

**IOWA UNITED METHODIST FOUNDATION**

**Financial Statements  
and Supplemental Information**

December 31, 2017

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4200 University Avenue, Suite 410  
West Des Moines, Iowa 50266  
Phone 515 222 5680  
Fax 515 222 5681  
lwbj.com

## **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, 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 Foundation as of December 31, 2017 and 2016, 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.

## 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  
April 30, 2018

# IOWA UNITED METHODIST FOUNDATION

## Statement of Financial Position

December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Custodial Funds	Total
<b>Assets</b>				
Cash	\$ 30,778	\$ -	\$ -	\$ 30,778
Investment fees receivable	40,294	-	-	40,294
Accrued interest receivable	3,186	29,017	119,339	151,542
Prepaid expenses	5,965	-	-	5,965
Notes receivable	-	352,644	-	352,644
Investments, at fair value	878,413	11,218,234	27,379,938	39,476,585
Gifts held for others	135,805	-	-	135,805
Life insurance policy	-	12,442	-	12,442
	1,094,441	11,612,337	27,499,277	40,206,055
<b>Other assets:</b>				
Office equipment, at cost	202,102	-	-	202,102
Accumulated depreciation	(50,877)	-	-	(50,877)
	151,225	-	-	151,225
<b>Total assets</b>	<b>\$ 1,245,666</b>	<b>\$ 11,612,337</b>	<b>\$ 27,499,277</b>	<b>\$ 40,357,280</b>
 <b>Liabilities and net assets</b>				
Accounts payable	\$ 4,944	\$ -	\$ -	\$ 4,944
Undistributed gifts	145,959	-	-	145,959
Custodial funds payable	-	-	27,499,277	27,499,277
Annuity obligations	-	2,110,291	-	2,110,291
Amounts held for other beneficiaries	-	1,226,556	-	1,226,556
<b>Total liabilities</b>	150,903	3,336,847	27,499,277	30,987,027
<b>Net assets</b>	1,094,763	8,275,490	-	9,370,253
<b>Total liabilities and net assets</b>	<b>\$ 1,245,666</b>	<b>\$ 11,612,337</b>	<b>\$ 27,499,277</b>	<b>\$ 40,357,280</b>

See accompanying notes.

IOWA UNITED METHODIST FOUNDATION

Statement of Financial Position

December 31, 2016

	Without Donor Restrictions	With Donor Restrictions	Custodial Funds	Total
<b>Assets</b>				
Cash	\$ 65,990	\$ -	\$ -	\$ 65,990
Investment fees receivable	30,288	-	-	30,288
Accrued interest receivable	2,810	22,013	81,117	105,940
Prepaid expenses	14,543	-	-	14,543
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
	<u>952,174</u>	<u>11,029,006</u>	<u>24,290,014</u>	<u>36,271,194</u>
Other assets:				
Deposits for software	49,159	-	-	49,159
Office equipment, at cost	145,392	-	-	145,392
Accumulated depreciation	<u>(23,628)</u>	<u>-</u>	<u>-</u>	<u>(23,628)</u>
	<u>170,923</u>	<u>-</u>	<u>-</u>	<u>170,923</u>
Total assets	<u>\$ 1,123,097</u>	<u>\$ 11,029,006</u>	<u>\$ 24,290,014</u>	<u>\$ 36,442,117</u>
<b>Liabilities and net assets</b>				
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	<u>799</u>	<u>3,258,252</u>	<u>24,290,014</u>	<u>27,549,065</u>
Net assets	<u>1,122,298</u>	<u>7,770,754</u>	<u>-</u>	<u>8,893,052</u>
Total liabilities and net assets	<u>\$ 1,123,097</u>	<u>\$ 11,029,006</u>	<u>\$ 24,290,014</u>	<u>\$ 36,442,117</u>

See accompanying notes.

IOWA UNITED METHODIST FOUNDATION

Statement of Activities

For the year ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Custodial Funds	Total
<b>Changes in net assets:</b>				
<b>Revenues and gains:</b>				
Contributions, bequests and grants	\$ 4,363	\$ 259,330	\$ -	\$ 263,693
Investment fee income	362,157	-	-	362,157
Interest and dividends	21,057	346,979	592,398	960,434
Change in fair value of investments	87,554	799,157	3,151,717	4,038,428
Total revenues and gains	<u>475,131</u>	<u>1,405,466</u>	<u>3,744,115</u>	<u>5,624,712</u>
Net assets released from restrictions	-	-	-	-
Distributions, scholarships and grants	-	419,324	-	419,324
Investment expenses	-	152,869	295,509	448,378
Change in value of split-interest agreements	-	328,537	-	328,537
General and administrative expenses	502,666	-	-	502,666
Total expenses	<u>502,666</u>	<u>900,730</u>	<u>295,509</u>	<u>1,698,905</u>
Increase (decrease) in net assets	<u>(27,535)</u>	<u>504,736</u>	<u>3,448,606</u>	<u>3,925,807</u>
Changes attributable to custodial funds	-	-	(3,448,606)	(3,448,606)
Net assets, beginning of year	1,122,298	7,770,754	-	8,893,052
Net assets, end of year	<u>\$ 1,094,763</u>	<u>\$ 8,275,490</u>	<u>\$ -</u>	<u>\$ 9,370,253</u>

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
<b>Changes in net assets:</b>				
<b>Revenues and gains:</b>				
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
<b>Total revenues and gains</b>	<b>423,077</b>	<b>653,385</b>	<b>1,749,351</b>	<b>2,825,813</b>
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
<b>Total expenses</b>	<b>396,636</b>	<b>387,021</b>	<b>336,051</b>	<b>1,119,708</b>
<b>Increase in net assets</b>	<b>26,441</b>	<b>266,364</b>	<b>1,413,300</b>	<b>1,706,105</b>
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
<b>Net assets, end of year</b>	<b>\$ 1,122,298</b>	<b>\$ 7,770,754</b>	<b>\$ -</b>	<b>\$ 8,893,052</b>

See accompanying notes.

IOWA UNITED METHODIST FOUNDATION

Statements of Cash Flows

For the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Operating activities</b>		
Increase in net assets	\$ 3,925,807	\$ 1,706,105
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation	27,248	21,810
Change in fair value of investments	(4,038,428)	(1,462,299)
Change in value of split-interest agreements	328,537	156,776
Increase in interest and fees receivables	(55,608)	(30,375)
Decrease (increase) in prepaid expenses	8,578	(14,543)
Increase in gifts held for others	(135,805)	-
Increase in undistributed gifts	145,959	-
Increase (decrease) in accounts payable	4,145	(15,363)
Decrease in annuities payable and amounts held for others	(249,942)	(247,967)
Net cash provided by (used in) operating activities	<u>(39,509)</u>	<u>114,144</u>
<b>Investing activities</b>		
Purchase of office equipment	(7,550)	-
Payments made for deposit on software	-	(49,159)
Issuance of notes receivable	(91,207)	(310,815)
Repayments of notes receivable	49,378	-
Net investment withdraws	<u>53,676</u>	<u>252,913</u>
Net cash provided by (used in) investing activities	<u>4,297</u>	<u>(107,061)</u>
Net increase (decrease) in cash	<u>(35,212)</u>	<u>7,083</u>
Cash, beginning of year	65,990	58,907
Cash, end of year	<u>\$ 30,778</u>	<u>\$ 65,990</u>

See accompanying notes.



# IOWA UNITED METHODIST FOUNDATION

## Notes to Financial Statements

December 31, 2017

### 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. Cash equivalents held in the investment accounts or for investment purposes is considered to be an investment. At various times during the two years ended December 31, 2017, 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 is 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.

#### Reclassifications

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

### 2. Fair Value Measurements

GAAP 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.

## IOWA UNITED METHODIST FOUNDATION

### Notes to Financial Statements (continued)

#### 2. Fair Value Measurements (continued)

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in fair value techniques for the years ended at December 31, 2017 and 2016.

- *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.

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

Description	Level 1	Level 2	Level 3	Total
<b>December 31, 2017:</b>				
Assets:				
Investments:				
Short-term investments	\$ 659,640	\$ -	\$ -	\$ 659,640
Common and preferred stocks	23,241,143	-	-	23,241,143
Corporate bonds	-	11,681,242	-	11,681,242
Mutual funds and ETFs	2,648,328	-	-	2,648,328
U.S. government and agency bonds	-	935,373	-	935,373
Other debt securities	-	310,859	-	310,859
	<u>\$ 26,549,111</u>	<u>\$ 12,927,474</u>	<u>\$ -</u>	<u>\$ 39,476,585</u>
Liabilities:				
Annuity obligations	\$ -	\$ 2,110,291	\$ -	\$ 2,110,291
Amounts held for other beneficiaries	-	1,226,556	-	1,226,556
	<u>\$ -</u>	<u>\$ 3,336,847</u>	<u>\$ -</u>	<u>\$ 3,336,847</u>

## IOWA UNITED METHODIST FOUNDATION

### Notes to Financial Statements (continued)

#### 2. Fair Value Measurements (continued)

Description	Level 1	Level 2	Level 3	Total
<b>December 31, 2016:</b>				
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>

#### 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 for each of the years ended December 31, 2017 and 2016.

#### 4. Annuity Obligations

The Foundation has established a gift annuity plan whereby donors may contribute assets 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 sheets 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, 2017 and 2016, assets held by the Foundation under charitable remainder trusts were \$3,733,770 and \$3,635,815, respectively.

# IOWA UNITED METHODIST FOUNDATION

## Notes to Financial Statements (continued)

### 4. Annuity Obligations (continued)

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, 2017 and 2016, assets held by the Foundation under charitable gift annuities were \$476,656 and \$485,853, respectively.

### 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. Declared but undistributed funds as of December 31, 2017 were \$110,794. There were no undistributed funds requested prior to and as of December 31, 2016.

### 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 \$15,094 and \$9,597 for the years ended December 31, 2017 and 2016, respectively.

### 8. Related Party Transactions

The Foundation sponsors the Iowa United Methodist Foundation Building Fund Trust ("Trust"). The Trust serves to promote the construction and renovation of Iowa United Methodist churches through a building loans program. The funding of the loans is provided by the Trust's issuances of certificates to investors, and through earnings from investments retained within the Trust.

# IOWA UNITED METHODIST FOUNDATION

## Notes to Financial Statements (continued)

### 8. Related Party Transactions (continued)

The Trust pays fees to the Foundation for accounting, general administrative support, and the use of facilities, as well as investment and program management. During the years ended December 31, 2017 and 2016, fees paid by the Trust to the Foundation was \$100,380 and \$105,757, respectively, and are reported within investment fee income.

In addition, the Foundation has invested in Trust certificates totaling approximately \$81,000 as of December 31, 2017 and 2016.

### 9. Subsequent Events

The Foundation has evaluated subsequent events through April 30, 2018, 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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Salaries	\$ 275,551	\$ 241,395
Payroll taxes	20,682	18,461
Employee benefits	27,634	31,077
Insurance	6,836	6,235
Field expense	13,663	9,155
Publication	995	826
Board and committee expense	4,075	8,662
Promotion	2,196	1,343
Office expense	16,488	14,208
Software and maintenance	64,946	13,378
Professional fees	8,750	11,720
Training and meetings	5,565	2,877
Rent expense	15,204	15,204
Depreciation	27,248	21,810
Contract labor	11,600	209
Miscellaneous expense	1,233	76
Total general and administrative expenses	<u>\$ 502,666</u>	<u>\$ 396,636</u>

See accompanying independent auditors' report.