology department, the security department, the facilities department, the housekeeping department and the grounds department. The Executive Office, ministry management departments and legal department expenses are allocated based on level of effort. Information technology costs are allocated based on workorders and network accounts. Facility expenses are allocated based upon workorders. Security, housekeeping and ground expenses are allocated based upon square footage.

CRISTA MINISTRIES

Notes to Consolidated Financial Statements For the Years Ended June 30, 2019 and 2018

Note 1 - Continued

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 taxable. The Organization had federal income tax overpayments of \$172,000 that are included in trade receivables on the consolidated balance sheets as of June 30, 2019 and 2018.

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, 2019 and 2018.

Adoption of New Accounting Pronouncement - For the year ended June 30, 2019, the Organization adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-14 - *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return among not-for-profit entities. The changes required by the update have been applied retrospectively to all periods presented. A key change required by ASU 2016-14 are the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets, are now reported as net assets with donor restrictions. The Organization has also included information about the liquidity and availability of its financial assets (Note 14).

A summary of the net asset reclassifications resulting from the adoption of ASU 2016-14 as of June 30, 2018 is presented below:

Net Asset Classifications	ASU 2016-14 Classifications		
	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
As previously presented-			
Unrestricted	\$ 80,307	\$ -	\$ 80,307
Temporarily restricted		21,251	21,251
Permanently restricted		7,055	7,055
Net assets as previously presented	80,307	28,306	108,613
Reclassifications to implement ASU 2016-14-			
Underwater endowments	183	(183)	
Net Assets, as Reclassified, at June 30, 2018	\$ 80,490	\$ 28,123	\$ 108,613

Reclassifications - Certain reclassifications were made to the 2018 financial statements to conform to the 2019 presentation. The reclassifications have no effect on the previously reported total assets, liabilities, net assets and change in net assets.

Subsequent Events - The Organization has evaluated subsequent events through October 17, 2019, the date on which the consolidated financial statements were available to be issued.

CRISTA MINISTRIES

Notes to Consolidated Financial Statements For the Years Ended June 30, 2019 and 2018

Note 2 - Cash and Cash Equivalents

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

	(In Thousands)	
	2019	2018
Cash	\$ 4,710	\$ 7,010
Money market, CDs and other	7,910	8,555
Total Cash and Cash Equivalents	\$ 12,620	\$ 15,565

Cash and cash equivalents include approximately \$1,317,000 and \$2,052,000 as of June 30, 2019 and 2018, respectively, of funds on deposit in banks in foreign countries.

Note 3 - Pledges Receivable

Pledges receivable are due as follows as of June 30:

	(In Thousands)	
	2019	2018
Pledges due in less than one year	\$ 703	\$ 945
Pledges due in one to five years	1,399	665
More than five years	250	375
	2,352	1,985
Less allowance for uncollectible pledges	(134)	(127)
Less present value discount	(97)	(87)
Pledges Receivable, Net	\$ 2,121	\$ 1,771

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

	(In Thousands)	
	2019	2018
Pledges receivable, current portion	\$ 703	\$ 945
Long-term pledges receivable, net	1,418	826
Pledges Receivable, Net	\$ 2,121	\$ 1,771

Pledges receivable to be used for investment in long-term assets, such as buildings, property and equipment, are presented on the consolidated balance sheets as noncurrent regardless of when they are expected to be paid.

CRISTA MINISTRIES

Notes to Consolidated Financial Statements For the Years Ended June 30, 2019 and 2018

Note 4 - Investments and Planned Giving Program Assets

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

	(In Thousands)	
	2019	2018
Investments-		
Cash and cash equivalents (at cost)	\$ 442	\$ 780
Marketable equity securities	15,352	16,544
Marketable debt securities	15,541	14,950
Alternative strategies	2,004	3,057
Private equities	3,685	2,058
Nonmarketable equity securities (at cost)	366	366
	<u>37,390</u>	<u>37,755</u>
Planned giving program assets-		
Cash and cash equivalents (at cost)	213	32
Marketable equity securities	1,150	1,259
Marketable debt securities	1,108	1,072
Beneficial interest in perpetual trust held by third party	1,665	1,638
	<u>4,136</u>	<u>4,001</u>
Total Investments and Planned Giving Program Assets	<u>\$ 41,526</u>	<u>\$ 41,756</u>

Investments are classified on the consolidated balance sheets as the following as of June 30:

	(In Thousands)	
	2019	2018
Short-term investments	\$ 1,080	\$ 393
Long-term investments	36,310	37,362
Total Investments	<u>\$ 37,390</u>	<u>\$ 37,755</u>

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

CRISTA MINISTRIES

Notes to Consolidated Financial Statements For the Years Ended June 30, 2019 and 2018

Note 5 - Continued

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, 2019 and 2018.

Mutual Funds and Alternative Funds - Valued at quoted market prices in active markets.

Equity Securities - Valued at the closing price reported on the active market on which the securities are traded.

Corporate/Municipal/Education Bonds - Valued using bid valuations from similar instruments in actively traded markets.

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

Private Equity - Valued at net asset value (NAV) per share, or its equivalent, as a practical expedient, as reported by the general partner or investment manager unless specific evidence indicated the NAV should be adjusted.

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)	
	2019	2018
Assets recorded at fair value on a recurring basis	\$ 40,505	\$ 40,578
Assets recorded at cost	1,021	1,178
Total Investments and Planned Giving	\$ 41,526	\$ 41,756

In accordance with ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*, certain investments that were measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in on the subsequent pages are intended to permit reconciliation of the fair value hierarchy to the line items presented in the balance sheets.

CRISTA MINISTRIES

Notes to Consolidated Financial Statements
For the Years Ended June 30, 2019 and 2018

Note 5 - Continued

Assets recorded at fair value on a recurring basis were as follows as of June 30, 2019:

	(In Thousands)			
	Level 1	Level 2	Level 3	Total
Equity mutual funds-				
U.S. large cap	\$ 7,924	\$ -	\$ -	\$ 7,924
U.S. mid cap	1,949			1,949
U.S. small cap	145			145
International	6,339			6,339
Blended	24			24
Fixed income mutual funds-				
U.S.	13,913			13,913
International	9			9
Total mutual funds	30,303			30,303
Alternative funds-				
Hedge	873			873
Real estate	695			695
Commodities	436			436
Total alternative funds	2,004			2,004
Equity securities	121			121
Corporate bonds		2,053		2,053
Municipal and education bonds	43	631		674
Perpetual trust held by third party			1,665	1,665
Total Investments in the Fair Value Hierarchy	\$ 32,471	\$ 2,684	\$ 1,665	36,820
Private equity investments measured at NAV				3,685
Investments at Fair Value				\$ 40,505

CRISTA MINISTRIES

Notes to Consolidated Financial Statements
For the Years Ended June 30, 2019 and 2018

Note 5 - Continued

Assets recorded at fair value on a recurring basis were as follows as of June 30, 2018:

	(In Thousands)			
	Level 1	Level 2	Level 3	Total
Equity mutual funds-				
U.S. large cap	\$ 8,219	\$ -	\$ -	\$ 8,219
U.S. mid cap	2,235			2,235
U.S. small cap	239			239
International	6,952			6,952
Blended	23			23
Fixed income mutual funds-				
U.S.	12,883			12,883
International	542			542
Total mutual funds	31,093			31,093
Alternative funds-				
Hedge	1,048			1,048
Real estate	1,124			1,124
Commodities	885			885
Total alternative funds	3,057			3,057
Equity securities	135			135
Corporate bonds		1,970		1,970
Municipal and education bonds		627		627
Perpetual trust held by third party			1,638	1,638
Total Investments in the Fair Value Hierarchy	\$ 34,285	\$ 2,597	\$ 1,638	38,520
Private equity investments measured at NAV				2,058
Investments at Fair Value				\$ 40,578

CRISTA MINISTRIES

Notes to Consolidated Financial Statements For the Years Ended June 30, 2019 and 2018

Note 5 - Continued

The following table lists, by category, investments in private equity for which fair value is measured using the NAV per share practical expedient; it summarizes significant terms of the agreements with certain investment companies; and it discloses unfunded investment commitments:

Strategy	(In Thousands)		Redemption Frequency	Redemption Notice Period	Other Restrictions
	Fair Value June 30, 2019	Unfunded Commitments			
Private equity- Limited partnerships and limited liability company	\$ 3,685	\$ 3,954	Not currently redeemable.	Not currently redeemable.	Not currently redeemable.

The private equity investments consist of limited partnerships and a limited liability company with diversified strategies that invest in domestic and global securities and are available to institutional investors.

The perpetual trust held by a third party 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 beginning and ending balance of the perpetual trust, measured using significant unobservable inputs (Level 3) follows:

	(In Thousands)
Balance as of July 1, 2017	\$ 1,518
Total realized and unrealized gains	120
Balance as of June 30, 2018	1,638
Total realized and unrealized gains	27
Balance as of June 30, 2019	\$ 1,665

Note 6 - Property and Equipment Used in Ministries

Property and equipment used in ministries consisted of the following as of June 30:

	(In Thousands)	
	2019	2018
Land	\$ 9,334	\$ 6,585
Buildings and improvements	129,917	127,248
Furniture, equipment, and other	20,258	20,641
Construction in progress	1,383	373
Total property and equipment before depreciation	160,892	154,847
Less accumulated depreciation	(89,480)	(84,585)
Property and Equipment, Net	\$ 71,412	\$ 70,262

CRISTA MINISTRIES

Notes to Consolidated Financial Statements For the Years Ended June 30, 2019 and 2018

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 \$809,000 and \$816,000 at June 30, 2019 and 2018, 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 \$667,000 and \$654,000 and at June 30, 2019 and 2018, respectively.

When trusts are initially established the Organization records contribution revenue with donor restrictions equal to the value of trust assets received less the trust liability. The Organization recorded gains of \$20,000 and \$36,000 during the years ended June 30, 2019 and 2018, respectively, related to the change in trust assets and liabilities. This gain or loss is included in the donor restricted net realized and unrealized gains or 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, 2019 and 2018.

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 donor-restricted contribution revenue is recorded equal to the value of contributed assets received less the annuity liability. The fair value of annuity assets totaled \$1,647,000 and \$1,533,000 as of June 30, 2019 and 2018, respectively. The present values of the payments due to the beneficiaries are recorded as liabilities and totaled \$1,498,000 and \$1,393,000 as of June 30, 2019 and 2018, respectively. Net present values are calculated based on the expected lives 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 segregated funds the Organization maintains exceed the actuarial value of the annuity liability by at least 10% as required by Washington state law. In compliance with Washington state law requirements the Organization has included the consolidating balance sheet as supplementary information on pages 33 and 34.

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 \$15,000 and \$14,000 at June 30, 2019 and 2018, 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 \$1,665,000 and \$1,638,000 at June 30, 2019 and 2018, respectively, and is included in net assets with donor restrictions. The Organization received distributions totaling \$78,000 and \$77,000 for the years ended June 30, 2019 and 2018, respectively. The distributions are available for general operations. Changes in the value of the underlying assets of \$27,000 and \$120,000 for the years ended June 30, 2019 and 2018, respectively, have been recorded in the accompanying consolidated statements of changes in net assets with donor restrictions as net realized and unrealized gains on investments.

CRISTA MINISTRIES

Notes to Consolidated Financial Statements For the Years Ended June 30, 2019 and 2018

Note 7 - Continued

Planned giving program assets were as follows as of June 30:

	(In Thousands)	
	2019	2018
Irrevocable trusts	\$ 809	\$ 816
Annuities	1,647	1,533
Gift loan agreements	15	14
Perpetual trust	1,665	1,638
Total Planned Giving Assets	\$ 4,136	\$ 4,001

Planned giving program liabilities were as follows as of June 30:

	(In Thousands)	
	2019	2018
Irrevocable trusts	\$ 667	\$ 654
Annuities	1,498	1,393
Gift loan agreements	15	14
Total Planned Giving Liabilities	\$ 2,180	\$ 2,061

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 country of Bangladesh. The loans are funded by 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.

CRISTA MINISTRIES

Notes to Consolidated Financial Statements For the Years Ended June 30, 2019 and 2018

Note 8 - Continued

Development loans receivable and the allowance for doubtful accounts were as follows as of June 30:

	(In Thousands)	
	2019	2018
Receivables from individuals in Bangladesh	\$ 4,331	\$ 4,141
Less allowance for doubtful accounts-		
Beginning balance	(315)	(335)
Provision for loan losses	(66)	(53)
Loans written off		73
	<u>(381)</u>	<u>(315)</u>
Microloans Receivable, Net	<u>\$ 3,950</u>	<u>\$ 3,826</u>

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

	(In Thousands)	
	2019	2018
Less than one year	\$ 168	\$ 64
One to five years	154	59
Total Loans Past Due	<u>\$ 322</u>	<u>\$ 123</u>

The average loan size was \$473 and \$360 at June 30, 2019 and 2018, 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 Bangladesh, a developing country, which represents 100% of the total development loans receivable at June 30, 2019 and 2018.

The Organization holds approximately \$1,800,000 in deposits against the loans from the individuals in the MLP at June 30, 2019 and 2018, respectively. These are returned to the individuals when the loans are repaid, but they are also used to offset losses if the individuals default on their loans. The deposits are reflected as liabilities in the consolidated balance sheets as a part of payables held by field operations.

CRISTA MINISTRIES

Notes to Consolidated Financial Statements For the Years Ended June 30, 2019 and 2018

Note 8 - Continued

A summary of assets held by field operations is as follows for the years ended June 30:

	(In Thousands)	
	2019	2018
Microloans receivable, net	\$ 3,950	\$ 3,826
Other overseas assets	140	339
Assets Held by Field Operations	\$ 4,090	\$ 4,165

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 amounts 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 an average of 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 Haiti and 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 value as a contribution, where fees paid are significantly below fair values, per applicable accounting standards.

The Organization obtains market data that it believes is representative of the 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 the fair value of donated medicines may vary in the future.

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)	
	2019	2018
Medicines and medical supplies	\$ 14,243	\$ 15,313
Other supplies	261	119
Advertising	37	212
Travel	5	
Clothing		3
Total Gifts-in-Kind Revenue	\$ 14,546	\$ 15,647

CRISTA MINISTRIES

**Notes to Consolidated Financial Statements
For the Years Ended June 30, 2019 and 2018**

Note 9 - Continued

For the years ended June 30, 2019 and 2018, the Organization distributed approximately 12.2 million and 13.9 million deworming pills, respectively, to children and adults in several countries. Of the total GIK, during the years ended June 30, 2019 and 2018, 98% and 95%, respectively, came from a single source.

Note 10 - Long-Term Obligations

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

	(In Thousands)	
	2019	2018
Tax exempt private placement bonds reissued in October 2015 to refinance prior bonds issued in December 2010, and provide for refurbishment of senior living facilities - interest is fixed at 2.61% per annum. Monthly principal payments totaling \$73,907 to \$97,504 are due through January 1, 2026.	\$ 6,771	\$ 7,676
Tax exempt private placement bonds issued in October 2015 to provide for refurbishment of senior living facilities - interest is fixed at 2.99% per annum. Interest payments are due in monthly installments through October 1, 2030. Monthly principal payments totaling \$48,243 to \$59,271 begin February 1, 2026 through October 1, 2030.	3,000	3,000
Note payable issued November 2018 totaling \$2,340,000. Interest is fixed at 5% per annum. Monthly principal and interest payments totaling \$13,679 begin December 1, 2018 through November 1, 2019. Remaining principal balance and accrued interest is due on November 16, 2019.	2,312	
Deferred employee benefits	173	118
Obligations for future services	244	251
	12,500	11,045
Less unamortized financing costs	(162)	(185)
Long-term obligations, net	12,338	10,860
Less current portion	(3,251)	(905)
Total Long-Term Obligations	\$ 9,087	\$ 9,955

Interest expense, including letter of credit fees, was \$367,000 and \$339,000 for the years ended June 30, 2019 and 2018.

CRISTA MINISTRIES

Notes to Consolidated Financial Statements For the Years Ended June 30, 2019 and 2018

Note 10 - Continued

In October 2015, the Organization issued through the Washington State Housing Finance Commission (WSHFC) tax exempt Series 2015 bonds in the amount of \$3,000,000. The Organization also reissued through the WSHFC tax exempt Series 2010 bonds in the amount of \$9,999,000 to refinance prior bonds originally issued in December 2010. The tax exempt bonds are secured by land, buildings, and equipment with aggregate net book values of \$12,807,000 and \$12,945,000, at June 30, 2019 and 2018, respectively. The Organization is in compliance with all restrictive covenants.

Principal maturities on long-term obligations are as follows:

For the Year Ending June 30,	<u>(In Thousands)</u>
2020	\$ 3,258
2021	981
2022	1,018
2023	1,056
2024	1,095
Thereafter	<u>5,092</u>
Total principal maturities	12,500
Less unamortized financing costs	<u>(162)</u>
Total Long-Term Obligations	<u>\$ 12,338</u>

The Organization has a line of credit agreement expiring December 31, 2019, which provides for a total commitment of \$10,000,000. The line of credit bears a variable interest rate of the lower of the prime rate or the one month LIBOR rate plus 2.5%. There was no outstanding balance at June 30, 2019 and 2018. The Organization was in compliance with covenants on the line of credit agreement during fiscal years 2019 and 2018.

Deferred employee benefits include a reserve for workers' compensation liability (Note 13).

Note 11 - Endowment

The Organization's endowment consists of a number of funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds restricted to be held in perpetuity, and funds set up to function as endowments but allowing for the possibility of spending of corpus and no restriction to hold in perpetuity, which are reported inclusive of related accumulated earnings. 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.

CRISTA MINISTRIES

**Notes to Consolidated Financial Statements
For the Years Ended June 30, 2019 and 2018**

Note 11 - Continued

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 donor-restricted net assets the original value of gifts to the perpetual endowment, the original value of subsequent gifts to the perpetual endowment, and accumulations to the perpetual 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 as perpetual endowments is classified as non-perpetual endowments until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by PMIFA or specific donor instruction.

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.

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

	(In Thousands)	
	2019	2018
Perpetual endowment funds-		
Original donor-restricted gift amount	\$ 5,717	\$ 5,417
Accumulated investment gains	216	(98)
Non-perpetual endowment funds	<u>9,757</u>	<u>10,269</u>
Total Endowment Fund	<u>\$ 15,690</u>	<u>\$ 15,588</u>

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

	(In Thousands)	
	2019	2018
Endowment net assets		
beginning of year	\$ 15,588	\$ 9,044
Endowment investment return, net	865	505
Contributions	391	7,101
Distributions	<u>(1,154)</u>	<u>(1,062)</u>
Endowment Net Assets	<u>\$ 15,690</u>	<u>\$ 15,588</u>

CRISTA MINISTRIES

Notes to Consolidated Financial Statements For the Years Ended June 30, 2019 and 2018

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 the State Prudent Management of Institutional Funds Act requires NFP to retain as a fund of perpetual duration. Deficiencies of this nature exist in one donor-restricted endowment fund, which has an original gift value of \$1,239,000, a current fair value of \$1,062,000, and a deficiency of \$177,000 as of June 30, 2019. At June 30, 2018, deficiencies of this nature existed in two donor-restricted endowment funds, which together had an original gift value of \$1,393,000, the current fair value of \$1,210,000, and a deficiency of \$183,000. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds and continued appropriation for certain programs as stipulated in the donor agreement. The Organization's policy is to not spend on endowments with deficiencies unless otherwise instructed by the donor.

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, for a donor specified period, or for long-term funding of programs. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to seek an average annual rate of return of 7%, or total return of Consumer Price Index plus 3%, whichever is greater. 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 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, absent specific donor instructions, approximately 5% of the market value of endowment assets on an annual basis. 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.

During the year ended June 30, 2018, the Organization received a donor-restricted term endowment totaling approximately \$6,600,000. The endowment agreement provides for annual spending from the endowment through December 31, 2026 as long as the corpus balance allows. The annual releases are based on actual expenditures, up to amounts specified in the endowment agreement.

Note 12 - Long-Term Note Receivable

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 operates 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. During the year ended June 30, 2016, the lease was amended to extend the lease term from June 30, 2016 to August 31, 2016. In the amendment, the Lessee elected to exercise the purchase option to purchase the property for \$2,000,000 less a \$50,000 rent credit, for a net purchase price of \$1,950,000. The Lessee made a down payment of \$250,000 with the remaining amount financed through a promissory note. The note bears interest at 5% per annum. Annual installment payments of not less than \$150,000 per year began September 1, 2017, and will continue through September 1, 2021, at which time installment payments of not less than \$200,000 will begin and continue until the note is paid in full.

CRISTA MINISTRIES

Notes to Consolidated Financial Statements For the Years Ended June 30, 2019 and 2018

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, 2019 and 2018, was \$690,000 and \$570,000, 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)
2020	\$ 698
2021	635
2022	438
2023	240
2024	174
Thereafter	847
Total Future Minimum Lease Payments	<u>\$ 3,032</u>

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 may contribute 3% of the employee's earnings annually to each eligible employee's account on a discretionary basis. This discretionary contribution has been suspended for calendar years 2019 and 2018. 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, 2019 and 2018, were \$829,000 and \$1,176,000, 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 reported (IBNR) to the plan administrators. The IBNR 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 IBNR 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 IBNR totaled \$509,000 and \$532,000 as of June 30, 2019 and 2018, respectively. The liability for the workers' compensation benefit claims due in less than one year totaled \$173,000 and \$118,000 as of June 30, 2019 and 2018, respectively, and are recorded in accounts payable and accrued expenses. The liability for claims greater than one year are recorded in long-term obligations (Note 10) in the accompanying consolidated balance sheets and totaled \$173,000 and \$118,000 as of June 30, 2019 and 2018, respectively.

Contingencies - Amounts received under federal grants and other 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.

CRISTA MINISTRIES

Notes to Consolidated Financial Statements For the Years Ended June 30, 2019 and 2018

Note 13 - Continued

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.

Note 14 - Liquidity and Availability of Financial Assets

The Organization's financial assets available within one year of the balance sheet dates for general expenditure were as follows at June 30:

	(In Thousands)	
	2019	2018
Total cash and cash equivalents	\$ 12,620	\$ 15,565
Grants receivable	408	248
Pledges receivable	2,121	1,771
Trade receivables	4,362	4,206
Note receivable	1,619	1,690
Investments	37,390	37,755
Planned giving program assets	4,136	4,001
Total financial assets	62,656	65,236
Receivables scheduled to be collected in more than one year	(2,913)	(2,393)
Planned giving obligations	(2,180)	(2,061)
Perpetual endowments	(5,933)	(5,319)
Non-perpetual endowments	(9,757)	(10,269)
Perpetual trust	(1,665)	(1,638)
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	\$ 40,208	\$ 43,556

The organization manages its liquidity and reserves following three guiding principles: (1) operating within a prudent range of financial soundness and stability, (2) maintaining adequate liquid assets to fund near-term operating needs, and (3) maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The organization has a liquidity policy to maintain current financial assets at a minimum of 30 days expected cash operating expenses. The organization has a policy to target a year end balance of reserves of unrestricted, undesignated net assets to meet 60 to 105 days of expected expenditures. To achieve these targets, CRISTA forecasts its future cash flows and monitors its liquidity monthly and monitors its reserves quarterly. CRISTA also has a line of credit available to meet short-term needs (Note 10). During the years ended June 30, 2019 and 2018, the level of liquidity and reserves was managed within the policy requirements.

SUPPLEMENTARY INFORMATION

CRISTA MINISTRIES

**Consolidating Balance Sheet
June 30, 2019
(In Thousands)**

	CRISTA Ministries (Certificate Holder)	CRISTA Ministries Canada	World Concern Development Organization	Eliminating Entries	Total
Assets					
Current Assets:					
Cash and cash equivalents-					
Available for current ministries	\$ 3,917	\$ 169	\$ 47	\$ -	\$ 4,133
Held for donor restricted ministry purposes	7,111	59			7,170
Held by field operations	1,317				1,317
	<u>12,345</u>	<u>228</u>	<u>47</u>		<u>12,620</u>
Total cash and cash equivalents	12,345	228	47		12,620
Grants receivable	408		1,157	(1,157)	408
Pledges receivable, current portion	650	53			703
Trade receivables, net	4,329	33			4,362
Note receivable, current portion	124				124
Short-term investments	1,080				1,080
Prepaid expenses and supplies	1,000				1,000
	<u>19,936</u>	<u>314</u>	<u>1,204</u>	<u>(1,157)</u>	<u>20,297</u>
Total Current Assets	19,936	314	1,204	(1,157)	20,297
Long-term investments-					
Available for current ministries	21,918				21,918
Endowment accounts	14,026				14,026
Other investments	366				366
	<u>36,310</u>				<u>36,310</u>
Total long-term investments	36,310				36,310
Long-term pledges receivable, net	1,418				1,418
Planned giving program assets	4,136				4,136
Property and equipment used in ministries, net	71,412				71,412
Assets held by field operations	4,090				4,090
Long-term note receivable, net	1,495				1,495
Deferred rent receivable	295				295
Radio licenses, net	4,822				4,822
	<u>143,914</u>	<u>314</u>	<u>1,204</u>	<u>(1,157)</u>	<u>144,275</u>
Total Assets	\$ 143,914	\$ 314	\$ 1,204	\$ (1,157)	\$ 144,275

See independent auditor's report.

CRISTA MINISTRIES

Consolidating Balance Sheet June 30, 2019 (In Thousands)

	CRISTA Ministries (Certificate Holder)	CRISTA Ministries Canada	World Concern Development Organization	Eliminating Entries	Total
Liabilities and Net Assets					
Current Liabilities:					
Accounts payable and accrued expenses	\$ 10,048	\$ 47	\$ -	\$ (1,157)	\$ 8,938
Accounts payable held in field offices	2,755				2,755
Deferred revenue	1,813				1,813
Current portion of long-term obligations	3,251				3,251
Total Current Liabilities	17,867	47		(1,157)	16,757
Long-term obligations, net	9,087				9,087
Refundable entry fees	5,880				5,880
Nonrefundable entry fees	6,492				6,492
Deposits and deferred rent	438				438
Planned giving program obligations	2,180				2,180
Total Liabilities	41,944	47		(1,157)	40,834
Net Assets:					
Without donor restrictions-					
General	7,687	207	1,186		9,080
Represented by property, equipment and intangibles owned by the Organization	66,462				66,462
Total net assets without donor restrictions	74,149	207	1,186		75,542
With donor restrictions-					
Restricted for program activities	9,778	60	18		9,856
Restricted for capital acquisitions	547				547
The Organization's portion of irrevocable trust agreements	141				141
Student financial aid and teacher excellence endowment	3,609				3,609
Senior living resident financial aid endowment	2,342				2,342
World Concern term endowment	5,417				5,417
Restricted for endowment funds	4,322				4,322
Perpetual trust	1,665				1,665
Total net assets with donor restrictions	27,821	60	18		27,899
Total Net Assets	101,970	267	1,204		103,441
Total Liabilities and Net Assets	\$ 143,914	\$ 314	\$ 1,204	\$ (1,157)	\$ 144,275

See independent auditor's report.