# UNITED METHODIST COMMUNICATIONS OF THE UNITED METHODIST CHURCH AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULES

***As of and for the Years Ended December 31, 2016 and 2015***

***And Report of Independent Auditor***

Cherry Bekaert LLP
CPAs & Advisors

**UNITED METHODIST COMMUNICATIONS OF**
**THE UNITED METHODIST CHURCH AND SUBSIDIARIES**

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Cherry Bekaert LLP
CPAs & Advisors

# Report of Independent Auditor

The General Commission
on Communications of
The United Methodist Church

The Committee on Audit and Review of the
General Council on Finance and Administration of
The United Methodist Church

We have audited the accompanying consolidated financial statements of United Methodist Communications of The United Methodist Church ("UMCom"), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to UMCom's preparation and fair presentation of the consolidated 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 UMCom'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of UMCom 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.

## Other Matters

### *Other Information*

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated 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 consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Cherry Bekaert LLP

Charlotte, North Carolina
June 26, 2017

**UNITED METHODIST COMMUNICATIONS OF**
**THE UNITED METHODIST CHURCH AND SUBSIDIARIES**
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

*DECEMBER 31, 2016 AND 2015*

| | 2016 | 2015 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 1,000 | $ 1,000 |
| Investments | 41,533,443 | 36,967,550 |
| Due from General Council on Finance and Administration ("GCFA") short-term pooled investment fund | 7,261,372 | 13,943,900 |
| Due from the General Board of Global Ministries of the United Methodist Church | 141,052 | 666,964 |
| Accrued World Service Fund Allocation | 4,316,338 | 4,899,759 |
| Accounts receivable, net | 268,115 | 327,654 |
| Pledges receivable, net | 520,895 | 1,367,151 |
| Inventory | 135,747 | 156,148 |
| Productions in progress | 63,686 | 335,904 |
| Prepaid expenses | 189,042 | 224,073 |
| Property, plant, and equipment, net | 2,238,467 | 2,696,735 |
| **Total Assets** | $ 56,669,157 | $ 61,586,838 |
| **LIABILITIES AND NET ASSETS** | | |
| Liabilities: | | |
| Accounts payable and accrued liabilities | $ 1,796,448 | $ 1,076,603 |
| Contributions payable | 373,206 | 2,264,283 |
| Deferred income | 95,407 | 290,241 |
| **Total Liabilities** | 2,265,061 | 3,631,127 |
| Net Assets: | | |
| Unrestricted: | | |
| Undesignated | 31,144,932 | 30,369,358 |
| Designated for specific activities | 7,262,408 | 6,217,322 |
| Designated for plant facilities | 2,238,467 | 2,696,735 |
| Total Unrestricted Net Assets | 40,645,807 | 39,283,415 |
| Temporarily restricted | 13,720,374 | 18,634,381 |
| Permanently restricted | 37,915 | 37,915 |
| **Total Net Assets** | 54,404,096 | 57,955,711 |
| **Total Liabilities and Net Assets** | $ 56,669,157 | $ 61,586,838 |

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

**UNITED METHODIST COMMUNICATIONS OF**
**THE UNITED METHODIST CHURCH AND SUBSIDIARIES**
CONSOLIDATED STATEMENT OF ACTIVITIES

*YEAR ENDED DECEMBER 31, 2016 (WITH COMPARATIVE TOTALS FOR 2015)*

| | 2016 | | | | 2015 |
|---|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Total |
| Revenue and Support: | | | | | |
| General Church Funds: | | | | | |
| Allocation of World Service Fund | $ 16,148,409 | $ - | $ - | $ 16,148,409 | $ 16,403,231 |
| Connectional Giving Interpretation | - | 1,051,773 | - | 1,051,773 | 1,065,000 |
| | 16,148,409 | 1,051,773 | - | 17,200,182 | 17,468,231 |
| Net program revenues | 1,255,924 | - | - | 1,255,924 | 938,444 |
| Reimbursement from Benefit Trust | 1,235,205 | - | - | 1,235,205 | 1,276,120 |
| Services received from GCFA | 25,054 | - | - | 25,054 | 25,951 |
| Investment return from GCFA short-term pooled investment fund | 439,477 | - | - | 439,477 | 458,412 |
| Interest and dividend income | 96,578 | - | - | 96,578 | 162,291 |
| Unrealized gain (loss) on investments | 904,304 | - | - | 904,304 | (1,292,529) |
| Realized gain on investments | 274,672 | - | - | 274,672 | 728,749 |
| Other income | 305,405 | 78,687 | - | 384,092 | 245,512 |
| Kingswood | 97,148 | - | - | 97,148 | 143,054 |
| Foundation: | | | | | |
| Contributions | 871 | 4,727,750 | - | 4,728,621 | 10,752,922 |
| Interest income | 17,246 | - | - | 17,246 | 83,505 |
| Unrealized gain (loss) on investments | 1,046,591 | - | - | 1,046,591 | (178,874) |
| Realized gain on investments | - | - | - | - | 646,815 |
| Net assets released from restrictions | 10,772,217 | (10,772,217) | - | - | - |
| Total Revenue and Support | 32,619,101 | (4,914,007) | - | 27,705,094 | 31,458,603 |
| Expenses: | | | | | |
| Communications channels and resources | 9,836,031 | - | - | 9,836,031 | 10,059,034 |
| Brand – media purchases | 4,693,117 | - | - | 4,693,117 | 4,931,943 |
| Connectional Giving Interpretation | 684,932 | - | - | 684,932 | 624,855 |
| General administration | 5,820,055 | - | - | 5,820,055 | 4,172,466 |
| Foundation | 10,126,678 | - | - | 10,126,678 | 12,581,009 |
| Kingswood | 95,896 | - | - | 95,896 | 102,229 |
| Total Expenses | 31,256,709 | - | - | 31,256,709 | 32,471,536 |
| Change in net assets | 1,362,392 | (4,914,007) | - | (3,551,615) | (1,012,933) |
| Net assets, beginning of year | 39,283,415 | 18,634,381 | 37,915 | 57,955,711 | 58,968,644 |
| Net assets, end of year | $ 40,645,807 | $ 13,720,374 | $ 37,915 | $ 54,404,096 | $ 57,955,711 |

**UNITED METHODIST COMMUNICATIONS OF**
**THE UNITED METHODIST CHURCH AND SUBSIDIARIES**

CONSOLIDATED STATEMENT OF ACTIVITIES (CONTINUED)

*YEAR ENDED DECEMBER 31, 2015*

| | 2015 | | | |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Revenue and Support: | | | | |
| General Church Funds: | | | | |
| Allocation of World Service Fund | $ 16,403,231 | $ - | $ - | $ 16,403,231 |
| Connectional Giving Interpretation | - | 1,065,000 | - | 1,065,000 |
| | 16,403,231 | 1,065,000 | - | 17,468,231 |
| Net program revenues | 938,444 | - | - | 938,444 |
| Reimbursement from Benefit Trust | 1,276,120 | - | - | 1,276,120 |
| Services received from GCFA | 25,951 | - | - | 25,951 |
| Investment return from GCFA short-term pooled investment fund | 458,412 | - | - | 458,412 |
| Interest and dividend income | 162,291 | - | - | 162,291 |
| Unrealized loss on investments | (1,292,529) | - | - | (1,292,529) |
| Realized gain on investments | 728,749 | - | - | 728,749 |
| Other income | 157,426 | 88,086 | - | 245,512 |
| Kingswood | 143,054 | - | - | 143,054 |
| Foundation: | | | | |
| Contributions | 1,110 | 10,751,812 | - | 10,752,922 |
| Interest income | 83,505 | - | - | 83,505 |
| Unrealized loss on investments | (178,874) | - | - | (178,874) |
| Realized gain on investments | 646,815 | - | - | 646,815 |
| Net assets released from restrictions | 13,177,715 | (13,177,715) | - | - |
| Total Revenue and Support | 32,731,420 | (1,272,817) | - | 31,458,603 |
| Expenses: | | | | |
| Communications channels and resources | 10,059,034 | - | - | 10,059,034 |
| Brand – media purchases | 4,931,943 | - | - | 4,931,943 |
| Connectional Giving Interpretation | 624,855 | - | - | 624,855 |
| General administration | 4,172,466 | - | - | 4,172,466 |
| Foundation | 12,581,009 | - | - | 12,581,009 |
| Kingswood | 102,229 | - | - | 102,229 |
| Total Expenses | 32,471,536 | - | - | 32,471,536 |
| Change in net assets | 259,884 | (1,272,817) | - | (1,012,933) |
| Net assets, beginning of year | 39,023,531 | 19,907,198 | 37,915 | 58,968,644 |
| Net assets, end of year | $ 39,283,415 | $ 18,634,381 | $ 37,915 | $ 57,955,711 |

**UNITED METHODIST COMMUNICATIONS OF**
**THE UNITED METHODIST CHURCH AND SUBSIDIARIES**
CONSOLIDATED STATEMENTS OF CASH FLOWS

*YEARS ENDED DECEMBER 31, 2016 AND 2015*

| | 2016 | 2015 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Change in net assets | $ (3,551,615) | $ (1,012,933) |
| Adjustments to reconcile change in net assets to net cash from operating activities: | | |
| Depreciation | 790,152 | 601,268 |
| Unrealized (gains) losses on investments | (1,950,895) | 1,471,403 |
| Net realized gains on sale of investments | (274,672) | (1,375,564) |
| Changes in assets and liabilities: | | |
| Due from GCFA, short-term pooled investment fund | 6,682,528 | 314,128 |
| Due from the General Board of Global Ministries and related entities | 525,912 | 443,049 |
| Accrued World Service Fund Allocation | 583,421 | 110,896 |
| Accounts and pledges receivable, net | 905,795 | 572,739 |
| Inventory | 20,401 | (52,745) |
| Productions in process | 272,218 | (267,715) |
| Prepaid expenses | 35,031 | (37,427) |
| Accounts payable and accrued liabilities | 719,845 | 245,577 |
| Contributions payable | (1,891,077) | (3,378,479) |
| Deferred income | (194,834) | 186,017 |
| Net cash flows from operating activities | 2,672,210 | (2,179,786) |
| **Cash flows from investing activities:** | | |
| Purchases of investments | (7,919,389) | (20,823,159) |
| Proceeds from sales of investments | 5,579,063 | 23,599,201 |
| Purchases of property and equipment | (331,884) | (596,256) |
| Net cash flows from investing activities | (2,672,210) | 2,179,786 |
| Net change in cash and cash equivalents | - | - |
| Cash and cash equivalents, beginning of year | 1,000 | 1,000 |
| Cash and cash equivalents, end of year | $ 1,000 | $ 1,000 |

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

## Note 1—Organization and nature of operations

As the communications agency for The United Methodist Church, United Methodist Communications ("UMCom") provides leadership for The United Methodist Church (the "UMC") through communications initiatives that promote local, national, and global ministry. Such leadership ministry is most efficient when performed at a global level and in a coordinated and strategic way. UMCom serves the UMC with communication products, programs, and services to enable more effective ministry. It takes into account the needs of the world's people, responding by providing information that encourages spiritual growth, commitment, and transformation individually and in the global community. UMCom provides a portal to the World Wide Web for UMC; speaks to the world at large on behalf of UMC through a variety of communications channels; provides resources that support the growth of local church leaders and provides practical ideas for church life; provides independent news coverage of what UMC is doing and other topics of interest; shares stories of ministries in ways that increase giving and commitment to UMC; responds to requests for information about UMC; resources annual conference and local church communications efforts; provides video and television production services and video resources for group study; and works to raise awareness and understanding of global health issues. As the convener for interagency collaboration, UMCom works with other general agencies and external partners to provide clear, purposeful, and collaborative direction for the Global Health Initiative and the Imagine No Malaria campaign, which seeks to raise $75 million to eliminate death and suffering from malaria. The Foundation for UMCom generates funds for communication efforts to strengthen UMC and its ministries throughout the world.

*Principles of Consolidation* – The consolidated financial statements include the financial statements of UMCom and its wholly owned or controlled subsidiaries, Kingswood Communications, Inc. ("Kingswood") and The Foundation for United Methodist Communications ("UMCom Foundation"). Kingswood was established on August 21, 1963 to provide media productions to entities outside of UMC. Kingswood shares the same board of directors as UMCom which is the reason for consolidation. UMCom Foundation was established on October 19, 1996, exclusively for the benefit of, to perform the functions of, and to carry out the purposes of UMCom. As UMCom is the sole member, UMCom Foundation is also consolidated. The financial statements of UMCom, UMCom Foundation and Kingswood are provided on pages 19-22 in supplemental schedules 1 through 4 for informational purposes. These financial statements are not a required part of the basic financial statements. All significant intercompany balances and transactions among UMCom, UMCom Foundation, and Kingswood have been eliminated in consolidation.

## Note 2—Summary of significant accounting policies

The consolidated financial statements have been prepared on the accrual basis of accounting. UMCom's significant accounting policies are described below.

*Basis of Presentation* – To ensure the observance of limitations and restrictions placed on the use of resources, fund accounting is the procedure by which resources for various purposes are classified into funds that are in accordance with activities or objectives of UMCom. Separate accounts are maintained for each fund.

## Note 2—Summary of significant accounting policies (continued)

For reporting purposes, UMCom's consolidated financial statements have been prepared to focus on the organization as a whole and to present balances classified into three net asset categories based on the existence or absence of donor-imposed restrictions. Accordingly, the consolidated net assets of UMCom and changes therein are classified and reported as follows:

*Unrestricted* – Net assets that are not subject to donor-imposed restrictions. UMCom has chosen to provide further classification information about unrestricted net assets on the consolidated statements of financial position. The subclassifications are as follows:

*Undesignated* – Comprised of cumulative unrestricted results of unrestricted activities of UMCom.

*Designated for Specific Activities* – Comprised of funds set aside by the board to be used for specific activities within general guidelines established by UMCom.

*Designated for Plant Facilities* – Represents the net investment in property, plant, and equipment.

*Temporarily Restricted* – Net assets subject to donor-imposed stipulations that will be met either by actions of UMCom and/or the passage of time.

*Permanently Restricted* – Net assets subject to donor-imposed stipulations that they be maintained permanently by UMCom. Generally, the donors of these assets permit UMCom to use all or part of the income earned on related investments for unrestricted purposes.

Revenues are reported as increases in unrestricted net assets, unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets are reported as reclassifications from temporarily restricted net assets to unrestricted net assets.

*Use of Estimates* – The preparation of the consolidated financial statements requires management of UMCom to make a number of estimates and assumptions relating to the reported amount of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the period. Significant items subject to such estimates and assumptions include the carrying amount of property, plant, and equipment; valuation allowances for receivables and inventories; and assets and obligations related to employee benefits. Actual results could differ from those estimates.

*Cash and Cash Equivalents* – UMCom considers all highly liquid interest bearing instruments purchased with original maturities of three months or less at date of purchase to be cash equivalents.

*Investments* – Investments consist of shares invested in The United Methodist Church Foundation's ("UMCF") Balanced Plus Fund, International Equity Fund, and Fixed Income Fund, shares invested in Wespath Benefits and Investments ("Wespath") Multiple Asset Fund, and notes held by the United Methodist Development Fund ("UMDF") and Texas Methodist Foundation ("TMF"). Investment income consists of interest and dividends, net of investment expenses.

UMCom's investments are presented at net asset value, which approximates the estimated fair value of UMCom's share of respective investment pools. Interest and dividend income and realized and unrealized gains or losses are calculated on a pro rata basis for UMCom's portion of the investment pools. Investment management fees paid amounted to approximately $75,000 for 2016 and $85,000 for 2015.

## Note 2—Summary of significant accounting policies (continued)

Investments are carried at fair value based on quoted market prices, or audited financial statements of the investee. Purchases and sales of investments are recorded on the trade date.

*Due from GCFA Short-Term Pooled Investment Fund* – The amounts presented as due from General Council on Finance and Administration ("GCFA") short-term pooled investment fund in the accompanying financial statements represent UMCom's portion of the short-term investment portfolio managed by GCFA on behalf of certain agencies and related organizations of The United Methodist Church. The amount due from this fund effectively represents the amount of cash deposits that are available to UMCom to be disbursed out of GCFA's centralized cash management system. Since these deposits are legally invested in GCFA's name and not in a separate demand account in UMCom's name, they are not classified as cash and cash equivalents, but rather are considered an amount due from GCFA. The short-term investment portfolio includes funds invested in demand deposits, corporate bonds, taxable municipal bonds, mutual funds, and notes from other United Methodist organizations. GCFA allocates interest earned on the portfolio to the participating entities. For the years ended December 31, 2016 and 2015, GCFA allocated $439,477 and $458,412 of interest income, respectively. While interest income can be earned based on the performance of the pooled investment funds, UMCom believes there is little to no risk exposure to losses due to the relationship with GCFA and policy under which the pooled funds are invested.

*General Church Fund Allocation* – Funding for UMCom's operations is principally provided by allocations of World Service Fund and Connectional Giving Interpretation received from the General Funds of UMC. At December 31, 2016 and 2015, accrued allocations from the World Service Fund were $4,316,338 and $4,899,759, respectively. The General Funds of UMC are allocated to UMCom based on a four-year budget developed from projections of expected program costs. UMCom's continued existence is dependent upon UMC's future support. UMC's future support is dependent upon contributions from its congregations.

*Services Received from Personnel of an Affiliate* – Services received from personnel of an affiliate for which the affiliate does not charge the UMCom have been measured at the cost recognized by the affiliate in providing those services. The revenue and expense relating to those services received are presented in Note 10 and totaled $25,054 and $25,951 for the years ended December 31, 2016 and 2015, respectively.

*Accounts Receivable* – Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is UMCom's best estimate of the amount of probable credit losses in UMCom's existing accounts receivable. UMCom determines the allowance based on historical write-off experience. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

*Inventory* – Inventory consists of printed and promotional materials, software, and videos and is stated at the lower of cost (first-in, first-out) or market.

*Productions in Process* – Costs related to productions not having an estimable future service life are capitalized currently and revenue and expense in recognized as earned. Productions produced under contract, principally for other agencies of UMC, are accounted for by the completed contract method.

## Note 2—Summary of significant accounting policies (continued)

*Property, Plant, and Equipment* – Property, plant, and equipment are recorded at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Building and improvements are depreciated over 40 years, production equipment over 3-5 years, office equipment over 3-10 years, and computer equipment over 3-5 years. UMCom capitalizes assets with a cost greater than $1,000.

*Contributions* – Unconditional promises to give cash and other assets to UMCom are recognized as support at their fair values in the period the unconditional promises are received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. The gifts are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of activities and changes in net assets as net assets released from restriction.

Contributions made, including unconditional promises to give, are recognized as an expense at their fair value in the period made. Contributions payable consists of $373,206 and $2,264,283 as of December 31, 2016 and 2015, respectively, for amounts to be distributed for the Imagine No Malaria campaign.

*Deferred Income* – Deferred income is recorded for calendars, videos, advertisements, and specific products for which payment is received in advance of delivery of the related products.

*Financial Instruments* – Assets recorded at fair value in the consolidated statements of financial position are categorized based on the level of judgment used in the measurement of their fair value. These judgment levels, as defined by Financial Accounting Standards Board Accounting Standards Codification (“ASC”) 820, *Fair Value Measurements and Disclosures*, are as follows:

Level 1 – Quoted prices in active markets that are accessible at the measurement date for identical securities.

Level 2 – Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly. Inputs include quoted prices for similar assets and liabilities in active markets, inputs that are derived from investment manager reporting or corroborated by an independent advisor, and inputs obtained with benchmarks for similar assets for substantially the full term on the financial investments. If market quotations are not readily available for valuations, assets may be valued by a method the investment manager of the fund believes accurately reflects fair value.

Level 3 – Prices or valuations that require using significant unobservable inputs in determining fair value. The inputs into the determination of fair value require significant judgment or estimation by the investment manager. The investment manager uses either the market approach, which generally consists of using comparable market transactions, or the income approach which generally consists of the net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market, and/or other risk factors.

## Note 2—Summary of significant accounting policies (continued)

*Federal Income Tax Exemption* – UMCom, UMCom Foundation and Kingswood are covered under GCFA's group determination letter from the Internal Revenue Service indicating that it is a nonprofit corporation and, except for taxes pertaining to unrelated business income, is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code"). UMCom is also exempt from filing a form 990 due to its affiliation with a religious organization as described in Section 509(a) of the Code.

UMCom accounts for the effect of any uncertain tax positions based on a more likely than not threshold to the recognition of the tax positions being sustained based on the technical merits of the position under examination by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a cumulative probability assessment that aggregates the estimated tax liability for all uncertain tax positions. Tax positions for UMCom include, but are not limited to, the tax-exempt status and determination of whether income is subject to unrelated business income tax.

*Revenue Recognition* – UMCom recognizes revenue when products are shipped and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists, and the sales price is fixed or determinable.

*Functional Classification of Expenses* – UMCom program expenses cover program ministries of UMCom, including media purchases, administrative, creative, and development functions. Media purchases emphasizing the UMC brand are funded by World Service. Connectional Giving Interpretation provides resources to promote and interpret general church funds. Kingswood is a subsidiary of United Methodist Communications allowing UMCom to do business with non-UMC entities to generate revenue. The Foundation for United Methodist Communications exists to raise funds to enhance and establish communications programs. Management and general expenses are classified as general administration expenses.

*Future Pronouncements* – In August of 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* This standard changes presentation and disclosure requirements of not-for-profit entities. The primary changes are decrease in the number of net asset classes from three to two, reporting of the underwater amounts of donor-restricted endowment funds in net assets with donor restrictions, continues to allow preparers to choose between the direct method and indirect method for presenting operating cash flows, requires disclosures of qualitative information on how the not-for-profit entity manages its liquid available resources and liquidity risks, and requires reporting of expenses by function and nature, as well as an analysis of expenses by both function and nature. This standard is effective for all fiscal years beginning after December 15, 2017. Management is currently evaluating the impact of this standard on UMCom's consolidated financial statements.

## Note 2—Summary of significant accounting policies (continued)

In May 2014, the FASB issued ASU 2014-09. The amendments in this update create Topic 606, *Revenue from Contracts with Customers,* and supersede the revenue recognition requirements in Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. In addition, the amendments supersede the cost guidance in Subtopic 605-35, *Revenue Recognition – Construction-Type and Production-Type Contracts,* and create new Subtopic 340-40, *Other Assets and Deferred Costs – Contracts with Customers.* The core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of the ASU 2014-09 one year, making it effective for UMCom's fiscal year 2019 with early adoption permitted in certain circumstances. Management is currently evaluating the impact of this standard on UMCom's consolidated financial statements.

## Note 3—Accounts receivable

Accounts receivable at December 31, 2016 and 2015, consist of the following:

| | 2016 | 2015 |
|---|---|---|
| Accounts receivables | $ 286,917 | $ 339,610 |
| Less allowance for doubtful accounts | (18,802) | (11,956) |
| | $ 268,115 | $ 327,654 |

## Note 4—Pledges receivable

Pledges receivable at December 31, 2016 and 2015, consist of the following:

| | 2016 | 2015 |
|---|---|---|
| Pledges receivable | $ 1,134,614 | $ 2,480,077 |
| Less allowance for doubtful pledges | (613,719) | (1,112,926) |
| | $ 520,895 | $ 1,367,151 |

Pledges receivable consist of $1,040,124 due during 2017 and $94,490 due thereafter through 2020.

## Note 5—Property, plant, and equipment

Property, plant, and equipment at December 31, 2016 and 2015, consist of the following:

| | 2016 | 2015 |
|---|---|---|
| Land | $ 198,651 | $ 198,651 |
| Building | 3,713,786 | 4,060,868 |
| Production equipment | 1,768,185 | 1,682,781 |
| Office equipment | 1,659,953 | 1,328,515 |
| Computer equipment | 2,536,166 | 2,618,568 |
| | 9,876,741 | 9,889,383 |
| Less accumulated depreciation | (7,638,274) | (7,192,648) |
| Total property, plant, and equipment, net | $ 2,238,467 | $ 2,696,735 |

Depreciation expense totaled $790,152 and $601,268 in 2016 and 2015, respectively.

## Note 6—Investments

The investments of UMCom are invested in the UMDF, various funds of the UMCF, the Multiple Asset Fund of Wespath and the Methodist Loan Fund of the Texas Methodist Foundation. The investments consisted of the following at December 31, 2016 and 2015:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Fair Value | Cost | Fair Value | Cost |
| Balanced Plus Fund (UMCF) | $ 13,044,836 | $ 12,652,431 | $ 12,975,802 | $ 12,652,431 |
| Multiple Asset Fund (Wespath) | 27,993,949 | 23,700,939 | 20,742,335 | 18,700,939 |
| Methodist Loan Fund (TMF) | - | - | 1,470,765 | 1,405,620 |
| Notes (UMDF) | 494,658 | 494,658 | 1,778,648 | 1,778,648 |
| | $ 41,533,443 | $ 36,848,028 | $ 36,967,550 | $ 34,537,638 |

The following is a summary of the primary funds of which UMCom's pooled investments are invested:

*Investments in UMCF* – The investments in UMCF's Balanced Plus Fund have a targeted allocation of fixed income funds (30%), domestic large cap equity portfolios (25%), domestic small mid cap equity portfolios (10%), international equity portfolio (15%), and alternative investments consisting of funds of hedge funds and managed futures portfolios (20%). The investments in UMCF's International Equity Portfolio offer investment in non-U.S. equities, primarily in large capitalization stocks in developed countries and emerging market countries. The investments in UMCF's Fixed Income Fund are primarily invested in government and corporate bonds, commercial paper, mortgage-backed securities, and collateralized mortgage securities.

## Note 6—Investments (continued)

*Multiple Asset Fund (Wespath)* – The investments in Wespath's Multiple Asset Fund are a composite of U.S. equity funds (34.8%), fixed income funds (24.6%), international equity funds (30.3%), inflation protection funds (9.9%), and multiple asset fund cash (0.4%).

*Methodist Loan Fund (TMF) and Notes (UMDF)* - The investments consist of variable and/or fixed interest bearing notes. Notes are stated at cost, which approximate fair value. These are Level 3 investments.

Return on investments for the years ended December 31, 2016 and 2015 were as follows:

| | 2016 | 2015 |
|---|---|---|
| Interest and dividends | $ 188,778 | $ 331,292 |
| Less investment management expenses | (74,954) | (85,496) |
| Interest and dividends, net of investment management expenses | 113,824 | 245,796 |
| Gain (loss) on investments: | | |
| Realized gains on sale of investments | 274,672 | 1,375,564 |
| Unrealized gains (losses) on investments | 1,950,895 | (1,471,403) |
| Net gain (loss) on investments | 2,225,567 | (95,839) |
| Return on investments, net | $ 2,339,391 | $ 149,957 |

All investments may be redeemed without advance notice and there are no limitations as to the frequency of redemptions for any investment pool. UMCom has no unfunded commitments to invest in any investment pool.

## Note 7—Fair value of financial instruments

Required disclosures concerning the estimated fair value of financial instruments are presented below. The estimated fair value amounts have been determined based on UMCom's assessment of available market information and appropriate valuation methodologies. The following table summarizes required fair value disclosures and measurements at December 31, 2016 and 2015 for assets measured at fair value on a recurring basis under ASC 820, *Fair Value Measurements and Disclosures.* The assets measured at fair value in the table below use one of three levels for defining their fair value:

| December 31, 2016 | Total Assets Measured at Fair Value | Fair Value Measurements at Reporting Date: Quoted Prices in Active Markets for Identical Assets Level 1 | Significant Other Observable Inputs Level 2 | Significant Unobservable at Fair Value Level 3 |
|---|---|---|---|---|
| Investments: | | | | |
| UMDF | $ 494,658 | $ - | $ - | $ 494,658 |
| Investments reported at net asset value: | | | | |
| Wespath* | 27,993,949 | | | |
| UMCF* | 13,044,836 | | | |
| Total Investments | $ 41,533,443 | | | |

| December 31, 2015 | Total Assets Measured at Fair Value | Fair Value Measurements at Reporting Date: Quoted Prices in Active Markets for Identical Assets Level 1 | Significant Other Observable Inputs Level 2 | Significant Unobservable at Fair Value Level 3 |
|---|---|---|---|---|
| Investments: | | | | |
| UMDF | $ 1,778,648 | $ - | $ - | $ 1,778,648 |
| TMF | 1,470,765 | - | - | 1,470,765 |
| | | $ - | $ - | $ 3,249,413 |
| Investments reported at net asset value: | | | | |
| Wespath* | 20,742,335 | | | |
| UMCF* | 12,975,802 | | | |
| Total Investments | $ 36,967,550 | | | |

* In accordance with ASC Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

## Note 7—Fair value of financial instruments (continued)

The following is a reconciliation of activity for 2016 and 2015 for assets measured at fair value based on significant unobservable information:

| | 2016 | 2015 |
|---|---|---|
| Balance, beginning of year | $ 3,249,413 | $ 10,800,331 |
| Interest income | 17,246 | 27,659 |
| Sales and redemptions | (5,579,063) | (13,170,211) |
| Purchases | 2,807,062 | 5,591,634 |
| Balance, end of year | $ 494,658 | $ 3,249,413 |

## Note 8—General church funds support temporarily restricted for Connectional Giving Interpretation

General church funds received from the Connectional Giving Interpretation have the following purpose restrictions:

| | 2016 | 2015 |
|---|---|---|
| World Service | $ 353,346 | $ 356,250 |
| General Advance Specials | 297,500 | 297,500 |
| Human Relations Day | 63,750 | 63,750 |
| One Great Hour of Sharing | 100,000 | 100,000 |
| World Communion Day | 62,956 | 65,000 |
| United Methodist Student Day | 60,000 | 60,000 |
| Peace with Justice | 50,000 | 50,000 |
| Native American Ministries | 64,221 | 72,500 |
| | $ 1,051,773 | $ 1,065,000 |

## Note 9—Employee benefits

*Retirement Benefits* – Full-time laypersons and clergy employed by UMCom participate in the Retirement Plan for General Agencies. This defined contribution plan is administered by Wespath.

UMCom makes bi-weekly contributions to each eligible employee's account held by Wespath based on 8% of annual employee compensation. Additionally, UMCom matches up to 2% of each employee's contribution to their United Methodist Personal Investment Plan ("UMPIP"). Kingswood makes bi-weekly contributions to each eligible employee's account held by Wespath based on 5% of annual employee compensation. Total contributions made by UMCom and Kingswood for both components during 2016 and 2015 were $680,115 and $629,147, respectively.

## Note 9—Employee benefits (continued)

*Health, Life, and Other Employee Benefits* – UMCom provides health, dental, life, and other employee benefits for its active employees and health, dental, and life benefits to retirees through a group plan, which qualifies for treatment as a multiemployer plan under ASC 715, Compensation-Retirement Benefits. Substantially all retired employees are eligible to participate in The General Agencies of The United Methodist Church Benefit Plan (the "Plan") if they have attained normal retirement age while in the employ of UMCom.

The Plan provides medical, dental, life, and long- and short-term disability defined benefits to participants of the general agencies, two other United Methodist related organizations, and all Bishops covered by the Episcopal Fund.

The Plan's unfunded accumulated postretirement benefit obligation ("APBO") was approximately $92,000,000 and $94,000,000 and the Plan's unfunded expected postretirement benefit obligation ("EPBO") was approximately $128,000,000 and $134,000,000 as of December 31, 2016 and 2015, respectively. The change is due to an increase in the discount rate used to calculate the APBO and EPBO amounts.

The cost of the benefits is recognized as expense as premiums are paid. The total cost of benefits for active employees was $1,181,450 and $1,029,959 in 2016 and 2015, respectively. The cost of benefits for retired employees was $295,486 and $248,567, respectively, exclusive of reimbursement from the General Agency Benefit Trust ("Benefit Trust").

Wespath has transferred certain excess pension assets to the Benefit Trust established by the 1996 General Conference as of December 31, 1996. Annually, the Benefit Trust allows a stated percentage, 6% for 2016 and 2015, of the fair value of the Benefit Trust's assets at year-end to be available for distribution in the subsequent year in order to reimburse the participating agencies, through GCFA, for their funding of active and retiree employee benefits. The fair value of the Benefit Trust's assets (not plan assets) was approximately $149,293,565 and $147,048,245 as of December 31, 2016 and 2015, respectively. The total amount available for reimbursement in 2016 and 2015 was $8,822,895 and $9,631,814, respectively, of which UMCom's share, excluding retiree health benefits, was $1,235,205 and $1,276,120 received in 2016 and 2015, respectively.

## Note 10—Related party transactions

UMCom receives the majority of its revenue through apportionments from the General Funds of UMC, which are administered by GCFA. In addition, GCFA provides various services to UMCom, including cash management, payroll, and group insurance plan administration. As of and for the years ended December 31, 2016 and 2015, UMCom had the following transactions with and through GCFA and other related agencies:

| | 2016 | 2015 |
|---|---|---|
| Statements of Financial Position: | | |
| Investment in UMCF's Balanced Plus Fund | $ 13,044,836 | $ 12,975,802 |
| Investment in Notes (UMDF) | 494,658 | 1,778,648 |
| Invested in GCFA short-term pooled investment fund | 7,261,372 | 13,943,900 |
| Due from the GBGM | 141,052 | 666,964 |
| Accrued World Service Fund Allocation | 4,316,338 | 4,899,759 |
| Accounts receivable, net from other United Methodist Agencies | 183,773 | 174,097 |
| Statements of Activities: | | |
| Revenue: | | |
| Allocation of World Service Fund | 16,148,409 | 16,403,231 |
| Revenue restricted for Connectional Giving Interpretation | 1,051,773 | 1,065,000 |
| Program revenue | 1,294,317 | 674,107 |
| Reimbursement from General Agency Benefit Trust | 1,235,205 | 1,276,120 |
| Services received from GCFA | 25,054 | 25,951 |
| Expenses: | | |
| Administration provided by GCFA | 25,054 | 25,951 |
| Group insurance expense | 1,181,450 | 1,029,959 |

## Note 11—Temporarily restricted net assets

Temporarily restricted net assets of $13,720,374 and $18,634,381, in 2016 and 2015, respectively, have been restricted by the donors for promotion, communications, and Imagine No Malaria. In 2016, net assets restricted for promotion, communications, and Imagine No Malaria were $1,585,358, $9,531,339, $2,603,677, respectively. In 2015, net assets restricted for promotion, communications, and Imagine No Malaria were $1,127,996, $9,166,012, $8,340,373, respectively. Net assets released from restrictions in 2016 and 2015 were expended for the various restricted purposes discussed above.

## Note 12—Permanently restricted net assets

Net assets of $37,915 in both 2016 and 2015 have been permanently restricted by the donors. The income earned on such funds is unrestricted.

## Note 13—Subsequent events

Management has evaluated subsequent events through June 26, 2017, the date the consolidated financial statements were available for issuance, and has determined that there are no subsequent events requiring disclosure.

# SUPPLEMENTAL INFORMATION

## UNITED METHODIST COMMUNICATIONS OF THE UNITED METHODIST CHURCH AND SUBSIDIARIES

**SCHEDULE 1**

SCHEDULE OF FINANCIAL POSITION –
FOUNDATION FOR UNITED METHODIST COMMUNICATIONS

*DECEMBER 31, 2016 AND 2015*

| | 2016 | 2015 |
|---|---|---|
| **ASSETS** | | |
| Investments | $ 13,784,760 | $ 15,492,923 |
| Due from General Council on Finance and Administration ("GCFA") short-term pooled investment fund | 1,306,674 | 4,449,578 |
| Accounts receivable, net | - | 8,290 |
| Due from the General Board of Global Ministries of the United Methodist Church | 141,052 | 666,964 |
| Pledges receivable, net | 520,895 | 1,367,151 |
| **Total Assets** | $ 15,753,381 | $ 21,984,906 |
| **LIABILITIES AND NET ASSETS** | | |
| Accounts payable | $ 4,672 | $ 10,900 |
| Contributions payable | 373,206 | 2,264,283 |
| **Total Liabilities** | 377,878 | 2,275,183 |
| Net Assets: | | |
| Unrestricted: | | |
| Undesignated | 855,096 | 880,298 |
| Designated for specific activities | 2,364,633 | 1,307,713 |
| Total Unrestricted Net Assets | 3,219,729 | 2,188,011 |
| Temporarily restricted | 12,140,449 | 17,506,387 |
| Permanently restricted | 15,325 | 15,325 |
| **Total Net Assets** | 15,375,503 | 19,709,723 |
| **Total Liabilities and Net Assets** | $ 15,753,381 | $ 21,984,906 |

**UNITED METHODIST COMMUNICATIONS OF THE UNITED METHODIST CHURCH AND SUBSIDIARIES** **SCHEDULE 2**

SCHEDULE OF CHANGES IN NET ASSETS –
FOUNDATION FOR UNITED METHODIST COMMUNICATIONS

*YEARS ENDED DECEMBER 31, 2016 AND 2015*

| | 2016 | 2015 |
|---|---|---|
| Unrestricted Activities: | | |
| Interest income and contributions | $ 18,117 | $ 84,615 |
| Unrealized gains (losses) on investments | 1,046,591 | (178,874) |
| Realized gains on investments | - | 646,815 |
| Net assets released from restrictions | 10,099,121 | 12,552,858 |
| Total unrestricted expenses | (10,126,678) | (12,581,009) |
| Change in unrestricted net assets | 1,037,151 | 524,405 |
| Contributions of temporarily restricted net assets | 4,727,750 | 10,751,812 |
| Net assets released from restriction | (10,099,121) | (12,552,858) |
| Change in temporarily restricted net assets | (5,371,371) | (1,801,046) |
| Change in net assets | (4,334,220) | (1,276,641) |
| Net assets, beginning of year | 19,709,723 | 20,986,364 |
| Net assets, end of year | $ 15,375,503 | $ 19,709,723 |

**UNITED METHODIST COMMUNICATIONS OF THE UNITED METHODIST CHURCH AND SUBSIDIARIES** **SCHEDULE 3**

SCHEDULE OF FINANCIAL POSITION – KINGSWOOD

*DECEMBER 31, 2016 AND 2015*

| | 2016 | 2015 |
|---|---|---|
| **ASSETS** | | |
| Due from General Council on Finance and Administration ("GCFA") short-term pooled investment fund | $ 6,686 | $ 9,523 |
| Accounts receivable | 15,998 | 10,418 |
| **Total Assets** | $ 22,684 | $ 19,941 |
| **LIABILITIES AND NET ASSETS** | | |
| Accounts payable | $ 2,016 | $ 525 |
| **Total Liabilities** | 2,016 | 525 |
| Net Assets: | | |
| Unrestricted: | | |
| Undesignated | 20,668 | 19,416 |
| **Total Net Assets** | 20,668 | 19,416 |
| **Total Liabilities and Net Assets** | $ 22,684 | $ 19,941 |

**UNITED METHODIST COMMUNICATIONS OF THE UNITED METHODIST CHURCH AND SUBSIDIARIES** **SCHEDULE 4**

SCHEDULE OF CHANGES IN NET ASSETS (DEFICIT) – KINGSWOOD

*YEARS ENDED DECEMBER 31, 2016 AND 2015*

| | 2016 | 2015 |
|---|---|---|
| Unrestricted Activities: | | |
| Total unrestricted revenues | $ 97,148 | $ 143,054 |
| Total unrestricted expenses | (95,896) | (102,229) |
| Change in unrestricted net assets (deficit) | 1,252 | 40,825 |
| Net assets (deficit), beginning of year | 19,416 | (21,409) |
| Net assets, end of year | $ 20,668 | $ 19,416 |

## UNITED METHODIST COMMUNICATIONS OF THE UNITED METHODIST CHURCH AND SUBSIDIARIES

**SCHEDULE 5**

SCHEDULE OF NATURAL CLASSIFICATION OF EXPENSES

*YEARS ENDED DECEMBER 31, 2016 AND 2015*

| | 2016 | 2015 |
|---|---|---|
| Expenses: | | |
| Program | $ 14,310,836 | $ 16,737,083 |
| Salaries and related expenses | 10,224,256 | 9,174,389 |
| Independent contractors and consultants | 1,121,687 | 1,283,771 |
| Distributions and grants - UMC | 996,196 | 1,144,254 |
| Special promotion | 503,144 | 515,101 |
| Printing | 340,767 | 322,706 |
| Travel and meeting expense | 868,382 | 522,126 |
| Equipment repair, leasing, and replacement | 750,219 | 710,113 |
| Depreciation | 790,152 | 601,268 |
| Postage | 331,927 | 302,823 |
| Research and development | 200,586 | 337,786 |
| Films and audio visuals | 231,563 | 244,478 |
| Utilities | 123,169 | 123,102 |
| Miscellaneous and other expenses | 148,525 | 167,678 |
| Telephone | 98,251 | 101,928 |
| Web services | 92,558 | 79,394 |
| Supplies | 36,476 | 40,397 |
| Services received from GCFA | 25,054 | 25,951 |
| Rent | 25,726 | - |
| Legal fees | 9,671 | 23,503 |
| Promotional materials | 24,564 | 9,435 |
| Grants - outside UMC | 3,000 | 4,250 |
| Total Expenses | $ 31,256,709 | $ 32,471,536 |

# SCHEDULE OF PROGRAM REVENUES AND COST OF GOODS SOLD

*YEARS ENDED DECEMBER 31, 2016 AND 2015*

| | 2016 | | |
|---|---|---|---|
| | Program Revenues | Costs of Goods Sold | Net Program Revenues |
| Contract productions | $ 1,006,294 | $ (696,026) | $ 310,268 |
| Brand products | 10,626 | (730) | 9,896 |
| Software and technology sales | 264,763 | (148,856) | 115,907 |
| Magazine advertisements | 422,360 | (24,751) | 397,609 |
| Online advertisements | 128,263 | (6,070) | 122,193 |
| Calendar sales | 434,275 | (204,559) | 229,716 |
| Training | 71,660 | (4,697) | 66,963 |
| Magazine sales | 3,372 | - | 3,372 |
| Total | $ 2,341,613 | $ (1,085,689) | $ 1,255,924 |

| | 2015 | | |
|---|---|---|---|
| | Program Revenues | Costs of Goods Sold | Net Program Revenues |
| Contract productions | $ 288,802 | $ (204,888) | $ 83,914 |
| Brand products | 11,587 | - | 11,587 |
| Software and technology sales | 374,407 | (234,512) | 139,895 |
| Magazine advertisements | 331,297 | (18,124) | 313,173 |
| Online advertisements | 133,818 | (5,478) | 128,340 |
| Calendar sales | 437,502 | (243,957) | 193,545 |
| Training | 60,372 | (2,181) | 58,191 |
| Magazine sales | 9,799 | - | 9,799 |
| Total | $ 1,647,584 | $ (709,140) | $ 938,444 |