

**THE GIDEONS INTERNATIONAL  
AND SUBSIDIARY**

**Consolidated Financial Statements**

**May 31, 2014 and 2013**

**(With Independent Auditors' Report Thereon)**



**LATTIMORE BLACK MORGAN & CAIN, PC**  
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

# THE GIDEONS INTERNATIONAL AND SUBSIDIARY

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## INDEPENDENT AUDITORS' REPORT

Executive Committee  
The Gideons International

We have audited the accompanying consolidated financial statements of The Gideons International and Subsidiary (nonprofit organizations) which comprise the consolidated statements of financial position as of May 31, 2014 and 2013, 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.

### *Auditors' 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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 polices 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 that 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 The Gideons International and Subsidiary as of May 31, 2014 and 2013, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Lattimore Black Morgan & Cain, PC*  
Brentwood, Tennessee  
July 8, 2014

THE GIDEONS INTERNATIONAL AND SUBSIDIARY

Consolidated Statements of Financial Position

May 31, 2014

	Unrestricted			
	General	Board Designated	Total	Total
<u>Assets</u>				
Cash and cash equivalents	\$ 10,231,923	\$ (472,821)	\$ 9,759,102	\$ 10,422,270
Accounts and other receivables	286,752	-	286,752	286,752
Merchandise and scripture inventory	1,390,326	-	1,390,326	1,390,326
Prepaid expenses and deposits	482,904	-	482,904	482,904
Investments	714,068	11,184,736	11,898,804	30,018,966
Real estate	515,125	-	515,125	734,150
Mortgage notes receivable	1,937,328	-	1,937,328	2,450,572
Cash surrender value of life insurance	2,076,550	-	2,076,550	2,076,550
Due from (to) other funds	950,456	-	950,456	-
Property and equipment, net	8,847,337	-	8,847,337	8,847,337
Total assets	\$ 27,432,769	\$ 10,711,915	\$ 38,144,684	\$ 56,709,827
<u>Liabilities and Net Assets</u>				
Liabilities:				
Accounts payable	\$ 13,589,802	\$ -	\$ 13,589,802	\$ 13,589,802
Accrued payroll	155,235	-	155,235	155,235
Rebates due to state associations and auxiliary	2,157,191	-	2,157,191	2,157,191
Other accrued expenses	579,132	-	579,132	650,632
Post-retirement benefit obligations	437,211	-	437,211	437,211
Liability to nonqualified pension plan participants	-	-	-	2,426,973
Present value of future payments to donors and annuitants	-	2,426,973	2,426,973	11,528,794
Total liabilities	16,918,571	2,426,973	19,345,544	30,945,838
Commitments for the purchase of approximately 80,450,600 scriptures amounting to approximately \$85,436,900				
Net assets	10,514,198	8,284,942	18,799,140	25,763,989
Total liabilities and net assets	\$ 27,432,769	\$ 10,711,915	\$ 38,144,684	\$ 56,709,827

See accompanying notes to the consolidated financial statements.

THE GIDEONS INTERNATIONAL AND SUBSIDIARY

Consolidated Statements of Financial Position

May 31, 2013

	Unrestricted			Total	Temporarily Restricted	Permanently Restricted	Total
	General	Board Designated					
<u>Assets</u>							
Cash and cash equivalents	\$ 10,008,170	\$ (1,539,666)	\$ 8,468,504	\$ 927,396	\$ 282,332	\$ 9,678,232	
Accounts and other receivables	365,111	-	365,111	-	-	365,111	
Merchandise scripture inventory	1,341,993	-	1,341,993	-	-	1,341,993	
Prepaid expenses and deposits	557,517	-	557,517	-	-	557,517	
Investments	749,313	11,440,280	12,189,593	12,449,994	4,981,697	29,621,284	
Cash surrender value of life insurance	1,932,429	-	1,932,429	-	-	1,932,429	
Due from (to) other funds	1,843,377	-	1,843,377	(1,843,377)	-	-	
Property and equipment, net	9,477,122	-	9,477,122	-	-	9,477,122	
Total assets	\$ 26,275,032	\$ 9,900,614	\$ 36,175,646	\$ 11,534,013	\$ 5,264,029	\$ 52,973,688	
<u>Liabilities and Net Assets</u>							
Liabilities:							
Accounts payable	\$ 10,821,571	\$ -	\$ 10,821,571	\$ -	\$ -	\$ 10,821,571	
Accrued payroll	140,861	-	140,861	-	-	140,861	
Rebates due to state associations and auxiliary	1,865,848	-	1,865,848	-	-	1,865,848	
Post-retirement benefit obligations	440,112	-	440,112	-	-	440,112	
Liability to nonqualified pension plan participants	-	2,597,829	2,597,829	-	-	2,597,829	
Present value of future payments to donors and annuitants	-	-	-	9,721,406	-	9,721,406	
Total liabilities	13,268,392	2,597,829	15,866,221	9,721,406	-	25,587,627	
Commitments for the purchase of approximately 75,865,000 scriptures amounting to approximately \$80,272,000							
Net assets	13,006,640	7,302,785	20,309,425	1,812,607	5,264,029	27,386,061	
Total liabilities and net assets	\$ 26,275,032	\$ 9,900,614	\$ 36,175,646	\$ 11,534,013	\$ 5,264,029	\$ 52,973,688	

See accompanying notes to the consolidated financial statements.

THE GIDEONS INTERNATIONAL AND SUBSIDIARY

Consolidated Statements of Activities

Year ended May 31, 2014

	Unrestricted				Total
	General	Board Designated	Temporarily Restricted	Permanently Restricted	
Revenues and gains:					
Contributions	\$ 119,762,046	\$ -	\$ 909,185	\$ 212,168	\$ 120,883,399
Dues income	6,799,453	-	-	-	6,799,453
Investment income	398,137	678,567	832,008	448,131	2,356,843
Merchandise sales, net of cost of merchandise sold of \$2,922,112	279,100	-	-	-	279,100
Other income	5,761,411	-	-	-	5,761,411
Total revenue and gains	133,000,147	678,567	1,741,193	660,299	136,080,206
Net assets released from restrictions - satisfaction of time restrictions	39,953	-	(39,953)	-	-
Total revenues, gains and net assets released from restrictions	133,040,100	678,567	1,701,240	660,299	136,080,206
Expenses and losses:					
Scripture purchases and distribution	120,341,108	-	-	-	120,341,108
Management and general	5,929,643	-	-	-	5,929,643
Membership services	8,455,869	-	-	-	8,455,869
Fund raising	1,843,754	-	-	-	1,843,754
Actuarial adjustment on annuity obligations and payments to donors	-	-	1,003,289	-	1,003,289
Nonqualified pension plan expense	-	128,615	-	-	128,615
Total expenses and losses	136,570,374	128,615	1,003,289	-	137,702,278
Increase (decrease) in net assets	(3,530,274)	549,952	697,951	660,299	(1,622,072)
Transfers	1,037,832	432,205	(1,470,037)	-	-
Net assets at beginning of year	13,006,640	7,302,785	1,812,607	5,264,029	27,386,061
Net assets at end of year	\$ 10,514,198	\$ 8,284,942	\$ 1,040,521	\$ 5,924,328	\$ 25,763,989

See accompanying notes to the consolidated financial statements.

THE GIDEONS INTERNATIONAL AND SUBSIDIARY

Consolidated Statements of Activities

Year ended May 31, 2013

	Unrestricted				Total
	General	Board Designated	Temporarily Restricted	Permanently Restricted	
Revenues and gains:					
Contributions	\$ 118,118,368	\$ -	\$ -	\$ 1,007,216	\$ 119,125,584
Dues income	4,246,638	-	-	-	4,246,638
Investment income (loss)	389,496	833,667	907,064	376,437	2,506,664
Merchandise sales, net of cost of merchandise sold of \$2,622,047	193,849	-	-	-	193,849
Other income	5,349,943	-	-	-	5,349,943
Total revenue and gains	128,298,294	833,667	907,064	1,383,653	131,422,678
Net assets released from restrictions - satisfaction of time restrictions	38,589	-	(38,589)	-	-
Total revenues, gains and net assets released from restrictions	128,336,883	833,667	868,475	1,383,653	131,422,678
Expenses and losses:					
Scripture purchases and distribution	120,298,682	-	-	-	120,298,682
Management and general	5,318,708	-	-	-	5,318,708
Membership services	9,607,674	-	-	-	9,607,674
Fund raising	1,822,217	-	-	-	1,822,217
Actuarial adjustment on annuity obligations and payments to donors	-	-	94,417	-	94,417
Nonqualified pension plan expense	-	138,022	-	-	138,022
Total expenses and losses	137,047,281	138,022	94,417	-	137,279,720
Increase (decrease) in net assets	(8,710,398)	695,645	774,058	1,383,653	(5,857,042)
Transfers	2,441,882	(2,313,327)	(128,555)	-	-
Net assets at beginning of year	19,275,156	8,920,467	1,167,104	3,880,376	33,243,103
Net assets at end of year	\$ 13,006,640	\$ 7,302,785	\$ 1,812,607	\$ 5,264,029	\$ 27,386,061

See accompanying notes to the consolidated financial statements.

**THE GIDEONS INTERNATIONAL AND SUBSIDIARY**

**Consolidated Statements of Cash Flows**

**Years ended May 31, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Cash flows from operating activities:</b>		
Decrease in net assets	\$ <u>(1,622,072)</u>	\$ <u>(5,857,042)</u>
Adjustments to reconcile decrease in net assets to net cash and cash equivalents provided (used) by operating activities:		
Depreciation	1,196,392	1,225,053
Amortization of premium on mortgage notes receivable	106,836	-
Contributions of real estate and mortgage notes payable	(3,553,492)	-
Loss on sale of property and equipment	42,532	44,534
Net gain on investments	(1,687,898)	(2,018,482)
Support restricted for endowment purposes	212,168	1,007,216
<b>(Increase) decrease in operating assets:</b>		
Accounts and other receivables	78,359	38,242
Merchandise and scripture inventory	(48,333)	(618,441)
Prepaid expenses and deposits	74,613	(197,419)
Other receivables	-	-
Cash surrender value of life insurance	(144,121)	(136,511)
<b>Increase (decrease) in operating liabilities:</b>		
Accounts payable and accrued payroll	2,782,605	1,457,882
Rebates due to state associations and auxiliary	291,343	(6,651)
Post-retirement benefit obligations	(2,901)	1,516
Liability to nonqualified pension plan participants	(170,856)	(116,642)
Present value of future payments to donors and annuitants	1,520,805	387,637
Other liabilities	<u>650,632</u>	<u>(445,027)</u>
<b>Total adjustments</b>	<u>1,348,684</u>	<u>622,907</u>
<b>Net cash and cash equivalents used by operating activities</b>	<u>(273,388)</u>	<u>(5,234,135)</u>
<b>Cash flows from investing activities:</b>		
Payments to purchase property and equipment	(702,700)	(588,924)
Proceeds from sale of property and equipment	93,560	38,465
Proceeds from investment transactions	14,792,422	17,772,776
Payments to purchase investments	(13,215,622)	(11,149,028)
Collection of mortgage notes receivable	<u>261,934</u>	<u>-</u>
<b>Net cash and cash equivalents provided by investing activities</b>	<u>1,229,594</u>	<u>6,073,289</u>
<b>Cash flows from financing activities - collection of endowment support</b>	<u>(212,168)</u>	<u>(1,007,216)</u>
<b>Net cash used by financing activities</b>	<u>(212,168)</u>	<u>(1,007,216)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	744,038	(168,062)
Cash and cash equivalents at beginning of year	<u>9,678,232</u>	<u>9,846,294</u>
Cash and cash equivalents at end of year	\$ <u>10,422,270</u>	\$ <u>9,678,232</u>

See accompanying notes to the consolidated financial statements.



# THE GIDEONS INTERNATIONAL AND SUBSIDIARY

## Notes to the Consolidated Financial Statements

May 31, 2014 and 2013

(1) Nature of activities

The Gideons International and Subsidiaries (collectively, the "Organization") are worldwide nonprofit organizations with their headquarters located in Nashville, Tennessee. The objective of the Organization is to win others for the Lord, Jesus Christ, through the association of Christian business and professional men for service, the personal testimony and personal work by individual Gideons, and the placing of the Bible or portions thereof, in hotels, hospitals, schools, institutions, and also through the distribution of same for personal use. The Organization is supported primarily through donor contributions, membership dues, and investment income.

(2) Summary of significant accounting policies

(a) Financial statement presentation

The consolidated financial statements of the Organization are presented on the accrual basis. The Organization follows the standards of accounting and reporting prescribed for nonprofit organizations. These consolidated financial statements include those assets and liabilities under direct control of the Organization and those revenues received by the Organization plus worldwide contributions reported to Nashville as having been spent for scriptures and administration by National Associations of The Gideons International. All material intercompany accounts and transactions are eliminated from the consolidated financial statements.

(b) Principles of consolidation

These consolidated financial statements include the accounts of The Gideons International and its wholly-owned subsidiaries, GenWon, LLC and tgiGlobal, LLC. During fiscal year 2013, GenWon, LLC was dissolved and merged with The Gideons International. All significant intercompany accounts and transactions have been eliminated.

(c) Use of estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

# THE GIDEONS INTERNATIONAL AND SUBSIDIARY

## Notes to the Consolidated Financial Statements

May 31, 2014 and 2013

(d) Financial reporting

Generally accepted accounting principles require that resources be classified for accounting and reporting purposes into three net asset categories according to externally (donor) imposed restrictions. A description of the three net asset categories follows:

- (1) **Unrestricted net assets consist of the Administrative Fund, Scripture Funds and Capital Fund.**

Board designated net assets are unrestricted but have been designated for specific purposes by the Board. They consist of the Reserve Fund and Self-Insured Retirement accounts.

Donor-imposed restrictions met in the same reporting period in which the contribution is received are reported as increases in unrestricted net assets.

The costs of Testaments and Bibles shipped are charged to the requesting state or local camps or to the appropriate Scripture Fund. Administrative expenses are charged to the Administrative Fund.

It is the Organization's policy to transfer the excess of Administrative Fund revenue over Administrative Fund expenses to various Scripture Funds and, in some years, to other unrestricted funds.

- (2) **Temporarily restricted net assets consist of the following:**

**Annuity Fund:**

The Organization enters into agreements whereby a donor transfers funds to the Organization and in return the donor is guaranteed a stipulated periodic payment throughout his or her lifetime. Unrestricted contribution revenue is recognized in the period in which the contract is executed to the extent that the fair market value of the assets received exceeds the present value of the future expected payments to the donor. Certain of the annuity agreements are insured through the purchase of commercial annuity contracts in which the insurance company agrees to pay the donor the amount guaranteed by the Organization. The investment in these insured annuity contracts is reflected in the accompanying consolidated financial statements at the present value of expected future payments to the insured annuitants.

Annuity obligations are recorded at the present value of the future expected payments to donors based upon applicable federal discount rates and life expectancies of annuitants as prescribed by the Internal Revenue Code.

# THE GIDEONS INTERNATIONAL AND SUBSIDIARY

## Notes to the Consolidated Financial Statements

May 31, 2014 and 2013

### Charitable Remainder Unitrust Fund:

The Organization enters into trust agreements with donors whereby the donor irrevocably transfers assets at fair market value to a trust naming the Organization as residual beneficiary. Temporarily restricted contribution revenue is recognized in the period in which the trust is established to the extent that the fair market value of the assets received exceeds the present value of the future expected payments to the donor or beneficiary. The Organization will pay to the donor or the beneficiary during the donor's (beneficiary's) life a unitrust amount equal to a stipulated percentage of the net fair market value of the trust assets, valued as of the first day of each calendar year. Any income of the trust for a calendar year in excess of the unitrust amount is added to the trust principal. Upon the death of the donor (beneficiary), the remaining principal is released to unrestricted net assets.

### Sarah F. Szekely Fund:

The Organization was named as a beneficiary of the estate of Sarah F. Szekely upon her death in 1990. The Organization may use, in any manner deemed best by the Organization, all of the income plus two percent of the principal each year. In November 2011, the Organization adopted a total return disciplined investment policy for the Fund to maximize the value of its assets and also provide for annual distributions as directed by the bequest.

### (3) Permanently restricted net assets consist of the following:

#### Endowment Fund:

A portion of life membership dues and all permanently restricted contributions received constitute the Endowment Fund. Such funds are invested in marketable securities. Income from the investments is used for administrative expenses and is recorded directly in the Administrative Fund.

#### Special Scripture Endowment Fund:

Contributions received for the Special Scripture Endowment Fund are invested in marketable securities. Income from the investments is used for the purchase of Scriptures and is recorded as investment income in the Scripture Fund, except in instances where the donor has required a portion of the income be added to principal.

# THE GIDEONS INTERNATIONAL AND SUBSIDIARY

## Notes to the Consolidated Financial Statements

May 31, 2014 and 2013

The Organization has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring that the Organization classify as permanently restricted net assets (a) the original value of donor-restricted gifts to the endowments, (b) the original value of subsequent donor-restricted gifts to the endowments, and (c) accumulations (interest, dividends, capital gain/loss) to the endowments until such time as amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate donor-restricted endowment funds:

- The purposes of the Organization and the donor-restricted endowment funds
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- The investment policies of the Organization
- The spending rules adopted by the Finance Committee of the International Cabinet

The Organization has established investment policies for endowments which set certain expectations for target asset allocations, expected rates of return and risk tolerances sufficient to achieve long-term investment objectives. Investment performance is reviewed at least annually with comparisons made to market indices.

(e) Cash and cash equivalents

For purposes of the consolidated statements of cash flows, the Organization considers all highly liquid debt instruments purchased with an original maturity of six months or less to be cash equivalents. Cash equivalents consist primarily of U.S. Treasury bills, repurchase agreements, and commercial paper with original maturities of six months or less.

(f) Mortgage notes receivable

The Organization received contributions of mortgage notes receivable from a donor during 2014. The carrying amounts of the mortgage notes receivable are reduced by a valuation allowance, if necessary, which reflects management's estimate of the amounts that will not be collected based on the surrounding facts and circumstances and management's historical knowledge about each note. Past due status is determined based on the contractual terms and note balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. All mortgage notes are collateralized by a first mortgage lien on real property.

# THE GIDEONS INTERNATIONAL AND SUBSIDIARY

## Notes to the Consolidated Financial Statements

May 31, 2014 and 2013

(g) Merchandise and scripture inventory

Inventory of merchandise held for sale to members and scriptures (including raw materials) that have been purchased but not released for distribution are valued at the lower of cost or market, with cost determined under the first-in, first-out method.

(h) Investments

Investments in marketable and debt securities are valued at their fair values (as more fully discussed in Note 5) in the consolidated statements of financial position. Investment income shown in the consolidated statements of activities includes interest, dividends, and realized and unrealized gains and losses, net of investment expenses. Investment income that is restricted by the donor is reported as increases in unrestricted net assets if the restrictions are met or expire in the year in which the investment income is recognized.

(i) Property and equipment

Land, buildings, equipment and vehicles purchased by the Organization are stated at cost. Donated assets are recorded at their estimated fair market values at the date of donation. Expenditures that substantially increase the useful lives of existing property and equipment are capitalized, while expenditures for maintenance, repairs and minor improvements are expensed as incurred. Depreciation of property and equipment is calculated on the straight-line method over the estimated useful life of the asset. Annual depreciation is charged to unrestricted expense.

(j) Realization of Long-lived assets

Management evaluates the recoverability of the investment in long-lived assets on an ongoing basis and recognizes any impairment in the year of determination. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

(k) Revenue Recognition

Contributions and other revenue are generally recognized at the time of receipt.

(l) Income taxes

The Organization is exempt from federal, state and local income taxes under Internal Revenue Code section 501(c)(3) and accordingly, no provision for income taxes is included in the consolidated financial statements. The Organization does not believe there are any material uncertain tax positions that qualify for either recognition or disclosure in the consolidated financial statements.

(m) Shipping and handling costs

Shipping and handling costs are included in the cost of merchandise sold and scripture purchases.

# THE GIDEONS INTERNATIONAL AND SUBSIDIARY

## Notes to the Consolidated Financial Statements

May 31, 2014 and 2013

(n) Events occurring after reporting date

The Organization has evaluated events and transactions that occurred between May 31, 2014 and July 8, 2014, which is the date that the consolidated financial statements were available to be issued, for possible recognition or disclosure in the consolidated financial statements.

(3) Concentration of risks

The Organization's cash and cash equivalents are maintained at institutions that are insured by the Federal Deposit Insurance Corporation. The Organization has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk related to cash and cash equivalents.

The Organization utilizes various investment instruments. Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statements of financial position.

(4) Investments

A summary of the cost and fair values of investments as of May 31, 2014 and 2013 is as follows:

	2014		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Mutual funds	\$ 9,913,604	\$ 12,233,029	\$ 2,319,425
Common stocks	3,203,331	3,806,017	602,686
U.S. government obligations	4,781,354	4,395,679	(385,675)
Corporate bonds	3,516,520	3,698,875	182,355
Annuity contracts	<u>5,885,366</u>	<u>5,885,366</u>	<u>-</u>
	<u>\$ 27,300,175</u>	<u>\$ 30,018,966</u>	<u>\$ 2,718,791</u>
	2013		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Mutual funds	\$ 9,316,736	\$ 11,320,846	\$ 2,004,110
Common stocks	2,967,876	3,472,990	505,114
U.S. government obligations	5,697,541	5,790,774	93,233
Corporate bonds	3,288,344	3,437,891	149,547
Annuity contracts	<u>5,598,783</u>	<u>5,598,783</u>	<u>-</u>
	<u>\$ 26,869,280</u>	<u>\$ 29,621,284</u>	<u>\$ 2,752,004</u>

# THE GIDEONS INTERNATIONAL AND SUBSIDIARY

## Notes to the Consolidated Financial Statements

May 31, 2014 and 2013

The following schedule summarizes the investment income in the consolidated statements of activities for the years ended May 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Interest and dividend income	\$ 888,828	\$ 713,747
Net gain on investments	1,687,898	2,018,482
Investment expenses	<u>(219,883)</u>	<u>(225,565)</u>
	<u>\$ 2,356,843</u>	<u>\$ 2,506,664</u>

(5) Fair value measurements

Financial Accounting Standards Board Accounting Standards Codification 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at May 31, 2014 or 2013.

- (i) *Corporate bonds and U.S. government obligations:* Valued using observable inputs including benchmark yields, reported trades, broker/dealer quotes or alternative pricing sources with reasonable levels of price transparency.

# THE GIDEONS INTERNATIONAL AND SUBSIDIARY

## Notes to the Consolidated Financial Statements

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- (ii) *Common stocks*: Valued at the closing price reported on the active market on which the individual securities are traded.
- (iii) *Mutual funds*: Valued at the net asset value of shares held by the Organization at year end in an active market.
- (iv) *Annuity contracts*: Valued based on the estimated present value of future cash flows.
- (v) *Life insurance policies*: Valued at the cash surrender value of the life insurance policies which approximates fair value.
- (vi) *Mortgage notes receivable*: Valued at the net present value of future cash flows.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization's management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Organization's financial assets and liabilities at fair value as of May 31, 2014 and 2013:

<u>Fair Value Measurements as of</u>				
<u>May 31, 2014 using the following inputs</u>				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Investments:</b>				
<b>Mutual funds:</b>				
Index funds	\$ 4,421,750	\$ -	\$ -	\$ 4,421,750
Balanced funds	1,305,738	-	-	1,305,738
Growth funds	1,799,842	-	-	1,799,842
International funds	203,935	-	-	203,935
Value funds	1,294,384	-	-	1,294,384
Income funds	<u>3,207,380</u>	<u>-</u>	<u>-</u>	<u>3,207,380</u>
Total mutual funds	12,233,029	-	-	12,233,029
Common stocks	3,761,167	-	44,850	3,806,017
Obligations of the United States government and its agencies	2,531,305	1,864,374	-	4,395,679
Corporate bonds	-	3,698,875	-	3,698,875
Annuity contracts	<u>-</u>	<u>-</u>	<u>5,885,366</u>	<u>5,885,366</u>
Total investments	18,525,501	5,563,249	5,930,216	30,018,966
Life insurance policies	-	-	2,076,550	2,076,550
Mortgage notes receivable	<u>-</u>	<u>-</u>	<u>2,450,572</u>	<u>2,450,572</u>
<b>Total</b>	<b><u>\$ 18,525,501</u></b>	<b><u>\$ 5,563,249</u></b>	<b><u>\$ 10,457,338</u></b>	<b><u>\$ 34,546,088</u></b>



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**Fair Value Measurements as of  
May 31, 2013 using the following inputs**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Investments:</b>				
<b>Mutual funds:</b>				
<b>Index funds</b>	\$ 5,773,731	\$ -	\$ -	\$ 5,773,731
<b>Balanced funds</b>	1,613,013	-	-	1,613,013
<b>Growth funds</b>	1,146,560	-	-	1,146,560
<b>International funds</b>	140,353	-	-	140,353
<b>Value funds</b>	448,695	-	-	448,695
<b>Income funds</b>	<u>2,198,495</u>	<u>-</u>	<u>-</u>	<u>2,198,495</u>
<b>Total mutual funds</b>	11,320,847	-	-	11,320,847
<b>Common stocks</b>	3,428,140	-	44,850	3,472,990
<b>Obligations of the United States</b>				
<b>government and its agencies</b>	3,306,965	2,483,808	-	5,790,773
<b>Corporate bonds</b>	-	3,437,891	-	3,437,891
<b>Annuity contracts</b>	<u>-</u>	<u>-</u>	<u>5,598,783</u>	<u>5,598,783</u>
<b>Total investments</b>	18,055,952	5,921,699	5,643,633	29,621,284
<b>Life insurance policies</b>	<u>-</u>	<u>-</u>	<u>1,932,429</u>	<u>1,932,429</u>
<b>Total</b>	<u>\$ 18,055,952</u>	<u>\$ 5,921,699</u>	<u>\$ 7,576,062</u>	<u>\$ 31,553,713</u>

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The following table provides a summary of changes in fair value of the Organization's Level 3 assets for the years ended May 31, 2014 and 2013:

	<b>Fair Value Measurements Using Significant Unobservable Inputs (Level 3)</b>			
	<u>Common Stock</u>	<u>Annuity Contracts</u>	<u>Life Insurance Policies</u>	<u>Mortgage Notes Receivable</u>
Balances as of May 31, 2012	\$ -	\$ 5,816,198	\$ 1,795,918	\$ -
Purchase of new annuity contracts	-	253,541	-	-
Contributions	44,850	-	-	-
Change in present value of annuity contracts and cash surrender value of life insurance policies	<u>-</u>	<u>(470,956)</u>	<u>136,511</u>	<u>-</u>
Balances as of May 31, 2013	44,850	5,598,783	1,932,429	-
Purchase of new annuity contracts	-	349,879	-	-
Contributions	-	-	-	2,819,342
Collections of mortgage notes receivable	-	-	-	(261,934)
Change in present value and amortization of premiums on mortgage notes receivable	<u>-</u>	<u>(63,296)</u>	<u>144,121</u>	<u>(106,836)</u>
Balances as of May 31, 2014	<u>\$ 44,850</u>	<u>\$ 5,885,366</u>	<u>\$ 2,076,550</u>	<u>\$ 2,450,572</u>

(6) Real estate

During 2014, the Organization received real estate from a donor that was recorded at estimated fair value on the date of donation based upon independent appraisals or comparable properties on the date of donation. A portion of the real estate is held for investment purposes and leased to a third party. One property is currently held for sale. A summary of real estate not included in property and equipment as of May 31, 2014 is as follows:

Real estate held for sale	\$ 515,125
Real estate held for rental	<u>219,025</u>
	<u>\$ 734,150</u>

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## Notes to the Consolidated Financial Statements

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### (7) Property and equipment

A summary of property and equipment as of May 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Land	\$ 884,443	\$ 884,443
Buildings	6,390,504	6,421,296
Office furniture, equipment and software	10,663,216	10,170,448
Vehicles	<u>111,333</u>	<u>195,928</u>
	18,049,496	17,672,115
Less accumulated depreciation	<u>(9,202,159)</u>	<u>(8,194,993)</u>
	<u>\$ 8,847,337</u>	<u>\$ 9,477,122</u>

### (8) Employee benefit plans

#### Defined contribution retirement plan

The Organization maintains a defined contribution retirement plan covering substantially all of its employees. The Organization makes annual contributions to the plan as determined by management. The plan assets are held in a trust fund by a corporate trustee and are not included in these consolidated financial statements. Contributions to the plan amounted to approximately \$932,900 in 2014 and \$979,000 in 2013.

#### Nonqualified pension plan

The Organization maintains a nonqualified pension plan (designated fund) established prior to the adoption of the defined contribution retirement plan. The nonqualified plan will remain in existence, although there is no intention to make additional contributions, until all funds have been distributed to participants. During 2001, the Organization entered into agreements with each of the nonqualified pension plan participants whereby the annual income earned by the participant is not subject to financial equity market risk. The Organization agreed to annually add to each participant's account an amount equal to the greater of five percent (5.00%) or one percent (1.00%) plus the United States 10-year Treasury Note Yield (Applicable Percentage) as published on May 31 of the preceding year. The Organization has assumed the risk of financial loss if it is unable to earn an amount in excess of the Applicable Percentage. At May 31, 2014 and 2013, the Applicable Percentage was 5.00%. Accordingly, the Organization has reflected the liability to the nonqualified pension plan participants of \$2,426,973 and \$2,597,829 in the accompanying consolidated statements of financial position as of May 31, 2014 and 2013, respectively.

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### Deferred compensation plan

During 2003, the Organization established a deferred compensation plan for eligible members of management. Under the plan, participants may defer up to 100% of their compensation. In addition, the Organization makes contributions equal to the amount by which the contribution that would have been made to the defined contribution retirement plan if the employee did not contribute to the deferred compensation plan. The participants are also entitled to receive earnings from the investment of the deferred compensation. As of May 31, 2014 and 2013, seven members of management have elected to participate in the plan resulting in a liability to the participants of approximately \$556,000 and \$598,000, respectively. These plan investments are included with investments of the Organization, and the liability to participants is included in accounts payable at May 31, 2014 and 2013.

### (9) Postretirement benefits

The Organization provides post-retirement life insurance benefits to employees hired prior to January 1, 1991. Upon retirement, the Organization provides life insurance coverage to these employees in an amount equal to one-half of their salary at the time of retirement. The Organization also provides coverage ranging between \$5,000 and \$10,000 for the employee's spouse until the death of the employee. The following sets forth the plan's funded status and amounts recognized in the consolidated statements of financial position.

The benefit obligation of the plan was \$437,210 and \$440,112 as of May 31, 2014 and 2013, respectively.

Management of The Gideons International believes the unfunded benefit obligation will be funded by life insurance proceeds on the lives of those employees who are entitled to the postretirement benefits.

	<u>2014</u>	<u>2013</u>
Benefit cost	\$ <u>77,568</u>	\$ <u>91,139</u>
Employer contributions	\$ <u>28,102</u>	\$ <u>29,985</u>
Benefit payments	\$ <u>28,102</u>	\$ <u>29,985</u>

Assumptions used in determining the preceding information are as follows:

Discount rate	4.50% for 2014 and 2013
Expected return on plan assets	N/A
Retirement age	65 or current age if later
Annual pay increases for active employees	4.5%
Mortality	1994 Group Annuity Mortality Table

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Approximate future benefit payments expected to be paid over the next ten years are as follows:

<u>Year</u>	<u>Amount</u>
2015	\$ 27,300
2016	26,500
2017	27,400
2018	28,800
2019	27,800
2020 through 2024	146,200

The above information was provided by consulting actuaries as of May 31, 2014 and 2013.

### (10) Life insurance policies

Certain donors have arranged for life insurance contracts naming the Organization as beneficiary of life insurance policies with face values in the approximate amount of \$6,451,000 at May 31, 2014 and 2013. These policies are owned by the Organization and have cash surrender values totaling approximately \$2,076,550 and \$1,932,000 as of May 31, 2014 and 2013, respectively.