

**IOWA UNITED METHODIST CHURCH
BUILDING FUND TRUST**

Financial Statements

December 31, 2018

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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, 2018 and 2017, 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 auditors' 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, 2018 and 2017, 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 12, 2019

**IOWA UNITED METHODIST CHURCH
BUILDING FUND TRUST**

Statements of Financial Position

December 31, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	\$ 174,133	\$ 105,863
Investments, at fair value (Note 4)	5,817,425	5,682,870
Interest receivable on investments	55,932	60,582
Interest receivable on loans receivable	11,671	14,119
Loans receivable (Note 2)	3,023,827	3,699,694
Total assets	\$ 9,082,988	\$ 9,563,128
 Liabilities and net assets		
Liabilities:		
Accrued interest payable	\$ 58,727	\$ 55,053
Accounts payable	7,571	7,956
Certificates of participation (Note 6)	8,687,089	8,943,975
Total liabilities	8,753,387	9,006,984
Net assets without donor restrictions	329,601	556,144
Total liabilities and net assets	\$ 9,082,988	\$ 9,563,128

See accompanying notes.

**IOWA UNITED METHODIST CHURCH
BUILDING FUND TRUST**

Statements of Activities

For the years ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Support and revenue		
Interest and dividend income	\$ 166,206	\$ 204,504
Realized and unrealized losses, net	(268,309)	(44,144)
Interest income on loans receivable	154,559	178,915
Other income	1,221	555
Total support and revenue	<u>53,677</u>	<u>339,830</u>
Expenses		
Interest expense on certificates of participation	180,238	183,416
Program administration services from affiliate	91,820	100,380
Other expenses	8,162	17,894
Total expenses	<u>280,220</u>	<u>301,690</u>
Increase (decrease) in net assets	(226,543)	38,140
Net assets without donor restrictions at beginning of year	556,144	518,004
Net assets without donor restrictions at end of year	<u>\$ 329,601</u>	<u>\$ 556,144</u>

See accompanying notes.

**IOWA UNITED METHODIST CHURCH
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Statements of Cash Flows

For the years ended December 31, 2018 and 2017

	2018	2017
Operating activities		
Increase (decrease) in net assets	\$ (226,543)	\$ 38,140
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Realized and unrealized losses, net	268,309	44,144
Accreted interest on loans receivable	(7,036)	(2,967)
Reinvested certificate interest	34,236	27,518
Decrease (increase) in accrued interest receivable	7,098	(21,843)
Increase (decrease) in accrued interest payable	3,674	(5,634)
Decrease in accounts payable	(385)	(1,886)
Net cash provided by operating activities	79,353	77,472
Investing activities		
Net purchases of investments	(402,864)	(116,604)
Principal receipts on loans receivable	764,903	1,094,048
Loan disbursements	(82,000)	(380,317)
Net cash provided by investing activities	280,039	597,127
Financing activities		
Net redemptions of certificates of participation	(291,122)	(707,183)
Net cash used in financing activities	(291,122)	(707,183)
Net increase (decrease) in cash and cash equivalents	68,270	(32,584)
Cash and cash equivalents, beginning of year	105,863	138,447
Cash and cash equivalents, end of year	\$ 174,133	\$ 105,863
Supplemental disclosure		
Interest paid on certificates of participation	\$ 176,564	\$ 189,050

See accompanying notes.

**IOWA UNITED METHODIST CHURCH
BUILDING FUND TRUST**

Notes to Financial Statements

December 31, 2018

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 making programmatic investments in 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") and Accounting Standards Update 2016-14. Under this guidance, 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, 2018 and 2017, all net assets were without donor restrictions.

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, 2018, 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.

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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, 2018 and 2017, there were 19 and 21 building project loans outstanding, respectively. Approximate balances for major building project loans outstanding as of December 31 are as follows:

	2018	2017
Loan A	\$ 834,000	\$ 885,000
Loan B	248,000	351,000
Loan C	402,000	430,000

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 2018 and 2017, no contributed services were received which met the criteria stated above.

Functional Expenses

The Trust's expenses are recorded directly to the functional and natural classification based on the type and purpose of the expense. All services provided by the Foundation have been deemed by management as being program-driven. See Note 5 for further discussion of related party transactions. The below tables present expenses by both their nature and their function for the years ended December 31, 2018 and 2017:

	2018		
	Program Activities	Supporting Activities	Total Expenses
Interest expense on certificates of participation	\$ 180,238	\$ -	\$ 180,238
Program administration services from affiliate	91,820	-	91,820
Other expenses	33	8,129	8,162
Total expenses	\$ 272,091	\$ 8,129	\$ 280,220

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Notes to Financial Statements (continued)

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

Functional Expenses (continued)

	<u>2017</u>		
	<u>Program Activities</u>	<u>Supporting Activities</u>	<u>Total Expenses</u>
Interest expense on certificates of participation	\$ 183,416	\$ -	\$ 183,416
Program administration services from affiliate	100,380	-	100,380
Other expenses	<u>10,194</u>	<u>7,700</u>	<u>17,894</u>
Total expenses	<u>\$ 293,990</u>	<u>\$ 7,700</u>	<u>\$ 301,690</u>

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 4 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 losses. Investment-related expenses are deducted from income earned and are reflected within realized and unrealized losses.

Reclassifications

Certain amounts in the December 31, 2017 financial statements were reclassified to conform to the current year presentation.

2. 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.

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Notes to Financial Statements (continued)

2. Loans Receivable (continued)

The following table presents informative data by class of financing receivables regarding their age and interest accrual status at December 31, 2018 and 2017:

Loans as of December 31,	Current	Past Due			Total Past Due	Total Loan Receivable	Status of Interest Accruals	
		30-59 Days	60-89 Days	> 90 Days			Loan Receivables on Nonaccrual Status	Loan Receivables Past Due > 90 Days and Still Accruing Interest
2018	\$ 3,023,827	\$ -	\$ -	\$ -	\$ -	\$ 3,023,827	\$ -	\$ -
2017	3,699,013	-	-	681	-	3,699,694	-	681

3. 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.

4. 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, 2018 and 2017.

- *Short-term investments*: Depository accounts valued based on models using observable market inputs.
- *Common and preferred stocks*: Valued based on quoted prices of identical assets in active markets.

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Notes to Financial Statements (continued)

4. Fair Value of Financial Instruments (continued)

- *Corporate bonds and U.S. government and agency 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.

The following table shows assets measured at fair value as of December 31, 2018 and 2017 on the Trust's statements of financial position and the input categories associated with those assets:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
December 31, 2018:				
Short-term investments	\$ 132,789	\$ -	\$ -	\$ 132,789
Common and preferred stocks	509,101	-	-	509,101
Corporate bonds	-	4,868,699	-	4,868,699
U.S. government bonds	-	306,836	-	306,836
	<u>\$ 641,890</u>	<u>\$ 5,175,535</u>	<u>\$ -</u>	<u>5,817,425</u>
		Investment measured at NAV		-
		Investments, at fair value		<u>\$ 5,817,425</u>

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
December 31, 2017:				
Short-term investments	\$ 198,771	\$ -	\$ -	\$ 198,771
Corporate bonds	-	4,837,553	-	4,837,553
U.S. government bonds	-	593,175	-	593,175
	<u>\$ 198,771</u>	<u>\$ 5,430,728</u>	<u>\$ -</u>	<u>5,629,499</u>
		Investment measured at NAV		53,371
		Investments, at fair value		<u>\$ 5,682,870</u>

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Notes to Financial Statements (continued)

4. Fair Value of Financial Instruments (continued)

Fair Value of Investments that Calculate NAV

The following table summarizes the investments measured at fair value based on NAV per share as of December 31, 2018 and 2017:

	<u>Fair Value at December 31:</u>		<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
	<u>2018</u>	<u>2017</u>			
Pooled account (a)	\$ -	\$ 53,371	None	Monthly	(a)

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

5. Related Party Transactions

The Foundation, an affiliated organization, serves as the sponsor of the Trust. As sponsor, the Foundation provides certain program-driven support such as accounting, general administration and the use of facilities for the benefit of the Trust.

The Trust pays a fee to the Foundation based on the value of certificates of participation issued by the Trust. During the years ended December 31, 2018 and 2017, the Trust fee paid to the Foundation was \$91,820 and \$100,380, respectively.

6. 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.

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Notes to Financial Statements (continued)

6. Certificates of Participation (continued)

The following table summarizes the ranges of interest rates on the certificates of participation outstanding at December 31, 2018 and 2017:

	2018	2017
1-year term	1.40% - 2.17%	1.40%
3-year term	1.90% - 2.35%	1.90% - 2.30%
5-year term	2.19% - 3.09%	2.19% - 3.25%

Interest expense during the years ended December 31, 2018 and 2017 was \$180,238 and \$183,416, 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, 2018, scheduled maturities of certificates of participation are as follows:

2019	\$ 4,863,840
2020	1,445,624
2021	1,346,357
2022	217,914
2023	813,354
	\$ 8,687,089

7. Liquidity

The Trust has financial assets of \$6,047,490 available within one year of the statement of financial position date to meet cash needs for general expenditures and certificate redemptions, which includes \$5,873,357 in marketable securities that could be liquidated, if necessary. The \$6,047,490 in availability does not include principal and interest payments on loans receivable expected to be received within one year. As discussed in Note 6, \$4,863,840 of principal obligations attributable to certificates of participation become due, unless renewed, within one year. Aside from the certificates aforementioned, none of the Trust's financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date. The Trust has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due.

8. Subsequent Events

The Trust has evaluated subsequent events through April 12, 2019, which is the date the financial statements were available to be issued.