VALLEY PRESBYTERIAN CHURCH
AND AFFILIATE

COMBINED FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION

Year Ended December 31, 2014

VALLEY PRESBYTERIAN CHURCH
AND AFFILIATE

COMBINED FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION

Year Ended December 31, 2014

CONTENTS

Mayer Hoffman McCann P.C.
An Independent CPA Firm

3101 North Central Avenue, Suite 300
Phoenix, Arizona 85012
602-264-6835 ph
602-265-7631 fx
www.mhm-pc.com

INDEPENDENT AUDITORS' REPORT

To the Session of

VALLEY PRESBYTERIAN CHURCH and AFFILIATE

We have audited the accompanying combined financial statements of ***Valley Presbyterian Church and Affiliate*** (the "Organization") which comprise the combined statement of financial position as of December 31, 2014, and the related combined statements of activities and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

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

Basis for Qualified Opinion

As more fully described in Note 16 to the combined financial statements, ***Valley Presbyterian Church and Affiliate's*** combined financial statements do not include the accounts of ***Valley Presbyterian Day School***. In our opinion, the Organization's combined financial statements should include the accounts of ***Valley Presbyterian Day School*** to conform with accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, except for the effects of not including the accounts of **Valley Presbyterian Day School** in the accompanying combined financial statements as explained in the Basis for Qualified Opinion paragraph, the 2014 combined financial statements referred to above present fairly, in all material respects, the financial position of **Valley Presbyterian Church and Affiliate** as of December 31, 2014, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Mayer Hoffman McCann P.C.

Phoenix, Arizona
July 24, 2015

VALLEY PRESBYTERIAN CHURCH AND AFFILIATE

COMBINED STATEMENT OF FINANCIAL POSITION

December 31, 2014

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	$ 370,420
Receivables	19,940
Prepaid expenses	15,676
TOTAL CURRENT ASSETS	406,036
INVESTMENTS	4,539,155
PROPERTY AND EQUIPMENT, net	8,106,836
ASSETS HELD UNDER SPLIT-INTEREST AGREEMENTS	55,438
TOTAL ASSETS	$ 13,107,465

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable	$ 93,430
Accrued expenses	58,802
Current maturities of capital lease obligation	5,180
Current portion of liabilities under split-interest agreements	6,042
TOTAL CURRENT LIABILITIES	163,454
CAPITAL LEASE OBLIGATION, less current maturities	13,598
LIABILITIES UNDER SPLIT-INTEREST AGREEMENTS, net of current portion	36,842
TOTAL LIABILITIES	213,894
NET ASSETS	
Unrestricted:	
Board designated	3,945,565
Undesignated	8,232,132
Total unrestricted	12,177,697
Temporarily restricted	348,662
Permanently restricted	367,212
TOTAL NET ASSETS	12,893,571
TOTAL LIABILITIES AND NET ASSETS	$ 13,107,465

See Notes to Combined Financial Statements

VALLEY PRESBYTERIAN CHURCH AND AFFILIATE

COMBINED STATEMENT OF ACTIVITIES

Year Ended December 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
SUPPORT AND REVENUE				
Contributions and bequests	$ 2,547,323	$ 116,041	$ 32,790	$ 2,696,154
Encore revenues	58,771	-	-	58,771
Program fees	24,789	-	-	24,789
Investment income	86,997	10,159	-	97,156
Realized and unrealized investment gains	166,493	21,156	-	187,649
Change in value of split-interest agreements	(1,910)	1,784	-	(126)
Support and revenue before special events and net assets released from restrictions	2,882,463	149,140	32,790	3,064,393
Special events:				
Special events revenue	96,687	-	-	96,687
Less costs of direct donor benefits	(23,546)	-	-	(23,546)
Gross profit on special events	73,141	-	-	73,141
Net assets released from restrictions	195,732	(195,732)	-	-
TOTAL SUPPORT AND REVENUE	3,151,336	(46,592)	32,790	3,137,534
EXPENSES				
Program services:				
Pastoral ministry	435,692	-	-	435,692
Facilities	468,592	-	-	468,592
Missions	274,552	-	-	274,552
Worship and music	265,583	-	-	265,583
Christian education	291,246	-	-	291,246
Encore expenses	66,744	-	-	66,744
Foodservices	59,048	-	-	59,048
Depreciation	324,544	-	-	324,544
Divorce recovery	30,093	-	-	30,093
Fellowship and congregational care	18,901	-	-	18,901
Evangelism	5,337	-	-	5,337
Total program services	2,240,332	-	-	2,240,332
Support services:				
General and administrative	591,515	-	-	591,515
Depreciation	66,637	-	-	66,637
Other	90,375	-	-	90,375
Total support services	748,527	-	-	748,527
TOTAL EXPENSES	2,988,859	-	-	2,988,859
CHANGE IN NET ASSETS	162,477	(46,592)	32,790	148,675
NET ASSETS, BEGINNING OF YEAR	12,015,220	395,254	334,422	12,744,896
NET ASSETS, END OF YEAR	$ 12,177,697	$ 348,662	$ 367,212	$ 12,893,571

See Notes to Combined Financial Statements

VALLEY PRESBYTERIAN CHURCH AND AFFILIATE

COMBINED STATEMENT OF CASH FLOWS

Year Ended December 31, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ 148,675
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	391,181
Endowment contribution	(32,790)
Forgiveness of pastor note receivable	6,094
Change in allowance for uncollectible promises to give and uncollectible note receivable	(6,094)
Realized and unrealized investment gains	(187,649)
Contributions restricted for purchase of property and equipment	(55,952)
Changes in operating assets and liabilities:	
(Increase) decrease in:	
Receivables	(15,012)
Prepaid expenses	(1,514)
Assets held under split interest agreements	2,275
Increase (decrease) in:	
Accounts payable	2,073
Accrued expenses	7,039
Liabilities under split interest agreements	(2,358)
Net cash provided by operating activities	255,968
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales of investments	1,141,228
Purchases of investments	(1,282,960)
Purchases of property and equipment	(159,552)
Net cash used in investing activities	(301,284)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from note payable	205,000
Cash received for endowment contribution	32,790
Proceeds from contributions restricted to purchase of property and equipment	55,952
Payments on capital lease obligation	(4,936)
Payments on note payable	(205,000)
Net cash provided by financing activities	83,806
NET CHANGE IN CASH AND CASH EQUIVALENTS	38,490
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	331,930
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 370,420
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	
Cash paid for interest	$ 4,874

See Notes to Combined Financial Statements

(1) Organization operations and summary of significant accounting policies

Nature of operations – ***Valley Presbyterian Church*** *(*the "Church") was organized on October 31, 1956 and is a constituent of the Presbyterian Church of the United States of America. The Church is a nonprofit organization and is dedicated to spreading the Gospel through establishing, developing, and promoting all aspects of church ministry within Paradise Valley, Arizona and the surrounding communities. The Church is supported primarily through contributions from the congregation. Additionally, the Church operates Encore University ("Encore"), which is a non-profit ministry of Valley Presbyterian Church for persons "50 and better" in the greater Paradise Valley and Scottsdale community. Encore offers a diverse program of artistic and intellectual classes, special events, speakers, cultural experiences, and adventure and travel activities. The mission of Encore is to build new relationships, to foster a sense of community, to study scripture, to participate in other adventures in lifelong learning, and to experience enriched lives and faith via action.

Valley Presbyterian Foundation (the "Foundation") was organized on February 18, 1976 as a nonprofit corporation with the purpose of providing income exclusively to the Church. This income is intended to strengthen and extend the work of the Church in areas that are not part of the operating budget. In addition, the Foundation is the Trustee under the terms of the irrevocable trusts described in Note 12. The assets and liabilities of the Memorial Gardens Trust are included in the Foundation.

The Church and the Foundation (collectively referred to as the "Organization") have common members of their respective sessions.

Valley Presbyterian Day School (the "School") was organized on January 10, 1991 as a nonprofit corporation with the purpose of providing a Christian school built upon a sound educational program for young children of the community, as part of the charter outreach of the Church. The Organization has both control of and an economic interest in the School. However, management of the Organization has elected not to include the activities of the School in the accompanying combined financial statements.

The significant accounting policies followed by the Organization are summarized below:

The Financial Accounting Standards Board ("FASB") sets generally accepted accounting principles in the United States of America ("GAAP") to ensure consistent reporting. References to GAAP are to the FASB Accounting Standards Codification ("FASB ASC").

Combined financial statements – The accompanying combined financial statements include the accounts of the Church and the Foundation, both of which are under common control. All significant intercompany transactions and accounts have been eliminated in combination.

Basis of presentation – The accompanying combined financial statements are presented in accordance with FASB ASC 958-205, *Not-for-Profit Organizations – Presentation of Financial Statements*. Under FASB ASC 958-205, the Organization is required to report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Organization in perpetuity.

Management's use of estimates – The preparation of combined 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 and disclosure of contingent assets and liabilities at the date of the combined financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

(1) <u>Organization operations and summary of significant accounting policies (continued)</u>

Contributions – The Organization accounts for contributions in accordance with FASB ASC 958-605, *Not-for-Profit Entities – Revenue Recognition*. In accordance with FASB ASC 958-605, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted.

Special events revenue – The Organization conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event. Unless a verifiable, objective reason exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the Organization. The direct costs of the special events which ultimately benefit the donor rather than the Organization are included in special events revenues and simultaneously recorded as costs of direct donor benefits. All proceeds received in excess of the direct costs are recorded as gross profit on special events in the accompanying combined statement of activities.

Revenue recognition – The Organization offers various other services. Revenue from the operation of Encore, fees, events, and other sources are recognized in the period in which the services are provided.

Donated materials and services – Donated materials and professional services are recognized as contributions, in accordance with FASB ASC 958-605, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased. The Organization has reflected donated materials and professional services totaling $12,246 in 2014, in contribution revenue in the accompanying combined statement of activities. No amounts have been reflected in the combined financial statements for certain donated volunteer services because they did not qualify for recording under the guidelines of FASB ASC 958-605; however, a substantial number of volunteers have donated significant amounts of their time to administer the numerous ministries and programs of the Organization.

Cash – Cash consists of cash and, at times, cash equivalents, which consist of highly liquid financial instruments purchased with original maturities of three months or less. Deposits at each institution are insured in limited amounts by the Federal Deposit Insurance Corporation (FDIC).

Receivables – 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 that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to receivables. Receivables are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts is not considered necessary as of December 31, 2014.

Investments – In accordance with FASB ASC 958-320, *Not-for-Profit Entities – Investments - Debt and Equity Securities,* the Organization reports investments in equity securities that have readily determinable fair values, and all investments in debt securities, at fair value in the accompanying combined statement of financial position.

(1) Organization operations and summary of significant accounting policies (continued)

The Organization has elected to report its other investments at the lower of cost or fair value in accordance with FASB ASC 958-325*, Not-for-Profit Entities – Investments – Other*. As of December 31, 2014, the Organization's other investments consisted of Funds held at the Presbyterian Foundation and investments in non-traded real estate investment trusts (REITs) which are further described in Note 3. The Organization determined their cost basis in these other investments is lower than the estimated fair value.

Investments are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect account balances and the amounts reported in the accompanying combined financial statements.

Property and equipment and related depreciation – Purchased property and equipment is recorded at cost and donated property and equipment is recorded at fair value at the date of the gift to the Organization. Maintenance and repairs are charged to operations when incurred. Betterments and renewals in excess of $1,000 are capitalized. When property and equipment is sold or otherwise disposed of, the asset and related accumulated depreciation account is relieved and any gain or loss is included in operations. Depreciation of property and equipment is computed using the straight-line method over the following estimated range of useful lives:

Landes center, education and administration facility	5 - 39 years
Sanctuary	5 - 50 years
Chapel	5 - 50 years
Furniture, fixtures and equipment	7 years
Music building	7 - 40 years
Memorial garden	5 - 40 years
Automotive equipment	5 years
Equipment held under capital lease	5 years

Donations of property and equipment are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor, at which time the Organization reclassifies temporarily restricted net assets to unrestricted net assets.

Impairment of long-lived assets – The Organization accounts for long-lived assets in accordance with the provisions of FASB ASC 360, *Property, Plant and Equipment*. FASB ASC 360 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. No impairment charges were recorded for 2014.

(1) Organization operations and summary of significant accounting policies (continued)

Functional allocation of expenses – The costs of providing the Organization's various programs and activities have been summarized on a functional basis in the combined statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on personnel activity and other appropriate allocation methods. The expense category, support services, includes those expenses that are not directly identifiable with any specific program but provide overall support and direction to the Organization.

Advertising – The Organization uses advertising to promote its programs among the audiences it serves. Advertising costs are expensed as incurred. Advertising expense for the year ended December 31, 2014 was approximately $3,400.

Fair value measurements – FASB ASC 820, *Fair Value Measurements,* establishes a common definition for fair value to be applied to accounting principles generally accepted in the United States of America requiring the use of fair value, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements. It also establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values by requiring that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted market prices in active markets for identical assets or liabilities.

Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.

Level 3: Unobservable inputs for the asset or liability.

Income tax status – The Church and Foundation qualify as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code ("IRC") and, accordingly, there is no provision for income taxes. In addition, the Internal Revenue Service has determined that the Church and Foundation are not private foundations under the provisions of Section 509 (a) of the Internal Revenue Code. Income determined to be unrelated business taxable income ("UBTI") would be taxable.

The Organization accounts for their uncertain tax positions in accordance with the provisions of FASB ASC 740, *Income Taxes* by applying a more-likely-than-not threshold to the recognition and de-recognition of uncertain tax positions in earnings in the year of such change. The Organization evaluates their uncertain tax positions, if any, on a continual basis through review of their policies and procedures, review of their regular tax filings, and discussions with outside experts. The Organization is not required to file a 990; and accordingly, there is no statute of limitations on an IRS examination.

Recent accounting pronouncement – In April 2013, the FASB issued ASU No. 2013-06 ("ASU 2013-06") *Not-for-Profit Entities (Topic 958) Services Received from Personnel of an Affiliate*. ASU 2013-06 provides revenue recognition guidance for not-for-profit entities requiring that contributed services be recognized at fair value if employees of separately governed affiliated entities regularly perform services (in other than an advisory capacity) for and under the direction of the donee. In addition, that guidance indicates that those contributed services should be recognized only if they (1) create or enhance nonfinancial assets or (2) require specialized skills, are provided by individuals possessing those skills, and typically would need to be purchased if not provided by donation. ASU 2013-06 is effective for the first reporting period beginning after June 15, 2014. The Organization is evaluating the impact of adopting ASU 2013-06, but currently believes there will be no significant impact on its combined financial statements.

(1) Organization operations and summary of significant accounting policies (continued)

In May 2014, the FASB issued ASU No. 2014-09 ("ASU 2014-09"), *Revenue from Contracts with Customers*. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, ASU 2014-09 will require an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. For nonpublic entities, the ASU will be effective for annual reporting periods beginning after December 15, 2017 and interim periods within annual periods beginning after December 15, 2018. Nonpublic entities may elect to early adopt the ASU, however adoption is not permitted prior to the public entity effective date. The Organization is evaluating the impact of adopting ASU 2014-09, but currently believes there will be no significant impact on its combined financial statements.

Subsequent events – The Organization has evaluated subsequent events through July 24, 2015, which is the date the combined financial statements were available to be issued.

(2) Note receivable from Pastor

Note receivable from Pastor consisted of a promissory note dated August 1, 2004 that was unsecured with interest only payments at 5.25% until August 1, 2005 and then prime plus 1%, not to be less than 5.25% or exceed 12% (5.25% at December 31, 2014). The note required annual principal payments of $5,000 until the unpaid principal amount of the note was paid in full. During 2014, the remaining principal balance of $6,094 was forgiven in full.

(3) Investments

Investments consist of the following as of December 31, 2014:

Cash	$ 999,112
Equity – domestic stock	1,178,586
Equity mutual funds	
Equity mutual funds – alternative	218,369
Equity mutual funds – U.S.	971,654
Equity mutual funds – small blend	116,660
Other equity mutual funds	89,264
Fixed income mutual funds	
Fixed income mutual funds – U.S.	183,459
Fixed income mutual funds – alternative	75,237
Other fixed income mutual funds	143,427
International stock	61,690
Intermediate term bonds	370,915
Assets held under split interest agreement	55,438
Funds held at Valley Presbyterian Foundation	39,630
Real estate investment trust	91,152
Total investments	$ 4,594,593

Investment fees incurred and charged to operations, including custodial fees and investment advisory fees totaled $40,566 for 2014.

(3) Investments (continued)

Investment income and gains consists of the following for the year ended December 31, 2014:

Dividend and interest income	$ 97,156
Realized and unrealized investment gains	187,649
Total	$ 284,805

In 2013, the Organization purchased an investment in a real estate investment trust which is not publically traded and is subject to redemption restrictions. In order for the Organization to redeem their investment in the real estate investment trust at a value at least equal to cost, the Organization is required to hold the investment for a minimum of four years unless the trust is subject to a public offering or a price per share unrelated to the original offering price is established. The primary investment objective of the trust is to preserve and return capital contributions of investors and to provide investors with attractive and stable cash distributions. The Organization is carrying this investments at cost in accordance with FASB ASC 958-325.

(4) Property and equipment

Property and equipment consists of the following as of December31, 2014:

Cost and donated value:	
Landes Center, education and administrative facility	$ 10,055,362
Sanctuary	1,298,318
Chapel	992,078
Furniture, fixtures and equipment	775,552
Music building	484,376
Memorial garden	237,955
Land	80,000
Automotive equipment	26,482
Equipment held under capital lease	27,650
Total cost and donated value	13,977,773
Accumulated depreciation	(5,870,937)
Property and equipment, net	$ 8,106,836

Depreciation expense charged to operations was $391,181 for 2014.

In March 2013, the Organization entered into a non-cancelable capital lease agreement. The cost of the asset held under capital lease agreements totaled $27,650 at December 31, 2014. Accumulated amortization on assets held under the capital lease agreement totaled $9,678 at December 31, 2014.

(5) Capital lease obligation

In March 2013, the Organization entered into a non-cancelable capital lease agreement for certain equipment that expires in May 2018 and bears interest at 4.8%. The obligation under the capital lease reflects the present value of future lease payments discounted at the interest rate implicit in the lease. Total interest expense related to this capital lease was $1,037 for 2014.

(5) Capital lease obligation (continued)

The future minimum lease payments required under the capital lease are as follows:

Years Ending December 31,		
2015	$	19,142
2016		19,142
2017		19,142
2018		7,976
Total future minimum lease payments		65,402
Less amounts representing interest		(1,629)
Less amounts representing service/maintenance		(44,995)
Present value of minimum lease obligation		18,778
Less current portion		(5,180)
Non-current portion	$	13,598

(6) Split interest agreements

The Organization has been named the beneficiary in irrevocable trusts held by the Presbyterian Foundation. Assets of the trusts represent the fair value of the assets held by the Presbyterian Foundation as gifts from which a lifetime annuity is paid to the donor or other named beneficiary(s). Upon termination of the annuity, the principal becomes available for the Organization's use in accordance with donor restrictions, or if no restrictions are imposed by the donor, for the Organization's unrestricted use. The fair value of the charitable remainder interests was determined as the present value of the estimated future cash flows using a discount rate of 6% for 2014. The fair value of charitable remainder interests expected to be received by the Organization was estimated to be $7,455 at December 31, 2014.

The Organization is currently the irrevocable beneficiary of a charitable remainder trust. The charitable remainder trust provides for the payment of distributions to the grantor over the trust's term (the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for the Organization's use. The fair market value of the assets held in the charitable remainder trust was $47,983 at December 31, 2014. The portion of the trust attributable to the present value of the future benefits to be received by the Organization is recorded as a temporarily restricted contribution in the period the trust is established. On an annual basis, the Organization recalculates the liability to adjust distributions to the designated beneficiary based on actuarial assumptions. Adjustments to reflect the valuation of the present value of the estimated annuity payments and changes in actuarial assumptions are recognized in the combined statement of activities as a change in the value of split interest agreements. The liabilities under split-interest agreements include the present value of the estimated annuity payments for the charitable remainder trust ($42,884 at December 31, 2014) which is calculated using a discount rate of 2.0% for 2014, and the applicable Internal Revenue Service mortality tables.

The investments associated with the charitable remainder trusts have been accounted for in accordance with FASB ASC 958-320, *Not-for-Profit Entities – Investments – Debt and Equity Securities*. Under FASB ASC 958-320, the Organization is required to report investments in equity securities that have readily determinable fair values and all investments in debt securities, at fair value. The fair values of investments are based on quoted market prices. The charitable remainder trust investments consist entirely of U.S. equity mutual funds, international fixed income mutual funds and cash at December 31, 2014.

(7) Notes payable, bank

In July 2013, the Church entered into a line of credit agreement with a limit of $250,000. The line of credit is guaranteed by the Foundation. The line of credit does not mature until default or notice is given by the lender. Interest is charged at the prime rate plus 0.63% (3.88% at December 31, 2014). No amounts were outstanding under the line of credit as of December 31, 2014.

Total interest expense related to this note payable was $3,837 for 2014.

(8) Temporarily restricted net assets

Temporarily restricted net assets consist of:

	2014
Church:	
Support for missions	$ 2,150
Deacon fund	21,050
Divorce recovery program	8,567
Church subtotal	31,767
Foundation:	
Music program	260,055
Legacy dinner underwriting	24,657
Split interest agreements	12,553
Scholarships	3,022
Music and arts	2,665
Freeman fund	648
Christian education program	6,390
Annis Organ Fund	1,312
McKee Youth Mission Fund	320
Boy Scouts	5,273
Foundation subtotal	316,895
Total combined temporarily restricted net assets	$ 348,662

Net assets released from restriction consist of:

	2014
Church:	
Support for missions	$ 106,272
Deacon fund	36,761
Divorce recovery program	29,911
Church subtotal	172,944
Foundation:	
Music program	10,297
Split interest agreements	6,264
Scholarships	2,092
Music and arts	1,473
Freeman fund	345
Christian education program	965
McKee Youth Mission Fund	437
Boy Scouts	915
Foundation subtotal	22,788
Total combined net assets released from restriction	$ 195,732

(9) Board designated unrestricted assets

The Board of Trustees has designated portions of the unrestricted net assets for various purposes. The board designated unrestricted assets are comprised primarily of board designated endowments for which the corpus and unspent earnings have been designated for various purposes, including use in future periods, maintenance, and programs. At times, board designated unrestricted assets also consists of specific funds set aside by the board for specific purposes other than those in the board designated endowments.

(10) Endowments

The Organizations' endowments consists of several individual funds established for a variety of purposes. The endowments include both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

In September 2008, the State of Arizona enacted ARS§10-11801 et seq Management of Charitable Funds Act (MCFA). The Board of Trustees of the Organization has interpreted MCFA as requiring the preservation of 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 interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by MCFA.

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 while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Organization expects its endowment funds, over time, to provide an average rate of return of approximately 6 percent annually. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Organization's Board of Trustees has discretion over the amounts appropriated for distribution. In recent periods, the Board of Trustees appropriated for distribution 5 percent of its endowment fund's average fair value over the prior 3 years through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this practice, the Organization considered the long-term expected return on its endowments.

(10) Endowments (continued)

The following table presents the endowment net assets composition by type of fund as of December 31, 2014:

At December 31, 2014:	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (21,657)	$ 279,686	$ 367,212	$ 625,241
Board-designated endowment funds	3,944,902	-	-	3,944,902
Total funds	$ 3,923,245	$ 279,686	$ 367,212	$ 4,570,143

The changes in endowment net assets for the year ended December 31, 2014 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2014	$ 3,737,227	$ 269,657	$ 334,422	$ 4,341,306
Contributions	95,221	-	32,790	128,011
Investment return:				
Investment income	87,344	8,326	-	95,670
Net appreciation	168,709	18,227	-	186,936
Appropriation of endowment assets for expenditure	(165,256)	(16,524)	-	(181,780)
Endowment net assets, December 31, 2014	$ 3,923,245	$ 279,686	$ 367,212	$ 4,570,143

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 MCFA requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were $21,657 as of December 31, 2014. These deficiencies resulted primarily from unfavorable market fluctuations.

(11) Permanently restricted net assets

Permanently restricted net assets consist of:	2014
Scholarship endowments	$ 167,000
Music endowments	87,546
McKee Youth Mission	19,322
Whiting Fund	23,620
Boy Scouts	21,362
Kreizenbeck Fund	13,744
Cecil Farrell Thielman Memorial	4,277
Freeman Fund	3,256
Schmitt Memorial	2,000
F. Reid III Nursery Fund	1,893
Annis Organ Fund	20,192
Other	3,000
Total permanently restricted net assets	$ 367,212

(12) Trust beneficiary

The Church has been named as one of the beneficiaries of the Freeda Roth Greenan Trust. Upon the death of any of the primary beneficiaries, 2% of their share of income from the trust is to be distributed to the Church. Upon the death of all the primary beneficiaries, 25% of the entire corpus of the trust will be distributed to the Church. The Trustee has estimated the total market value of the trust to be approximately $1,423,000 as of December 31, 2014. No amounts have been reflected in the combined financial statements for this interest, as the trust is revocable.

The Memorial Gardens Trust was established by the Church on July 20, 1987, naming the Foundation as the Trustee, for purposes of maintaining the Memorial Gardens at the Church in perpetuity. The Memorial Gardens Trust must retain funds that are actuarially determined to meet the future requirements of the Memorial Gardens for maintenance and repair. The Trustee may distribute income and principal of the Memorial Gardens Trust to the Valley Presbyterian Church once the trust corpus is safely above the actuarially determined amounts necessary to maintain the Memorial Gardens in perpetuity. At December 31, 2014, this fund totaled $358,032 and was included in the Foundation investments.

(13) Retirement plan

Employees of the Church are eligible to participate in a defined contribution pension plan sponsored by the Presbyterian Church (U.S.A.). Contributions are made to the plan based upon 11% of each employee's effective salary rate. The employer contributions to the plan totaled approximately $80,000 for 2014.

(14) National per capita assessment

The Organization makes per capita payments to the National Presbyterian Church on an annual basis. The per capita payment was $52,607 for 2014.

(15) Fair value measurements

The following table summarizes the valuation of the Organization's assets and liabilities by the above categories as of December 31, 2014:

	(Level 1)	(Level 2)	(Level 3)
Domestic stock			
Healthcare	$ 181,914	$ -	$ -
Technology	206,724	-	-
Consumer Goods	294,260	-	-
Utilities	76,927	-	-
Industrial Goods	186,498	-	-
Financial	119,180	-	-
Other domestic stock	113,083	-	-
Equity mutual funds			
Equity mutual funds – Alternative	218,369	-	-
Equity mutual funds – U.S	971,654	-	-
Equity mutual funds – Small Blend	116,660	-	-
Other equity mutual funds	89,264	-	-
Fixed income mutual funds			
Fixed income mutual funds – U.S.	183,459	-	-
Fixed income mutual funds – Alternative	75,237	-	-
Other fixed income mutual funds	143,427	-	-
International stock	61,690	-	-
Intermediate term bonds	-	370,915	-
Assets held under split interest agreement	47,983	-	7,455

(15) Fair value measurements (continued)

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes to methodologies used at December 31, 2014.

Equity securities – Equity securities are measured using the quoted market prices for each security from major stock exchanges or other electronic quotation systems.

Mutual funds – Mutual funds are valued at the NAV of shares held by the Foundation at year end based on readily determinable fair values, which are published daily and are the basis for current transactions.

Bonds – Bonds are valued using propriety valuation models incorporating live data from active market makers and inter-dealer brokers as reported on electronic communication networks. The valuation models incorporate benchmark yields, reported trades, broker/dealer quotes, bids, offers, and other data.

Charitable remainder interest in a trust held by a third party – The charitable remainder interest in a trust held by a third party trustee was valued based upon managerial assumptions regarding the future estimated cash flows of the trust and estimated market discount rates in those cash flows.

The table below presents the change in fair value measurements that used Level 3 inputs during the year ended December 31:

	2014
Balance on January 1	$ 8,029
Change in value recognized in earnings	(574)
Balance at December 31	$ 7,455

The Organization had no other assets and liabilities subject to fair value measurement other than at initial recognition.

(16) Uncombined affiliate

The Organization's combined financial statements do not include the accounts of the Valley Presbyterian Day School (the "School"). The Organization has both control and an economic interest in the School. Accordingly, under accounting principles generally accepted in the United States of America, the School should be combined with the Organization. The School's fiscal period begins June 1st and ends May 31st and the accounts are maintained on a cash basis of accounting, which is not a accounting basis generally accepted in the United States of America. Management of the Organization has elected not to include the activities of the School in these combined financial statements.

If the accounts (on the cash basis and unaudited) of the School were included in the combined statement of financial position, net assets would increase by approximately $153,000 at December 31, 2014. The change in net assets in the combined statement of activities would increase by approximately $17,000 for the year ended December 31, 2014.

Mayer Hoffman McCann P.C.
An Independent CPA Firm

3101 North Central Avenue, Suite 300
Phoenix, Arizona 85012
602-264-6835 ph
602-265-7631 fx
www.mhm-pc.com

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

We have audited the 2014 combined financial statements of ***Valley Presbyterian Church and Affiliate*** (collectively, the "Organization") as of and for the year ended December 31, 2014, and our report thereon dated July 24, 2015, which expresses a qualified opinion on these combined financial statements, appears on pages 1 and 2. Our audit was performed for the purpose of forming an opinion on the combined financial statements as a whole. The 2014 combining statement of financial position and combining statement of activities on pages 19 and 20 are presented for purposes of additional analysis of the combined financial statements rather than to present the financial position and results of operations of the individual organizations, and are not a required part of the combined financial statements. The combining information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The combining information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining information is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

Mayer Hoffman McCann P.C.

Phoenix, Arizona
July 24, 2015

VALLEY PRESBYTERIAN CHURCH AND AFFILIATE

ADDITIONAL INFORMATION

December 31, 2014

COMBINING STATEMENT OF FINANCIAL POSITION

A S S E T S

	Church	Foundation and Memorial Gardens Trust	Eliminations	Total
CURRENT ASSETS				
Cash	$ 339,432	$ 30,988	$ -	$ 370,420
Receivables	19,940	22,846	(22,846)	19,940
Prepaid expenses	5,402	10,274	-	15,676
TOTAL CURRENT ASSETS	364,774	64,108	(22,846)	406,036
INVESTMENTS	-	4,539,155	-	4,539,155
CAPITAL IMPROVEMENT LOAN RECEIVABLE	-	92,432	(92,432)	-
PROPERTY AND EQUIPMENT, net	8,106,836	-	-	8,106,836
ASSETS HELD UNDER SPLIT-INTEREST AGREEMENTS	-	55,438	-	55,438
TOTAL ASSETS	$ 8,471,610	$ 4,751,133	$ (115,278)	$ 13,107,465

L I A B I L I T I E S   A N D   N E T   A S S E T S

	Church	Foundation and Memorial Gardens Trust	Eliminations	Total
CURRENT LIABILITIES				
Accounts payable	$ 112,853	$ 3,423	$ (22,846)	$ 93,430
Accrued expenses	58,802	-	-	58,802
Current maturities of capital lease obligation	5,180	-	-	5,180
Current portion of liabilities under split-interest agreements	-	6,042	-	6,042
TOTAL CURRENT LIABILITIES	176,835	9,465	(22,846)	163,454
CAPITAL IMPROVEMENT LOAN PAYABLE	92,432		(92,432)	-
CAPITAL LEASE OBLIGATION, less current maturities	13,598	-	-	13,598
LIABILITIES UNDER SPLIT-INTEREST AGREEMENTS, net of current portion	-	36,842	-	36,842
TOTAL LIABILITIES	282,865	46,307	(115,278)	213,894
NET ASSETS				
Unrestricted	8,156,978	4,020,719	-	12,177,697
Temporarily restricted	31,767	316,895	-	348,662
Permanently restricted	-	367,212	-	367,212
TOTAL NET ASSETS	8,188,745	4,704,826	-	12,893,571
TOTAL LIABILITIES AND NET ASSETS	$ 8,471,610	$ 4,751,133	$ (115,278)	$ 13,107,465

VALLEY PRESBYTERIAN CHURCH AND AFFILIATE

ADDITIONAL INFORMATION

Year Ended December 31, 2014

COMBINING STATEMENT OF ACTIVITIES

	Church	Foundation and Memorial Gardens Trust	Eliminations	Total
SUPPORT AND REVENUE				
Contributions and bequests	$ 2,385,858	$ 345,270	$ (34,974)	$ 2,696,154
Encore revenues	58,771	-	-	58,771
Program fees	24,789	-	-	24,789
Investment income	407	98,662	(1,913)	97,156
Realized and unrealized investment gains	-	187,649	-	187,649
Change in value of split-interest agreements	-	(126)	-	(126)
Foundation support	122,068	-	(122,068)	-
Total support and revenue before special events	2,591,893	631,455	(158,955)	3,064,393
Special events:				
Special events revenue	-	96,687	-	96,687
Less costs of direct donor benefits	-	(23,546)	-	(23,546)
Gross profit on special events	-	73,141	-	73,141
TOTAL SUPPORT AND REVENUE	2,591,893	704,596	(158,955)	3,137,534
EXPENSES				
Program services:				
Pastoral ministry	435,692	-		435,692
Facilities	457,794	-	10,798	468,592
Missions	274,973	(421)		274,552
Worship and music	251,858	-	13,725	265,583
Christian education	285,055	-	6,191	291,246
Encore expenses	66,744	-	-	66,744
Foodservices	59,048	-		59,048
Depreciation	324,544	-		324,544
Divorce recovery	29,911	12,424	(12,242)	30,093
Fellowship and congregational care	18,901	-		18,901
Evangelism	5,337	-	-	5,337
Total program services	2,209,857	12,003	18,472	2,240,332
Support services:				
General and administrative	591,515	-	-	591,515
Depreciation	66,637	-	-	66,637
Other	14,847	252,955	(177,427)	90,375
Total support services	672,999	252,955	(177,427)	748,527
TOTAL EXPENSES	2,882,856	264,958	(158,955)	2,988,859
CHANGE IN NET ASSETS	(290,963)	439,638	-	148,675
NET ASSETS, BEGINNING OF YEAR	8,479,708	4,265,188	-	12,744,896
NET ASSETS, END OF YEAR	$ 8,188,745	$ 4,704,826	$ -	$ 12,893,571

See Independent Auditors' Report on Additional Information