

IOWA UNITED METHODIST FOUNDATION

Financial Statements
and Supplemental Information

December 31, 2016

Contents

Independent Auditors' Report 1-2

Financial Statements

Statements of Financial Position 3-4

Statements of Activities 5-6

Statements of Cash Flows 7

Notes to Financial Statements 8-13

Supplemental Information

Schedules of General and Administrative Expenses 14



Independent Auditors' Report

To the Board of Trustees
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 statements of financial position as of December 31, 2016 and 2015, 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.

Auditors' 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 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, 2016 and 2015, 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.

Restatement of 2015 Financial Statements

As discussed in Note 1 to the financial statements, the classification of certain investment accounts were misidentified during the prior audit resulting in an understatement of amounts previously reported for custodial funds payable as of December 31, 2015. Accordingly, an adjustment has been made to net assets as of December 31, 2015, to correct the error. Our opinion is not modified with respect to that matter.

Report on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of general and administrative expenses on page 14 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 21, 2017

IOWA UNITED METHODIST FOUNDATION

Statement of Financial Position

December 31, 2016

	Without Donor Restrictions	With Donor Restrictions	Custodial Funds	Total
Assets				
Cash - operating	\$ 65,990	\$ -	\$ -	\$ 65,990
Investment fees receivable	30,288	-	-	30,288
Accrued interest receivable	2,810	22,013	81,117	105,940
Notes receivable	-	310,815	-	310,815
Investments, at fair value	838,543	10,691,435	24,208,897	35,738,875
Life insurance policy	-	4,743	-	4,743
	937,631	11,029,006	24,290,014	36,256,651
Other assets:				
Deposits for software	63,702	-	-	63,702
Office equipment, at cost	145,392	-	-	145,392
Accumulated depreciation	(23,628)	-	-	(23,628)
	185,466	-	-	185,466
Total assets	\$ 1,123,097	\$ 11,029,006	\$ 24,290,014	\$ 36,442,117
 Liabilities and net assets				
Accounts payable	\$ 799	\$ -	\$ -	\$ 799
Custodial funds payable	-	-	24,290,014	24,290,014
Annuity obligations	-	2,187,096	-	2,187,096
Amounts held for other beneficiaries	-	1,071,156	-	1,071,156
Total liabilities	799	3,258,252	24,290,014	27,549,065
Net assets	1,122,298	7,770,754	-	8,893,052
Total liabilities and net assets	\$ 1,123,097	\$ 11,029,006	\$ 24,290,014	\$ 36,442,117

See accompanying notes.

IOWA UNITED METHODIST FOUNDATION

Statement of Financial Position

December 31, 2015

	Without Donor Restrictions	With Donor Restrictions	Custodial Funds	Total
Assets				
Cash - operating	\$ 58,907	\$ -	\$ -	\$ 58,907
Investment fees receivable	8,886	-	-	8,886
Accrued interest receivable	2,752	21,039	73,176	96,967
Investments, at fair value	897,900	10,827,683	23,053,156	34,778,739
Life insurance policy	-	5,111	-	5,111
	968,445	10,853,833	23,126,332	34,948,610
Other assets:				
Office equipment, at cost	145,392	-	-	145,392
Accumulated depreciation	(1,818)	-	-	(1,818)
	143,574	-	-	143,574
Total assets	\$ 1,112,019	\$ 10,853,833	\$ 23,126,332	\$ 35,092,184
 Liabilities and net assets				
Accounts payable	\$ 16,162	\$ -	\$ -	\$ 16,162
Custodial funds payable	-	-	23,126,332	23,126,332
Annuity obligations	-	2,372,769	-	2,372,769
Amounts held for other beneficiaries	-	976,674	-	976,674
Total liabilities	16,162	3,349,443	23,126,332	26,491,937
Net assets	1,095,857	7,504,390	-	8,600,247
Total liabilities and net assets	\$ 1,112,019	\$ 10,853,833	\$ 23,126,332	\$ 35,092,184

See accompanying notes.

IOWA UNITED METHODIST FOUNDATION

Statement of Activities

For the year ended December 31, 2016

	Without Donor Restrictions	With Donor Restrictions	Custodial Funds	Total
Changes in net assets:				
Revenues and gains:				
Contributions, bequests and grants	\$ 4,080	\$ 18,894	\$ -	\$ 22,974
Investment fee income	375,040	-	-	375,040
Interest and dividends	3,857	219,919	741,356	965,132
Change in fair value of investments	40,100	414,572	1,007,995	1,462,667
Total revenues and gains	423,077	653,385	1,749,351	2,825,813
Net assets released from restrictions	-	-	-	-
Distributions, scholarships and grants	-	168,881	-	168,881
Investment expenses	-	61,364	336,051	397,415
Change in value of split-interest agreements	-	156,776	-	156,776
General and administrative expenses	396,636	-	-	396,636
Total expenses	396,636	387,021	336,051	1,119,708
Increase in net assets	26,441	266,364	1,413,300	1,706,105
Changes attributable to custodial funds	-	-	(1,413,300)	(1,413,300)
Net assets, beginning of year	1,095,857	7,504,390	-	8,600,247
Net assets, end of year	\$ 1,122,298	\$ 7,770,754	\$ -	\$ 8,893,052

See accompanying notes.

IOWA UNITED METHODIST FOUNDATION

Statement of Activities

For the year ended December 31, 2015

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Custodial Funds</u>	<u>Total</u>
Changes in net assets:				
Revenues and gains:				
Contributions, bequests and grants	\$ 1,940	\$ 15,411	\$ -	\$ 17,351
Investment fee income	376,089	-	-	376,089
Interest and dividends	314	219,332	804,275	1,023,921
Change in fair value of investments	1,086	(205,935)	(506,510)	(711,359)
Capital campaign	18,000	-	-	18,000
Total revenues and gains	<u>397,429</u>	<u>28,808</u>	<u>297,765</u>	<u>724,002</u>
Net assets released from restrictions	-	-	-	-
Distributions, scholarships and grants	-	143,877	-	143,877
Investment expenses	-	69,740	315,179	384,919
Change in value of split-interest agreements	-	(5,675)	-	(5,675)
General and administrative expenses	425,154	-	-	425,154
Total expenses	<u>425,154</u>	<u>207,942</u>	<u>315,179</u>	<u>948,275</u>
Decrease in net assets	<u>(27,725)</u>	<u>(179,134)</u>	<u>(17,414)</u>	<u>(224,273)</u>
Changes attributable to custodial funds	-	-	17,414	17,414
Net assets, beginning of year	1,123,582	7,683,524	-	8,807,106
Net assets, end of year	<u>\$ 1,095,857</u>	<u>\$ 7,504,390</u>	<u>\$ -</u>	<u>\$ 8,600,247</u>

See accompanying notes.

IOWA UNITED METHODIST FOUNDATION

Statements of Cash Flows

For the years ended December 31, 2016 and 2015

	2016	2015
Operating activities		
Increase (decrease) in net assets	\$ 1,706,105	\$ (224,273)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	21,810	1,818
Loss on disposal of office equipment	-	8,405
Change in fair value of investments	(1,462,299)	711,359
Change in value of split-interest agreements	156,776	(5,675)
Increase in interest and fees receivables	(30,375)	(10,542)
Increase (decrease) in accounts payable	(15,363)	9,887
Decrease in annuities payable and amounts held for others	(247,967)	(230,991)
Net cash provided by operating activities	128,687	259,988
Investing activities		
Purchase of office equipment	-	(145,392)
Payments made for deposit on software	(63,702)	-
Issuance of notes receivable	(310,815)	-
Net investment withdraws (purchases)	252,913	(162,351)
Net cash used in investing activities	(121,604)	(307,743)
Net increase (decrease) in cash	7,083	(47,755)
Cash, beginning of year	58,907	106,662
Cash, end of year	\$ 65,990	\$ 58,907

See accompanying notes.

IOWA UNITED METHODIST FOUNDATION

Notes to Financial Statements

December 31, 2016

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 with donor-imposed restrictions. As such, the financial statements are presented on the basis of net assets with donor restrictions, and net assets without donor restrictions.

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 ("GAAP") 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.

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 statements 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. At various times during the years ended December 31, 2016 and 2015, the combined balances of these accounts exceeded the federally insurance limit. The Foundation believes it is not exposed to any significant credit risk.

IOWA UNITED METHODIST FOUNDATION

Notes to Financial Statements (continued)

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

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.

The remainder interest of annuity obligations is recorded as a contribution to the Foundation or an increase in amounts held for others, depending on the terms of the agreement. 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 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. Additionally, a portion of the residual asset value may be pledged by the donor to other beneficiaries. The amount held for other beneficiaries are determined annually to reflect the changes in the related assets and annuity obligations. The net present value of the annuity 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. See Note 2 for a description of valuation methods. Interest income is recorded on the accrual basis, and dividends are recorded on the ex-dividend date.

Restatement

As a result of issues identified in the classification of certain accounts during the prior audit, investment balances previously reported as net assets with donor restrictions should have been recorded as custodial investments and a resulting increase in custodial funds payable as of December 31, 2015. The net assets of the Foundation as of December 31, 2015, have been restated as follows:

	<u>With Donor Restrictions</u>	<u>Custodial Funds</u>
Net assets as of December 31, 2015, as originally stated	\$ 8,003,409	\$ -
Change in investments and accrued interest	(499,019)	499,019
Change in custodial funds payable	-	499,019
Net assets as of December 31, 2015, as restated	<u>\$ 7,504,390</u>	<u>\$ -</u>

IOWA UNITED METHODIST FOUNDATION

Notes to Financial Statements (continued)

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

Recently Adopted Accounting Standards and Reclassifications

In 2016, the Financial Accounting Standards Board issued Accounting Standards Update No. 2016-14, which simplifies the classification and presentation of net assets based on their restrictions. The new standard no longer requires the Foundation's net assets to be separated into three categories – unrestricted, temporarily restricted, and permanently restricted. The new requirement allows for only two categories - net assets without donor restrictions and net assets with donor restrictions. The Foundation has elected to early adopt the update for the December 31, 2016 financial statements, and the 2015 financial statements have been reclassified to conform to the current year presentation.

2. Fair Value Measurements

GAAP 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, 2016 and 2015:

- *Short-term investments, 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.
- *Annuity obligations*: Valued based on the present value of payments to be made to annuitants using current life expectancies and discount rates utilizing current market rates.
- *Amounts held for other beneficiaries*: Valued based on the difference of the assets and the annuity obligations of a charitable remainder trust or charitable gift annuity, multiplied by the residual percentage assigned to outside organizations.

IOWA UNITED METHODIST FOUNDATION

Notes to Financial Statements (continued)

2. Fair Value Measurements (continued)

The following table shows assets measured at fair value as of December 31, 2016 and 2015 on the Foundation's statements of financial position and the input categories associated with those assets:

Description	Level 1	Level 2	Level 3	Total
December 31, 2016:				
Assets:				
Investments:				
Short-term investments	\$ 3,086,013	\$ -	\$ -	\$ 3,086,013
Common and preferred stocks	18,971,093	-	-	18,971,093
Corporate bonds	-	8,247,815	-	8,247,815
Mutual funds and ETFs	3,109,018	-	-	3,109,018
U.S. government and agency bonds	-	2,169,502	-	2,169,502
Other debt securities	-	155,434	-	155,434
	<u>\$ 25,166,124</u>	<u>\$ 10,572,751</u>	<u>\$ -</u>	<u>\$ 35,738,875</u>
Liabilities:				
Annuity obligations	\$ -	\$ 2,187,096	\$ -	\$ 2,187,096
Amounts held for other beneficiaries	-	1,071,156	-	1,071,156
	<u>\$ -</u>	<u>\$ 3,258,252</u>	<u>\$ -</u>	<u>\$ 3,258,252</u>

Description	Level 1	Level 2	Level 3	Total
December 31, 2015:				
Assets:				
Investments:				
Short-term investments	\$ 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:				
Annuity obligations	\$ -	\$ 2,372,769	\$ -	\$ 2,372,769
Amounts held for other beneficiaries	-	976,674	-	976,674
	<u>\$ -</u>	<u>\$ 3,349,443</u>	<u>\$ -</u>	<u>\$ 3,349,443</u>

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 was \$15,204 and \$10,926 for the years ended December 31, 2016 and 2015, respectively.

IOWA UNITED METHODIST FOUNDATION

Notes to Financial Statements (continued)

4. Annuity Obligations

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 statements of activities under the caption "change in value of split-interest agreements." As of December 31, 2016 and 2015, assets held by the Foundation under charitable remainder trusts were \$3,635,815 and \$3,705,574, respectively.

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 statements of activities under the caption "change in value of split-interest agreements." As of December 31, 2016 and 2015, assets held by the Foundation under charitable gift annuities were \$485,853 and \$494,097, respectively.

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.

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.

IOWA UNITED METHODIST FOUNDATION

Notes to Financial Statements (continued)

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.

7. Benefit Plan

The Foundation participates in a multiple employer benefit 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. Total expense related to the plan was \$9,597 and \$11,064 for the years ended December 31, 2016 and 2015, respectively.

8. Subsequent Events

The Foundation has evaluated subsequent events through July 21, 2017, which is the date the financial statements were available to be issued.

IOWA UNITED METHODIST FOUNDATION

Schedules of General and Administrative Expenses

For the years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Salaries	\$ 241,395	\$ 217,381
Payroll taxes	18,461	15,445
Employee benefits	31,077	47,398
Insurance	6,235	6,168
Field expense	9,155	12,324
Publication	826	2,307
Board and committee expense	8,662	4,615
Promotion	1,343	2,545
Office expense	14,208	14,709
Computer supplies and maintenance	13,378	17,124
Professional fees	11,720	11,650
Training and meetings	2,877	13,814
Rent expense	15,204	10,926
Depreciation	21,810	1,818
Contract labor	209	38,365
Miscellaneous expense	76	160
Loss on disposal of office equipment	-	8,405
Total general and administrative expenses	<u>\$ 396,636</u>	<u>\$ 425,154</u>

See accompanying report of independent auditors.