THE MOODY BIBLE INSTITUTE OF CHICAGO

FINANCIAL STATEMENTS
June 30, 2013 and 2012

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CONTENTS

Crowe Horwath.

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
The Moody Bible Institute of Chicago

Report on the Financial Statements

We have audited the accompanying financial statements of The Moody Bible Institute of Chicago (the Institute), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years 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 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 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.

(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Moody Bible Institute of Chicago as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental schedules presented on pages 31 and 32, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information, except for that portion marked "unaudited", was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. That information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, that information is fairly stated in all material respects in relation to the financial statements as a whole. The information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Crowe Horwath LLP

Crowe Horwath LLP

Chicago, Illinois
October 28, 2013

	2013	2012
ASSETS		
Cash and cash equivalents	$ 7,544,447	$ 8,846,731
Receivables		
Beneficial interest in term trusts held by others and pledges receivable	5,790,655	7,289,627
Other (less allowance for uncollectible amounts $514,000 in 2013 and $562,000 in 2012)	6,116,763	5,542,585
Inventories	4,406,696	4,355,098
Investments	105,641,567	102,033,420
Trust holdings	166,019,818	160,957,640
Property, plant, and equipment, net	55,721,230	54,685,230
Other	10,695,377	10,805,776
Total assets	$ 361,936,553	$ 354,516,107
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 10,086,885	$ 8,898,378
Accrued pension and postretirement health benefits	45,367,182	50,940,740
Annuity contract actuarial reserve	44,822,084	46,101,746
Trust obligations	129,817,364	127,726,776
Other	246,304	507,677
Total liabilities	230,339,819	234,175,317
Net assets		
Unrestricted	39,335,219	34,907,086
Temporarily restricted	55,800,212	53,028,861
Permanently restricted	36,461,303	32,404,843
Total net assets	131,596,734	120,340,790
Total liabilities and net assets	$ 361,936,553	$ 354,516,107

See accompanying notes to financial statements.

THE MOODY BIBLE INSTITUTE OF CHICAGO
STATEMENTS OF ACTIVITIES
Years ended June 30, 2013 and 2012

	2013				2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains, and other support								
Contributions	$ 33,663,621	$ 8,071,351	$ -	$ 41,734,972	$ 29,441,504	$ 17,106,713	$ -	$ 46,548,217
Student fees and tuition	30,038,071	-	-	30,038,071	28,519,157	-	-	28,519,157
Sales of books and publications	18,023,970	-	-	18,023,970	17,380,748	-	-	17,380,748
Investment return designated for current operations	1,865,396	3,660,120	-	5,525,516	1,757,897	3,357,193	-	5,115,090
Other	9,649,620	35,743	-	9,685,363	9,456,620	916	-	9,457,536
Net assets released from restrictions	11,705,925	(11,705,925)	-	-	10,389,170	(10,389,170)	-	-
Total revenue, gains, and other support	104,946,603	61,289	-	105,007,892	96,945,096	10,075,652	-	107,020,748
Expenses								
Program								
Public ministries	38,548,825	-	-	38,548,825	38,048,802	-	-	38,048,802
Education	38,109,688	-	-	38,109,688	33,309,129	-	-	33,309,129
Student services	14,995,881	-	-	14,995,881	13,871,383	-	-	13,871,383
Total program expenses	91,654,394	-	-	91,654,394	85,229,314	-	-	85,229,314
Fund raising	8,994,638	-	-	8,994,638	8,586,080	-	-	8,586,080
Management and general	4,480,036	-	-	4,480,036	3,465,873	-	-	3,465,873
Total expenses	105,129,068	-	-	105,129,068	97,281,267	-	-	97,281,267
Changes in net assets from operating activities	(182,465)	61,289	-	(121,176)	(336,171)	10,075,652	-	9,739,481

(Continued)

THE MOODY BIBLE INSTITUTE OF CHICAGO
STATEMENTS OF ACTIVITIES
Years ended June 30, 2013 and 2012

	2013				2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Other changes in net assets								
Investment return in excess of amounts designated for current operations	$ (142,790)	$ 2,187,700	$ -	$ 2,044,910	$ (913,711)	$ (3,427,196)	$ -	$ (4,340,907)
Permanently restricted contributions	-	-	3,654,377	3,654,377	-	-	2,832,055	2,832,055
Changes in present value of split-interest agreements	(240,604)	522,362	402,083	683,841	(2,190,206)	1,526,736	20,312	(643,158)
Change in estimate of asset retirement obligation (asbestos)	(106,694)	-	-	(106,694)	(100,418)	-	-	(100,418)
Change in value of accrued pension obligation	4,525,229	-	-	4,525,229	(13,524,510)	-	-	(13,524,510)
Change in value of postretirement health benefits obligation	575,457	-	-	575,457	2,261,479	-	-	2,261,479
Changes in net assets	4,428,133	2,771,351	4,056,460	11,255,944	(14,803,537)	8,175,192	2,852,367	(3,775,978)
Net assets at beginning of year	34,907,086	53,028,861	32,404,843	120,340,790	49,710,623	44,853,669	29,552,476	124,116,768
Net assets at end of year	$ 39,335,219	$ 55,800,212	$ 36,461,303	$ 131,596,734	$ 34,907,086	$ 53,028,861	$ 32,404,843	$ 120,340,790

See accompanying notes to financial statements.

THE MOODY BIBLE INSTITUTE OF CHICAGO
STATEMENTS OF CASH FLOWS
Years ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities		
Change in net assets	$ 11,255,944	$ (3,775,978)
Adjustment to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	5,325,152	4,959,432
Loss (gain) on sales of property, plant, and equipment	9,384	(210,831)
Net realized and unrealized (gain) loss on investments	(4,878,868)	2,431,613
Contributions restricted for long-term investment	(3,654,377)	(2,832,055)
Decrease (increase) in pledges receivables	1,498,972	(710,222)
Increase in other receivables	(574,178)	(330,229)
(Increase) decrease in inventories	(51,598)	481,622
Increase (decrease) in accounts payable and accrued expenses	930,137	(780,710)
(Decrease) increase in accrued pension and postretirement health benefits	(5,573,558)	10,284,864
Decrease in annuity contract actuarial reserve	(1,279,662)	(660,783)
Increase in other assets and liabilities	(150,974)	514,193
Net cash from operating activities	2,856,374	9,370,916
Cash flows from investing activities		
Purchase of investments	(36,105,871)	(45,389,043)
Proceeds from sales or maturities of investments	37,376,592	37,482,407
Purchase of property, plant, and equipment	(6,253,838)	(3,706,507)
Proceeds from sales of property, plant, and equipment	141,672	230,575
Increase in trust holdings	(5,062,178)	(3,399,917)
Increase in trust obligations	2,090,588	3,729,561
Net cash from investing activities	(7,813,035)	(11,052,924)
Cash flows from financing activities		
Contributions to endowment funds	3,654,377	2,832,055
Net cash from financing activities	3,654,377	2,832,055
Increase (decrease) in cash and cash equivalents	(1,302,284)	1,150,047
Cash and cash equivalents at beginning of year	8,846,731	7,696,684
Cash and cash equivalents at end of year	$ 7,544,447	$ 8,846,731

See accompanying notes to financial statements.

NOTE 1 - ORGANIZATION

The Moody Bible Institute of Chicago (the Institute) was incorporated in the state of Illinois in February 1887 as the Chicago Evangelization Society. The name was changed to The Moody Bible Institute of Chicago in March 1900.

The Institute exists to equip and motivate people to advance the cause of Christ through ministries that educate, edify, and evangelize. The primary means for executing this purpose are:

- Conducting Christian educational activities through undergraduate, graduate, and distance learning divisions and conference ministries;
- Publishing and distributing evangelical Christian literature; and
- Producing and broadcasting Christian radio programs.

The Institute draws its students from all fifty states as well as around the world. An Institute distinctive is its long held tuition-paid education model for full-time undergraduate students studying on the Chicago campus, which is financed through contributions from friends of the Institute. These students only pay for room and board and miscellaneous student fees. However, students studying on the Seminary campuses, Moody Spokane branch campus or through distance learning options pay tuition and student fees, as well as room and board if living on the Chicago campus. The amount of tuition charged does not fully cover the cost of all programs so some are also heavily financed by contributions.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Institute have been prepared on the accrual basis of accounting. Significant accounting policies followed in preparation of these financial statements are described below.

<u>General</u>: The accompanying financial statements have been prepared to focus on the Institute as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. Net assets, revenue, expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

<u>Unrestricted net assets</u> – Net assets not subject to donor-imposed stipulations.

<u>Temporarily restricted net assets</u> – Net assets subject to donor-imposed stipulations that may or will be met by actions of the Institute and/or the passage of time.

<u>Permanently restricted net assets</u> – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Institute. Generally, the donors of these assets permit the Institute to use all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Realized and unrealized gains and losses on investments are reported as increases or decreases in unrestricted net assets in the statements of activities unless their use is restricted by explicit donor stipulations or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets in the statement of activities as net assets released from restrictions.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Public Support and Revenue: Contributions, including unconditional pledges, are recognized in the period received. Conditional pledges are recognized when the condition on which they depend are substantially met. Contributions of assets other than cash are recorded at estimated fair value. Contributions received with donor-imposed restrictions that are met in the same year as the contributions are received are reported as revenue of the unrestricted net asset class. Contributions of land, building, and equipment without donor-imposed restrictions concerning the use of such long-lived assets are reported as revenue of the unrestricted net asset class.

The Institute is the beneficiary under various wills, the total realizable value of which is not presently determinable. Such amounts are recorded as contributions when the will clears probate and the proceeds are clearly measurable.

Student tuition and fees are recorded as revenue during the year the related academic services are rendered. Student tuition and fees received in advance of services to be rendered are recorded as deferred revenue.

Revenue from the sales of books and publications as well as Institute conferences are recorded when the goods are shipped or the conference is held. Amounts received in advance of shipment of books and publications, and conference dates are recorded as deferred revenue.

Allowance for Doubtful Accounts: The allowance for doubtful accounts is determined by management based on the Institute's historical losses, accounts receivable aging information, specific circumstances and general economic conditions. Receivables are charged off against the allowance when all attempts to collect the receivable have failed.

Investment Return Designated for Current Operations: The Institute has adopted an endowment and investment spending policy in support of current operational budget requirements. The policy allows for the spending of a percentage of the prior year-end fair value of endowment assets (4.5% for fiscal years 2013 and 2012) and other investments (6.0% for fiscal years 2013 and 2012). If endowment and investment returns (i.e., interest, dividends, and gains) exceed the established spending rate, such excess is set aside and reinvested for future needs. If endowment returns are not sufficient to support the spending policy, the yield shortfall is provided from amounts previously set aside. The amounts spent for the current year are shown in the operating section on the statement of activity as "Investment return designated for current operations." The amount set aside is shown in the "Other changes in net assets" section as "Investment return in excess of amounts designated for current operations."

Operations: Operating results in the statement of activities reflect all transactions increasing or decreasing net assets except for endowment gifts, reinvestment of income and gains in excess of amounts designated for current operations, changes in asset retirement obligations, changes in the funded status of pension and other postretirement obligations in excess of net periodic benefit cost, and changes in the value of split interest agreements.

Cash Equivalents: Cash equivalents include all highly liquid investments with a maturity of three months or less. Cash equivalents that are held in an MBI managed trust are included with trust holdings.

Inventories: Inventories, which primarily consist of books and publications, are stated at the lower of cost or fair value. Cost is determined by the last in first out (LIFO) method.

Investments: Investments, except for real estate held for investment, in marketable equity and debt securities are reported at fair value. The fair value of such investments is based upon quoted market prices.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Plant, and Equipment: Property, plant, and equipment are stated at cost at date of acquisition or at fair value at date of gift. Property, plant, and equipment are being depreciated principally on a straight-line method over their estimated useful lives.

Long-lived assets, such as property, plant, and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the fair value of an asset may be less than its carrying value. This loss would be recorded if it is not recoverable.

The Institute has various literary collections, which consist of evangelical manuscripts, private papers, and rare books of several authors. The collections are not capitalized on the accounting records of the Institute.

Radio Station Licenses and On-Line Courses: Radio station licenses are recorded as other assets and are being amortized on a straight-line basis over 40 years. Original costs incurred to create and deliver content for the Distance Learning Center on-line courses are expensed as incurred.

Beneficial Interest in Trusts Held by Others: Donors have established and funded trusts which are administered as trustee by external organizations. Under the terms of the trusts, the Institute has the irrevocable right to receive the income earned on the trust assets either in perpetuity or for the life (term) of the trust. The Institute does not control the assets held by outside trusts. Although the Institute has no control over the administration of the funds held in these term and perpetual trusts, the current fair value of the underlying assets, which approximates the estimated fair value of the expected future cash flows from the trusts, is recognized as an asset in the accompanying financial statements.

Obligations Under Split-Interest Agreements: These agreements include trusts, annuities, and a pooled income fund held by the Institute in which the Institute is a beneficiary. The liability on temporarily and permanently restricted irrevocable trusts held by the Institute is computed by taking the present value of the payments expected to be made to other beneficiaries at the date of the trust agreement. For these trusts, the discount rate utilized in 2012 and 2013 ranged from 2.68% to 6.0%. The liability on pooled income funds is calculated based on the fair value of the assets donated discounted at a rate from 2.68% to 6.0% for the estimated time period until the donor's death. The Institute continues to use the policy of basing the annuity contract actuarial reserve at the standard set by the State of California. Annuities use the Internal Revenue Service (IRS) discount rate based on the date of the gift, and these rates range from 1.0% to 6.2%. Actuarial tables are used to estimate the years until distribution in all cases mentioned above. Contributions from split-interest agreements approximated $6,100,000 and $3,500,000 in 2013 and 2012.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed therein.

Income Taxes: The Institute has received a determination letter from the Internal Revenue Service indicating that the Institute has been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code and, except for taxes pertaining to unrelated business income, is exempt from federal and state income taxes. No provision has been made for income taxes in the accompanying financial statements, as the Institute has had no significant unrelated business income.

(Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Institute follows guidance issued by the FASB with respect to accounting for uncertainty in income taxes. A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded.

The Institute recognizes interest and penalties related to unrecognized tax benefits in interest and income tax expense, respectively. The Institute has no amounts accrued for interest or penalties as of June 30, 2013 or 2012.

Due to its tax-exempt status, the Institute is not subject to U.S. federal income tax or state income tax. The Institute is no longer subject to examination by U.S. federal or state taxing authorities for the fiscal years before June 30, 2010. The Institute does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to June 30, 2013, to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended June 30, 2013. Management has performed their analysis through October 28, 2013, the date the financial statements were available to be issued.

NOTE 3 - INVESTMENTS

At June 30, 2013 and 2012, the carrying value of investments is comprised of the following:

	2013	2012
Common and preferred stocks	$ 54,833,680	$ 47,606,205
U.S. government securities	9,274,466	13,417,082
Corporate bonds	37,642,200	36,060,447
Real estate	641,544	1,793,732
Mortgage, note, and contract receivables	733,723	713,789
Other	2,515,954	2,442,165
	$ 105,641,567	$ 102,033,420

Investments are allocated by fund as follows:

	2013	2012
Operating funds	$ 17,000,586	$ 19,794,433
Annuity fund	42,450,996	42,276,231
Other temporarily restricted funds	10,500,338	10,168,248
Endowment fund	35,689,647	29,794,508
Total carrying value	$ 105,641,567	$ 102,033,420

The annuity fund investments help to fund the annuity actuarial reserve liability of $44,822,084 and $46,101,746 at June 30, 2013 and 2012, respectively.

(Continued)

NOTE 3 - INVESTMENTS (Continued)

Investment return for the years ended June 30, 2013 and 2012, is as follows:

	Year Ended June 30, 2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	$ 1,072,570	$ 1,770,805	$ -	$ 2,843,375
Realized and change in unrealized gain, net	804,835	4,236,849	-	5,041,684
Investment expense	(154,799)	(159,834)	-	(314,633)
Total investment return	1,722,606	5,847,820	-	7,570,426
Less amounts designated for current operations	1,865,396	3,660,120	-	5,525,516
Investment return in excess of amounts designated for current operations reinvested	$ (142,790)	$ 2,187,700	$ -	$ 2,044,910

	Year Ended June 30, 2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividends	$ 1,425,441	$ 2,040,104	$ -	$ 3,465,545
Realized and change in unrealized loss, net	(446,820)	(1,984,793)	-	(2,431,613)
Investment expense	(134,435)	(125,314)	-	(259,749)
Total investment return	844,186	(70,003)	-	774,183
Less amounts designated for current operations	1,757,897	3,357,193	-	5,115,090
Investment return in excess of amounts designated for current operations reinvested	$ (913,711)	$ (3,427,196)	$ -	$ (4,340,907)

The Institute gave a loan in the amount of $500,000 to assist the President in acquiring a residence in the city of Chicago in close proximity to the Institute’s campus. Payments of interest only are made monthly at a rate of 4.0% per annum. It is held as part of the Institute notes in the Operating fund.

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NOTE 4 - TRUST HOLDINGS AND OBLIGATIONS

As trustee, the Institute administers revocable trusts that provide for a beneficial interest to the Institute or other beneficiaries at the death of the grantor. Revocable trusts are subject to change at the discretion of the grantor and are, therefore, recorded as an asset and an equivalent liability. At the grantor's death, the remaining assets will be distributed to the Institute or other specified beneficiaries in accordance with the trust agreement.

In addition, the Institute administers irrevocable charitable remainder trusts. These trusts provide for the payment of lifetime distributions to the grantor or other designated beneficiaries. Upon the death of the grantor or other designated beneficiaries, the trusts will distribute assets to the designated remaindermen. The present value of the portion of the trust that is paid during the lifetime of other designated beneficiaries is recorded as a trust obligation in the statement of financial position. In addition, some of the trusts contain provisions requiring distributions to remaindermen other than the Institute. The portion of the trust attributable to other remaindermen is also recorded as a trust obligation in the statement of financial position. The change between reporting periods in the trust obligation is recorded in the statement of activities as a component of change in present value of split-interest agreements. This amount is reclassified to unrestricted net assets at the termination of the trust.

The assets held in trust by the Institute at fair value and the corresponding liabilities at June 30, 2013 and 2012, are comprised of the following:

	2013	2012
Trust assets:		
Cash and cash equivalents	$ 8,620,676	$ 9,626,824
Common and preferred stocks	39,022,085	35,767,052
U.S. government securities	35,570,170	37,957,965
Corporate bonds	15,354,445	16,289,189
Mutual funds	55,024,273	51,403,904
Real estate	2,872,283	2,630,312
Mortgage, note and contract receivables	442,907	476,815
Other assets	4,946,749	3,015,225
Beneficial interest in perpetual trusts held by others	4,166,230	3,790,354
	$ 166,019,818	$ 160,957,640

	2013	2012
Trust obligations:		
Revocable trusts	$ 80,504,408	$ 79,235,228
Irrevocable trusts	32,208,666	32,079,018
Pooled income funds	7,399,289	6,987,843
Due to other remaindermen	9,705,001	9,424,687
	$ 129,817,364	$ 127,726,776

(Continued)

NOTE 5 - FAIR VALUE OF ASSETS

Cash and Cash Equivalents: The carrying amounts reported in the statement of financial position approximate their fair value.

Receivables: The carrying amounts reported in the statement of financial position approximate their fair value.

Accounts Payable And Accrued Expenses: The carrying amounts reported in the statement of financial position approximate their fair value.

Annuity Contract Actuarial Reserve: The carrying amount reported in the statement of financial position uses the historic discount rates at the time the annuities were established.

Trust Obligations: Fair value is based on the present value of the trust portion attributable to remaindermen other than the Institute using historical discount rates at the time the trusts were established. The carrying amount reported in the statement of financial position approximates its fair value.

Investments and Trust Holdings, Other Than Real Estate: The fair value of equity and debt securities is based on quoted market prices if available or using quoted market prices for similar securities. The estimated fair value of alternative investments is based on valuations determined by the investment managers using net asset value (NAV).

The Financial Accounting Standards Board (FASB) defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Institute's principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

FASB establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

> Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
>
> Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
>
> Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

(Continued)

NOTE 5 - FAIR VALUE OF ASSETS (Continued)

The following are descriptions of the valuation methods and assumptions used by the Institute to estimate the fair values of investments:

Common and preferred stocks: Institute equity holdings that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs). Institute holdings in some preferred stock are valued based on matrix pricing, which is a mathematical technique widely used in the industry to value securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

Mutual funds: The fair values of mutual funds investments in equity securities, fixed income securities and international holding securities that are readily marketable are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs).

U.S. government securities: Fair values reflect the closing price reported in the active market in which the security is traded (Level 1 inputs).

Corporate bonds: Certain corporate bonds are valued at the closing price reported in the active market in which the bond is traded (Level 1 inputs). Other corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings (Level 2 inputs).

Alternative Investments: Alternative investments consist of investments where there may be no active market. The Institute generally uses the net asset value (NAV) of the investment to determine the fair value of these investments, but considers information such as historical and current performance of underlying assets, liquidity terms of the investment agreements, completed or pending transactions in the underlying or a comparable investment, and overall market conditions in determining valuations (Level 3 inputs) (income and market approach).

Hedge Fund: These represent is a globally diversified, multi-strategy, multi-manager "fund of hedge funds" portfolio allocating to 20-30 managers focusing on such categories as: long/short equity, event driven, relative value, and global asset allocation. After one year lock up, on each new deposit, the Institute has quarterly liquidity upon 65 day prior written notice.

Beneficial interest in assets held by others: The fair value of beneficial interests in trust assets (or any type of beneficial interest) was determined based upon the fair value of the underlying trust assets at June 30, 2013. This valuation method (income approach) has been estimated to represent the present value of future distributed income. (Level 3 inputs).

(Continued)

NOTE 5 - FAIR VALUE OF ASSETS (Continued)

Assets and Liabilities Measured on a Recurring Basis: Assets and liabilities measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at June 30, 2013 Using				
	Level 1	Level 2	Level 3	Investments Valued At Cost	Total
Assets:					
Investments:					
Common and preferred stocks					
Domestic largecap	$ 2,303,057	$ -	$ -	$ -	$ 2,303,057
Master Limited Partnerships	6,120,007	-	-	-	6,120,007
Commodity	4,925,695	465,533	-	-	5,391,228
Other	-	86	-	5,212	5,298
Mutual funds					
Domestic smallcap	3,222,750	-	-	-	3,222,750
Domestic midcap	6,100,876	-	-	-	6,100,876
Domestic largecap	9,569,476	-	-	-	9,569,476
International largecap	14,229,642	-	-	-	14,229,642
Hedge Funds	-	-	7,891,346	-	7,891,346
U.S. government securities	9,274,466	-	-	-	9,274,466
Corporate bonds	21,386,181	5,203,231	-	-	26,589,412
International bond funds	11,052,788	-	-	-	11,052,788
Real estate	-	-	-	641,544	641,544
Mortgage, note, and contract receivables	-	-	-	733,723	733,723
Other	-	-	28,263	2,487,691	2,515,954
Total investments	$ 88,184,938	$ 5,668,850	$ 7,919,609	$ 3,868,170	$ 105,641,567

(Continued)

NOTE 5 - FAIR VALUE OF ASSETS (Continued)

	Fair Value Measurements at June 30, 2013 Using					
	Level 1	Level 2	Level 3	Cash and Cash Equivalents	Investments Valued At Cost	Total
Trusts:						
Cash and cash equivalents	$ 171,018	$ -	$ -	$ 8,449,658	$ -	$ 8,620,676
Common and preferred stocks						
Domestic smallcap	1,171,552	-	-	-	-	1,171,552
Domestic midcap	5,438,985	-	-	-	-	5,438,985
Domestic largecap	26,914,345	-	-	-	-	26,914,345
International largecap	271,067	-	-	-	-	271,067
Preferred stocks	3,644,963	600,225	-	-	-	4,245,188
Partnership interests	433,929	455,202	-	-	-	889,131
Other	4,116	226	-	-	87,475	91,817
U.S. government securities	35,570,170	-	-	-	-	35,570,170
Corporate bonds	-	15,354,445	-	-	-	15,354,445
Mutual funds						
Balanced funds large	4,954,618	-	-	-	-	4,954,618
Corporate bond funds	26,480,954	-	-	-	-	26,480,954
Municipal bond funds	3,366,932	-	-	-	-	3,366,932
Stock funds small	2,115,904	-	-	-	-	2,115,904
Stock funds midcap	3,454,765	-	-	-	-	3,454,765
Stock funds large	11,701,159	-	-	-	-	11,701,159
Limited partnership Fund	26,975	-	-	-	-	26,975
Stock funds international large	2,830,135	-	-	-	-	2,830,135
Taxable money market funds	-	-	-	19,289	-	19,289
Other	73,542	-	-	-	-	73,542
Real estate	-	-	-	-	2,872,283	2,872,283
Mortgage, note and contract receivables	-	-	-	-	442,907	442,907
Other assets	-	-	-	-	4,946,749	4,946,749
Beneficial interest in perpetual trusts held by others	-	-	4,166,230	-	-	4,166,230
Total trusts	$ 128,625,129	$ 16,410,098	$ 4,166,230	$ 8,468,947	$ 8,349,414	$ 166,019,818
Beneficial interest in assets held by others and pledges receivable	$ -	$ -	$ 4,069,346	$ -	$ 1,721,309	$ 5,790,655

(Continued)

NOTE 5 - FAIR VALUE OF ASSETS (Continued)

	Fair Value Measurements at June 30, 2012 Using				
	Level 1	Level 2	Level 3	Investments Valued At Cost	Total
Assets:					
Investments:					
Common and preferred stocks					
Domestic smallcap	$ 26,692	$ -	$ -	$ -	$ 26,692
Domestic midcap	568,459	-	-	-	568,459
Domestic largecap	2,539,658	-	-	-	2,539,658
International largecap	-	-	-	-	-
Commodity	4,677,054	511,138	-	-	5,188,192
Other	-	-	-	5,212	5,212
Mutual funds					
Domestic smallcap	4,507,071	-	-	-	4,507,071
Domestic midcap	6,601,219	-	-	-	6,601,219
Domestic largecap	12,335,280	-	-	-	12,335,280
International largecap	15,834,422	-	-	-	15,834,422
U.S. government securities	13,417,082	-	-	-	13,417,082
Corporate bonds	21,202,375	6,000,129	-	-	27,202,504
International bond funds	8,857,943	-	-	-	8,857,943
Real estate	-	-	-	1,793,732	1,793,732
Mortgage, note, and contract receivables	-	-	-	713,789	713,789
Other	-	-	37,187	2,404,978	2,442,165
Total investments	$ 90,567,255	$ 6,511,267	$ 37,187	$ 4,917,711	$ 102,033,420

(Continued)

NOTE 5 - FAIR VALUE OF ASSETS (Continued)

	Fair Value Measurements at June 30, 2012 Using					
	Level 1	Level 2	Level 3	Cash and Cash Equivalents	Investments Valued At Cost	Total
Trusts:						
Cash and cash equivalents	$ 591,713	$ -	$ -	$ 9,035,111	$ -	$ 9,626,824
Common and preferred stocks						
Domestic smallcap	517,990	-	-	-	-	517,990
Domestic midcap	4,679,280	-	-	-	-	4,679,280
Domestic largecap	25,809,096	-	-	-	-	25,809,096
International largecap	227,100	-	-	-	-	227,100
Preferred stocks	3,035,290	687,385	-	-	-	3,722,675
Partnership interests	356,679	353,690	-	-	-	710,369
Other	12,897	170	-	-	87,475	100,542
U.S. government securities	37,957,965	-	-	-	-	37,957,965
Corporate bonds	-	16,289,189	-	-	-	16,289,189
Mutual funds						
Balanced funds large	4,624,932	-	-	-	-	4,624,932
Corporate bond funds	25,921,500	-	-	-	-	25,921,500
Municipal bond funds	4,274,162	-	-	-	-	4,274,162
Stock funds small	1,684,899	-	-	-	-	1,684,899
Stock funds midcap	2,497,302	-	-	-	-	2,497,302
Stock funds large	10,016,641	-	-	-	-	10,016,641
Stock funds international large	2,277,799	-	-	-	-	2,277,799
Taxable money market funds	28,514	-	-	-	-	28,514
Other	78,154	-	-	-	-	78,154
Real estate	-	-	-	-	2,630,312	2,630,312
Mortgage, note and contract receivables	-	-	-	-	476,815	476,815
Other assets	-	-	-	-	3,015,226	3,015,226
Beneficial interest in perpetual trusts held by others	-	-	3,790,354	-	-	3,790,354
Total trusts	$ 124,591,913	$ 17,330,434	$ 3,790,354	$ 9,035,111	$ 6,209,828	$ 160,957,640
Beneficial interest in assets held by others and pledges receivable	$ -	$ -	$ 4,950,874	$ -	$ 2,338,753	$ 7,289,627

(Continued)

NOTE 5 - FAIR VALUE OF ASSETS (Continued)

The table below presents a reconciliation and income statement classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2013:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	Hedge Fund	Trusts	Beneficial Interest	Total
Beginning balance, July 1, 2011	$ -	$ 3,779,375	$ 5,958,750	$ 9,738,125
Change in split interest agreements	-	(181,417)	100,171	(81,246)
Contributions	-	192,396	94,136	286,532
Settlements	-	-	(1,202,183)	(1,202,183)
Beginning balance, June 30, 2012	-	3,790,354	4,950,874	8,741,228
Change in split interest agreements	-	375,876	64,934	440,810
Purchases	7,750,000	-	-	7,750,000
Unrealized gains or (losses)	141,346	-	-	141,346
Contributions	-	-	151,828	151,828
Settlements	-	-	(1,098,290)	(1,098,290)
Ending balance, June 30, 2013	$ 7,891,346	$ 4,166,230	$ 4,069,346	$ 16,126,922

NOTE 6 - PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment at June 30, 2013 and 2012, are comprised of the following:

	2013	2012
Land and improvements	$ 15,540,205	$ 15,540,205
Building and building equipment	112,959,580	111,196,997
Furniture and equipment	17,153,106	14,398,793
Computer software	8,882,460	8,688,286
Capital lease - computer software and hardware	630,890	630,890
Construction in process	1,736,642	1,382,817
	156,902,883	151,837,988
Less allowance for depreciation and amortization	101,181,653	97,152,758
Total property, plant, and equipment	$ 55,721,230	$ 54,685,230

The provision for depreciation of property, plant, and equipment amounted to $5,325,152 and $4,959,432 for the years ended June 30, 2013 and 2012, respectively. Additionally, there is $258,370 of expenditures in construction in process that are also included in accounts payable at June 30, 2013. These amounts have been removed from the increase in accounts payable and purchase of property, plant and equipment lines in the statement of cash flows.

The Institute's asset retirement obligation liability is $1,813,799 and $1,707,106 in 2013 and 2012, respectively.

(Continued)

NOTE 7 - OTHER ASSETS

Other assets are comprised at June 30, 2013 and 2012, of the following:

	2013	2012
Intangible assets		
Radio station licenses, net	$ 7,933,415	$ 8,260,313
Distance Learning online course development, net	-	81,000
	7,933,415	8,341,313
Prepaid expenses	2,395,720	2,120,757
Other	366,242	343,706
Total other assets	$ 10,695,377	$ 10,805,776

Annual amortization expense related to the radio station licenses is estimated to be approximately $327,000 for the next five years.

NOTE 8 - BENEFIT PLANS

The Institute has a defined-benefit pension plan (the Pension Plan), implemented through a trust. Pension benefits vest after five years of service prior to retirement. A plan amendment was approved by the Compensation Committee of the Board of Trustees that transitions the Institute over a period of years from a defined-benefit retirement plan to a defined-contribution plan. The defined-contribution plan started January 1, 2006. Employees hired after this date are only eligible to participate in the defined contribution plan. Contributions to the defined contribution plan totaled $1,239,037 and $1,364,993 for the years ended June 30, 2013 and 2012, respectively.

In addition to the pension plan, the Institute also sponsors a defined-benefit healthcare plan (the Postretirement Plan) that provides postretirement medical benefits and life insurance to full-time employees who have worked 10 years at age 55 or 5 years at age 60 while in service with the Institute. The Postretirement Plan only covers employees and retirees who were hired on or before December 31, 1995.

(Continued)

NOTE 8 - BENEFIT PLANS (Continued)

The following tables summarize the changes in the projected benefit obligation, plan assets, and funded status during 2013 and 2012:

	Pension Plan		Postretirement Plan	
	2013	2012	2013	2012
Change in projected benefit obligation				
Projected benefit obligation beginning of year	$ 75,437,363	$ 61,824,349	$ 26,906,948	$ 28,394,040
Service costs	1,000,803	787,401	443,239	473,604
Interest cost	3,140,693	3,319,016	1,118,304	1,524,925
Actuarial (gain) or loss	(2,943,508)	12,399,507	(688,183)	(2,374,205)
Benefits paid	(2,924,987)	(2,892,910)	(1,051,402)	(1,111,416)
Projected benefit obligation, end of year	$ 73,710,364	$ 75,437,363	$ 26,728,906	$ 26,906,948
Change in plan assets				
Fair value of plan assets, beginning of year	$ 51,403,571	$ 49,562,513	$ -	$ -
Actual return on plan assets	2,693,504	1,058,968	-	-
Employer contribution	3,900,000	3,675,000	1,051,402	1,111,416
Benefits paid	(2,924,987)	(2,892,910)	(1,051,402)	(1,111,416)
Fair value of plan assets, end of year	$ 55,072,088	$ 51,403,571	$ -	$ -
Funded status - liability recognized in the statement of financial position	$(18,638,276)	$(24,033,792)	$(26,728,906)	$(26,906,948)

While the Pension Plan is underfunded in that the fair value of plan assets at June 30 was less than the total of all future benefits earned as of that date, the Institute has met and exceeded all required cash contributions to the Pension Plan. Contributions are invested to produce income to the Pension Plan sufficient to meet all future requirements, given management's actuarial assumptions about the expected long-term return on plan assets, discount rates, and plan demographics.

Postretirement healthcare costs are funded each year out of the Institute's operating budget; the liability above represents total expected expenses over the lives of all covered employees, retirees, and dependents.

NOTE 8 - BENEFIT PLANS (Continued)

The accumulated benefit obligation for the pension plan was $69,627,518 and $71,085,692 for the years ended June 30, 2013 and 2012, respectively. The accumulated benefit obligation for the Postretirement Plan was $26,728,906 and $26,906,948 for the years ended June 30, 2013 and 2012, respectively.

Net periodic benefit cost, which is reported as an operating expense of the Institute, is composed of the following during 2013 and 2012:

	Pension Plan		Postretirement Plan	
	2013	2012	2013	2012
Service cost	$ 1,000,803	$ 787,401	$ 443,239	$ 473,604
Interest cost	3,140,693	3,319,016	1,118,304	1,524,925
Expected return on plan assets	(3,756,577)	(3,741,293)	-	-
Amortization of unrecognized prior service cost	191,420	191,420	(112,726)	(112,726)
Amortization of net loss	2,453,374	1,365,902	-	-
Net periodic benefit cost	$ 3,029,713	$ 1,922,446	$ 1,448,817	$ 1,885,803

Amounts recognized as non-operating activities during 2013 and 2012, are as follows:

	Pension Plan		Postretirement Plan	
	2013	2012	2013	2012
Prior service costs	$ (191,420)	$ (191,420)	$ 112,726	$ 112,726
Actuarial loss (gain)	(4,333,809)	13,715,930	(688,183)	(2,374,205)
	$ (4,525,229)	$ 13,524,510	$ (575,457)	$ (2,261,479)

The weighted-average assumptions used in determining the actuarial present value of the projected benefit obligation and the expected rate of return on plan assets were as follows as of June 30:

	Pension Plan		Postretirement Plan	
	2013	2012	2013	2012
Discount rate	4.60%	4.25%	4.60%	4.25%
Rate of compensation increase	-%*	-%*	-	-

*2.50% for 2013, 3.0% for years thereafter.

(Continued)

NOTE 8 - BENEFIT PLANS (Continued)

Weighted-average assumptions used to determine net periodic benefit cost for year ended June 30:

	Pension Plan		Postretirement Plan	
	2013	2012	2013	2012
Discount rate	4.25%	5.50%	4.25%	5.50%
Expected long-term return plan assets	7.25%	7.50%	-	-
Rate of compensation increase	-%*	-%*	-	-

*2.50% for 2013, 3.0% for years thereafter.

The fair value of the Institute's Pension Plan assets at June 30, 2013 and 2012, by asset class is as follows:

	2013			
	Level 1	Level 2	Level 3	Total
Investments, at fair value				
Common collective trusts				
Domestic equity mutual funds	$ -	$ 13,747,224	$ -	$ 13,747,224
Domestic fixed income	-	16,890,881	-	16,890,881
Domestic government fixed income	-	4,296,780	-	4,296,780
International equities	-	11,135,838	-	11,135,838
Mutual funds				
US real estate	3,336,230	-	-	3,336,230
Commodity fund	4,282,689	-	-	4,282,689
Short-term investments				
High-grade money market instruments with short maturities	-	1,382,446	-	1,382,446
	$ 7,618,919	$ 47,453,169	$ -	$ 55,072,088

(Continued)

NOTE 8 - BENEFIT PLANS (Continued)

	2012			
	Level 1	Level 2	Level 3	Total
Investments, at fair value				
Common collective trusts				
Domestic equity mutual funds	$ -	$ 12,541,624	$ -	$ 12,541,624
Domestic fixed income	-	15,606,036	-	15,606,036
Domestic government fixed income	-	4,022,405	-	4,022,405
International equities	-	10,377,036	-	10,377,036
Mutual funds				
US real estate	3,135,554	-	-	3,135,554
Commodity fund	4,303,022	-	-	4,303,022
Short-term investments				
High-grade money market instruments with short maturities	-	1,417,894	-	1,417,894
	$ 7,438,576	$ 43,964,995	$ -	$ 51,403,571

Common collective trusts: The fair values of participation units held in common collective trusts and the short term investment fund are based on their net asset values, as reported by the fund managers of the common collective trusts and the short term investment and as supported by the unit prices of actual purchase and sale transactions occurring as of or close to the financial statement date (Level 2 inputs). The investment objectives and underlying investments of the common collective trusts vary, with some holding diversified portfolios of domestic and international stocks and open-ended mutual funds, some holding short-term and/or medium-term corporate, world, government and government agency bonds, and others holding a portfolio of treasury-inflation protected securities. Each common collective trust provides for daily redemptions by the Plan at reported net asset values per share, with no advance notice requirements.

Mutual funds: The fair values of mutual fund investments are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs).

The Investment Committee voted in February of 2010, to change the target allocation of pension plan assets over the course of several months. The target allocation of pension plan assets for the years ended June 30, 2013 and 2012 was 59% and 59% for equity securities; 39%and 39% for debt securities; 2% and 2% for cash equivalents, respectively.

The objective of the investment allocation strategy is to meet the commitment to plan participants at a reasonable cost to the Institute. The Pension Plan assets are to be actively invested to achieve growth through capital appreciation and accumulation and reinvestment of interest and dividend income.

Contributions: The Institute contributed $3,900,000 and $3,675,000 to the Pension Plan in 2013 and 2012, respectively. Based on the advice of its consulting actuary, the Institute's employer contributions expected to be paid in fiscal year 2013 total approximately $3,600,000.

(Continued)

NOTE 8 - BENEFIT PLANS (Continued)

Estimated Future Benefit Payments: The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension Plan	Postretirement Plan
2014	$ 3,162,117	$ 1,369,148
2015	3,351,421	1,359,647
2016	3,435,689	1,323,553
2017	3,551,533	1,304,911
2018	3,715,352	1,301,222
Years 2019-2023	21,244,220	6,974,046

The annual increase in healthcare costs is assumed to be 7.20% initially decreasing gradually to 4.30% in 2083 and thereafter. A one-percentage-point change in the assumed healthcare cost trend rate would have the following effects on the Postretirement Plan:

	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on total of service and interest cost components in 2013	$ 278,184	$ (222,935)
Effect on postretirement benefit obligation at June 30, 2013	4,017,650	(3,278,122)

NOTE 9 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily and permanently restricted net assets are available for the following purposes for the years ended June 30, 2013 and 2012:

Temporarily Restricted

	June 30, 2013	June 30, 2012
Purpose restrictions		
Scholarships, grants, and student loans	$ 12,669,577	$ 12,404,884
Unallocated operating endowment	2,181,974	1,308,223
Broadcast construction/renovation projects	942,293	1,697,574
Miscellaneous projects	4,425,034	3,724,827
Time restrictions		
Beneficial interest in term trusts held by others	4,069,346	4,950,874
Irrevocable trust agreements for which the Institute is trustee	31,511,988	28,942,479
	$ 55,800,212	$ 53,028,861

(Continued)

NOTE 9 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS (Continued)

Permanently Restricted

	June 30, 2013	June 30, 2012
Endowments held by the Institute		
Student aid	$ 15,264,582	$ 14,928,445
General purpose	4,821,868	4,714,239
Building maintenance	3,804,030	3,804,030
Education ministries	7,773,456	4,564,445
Broadcast ministries	106,900	105,300
Held in MBI managed Trusts	524,237	498,030
Endowments held by others on behalf of the Institute		
Beneficial interest in perpetual trusts held by others	4,166,230	3,790,354
	$ 36,461,303	$ 32,404,843

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by the donors as follows:

Net Assets Released

	June 30, 2013	June 30, 2012
Purpose restriction accomplished		
Moody capital projects	$ 1,067,047	$ 1,166,821
Broadcast construction/renovation projects	803,528	483,018
Student grants and scholarships	2,130,536	1,635,853
Educational purposes	692,855	484,579
Miscellaneous projects	32,410	109,456
	4,726,376	3,879,727
Time restrictions expired		
Termination of irrevocable trust agreements	5,502,275	5,179,819
Termination of charitable gift annuities	1,477,274	1,329,624
	6,979,549	6,509,443
	$ 11,705,925	$ 10,389,170

Assets released from restrictions include assets distributed to the Institute from terminated trusts and restricted donations expended for their restricted purposes. Certain costs related to assets released are included in fund-raising expenses.

(Continued)

NOTE 10 - ENDOWMENT COMPOSITION

The Institute's endowment consists of both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments for Scholarships for students.

Interpretation of Relevant Law**:**
Under the Uniform Prudent Management of Institutional funds Act (UPMIFA) of the State of Illinois, the Institute's Board of Trustees set the following guidelines to operate the Endowment fund: The permanently restricted Endowment fund will distribute to the current fund or to other funds to be used for ministry purpose each year 4.5% of the fund, as valued on the first day of each fiscal year. Income and appreciation in excess of that amount shall be retained and accumulated within the Endowment Fund.

Endowment net asset composition by type of fund as of June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds and unappropriated earnings	$ -	$ 5,567,715	$ 36,461,303	$ 42,029,018
Board-designated funds	1,594,092	-	-	1,594,092
Total funds	$ 1,594,092	$ 5,567,715	$ 36,461,303	$ 43,623,110

Endowment net asset composition by type of fund as of June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds and unappropriated earnings	$ (9,020)	$ 3,687,332	$ 32,404,843	$ 36,083,155
Board-designated funds	1,577,132	-	-	1,577,132
Total funds	$ 1,568,112	$ 3,687,332	$ 32,404,843	$ 37,660,287

(Continued)

NOTE 10 - ENDOWMENT COMPOSITION (Continued)

Changes in endowment net assets for years ended June 30, 2013 and 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets, July 1, 2011	$ 1,653,864	$ 5,134,744	$ 29,552,476	$ 36,341,084
Investment return:				
Investment income, net of fees	9,904	47,543	-	57,447
Realized/unrealized loss	(18,348)	(732,711)	-	(751,059)
Change in split interest trusts held by others	-	-	20,312	20,312
New gifts	-	7,016	2,832,055	2,839,071
Change in donor designation	-	(85,139)	-	(85,139)
Appropriation for expenditure	(68,288)	(684,121)	-	(752,409)
Net assets, June 30, 2012	1,577,132	3,687,332	32,404,843	37,669,307
Investment return:				
Investment income, net of fees	33,526	432,368	-	465,894
Realized/unrealized loss	59,434	2,330,462	-	2,389,896
Change in split interest trusts held by others	-	-	402,083	402,083
New gifts	-	20,631	3,654,377	3,675,008
Appropriation for expenditure	(76,000)	(903,078)	-	(979,078)
Net assets, June 30, 2013	$ 1,594,092	$ 5,567,715	$ 36,461,303	$ 43,623,110

Return Objectives and Risk Parameters: The investment objective of the Endowment Fund is to achieve, at minimum, an average total return of inflation plus 4% per year on a long-term basis. The asset allocation of the fund is designed to meet this objective with the lowest possible risk, and is determined using generally accepted techniques, which consider historic returns of various asset classes to calculate an efficient frontier.

Spending Policy: For the fiscal years 2013 and 2012, the Institute's policy for the appropriation of endowment assets for expenditure was to appropriate up to 4.5%, of the value of those assets as of the first day of the new fiscal year for the donor-restricted endowment fund.

Donor-Restricted Funds with Deficiencies: 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 UPMIFA requires the Institute to retain as a fund of perpetual duration. Deficiencies of this nature that are in excess of related temporarily restricted amounts are reported in unrestricted net assets. The donor-restricted deficiencies as of June 30, 2013 and 2012, as reported above are $0 and $9,020, respectively. Donor-restricted principal, unless otherwise directed by the donor, shall not be disbursed.

(Continued)

NOTE 11 - UNSECURED LINE OF CREDIT

The Institute has a $7,000,000 uncommitted line of credit with The Northern Trust Company (the Bank). Drawings on the line of credit are available solely on approval by the Bank, bear interest at Prime or LIBOR plus 1.2%; and are due on demand. There are no borrowings under the line of credit as of June 30, 2013 and 2012. There is an outstanding letter of credit against this line of credit of $1,801,295 issued June 14, 2013.

NOTE 12 - COMMITMENTS

The Institute has lease contracts and maintenance agreements for satellite and radio transmission towers, office and classroom space, computer and other equipment, certain of these contracts and agreements contain renewal provisions. Expenses incurred under these agreements were approximately $1,607,960 and $1,570,000 for 2013 and 2012, respectively. The Institute also has capital lease agreements related to computer software and hardware. These lease agreements entered into on October 26, 2011 are 48 months in length with monthly payments of $13,905 and a $1 buyout option at the end of the lease term. The Institute paid $12,829 for interest on the capital lease in the fiscal year. Future minimum commitments for both operating and capital leases and maintenance agreements with noncancelable terms in excess of one year are as follows at June 30:

	Operating Amount	Capital Amount
2014	$ 1,376,799	$ 166,858
2015	527,903	166,858
2016	379,249	55,619
2017	289,539	
2018	291,515	
Thereafter	1,417,877	-
Total minimum operating lease payments	$ 4,282,882	389,335
Less: Amount representing interest		(12,811)
Present value of net minimum lease payments		$ 376,524

In 2007, the Institute entered into a group employee health insurance plan with Blue Cross and Blue Shield of Illinois, whereby Blue Cross and Blue Shield provides certain administrative services and provides specific and aggregate stop loss coverage. The Institute pays a reduced monthly premium; however, it is responsible for the funding of all claims up to $300,000 per individual per policy year. A liability of approximately $350,445 and $293,000 has been recorded by the Institute as of June 30, 2013 and June 30, 2012, respectively, for estimated claims incurred but not reported on that date. Group health insurance expense for the fiscal years ended June 30, 2013 and 2012 totaled approximately $7,280,000 and $6,395,000, respectively.

(Continued)

NOTE 13 - CONTINGENCIES

The Institute is party to certain legal proceedings and allegations. In most cases, these matters are covered by commercial insurance. Management is of the opinion that these matters will not have a material effect on the Institute's financial position or changes in net assets.

The Institute receives approximately $3.2 million in student financial aid from the U.S. Department of Education. The disbursement of funds received under such programs generally requires compliance with terms and conditions specified in federal regulations and are subject to audit by the U.S. Department of Education and possible disallowance of certain expenditures. The Institute has not had any significant disallowance of student financial aid in the past and expects such amounts, if any, to be immaterial.

SUPPLEMENTARY INFORMATION

THE MOODY BIBLE INSTITUTE OF CHICAGO
SCHEDULE OF FINANCIAL POSITION BY NET ASSET CATEGORY
June 30, 2013 and 2012

	2013				2012
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
ASSETS					
Cash and cash equivalents	$ 2,764,949	$ 4,573,956	$ 205,542	$ 7,544,447	$ 8,846,731
Receivables					
Beneficial interest in term trusts held by others and pledges receivable	-	5,790,655	-	5,790,655	7,289,627
Other, net	5,512,082	604,472	209	6,116,763	5,542,585
Inventories	4,406,696	-	-	4,406,696	4,355,098
Investments	17,000,586	52,951,334	35,689,647	105,641,567	102,033,420
Trust holdings	-	160,989,312	5,030,506	166,019,818	160,957,640
Property, plant, and equipment, net	55,721,230	-	-	55,721,230	54,685,230
Due from (to) other funds	(1,075,000)	5,195,061	(4,120,061)	-	-
Other	10,695,377	-	-	10,695,377	10,805,776
Total assets	$ 95,025,920	$ 230,104,790	$ 36,805,843	$ 361,936,553	$ 354,516,107
LIABILITIES AND NET ASSETS					
Liabilities					
Accounts payable and accrued expenses	$ 10,077,215	$ 5,170	$ 4,500	$ 10,086,885	$ 8,898,378
Accrued pension and postretirement health benefits	45,367,182	-	-	45,367,182	50,940,740
Annuity contract actuarial reserve	-	44,822,084	-	44,822,084	46,101,746
Trust obligations	-	129,477,324	340,040	129,817,364	127,726,776
Other	246,304	-	-	246,304	507,677
Total liabilities	55,690,701	174,304,578	344,540	230,339,819	234,175,317
Net assets					
Unrestricted	39,335,219	-	-	39,335,219	34,907,086
Temporarily restricted	-	55,800,212	-	55,800,212	53,028,861
Permanently restricted	-	-	36,461,303	36,461,303	32,404,843
Total net assets	39,335,219	55,800,212	36,461,303	131,596,734	120,340,790
Total liabilities and net assets	$ 95,025,920	$ 230,104,790	$ 36,805,843	$ 361,936,553	$ 354,516,107

See accompanying independent auditors' report.

TRUSTEES AND OFFICERS
As of June 30, 2013
(Unaudited)

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