

**IOWA UNITED METHODIST CHURCH
BUILDING FUND TRUST**

Financial Statements

December 31, 2015

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4200 University Avenue, Suite 410
West Des Moines, IA 50266
Phone 515-222-5680
Fax 515-222-5681

lwbj.com

Report of Independent Auditors

To the Trustees and Investors
Iowa United Methodist Church Building Fund Trust
Des Moines, Iowa

We have audited the accompanying financial statements of the Iowa United Methodist Church Building Fund Trust (a nonprofit organization), which comprise the statements of financial position as of December 31, 2015, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Iowa United Methodist Church Building Fund Trust as of December 31, 2015, and the results of its activities and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of the Iowa United Methodist Church Building Fund Trust, as of December 31, 2014, were audited by other auditors, whose report dated March 5, 2015, expressed an unmodified opinion on those statements.

West Des Moines, Iowa
April 15, 2016

LWBJ, LLP

**IOWA UNITED METHODIST CHURCH
BUILDING FUND TRUST**

Statements of Financial Position

December 31, 2015 and 2014

	2015	2014
Assets		
Cash and cash equivalents	\$ 161,235	\$ 292,626
Investments	3,340,995	3,931,424
Interest receivable	23,541	13,676
Accounts receivable (Note 8)	167,666	-
Loans receivable	7,148,445	6,661,007
Total assets	\$ 10,841,882	\$ 10,898,733
 Liabilities and net assets		
Liabilities:		
Accrued interest payable	\$ 60,287	\$ 59,707
Accounts payable	8,892	8,642
Due to the the Iowa United Methodist Foundation (Note 8)	167,666	-
Certificates of participation	10,142,115	10,370,313
Total liabilities	10,378,960	10,438,662
 Net assets:		
Unrestricted	462,922	460,071
Total liabilities and net assets	\$ 10,841,882	\$ 10,898,733

See accompanying notes.

**IOWA UNITED METHODIST CHURCH
BUILDING FUND TRUST**

Statements of Activities

For the years ended December 31, 2015 and 2014

	2015	2014
Public support and revenue		
Interest and dividend income	\$ 395,334	\$ 448,719
Realized and unrealized gains (losses)	(61,180)	7,986
Other income	600	3,074
Total public support and revenue	334,754	459,779
Expenses		
Interest expense on certificates of participation	211,954	215,685
Administrative and support services	119,949	124,013
Total expenses	331,903	339,698
Increase in net assets	2,851	120,081
Unrestricted net assets at beginning of year	460,071	339,990
Unrestricted net assets at end of year	\$ 462,922	\$ 460,071

See accompanying notes.

**IOWA UNITED METHODIST CHURCH
BUILDING FUND TRUST**

Statements of Cash Flows

For the years ended December 31, 2015 and 2014

	2015	2014
Operating activities		
Increase in net assets	\$ 2,851	\$ 120,081
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Realized and unrealized (gains) losses	61,180	(7,986)
Interest added to principal of loans receivable	(66,733)	(103,247)
Reinvested certificate interest	29,939	31,447
Increase in accrued interest receivable	(9,865)	-
Increase in accrued interest payable	580	873
Increase in accounts payable	250	8,642
Net cash provided in operating activities	18,202	49,810
Financing activities		
Proceeds from certificates of participation	4,593,884	1,509,202
Redemptions of certificates of participation	(4,852,021)	(773,905)
Net sales of investments	529,249	278,801
Principal payments on loan receivables	613,401	665,505
Loan disbursements	(1,034,106)	(1,696,966)
Net cash used in investing activities	(149,593)	(17,363)
Net increase (decrease) in cash and cash equivalents	(131,391)	32,447
Cash and cash equivalents, beginning of year	292,626	260,179
Cash and cash equivalents, end of year	\$ 161,235	\$ 292,626
Supplemental disclosures		
Interest paid	\$ 212,247	\$ 214,813
Non-cash operating and financing activity:		
Interest income due to Iowa United Methodist Foundation	167,666	-

See accompanying notes.

**IOWA UNITED METHODIST CHURCH
BUILDING FUND TRUST**

Notes to Financial Statements

December 31, 2015

1. Nature of Business and Significant Accounting Policies

Nature of Organization

The Iowa United Methodist Church Building Fund Trust (the "Trust") was organized under the laws of the State of Iowa for religious purposes. The purpose and function of the Trust is to promote the construction and renovation of Iowa United Methodist churches through a building loan program. Funding for the building program will be through the issuance and sale of certificates of participation and through earnings from loans and investments. Loans may be made for new construction, renovation projects, property acquisition and development, and debt refinancing.

A summary of the Trust's significant accounting policies is as follows:

Basis of Accounting

The financial statements of the Trust have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

The Trust prepares its financial statements under the provisions of Statements of Financial Accounting Standards. These statements establish standards for external financial reporting by not-for-profit organizations and require that resources be classified for accounting and reporting purposes into three net asset categories (unrestricted, temporarily restricted, and permanently restricted) according to externally (donor) imposed restrictions. At December 31, 2015 and 2014, all net assets were unrestricted.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Cash and Cash Equivalents

For statement of cash flow purposes, the Trust considers cash deposited in the operating accounts to be cash or cash equivalents. Cash held in the investment accounts or for investment purposes is considered to be an investment. At various times during the two-year period ending December 31, 2015, the Trust maintained balances in excess of the balance insured by the Federal Deposit Insurance Corporation. The Trust believes it is not exposed to any significant credit risk on cash and cash equivalents.

**IOWA UNITED METHODIST CHURCH
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Notes to Financial Statements (continued)

1. Nature of Business and Significant Accounting Policies (continued)

Concentration of Credit Risk

As of December 31, 2015, there were 22 building project loans outstanding totaling \$7,148,445. There were three loans at December 31, 2015 that individually exceeded 10% of the total outstanding loans.

As of December 31, 2014, there were 26 building project loans outstanding totaling \$6,661,007. There were two loans at December 31, 2014 that individually exceeded 10% of the total outstanding loans.

The Trust maintains significant investments in marketable securities. Investments are managed, subject to the Trust's investment policy, by independent custodians. Significant movements within the investments are approved by the Trust. The Trust believes this approach reduces the concentration of credit risk and is a prudent policy for the long-term benefit of the Trust.

Donated Assets and Services

Donated assets are recorded as support at their estimated fair value on the date of gift. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

Donated services are recognized for those services that improve or enhance property and equipment (as contributions and increases to property and equipment) or those that require specialized skills (as contributions and expenses). During 2015 and 2014, no contributed services were received which met the criteria stated above.

Investments

The Trust maintains investment accounts with third party managers. At December 31, 2015 and 2014, the investments were invested in a mixture of cash, bonds and mutual funds. Investments are stated at their aggregate market value as determined by year-end quotes. The earnings on investments are recorded in interest and dividend income, as well as capital gains during the year. The change in the difference between market values and the cost of investments is reflected in the statements as realized and unrealized gain (losses).

Reclassifications

Certain amounts in the December 31, 2014 financial statements were reclassified to conform to the current year presentation.

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Notes to Financial Statements (continued)

2. Investments

Investments were composed of the following at December 31, 2015:

	Cost	Market Value
Money market	\$ 84,193	\$ 84,193
Corporate/international bonds	1,396,110	1,398,309
Government bonds	135,615	136,461
Mutual funds and ETFs	1,775,948	1,722,032
Total	\$ 3,391,866	\$ 3,340,995

3. Loans Receivable

Loans receivable are recorded at the original amount borrowed, less principal payments received to date. Interest is accrued monthly based on a fixed annual percentage rate. A commitment fee is charged to the borrowing entity. Loan amounts are limited to 70% of the total cost of the project. These loans bear interest at either a fixed or variable rate annually and are due over a maximum of fifteen years with a five-year renewal. The loans are collateralized by the borrowing church's real estate. Loans receivable are not considered for write-off until the board has exhausted all collection efforts. Management believes all loans are collectible in full, and therefore, a provision for loan losses is not considered necessary. The loans receivable balances at December 31, 2015 and 2014 were \$7,148,445 and \$6,661,007, respectively.

Interest income on loans during the years ended December 31, 2015 and 2014 was \$277,526 and \$320,902, respectively.

The following table presents informative data by class of financing receivables regarding their age and interest accrual status at December 31, 2015 and 2014:

		Past Due				Status of Interest Accruals			
					Total	Total		Financing	Financing
		30-59	60-89	> 90	Past	Financing	on Nonaccrual	Receivables	Due > 90 Days
December 30,	Current	Days	Days	Days	Due	Receivables	Status	and Still Accruing	
							Interest		
2015	\$ 7,148,445	\$ -	\$ -	\$ -	\$ -	\$ 7,148,445	\$ -	\$ -	
2014	6,661,007	-	-	-	-	6,661,007	-	-	

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Notes to Financial Statements (continued)

4. Income Tax Status

The Trust is exempt from federal and state income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code and the provisions of the Code of the State of Iowa. As a religious organization, the Trust is not required to file an annual return with either the Internal Revenue Service or the State of Iowa.

In accordance with the accounting guidance for uncertainty in income taxes, management has evaluated their material tax positions and determined that there are no income tax effects with respect to the financial statements.

5. Fair Value of Financial Instruments

The Trust follows Financial Accounting Standards Board Accounting Standards Codification ("ASC") Topic 820, *Fair Value Measurements*. ASC Topic 820 establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States and expands disclosures about fair value measurements.

ASC Topic 820 establishes a three-tier fair value hierarchy, which categorizes the inputs used in measuring fair value. These categories include (in descending order of priority): Level 1, defined as unadjusted quoted prices in active markets accessible at the measurement date for identical, unrestricted assets or liabilities; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The following is a description of the valuation methodologies used for assets measured at fair value:

- *Money market*: Valued based on a model using observable market inputs.
- *Corporate bonds, international bonds, and government bonds*: Valued based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for similar securities, the bond is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.
- *Mutual funds and exchange traded funds (ETFs)*: Valued based on quoted prices of identical assets in active markets.

The following table shows assets measured at fair value as of December 31, 2015 on the Trust's statements of financial position and the input categories associated with those assets:

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Notes to Financial Statements (continued)

5. Fair Value of Financial Instruments (continued)

Description	Total	Level 1	Level 2	Level 3
Money market	\$ 84,193	\$ 84,193	\$ -	\$ -
Corporate/international bonds	1,398,309	-	1,398,309	-
Government bonds	136,461	-	136,461	-
Mutual funds and ETFs	1,722,032	1,722,032	-	-
Total	\$ 3,340,995	\$ 1,806,225	\$ 1,534,770	\$ -

6. Related Party Transactions

The Iowa United Methodist Foundation (the "Foundation"), an affiliated organization, serves as the Sponsor of the Trust. As Sponsor, the Foundation provides certain support such as accounting, general administrative support and the use of facilities for the benefit of the Trust.

The Trust pays a fee to the Foundation based on the value of certificates of participation issued by the Trust. During the years ended December 31, 2015 and 2014, the Trust fee expense was \$107,531 and \$111,868, respectively, to the Foundation.

7. Certificates of Participation

The Trust has issued interest-bearing certificates of participation to investors who are individual United Methodist members, Churches, or agencies. The Trust intends to use the proceeds from the certificates of participation to grant mortgage loans for the purpose of construction and renovation of Iowa United Methodist Churches.

Each certificate provides that interest shall be paid quarterly or annually. Interest can be paid out or added to the balance of the certificate. The Trust's management reviews the rate of interest to be paid on certificates weekly, and the Trust may raise or lower the rate of interest at its discretion.

The following table summarizes the interest rates on the certificates of participation at December 31, 2015 and 2014:

	2015	2014
1-year term	1.25%	1.25%
3-year term	2.24%	2.24%
5-year term	2.49%	2.49%

Interest expense during the years ended December 31, 2015 and 2014 was \$211,954 and \$215,685, respectively.

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Notes to Financial Statements (continued)

7. Certificates of Participation (continued)

The certificates of participation are payable to holders upon the maturity date of the certificate. At that time, investors can decide whether to receive payment in full or reinvest the principal for another term at the rate of interest declared for the period. At December 31, 2015, scheduled maturities of certificates of participation are as follows:

2016	\$	5,116,589
2017		2,185,147
2018		1,716,865
2019		865,280
2020		258,234
	\$	<u>10,142,115</u>

8. Subsequent Events

In January 2016, the Trust received \$2.5 million from the First United Methodist Church of Burlington ("Church"). That Church had received a historical preservation grant through the State of Iowa to renovate their church due to a fire in 2012. The Trust used the proceeds in satisfaction of a loan receivable in the amount of \$2,326,271. The remaining amount received of \$173,729 was conveyed to the Foundation in the amount of \$167,666 for a loan it had made to the Church, with the remaining \$6,063 recognized as Trust interest income.

The Trust has evaluated subsequent events through April 15, 2016, which is the date the financial statements were available to be issued.