

# Finance

## Reports

The following reports are attached:

1. Partnership Fee Received and Disbursed (2015 through 2016).
2. US National Statement of Financial Position (2015 through 2016).
3. Global Ministries Statement of Financial Position (2015 through 2016).
4. Ministers and Missionaries Defined Benefit Pension Plan Fund Activity Report (2015 through 2016).
5. Ministerial Aid Benefit Report (2015 through 2016).
6. Independent Auditor Report (2015 and 2016).

## Partnership Fee Receipts

The partnership fee receipts were:

- 2015: \$943,543.73
- 2016: \$932,103.53

We ended 2016 at 93.8% of our 2016 partnership fee budget, compared to 96.6% in 2015.

The Partnership Fee Received and Disbursed report shows how the partnership fees were distributed for 2015 and 2016.

## US National

US National Funds ended 2016 with a change in fund balance of a negative (\$50,805). This is a decrease over 2015, which ended with a positive balance of \$63,515.

Reasons:

- Ministerial Aid Benefit Funds transferred to the Defined Benefit Pension Trust Fund in 2016.
- Church Multiplication received an estate gift in 2015.
- Church Multiplication sold church and parsonage properties in 2015 and 2016.

The US Statement of Financial Position shows the combined changes in the net assets for 2015 and 2016.

## Global Ministries

Global Ministries ended 2016 with a change in fund balance of a negative (\$39,060). This is an increase over 2015, which ended with a negative balance of (\$89,808).

Reasons:

- Administration expenditures were lower in 2016.
- Investments had a larger gain in 2016.

The Global Ministries Statement of Financial Position shows the combined changes in net assets for 2015 and 2016.

## Ministers and Missionaries

The Church of the United Brethren in Christ USA, Inc. Ministers and Missionaries Defined Benefit Pension Plan Fund Activity Report shows the fund activity for 2015 and 2016. There are 239 active, terminated, and retired participants in this plan.

After twelve months of research and counsel, the Investment Committee recommended to the Executive Leadership Team (ELT) that we freeze the Ministers and Missionaries Defined Benefit Pension Plan effective January 1, 2017. The Investment Committee believed that the UB church was at a point that further de-emphasis of the Defined Benefit Pension Plan with the enhancement of the 403(b) Plan was the right course of action.

On April 19, 2016, the ELT approved this recommendation. Therefore, benefit accruals were frozen at the



*Marci Hammel*  
Director of Finance

December 31, 2016 levels.

The Ministerial Aid Benefit Report shows the participant changes in this program for 2015 and 2016. Upon the death of the last participant, the remaining funds were transferred to the Ministers and Missionaries Defined Benefit Pension Plan per action of the 1999 General Board. The funds were transferred on March 31, 2016 thereby closing this program.

The G74337 Church of the United Brethren in Christ USA, Inc. 403(b) Tax Deferred Annuity Plan for Ministers and Missionaries has 208 active, terminated, and retired participants. The G75389 Church of the United Brethren in Christ USA, Inc. Non-Licensed Employees 403(b) plan has 27 active and retired non-licensed participants.

**Partnership Fee  
Received and Disbursed  
January 1, 2015 through December 31, 2016**

Fund	2015	2016	Total	% of Total
<b>General</b>				
Administration	164,130.75	158,028.14	322,158.89	17.18%
Bishop's Office	196,573.21	198,254.76	394,827.97	21.05%
Communications	102,501.96	102,500.30	205,002.26	10.93%
General UB Building	43,482.17	42,190.85	85,673.02	4.57%
Global Ministries	91,042.00	89,650.84	180,692.84	9.63%
National Ministries	147,100.17	143,856.72	290,956.89	15.51%
Pastoral Licensing	12,899.71	12,638.50	25,538.21	1.36%
<b>Leadership Teams</b>				
Associate Ministry Team	1,932.54	5,625.46	7,558.00	0.40%
Crisis Management Leadership Team	2,415.67	2,343.94	4,759.61	0.25%
Executive Leadership Team	9,469.43	9,188.23	18,657.66	0.99%
Higher Education Leadership Team	2,898.81	2,812.73	5,711.54	0.30%
Pastoral Ministry Leadership Team	5,797.62	5,625.43	11,423.05	0.61%
Women's Ministry Team	7,730.16	7,500.60	15,230.76	0.81%
Youth Ministry Team	2,898.81	3,750.31	6,649.12	0.35%
<b>Conferences</b>				
General Conference	966.27	937.55	1,903.82	0.10%
US National Conference	21,257.96	20,626.63	41,884.59	2.23%
<b>Huntington University</b>				
Huntington University	120,783.78	117,196.79	237,980.57	12.69%
Archives	9,662.71	9,375.75	19,038.46	1.02%
Total	943,543.73	932,103.53	1,875,647.26	100.00%

**Ministers and Missionaries Defined Benefit Pension Plan  
Fund Activity Report  
January 1, 2015 through December 31, 2016**

	<u>2015</u>	<u>2016</u>
<b>Fund Balance - January 1</b>	3,706,163.43	3,510,650.36
<b>Fund Income</b>		
Contributions	185,919.16	293,926.57
Investment Return / Loss	62,056.62	161,520.50
<b>Total Fund Income</b>	247,975.78	455,447.07
<b>Disbursements</b>		
Benefit Payments	401,759.83	190,950.43
Life Insurance Premiums	20,654.93	19,738.29
Administration Charges	21,074.09	22,901.91
<b>Total Disbursements</b>	443,488.85	233,590.63
<b>Net Credits to Plan</b>	(195,513.07)	221,856.44
<b>Fund Balance - December 31</b>	<u><u>3,510,650.36</u></u>	<u><u>3,732,506.80</u></u>

**Ministerial Aid Benefit Report  
January 1, 2015 through December 31, 2016**

<u>Participant Name</u>	<u>Service Years</u>
Alice Blodgett	12

**Deceased 2015 and 2016**

2/4/2016 Alice Blodgett

**Church of the United Brethren in Christ USA  
Statement of Financial Position  
January 1, 2015 through December 31, 2016**

	Net Assets 1/1/2015	Add: Receipts	Less: Expenses	Change in Net Assets	Net Assets 12/31/2016
<b><u>Unrestricted/Unreserved</u></b>					
<b><u>US National Adm. Fund</u></b>					
Administration		405,072.72	323,119.38	81,953.34	
Church Resources		301,460.60	324,345.36	(22,884.76)	
Communications		205,002.26	206,311.60	(1,309.34)	
Pastoral Licensing		25,538.21	22,019.05	3,519.16	
Bishop's Office		397,283.91	413,056.03	(15,772.12)	
National Ministries		328,819.11	305,034.93	23,784.18	
Global Ministries		180,692.84	189,526.20	(8,833.36)	
Leadership Teams:					
Associate Ministry Team			9,370.29		
Higher Education Leadership Team			5,734.59		
Youth Ministry Team			17,677.06		
Subtotal Leadership Teams:		32,357.39	32,781.94	(424.55)	
Pastoral Ministry Leadership Team		11,423.05	11,261.29	161.76	
Executive Leadership Team		18,657.66	20,444.79	(1,787.13)	
General UB Building		85,673.02	126,746.77	(41,073.75)	
General Conference		1,903.82	0.00	1,903.82	
Crisis Management Leadership Team		4,759.61	3,677.50	1,082.11	
<b>Subtotal Unrestricted/Unreserved:</b>	939,729.87	1,998,644.20	1,978,324.84	20,319.36	960,049.23
<b><u>Reserve Funds</u></b>					
Ministerial Aid	79,193.88	(383.30)	78,810.58	(79,193.88)	0.00
UB Licensing Seminars	7,145.23	4,631.00	7,435.86	(2,804.86)	4,340.37
Women's Ministry Team	12,384.37	51,367.58	59,607.89	(8,240.31)	4,144.06
US National Conference	43,410.62	107,854.64	114,953.64	(7,099.00)	36,311.62
Brotherhood Dividend	38,776.12	57,836.33	32,528.58	25,307.75	64,083.87
Church Multiplication	214,078.50	344,001.78	259,676.17	84,325.61	298,404.11
Building & Equipment Reserve	63,854.49	8,066.92	0.00	8,066.92	71,921.41
<b><u>Temporarily Restricted</u></b>					
Ministerial Aid - Perm.	46,070.49	0.00	46,070.49	(46,070.49)	0.00
Church Planting Endowment	338,155.23	13,939.56	0.00	13,939.56	352,094.79
Leadership Development Fund	2,127.76	5.30	0.40	4.90	2,132.66
Christian Education Endowment	39,069.46	1,494.66	0.00	1,494.66	40,564.12
Meadows/Gates International Student Endowment	7,721.72	2,659.91	0.00	2,659.91	10,381.63
<b><u>Permanently Restricted</u></b>					
Church Planting Endowment	222,275.65	0.00	0.00	0.00	222,275.65
Christian Education Endowment	10,000.00	0.00	0.00	0.00	10,000.00
Meadows/Gates International Student Endowment	44,962.49	0.00	0.00	0.00	44,962.49
<b>Total US National Church:</b>	2,108,955.88	2,590,118.58	2,577,408.45	12,710.13	2,121,666.01
<b><u>Escrow Funds</u></b>					
Pastor Personal TDA Contribution	0.00	824,570.12	824,570.12	0.00	0.00
NonLicensed Personal TDA Contribution	0.00	144,863.09	144,863.09	0.00	0.00
Global Ministries/WMF	0.00	0.00	0.00	0.00	0.00
Huntington University	0.00	259,289.70	259,289.70	0.00	0.00
HC Auxiliary	0.00	0.00	0.00	0.00	0.00
<b>Escrow Subtotal:</b>	0.00	1,228,722.91	1,228,722.91	0.00	0.00
<b>Grand Total:</b>	<b>2,108,955.88</b>	<b>3,818,841.49</b>	<b>3,806,131.36</b>	<b>12,710.13</b>	<b>2,121,666.01</b>

**Global Ministries**  
**Statement of Financial Position**  
**January 1, 2015 through December 31, 2016**

	Net Assets 1/1/2015	Add: Receipts	Less: Expenses	Change in Net Assets	Net Assets 12/31/2016
General Fund	394,671.72	1,449,535.34	1,480,703.04	(31,167.70)	363,504.02
Missionary Contingency Fund	63,111.07	9,395.31	1,500.00	7,895.31	71,006.38
UB Missionary Support Fund	158,078.23	778,098.77	847,626.73	(69,527.96)	88,550.27
Restricted Fund	228,411.08	956,768.97	992,151.76	(35,382.79)	193,028.29
Annuity & Loan Fund	144,324.83	6,349.27	19,035.24	(12,685.97)	131,638.86
Price Trust Fund	7,861.15	485.63	0.00	485.63	8,346.78
Arnold Bible Fund	19,622.18	924.34	4,516.00	(3,591.66)	16,030.52
Reserve Fund	721,757.72	26,453.34	114,160.24	(87,706.90)	634,050.82
Antioch Fund	101,200.21	12,153.45	10,790.47	1,362.98	102,563.19
Caleb Fund	179,616.53	8,268.59	25,182.99	(16,914.40)	162,702.13
<b>Grand Total:</b>	<b>2,018,654.72</b>	<b>3,248,433.01</b>	<b>3,495,666.47</b>	<b>(247,233.46)</b>	<b>1,771,421.26</b>

CHURCH OF THE UNITED BRETHREN IN CHRIST USA, INC.

AUDIT REPORT

DECEMBER 31, 2016 AND 2015

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Independent Auditor's Report

To the Investment Committee  
Church of the United Brethren in Christ USA, Inc.  
Huntington, Indiana

We have audited the accompanying financial statements of Church of the United Brethren in Christ USA, Inc. (a nonprofit organization), which comprise the statement 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.

**Auditor's 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 audits to obtain reasonable assurance about whether the financial statements are free of 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 also 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 that 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 Church of the United Brethren in Christ USA, Inc. 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.

*David Culp & Co. LLP*

David Culp & Co. LLP  
Certified Public Accountants

Huntington, Indiana  
April 11, 2017



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CHURCH OF THE UNITED BROTHERS IN CHRIST USA, INC.STATEMENTS OF FINANCIAL POSITIONDECEMBER 31, 2016 AND 2015ASSETS

	<u>2016</u>	<u>2015</u>
<u>Current Assets:</u>		
Cash and cash equivalents - Notes 1 and 2	\$ 720,979	\$ 851,624
Accounts receivable - Trade (net) - Note 1	1,896	3,857
Inventory - Note 1	22,326	26,576
Investments - Note 3	2,197,773	2,254,319
Prepaid pension - Note 5	366,256	49,891
Notes receivable - Current - Note 6	85,373	10,192
Property held for sale - Note 7	<u>275,451</u>	<u>306,451</u>
Total current assets	3,670,054	3,502,910
<u>Fixed Assets - Net - Notes 1 and 8</u>	445,981	457,799
<u>Other Assets:</u>		
Notes receivable - Long-term - Note 6	<u>194,609</u>	<u>282,361</u>
Total assets	<u>\$4,310,644</u>	<u>\$4,243,070</u>

LIABILITIES AND NET ASSETS

<u>Current Liabilities:</u>		
Accounts payable	\$ (3,103)	\$ (519)
Annuity contracts - Note 9	<u>6,429</u>	<u>6,094</u>
Total current liabilities	3,326	5,575
<u>Long-Term Liabilities:</u>		
Annuity contracts - Note 9	<u>33,069</u>	<u>39,498</u>
Total liabilities	<u>36,395</u>	<u>45,073</u>
<u>Net Assets:</u>		
Unrestricted	3,282,060	3,037,542
Temporarily restricted - Note 10	714,951	883,217
Permanently restricted - Note 10	<u>277,238</u>	<u>277,238</u>
Total net assets	<u>4,274,249</u>	<u>4,197,997</u>
Total liabilities and net assets	<u>\$4,310,644</u>	<u>\$4,243,070</u>

The accompanying notes are an integral part of these financial statements.

CHURCH OF THE UNITED BROTHERS IN CHRIST USA, INC.

STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016			2015				
	Un- restricted	Tempor- arily Re- stricted	Perma- nently Re- stricted	Total	Un- restricted	Tempor- arily Re- stricted	Perma- nently Re- stricted	Total
Changes in net assets - Support, revenues and gains (losses) - Benevolence and assess- ments	\$ 805,531	\$ -	\$ -	\$ 805,531	\$ 813,097	\$ -	\$ -	\$ 813,097
Other contributions	310,416	1,181,349	-	1,491,765	467,289	1,268,131	-	1,735,420
Fees and appropriations	39,020	-	-	39,020	29,995	-	-	29,995
Sales - Net of cost of sales of \$96,273 in 2016 and \$117,377 in 2015	45,750	-	-	45,750	46,355	-	-	46,355
Investment income	43,497	9,229	-	52,726	50,706	8,829	-	59,535
Other income (loss)	536,875	-	-	536,875	(187,768)	-	-	(187,768)
Net realized and unreal- ized gains (losses) on investments	43,580	10,775	-	54,355	(43,163)	(10,240)	-	(53,403)
Gain (loss) on sale of fixed assets	162	-	-	162	(204)	-	-	(204)
Net assets released from restrictions - Satisfaction of pro- gram requirements	1,369,619	(1,369,619)	-	-	1,232,920	(1,232,920)	-	-
Total support, rev- enues and gains (losses)	3,194,450	(168,266)	-	3,026,184	2,409,227	33,800	-	2,443,027
Expenses and losses - Program Management and general	2,181,730	-	-	2,181,730	1,894,213	-	-	1,894,213
Total expenses	768,202	-	-	768,202	883,573	-	-	883,573
Changes in net assets	2,949,932	-	-	2,949,932	2,777,786	-	-	2,777,786
Net assets, beginning of Year	244,518	(168,266)	-	76,252	(368,559)	33,800	-	(334,759)
Net assets, end of year	3,037,542	883,217	277,238	4,197,997	3,406,101	849,417	277,238	4,532,756
	\$3,282,060	\$ 714,951	\$277,238	\$4,274,249	\$3,037,542	\$ 883,217	\$277,238	\$4,197,997

The accompanying notes are an integral part of these financial statements.

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CHURCH OF THE UNITED BROTHERS IN CHRIST USA, INC.STATEMENTS OF CASH FLOWSFOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>Cash flows from operating activities:</u>		
Change in net assets	\$ 76,252	\$( 334,759)
Adjustments to reconcile change in net assets to net cash provided by operating activities -		
Depreciation	47,459	46,981
(Gain) Loss on sale of fixed assets	( 162)	204
(Gain) Loss on investments	( 54,356)	50,402
Change in annuity valuation	3,397	3,787
Loss on cancellation of notes receivable	-	9,653
Sale of property held for sale	31,000	-
(Increase) Decrease in -		
Receivables - Trade	1,961	1,543
Prepaid pension	(316,365)	366,054
Inventory	4,250	4,831
Increase (Decrease) in -		
Accounts payable	( 2,584)	( 519)
Net cash provided by (used in) operating activities	<u>(209,148)</u>	<u>148,177</u>
<u>Cash flows from investing activities:</u>		
Advances on notes receivable	( 54,000)	( 48,631)
Payments received on notes receivable	66,571	46,437
Purchase of fixed assets	( 36,689)	( 7,083)
Proceeds from sale of fixed assets	1,210	720
Purchase of investments	(389,398)	(1,494,085)
Proceeds from sale of investments	500,300	1,634,475
Payments on annuities	( 9,491)	( 9,563)
Net cash provided by investing activities	<u>78,503</u>	<u>122,270</u>
<u>Net increase (decrease) in cash and cash equivalents</u>	<u>(130,645)</u>	<u>270,447</u>
<u>Cash and cash equivalents, beginning of year</u>	<u>851,624</u>	<u>581,177</u>
<u>Cash and cash equivalents, end of year</u>	<u>\$ 720,979</u>	<u>\$ 851,624</u>
<u>Non-cash activities:</u>		
Property received after cancellation of note receivable	<u>\$ -</u>	<u>\$ 31,000</u>

The accompanying notes are an integral part of these financial statements.

CHURCH OF THE UNITED BROTHERS IN CHRIST USA, INC.NOTES TO FINANCIAL STATEMENTSDECEMBER 31, 2016 AND 2015Note 1: Accounting policies -

Nature of organization's activities - The Organization is a non-profit religious organization for the Church of the United Brethren in Christ, Inc. It is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code and is not classified as a private foundation. The Organization sells religious materials and publications to other religious organizations, churches and individuals throughout the world, but its primary focus is the United States. It also carries on various religious programs.

Global Ministries, the Organization's international operation, supports missions throughout the world. The international operation is funded by individual contributions.

Basis of accounting - The financial statements of the Organization have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities. Under this method, revenues are recognized when earned and expenses are recognized when liabilities are incurred.

Basis of presentation - The financial statements have been prepared in accordance with FASB ASC 958, "Classification of Net Assets". The FASB requires, among other things, that the financial statements report the changes in, and totals of each net asset class based on the existence of donor restrictions, as applicable. Net assets are classified as unrestricted, temporarily restricted, or permanently restricted and are detailed as follows:

Unrestricted - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Executive Leadership Team or may otherwise be limited by contractual agreements with outside parties. Donor-imposed stipulations are reported as unrestricted net assets if the stipulations expire in the reporting period in which the revenue is recognized.

Temporarily restricted - Net assets whose use by the Organization is subject to donor-imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire by passage of time.

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CHURCH OF THE UNITED BROTHERS IN CHRIST USA, INC.NOTES TO FINANCIAL STATEMENTS (CONTINUED)DECEMBER 31, 2016 AND 2015Note 1: Accounting policies (Continued) -Basis of presentation (Continued) -

Permanently restricted - Net assets include amounts whose use is limited by donor-imposed restrictions which stipulate that resources be maintained permanently, but permits the Organization to expend the income derived from the donated assets for either unrestricted or temporarily restricted purposes. Resources arising from the results of operations or assets set aside by the Executive Leadership Team are not considered to be donor restricted.

Use of estimates - The preparation of financial statements in conformity with generally accepted accounting principles 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.

Cash and cash equivalents - For purposes of the statement of cash flows, the Organization considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Contributions - All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Gifts of cash and other assets are reported as temporarily restricted or permanently restricted support if they are received with donor stipulations that limit their use. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Donor-restricted contributions are recorded in the temporarily restricted class for restrictions expiring during the fiscal year, and then reclassified to the unrestricted class. By definition, permanently restricted support must be maintained in perpetuity. Restrictions do not expire and no assets are reclassified in the statements of activities.

Allowance for doubtful accounts - The Organization uses the reserve method to account for bad debts. The allowance for doubtful accounts is none and \$2,500 for the years ended December 31, 2016 and 2015, respectively. The accounts receivable are presented net of the allowance in the statement of financial position.

CHURCH OF THE UNITED BRETHREN IN CHRIST USA, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2016 AND 2015

Note 1: Accounting policies (Continued) -

Inventories - Quantities are determined by physical count and are valued at the lower of cost or market. Cost is determined by using the first-in, first-out method. Inventory consists of books and materials.

Fixed assets - The Organization depreciates fixed assets over their estimated useful lives using the straight-line and modified ACRS methods. Estimated useful lives for computing depreciation were as follows:

<u>Assets</u>	<u>Years</u>
Building	20-39
Equipment	5-15

Maintenance and repairs are charged against income as incurred. Improvements which increase the useful life or productive capacity of the assets are capitalized.

The Organization recognizes gain or loss on fixed assets at the time of retirement or sale prior to the end of the estimated useful life of the asset. Cost and accumulated depreciation are removed from the asset and reserve accounts at retirement or sale.

Depreciation - Depreciation charged against income for the years ended December 31, 2016 and 2015, was \$47,459 and \$46,981, respectively.

Income tax status - The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, and state income taxes under corresponding provisions of Indiana tax law. Additionally, the Organization is not considered a private foundation under Section 509(a) of the Internal Revenue Code.

The Organization has adopted the accounting standard on accounting for uncertainty in income taxes. This standard addresses the determination of whether tax benefits claimed, or expected to be claimed, on a tax return should be recorded in the financial statements. Under this guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax

CHURCH OF THE UNITED BRETHREN IN CHRIST USA, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2016 AND 2015

Note 1: Accounting policies (Continued) -

Income tax status (Continued) -

benefits that could be recognized in the financial statements from such positions would be measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods. At December 31, 2016 and 2015, there were no unrecognized tax benefits identified or recorded as liabilities.

Note 2: Credit risk and concentrations - The Organization maintains its cash accounts at local banks. The cash balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. At December 31, 2016 and 2015, deposits in excess of the insured amount totaled \$470,779 and \$601,424, respectively.

Note 3: Investments - The Organization's investments at December 31, 2016 and 2015 include the following:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 186,258	\$ 186,091
Money funds	21,725	33,353
Annuities	184,111	177,409
Mutual funds	7,944	955,885
Equities	1,797,735	881,517
Certificates of deposit	-	20,064
Total	<u>\$2,197,773</u>	<u>\$2,254,319</u>

Investment income for the years ended December 31, 2016 and 2015 is detailed as follows:

	<u>2016</u>	<u>2015</u>
Interest	\$ 9,229	\$ 7,918
Dividends	43,498	51,617
Net realized gains (losses)	(16,938)	222,556
Net unrealized gains (losses)	<u>71,294</u>	<u>(272,959)</u>
Total	<u>\$107,083</u>	<u>\$ 9,132</u>

CHURCH OF THE UNITED BROTHERS IN CHRIST USA, INC.NOTES TO FINANCIAL STATEMENTS (CONTINUED)DECEMBER 31, 2016 AND 2015

Note 4: Fair value measurements - FASC 820 defines fair value as the price that would be received by the Organization for an asset or paid by the Organization to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date in the Organization's principal or most advantageous market for the asset or liability. The effect of a change in valuation technique or its application on a fair value estimate is accounted for prospectively as a change in accounting estimate. When evaluating indications of fair value resulting from the use of multiple valuation techniques, the Organization is to select the point within the resulting range of reasonable estimates of fair value that is most representative of fair value under current market conditions. FASC 820 establishes a fair value hierarchy which requires the Organization to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The hierarchy places the highest priority on unadjusted quoted market prices in active market for identical assets or liabilities (level 1 measurements) and gives the lowest priority to unobservable inputs (level 3 measurements). The three levels of inputs within the fair value hierarchy are defined as follows:

Level 1 Inputs: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the Organization has the ability to access as of the measurement date.

Level 2 Inputs: 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 Inputs: Significant unobservable inputs that reflect the Organization's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

The following descriptions of the valuation methods and assumptions used by the Organization to estimate the fair values of investments apply to investments held directly by the Organization. There have been no changes in methodologies used at December 31, 2016 and 2015.



CHURCH OF THE UNITED BRETHREN IN CHRIST USA, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2016 AND 2015

Note 4: Fair value measurements (Continued) -

Cash and cash equivalents, Money funds, Annuities, Mutual funds, and Equities: The fair values of investments are determined by obtaining quoted prices on nationally recognized securities exchanges (level 1 inputs).

Certificates of deposit: Certificates of deposit are recorded at cost plus accrued interest, which approximates fair value (level 2 inputs).

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2016 and 2015:

	Fair Value Measurements at December 31, 2016		
	Quotes Prices In Active Markets For Identical Assets (Level 1)	Signifi- cant Other Observable Inputs (Level 2)	Signifi- cant Un- observable Inputs (Level 3)
Cash and cash equivalents	\$ 186,258	\$ -	\$ -
Money funds	21,725	-	-
Annuities	184,111	-	-
Mutual funds	7,944	-	-
Equities	1,797,735	-	-
Certificates of deposit	-	-	-
Total	<u>\$2,197,773</u>	<u>\$ -</u>	<u>\$ -</u>

CHURCH OF THE UNITED BRETHREN IN CHRIST USA, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2016 AND 2015

Note 4: Fair value measurements (Continued) -

	<u>Fair Value Measurements</u> <u>at December 31, 2015</u>		
	<u>Quotes</u> <u>Prices</u> <u>In Active</u> <u>Markets</u> <u>For Identi-</u> <u>cal Assets</u> <u>(Level 1)</u>	<u>Signifi-</u> <u>cant</u> <u>Other</u> <u>Observable</u> <u>Inputs</u> <u>(Level 2)</u>	<u>Signifi-</u> <u>cant Un-</u> <u>observable</u> <u>Inputs</u> <u>(Level 3)</u>
Cash and cash equivalents	\$ 186,091	\$ -	\$ -
Money funds	33,353	-	-
Annuities	177,409	-	-
Mutual funds	955,885	-	-
Equities	881,517	-	-
Certificates of deposit	-	20,064	-
Total	<u>\$2,234,255</u>	<u>\$ 20,064</u>	<u>\$ -</u>

Note 5: Pension plan - There is a tax-deferred annuity, which is funded by both the individual and the employer. In order to be eligible to participate in the defined benefit plan, the individual must contribute at least 3% of his or her salary (up to the maximum determined by the National Board) to the tax deferred annuity. Benefits are based on a percentage of the designated monthly salary multiplied by the participant's years of service. The amount of retirement plan expense was \$3,779 and \$4,217 for the years ended December 31, 2016 and 2015, respectively.

The Organization also has a defined benefit pension plan that covers ministers and missionaries from the National Conference and is funded entirely by the Church of the United Brethren in Christ.

The following table sets forth the Plan's funded status:

	<u>2016</u>	<u>2015</u>
Actuarial present value of benefit obligations -		
Accrued benefit obligation	\$(3,312,040)	\$(3,397,703)
Market value of assets	<u>3,678,296</u>	<u>3,447,594</u>
Prepaid pension cost	<u>\$ 366,256</u>	<u>\$ 49,891</u>
Net periodic pension cost (benefit) -		
(Gain) on plan assets	\$( 184,888)	\$( 86,173)
Cost (Benefit) for plan year	<u>( 131,477)</u>	<u>452,227</u>
Net periodic cost (benefit)	<u>\$ ( 316,365)</u>	<u>\$ 366,054</u>

CHURCH OF THE UNITED BROTHERS IN CHRIST USA, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2016 AND 2015

Note 5: Pension plan (Continued) -

Any qualified, non-ordained United Brethren headquarters employees who contributed at least 3% of his or her salary to the employer designated individual retirement annuity is entitled to an employer contribution of 6% of the employee's base salary. The amount of retirement plan expense was \$28,303 and \$27,928 for the years ended December 31, 2016 and 2015, respectively.

Note 6: Notes receivable - The Organization holds the following notes receivable at December 31, 2016 and 2015:

<u>Date</u>	<u>Due Date</u>	<u>Payment</u>	<u>Rate</u>	<u>Balance</u>	
				<u>2016</u>	<u>2015</u>
9/02/16	12/01/18	\$ 2,083	0.00%	\$ 50,000	\$ -
9/20/11	8/31/21	None	0.00%	-	53,000
12/31/08	8/31/28	\$ 50	0.00%	44,700	45,600
3/28/12	4/01/22	\$ 427	7.50%	25,782	28,953
12/21/12	12/31/17	None	0.00%	50,000	50,000
11/03/14	1/30/21	None	0.00%	109,500	115,000
<u>Total</u>				<u>\$279,982</u>	<u>\$292,553</u>

The future maturities of the notes receivable are as follows:

Years ending December 31:

2017	\$ 85,373
2018	35,476
2019	10,754
2020	11,053
2021	89,975
Thereafter	<u>47,351</u>
<u>Total</u>	<u>\$279,982</u>

Note 7: Property held for sale - During 2010, a member church was unable to continue operations and the Organization assumed ownership. The Organization also incurred expenses during the year to improve the church for sale. Notes due from the church were forgiven to assume ownership and improvements were added at cost. In 2015, a house sold on contract was repossessed and included as property held for sale. The note receivable was subsequently written off. The house was sold in 2016 for \$35,000.

CHURCH OF THE UNITED BRETHREN IN CHRIST USA, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2016 AND 2015

Note 8: Fixed assets - Components of fixed assets for the years ended December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Land and improvements	\$ 79,333	\$ 79,333
Buildings and improvements	763,471	763,471
Vehicles	87,942	62,187
Office furniture and equipment	<u>427,415</u>	<u>428,291</u>
	1,358,161	1,333,282
<u>Less: Accumulated depreciation</u>	<u>912,180</u>	<u>875,483</u>
Total fixed assets	<u>\$ 445,981</u>	<u>\$ 457,799</u>

Note 9: Annuity contracts - Annuity contracts are valued at the amount of the present value of the expected cash flows. Annuity payments are made at least once a year in amounts ranging from 4.2% to 8.3% of the principal balance. At the death of the annuitant, the principal balance of the contract is transferred to the General Fund.

Note 10: Net assets - Temporarily restricted net assets are restricted for the following purposes:

	<u>2016</u>	<u>2015</u>
Caleb Fund	\$162,702	\$163,640
Price Trust Fund	8,347	7,803
Arnold Bible Fund	16,031	16,585
Various Special Projects	51,691	192,195
Christian Education	40,564	38,982
Ministerial Aid	-	46,070
Church Planting Endowment	352,095	337,135
Leadership Development	2,133	2,131
Meadow Gates Endowment	10,382	7,527
Missionary Contingency	<u>71,006</u>	<u>71,149</u>
Total	<u>\$714,951</u>	<u>\$883,217</u>

Permanently restricted net assets in the amount of \$277,238 for both of the years ended December 31, 2016 and 2015 are restricted for endowment purposes. These funds are included in investments.

Note 11: Operating leases - The Organization has entered into several agreements to lease copiers and a postage meter. The leases vary from four to five year contracts. The Organization paid \$8,248 and \$8,901 for these leases for the years ended December 31, 2016 and 2015, respectively.

CHURCH OF THE UNITED BRETHREN IN CHRIST USA, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2016 AND 2015

Note 11: Operating leases (Continued) -

Minimum required future lease payments under these agreements are as follows:

Years ending December 31:

2017	\$ 8,075
2018	5,355
2019	4,674
2020	<u>1,380</u>
Total	<u>\$19,484</u>

Note 12: Subsequent events - The Organization evaluated all events or transactions that occurred after December 31, 2016 up through April 11, 2017, which is the date the financial statements were available to be issued. During this period, management has determined that the Organization did not have any material recognizable or disclosable subsequent events.

CHURCH OF THE UNITED BRETHREN IN CHRIST USA, INC.

AUDIT REPORT

DECEMBER 31, 2016 AND 2015

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