

**IOWA UNITED METHODIST CHURCH
BUILDING FUND TRUST**

Financial Statements

December 31, 2017

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Independent Auditors' Report

To the Board of Trustees
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, 2017 and 2016, 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 Church Building Fund Trust as of December 31, 2017 and 2016, and the results of its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

LWBJ, LLP

West Des Moines, Iowa
April 30, 2018

**IOWA UNITED METHODIST CHURCH
BUILDING FUND TRUST**

Statements of Financial Position

December 31, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	\$ 105,863	\$ 138,447
Investments, at fair value (Notes 2 and 5)	5,743,452	5,645,714
Interest receivable on loans receivable	14,119	17,554
Loans receivable (Note 3)	3,699,694	4,410,458
Total assets	\$ 9,563,128	\$ 10,212,173
 Liabilities and net assets		
Liabilities:		
Accrued interest payable	\$ 55,053	\$ 60,687
Accounts payable	7,956	9,842
Certificates of participation (Note 7)	8,943,975	9,623,640
Total liabilities	9,006,984	9,694,169
 Net assets without donor restrictions	 556,144	 518,004
Total liabilities and net assets	\$ 9,563,128	\$ 10,212,173

See accompanying notes.

**IOWA UNITED METHODIST CHURCH
BUILDING FUND TRUST**

Statements of Activities

For the years ended December 31, 2017 and 2016

	2017	2016
Support and revenue		
Interest and dividend income	\$ 383,419	\$ 351,389
Realized and unrealized gains (losses)	(11,356)	27,378
Other income	555	16,723
Total support and revenue	372,618	395,490
 Expenses		
Interest expense on certificates of participation	183,416	202,624
General administration services from affiliate	100,380	105,757
Investment management fees	32,788	13,093
Professional fees	7,700	8,253
Miscellaneous	10,194	10,681
Total expenses	334,478	340,408
Increase in net assets	38,140	55,082
 Net assets without donor restrictions at beginning of year	518,004	462,922
Net assets without donor restrictions at end of year	\$ 556,144	\$ 518,004

See accompanying notes.

**IOWA UNITED METHODIST CHURCH
BUILDING FUND TRUST**

Statements of Cash Flows

For the years ended December 31, 2017 and 2016

	2017	2016
Operating activities		
Increase in net assets	\$ 38,140	\$ 55,082
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Realized and unrealized losses (gains)	11,356	(27,378)
Interest added to principal of loans receivable	(2,967)	-
Reinvested certificate interest	27,518	10,246
Decrease in accrued interest receivable	3,435	5,987
Increase (decrease) in accrued interest payable	(5,634)	400
Increase (decrease) in accounts payable	(1,886)	950
Net cash provided by operating activities	69,962	45,287
Financing activities		
Proceeds from certificates of participation	2,877,651	3,791,992
Redemptions of certificates of participation	(3,584,834)	(4,320,713)
Net purchases of investments	(109,094)	(2,277,341)
Principal payments on loans receivable	1,094,048	2,855,987
Loan disbursements	(380,317)	(118,000)
Net cash used in investing activities	(102,546)	(68,075)
Net decrease in cash and cash equivalents	(32,584)	(22,788)
Cash and cash equivalents, beginning of year	138,447	161,235
Cash and cash equivalents, end of year	\$ 105,863	\$ 138,447
Supplemental disclosure		
Interest paid	\$ 189,050	\$ 202,224

See accompanying notes.

**IOWA UNITED METHODIST CHURCH
BUILDING FUND TRUST**

Notes to Financial Statements

December 31, 2017

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. The Trust is sponsored by the Iowa United Methodist Foundation (the "Foundation").

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

Financial statement presentation follows the *Financial Statements of Not-for-Profit Organizations Topic* of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). Under this topic, the Trust is required to report information regarding its financial position and changes in net assets according to two classes of net assets – net assets without donor restrictions and net assets with donor restrictions. At December 31, 2017 and 2016, 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 statements 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, 2017, 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, 2017 and 2016, there were 21 and 22 building project loans outstanding, respectively. Approximate balances for major building project loans outstanding as of December 31 are as follows:

	<u>2017</u>	<u>2016</u>
Loan A	\$ 885,000	\$ 935,000
Loan B	351,000	931,000
Loan C	430,000	458,000

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 2017 and 2016, no contributed services were received which met the criteria stated above.

Investments

The Trust maintains investment accounts with third party managers. Investments are stated at their fair value. Fair value of a financial instrument is the amount 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 5 for a description of valuation methods. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. The change in fair value is reflected in the statements as realized and unrealized gains.

Reclassifications

Certain amounts in the December 31, 2016 financial statements were reclassified to conform to the current year presentation.

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Notes to Financial Statements (continued)

2. Investments

Investments are composed of the following at December 31:

	2017		2016	
	Cost	Market	Cost	Market
Short-term investments **	\$ 198,771	\$ 198,771	\$ 297,217	\$ 297,217
Corporate and international bonds	4,830,241	4,895,774	3,175,661	3,189,356
U.S. government bonds	596,111	595,536	335,114	330,390
Pooled account	55,173	53,371	51,716	52,508
Mutual funds and exchange traded funds	-	-	1,819,627	1,776,243
Total	<u>\$ 5,680,296</u>	<u>\$ 5,743,452</u>	<u>\$ 5,679,335</u>	<u>\$ 5,645,714</u>

** Including net unsettled purchases/sales.

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 generally limited to 70% of the total cost of the project. Loans bear interest at fixed rates 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.

Interest income on loans during the years ended December 31, 2017 and 2016 was \$178,915 and \$209,133, respectively.

The following table presents informative data by class of financing receivables regarding their age and interest accrual status at December 31, 2017 and 2016:

Mortgage Loans as of December 31,	Current	Past Due			Total Past Due	Total Financing Receivables	Status of Interest Accruals	
		30-59 Days	60-89 Days	> 90 Days			Financing Receivables on Nonaccrual Status	Financing Receivables Past Due > 90 Days and Still Accruing Interest
2017	\$ 3,699,013	\$ -	\$ -	\$ 681	\$ 681	\$ 3,699,694	\$ -	\$ 681
2016	4,410,458	-	-	-	-	4,410,458	-	-

IOWA UNITED METHODIST CHURCH BUILDING FUND TRUST

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 FASB ASC Topic 820, *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. There have been no changes in fair value techniques for the years ended December 31, 2017 and 2016.

- *Short-term investments*: Depository accounts valued based on models using observable market inputs.
- *Corporate bonds, international bonds, and U.S. 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.
- *Pooled account*: Valued using the net asset value ("NAV") of the account. The NAV is used as a practical expedient to estimate fair value. This practical expedient is not used when it is determined to be probable that the fund will sell the investment for an amount different than the reported NAV.
- *Mutual funds and exchange traded funds (ETFs)*: Valued based on quoted prices of identical assets in active markets.

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Notes to Financial Statements (continued)

5. Fair Value of Financial Instruments (continued)

The following table shows assets measured at fair value as of December 31, 2017 and 2016 on the Trust's statements of financial position and the input categories associated with those assets:

Description	Level 1	Level 2	Level 3	Total
December 31, 2017:				
Short-term investments	\$ 198,771	\$ -	\$ -	\$ 198,771
Corporate/international bonds	-	4,895,774	-	4,895,774
U.S. government bonds	-	595,536	-	595,536
	<u>\$ 198,771</u>	<u>\$ 5,491,310</u>	<u>\$ -</u>	<u>5,690,081</u>
		Investment measured at NAV		53,371
		Investments, at fair value		<u>\$ 5,743,452</u>

Description	Level 1	Level 2	Level 3	Total
December 31, 2016:				
Short-term investments	\$ 297,217	\$ -	\$ -	\$ 297,217
Corporate/international bonds	-	3,189,356	-	3,189,356
U.S. government bonds	-	330,390	-	330,390
Mutual funds and ETFs	1,776,243	-	-	1,776,243
	<u>\$ 2,073,460</u>	<u>\$ 3,519,746</u>	<u>\$ -</u>	<u>5,593,206</u>
		Investment measured at NAV		52,508
		Investments, at fair value		<u>\$ 5,645,714</u>

Fair Value of Investments that Calculate Net Asset Value

The following table summarizes the investments measured at fair value based on NAV per share as of December 31, 2017 and 2016:

	Fair Value at December 31:		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
	2017	2016			
Pooled account (a)	\$ 53,371	\$ 52,508	None	Monthly	(a)

- (a) The Trust invests in the Short-Term Income pooled account ("STI Pool") administered by the Foundation. The STI Pool primarily invests in short-term fixed income mutual funds and ETFs to meet its investment objective of short-term returns. Redemptions are made at NAV in the month following the request, and fees are netted in investment returns.

6. Related Party Transactions

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.

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

6. Related Party Transactions (continued)

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, 2017 and 2016, the Trust fee expense was \$100,380 and \$105,757, 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 ranges of interest rates on the certificates of participation outstanding at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
1-year term	1.40%	1.25% - 1.40%
3-year term	1.90% - 2.30%	1.90% - 2.30%
5-year term	2.19% - 3.25%	2.19% - 3.25%

Interest expense during the years ended December 31, 2017 and 2016 was \$183,416 and \$202,624, respectively.

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, 2017, scheduled maturities of certificates of participation are as follows:

2018	\$ 4,236,312
2019	2,418,626
2020	1,602,814
2021	277,595
2022	<u>408,628</u>
	<u>\$ 8,943,975</u>

8. Subsequent Events

The Trust has evaluated subsequent events through April 30, 2018, which is the date the financial statements were available to be issued.