

**GENERAL CONFERENCE OF THE
BRETHREN IN CHRIST
FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2016 AND 2015
AND
INDEPENDENT AUDITOR'S REPORT**

HAMILTON & MUSSER, P.C.
Certified Public Accountants

GENERAL CONFERENCE OF THE BRETHREN IN CHRIST

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INDEPENDENT AUDITOR'S REPORT

To the General Conference Board of the
General Conference of the Brethren in Christ
Grantham, Pennsylvania

Report on the Financial Statements

We have audited the accompanying financial statements of the General Conference of the Brethren in Christ (a non-profit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Members of the American and Pennsylvania Institutes of CPAs

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the General Conference of the Brethren in Christ 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.

July 20, 2017

Mechanicsburg, Pennsylvania



Certified Public Accountants

GENERAL CONFERENCE OF THE BRETHREN IN CHRIST

Statements of Financial Position

December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Cash and Cash Equivalents		
Unrestricted	\$ 1,877,685	\$ 1,127,608
Temporarily Restricted	3,702,796	4,109,364
Investments (Note 2)		
Temporarily Restricted	2,975,836	2,849,745
Permanently Restricted	2,730,634	2,729,634
Education Loans Receivable (Note 4)	9,744	15,502
ASEL Receivable (Note 5)	88,941	88,941
Other Receivables (Note 6)	241,923	257,010
Other Assets	202,978	170,893
Fixed Assets, Net (Note 7)	<u>242,650</u>	<u>225,587</u>
 Total Assets	 <u>\$ 12,073,187</u>	 <u>\$ 11,574,284</u>
Liabilities		
Accounts and Payroll Withholding Payable	\$ 132,970	\$ 135,277
Accrued Wages and Vacation Payable	12,692	18,552
Deposit Agreements	5,000	5,000
Notes Payable (Note 10)	216,576	225,582
Liability for Pension Benefit (Note 12)	2,994,798	3,119,083
Other Liabilities	<u>-</u>	<u>2,566</u>
 Total Liabilities	 <u>3,362,036</u>	 <u>3,506,060</u>
Net Assets (Deficit)		
Unrestricted	(698,115)	(1,500,408)
Temporarily Restricted (Note 8)	6,678,632	6,838,998
Permanently Restricted (Note 9)	<u>2,730,634</u>	<u>2,729,634</u>
 Total Net Assets (Deficit)	 <u>8,711,151</u>	 <u>8,068,224</u>
 Total Liabilities and Net Assets	 <u>\$ 12,073,187</u>	 <u>\$ 11,574,284</u>

The Accompanying Notes are an Integral Part of the Financial Statements

GENERAL CONFERENCE OF THE BRETHREN IN CHRIST

Statement of Activities

For the Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue				
Contributions	\$ 3,104,050	\$ 2,444,795	\$ 1,000	\$ 5,549,845
Investment Income (Note 2)	63,621	198,176	-	261,797
Other	216,196	-	-	216,196
Net Assets Released From Restrictions	<u>2,803,337</u>	<u>(2,803,337)</u>	<u>-</u>	<u>-</u>
Total Revenue	<u>6,187,204</u>	<u>(160,366)</u>	<u>1,000</u>	<u>6,027,838</u>
Expenses				
Program Services	4,971,453	-	-	4,971,453
Management and General				
Operational	287,743	-	-	287,743
Ministers Pension Fund Benefit Program	<u>222,819</u>	<u>-</u>	<u>-</u>	<u>222,819</u>
Total Expenses	<u>5,482,015</u>	<u>-</u>	<u>-</u>	<u>5,482,015</u>
Increase (Decrease) in Net Assets	705,189	(160,366)	1,000	545,823
Net Assets (Deficit), Beginning of Year	(1,500,408)	6,838,998	2,729,634	8,068,224
Pension-Related Changes Other Than Net Periodic Pension Cost	<u>97,104</u>	<u>-</u>	<u>-</u>	<u>97,104</u>
Net Assets (Deficit), End of Year	<u>\$ (698,115)</u>	<u>\$ 6,678,632</u>	<u>\$ 2,730,634</u>	<u>\$ 8,711,151</u>

The Accompanying Notes are an Integral Part of the Financial Statements

GENERAL CONFERENCE OF THE BRETHREN IN CHRIST

Statement of Activities

For the Year Ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue				
Contributions	\$ 2,628,301	\$ 2,029,250	\$ 1,120	\$ 4,658,671
Investment Income (Note 2)	27,566	(8,797)	-	18,769
Other	152,523	-	-	152,523
Net Assets Released From Restrictions	<u>2,801,794</u>	<u>(2,801,794)</u>	<u>-</u>	<u>-</u>
Total Revenue	<u>5,610,184</u>	<u>(781,341)</u>	<u>1,120</u>	<u>4,829,963</u>
Expenses				
Program Services	4,574,218	-	-	4,574,218
Management and General				
Operational	232,122	-	-	232,122
Ministers Pension Fund Benefit Program	<u>228,259</u>	<u>-</u>	<u>-</u>	<u>228,259</u>
Total Expenses	<u>5,034,599</u>	<u>-</u>	<u>-</u>	<u>5,034,599</u>
Increase (Decrease) in Net Assets	575,585	(781,341)	1,120	(204,636)
Net Assets (Deficit), Beginning of Year	(2,595,960)	7,620,339	2,728,514	7,752,893
Pension-Related Changes Other Than Net Periodic Pension Cost	<u>519,967</u>	<u>-</u>	<u>-</u>	<u>519,967</u>
Net Assets (Deficit), End of Year	<u>\$ (1,500,408)</u>	<u>\$ 6,838,998</u>	<u>\$ 2,729,634</u>	<u>\$ 8,068,224</u>

The Accompanying Notes are an Integral Part of the Financial Statements

GENERAL CONFERENCE OF THE BRETHREN IN CHRIST

Statements of Cash Flows

For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities:		
Increase (Decrease) in Net Assets	\$ 545,823	\$ (204,636)
Adjustment to Reconcile Change in Net Assets to		
Net Cash and Cash Equivalents Provided (Used) by Operating Activities:		
Realized Gain on Sale of Investments	(95,002)	(288,697)
Unrealized (Gain) Loss on Investments	(59,953)	326,497
Depreciation	15,436	12,247
(Increase) Decrease in:		
Other Receivables	20,845	15,100
Other Assets	(32,085)	(43,882)
Increase (Decrease) in:		
Accounts and Payroll Withholding Payable	(2,307)	(65,203)
Accrued Wages and Vacation Payable	(5,860)	4,464
Other Liabilities	<u>(2,566)</u>	<u>-</u>
Net Cash and Cash Equivalent Provided (Used) by Operating Activities	<u>384,331</u>	<u>(244,110)</u>
Cash Flows from Investing Activities:		
Purchase of Investments	(250,812)	(66,777)
Sale of Investments	278,676	357,928
Purchase of Fixed Assets	<u>(32,499)</u>	<u>(1,190)</u>
Net Cash and Cash Equivalents Provided (Used) by Investing Activities	<u>(4,635)</u>	<u>289,961</u>
Cash Flows from Financing Activities:		
Principal Payments on Notes Payable	(9,006)	(8,788)
Change in Ministers Pension Fund Components	<u>(27,181)</u>	<u>(44,601)</u>
Net Cash and Cash Equivalents Used by Financing Activities	<u>(36,187)</u>	<u>(53,389)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	343,509	(7,538)
Cash and Cash Equivalents, Beginning of the Year	<u>5,236,972</u>	<u>5,244,510</u>
Cash and Cash Equivalents, End of Year	<u>\$ 5,580,481</u>	<u>\$ 5,236,972</u>
<u>Supplemental Cash Flow Disclosures:</u>		
Cash Paid for Interest	\$ 9,574	\$ 9,992
Cash Paid for Income Taxes	-	-

The Accompanying Notes are an Integral Part of the Financial Statements

GENERAL CONFERENCE OF THE BRETHREN IN CHRIST

Notes to Financial Statements

For the Years Ended December 31, 2016 and 2015

NOTE 1 NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities:

The General Conference of the Brethren in Christ (the BIC US) was incorporated on June 18, 1940 in the Commonwealth of Pennsylvania as a charitable, non-profit religious organization. The BIC US is supported by contributions from Brethren in Christ congregations as well as direct contributions from individuals and other entities.

Basis of Accounting:

The financial statements of the BIC US have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables and other liabilities.

Basis of Presentation:

Financial statement presentation follows the *Not-for-Profit Entities* topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) which requires the BIC US to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Contributions:

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions.

All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions.

The BIC US recognizes receipts when given by the supporting congregations. As a result, approximately twenty business days are required after year-end to properly recognize these December receipts. Additionally, the BIC US allows the Common Ministries Program to make the appropriate allocations to other BIC US programs and external organizations before the year-end close.

Ministry Activities:

The BIC US is strongly committed to functioning as one organization, in support of various ministries, as we seek to accomplish the mission of the church to make and grow disciples. The following list is illustrative of the ministry activities supported by the BIC US in 2016:

- Regional Conference Leadership
- Commission on Ministry and Doctrine
 - Equipping for Ministry
- General Assembly Meeting
- Denominational Communications
- World Missions
 - Missionary Support
 - International Leadership Development
 - Global Compassion Fund
- Ministers Pension Fund

GENERAL CONFERENCE OF THE BRETHREN IN CHRIST

Notes to Financial Statements

For the Years Ended December 31, 2016 and 2015

NOTE 1 NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fixed Assets:

It is the policy of the BIC US to record purchased fixed assets at cost and donated assets at their fair value at the date of donation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets.

New acquisitions of fixed assets having a low acquisition cost, or which are not expected to last for more than a year, are expensed in the year of acquisition. Repairs and maintenance charges are capitalized and depreciated when they materially extend the useful life of the related asset.

Taxation:

The BIC US is exempt from federal income tax as provided by Code Section 501(c)(3) of the Internal Revenue Code. Donors are entitled to deductions for federal income tax purposes for contributions made to the BIC US in accordance with the Internal Revenue Code. Accordingly, no income tax is incurred unless the BIC US earns income considered to be unrelated business income. The BIC US conducted no activities that were subject to income taxes.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the BIC US, including whether the entity is exempt from income taxes. Management evaluated the tax positions taken and concluded that the BIC US had taken no uncertain tax positions that require recognition or disclosure in the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements. With few exceptions, the BIC US is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before December 31, 2013.

Receivables:

Receivables are stated at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of outstanding balances, it has concluded that losses on balances outstanding at year-end will be immaterial.

Investments:

Investments are valued at their fair market values on a recurring basis in the Statements of Financial Position.

Fair Value Reporting requires an establishment of a hierarchy that ranks the quality and reliability of inputs, or assumptions, used in the determination of fair value and requires financial assets and liabilities carried at fair value to be classified and disclosed in one of the following three categories:

- Level 1 – Quoted prices in active markets for identical assets and liabilities
- Level 2 – Directly or indirectly observable inputs other than Level 1 quoted prices
- Level 3 – Unobservable inputs not corroborated by market data

For investments that have quoted market prices in active markets, the BIC US uses the quoted market prices as fair values and includes those investments in Level 1 of the fair value hierarchy. When quoted market prices in active markets are not available, various pricing services are used to determine fair value of investments that are included in Level 2 of the fair value hierarchy. Level 3 represents financial assets whose fair value is determined based upon inputs that are unobservable and include the BIC US' own determinations of the assumptions that a market participant would use in pricing the asset. The BIC US considers its investments to be Level 2.

GENERAL CONFERENCE OF THE BRETHREN IN CHRIST

Notes to Financial Statements

For the Years Ended December 31, 2016 and 2015

NOTE 1 NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (Continued):

Investment income, including realized and unrealized gains restricted by donors, is reported as an increase in unrestricted net assets if the restrictions are met (either a stipulated time period or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

Investments are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible changes in risks in the near term would materially affect investment assets reported in the Statements of Financial Position and Activities.

Contributed Services:

The BIC US receives a substantial amount of donated services in carrying out the various ministries of the BIC US. No amounts have been reflected in the financial statements for those services since they do not meet the criteria for recognition.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents:

For the purpose of the Statements of Cash Flows, cash and cash equivalents include all highly liquid investments with an initial maturity of three months or less.

NOTE 2 INVESTMENTS

Investments are summarized as follows at December 31, 2016 and 2015:

December 31, 2016:

	<u>Cost</u>	<u>Market Value</u>
Trust Investments and Deposit Accounts (BICF)	\$ 5,436,590	\$ 5,706,470
Total	<u>\$ 5,436,590</u>	<u>\$ 5,706,470</u>

December 31, 2015:

	<u>Cost</u>	<u>Market Value</u>
Trust Investments and Deposit Accounts (BICF)	\$ 5,369,453	\$ 5,579,379
Total	<u>\$ 5,369,453</u>	<u>\$ 5,579,379</u>

GENERAL CONFERENCE OF THE BRETHERN IN CHRIST

Notes to Financial Statements

For the Years Ended December 31, 2016 and 2015

NOTE 2 INVESTMENTS (CONTINUED)

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

	<u>2016</u>	<u>2015</u>
Realized Gain on Sale of Investments	\$ 95,002	\$ 288,697
Unrealized Gain (Loss) on Investments	59,953	(326,497)
Interest and Dividends	148,174	101,049
Custodial Fees	<u>(41,332)</u>	<u>(44,480)</u>
 Total	 <u>\$ 261,797</u>	 <u>\$ 18,769</u>

NOTE 3 FAIR VALUE MEASUREMENTS

Fair values of investments are summarized as follows at December 31, 2016 and 2015:

	<u>December 31, 2016</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Cash & Cash Equivalents				
Money Market	\$ -	\$ 842,456	\$ -	\$ 842,456
Stewardship Investment Certificates (SICs)	<u>-</u>	<u>3,777,021</u>	<u>-</u>	<u>3,777,021</u>
Total Cash & Cash Equivalents	<u>-</u>	<u>4,619,477</u>	<u>-</u>	<u>4,619,477</u>
Trust Investments and Deposit Accounts (BICF)	<u>-</u>	<u>5,706,470</u>	<u>-</u>	<u>5,706,470</u>
Total	<u>\$ -</u>	<u>\$10,325,947</u>	<u>\$ -</u>	<u>\$10,325,947</u>
	<u>December 31, 2015</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Cash & Cash Equivalents				
Money Market	\$ -	\$ 294,380	\$ -	\$ 294,380
Stewardship Investment Certificates (SICs)	<u>-</u>	<u>3,906,491</u>	<u>-</u>	<u>3,906,491</u>
Total Cash & Cash Equivalents	<u>-</u>	<u>4,200,871</u>	<u>-</u>	<u>4,200,871</u>
Trust Investments and Deposit Accounts (BICF)	<u>-</u>	<u>5,579,379</u>	<u>-</u>	<u>5,579,379</u>
Total	<u>\$ -</u>	<u>\$ 9,780,250</u>	<u>\$ -</u>	<u>\$ 9,780,250</u>

Level 2:

Money Market Funds – valued at the net asset value (NAV) of shares held by BIC US at year-end. NAV is used as a practical expedient to fair value and shares may be redeemed on a daily basis. Money Market Funds are held with the Brethren in Christ Foundation, Inc. (BIC Foundation) and are considered to be Level 2.

BIC Foundation Stewardship Investment Certificates – investment in Stewardship Investment Certificates (SICs) is held with the Foundation and is considered to be a Level 2 Investment. These SICs are similar to a certificate of deposit and valued at cost.

The BIC US' trust investments and deposit accounts held with the BIC Foundation are considered Level 2. A description of the various investments is as follows:

GENERAL CONFERENCE OF THE BRETHREN IN CHRIST

Notes to Financial Statements

For the Years Ended December 31, 2016 and 2015

NOTE 3 FAIR VALUE MEASUREMENTS (CONTINUED)

BIC Foundation Growth with Income Fund – a non-quoted investment fund which only invests in financial assets quoted in active markets. The Growth with Income Fund’s investment objective is asset growth and protection against inflation by investing primarily in stocks, combined with secondary components in bonds and short-term/money market investments. Any amount can be withdrawn from an account up to the total account balance.

BIC Foundation Fixed Income Fund – a non-quoted investment fund which only invests in financial assets quoted in active markets. The Fixed Income Fund’s investment objective is to seek a higher and more sustainable level of interest income and not long-term growth in capital by investing in fixed income holdings of U.S. government or U.S. government agencies with a 60% target allocation to U.S. agency mortgage-backed securities and 40% to U.S. short-term treasury securities. Any amount can be withdrawn from an account up to the total account balance.

Mutual Funds – valued at the net asset value (NAV) of share held by the Plan at year-end. NAV is used as a practical expedient to fair value and shares may be redeemed on a daily basis.

NOTE 4 EDUCATION LOANS RECEIVABLE

Individuals who are accepted for service with Brethren in Christ World Missions (BICWM), who have educational debts, may apply in writing for educational debt assistance. Educational debts approved for reimbursement will be paid based on ten percent (10%) of the original amount of the loan (at the time of appointment) per year for ten (10) years. Payments made will range from a minimum of \$1,000 to a maximum of \$2,500. Maximum lifetime education debt assistance is limited to \$25,000. For individuals accepted for service with BICWM but needing further education, BICWM will pay for such education as a loan. A “credit” is given to the missionaries for each year of service, based on an approved credit schedule. If the credits for years of service are less than the loan payments made by the BICWM when a missionary completes his or her service, the difference will be paid back to BICWM by the missionary. The receivable due back to the BICWM was \$9,744 and \$15,502, at December 31, 2016 and 2015, respectively.

NOTE 5 ASEL RECEIVABLE

From time to time, the BIC US makes Appreciation Sharing Equity Loans (ASEL) to BIC US executives for the purpose of purchasing their residence. These interest-free loans will be repaid upon the sale of the residence. Three loans were outstanding, totaling \$88,941, at December 31, 2016 and 2015. These notes are secured by a mortgage deed of trust or security deed.

NOTE 6 OTHER RECEIVABLES

Other receivables consisted of the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Vehicle Loan Receivable	\$ 9,142	\$ 10,467
Shared Services Receivables	12,205	15,961
Administrative and Other Advances	4,000	5,000
Forest Gate Loan	19,511	24,213
Hoyo-Spain Church Receivable	<u>197,065</u>	<u>201,369</u>
Total	<u>\$ 241,923</u>	<u>\$ 257,010</u>

GENERAL CONFERENCE OF THE BRETHREN IN CHRIST

Notes to Financial Statements

For the Years Ended December 31, 2016 and 2015

NOTE 7 FIXED ASSETS

Fixed assets are summarized as follows at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Real Estate	\$ 379,123	\$ 379,123
Furniture and Equipment	<u>109,973</u>	<u>77,475</u>
	489,096	456,598
Less: Accumulated Depreciation	<u>(246,446)</u>	<u>(231,011)</u>
Fixed Assets, Net	<u>\$ 242,650</u>	<u>\$ 225,587</u>

The estimated useful lives for purposes of computing depreciation are as follows:

Real Estate	40 years
Furniture and Equipment	3-10 years

Depreciation expense was \$15,436 and \$12,247 for the years ended December 31, 2016 and 2015, respectively.

NOTE 8 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2016 and 2015 are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Other – National	\$ 16,582	\$ 19,047
Shaping Leaders for Tomorrow	283,288	324,844
Honoring Leaders of Yesterday	71,958	73,125
National – Special Projects	-	19,759
CMD – Special Projects	15,715	-
Kipe Seminary Special Training	11,742	11,132
Smith Pastoral Training	1,199	(11,575)
Renewal/Refocus	13,656	13,047
Honor the Past – Build the Future	172,510	-
Other – Global	1,580,846	1,831,476
Global Special Projects	305,948	305,770
Spice Gift – Global	33,951	15,635
Leadership Training – Global	1,122,609	1,134,048
Personnel Training – Global	840,245	819,423
New Frontiers – Global	204,885	188,463
So. African Women’s Ed. Fund – Global	18,876	16,374
ECP – Global	320,614	326,809
Emergency Risk Mgt. – Global	514,624	505,042
Global Compassion – Global	46,089	67,779
Crisis Management – Global	46,307	45,735
Missionaries – Global	<u>1,056,988</u>	<u>1,133,065</u>
Total	<u>\$ 6,678,632</u>	<u>\$ 6,838,998</u>

GENERAL CONFERENCE OF THE BRETHREN IN CHRIST

Notes to Financial Statements

For the Years Ended December 31, 2016 and 2015

NOTE 9 PERMANENTLY RESTRICTED NET ASSETS – ENDOWMENT FUNDS

Interpretation of Relevant Law

In August 2008, The Financial Accounting Standards Board issued FASB ASC 958-204-45-28 through 45-31, “Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act and Enhanced Disclosures for all Endowment Funds.”

The staff position provides guidance on the net asset classification of donor-restricted endowment funds and requires additional disclosures about an organization’s endowment funds, both donor-restricted and board-designated.

The BIC US has interpreted the law that underlies the net asset classification of donor-restricted endowment funds as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit instructions. As a result of this interpretation, the BIC US classifies as permanently restricted net assets (1) the original value of gifts to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. Absent explicit instructions from the donor, investment income from permanently restricted funds is classified as temporarily restricted and expensed as permitted by established endowment fund spending policies.

The BIC US considers the following factors when receiving donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the organization
7. The investment policies of the organization

Investment Management Policy

Permanent, donor-restricted gifts are generally given with the donors’ expectations that the funds will stay intact and grow from or at a minimum provide earnings that can be used to fund the purposes specified in the corresponding trust instrument. Therefore, the funds should be invested in accordance with these general policies:

1. *Preservation of Capital* – Both with respect to the overall Fund and to the assets assigned to each investment manager, the Finance Committee and the investment managers should make conscious efforts to preserve capital, understanding that losses may occur in individual securities.
2. *Risk Aversion* – Understanding that risk is present in all types of securities and investment styles, the Finance Committee recognizes that some risk is necessary to produce long-term investment results sufficient to meet the Fund’s objectives. However, investment managers are to make reasonable efforts to control risk, and they will be evaluated regularly to ensure that the risk assumed is commensurate with the given investment style and objectives.
3. *Adherence to Investment Discipline* – Investment managers are expected to adhere to the investment management styles for which they were hired. Managers will be evaluated regularly for adherence to investment discipline.

GENERAL CONFERENCE OF THE BRETHREN IN CHRIST

Notes to Financial Statements

For the Years Ended December 31, 2016 and 2015

NOTE 9 PERMANENTLY RESTRICTED NET ASSETS – ENDOWMENT FUNDS (CONTINUED)

Investment Objectives

Specifically, the primary objective in the investment management of fund assets shall be:

- To preserve purchasing power after spending
- To achieve returns that are more than the rate of inflation plus spending over the investment horizon in order to preserve purchasing power of fund assets
- To control risk in the investment of fund assets

Handling of Income from Endowment Fund Investments

All income earned, whether interest income, dividend income, or gains realized and unrealized will be classified as temporarily restricted until appropriated for expenditure by the BIC US. There are no permanent restrictions on the use of the income other than any purpose restrictions established by the trust instrument or board-designation.

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

	<u>Permanent</u>
Contributions to Perpetual Endowment	\$ 1,000
Amounts Appropriated for Expenditure	_____ -
Total Change in Endowment Funds	<u>\$ 1,000</u>

Changes in endowment net assets for the year ended December 31, 2015 are as follows:

	<u>Permanent</u>
Contributions to Perpetual Endowment	\$ 1,120
Amounts Appropriated for Expenditure	_____ -
Total Change in Endowment Funds	<u>\$ 1,120</u>

Permanently restricted net assets at December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Leadership Training Endowment	\$ 641,261	\$ 641,261
New Frontiers Endowment	444,923	444,923
Shaping Leaders for Tomorrow (Formerly Seminary Students)	1,485,885	1,485,885
Spouses Training	13,745	13,745
Smith Pastoral Training	61,458	60,458
Renewal/Refocus Endowment	11,801	11,801
World Missions – S. Africa Women’s Ed. Fund	<u>71,561</u>	<u>71,561</u>
Total	<u>\$ 2,730,634</u>	<u>\$ 2,729,634</u>

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Notes to Financial Statements

For the Years Ended December 31, 2016 and 2015

NOTE 10 NOTES PAYABLE

Note 1

During 1999, the BIC US entered into a thirty-year note payable with the Brethren in Christ Foundation for \$110,000 (Note 1). Interest of 5.0% is charged on the remaining balance with a monthly principal and interest payment of \$483. Interest expense was \$1,099 and \$1,338 for the years ended December 31, 2016 and 2015, respectively. Minimum principal maturities for each of the final four years are as follows:

<u>Year</u>	<u>Amount</u>
2017	\$ 4,902
2018	5,153
2019	5,416
2020	<u>4,725</u>
Total	<u>\$ 19,511</u>

Note 2

During 2013, the BIC US entered into a thirty-year note payable with the Brethren in Christ Foundation for \$216,480 (Note 3). The interest rate is variable at the sole discretion of the lender and was 4.25% and 4.25% at December 31, 2016 and 2015. Monthly installments of principal and interest are \$1,065. Interest expense was \$8,475 and \$8,654 for the years ended December 31, 2016 and 2015, respectively.

Minimum principal maturities for each of the subsequent five years are as follows:

<u>Year</u>	<u>Amount</u>
2017	\$ 4,145
2018	4,325
2019	4,513
2020	4,708
2021	4,912
Thereafter	<u>174,462</u>
Total	<u>\$ 197,065</u>

Total notes payable at December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Note 1	\$ 19,511	\$ 24,213
Note 2	<u>197,065</u>	<u>201,369</u>
Total	<u>\$ 216,576</u>	<u>\$ 225,582</u>

NOTE 11 RELATED ENTITY

The BIC Foundation is a denominationally owned and sponsored corporation consisting of two divisions which holds investments for the BIC US. The Trust Division handles investments on behalf of church agencies. The Brotherhood Loan Fund Division serves the church in a manner similar to that of a credit union. This division accepts deposits from individuals and church agencies and loans funds to congregations and pastors for real estate transactions. Various investments of the BIC US are held by BIC Foundation.

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Notes to Financial Statements

For the Years Ended December 31, 2016 and 2015

NOTE 11 RELATED ENTITY (CONTINUED)

The BIC Foundation owns the building in Pennsylvania which serves as facilities for its principal office. The building is utilized by the BIC Foundation and the BIC US. No rental or lease payments are made to the BIC Foundation, but operating and maintenance costs of the building are shared by the BIC Foundation and the BIC US on a pro rata basis. Operating and maintenance costs paid to the BIC Foundation were \$44,722 and \$38,922 during the years ended December 31, 2016 and 2015, respectively.

NOTE 12 RETIREMENT PLANS

The BIC US has a 403(b)(9) Retirement Income Account plan. This plan covers all employees of the BIC US beginning at date of hire or at three years of service. Employees can contribute a percentage of their compensation each year up to specified limits. The BIC US makes contributions to this plan on behalf of employees at a rate of 7.5% along with matching up to an additional 2.5% for 2016 and 2015. The BIC US contributed \$230,126 and \$174,247 to the plan during December 31, 2016 and 2015, respectively.

The BIC US maintains the Brethren in Christ Minister's Pension Fund (the Plan) which is a single-employer defined-benefit pension plan. The Plan covers all ordained or licensed senior pastors and pastors of single-pastor congregations; ordained or licensed full-time associate pastors, Christian education, or youth ministers; and ordained or licensed ministers of other denominational boards and agencies. Normal monthly retirement benefits are equal to \$9.00 multiplied by the years of benefit service up to a maximum of 40 years of benefit service. In addition, the Plan provides for various disability and death benefits for eligible participants. As of December 31, 2009, the Plan was "frozen," allowing no new participants to be added after that point.

The BIC US pays the full cost of the Plan, and employee contributions are not required. During 2016 and 2015, the BIC US requested that the congregation for each eligible participant contribute \$1,200 and \$1,200, respectively, into the Plan to provide the necessary funding of the Plan's obligations. A \$250,000 and \$272,860 contribution, in addition to the annual contribution for the ordained or licensed ministers of the BIC US, was provided by the BIC US during the years ended December 31, 2016 and 2015, respectively.

The annual measurement date is December 31 for the pension benefits. The following tables provide further information about the BIC US' pension plan.

The following sets forth the Plan's actuarially determined funded status at December 31, 2016:

Obligations and Funded Status for 2016:

Benefit Obligation at December 31, 2016	<u>\$ 9,147,885</u>
Fair Value of Plan Assets at December 31, 2015	6,364,080
Employer Contributions	280,429
Actual Return on Assets	252,352
Benefit Payments	(743,774)
Fair Value of Plan Assets at December 31, 2016	<u>6,153,087</u>
Net Unfunded Status of the Plan at December 31, 2016	<u>\$ 2,994,798</u>

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Notes to Financial Statements

For the Years Ended December 31, 2016 and 2015

NOTE 12 RETIREMENT PLANS (CONTINUED)

Net Periodic Pension Cost for 2016:

Service Cost	\$ 25,938
Interest Cost	345,837
Expected Return on Plan Assets	(332,404)
Amortization of Net Transition (Asset) or Obligation	-
Amortization of Prior Service Cost	-
Amortization of Net (Gain) or Loss	<u>183,448</u>
 Net Periodic Pension Cost for Period 1/1/2016 to 12/31/2016	 <u>\$ 222,819</u>

Items Not Yet Recognized as a Component of Net Periodic Pension Cost for 2016:

Items Not Yet Recognized as a Component of Net Period Pension Cost at 12/31/2015	\$ 4,438,990
Amortization of Net Transition Asset or (Obligation)	-
Amortization of Prior Service Cost	-
Amortization of Net Gain or (Loss)	(183,448)
Change Due to Change in Experience and Assumptions at 12/31/2016	(161,378)
Change Due to Plan Amendment	-
Experience (Gain) or Loss at 1/1/2016	198,099
Asset (Gain) or Loss	<u>80,052</u>
 Items Not Yet Recognized as a Component of Net Period Pension Cost at 12/31/2016	 <u>\$ 4,372,315</u>

Assumptions:

Weighted-Average Assumptions Used to Determine Benefit Obligations at December 31, 2016:	
Discount Rate	3.75 %
Rate of Compensation Increase	0.00 %
 Weighted-Average Assumptions Used to Determine Net Periodic Benefit Cost for Year Ended December 31, 2016:	
Discount Rate	3.75 %
Expected Return on Plan Assets	5.50 %
Rate of Compensation Increase	0.00 %

The BIC US' expected rate of return on plan assets is determined by the plan assets' historical long-term investment performance, current asset allocation, and estimates of future long-term returns by asset class.

Plan Assets:

The BIC US' pension plan weighted-average asset allocations at December 31, 2016, by asset category are as follows:

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Notes to Financial Statements

For the Years Ended December 31, 2016 and 2015

NOTE 12 RETIREMENT PLANS (CONTINUED)

<u>Asset Category</u>	<u>Percentage</u>
Real Estate	3.70 %
Cash/Money Market Funds/CDARS	61.10 %
International Equities	7.50 %
Large Cap Equities	11.40 %
Mid Cap Equities	3.00 %
Small Cap Equities	1.40 %
Fixed Income – US	9.60 %
Fixed Income – International	<u>2.30 %</u>
 Total	 <u>100.00 %</u>

All assets are considered Level 1 or 2.

Mutual Funds – Valued at the net asset value (NAV) of share held by the Plan at year-end. NAV is used as a practical expedient to fair value and shares may be redeemed on a daily basis.

BIC Foundation Stewardship Investment Certificates – The Plan’s investment in Stewardship Investment Certificates (SICs) is held with the Foundation and is considered to be a Level 2 Investment. These SICs are similar to a certificate of deposit and valued at cost.

Cash Flows:

Contributions – The BIC US expects contributions of \$250,000 to its pension plan in 2017.

Estimated Future Benefit Payments – The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

2017	\$ 779,218
2018	718,558
2019	699,710
2020	701,553
2021	702,840
Years 2022-2026	<u>3,050,279</u>
 Total	 <u>\$ 6,652,158</u>

The following sets forth the Plan’s actuarially determined funded status at December 31, 2015:

Obligations and Funded Status for 2015:

Benefit Obligation at December 31, 2015	<u>\$ 9,483,163</u>
Fair Value of Plan Assets at December 31, 2014	6,315,760
Employer Contributions	647,304
Actual Return on Assets	147,622
Benefit Payments	(746,606)
 Fair Value of Plan Assets at December 31, 2015	 <u>6,364,080</u>
 Net Unfunded Status of the Plan at December 31, 2015	 <u>\$ 3,119,083</u>

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Notes to Financial Statements

For the Years Ended December 31, 2016 and 2015

NOTE 12 RETIREMENT PLANS (CONTINUED)

Net Periodic Pension Cost for 2015:

Service Cost	\$ 25,938
Interest Cost	360,103
Expected Return on Plan Assets	(331,460)
Amortization of Net Transition (Asset) or Obligation	-
Amortization of Prior Service Cost	-
Amortization of Net (Gain) or Loss	<u>173,678</u>
 Net Periodic Pension Cost for Period 1/1/2015 to 12/31/2015	 <u>\$ 228,259</u>

Items Not Yet Recognized as a Component of Net Periodic Pension Cost for 2015:

Items Not Yet Recognized as a Component of Net Period Pension Cost at 12/31/2014	\$ 4,584,513
Amortization of Net Transition Asset or (Obligation)	-
Amortization of Prior Service Cost	-
Amortization of Net Gain or (Loss)	(173,678)
Change Due to Change in Experience and Assumptions at 12/31/2015	(225,318)
Change Due to Plan Amendment	-
Experience (Gain) or Loss at 1/1/2015	69,635
Asset (Gain) or Loss	<u>183,838</u>
 Items Not Yet Recognized as a Component of Net Period Pension Cost at 12/31/2015	 <u>\$ 4,438,990</u>

Assumptions:

Weighted-Average Assumptions Used to Determine Benefit Obligations at December 31, 2015:	
Discount Rate	3.75 %
Rate of Compensation Increase	0.00 %
 Weighted-Average Assumptions Used to Determine Net Periodic Benefit Cost for Year Ended December 31, 2015:	
Discount Rate	3.75 %
Expected Return on Plan Assets	5.50 %
Rate of Compensation Increase	0.00 %

The BIC US' expected rate of return on plan assets is determined by the plan assets' historical long-term investment performance, current asset allocation, and estimates of future long-term returns by asset class.

Plan Assets:

The BIC US' pension plan weighted-average asset allocations at December 31, 2015, by asset category are as follows:

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Notes to Financial Statements

For the Years Ended December 31, 2016 and 2015

NOTE 12 RETIREMENT PLANS (CONTINUED)

<u>Asset Category</u>	<u>Percentage</u>
Real Estate	3.20 %
Cash/Money Market Funds/CDARS	58.10 %
International Equities	8.30 %
Large Cap Equities	11.80 %
Mid Cap Equities	3.10 %
Small Cap Equities	1.50 %
Fixed Income	<u>14.00 %</u>
 Total	 <u>100.00 %</u>

All assets are considered Level 1 or 2.

The Plan's investment held with the BIC Foundation is considered Level 2. The BIC Foundation Growth with Income Fund (the fund) is a non-quoted investment fund which only invests in financial assets quoted in active markets. The fund's investment objective is asset growth and protection against inflation by investing primarily in stocks, combined with secondary components in bonds and short-term/money market investments. Any amount can be withdrawn from an account up to the total account balance.

Cash Flows:

Contributions – The BIC US expects contributions of \$250,000 to its pension plan in 2016.

Estimated Future Benefit Payments – The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

2016	\$ 691,925
2017	701,630
2018	705,759
2019	684,970
2020	694,969
Years 2021-2025	<u>3,178,498</u>
 Total	 <u>\$ 6,657,751</u>

NOTE 13 CONCENTRATED CREDIT RISK

The BIC Foundation is a denominationally owned and sponsored corporation consisting of two divisions which holds investments for the BIC US. The Trust Division handles investments on behalf of church agencies. The Brotherhood Loan Fund Division serves the church in a manner similar to that of a credit union. This division accepts deposits from individuals and church agencies and loans funds to congregations and pastors for real estate transactions. Most of the investments of the BIC US are held by BIC Foundation, which are neither insured by any private or governmental agency, nor are the balances fully collateralized. Therefore, an off-balance-sheet and a concentrated credit risk exist.

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Notes to Financial Statements

For the Years Ended December 31, 2016 and 2015

NOTE 13 CONCENTRATED CREDIT RISK (CONTINUED)

Financial instruments that potentially subject the BIC US to concentrations of credit risk consist principally of cash and cash equivalents held with financial institutions. Accounts at financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. BIC US' accounts at a financial institution exceeded the insurance obtained through the FDIC. Amounts in excess of the FDIC limit totaled \$126,718 and \$441,619 at December 31, 2016 and 2015, respectively.

NOTE 14 CONTINGENT LIABILITY

The BIC Foundation is a related party to the BIC US. BIC Foundation accepts deposits from church members and churches. BIC Foundation in turn lends these funds to denomination churches in the form of loans secured by property. For some loans, the BIC Foundation requires a guarantee that should be backed by fund balances. Conferences are asked to set aside 4% of the combined amount of guaranteed loans for this purpose. In the event of loan loss, the guarantor conference will be responsible to cover the loss up to this amount (in the 4% regional loan-loss reserve fund). Any remaining shortfall will be covered by U.S. regional conferences at a pro-rated amount based on total congregations/worship attendance/fund balances of the conference, and by the BIC US. The BIC US will contribute to the loss an amount calculated as an average of the pro-rated amounts of the seven regional conferences. Loans of exceptional risk exposure are handled differently. An estimate of the balance of the contingent liability was \$11,665,547 and \$12,241,093, at December 31, 2016 and 2015, respectively.

NOTE 15 DEFICIT UNRESTRICTED NET ASSETS

The BIC US had a deficit unrestricted net asset balance of (\$698,115) and \$(1,500,408) at December 31, 2016 and 2015, respectively. The BIC US maintains an appropriate composition of assets in amounts needed to comply with all donor restrictions at December 31, 2016 and 2015.

NOTE 16 SUBSEQUENT EVENTS

Subsequent events have been evaluated through July 20, 2017, which is the date the financial statements were available to be issued.