

IOWA UNITED METHODIST FOUNDATION

Financial Statements
and Supplemental Information

December 31, 2015

Contents

Report of Independent Auditors.....	1-2
Financial Statements	
Statement of Financial Position	3
Statement of Activities.....	4
Statement of Cash Flows	5
Notes to Financial Statements.....	6-10
Supplemental Information	
Schedule of General and Administrative Expenses	11



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 Foundation
Des Moines, Iowa

We have audited the accompanying financial statements of the Iowa United Methodist Foundation (a nonprofit organization), which comprise the statement 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 Foundation 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.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of general and administrative expenses on page 11 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated 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, such information is fairly stated, in all material respects, in relation to the financial statements as a whole.

LWBJ, LLP

West Des Moines, Iowa
July 22, 2016

IOWA UNITED METHODIST FOUNDATION

Statement of Financial Position

December 31, 2015

	Unrestricted	Custodial Funds	Temporarily Restricted	Permanently Restricted	Total
Assets					
Cash - operating	\$ 58,907	\$ -	\$ -	\$ -	\$ 58,907
Investment fees receivable	8,886	-	-	-	8,886
Accrued interest receivable	2,752	62,747	13,545	17,923	96,967
Investments, at fair value	897,900	22,564,566	4,871,123	6,445,150	34,778,739
Life insurance policy	-	-	5,111	-	5,111
	<u>968,445</u>	<u>22,627,313</u>	<u>4,889,779</u>	<u>6,463,073</u>	<u>34,948,610</u>
Other assets:					
Office equipment, at cost	145,392	-	-	-	145,392
Accumulated depreciation	(1,818)	-	-	-	(1,818)
	<u>143,574</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>143,574</u>
Total assets	<u>\$ 1,112,019</u>	<u>\$ 22,627,313</u>	<u>\$ 4,889,779</u>	<u>\$ 6,463,073</u>	<u>\$ 35,092,184</u>
Liabilities and net assets					
Accounts payable	\$ 16,162	\$ -	\$ -	\$ -	\$ 16,162
Custodial funds payable	-	22,627,313	-	-	22,627,313
Amounts due annuitants	-	-	2,372,769	-	2,372,769
Amounts held for others	-	-	976,674	-	976,674
Total liabilities	<u>16,162</u>	<u>22,627,313</u>	<u>3,349,443</u>	<u>-</u>	<u>25,992,918</u>
Net assets	1,095,857	-	1,540,336	6,463,073	9,099,266
Total liabilities and net assets	<u>\$ 1,112,019</u>	<u>\$ 22,627,313</u>	<u>\$ 4,889,779</u>	<u>\$ 6,463,073</u>	<u>\$ 35,092,184</u>

See accompanying notes.

IOWA UNITED METHODIST FOUNDATION

Statement of Activities

For the year ended December 31, 2015

	Unrestricted	Custodial Funds	Temporarily Restricted	Permanently Restricted	Total
Changes in net assets:					
Revenues and gains:					
Contributions, bequests and grants	\$ 1,940	\$ -	\$ 4,728	\$ 10,683	\$ 17,351
Investment fee income	376,089	-	-	-	376,089
Interest and dividends	314	802,329	136,687	84,591	1,023,921
Change in fair value of investments	1,086	(478,177)	(155,709)	(78,559)	(711,359)
Capital campaign	18,000	-	-	-	18,000
Total revenues and gains (losses)	<u>397,429</u>	<u>324,152</u>	<u>(14,294)</u>	<u>16,715</u>	<u>724,002</u>
Net assets released from restrictions	-	-	-	-	-
Distributions, scholarships and grants	-	-	-	143,877	143,877
Investment expenses	-	314,811	56,282	13,826	384,919
Change in value of split-interest agreements	-	-	33,902	-	33,902
General and administrative	425,154	-	-	-	425,154
Total expenses	<u>425,154</u>	<u>314,811</u>	<u>90,184</u>	<u>157,703</u>	<u>987,852</u>
Increase (decrease) in net assets	<u>(27,725)</u>	<u>9,341</u>	<u>(104,478)</u>	<u>(140,988)</u>	<u>(263,850)</u>
Decrease in custodial funds payable	-	(9,341)	-	-	(9,341)
Net assets, beginning of year (Note 8)	1,123,582	-	1,644,814	6,604,061	9,372,457
Net assets, end of year	<u>\$ 1,095,857</u>	<u>\$ -</u>	<u>\$ 1,540,336</u>	<u>\$ 6,463,073</u>	<u>\$ 9,099,266</u>

See accompanying notes.

IOWA UNITED METHODIST FOUNDATION

Statement of Cash Flows

For the year ended December 31, 2015

Operating activities

Decrease in net assets	\$ (263,850)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:	
Depreciation	1,818
Loss on disposal of office equipment	8,405
Change in fair value of investments	711,359
Change in value of split-interest agreements	(33,902)
Increase in interest and fees receivables	(10,542)
Increase in accounts payable	9,887
Decrease in annuities payable and amounts held for others	(202,764)
Increase in custodial funds	445,192
Net cash provided by operating activities	<u>665,603</u>

Investing activities

Purchase of office equipment	(145,392)
Net investment purchases	<u>(567,966)</u>
Net cash used in investing activities	<u>(713,358)</u>
Net decrease in cash	(47,755)

Cash, beginning of year	106,662
Cash, end of year	<u>\$ 58,907</u>

See accompanying notes.

IOWA UNITED METHODIST FOUNDATION

Notes to Financial Statements

December 31, 2015

1. Nature of Business and Significant Accounting Policies

Nature of Organization

The Iowa United Methodist Foundation ("Foundation") was incorporated under the laws of the State of Iowa for the purpose of providing a legally constituted body to solicit, receive, administer, and manage trust funds, devises, and gifts of property of every kind and nature made to or for the use and benefit of any church, university, college, hospital, home, orphanage, missionary society, or any other religious, educational, charitable, or benevolent organization or work related to the United Methodist Church, either in Iowa, or anywhere in the world.

Basis of Presentation

The Foundation prepares its financial statements under the accounting standards that require unconditional promises to give be recorded as receivables and revenues, and requires the Foundation to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. The Foundation classifies its net assets for accounting and reporting purposes into three net asset categories according to externally (donor) imposed restrictions. As such, the financial statements are presented on the basis of unrestricted, temporarily restricted and permanently restricted net assets. A description of the three net asset categories follows:

Unrestricted net assets - assets currently available for use in the Foundation's operations under the direction of the board, and those resources invested in equipment.

Temporarily restricted net assets - assets that are stipulated by donors for specific purposes, or those not currently available for use until commitments regarding their use have been fulfilled or lifetime beneficiary interests have ceased.

Permanently restricted net assets - assets which require, by donor restrictions, that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions and gifts which have been donor stipulated to provide scholarships for students.

Also presented is a category for custodial funds, which represent funds held in custody for various agencies and affiliates of the United Methodist Church. These assets are not available for use by the Foundation and must be returned to the third party upon demand.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

IOWA UNITED METHODIST FOUNDATION

Notes to Financial Statements (continued)

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

Office Equipment

Office equipment is capitalized at cost if purchased, and at fair market value if donated. Depreciation is provided over estimated useful lives of 3 to 10 years on the straight-line method. Capitalization is determined on an item-by-item basis.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Foundation considers only 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. During 2015, the Foundation maintained checking and savings accounts at a local financial institution. At various times during the year end December 31, 2015, the combined balances of these accounts exceeded the federally insurance limit.

Donated Assets

Donated investments and assets are recorded at market value at the date of gift. Unless specific prohibitive clauses are contained in the gift instruments, funds for investments have been combined into a single investment pool. Revenues arising from the ownership or disposition of pooled investments are allocated to the various funds based on the percentage of ownership of such funds in the investment pool.

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, no contributed services were received which met the criteria stated above.

Annuity obligations related to charitable remainder trusts and charitable gift annuities are recorded to reflect the net present value of the expected future payments to the beneficiary. The annuity and income obligations are determined annually to reflect the change in life expectancy of the donor/beneficiary as well as expected payments to be made under the agreement. Investment income and distributions to beneficiaries increase or decrease the assets and the related obligation. The remainder interest is recorded as a contribution to the Foundation or an increase in amounts held for others, depending on the terms of the agreement. The net present value of the annuity and income obligations is computed using life expectancies from the 2000CM Mortality Table and the applicable discount rates established by the Internal Revenue Service ("IRS").

Investments

Independent custodians hold the majority of the Foundation's investment assets in trust and execute transactions therein at the direction of the Investment Committee of the Foundation and third-party fund managers. Investments are carried at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

IOWA UNITED METHODIST FOUNDATION

Notes to Financial Statements (continued)

2. Fair Value Measurements

Accounting guidance for fair value establishes a framework for measuring fair value. That 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 fair value hierarchy is as follows:

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the Foundation 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: Unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The 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. The following is a description of the valuation methodologies used for assets and liabilities measured at fair value at December 31, 2015:

- *Cash and cash equivalents, common and preferred stocks, and mutual funds and exchange traded funds ("ETFs")*: Valued based on quoted prices of identical assets in active markets.
- *Corporate bonds, U.S. government and agency bonds, and other debt securities*: 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 instrument 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.
- *Amounts due annuitants*: Valued based on the net present value of payments to be made under the annuity agreements using current life expectancies and interest rates.

The following table shows the amounts measured at fair value as of December 31, 2015 and the associated input categories:

Description	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Cash and cash equivalents	\$ 604,041	\$ -	\$ -	\$ 604,041
Common and preferred stocks	17,348,298	-	-	17,348,298
Corporate bonds	-	8,216,619	-	8,216,619
Mutual funds and ETFs	5,711,733	-	-	5,711,733
U.S. government and agency bonds	-	2,029,892	-	2,029,892
Other debt securities	-	868,156	-	868,156
	<u>\$ 23,664,072</u>	<u>\$ 11,114,667</u>	<u>\$ -</u>	<u>\$ 34,778,739</u>
Liabilities:				
Amounts due annuitants	<u>\$ -</u>	<u>\$ 2,372,769</u>	<u>\$ -</u>	<u>\$ 2,372,769</u>

IOWA UNITED METHODIST FOUNDATION

Notes to Financial Statements (continued)

3. Annual Conference

The Foundation rents office space under a month-to-month lease with the Iowa Annual Conference of the United Methodist Church ("Annual Conference"). Total rent expense for the year ended December 31, 2015 was \$10,926.

4. Amounts Due Annuitants

The Foundation has established a gift annuity plan whereby donors may contribute assets to the organization through charitable remainder trusts and charitable gift annuities. A charitable remainder trust is an arrangement in which a donor establishes and funds a trust from which specific distributions are made to a designated beneficiary or beneficiaries over the trust's term, or life expectancies of the beneficiaries.

Upon termination of the trust, or death of the beneficiaries, the remaining assets are distributed to the named remainder beneficiaries or the Foundation. Distributions to the beneficiaries may be for either a specified dollar amount, or a specified percentage of the trust's fair market value, as determined annually.

Under charitable remainder trusts where the Foundation is the trustee, the assets held in trust are recorded on the balance sheet at their fair value. The liability to the beneficiary is recorded at the present value of the estimated future payments to be distributed over the term of the trust. The amount of the contribution recorded is the difference between the initial fair value and liability and is classified according to donor restrictions. In subsequent periods, income earned on trust assets, capital gains and losses, and distributions paid to the beneficiaries are reflected in the trust's asset and liability accounts. Adjustments to the liability account to reevaluate the present value of estimated payments to beneficiaries, changes in assumptions, and changes in fair value of assets are recognized in the statement of activities under the caption "change in value of split-interest gifts." As of December 31, 2015, assets held by the Foundation under charitable remainder trusts were \$3,465,038.

A charitable gift annuity is an arrangement in which the donor contributes assets to the Foundation in exchange for a promise to pay a fixed amount for a specified period of time to the donor or others designated by the donor. The assets received are recorded at their fair value in the period in which the contract is executed and the annuity liability is recognized at the present value of future payments expected to be paid. The amount of contribution recorded is the difference between these amounts and is classified according to donor restrictions. In subsequent periods, payments to the annuitant reduce the annuity liability. Adjustments to the annuity liability reflect accretion of the discount and changes in the life expectancy of the beneficiary and are recognized in the statement of activities under the caption "change in value of split-interest gifts." As of December 31, 2015, assets held by the Foundation under charitable gift annuities were \$494,097.

The liabilities to the beneficiaries of the charitable remainder trusts and charitable gift annuities are based on the life expectancies of the beneficiaries. Because of uncertainties surrounding the estimates of life expectancies, it is reasonably possible that estimates of the liabilities may change significantly in the near future.

IOWA UNITED METHODIST FOUNDATION

Notes to Financial Statements (continued)

5. Custodial Funds

The Foundation manages a variety of funds for various United Methodist churches, agencies, and affiliates. These funds generally may be withdrawn from the Foundation upon the giving of sixty (60) days written notice.

6. Income Tax Status

The Foundation 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 Foundation is not required to file an annual return with either the IRS or the state of Iowa. In accordance with 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. As of December 31, 2015, management is not aware of any uncertain tax positions taken by the Foundation that would not be sustained by taxing authorities.

7. Benefit Plan

The Foundation participates in a multi-employer plan with the Annual Conference. The Annual Conference maintains a defined contribution plan for eligible conference employees. Current costs are fully funded as contributions are made, and vesting is full and immediate to the participants' accounts. Annual contributions to the plan are funded through apportionment to the various departments within the Annual Conference. Plan expense for the year ended December 31, 2015 was \$11,064.

8. Restatement

As a result of issues identified in the calculation of the present value of amounts due to annuitants and the amounts due to other beneficiaries as of December 31, 2014, as well as the reclassification of certain investment accounts between custodial, temporarily restricted, and permanently restricted, the net assets of the Foundation as of December 31, 2014, have been restated as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Net assets as of December 31, 2014, as originally stated	\$ 4,147,731	\$ 4,802,748
Restatement	<u>(2,502,917)</u>	<u>1,801,313</u>
Net assets as of December 31, 2014, as restated	<u>\$ 1,644,814</u>	<u>\$ 6,604,061</u>

9. Subsequent Events

The Foundation has evaluated subsequent events through July 22, 2016, which is the date the financial statements were available to be issued.

IOWA UNITED METHODIST FOUNDATION

Schedule of General and Administrative Expenses

For the year ended December 31, 2015

Salaries	\$	217,381
Payroll taxes		15,445
Employee benefits		47,398
Insurance		6,168
Field expense		12,324
Publication		2,307
Board and committee expense		4,615
Promotion		2,545
Office expense		14,709
Computer supplies and maintenance		17,124
Professional fees		11,650
Training and meetings		13,814
Rent expense		10,926
Depreciation		1,818
Contract labor		38,365
Miscellaneous expense		160
Loss on disposal of office equipment		8,405
Total general and administrative expenses	\$	<u>425,154</u>

See accompanying report of independent auditors.