

NATIONAL COUNCIL OF THE CHURCHES OF CHRIST IN THE U.S.A.

INDEPENDENT AUDITOR'S REPORT

AND

FINANCIAL STATEMENTS

For the Year Ended June 30, 2014



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NATIONAL COUNCIL OF THE CHURCHES OF CHRIST IN THE U.S.A.

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INDEPENDENT AUDITOR'S REPORT

To the Governing Board of the National Council
of the Churches of Christ in the U.S.A.

We have audited the accompanying financial statements of the National Council of the Churches of Christ in the U.S.A. (the Council), which comprise the statement of financial position as of June 30, 2014 and the related statements of activities and cash flows for the year then ended, and the related notes to the 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Council as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Mulligan + Company, LLC

Washington, DC
March 3, 2015



NATIONAL COUNCIL OF THE CHURCHES OF CHRIST IN THE U.S.A.

Statement of Financial Position

June 30, 2014

Assets

Current assets:

Cash and cash equivalents	\$ 411,907
Accounts receivable	16,889
Other receivables	340,995
Prepaid expenses	3,994
Contribution receivable	141,321
Total current assets	<u>915,106</u>

Noncurrent assets:

Cash and cash equivalents	572,529
Interest in split interest agreements	94,156
Long-term investments	1,393,009
Investments held by others	646,026
Property and equipment, net	9,128
Total assets	<u>\$ 3,629,954</u>

Liabilities and net assets

Current liabilities:

Accounts payable and accrued expenses	\$ 87,517
Health insurance for post-retirees - current portion	139,421
Total current liabilities	<u>226,938</u>

Noncurrent liabilities:

Health insurance for post-retirees - noncurrent portion	958,121
Total liabilities	<u>1,185,059</u>

Net assets:

Unrestricted:

Board-designated	141,000
Undesignated	1,160,305
Total unrestricted	<u>1,301,305</u>
Temporarily restricted	1,057,023
Permanently restricted	86,567
Total net assets	<u>2,444,895</u>

Total liabilities and net assets	<u>\$ 3,629,954</u>
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The accompanying notes are an integral part of the financial statements.

NATIONAL COUNCIL OF THE CHURCHES OF CHRIST IN THE U.S.A.
Statement of Activities
For the Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating revenues				
Support:				
Grants and Contributions:				
Member communions	\$ 613,781	\$ -	\$ -	\$ 613,781
Others (including individual giving)	187,856	-	-	187,856
Revenues:				
Sales, net (literature, film, royalties and rentals)	1,152,145	-	-	1,152,145
Interest and divided income	36,876	30,073	-	66,949
Reclassifications:				
Net assets released from restrictions	541,085	(541,085)	-	-
Total operating revenues	<u>2,531,743</u>	<u>(511,012)</u>	<u>-</u>	<u>2,020,731</u>
Operating expenses				
Salaries and related costs	489,977	-	-	489,977
Professional fees	518,881	-	-	518,881
Donations	325,632	-	-	325,632
Rent and occupancy	165,171	-	-	165,171
Supplies and equipment	46,641	-	-	46,641
Meetings and conferences	33,431	-	-	33,431
Communications	33,334	-	-	33,334
Travel and transportation	29,716	-	-	29,716
Insurance	17,279	-	-	17,279
Publication and duplication	10,223	-	-	10,223
Miscellaneous	10,788	-	-	10,788
Depreciation and amortization	8,137	-	-	8,137
Bad debt expense	2,850	-	-	2,850
Total expenses	<u>1,692,060</u>	<u>-</u>	<u>-</u>	<u>1,692,060</u>
Changes in net assets from operations	<u>839,683</u>	<u>(511,012)</u>	<u>-</u>	<u>328,671</u>
Nonoperating changes in net assets				
Change in accumulated post-retirement benefit obligation	(91,532)	-	-	(91,532)
Change in actuarial value of split-interest agreements	18,553	-	-	18,553
Net realized and unrealized gain on investments	145,942	64,585	-	210,527
Reclassification of net assets	88,810	43,199	(132,009)	-
Total nonoperating changes in net assets	<u>161,773</u>	<u>107,784</u>	<u>(132,009)</u>	<u>137,548</u>
Changes in net assets	1,001,456	(403,228)	(132,009)	466,219
Net assets at beginning of year	299,849	1,460,251	218,576	1,978,676
Net assets at end of year	<u>\$ 1,301,305</u>	<u>\$ 1,057,023</u>	<u>\$ 86,567</u>	<u>\$ 2,444,895</u>

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

NATIONAL COUNCIL OF THE CHURCHES OF CHRIST IN THE U.S.A.
Statement of Cash Flows
For the Year Ended June 30, 2014

Cash flows from operating activities:	
Total change in net assets	\$ <u>466,219</u>
Adjustments to reconcile total change in net assets to net cash used by operating activities:	
Depreciation and amortization	8,137
Bad debt write-off	2,850
Change in accumulated post retirement benefit obligation	91,532
Net realized and unrealized loss/(gain) on investments	(210,527)
Changes in assets and liabilities:	
Contribution receivable	(12,615)
Receivable from Church World Service, Inc., net	50,000
Accounts receivable	158,952
Other receivables	185,878
Prepaid expenses	(3,994)
Interest in split interest agreements	(16,086)
Accounts payable and accrued expenses	(165,947)
Net cash provided by operating activities	<u>554,399</u>
Cash flows from investing activities:	
Proceeds from sale of investments	282,470
Purchase of investments	(401,815)
Net cash used in investing activities	<u>(119,345)</u>
Net increase in cash and cash equivalents	435,054
Cash and cash equivalents at beginning of year	<u>549,382</u>
Cash and cash equivalents at end of year	<u>\$ <u>984,436</u></u>
Amounts reported as:	
Cash and cash equivalents - current	\$ 411,907
Cash and cash equivalents - noncurrent	<u>572,529</u>
	<u>\$ <u>984,436</u></u>

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

NATIONAL COUNCIL OF CHURCHES OF CHRIST IN THE U.S.A.

Notes to Financial Statements
For the year ended June 30, 2014

1. Organization

The National Council of Churches of Christ in the U.S.A. (the Council), since its founding in 1950, has been the leading force for ecumenical cooperation among Christians in the United States. The Council's member communions—from a wide spectrum of Protestant, Anglican, Orthodox, Evangelical, historic African-American, and Peace churches—include 45 million people in more than 100,000 local congregations in communities across the nation.

The Council has worked for a century toward the unity of the Christian church, peace and understanding among people of all faiths, and justice for all of God's people. It continues to be the voice of the faith community on Civil Rights, justice for women, an end to poverty, affordable health care, quality education, reformed immigration laws, and the stewardship of God's creation. It also sponsors the New Revised Standard version of the Holy Bible, leadership development opportunities, and expanded young adult ministries and ecumenical formation.

In August 2012, the Council merged with the U.S. Conference for the World Council of Churches (U.S. Conference). The Council created a new committee within its Governing Board structure entitled the "World Council of Churches Relations Committee" or WCCRC. The WCCRC will focus on relationships of the member churches of the World Council of Churches (WCC) within the United States and their engagement with initiatives of the WCC, which is based in Geneva.

In 2013, the Council organized a Task Force to re-envision and restructure the Council. The new vision of the Council focuses on four integrated areas of work:

- Theological study and dialogue
- Inter-religious relations and dialogue
- Joint action and advocacy for justice and peace
- Christian Education, Ecumenical Faith Foundation, and Leadership

The Council is now a convener of the churches that together work toward visible unity in Christ and galvanize prophetic public witness through joint action and advocacy of the churches. The Council's work will be organized at overlapping tables that integrate our three-pronged focus and draw upon synergies with partners, especially local and regional ecumenism. Council's staff will be a small group of theologically trained community organizers who facilitate the work and serve as hubs and connectors, linking people, ideas, and resources.

Given the restructure from a program oriented Council to a convening table Council, many of the programs that had remaining funds were transferred into separate companies. The future of the Council's revenue stream will primarily include member communion's contributions, royalties and investment income.

The Council is a not-for-profit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

NATIONAL COUNCIL OF CHURCHES OF CHRIST IN THE U.S.A.

Notes to Financial Statements
For the year ended June 30, 2014

2. Summary of Significant Accounting Policies

Basis of Presentation

Assets, liabilities, revenue and expenses are recognized on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Net Asset Classification and Fund Accounting

In the accompanying financial statements, the Council has combined its financial resources into the following three classes of net assets:

Unrestricted net assets represent funds that are fully available, at the discretion of management and the Governing Board of the Council, for the Council to utilize in any of its programs or supporting services.

Board-Designated is approximately \$141,000 of funds remaining for designated programs that were not transferred to a specific agency by June 30, 2014. The funds are maintained in a separate bank account.

Temporarily restricted net assets are comprised of funds with donor stipulations that limit their use either through purpose or time restrictions.

Permanently restricted net assets include contributions that donors have specified must be maintained in perpetuity. The related income may be expended for such purpose as specified by the donor or at the discretion of the Council in the absence thereof.

Operating and Nonoperating

The Council defines operating revenue and expense as revenue/expenses from its primary business activities. Nonoperating is defined as revenue/expenses from non-primary business activities. The Council's treatment of investment income is included in operating revenues because it is included in the Council's annual budget. The realized and unrealized gain or loss investment activity is included in nonoperating as a result of the gain or loss not being related to primary business operations.

NATIONAL COUNCIL OF CHURCHES OF CHRIST IN THE U.S.A.

Notes to Financial Statements
For the year ended June 30, 2014

2. Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents

The Council considers all highly liquid financial instruments, excluding mutual funds held by others, purchased with maturities of three months or less, to be cash equivalents. Cash that is restricted for Ecumenical Ministries Mass Incarceration Fund is reported in non-current assets, since it is not readily available for current operations.

Other Receivables

Other Receivables represent amounts due from publishers for royalties earned on publications of the Bible and Sunday school study guides. They are recorded at net realizable value. Based on historical collections, there is no provision for uncollectible amounts.

Interest in Split Interest Agreements

The Council has an interest in certain irrevocable charitable gift annuities administered by third parties, which have an estimated residual value (fair value of gift less present value of annuity obligation) of \$94,156 as of June 30, 2014. A discount rate of 7.5% and the 2000 CM Mortality table were used for the fiscal 2014 calculation.

Investments and Investment Income

The fair values of common stocks and debt securities are based on quoted market prices. The fair values of mutual funds are based on published unit values. Investment income, net of fees, and any resulting realized and unrealized gains and losses are recorded in the appropriate net asset class based on donor restrictions or the absence thereof.

Property and Equipment

Computer equipment, furniture and fixtures, machinery and equipment, and leasehold improvements with an original cost exceeding \$500 are recorded net of accumulated depreciation and amortization. Property and equipment are depreciated on the straight-line basis, using the half-year convention method, over their estimated useful lives of three to ten years. Amortization of leasehold improvements is recorded over the shorter of their useful life or remaining term of the respective lease.

Endowment Funds

Accounting Standards require an organization to disclose information about the net asset classification, net asset composition, changes in net asset composition, spending policies and related investment policies of its donor-restricted endowment funds. The Council's gifts are subject to donor restrictions requiring that the principal be invested in perpetuity and only the resulting income be utilized.

NATIONAL COUNCIL OF CHURCHES OF CHRIST IN THE U.S.A.

Notes to Financial Statements
For the year ended June 30, 2014

2. Summary of Significant Accounting Policies, continued

Endowment Funds, continued

Endowment funds are supervised and monitored by respective administrative committees or governing bodies. An administrative committee or governing body may appropriate for expenditure and for the uses and purposes for which an endowment fund is established. The date and amount to draw the appropriation is determined by the committee or governing body unless otherwise regulated by the endowment.

Endowment funds are maintained in the Council's long-term investment portfolio and subject to the general provisions of the Council's investment policies and procedures. The spending policy for endowment funds is administrated in accordance with the terms of the donor endowment. Unless otherwise restricted by the endowment, upon approval of the governing body of the fund, distribution from the fund each fiscal year will be 5% of the average fair value for the 12 quarters ending June 30. Realized and unrealized gains and losses are calculated based on investment allocation and recorded to each fund accordingly on a quarterly basis.

Contributions

Contributions are recognized as revenue upon receipt and are considered to be unrestricted unless they are received with donor stipulations that limit their use either through purpose or time restrictions. Contributions with donor stipulations that limit their use are considered to be temporarily restricted until the donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled. Upon the expiration of donor stipulations, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions. Temporarily restricted contributions received and expended in the same accounting period are classified as unrestricted support.

Royalties

Royalties are recognized as revenue ratably over the terms of the respective agreements or based on a percentage of sales, depending on the specific terms of each royalty agreement. Royalty income for 2014 of \$1,124,807 is included in the Statements of Activities in "Sales, net (literature, film, royalties and rentals)."

Donations

Donations are funds originally received by the Council which were designated for certain program activities. Due to the restructure of the Council, remaining funds designated for these programs were transferred to separate companies to continue the program activities. Donations for 2014 totaled \$325,632. Remaining funds to be distributed are included in "board-designated" as of June 30, 2014.

NATIONAL COUNCIL OF CHURCHES OF CHRIST IN THE U.S.A.

Notes to Financial Statements
For the year ended June 30, 2014

3. Fair Value Measurements

The fair value of investments is categorized into a three-tier hierarchy, which assigns priorities to inputs of valuation techniques used to measure fair value. Inputs refer to assumptions market participants would use when pricing an asset, and are classified as observable (i.e. assumptions based on market prices obtained from independent sources) and unobservable (i.e. assumptions based on best information available or the reporting entity's own assumptions). The hierarchy of inputs is summarized below:

- Level 1 – observable, represents assets with quoted market prices for identical assets (registered securities).
- Level 2 – other observable, not quoted market prices for identical assets. Inputs that are obtained from the utilization of models or other valuation methodologies.
- Level 3 – unobservable, reflects reporting entity's own assumptions and significant management judgments that would be made by market participants.

The fair value of the Council's long-term investment portfolio as of June 30, 2014 consisted of the following:

	Fair Value Measurement at Reporting Date Using: Observable Inputs (Level 1)
Equity securities	\$ 582,974
Corporate bonds	243,884
U.S. government obligations	87,298
Other fixed income	407,286
Mutual funds (assets held for gift annuities)	<u>71,567</u>
Total long-term investments	<u>\$ 1,393,009</u>

4. Investments Held by Others

The Ecumenical Trust (the Trust) is a nonprofit organization that was formed for the purpose of receiving and managing assets on behalf of WCC, Church World Service, Inc. (CWS) and the Council to support the ecumenical ministries of these entities. Investments held by others consist primarily of mutual fund investments held by the Trust for the WCC, CWS and the Council. As member organizations of the Ecumenical Trust, these entities are related through common Board membership.

NATIONAL COUNCIL OF CHURCHES OF CHRIST IN THE U.S.A.

Notes to Financial Statements
For the year ended June 30, 2014

5. Property and Equipment

As of June 30, 2014 property and equipment, net, consisted of:

Computer equipment	\$	51,307
Furniture and fixtures		2,068
Leasehold improvements		<u>14,303</u>
		67,679
Less accumulated depreciation and amortization		<u>(58,550)</u>
Property and equipment, net	\$	<u><u>9,128</u></u>

Depreciation expense was \$4,728 and amortization expense was \$3,409 for 2014.

6. Post-Retirement Health Care and Pension Benefits

Post-Retirement Health Care

The Council provides certain health care benefits for retired employees. Employees hired prior to January 1, 2000 are eligible to participate upon reaching age 62 with at least five years of service or age 55 with at least 15 years of service. Employees hired on January 1, 2000 and thereafter are not eligible for post-retirement health care benefits. The measurement date for the post-retirement health care obligations is June 30, 2014; however, the valuation date is as of July 1, 2013.

Prior to January 1, 2012, the Council provided eligible retired employees and their spouses post-retirement health care through its various fee-for-service and health maintenance organization health insurance plans for active employees. Effective November 1, 2011 for non-union employees and January 1, 2012 for union employees, the Council began providing eligible retired employees and their spouses' post-retirement health care through Medicare Supplemental and Medical Advantage plans with the assistance of a private Medicare exchange manager. The Council pays a fixed amount per month for each eligible retired employee and spouse into a Health Reimbursement Arrangement for each. Retirees and spouses then purchase individual Medicare Supplemental and Medicare Advantage health plans that best meet their health insurance needs with the assistance of the Medicare exchange manager. This change results in a fixed amount that the Council contributes to health care for each retiree and spouse.

NATIONAL COUNCIL OF CHURCHES OF CHRIST IN THE U.S.A.

Notes to Financial Statements
For the year ended June 30, 2014

6. Post-Retirement Health Care and Pension Benefits, continued

Post-Retirement Health Care, continued

The Council is required to recognize the over-funded or under-funded status of its retirement plans in the Statements of Financial Position and to recognize changes in funded status in the year in which they occur through changes in unrestricted net assets. The funded status represents the difference between the fair value of plan assets and the actuarially-determined benefit obligation as of the measurement date. The under-funded status of the Council's plan is shown as a liability under "Health insurance for post-retirees" on the accompanying Statement of Financial Position. Changes in the funded status are shown within "Nonoperating changes in net assets" on the accompanying Statement of Activities.

Accumulated post-retirement benefit obligation at beginning of year	\$ 1,189,074
Interest cost	36,418
Participant contributions	-
Actuarial loss	20,597
Retiree benefit payments	<u>(148,547)</u>
Accumulated post-retirement benefit obligation at end of year	<u>\$ 1,097,542</u>
Fair value of plan assets	<u>\$ -</u>
Health insurance for post-retirees reflected in the statements of financial position	\$ 1,097,542
Less: current portion	<u>(139,421)</u>
Noncurrent portion	<u>\$ 958,121</u>

Cumulative amounts recognized in unrestricted net assets:

Prior service cost	\$ (458,544)
Net loss	<u>146,504</u>
Total	<u>\$ (312,040)</u>

The expected amortization to be included in net periodic post-retirement benefit cost for fiscal year 2015 is as follows:

Prior service cost	\$ (62,218)
Net loss	<u>4,318</u>
Total	<u>\$ (57,900)</u>

NATIONAL COUNCIL OF CHURCHES OF CHRIST IN THE U.S.A.

Notes to Financial Statements
For the year ended June 30, 2014

6. Post-Retirement Health Care and Pension Benefits, continued

Post-Retirement Health Care, continued

Net periodic post-retirement benefit cost for the year ended June 30, 2014 includes the following components:

Interest cost	\$ 36,418
Net amortization and deferral	(61,344)
Total net periodic post-retirement benefit cost	<u>\$ (24,926)</u>

Weighted-average assumptions:

Discount rate as of June 30 – obligation	<u>3.17%</u>
Discount rate for the year ended June 30 – cost	<u>3.17%</u>

The weighted-average annual assumed rates of increase in the per capita cost of the covered benefits (i.e., health care cost trend rate) begin at an initial rate of 7.5% and decrease gradually to 5% over five years.

Assumed health care cost trend rates have a significant effect on the amounts reported for the plan. A 1% change in assumed health care cost trend rates would have the following effects as of June 30, 2014:

	<u>1% Increase</u>	<u>1% Decrease</u>
Total interest and service cost components	\$ 36,455	\$ 36,382
Accumulated post-retirement benefit obligation	\$ 1,098,638	\$ 1,096,468

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the “Act”) introduced a prescription drug benefit under Medicare. The employee obligations at June 30, 2014 and the net periodic post-retirement benefit cost for the year ended June 30, 2014 reflect the effects of the Act.

Benefits expected to be paid are as follows:

	<u>Gross Benefit Payments</u>	<u>Gross Subsidy Receipts</u>	<u>Net Benefit Payments</u>
Fiscal year ending:			
2015	\$ 139,421	\$ -	\$ 139,421
2016	130,530	-	130,530
2017	121,867	-	121,867
2018	113,516	-	113,516
2019	93,889	-	93,889
2020 to 2024	352,906	-	352,906

NATIONAL COUNCIL OF CHURCHES OF CHRIST IN THE U.S.A.

Notes to Financial Statements
For the year ended June 30, 2014

6. Post-Retirement Health Care and Pension Benefits, continued

Pension Plan

The Council had sponsored a defined contribution retirement plan covering substantially all employees. The plan required the Council to deposit with the trustee an amount equivalent to (a) 11% of the employee's annual compensation for certain eligible employees and (b) 18.65% of annual compensation for ordained employees who were considered self-employed, as defined in Article IV of the Federal Social Security Act. This plan was frozen effective December 31, 2002.

403(b) Defined Contribution Retirement Plan

The Council sponsors a defined contribution retirement plan under Section 403(b) of the Internal Revenue Code. Benefits are based solely on the amounts of plan contributions and related earnings, if any. Employer contributions to the plan for the year ended June 30, 2014 were \$38,216.

7. Commitments

The Council leases office space in Washington, D.C. and is obligated under an operating lease for space expiring on March 31, 2016.

Future minimum lease payments under the operating lease are as follows:

Year ending June 30:	
2015	\$ 49,140
2016	<u>38,079</u>
Totals	<u>\$ 87,219</u>

Rent expense was approximately \$156,855 for the year ended June 30, 2014.

8. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for programs for a specific time period or purpose as follows as of June 30, 2014.

Mass Incarceration	\$ 400,960
M. A. Magnuson Memorial Fund	108,325
Department of Children's Work	269,374
Athern Scholarship	98,709
Responsible Parenthood	<u>179,655</u>
Total	<u>\$ 1,057,023</u>

NATIONAL COUNCIL OF CHURCHES OF CHRIST IN THE U.S.A.

Notes to Financial Statements
For the year ended June 30, 2014

8. Temporarily Restricted Net Assets, continued

Temporarily restricted net assets were released from restrictions in fiscal 2014 in fulfillment of the following purposes of spin offs:

Justice and Poverty	\$ 32,973
Capital Campaign Fund	114,750
Health Project	14,296
Eco-justice	129,621
Time Restricted (ECF)	225,139
Bail Bond Funds	15,123
Global Ecumenical (GETI)	<u>9,183</u>
Total	<u>\$ 541,085</u>

9. Permanently Restricted Net Assets

Permanently restricted net assets consist mainly of donations received for the Education and Leadership Ministries Commission. Earnings on these net assets may be used for the Council's operations.

10. Endowment Funds

Information about the net asset classification, net asset composition, and changes in net asset composition of the Council's donor-restricted endowment funds is presented below (there are no Board-designated endowments).

Composition of Donor-restricted Endowment Net Assets as of June 30, 2014

\$ 86,567

Changes in Endowment Net Assets for the fiscal year ended June 30, 2014

Endowment net assets – July 1, 2013	\$ 218,576
Reclassification of net assets	<u>(132,009)</u>
Endowment net assets – June 30, 2014	<u>\$ 86,567</u>

NATIONAL COUNCIL OF CHURCHES OF CHRIST IN THE U.S.A.

Notes to Financial Statements
For the year ended June 30, 2014

11. Functional Classification of Activities

The Council is required to present expenses on a functional basis if natural classifications are presented in the Statement of Activities. The functional allocation of expenses is based primarily on the amount of direct cost spent on the programs or activities and is presented below.

Education and leadership	\$ 660,674
Joint advocacy and justice	172,236
Faith and Order	111,820
Interfaith Relations	<u>111,820</u>
Total program expenses	1,056,560
Management and general	<u>635,510</u>
Total operating expenses	<u>\$ 1,692,060</u>

12. Income Taxes

The Council is a not-for-profit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Since its initial filing for tax-exempt status, the Council has not received any notice from the Internal Revenue Service (IRS) that such tax-exempt status has been challenged or changed. There was no taxable income as of June 30, 2014; therefore, no provision for income taxes has been included in the financial statements.

The preparation of financial statements in conformity with GAAP requires the Council to report information regarding its exposure to various tax positions taken by the Council. The Council has determined whether any tax positions met the recognition threshold and has measured the Council's exposure to those tax positions. Management believes the Council has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. The Council is subject to routine audits by the taxing jurisdiction; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2011.

13. Concentration of Credit Risk

The Council is required to disclose significant concentrations of credit risk, regardless of the degree of such risk. Periodically throughout fiscal year 2014, the Council maintained bank deposits that exceeded the limit of insurability under the Federal Deposit Insurance Corporation.

The Council has significant investments in stocks, bonds, and mutual funds, and is therefore subject to normal risks inherent with investing activity. Though the market value of investments is subject to fluctuations on a year-to-year basis, management believes the investment policy is prudent for the long-term welfare of the Council.

NATIONAL COUNCIL OF CHURCHES OF CHRIST IN THE U.S.A.

Notes to Financial Statements
For the year ended June 30, 2014

14. Subsequent Events

The Council has evaluated subsequent events that occurred after the balance sheet date but before March 3, 2015, the date the financial statements were available to be issued.

The Finance Committee approved a change in the year-end from a fiscal year to a calendar year basis on September 9, 2014. The Council's first year of operating on a calendar year will be 2015.