



**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, 2017
and 2016*

And Report of Independent Auditor

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

REPORT OF INDEPENDENT AUDITOR 1-2

FINANCIAL STATEMENTS

Consolidated Statements of Financial Position3
Consolidated Statements of Activities..... 4-5
Consolidated Statement of Functional Expenses6
Consolidated Statements of Cash Flows7
Notes to the Consolidated Financial Statements 8-24

SUPPLEMENTAL INFORMATION

Schedule 1 - Consolidating Schedule of Financial Position – December 31, 201725
Schedule 2 - Consolidating Schedule of Activities – Year ended December 31, 201726
Schedule 3 - Consolidating Schedule of Financial Position – December 31, 2016.....27
Schedule 4 - Consolidating Schedule of Activities – Year ended December 31, 201628
Schedule 5 - Schedules of Program Revenue and Cost of Goods Sold29

Report of Independent Auditor

The General Commission of
United Methodist Communications of
The United Methodist Church and Subsidiaries

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 and Subsidiaries (“UMCom”), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, the related consolidated statements of activities and cash flows for the years ended December 31, 2017 and 2016, the statement of functional expenses for the year ended December 31, 2017, 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 United Methodist Communications of the United Methodist Church and Subsidiaries as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Changes in Financial Statement Presentation

As discussed in Note 2, United Methodist Communications of the United Methodist Church and Subsidiaries adopted Accounting Standards Update (“ASU”) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The ASU has been applied retrospectively to all periods presented with the exception of the statement of functional expense and the disclosure of liquidity and availability of resources, which have been implemented prospectively as allowed under the provisions of ASU 2016-14. Our opinion is not modified with respect to this matter.

Additionally, as discussed in Note 15, United Methodist Communications of the United Methodist Church and Subsidiaries made a reclassification to properly present beginning net asset as of January 1, 2016. Our opinion is not modified with respect to these matters.

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
August 14, 2018

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

DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 1,000	\$ 1,000
Investments	48,000,567	41,533,443
Due from General Council on Finance and Administration (GCFA) short-term pooled investment fund	5,211,640	7,261,372
Due from the General Board of Global Ministries of the United Methodist Church	88,230	141,052
Accrued World Service Fund Allocation	4,648,080	4,316,338
Accounts receivable, net	189,835	268,115
Pledges receivable, net	214,214	419,595
Inventory	42,495	135,747
Productions in progress	34,476	63,686
Prepaid expenses	353,472	189,042
Property and equipment, net	2,724,513	2,238,467
Total Assets	<u><u>\$ 61,508,522</u></u>	<u><u>\$ 56,567,857</u></u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued liabilities	\$ 1,866,319	\$ 1,561,837
Contributions payable	44,997	627,929
Deferred income	20,268	95,407
Total Liabilities	<u>1,931,584</u>	<u>2,285,173</u>
Net Assets:		
Without Donor Restrictions:		
Invested in property and equipment	2,724,513	2,238,467
Board designated	23,739,552	7,195,963
Undesignated	18,795,781	31,060,892
Total without Donor Restrictions	<u>45,259,846</u>	<u>40,495,322</u>
With Donor Restrictions:		
Subject to purpose restrictions	13,686,957	13,011,201
Subject to passage of time	214,214	419,595
Endowments	415,921	356,566
Total with Donor Restrictions	<u>14,317,092</u>	<u>13,787,362</u>
Total Net Assets	<u>59,576,938</u>	<u>54,282,684</u>
Total Liabilities and Net Assets	<u><u>\$ 61,508,522</u></u>	<u><u>\$ 56,567,857</u></u>

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

YEAR ENDED DECEMBER 31, 2017 (WITH COMPARATIVE TOTALS FOR 2016)

	2017		2016	
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenues and Support:				
General Church Funds:				
Allocation of World Service Fund	\$ 16,391,495	\$ -	\$ 16,391,495	\$ 16,148,409
Connectional Giving Interpretation	-	1,066,812	1,066,812	1,051,773
	<u>16,391,495</u>	<u>1,066,812</u>	<u>17,458,307</u>	<u>17,200,182</u>
Net program revenues	904,472	-	904,472	1,255,924
Reimbursement from Benefit Trust	1,108,931	-	1,108,931	1,235,205
Services received from GCFA	34,416	-	34,416	25,054
Investment return from GCFA short-term pooled investment fund	349,509	-	349,509	439,477
Investment return, net	6,645,179	71,303	6,716,482	2,339,391
Contributions	3,405	1,141,162	1,144,567	4,728,621
Other income	160,444	15,422	175,866	384,092
Kingswood	83,910	-	83,910	97,148
Net assets released from restrictions	1,764,969	(1,764,969)	-	-
Total Revenue and Support	<u>27,446,730</u>	<u>529,730</u>	<u>27,976,460</u>	<u>27,705,094</u>
Expenses:				
Program Expenses:				
Communications channels and resources	10,747,658	-	10,747,658	9,931,927
Brand – media purchases	4,625,405	-	4,625,405	4,693,117
Connectional Giving Interpretation	993,047	-	993,047	684,932
Global health initiative	687,162	-	687,162	9,967,516
Total Program Expenses	<u>17,053,272</u>	<u>-</u>	<u>17,053,272</u>	<u>25,277,492</u>
Management and general	5,594,633	-	5,594,633	5,820,055
Fundraising	34,301	-	34,301	413,885
Total Expenses	<u>22,682,206</u>	<u>-</u>	<u>22,682,206</u>	<u>31,511,432</u>
Change in net assets	4,764,524	529,730	5,294,254	(3,806,338)
Net assets, beginning of year	<u>40,495,322</u>	<u>13,787,362</u>	<u>54,282,684</u>	<u>58,089,022</u>
Net assets, end of year	<u>\$ 45,259,846</u>	<u>\$ 14,317,092</u>	<u>\$ 59,576,938</u>	<u>\$ 54,282,684</u>

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

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

YEAR ENDED DECEMBER 31, 2016

	2016		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenues and Support:			
General Church Funds:			
Allocation of World Service Fund	\$ 16,148,409	\$ -	\$ 16,148,409
Connectional Giving Interpretation	-	1,051,773	1,051,773
	<u>16,148,409</u>	<u>1,051,773</u>	<u>17,200,182</u>
Net program revenues	1,255,924	-	1,255,924
Reimbursement from Benefit Trust	1,235,205	-	1,235,205
Services received from GCFA	25,054	-	25,054
Investment return from GCFA short-term pooled investment fund	439,477	-	439,477
Investment return, net	2,311,328	28,063	2,339,391
Contributions	871	4,727,750	4,728,621
Other income	305,405	78,687	384,092
Kingswood	97,148	-	97,148
Net assets released from restrictions	11,026,940	(11,026,940)	-
	<u>32,845,761</u>	<u>(5,140,667)</u>	<u>27,705,094</u>
Total Revenue and Support			
Expenses:			
Program Expenses:			
Communications channels and resources	9,931,927	-	9,931,927
Brand – media purchases	4,693,117	-	4,693,117
Connectional Giving Interpretation	684,932	-	684,932
Global health initiative	9,967,516	-	9,967,516
Total Program Expenses	<u>25,277,492</u>	<u>-</u>	<u>25,277,492</u>
Management and general	5,820,055	-	5,820,055
Fundraising	413,885	-	413,885
	<u>31,511,432</u>	<u>-</u>	<u>31,511,432</u>
Total Expenses			
Change in net assets	<u>1,334,329</u>	<u>(5,140,667)</u>	<u>(3,806,338)</u>
Net assets, beginning of year as previously reported	39,283,415	18,672,296	57,955,711
Restatement (Note 15)	(122,422)	255,733	133,311
	<u>39,160,993</u>	<u>18,928,029</u>	<u>58,089,022</u>
Net assets, beginning of year as restated			
Net assets, end of year	<u>\$ 40,495,322</u>	<u>\$ 13,787,362</u>	<u>\$ 54,282,684</u>

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

**UNITED METHODIST COMMUNICATIONS OF
THE UNITED METHODIST CHURCH AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**

YEAR ENDED DECEMBER 31, 2017

	Program Services				Supporting Services			Total
	Communications Channels and Resources	Brand - Media Purchases	Connectional Giving Interpretation	Global Health Initiative	Subtotal	Management and General	Fundraising	
Media, research, and program development	\$ 352,435	\$ 3,860,199	\$ 131,629	\$ 687,162	\$ 5,031,425	\$ -	\$ -	\$ 5,031,425
Grant and donation distributions	3,000	765,206	-	-	768,206	-	-	768,206
Salaries and related benefits	7,178,984	-	-	-	7,178,984	3,950,065	-	11,129,049
Administration provided by GCFA	-	-	-	-	-	34,416	-	34,416
Rent and building management	84,000	-	-	-	84,000	283,597	-	367,597
Travel and meetings	584,789	-	13,704	-	598,493	198,277	1,733	798,503
Independent contractors	972,968	-	11,293	-	984,261	96,135	30,468	1,110,864
Printing, postage, supplies, telephone	460,597	-	467,681	-	928,278	47,735	-	976,013
Equipment, repair and maintenance	60,992	-	-	-	60,992	44,937	-	105,929
Information technology hosting, maintenance, and support	330,464	-	125,192	-	455,656	172,937	-	628,593
Insurance and taxes	2,730	-	-	-	2,730	92,203	-	94,933
Depreciation	180,620	-	-	-	180,620	496,296	-	676,916
Promotional and information material	511,936	-	235,343	-	747,279	140,456	2,100	889,835
Miscellaneous	24,143	-	8,205	-	32,348	37,579	-	69,927
Total Expenses	\$ 10,747,658	\$ 4,625,405	\$ 993,047	\$ 687,162	\$ 17,053,272	\$ 5,594,633	\$ 34,301	\$ 22,682,206

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

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

YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ 5,294,254	\$ (3,806,338)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	676,916	790,152
Unrealized gains on investments	(6,241,059)	(1,950,895)
Net realized gains on sales of investments	(354,049)	(274,672)
Bad debt expense	184,926	332,938
Changes in assets and liabilities:		
Due from GCFA short-term pooled investment fund	2,049,732	6,682,528
Due from the General Board of Global Ministries of the United Methodist Church and related entities	52,822	525,912
Accrued World Service Fund Allocation	(331,742)	583,421
Accounts and pledges receivable	270,991	1,299,829
Allowance for doubtful accounts and pledges	(172,256)	(492,361)
Inventory	93,252	20,401
Productions in process	29,210	272,218
Prepaid expenses	(164,430)	35,031
Accounts payable and accrued liabilities	304,482	485,234
Contributions payable	(582,932)	(1,636,354)
Deferred income	(75,139)	(194,834)
Net cash flows from operating activities	<u>1,034,978</u>	<u>2,672,210</u>
Cash flows from investing activities:		
Purchases of investments	(1,073,341)	(7,919,389)
Proceeds from sales of investments	1,201,325	5,579,063
Purchases of property and equipment	(1,162,962)	(331,884)
Net cash flows from investing activities	<u>(1,034,978)</u>	<u>(2,672,210)</u>
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	<u>\$ 1,000</u>	<u>\$ 1,000</u>

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

DECEMBER 31, 2017 AND 2016

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 like 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 and for the Global Health Initiative.

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 the 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 25-29 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.

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

DECEMBER 31, 2017 AND 2016

Note 2—Summary of significant accounting policies (continued)

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

Net Assets without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objective of UCom. These net assets may be used at the discretion of UCom's management and the General Commission. UCom has chosen to provide further classification information about net assets without donor restrictions on the consolidated statements of financial position. The subclassifications are as follows:

Invested in Property and Equipment – Represents net assets invested in property and equipment, net of accumulated depreciation.

Board Designated – Comprised of funds set aside by the General Commission to be used for specific activities within general guidelines established by UCom.

Undesignated – Represents the cumulative net assets without donor restrictions excluding those net assets invested in property and equipment and board designated.

Net Assets with Donor Restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of UCom or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Revenues are reported as increases in net assets without donor restrictions, unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets are reported as reclassifications from net assets with donor restrictions to net assets without donor restrictions.

Use of Estimates – The preparation of the consolidated financial statements requires management of UCom 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 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 – UCom considers all highly liquid interest bearing instruments purchased with original maturities of three months or less at date of purchase to be cash equivalents.

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

DECEMBER 31, 2017 AND 2016

Note 2—Summary of significant accounting policies (continued)

Investments – Investments consist of shares invested in the United Methodist Church Foundation’s (“UMCF”) Balanced Plus Fund, shares invested in Wespeth Benefits and Investments (“Wespeth”) Multiple Asset Fund, and notes held by the United Methodist Development Fund (“UMDF”).

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.

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 consolidated 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 UMC. 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, 2017 and 2016, GCFA allocated \$349,509 and \$439,477 of interest income, respectively, to UMCom. 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. The operating cash requirements of the general agencies are centrally managed by GCFA.

When an agency has surplus funds, they are invested by GCFA in the short-term pooled investment fund. GCFA allocates interest earned to the agencies invested in the pool based upon their pro-rata share of the pool on a monthly basis. The overall return for the short-term pooled investment funds for the years ended December 31, 2017 and 2016 was 4.28% and 4.13%, respectively. The overall rate of return for each agency may vary due to fluctuating balances throughout the year and the timing of investments gains and losses. The allocation of funds in the short-term investment pool as of December 31, 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Texas Methodist Foundation loan fund	25.8%	26.4%
Mutual funds	3.2%	3.0%
Short-term collateralized loan fund	0.5%	0.5%
Fixed income	11.4%	11.7%
Corporate bonds	59.1%	58.2%
United Methodist Development Fund	0.0%	0.2%
	<u>100.0%</u>	<u>100.0%</u>

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

DECEMBER 31, 2017 AND 2016

Note 2—Summary of significant accounting policies (continued)

General Church Fund Allocation – Funding for UMCCom's operations is principally provided by allocations of World Service Fund and Connectional Giving Interpretation received from the General Funds of the UMC. At December 31, 2017 and 2016, accrued allocations from the World Service Fund were \$4,648,080 and \$4,316,338, respectively. The General Funds of UMC are allocated to UMCCom based on a four-year budget developed from projections of expected program costs. The allocation accounts for 62% of UMCCom's total operating revenue in 2017 and 2016. UMCCom's continued existence is dependent upon UMC's future support. UMC's future support is dependent upon contributions from its congregations (i.e., congregational participation in the apportionment covenant).

Services Received from Personnel of an Affiliate – Services received from personnel of an affiliate for which the affiliate does not charge the UMCCom have been measured at the cost recognized by the affiliate in providing those services. The revenue and expense relating to those services received totaled \$34,416 and \$25,054 for the years ended December 31, 2017 and 2016, respectively.

Accounts Receivable – Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is UMCCom's best estimate of the amount of probable credit losses in UMCCom's existing accounts receivable. UMCCom 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 and is stated at the lower of cost (first-in, first-out) or market.

Productions in Process – Costs related to productions that are in process are capitalized and expensed when revenue is recognized. Productions produced under contract, principally for other agencies of UMC, are accounted for by the completed contract method.

Property and Equipment – Property 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. UMCCom capitalizes assets with a cost greater than \$1,000.

Contributions – Unconditional promises to give cash and other assets to UMCCom 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.

Contributions made, including unconditional promises to give, are recognized as an expense at their fair value in the period made. Contributions payable consists of \$44,997 and \$627,929 as of December 31, 2017 and 2016, respectively, for amounts to be distributed for the Imagine No Malaria campaign.

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

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

DECEMBER 31, 2017 AND 2016

Note 2—Summary of significant accounting policies (continued)

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 (“FASB”) 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.

Federal Income Tax Exemption – UMCom is 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 – The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. UMCom’s salaries are classified in either the Communications Channels and Resources or Management and General functions. UMCom’s employees participate in activities in other functions of the organization, but those functions do not allow salaries to be expensed to the function, so these expenses remain in either the Communications Channels and Resources or Management and General functions.

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 and the Global Health Initiative.

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

DECEMBER 31, 2017 AND 2016

Note 2—Summary of significant accounting policies (continued)

New Accounting Pronouncement – On August 18, 2016, FASB issued Accounting Standard Update (“ASU”) 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. UCom has elected early adoption of these new accounting requirements effective in its 2017 financial statements. The ASU has been applied retrospectively to all periods presented with the exception of the statement of functional expenses and the disclosure of liquidity and availability of resources, which have been implemented prospectively as allowed under the provisions of ASU 2016-14.

Future Pronouncements – 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 UCom’s fiscal year 2019 with early adoption permitted in certain circumstances. Management is currently evaluating the impact of this standard on UCom’s consolidated financial statements.

Note 3—Liquidity and availability of resources

The table below represents financial assets available for general expenditures within one year at December 31, 2017:

Financial assets at year end:	
Cash and cash equivalents	\$ 1,000
Investments	48,000,567
Due from GCFA short-term pooled investment fund of the United Methodist Church	5,211,640
Due from the General Board of Global Ministries of the United Methodist Church	88,230
Accrued World Service Fund allocation	4,648,080
Accounts receivable	189,835
Pledges receivable	214,214
Total financial assets	<u>58,353,566</u>
Less amounts not available to be used for general expenditures within one year:	
Board designated	23,739,552
Donor restricted purpose restriction and accumulated earnings on endowment	13,907,288
Donor restricted passage of time restriction	214,214
Funds held in perpetuity	195,590
Financial assets not available to be used within one year	<u>38,056,644</u>
Financial assets available to meet general expenditures within one year	<u>\$ 20,296,922</u>

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

DECEMBER 31, 2017 AND 2016

Note 3—Liquidity and availability of resources (continued)

UMCom has certain assets limited to use for donor-restricted purposes. Additionally, board-designated assets are designated for future operating and capital expenditures. These assets limited to use, which are more fully described in Notes 12 and 13 are not available for general expenditure within the next year. However, the board-designated amounts could be made available, if necessary.

As part of UMCom's liquidity management plan, cash in excess of daily requirements are invested in GCFA's short-term pooled investment fund.

Note 4—Accounts receivable

Accounts receivable at December 31, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Accounts receivables	\$ 193,797	\$ 286,917
Less allowance for doubtful accounts	(3,962)	(18,802)
	<u>\$ 189,835</u>	<u>\$ 268,115</u>

Note 5—Pledges receivable

Pledges receivable at December 31, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Pledges receivable	\$ 670,517	\$ 1,033,314
Less allowance for doubtful pledges	(456,303)	(613,719)
	<u>\$ 214,214</u>	<u>\$ 419,595</u>

Pledges receivable consist of \$669,599 due during 2018 and \$918 due thereafter through 2020.

Note 6—Property and equipment

Property and equipment at December 31, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Land	\$ 198,651	\$ 198,651
Building	3,748,500	3,713,786
Production equipment	1,940,313	1,768,185
Office equipment	1,691,213	1,659,953
Computer equipment	3,187,163	2,536,166
	10,765,840	9,876,741
Less accumulated depreciation	<u>(8,041,327)</u>	<u>(7,638,274)</u>
Total property and equipment, net	<u>\$ 2,724,513</u>	<u>\$ 2,238,467</u>

Depreciation expense totaled \$676,916 and \$790,152 in 2017 and 2016, respectively.

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

DECEMBER 31, 2017 AND 2016

Note 7—Investments

Investments consist of the following at December 31, 2017 and 2016:

	2017		2016	
	Fair Value	Cost	Fair Value	Cost
Balanced Plus Fund (UMCF)	\$ 14,725,515	\$ 13,496,242	\$ 13,044,836	\$ 12,652,431
Multiple Asset Fund (Wespath)	33,028,096	23,700,939	27,993,949	23,700,939
Notes (UMDF)	246,956	246,956	494,658	494,658
	<u>\$ 48,000,567</u>	<u>\$ 37,444,137</u>	<u>\$ 41,533,443</u>	<u>\$ 36,848,028</u>

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

Balanced Plus Fund 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%).

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 cash (0.4%).

Notes (UMDF) – The investments consist of variable and/or fixed interest bearing notes. Notes are stated at cost, which approximate fair value.

Return on investments for the years ended December 31, 2017 and 2016 were as follows:

	2017	2016
Interest and dividends	\$ 220,157	\$ 188,778
Gain on investments:		
Realized gains on sales of investments	354,049	274,672
Unrealized gains on investments	6,241,059	1,950,895
Net gains on investments	6,815,265	2,414,345
Less investment management expenses	(98,783)	(74,954)
Investment return, net	<u>\$ 6,716,482</u>	<u>\$ 2,339,391</u>

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

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

DECEMBER 31, 2017 AND 2016

Note 8—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 UMCCom's assessment of available market information and appropriate valuation methodologies. The following table summarizes required fair value disclosures and measurements at December 31, 2017 and 2016 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:

	Fair Value Measurements at Reporting Date			
	Total Assets Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable at Fair Value Level 3
December 31, 2017				
Investments:				
UMDF	\$ 246,956	\$ -	\$ -	\$ 246,956
Investments reported at net asset value:				
Wespath*	33,028,096			
UMCF*	14,725,515			
Total Investments	<u>\$ 48,000,567</u>			

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

* 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.

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

DECEMBER 31, 2017 AND 2016

Note 8—Fair value of financial instruments (continued)

The following is a reconciliation of activity for 2017 and 2016 for assets measured at fair value based on significant unobservable information:

	<u>2017</u>	<u>2016</u>
Balance, beginning of year	\$ 494,658	\$ 3,249,413
Interest income	1,325	17,246
Sales and redemptions	(1,201,325)	(5,579,063)
Purchases	952,298	2,807,062
Balance, end of year	<u>\$ 246,956</u>	<u>\$ 494,658</u>

Note 9—Connectional Giving Interpretation Revenue

General church funds received from the Connectional Giving Interpretation have the following purpose restrictions for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
World Service	\$ 358,052	\$ 353,346
General Advance Specials	297,500	297,500
Human Relations Day	63,760	63,750
One Great Hour of Sharing	100,000	100,000
World Communion Day	65,000	62,956
United Methodist Student Day	60,000	60,000
Peace with Justice	50,000	50,000
Native American Ministries	72,500	64,221
	<u>\$ 1,066,812</u>	<u>\$ 1,051,773</u>

Note 10—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 compensation to their United Methodist Personal Investment Plan ("UMPIP"). Total contributions made by UMCom and Kingswood for both components during 2017 and 2016 were \$764,707 and \$680,115, respectively.

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

DECEMBER 31, 2017 AND 2016

Note 10—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 \$98,600,000 and \$91,600,000 and the Plan’s unfunded expected postretirement benefit obligation (“EPBO”) was approximately \$148,700,000 and \$127,500,000 as of December 31, 2017 and 2016, 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 \$1,245,758 and \$1,181,450 in 2017 and 2016, respectively. The cost of benefits for retired employees was \$347,749 and \$295,486 in 2017 and 2016, 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 2017 and 2016, 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 retired employee benefits. The fair value of the Benefit Trust’s assets (not plan assets) was \$165,800,000 and \$149,300,000 as of December 31, 2017 and 2016, respectively. The total amount available for reimbursement in 2017 and 2016 was \$8,957,614 and \$8,822,895, respectively, of which UMCom’s share, excluding retiree health benefits, was \$1,108,931 and \$1,235,205 received in 2017 and 2016, respectively.

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

DECEMBER 31, 2017 AND 2016

Note 11—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, 2017 and 2016, UMCom had the following transactions with and through GCFA and other related agencies:

	<u>2017</u>	<u>2016</u>
Statements of Financial Position:		
Investment in UMCF's Balanced Plus Fund	\$ 14,725,515	\$ 13,044,836
Investment in Notes (UMDF)	246,956	494,658
Invested in GCFA short-term pooled investment fund	5,211,640	7,261,372
Due from the General Board of Global Ministries	88,230	141,052
Accrued World Service Fund Allocation	4,648,080	4,316,338
Accounts receivable, net from other United Methodist Agencies	65,830	183,773
Statements of Activities:		
Revenue:		
Allocation of World Service Fund	16,391,495	16,148,409
Revenue restricted for Connectional Giving Interpretation	1,066,812	1,051,773
Gross program revenue	479,261	1,294,317
Reimbursement from General Agency Benefit Trust	1,108,931	1,235,205
Investment return, net - UMCF	1,680,679	69,034
Investment return, net - UMDF	1,325	17,246
Services received from GCFA	34,416	25,054
Expenses:		
Administration provided by GCFA	34,416	25,054
Group insurance expense	1,593,507	1,476,936

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

DECEMBER 31, 2017 AND 2016

Note 12—Board-designated net assets

Certain net assets without donor restrictions at December 31, 2017 and 2016 have been designated by the General Commission for the following purposes:

	<u>2017</u>	<u>2016</u>
TV/T	\$ 2,693,301	\$ 2,693,301
Initiatives and Ministry	2,055,846	2,055,846
Promotional Resources	80,993	82,183
Property improvements	2,500,000	-
General Church Communications Ministry	8,950,000	-
General Conference	2,500,000	-
Foundation	4,959,412	2,364,633
Total board designated net assets	<u>\$ 23,739,552</u>	<u>\$ 7,195,963</u>

From time to time, the General Commission may designate other net assets without donor restrictions for specific purposes.

The Television/Telecommunication (“TV/T”) Division operating reserve was created in 1991. The TV/T reserve funds are used to account for expenditures against (TV/T) on-ratio funds, as defined in the financial commitment book.

The Initiatives and Ministry reserve is restricted for the purpose of supporting the innovations of the ministry.

The Promotional Resources reserve was established by the UMCom as a cash flow reserve to fund start-up costs and early quadrennium expenditures of promotional resources. In addition, if there is a deficit in a general fund at the end of the quadrennium, that deficit is underwritten by this reserve.

The Property Improvements reserve funds are designated for the maintenance and enhancement of existing and future facilities and property.

The General Church Communications Ministry reserve funds are designated for communications projects in partnership with United Methodist agencies and other General Church organizations’ communications directives, communications staffing stipends for smaller agencies, communications campaigns for the denomination following upcoming General Conferences, and a communications summit that are not covered in the operational budget.

The General Conference reserve funds are designated for the expenses related to supporting the communications and production of the Called General Conference 2019, General Conference 2020, and pre-General Conference activities.

The Foundation designated funds are designated for future initiatives approved by the United Methodist Communications Foundation for projects related to the improvement of communications with the church.

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

DECEMBER 31, 2017 AND 2016

Note 13—Net assets with donor restrictions

Net assets with donor restrictions at December 31, 2017 and 2016 have been restricted by the donors for the following purpose restrictions:

	<u>2017</u>	<u>2016</u>
Subject to purpose restriction:		
Promotion	\$ 1,674,541	\$ 1,585,358
Communication	9,531,339	9,531,339
Imagine No Malaria	2,402,684	1,828,059
Children's TV Campaign	78,393	66,445
Total subject to purpose restriction	<u>13,686,957</u>	<u>13,011,201</u>
Subject to passage of time:		
Pledges receivable	214,214	419,595
Total subject to the passage of time	<u>214,214</u>	<u>419,595</u>
Endowments:		
Accumulated earnings on UMCom's endowment fund	220,331	211,966
UMCom endowment fund held in perpetuity	195,590	144,600
Total held in perpetuity	<u>415,921</u>	<u>356,566</u>
Total net assets with donor restrictions	<u>\$ 14,317,092</u>	<u>\$ 13,787,362</u>

Net assets with donor restrictions for the years ended December 31, 2017 and 2016 were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

	<u>2017</u>	<u>2016</u>
Satisfaction of purpose restriction	\$ 1,559,588	\$ 10,180,684
Satisfaction of time restriction	205,381	846,256
Total net assets released from restriction	<u>\$ 1,764,969</u>	<u>\$ 11,026,940</u>

Note 14—Endowments

UMCom's endowment consists of individual funds established for a variety of purposes, and is comprised of only donor-restricted endowment funds.

UMCom has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, UMCom classifies as donor-restricted net assets (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by UMCom in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

DECEMBER 31, 2017 AND 2016

Note 14—Endowments (continued)

In accordance with applicable state laws, UCom considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of UCom
- The investment policies of UCom

As of December 31, 2017 and 2016, UCom had the following endowment net asset composition by type of fund:

	Year Ended December 31, 2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 195,590	\$ 195,590
Accumulated investment gains	-	220,331	220,331
Endowment net assets, December 31, 2017	<u>\$ -</u>	<u>\$ 415,921</u>	<u>\$ 415,921</u>

	Year Ended December 31, 2016		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds:			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	\$ -	\$ 144,600	\$ 144,600
Accumulated investment gains	-	211,966	211,966
Endowment net assets, December 31, 2016	<u>\$ -</u>	<u>\$ 356,566</u>	<u>\$ 356,566</u>

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). UCom has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law. At December 31, 2017 and 2016, UCom had no underwater endowments

Investment and Spending Policies – UCom has not formally adopted an investment spending policy for their endowments.

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

DECEMBER 31, 2017 AND 2016

Note 14—Endowments (continued)

Return Objectives and Risk Parameters – UMCom has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that UMCom must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by The General Commission on Communication, the endowment assets are invested in a manner that is intended to produce results that provide for the preservation of capital and income for support of programs while assuming a moderate level of investment risk. UMCom expects its endowment funds, over time, to produce current income within the total return strategy. Actual returns may vary.

Strategies Employed for Achieving Objectives – To satisfy its long-term rate-of-return objectives, UMCom relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). UMCom targets a diversified asset allocation that places a greater emphasis on corporate bonds and equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Changes in endowment net assets for the years ended December 31, 2017 and 2016 are as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, December 31, 2015	\$ -	\$ 328,503	\$ 328,503
Investment income, net	-	28,063	28,063
Endowment net assets, December 31, 2016	-	356,566	356,566
Investment income, net	-	59,355	59,355
Endowment net assets, December 31, 2017	<u>\$ -</u>	<u>\$ 415,921</u>	<u>\$ 415,921</u>

UMCom did not appropriate endowment assets for the years ended December 31, 2017 and 2016.

Note 15—Restatement of net asset classifications

During 2017, it was determined that the previously issued consolidated financial statements for 2016 required correction due to several errors identified during the year ended December 31, 2017.

There was an overstatement of pledges receivable and net assets with donor restrictions of \$101,300 as of January 1, 2016. Money received for pledges made in prior periods from various conferences were reported as income instead of a reduction of the pledges that had been previously recorded.

There was also an understatement of assets and net assets without donor restrictions of \$234,611 as of January 1, 2016. Contributions made to UMCom and invested with The United Methodist Texas Foundation were reported under a separate foundation created by UMCom in prior years. When investments had matured in fiscal year 2016, UMCom recorded the money received from The United Methodist Texas Foundation as a liability. It was determined that the amounts received in 2016 should have been recorded as revenue to UMCom when they were originally gifted rather than in the separate foundation that had been created.

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

DECEMBER 31, 2017 AND 2016

Note 15—Restatement of net asset classifications (continued)

There was an understatement of net assets with donor restrictions and overstatement of net assets without donor restrictions totaling \$290,588 as of January 1, 2016. As a result of the early adoption of ASU 2016-14, a number of older endowments were reviewed and it was determined that the accumulated earnings for the endowments were not being properly tracked and recorded as restricted for each endowments specific purpose.

Furthermore, there was an understatement of net assets with donor restrictions and overstatement of net assets without donor restrictions totaling \$66,445 as of January 1, 2016. As a result of the early adoption of ASU 2016-14, net assets were reviewed and it was determined that \$66,445 of donor restricted net assets had been classified improperly as without donor restrictions.

Additionally, there was an understatement of liabilities and an overstatement of net assets with and without donor restrictions of \$254,723 from pledges received in 2016 related to the Imagine No Malaria program. As a result UCom owed the Global Fund 51% of amounts collected under the program as of December 31, 2016, which led to an understatement in UCom Foundations expenses at the year ended December 31, 2016.

Lastly, there was an overstatement of changes in net assets without donor restriction, which caused an understatement of changes in net assets with donor restrictions of \$28,063 at December 31, 2016

The effect of these adjustments as of January 1, 2016 and December 31, 2016 are reflected as follows:

	Without Donor Restrictions	With Donor Restrictions
Net Assets, as originally reported, December 31, 2015	\$ 39,283,415	\$ 18,672,296
Pledge receivable adjustment	-	(101,300)
Interest Income adjustment	234,611	-
Adjustment to UCom's endowment fund	(290,588)	290,588
Adjustments to Net Assets	(66,445)	66,445
Net Assets, as restated, December 31, 2015	<u>\$ 39,160,993</u>	<u>\$ 18,928,029</u>
Change in Net Assets, as originally reported, 2016	\$ 1,362,392	\$ (4,914,007)
Adjustment to UCom Foundation expense for 2016	(254,723)	-
Adjustment to net assets released from restriction for 2016	254,723	(254,723)
Adjustment to UCom's endowment fund during 2016	(28,063)	28,063
Change in Net Assets, as restated, 2016	<u>\$ 1,334,329</u>	<u>\$ (5,140,667)</u>

Note 16—Subsequent events

Management has evaluated subsequent events through August 14, 2018, 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
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION**

SCHEDULE 1

DECEMBER 31, 2017

	UMCOM	UMCOM Foundation	Kingswood	2017 Total
ASSETS				
Cash and cash equivalents	\$ 1,000	\$ -	\$ -	\$ 1,000
Investments	32,037,585	15,962,982	-	48,000,567
Due from General Council on Finance and Administration (GCFA) short-term pooled investment fund	3,582,387	1,721,645	(92,392)	5,211,640
Due from the General Board of Global Ministries of the United Methodist Church (GBGM)	-	88,230	-	88,230
Accrued World Service Fund Allocation	4,648,080	-	-	4,648,080
Accounts receivable, net	172,476	-	17,359	189,835
Pledges receivable, net	-	214,214	-	214,214
Inventory	42,495	-	-	42,495
Productions in progress	34,476	-	-	34,476
Prepaid expenses	353,472	-	-	353,472
Property and equipment, net	2,724,513	-	-	2,724,513
Total Assets	\$ 43,596,484	\$ 17,987,071	\$ (75,033)	\$ 61,508,522
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable and accrued liabilities	\$ 1,855,198	\$ 5,889	\$ 5,232	\$ 1,866,319
Contributions payable	-	44,997	-	44,997
Deferred income	20,268	-	-	20,268
Total Liabilities	1,875,466	50,886	5,232	1,931,584
Net Assets:				
Without Donor Restrictions:				
Invested in property and equipment	2,724,513	-	-	2,724,513
Board designated	18,780,140	4,959,412	-	23,739,552
Undesignated	18,066,457	809,589	(80,265)	18,795,781
Total without Donor Restrictions	39,571,110	5,769,001	(80,265)	45,259,846
With Donor Restrictions:				
Subject to purpose restrictions	1,752,934	11,934,023	-	13,686,957
Subject to passage of time	-	214,214	-	214,214
Endowments	396,974	18,947	-	415,921
Total with Donor Restrictions	2,149,908	12,167,184	-	14,317,092
Total Net Assets	41,721,018	17,936,185	(80,265)	59,576,938
Total Liabilities and Net Assets	\$ 43,596,484	\$ 17,987,071	\$ (75,033)	\$ 61,508,522

**UNITED METHODIST COMMUNICATIONS OF
THE UNITED METHODIST CHURCH AND SUBSIDIARIES
CONSOLIDATING SCHEDULE OF ACTIVITIES**

SCHEDULE 2

YEAR ENDED DECEMBER 31, 2017

	UMCOM	UMCOM Foundation	Kingswood	2017 Total
Activites without Donor Restrictions:				
General Church Funds:				
Allocation of World Service Fund	\$ 16,391,495	\$ -	\$ -	\$ 16,391,495
Net program revenue	904,472	-	-	904,472
Reimbursement from Benefit Trust	1,108,931	-	-	1,108,931
Services received from GCFA	34,416	-	-	34,416
Investment return from GCFA short-term pooled investment fund	349,509	-	-	349,509
Investment return, net	4,219,963	2,425,216	-	6,645,179
Contributions	-	3,405	-	3,405
Other income	160,444	-	-	160,444
Kingswood	-	-	83,910	83,910
Net assets released from restrictions	993,051	771,918	-	1,764,969
Total expenses	<u>(21,608,966)</u>	<u>(888,397)</u>	<u>(184,843)</u>	<u>(22,682,206)</u>
Change in Net Assets without Donor Restrictions	<u>2,553,315</u>	<u>2,312,142</u>	<u>(100,933)</u>	<u>4,764,524</u>
Activites with Donor Restrictions:				
Connectional Giving Interpretation	1,066,812	-	-	1,066,812
Investment return, net	70,595	708	-	71,303
Contributions	-	1,141,162	-	1,141,162
Other income	15,422	-	-	15,422
Net assets released from restriction	<u>(993,051)</u>	<u>(771,918)</u>	<u>-</u>	<u>(1,764,969)</u>
Change in Net Assets with Donor Restrictions	<u>159,778</u>	<u>369,952</u>	<u>-</u>	<u>529,730</u>
Change in net assets	2,713,093	2,682,094	(100,933)	5,294,254
Net assets, beginning of year	<u>39,007,925</u>	<u>15,254,091</u>	<u>20,668</u>	<u>54,282,684</u>
Net assets, end of year	<u>\$ 41,721,018</u>	<u>\$ 17,936,185</u>	<u>\$ (80,265)</u>	<u>\$ 59,576,938</u>

**UNITED METHODIST COMMUNICATIONS OF
THE UNITED METHODIST CHURCH AND SUBSIDIARIES
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION**

SCHEDULE 3

DECEMBER 31, 2016

	UMCOM	UMCOM Foundation	Kingswood	2016 Total
ASSETS				
Cash and cash equivalents	\$ 1,000	\$ -	\$ -	\$ 1,000
Investments	27,514,072	14,019,371	-	41,533,443
Due from General Council on Finance and Administration (GCFA) short-term pooled investment fund	5,948,012	1,306,674	6,686	7,261,372
Due from the General Board of Global Ministries of the United Methodist Church (GBGM)	-	141,052	-	141,052
Accrued World Service Fund Allocation	4,316,338	-	-	4,316,338
Accounts receivable, net	252,117	-	15,998	268,115
Pledges receivable, net	-	419,595	-	419,595
Inventory	135,747	-	-	135,747
Productions in progress	63,686	-	-	63,686
Prepaid expenses	189,042	-	-	189,042
Property and equipment, net	2,238,467	-	-	2,238,467
Total Assets	\$ 40,658,481	\$ 15,886,692	\$ 22,684	\$ 56,567,857
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable and accrued liabilities	\$ 1,555,149	\$ 4,672	\$ 2,016	\$ 1,561,837
Contributions payable	-	627,929	-	627,929
Deferred income	95,407	-	-	95,407
Total Liabilities	1,650,556	632,601	2,016	2,285,173
Net Assets:				
Without Donor Restrictions:				
Invested in property and equipment	2,238,467	-	-	2,238,467
Board designated	4,831,330	2,364,633	-	7,195,963
Undesignated	29,947,998	1,092,226	20,668	31,060,892
Total without Donor Restrictions	37,017,795	3,456,859	20,668	40,495,322
With Donor Restrictions:				
Subject to purpose restrictions	1,651,803	11,359,398	-	13,011,201
Subject to passage of time	-	419,595	-	419,595
Endowments	338,327	18,239	-	356,566
Total with Donor Restrictions	1,990,130	11,797,232	-	13,787,362
Total Net Assets	39,007,925	15,254,091	20,668	54,282,684
Total Liabilities and Net Assets	\$ 40,658,481	\$ 15,886,692	\$ 22,684	\$ 56,567,857

**UNITED METHODIST COMMUNICATIONS OF
THE UNITED METHODIST CHURCH AND SUBSIDIARIES
CONSOLIDATING SCHEDULE OF ACTIVITIES**

SCHEDULE 4

YEAR ENDED DECEMBER 31, 2016

	UMCOM	UMCOM Foundation	Kingswood	2016 Total
Activites without Donor Restrictions:				
General Church Funds:				
Allocation of World Service Fund	\$ 16,148,409	\$ -	\$ -	\$ 16,148,409
Net program revenue	1,255,924	-	-	1,255,924
Reimbursement from Benefit Trust	1,235,205	-	-	1,235,205
Services received from GCFA	25,054	-	-	25,054
Investment return from GCFA short-term pooled investment fund	439,477	-	-	439,477
Investment return, net	1,248,127	1,063,201	-	2,311,328
Contributions	-	871	-	871
Other income	305,405	-	-	305,405
Kingswood	-	-	97,148	97,148
Net assets released from restrictions	673,096	10,353,844	-	11,026,940
Total expenses	<u>(21,034,135)</u>	<u>(10,381,401)</u>	<u>(95,896)</u>	<u>(31,511,432)</u>
Change in Net Assets without Donor Restrictions	<u>296,562</u>	<u>1,036,515</u>	<u>1,252</u>	<u>1,334,329</u>
Activites with Donor Restrictions:				
Connectional Giving Interpretation	1,051,773	-	-	1,051,773
Contributions	-	4,727,750	-	4,727,750
Other income	78,687	-	-	78,687
Investment return, net	27,427	636	-	28,063
Net assets released from restriction	<u>(673,096)</u>	<u>(10,353,844)</u>	<u>-</u>	<u>(11,026,940)</u>
Change in Net Assets with Donor Restrictions	<u>484,791</u>	<u>(5,625,458)</u>	<u>-</u>	<u>(5,140,667)</u>
Change in net assets	<u>781,353</u>	<u>(4,588,943)</u>	<u>1,252</u>	<u>(3,806,338)</u>
Net assets, beginning of year as previously reported	38,226,572	19,709,723	19,416	57,955,711
Restatement of Funds (Note 15)	-	133,311	-	133,311
Net assets, beginning of year as restated	<u>38,226,572</u>	<u>19,843,034</u>	<u>19,416</u>	<u>58,089,022</u>
Net assets, end of year	<u>\$ 39,007,925</u>	<u>\$ 15,254,091</u>	<u>\$ 20,668</u>	<u>\$ 54,282,684</u>

**UNITED METHODIST COMMUNICATIONS OF
THE UNITED METHODIST CHURCH AND SUBSIDIARIES**
SCHEDULES OF PROGRAM REVENUE AND COST OF GOODS SOLD

SCHEDULE 5

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017		
	Program Revenues	Costs of Goods Sold	Net Program Revenues
Contract productions	\$ 465,909	\$ (315,989)	\$ 149,920
Software and technology sales	99,325	(15,524)	83,801
Magazine advertisements	236,504	(18,925)	217,579
Online advertisements	135,603	(5,980)	129,623
Calendar sales	381,933	(101,925)	280,008
Training	42,066	-	42,066
Magazine sales	1,475	-	1,475
Total	<u>\$ 1,362,815</u>	<u>\$ (458,343)</u>	<u>\$ 904,472</u>

	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	<u>\$ 2,341,613</u>	<u>\$ (1,085,689)</u>	<u>\$ 1,255,924</u>