



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

CONSOLIDATED FINANCIAL STATEMENTS AND  
ACCOMPANYING INFORMATION

*Years Ended December 31, 2017 and 2016*

*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, 2017 and 2016, 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, 2017 and 2016, 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 20, 2018

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

DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 2,167,552	\$ 1,568,763
Investments	286,359	382,353
Receivables, net	446,734	664,668
Contribution receivable for use of real estate	55,210	55,210
Inventory	305,576	370,823
Prepaid expenses	288,110	262,081
Deposits	<u>25,565</u>	<u>31,715</u>
Total Current Assets	3,575,106	3,335,613
Contribution receivable for use of real estate	27,605	82,815
Property and equipment, net	<u>3,555,355</u>	<u>3,702,948</u>
<b>Total Assets</b>	<u><u>\$ 7,158,066</u></u>	<u><u>\$ 7,121,376</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
Current Liabilities:		
Accounts payable	\$ 344,845	\$ 177,162
Accrued wages and other liabilities	373,480	376,345
Notes payable	329,866	326,480
Capital lease obligations	<u>21,494</u>	<u>25,364</u>
Total Current Liabilities	<u>1,069,685</u>	<u>905,351</u>
Noncurrent Liabilities:		
Notes payable	1,432,047	1,552,385
Capital lease obligations	<u>18,065</u>	<u>48,836</u>
Total Noncurrent Liabilities	<u>1,450,112</u>	<u>1,601,221</u>
<b>Total Liabilities</b>	<u>2,519,797</u>	<u>2,506,572</u>
Net Assets:		
Unrestricted net assets	4,101,675	4,112,277
Temporarily restricted net assets	<u>536,594</u>	<u>502,527</u>
<b>Total Net Assets</b>	<u>4,638,269</u>	<u>4,614,804</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 7,158,066</u></u>	<u><u>\$ 7,121,376</u></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 ACTIVITIES**

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Totals	Unrestricted	Temporarily Restricted	Totals
Revenue and support						
Tithes and contributions	\$ 13,587,408	\$ 216,074	\$ 13,803,482	\$ 14,915,152	\$ 179,433	\$ 15,094,585
Holy Day offerings	3,384,358	-	3,384,358	3,442,083	-	3,442,083
Investment return	27,182	-	27,182	43,308	-	43,308
Estate gifts	136,062	-	136,062	260,579	-	260,579
Camp revenue	147,662	-	147,662	88,118	-	88,118
Other revenue	138,411	-	138,411	210,461	-	210,461
Special project donations	-	82,056	82,056	-	230,790	230,790
Tuition and fees, net	104,535	-	104,535	85,882	-	85,882
	<u>17,525,618</u>	<u>298,130</u>	<u>17,823,748</u>	<u>19,045,583</u>	<u>410,223</u>	<u>19,455,806</u>
Net assets released from restrictions	309,063	(309,063)	-	109,891	(109,891)	-
Total revenue and other support	<u>17,834,681</u>	<u>(10,933)</u>	<u>17,823,748</u>	<u>19,155,474</u>	<u>300,332</u>	<u>19,455,806</u>
Expenses						
Feeding the Flock:						
Support of local congregations	6,951,627	-	6,951,627	6,908,767	-	6,908,767
Assistance to the needy	1,688,793	-	1,688,793	1,851,261	-	1,851,261
Living Youth Programs, LLC	273,592	-	273,592	273,208	-	273,208
Living University	857,632	-	857,632	928,388	-	928,388
Preaching the Gospel:						
Television and radio	3,936,749	-	3,936,749	4,392,580	-	4,392,580
Publishing and editorial	1,191,378	-	1,191,378	1,469,078	-	1,469,078
Mail processing and distribution	1,625,437	-	1,625,437	1,751,838	-	1,751,838
General and administrative:						
Support services and other	1,275,075	-	1,275,075	1,359,613	-	1,359,613
Total expenses	<u>17,800,283</u>	<u>-</u>	<u>17,800,283</u>	<u>18,934,733</u>	<u>-</u>	<u>18,934,733</u>
Change in net assets	34,398	(10,933)	23,465	220,741	300,332	521,073
Net assets						
Beginning of year	4,112,277	502,527	4,614,804	3,891,536	202,195	4,093,731
Transfer based on donor intent	(45,000)	45,000	-	-	-	-
End of year	<u>\$ 4,101,675</u>	<u>\$ 536,594</u>	<u>\$ 4,638,269</u>	<u>\$ 4,112,277</u>	<u>\$ 502,527</u>	<u>\$ 4,614,804</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, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 23,465	\$ 521,073
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	587,258	564,327
Non-cash lease expense	55,210	41,408
Net unrealized/realized gains on investments	(26,614)	(42,981)
Gain on disposal of property and equipment	(42,898)	(4,605)
Donated investments	(12,695)	(13,113)
Non-cash donation of use of real estate	-	(179,433)
Change in operating assets and liabilities:		
Receivables	217,934	459,209
Inventory	65,247	(29,398)
Prepaid expenses	(26,029)	24,471
Deposits	6,150	(8,805)
Accounts payable	167,683	(184,870)
Accrued wages and other liabilities	(2,865)	9,650
Net cash from operating activities	<u>1,011,846</u>	<u>1,156,933</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(237,241)	(344,980)
Proceeds from sale of property and equipment	62,057	83,946
Proceeds from sale of investments	135,303	-
Net cash from investing activities	<u>(39,881)</u>	<u>(261,034)</u>
<b>Cash flows from financing activities:</b>		
Principal payments on notes payable	(338,535)	(293,561)
Principal payments on capital lease obligations	(34,641)	(22,287)
Net cash from financing activities	<u>(373,176)</u>	<u>(315,848)</u>
Change in cash and cash equivalents	598,789	580,051
Cash and cash equivalents		
Beginning of year	<u>1,568,763</u>	<u>988,712</u>
End of year	<u>\$ 2,167,552</u>	<u>\$ 1,568,763</u>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid during the year	<u>\$ 105,004</u>	<u>\$ 86,418</u>
<b>Supplemental disclosure of non-cash investing activities:</b>		
Acquisition of property and equipment through debt	<u>\$ 221,583</u>	<u>\$ 254,776</u>
Acquisition of property and equipment through capital leases	<u>\$ -</u>	<u>\$ 83,500</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 THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

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

Living Youth Programs LLC (“LYP”) was established in 2013 as a youth-serving ministry to organize, promote and manage activities and events that are primarily, but not exclusively, youth-oriented and built on a religious foundation, in compliance with the not-for-profit religious aims of the Principal Sponsor – Living Church of God (International), Inc. (the “Church”), which is the sole and managing member of LYP. The Church’s Board of Directors appoints the officers and managers of LYP and all LYP activities and operations are subject to its approval. As a unique legal entity, LYP has its own bank accounts and vendor relationships. Each year, LYP organizes, promotes and manages Teen, Pre-Teen and Adventure youth summer camps at various locations in the USA., provides online camp registration and payment services, as well as live and archived youth-focused Bible Studies over the Internet.

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.



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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

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

*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, 2017 and 2016, the Church had no permanently restricted net assets.

*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 metal coins, 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.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

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

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.

*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, 10 years for building 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.

*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.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

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

*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.

*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, 2017 and 2016 was \$362,912 and \$366,699, 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.

*Future Pronouncements* – In August of 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This standard changes presentation and disclosure requirements of not-for-profit entities. The primary changes are decrease in the number of net asset classes from three to two, reporting of the underwater amounts of donor-restricted endowment funds in net assets with donor restrictions, continues to allow preparers to choose between the direct method and indirect method for presenting operating cash flows, requires disclosures of qualitative information on how the not-for-profit entity manages its liquid available resources and liquidity risks, and requires reporting of expenses by function and nature, as well as an analysis of expenses by both function and nature. This standard is effective for all fiscal years beginning after December 15, 2017.

In February of 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This standard changes presentation and disclosure requirements for most leases. The primary change is that a lessee should recognize a right-of-use asset and a lease liability for all operating leases at each reporting date. This standard is effective for all fiscal years beginning after December 15, 2018.

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

DECEMBER 31, 2017 AND 2016

**Note 2—Investments**

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

	<u>2017</u>	<u>2016</u>
Gold shares	\$ 47,179	\$ 173,159
Precious metal coins	197,662	167,141
Silver shares	33,662	32,686
Other	7,856	9,367
Total investments	<u>\$ 286,359</u>	<u>\$ 382,353</u>

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

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 568	\$ 327
Unrealized and realized gains	26,614	42,981
Total	<u>\$ 27,182</u>	<u>\$ 43,308</u>

**Note 3—Receivables**

Receivables at December 31 are as follows:

	<u>2017</u>	<u>2016</u>
Contributions receivable	\$ 288,171	\$ 273,065
Estates receivable	-	210,188
Due from affiliated entities	19,020	22,222
Note receivable	106,789	119,140
Other receivables	46,754	54,053
	<u>460,734</u>	<u>678,668</u>
Less allowance for uncollectible receivables	(14,000)	(14,000)
Total receivables	<u>\$ 446,734</u>	<u>\$ 664,668</u>

**Note 4—Contribution receivable for use of real estate**

The University entered into two below fair value operating leases with a church congregation member in March 2016. The operating leases are for two houses that are being used for student housing by the University. The initial term of the leases is 39 months following the commencement date at an annual cost of \$2,065 each. The University estimated the fair value of the leases at approximately \$193,000 based on comparable market rates. In accordance with GAAP, the University recorded the use of the real estate as an unconditional promise to give and as restricted support at its fair value. In the initial and future years, the receivable will be reduced and lease expense will be recorded in an amount equal to the estimated annual lease value of the property. At December 31, 2017 and 2016, contributions receivable for the use of real estate is \$82,815 and \$138,025, respectively.

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

DECEMBER 31, 2017 AND 2016

**Note 5—Prepaid expenses**

Prepaid expenses at December 31 consist of the following:

	<b>2017</b>	<b>2016</b>
Television	\$ 116,024	\$ 110,240
Church hall rent	91,170	70,937
Postage	18,801	18,527
Insurance	41,564	49,281
Other	20,551	13,096
Total prepaid expenses	<u>\$ 288,110</u>	<u>\$ 262,081</u>

**Note 6—Property and equipment**

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

	<b>2017</b>	<b>2016</b>
Land	\$ 517,100	\$ 517,100
Land improvements	10,670	10,670
Building and improvements	3,513,161	3,517,411
Leasehold improvements	74,408	-
Equipment, furniture, and software	3,078,759	2,909,800
Vehicles	1,138,483	997,453
Construction in progress	27,630	26,708
	<u>8,360,211</u>	<u>7,979,142</u>
Less accumulated depreciation	<u>(4,804,856)</u>	<u>(4,276,194)</u>
Property and equipment, net	<u>\$ 3,555,355</u>	<u>\$ 3,702,948</u>

Depreciation expense, including amortization on equipment and vehicles under capital lease, was \$587,258 and \$564,327 for the years ended December 31, 2017 and 2016, respectively.

**Note 7—Capital lease obligations**

The Church leases certain equipment under agreements that are classified as capital leases. These obligations require monthly payments varying from \$272 to \$1,059 and extend through August 2019. The cost of equipment under capital leases is included as property and equipment and is summarized at December 31, as follows:

	<b>2017</b>	<b>2016</b>
Vehicles and equipment	\$ 83,510	\$ 83,510
Less accumulated amortization	<u>(44,092)</u>	<u>(18,317)</u>
	<u>\$ 39,418</u>	<u>\$ 65,193</u>

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

DECEMBER 31, 2017 AND 2016

**Note 7—Capital lease obligations (continued)**

Required minimum lease payments as of December 31, 2017 are as follows:

2018	\$ 21,494
2019	18,065
	<u>39,559</u>
Less current maturity	<u>(21,494)</u>
	<u>\$ 18,065</u>

**Note 8—Notes payable**

The Church has notes payable at December 31, 2017 and 2016 as summarized below:

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
Mortgage payable to a 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, 2017 and 2016, the loan had an interest rate of 3.625% and 2.875%, respectively. The mortgage is collateralized by the Church's headquarters and studio located in Charlotte, North Carolina.	\$ 1,261,730	\$ 1,407,315
Vehicle loans payable to a finance company due in monthly installments ranging from \$498 to \$3,420, bearing interest rates ranging from 3.58% to 4.11%, maturing between April 2017 and February 2021, collateralized by vehicles with a total net book value of \$463,000 and \$371,101 at December 31, 2016 and 2015, respectively.	<u>500,183</u>	<u>471,550</u>
	1,761,913	1,878,865
Less current portion	<u>(329,866)</u>	<u>(326,480)</u>
	<u>\$ 1,432,047</u>	<u>\$ 1,552,385</u>

Future maturities of the notes payable are as follows:

2018	\$ 329,866
2019	302,375
2020	259,893
2021	229,150
2022	199,521
2023	441,108
	<u>\$ 1,761,913</u>

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

DECEMBER 31, 2017 AND 2016

**Note 8—Notes payable (continued)**

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, 2017, 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, 2017 and 2016 was \$105,893 and \$83,522, respectively. The Church is subject to certain financial and non-financial covenants, including requirements to maintain a certain minimum debt service coverage ratio, maximum additional borrowings and timely delivery of the audited financial statements to the bank. At December 31, 2017, the Church believes they are in compliance with all covenants.

**Note 9—Temporarily restricted net assets**

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

	<u>2017</u>	<u>2016</u>
Disaster relief	\$ 355,229	\$ 341,356
Contribution receivable for the use of real estate	82,815	138,025
Scholarships	41,833	-
Other	56,717	23,146
	<u>\$ 536,594</u>	<u>\$ 502,527</u>

**Note 10—Net assets released from restrictions**

Net assets were released from restrictions during the year by incurring expenses satisfying the restricted purpose or by the expiration of time as follows:

	<u>2017</u>	<u>2016</u>
Disaster relief	\$ 4,000	\$ 32,358
Scholarships	18,031	-
Contribution receivable for the use of real estate	55,210	41,408
Internet infrastructure and outreach	200,000	-
Other	31,822	36,125
	<u>\$ 309,063</u>	<u>\$ 109,891</u>

**Note 11—Commitments**

The Church leases fleet vehicles, equipment and student housing under various non-cancelable operating leases. The vehicle and equipment leases require monthly payments varying from \$400 to \$811 and expired in 2017. The student housing leases require annual payments of \$2,065 each and extend through 2019. Lease expense for vehicles, equipment and student housing under various operating leases amount to \$35,757 and \$138,170 at December 31, 2017 and 2016, respectively.

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

DECEMBER 31, 2017 AND 2016

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**Note 11—Commitments (continued)**

Required minimum lease payments on items under operating leases as of December 31, 2017 are as follows:

2018	\$	4,130
2019		2,065
	\$	<u>6,195</u>

**Note 12—Benefit plan**

The Church has a 403(b) Tax Deferred Annuity Plan for all eligible employees. Eligible employees may elect to defer 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 are at the discretion of the Church. There were no contributions made by the Church for the years ended December 31, 2017 and 2016.

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, 2017 and 2016, the Church expensed payments for this purpose totaling approximately \$433,000 and \$511,000, respectively.

**Note 13—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.

A significant portion of the Church's support has historically been attributed to tithes and offerings from the members of the Church. The members are located throughout the United States and abroad. The amount of these contributions is influenced by economic conditions in the geographical area in which these members reside, as well as the number of active members in the Church.

**Note 14—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, 2017 and 2016, the Church expended \$654,558 and \$731,977, respectively, related to these affiliates. The Church also had accounts receivables of \$19,020 and \$22,222 due from affiliated entities at December 31, 2017 and 2016 as well as accounts payable due to affiliated entities of \$10,448 and \$15,000 at December 31, 2017 and 2016, respectively, included in the accompanying consolidated statements of financial position.

In addition, the University is leasing two houses from a congregation member. See note 4.



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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

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### **Note 15—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 \$286,359 and \$382,353 shown as investments in the accompanying consolidated statements of financial position at December 31, 2017 and 2016, 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, 2017 or 2016.
- 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, 2017 or 2016.

### **Note 16—Subsequent events**

Living University will cease operations as of June 30, 2018. The Church will incorporate many of the courses into an expanded in-house educational program that will include youth education, adult education and ministerial training. The new program will not offer academic degrees and will not be subject to the same regulatory environment as Living University.

The Church has evaluated subsequent events through April 20, 2018, 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, 2017

	<u>Living Church of God</u>	<u>Living University</u>	<u>Living Youth Program</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>ASSETS</b>					
Current Assets:					
Cash and cash equivalents	\$ 2,040,297	\$ 94,380	\$ 32,875	\$ -	\$ 2,167,552
Investments	854,060	891	-	(568,592)	286,359
Receivables, net	462,944	800	8,039	(25,049)	446,734
Contribution receivables for use of real estate	-	55,210	-	-	55,210
Inventory	304,351	1,225	-	-	305,576
Prepaid expenses	282,251	-	5,859	-	288,110
Deposits	24,815	750	-	-	25,565
Total Current Assets	<u>3,968,718</u>	<u>153,256</u>	<u>46,773</u>	<u>(593,641)</u>	<u>3,575,106</u>
Contribution receivables for use of real estate	-	27,605	-	-	27,605
Property and equipment, net	<u>3,154,758</u>	<u>251,575</u>	<u>149,022</u>	<u>-</u>	<u>3,555,355</u>
<b>Total Assets</b>	<b><u>\$ 7,123,476</u></b>	<b><u>\$ 432,436</u></b>	<b><u>\$ 195,795</u></b>	<b><u>\$ (593,641)</u></b>	<b><u>\$ 7,158,066</u></b>
<b>LIABILITIES AND NET ASSETS</b>					
Current Liabilities:					
Accounts payable	\$ 337,489	\$ 14,174	\$ 18,231	\$ (25,049)	\$ 344,845
Accrued wages and other liabilities	346,246	27,234	-	-	373,480
Notes payable	329,866	-	-	-	329,866
Capital lease obligations	21,494	-	-	-	21,494
Total Current Liabilities	<u>1,035,095</u>	<u>41,408</u>	<u>18,231</u>	<u>(25,049)</u>	<u>1,069,685</u>
Notes payable	1,432,047	-	-	-	1,432,047
Capital lease obligations	18,065	-	-	-	18,065
Total long-term liabilities	<u>1,450,112</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,450,112</u>
<b>Total Liabilities</b>	<b><u>2,485,207</u></b>	<b><u>41,408</u></b>	<b><u>18,231</u></b>	<b><u>(25,049)</u></b>	<b><u>2,519,797</u></b>
Net Assets:					
Unrestricted net assets	4,226,323	266,380	177,564	(568,592)	4,101,675
Temporarily restricted net assets	411,946	124,648	-	-	536,594
<b>Total Net Assets</b>	<b><u>4,638,269</u></b>	<b><u>391,028</u></b>	<b><u>177,564</u></b>	<b><u>(568,592)</u></b>	<b><u>4,638,269</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 7,123,476</u></b>	<b><u>\$ 432,436</u></b>	<b><u>\$ 195,795</u></b>	<b><u>\$ (593,641)</u></b>	<b><u>\$ 7,158,066</u></b>

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

YEAR ENDED DECEMBER 31, 2017

	Living Church of God			Living University			Living Youth Program		Consolidated Unrestricted	Consolidated Temporarily Restricted	Totals
	Unrestricted	Temporarily		Unrestricted	Temporarily		Unrestricted	Eliminations			
		Restricted	Totals		Restricted	Totals					
Revenue and Support:											
Tithes and contributions	\$ 13,468,863	\$ 200,000	\$ 13,668,863	\$ 87,970	\$ 16,074	\$ 104,044	\$ 30,575	\$ -	\$ 13,587,408	\$ 216,074	\$ 13,803,482
Holy Day offerings	3,384,358	-	3,384,358	-	-	-	-	-	3,384,358	-	3,384,358
LCG Subsidy	-	-	-	499,276	-	499,276	218,259	(717,535)	-	-	-
Investment return	27,164	-	27,164	18	-	18	-	-	27,182	-	27,182
Estate gifts	136,062	-	136,062	-	-	-	-	-	136,062	-	136,062
Camp revenue	-	-	-	-	-	-	147,662	-	147,662	-	147,662
Other revenue	111,556	-	111,556	34,752	-	34,752	-	(7,897)	138,411	-	138,411
Special project donations	-	82,056	82,056	-	-	-	-	-	-	82,056	82,056
Tuition and fees, net	-	-	-	104,535	-	104,535	-	-	104,535	-	104,535
	<u>17,128,003</u>	<u>282,056</u>	<u>17,410,059</u>	<u>726,551</u>	<u>16,074</u>	<u>742,625</u>	<u>396,496</u>	<u>(725,432)</u>	<u>17,525,618</u>	<u>298,130</u>	<u>17,823,748</u>
Net assets released from restrictions	234,612	(234,612)	-	74,451	(74,451)	-	-	-	309,063	(309,063)	-
Total Revenue and Support	<u>17,362,615</u>	<u>47,444</u>	<u>17,410,059</u>	<u>801,002</u>	<u>(58,377)</u>	<u>742,625</u>	<u>396,496</u>	<u>(725,432)</u>	<u>17,834,681</u>	<u>(10,933)</u>	<u>17,823,748</u>
Expenses:											
Feeding the Flock:											
Support of local congregations	7,669,162	-	7,669,162	-	-	-	-	(717,535)	6,951,627	-	6,951,627
Assistance to the needy	1,688,793	-	1,688,793	-	-	-	-	-	1,688,793	-	1,688,793
Living Youth Programs	-	-	-	-	-	-	273,592	-	273,592	-	273,592
Living University	-	-	-	857,632	-	-	-	-	857,632	-	857,632
Preaching the Gospel:											
Television and radio	3,936,749	-	3,936,749	-	-	-	-	-	3,936,749	-	3,936,749
Publishing and editorial	1,191,378	-	1,191,378	-	-	-	-	-	1,191,378	-	1,191,378
Mail processing and distribution	1,625,437	-	1,625,437	-	-	-	-	-	1,625,437	-	1,625,437
General and administrative:											
Support services and other	1,275,075	-	1,275,075	-	-	-	-	-	1,275,075	-	1,275,075
Total Expenses	<u>17,386,594</u>	<u>-</u>	<u>17,386,594</u>	<u>857,632</u>	<u>-</u>	<u>-</u>	<u>273,592</u>	<u>(717,535)</u>	<u>17,800,283</u>	<u>-</u>	<u>17,800,283</u>
Change in net assets	(23,979)	47,444	23,465	(56,630)	(58,377)	(115,007)	122,904	(7,897)	34,398	(10,933)	23,465
Net Assets:											
Beginning of year	4,250,302	364,502	4,614,804	368,010	138,025	506,035	54,660	(560,695)	4,112,277	502,527	4,614,804
Transfer based on donor intent	-	-	-	(45,000)	45,000	-	-	-	(45,000)	45,000	-
End of year	<u>\$ 4,226,323</u>	<u>\$ 411,946</u>	<u>\$ 4,638,269</u>	<u>\$ 266,380</u>	<u>\$ 124,648</u>	<u>\$ 391,028</u>	<u>\$ 177,564</u>	<u>\$ (568,592)</u>	<u>\$ 4,101,675</u>	<u>\$ 34,067</u>	<u>\$ 23,465</u>