

**GENERAL BOARD OF DISCIPLESHIP MINISTRIES
OF THE UNITED METHODIST CHURCH
d/b/a DISCIPLESHIP MINISTRIES**

**CONSOLIDATED FINANCIAL STATEMENTS AND
SUPPLEMENTAL SCHEDULES**

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

And Report of Independent Auditor

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Report of Independent Auditor

The Board of Directors of the
General Board of Discipleship Ministries of
The United Methodist Church

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

We have audited the accompanying consolidated financial statements of the General Board of Discipleship Ministries of The United Methodist Church d/b/a Discipleship Ministries (the "Board"), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board'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 Board'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 the Board as of December 31, 2016 and 2015, and the changes in its consolidated net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 11 to the consolidated financial statements, the Board has restated its 2015 consolidated financial statements to reflect the correction of its beginning unrestricted net asset balance. Our opinion is not modified with respect to these matters.

Other Matters*Other Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The other information included in Schedules 1 through 4, on pages 23 through 26 are presented for purposes of additional analysis and is not a required part of the consolidated financial statements.

Schedules 1 through 3 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. Such 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.

Schedule 4 has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in black ink that reads "Cherry Bekaert LLP". The signature is written in a cursive, flowing style.

Charlotte, North Carolina
July 11, 2017

GENERAL BOARD OF DISCIPLESHIP MINISTRIES OF THE UNITED METHODIST CHURCH
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2016 AND 2015

	2016			2015		
	Consolidating Information			Consolidating Information		
	Board of Discipleship	The Upper Room	Consolidated Total	Board of Discipleship	The Upper Room	Consolidated Total
ASSETS						
Cash and cash equivalents	\$ 47,874	\$ 86,271	\$ 134,145	\$ 17,116	\$ 65,163	\$ 82,279
Due (to) from GCFA short-term pooled investment fund	(395,385)	1,201,802	806,417	288,501	2,370,886	2,659,387
Accrued World Service	2,135,149	-	2,135,149	2,428,663	-	2,428,663
Accrued World Service - Strengthening the Black Church	119,062	-	119,062	135,156	-	135,156
Accrued World Service - Native American Comprehensive Plan	64,658	-	64,658	73,397	-	73,397
Investments	7,700,305	20,113,227	27,813,532	11,911,231	15,687,421	27,598,652
Funds held by outside trustees for the benefit of the Board	718,262	4,165	722,427	4,842	4,002	8,844
Accounts receivable, net	567,844	788,595	1,356,439	388,921	934,755	1,323,676
Accrued income receivable	78,742	33,583	112,325	1,972	35,722	37,694
Inventories	250,272	1,157,526	1,407,798	260,366	1,250,762	1,511,128
Prepaid expenses and other assets	134,651	265,637	400,288	79,726	286,514	366,240
Property, buildings, and equipment, net	1,339,116	3,769,972	5,109,088	1,708,706	4,239,767	5,948,473
Total Assets	\$ 12,760,550	\$ 27,420,778	\$ 40,181,328	\$ 17,298,597	\$ 24,874,992	\$ 42,173,589
LIABILITIES AND NET ASSETS						
Liabilities:						
Accounts payable and accrued expenses	\$ 477,885	\$ 775,275	\$ 1,253,160	\$ 733,783	\$ 781,470	\$ 1,515,253
Custodial funds payable	207,798	-	207,798	209,917	-	209,917
Accrued royalties	26,201	79,886	106,087	27,849	120,410	148,259
Deferred income	15,460	3,312,135	3,327,595	14,001	3,463,397	3,477,398
Total Liabilities	727,344	4,167,296	4,894,640	985,550	4,365,277	5,350,827
Net Assets:						
Unrestricted:						
Undesignated	3,822,819	17,519,928	21,342,747	6,776,399	14,247,706	21,024,105
Board designated – capital expenditures	929,421	821,469	1,750,890	61,399	460,583	521,982
Board designated – programs	975,612	283,527	1,259,139	3,866,851	708,907	4,575,758
Board designated – investment in plant facilities	1,339,116	3,769,972	5,109,088	1,708,706	4,239,767	5,948,473
Total Unrestricted Net Assets	7,066,968	22,394,896	29,461,864	12,413,355	19,656,963	32,070,318
Temporarily restricted	3,845,074	196,398	4,041,472	3,491,751	195,039	3,686,790
Permanently restricted	1,121,164	662,188	1,783,352	407,941	657,713	1,065,654
Total Net Assets	12,033,206	23,253,482	35,286,688	16,313,047	20,509,715	36,822,762
Total Liabilities and Net Assets	\$ 12,760,550	\$ 27,420,778	\$ 40,181,328	\$ 17,298,597	\$ 24,874,992	\$ 42,173,589

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

GENERAL BOARD OF DISCIPLESHIP MINISTRIES OF THE UNITED METHODIST CHURCH
CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2016 (with comparative totals for 2015)

	Consolidating Information										
	Board of Discipleship				The Upper Room				Eliminations	2016 Consolidated Total	2015 Consolidated Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total			
Revenues:											
Sales of literature	\$ 299,207	\$ -	\$ -	\$ 299,207	\$ 13,315,017	\$ -	\$ -	\$ 13,315,017	\$ -	\$ 13,614,224	\$ 13,979,066
Cost of goods sold	(180,962)	-	-	(180,962)	(2,645,256)	-	-	(2,645,256)	-	(2,826,218)	(2,952,425)
Net sales	118,245	-	-	118,245	10,669,761	-	-	10,669,761	-	10,788,006	11,026,641
Allocations through the GCFA:											
World Service	7,870,862	-	-	7,870,862	-	-	-	-	-	7,870,862	8,469,982
National Hispanic Plan	-	75,000	-	75,000	-	-	-	-	-	75,000	75,000
Native American Comprehensive Plan (NACP)	-	241,900	-	241,900	-	-	-	-	-	241,900	257,485
Strengthening the Black Church (SBC21)	-	445,440	-	445,440	-	-	-	-	-	445,440	452,468
Youth Service Fund	12,969	30,262	-	43,231	-	-	-	-	-	43,231	55,019
Registration fees/special projects	228,098	189,724	-	417,822	857,038	381	-	857,419	-	1,275,241	3,105,126
Grants and contributions	158,385	543,426	713,223	1,415,034	669,656	115,380	4,475	789,511	-	2,204,545	1,349,945
Receipts from related organizations	316,444	-	-	316,444	32,374	-	-	32,374	-	348,818	304,697
Rental income	125,184	-	-	125,184	93,230	-	-	93,230	-	218,414	184,288
Other income	2,590,886	39,773	-	2,630,659	495,726	-	-	495,726	(3,006,104)	120,281	364,672
Benefit Trust distribution	1,164,693	-	-	1,164,693	843,398	-	-	843,398	-	2,008,091	2,105,074
Services received from GCFA	27,624	-	-	27,624	-	-	-	-	-	27,624	31,797
Adjustment for administrative services agreement	(3,000,000)	-	-	(3,000,000)	3,000,000	-	-	3,000,000	-	-	-
Net assets released from restrictions	1,519,115	(1,519,115)	-	-	137,229	(137,229)	-	-	-	-	-
Total Revenues	11,132,505	46,410	713,223	11,892,138	16,798,412	(21,468)	4,475	16,781,419	(3,006,104)	25,667,453	27,782,194
Expenses:											
Program services:											
Annual/General Conference Relations	1,046,759	-	-	1,046,759	-	-	-	-	-	1,046,759	1,087,522
Existing Churches	3,506,135	-	-	3,506,135	-	-	-	-	-	3,506,135	3,337,579
Young People's Ministries	1,501,765	-	-	1,501,765	-	-	-	-	-	1,501,765	3,457,590
New Church Starts	2,056,469	-	-	2,056,469	-	-	-	-	-	2,056,469	2,087,695
Discipleship Resources International	609,601	-	-	609,601	-	-	-	-	-	609,601	891,398
Strengthening the Black Church (SBC21)	586,728	-	-	586,728	-	-	-	-	-	586,728	547,070
Native American Comprehensive Plan (NACP)	304,597	-	-	304,597	-	-	-	-	-	304,597	284,864
Discipleship Resources	228,897	-	-	228,897	-	-	-	-	-	228,897	180,236
The Upper Room	-	-	-	-	15,463,621	-	-	15,463,621	-	15,463,621	16,027,963
Total Program Services	9,840,951	-	-	9,840,951	15,463,621	-	-	15,463,621	-	25,304,572	27,901,917
Support Services:											
General and support services	7,120,300	-	-	7,120,300	-	-	-	-	(3,006,104)	4,114,196	5,039,152
Total Expenses	16,961,251	-	-	16,961,251	15,463,621	-	-	15,463,621	(3,006,104)	29,418,768	32,941,069
Excess (Deficiency) of Revenue Over Expenses	(5,828,746)	46,410	713,223	(5,069,113)	1,334,791	(21,468)	4,475	1,317,798	-	(3,751,315)	(5,158,875)
Nonoperating Items:											
Net investment return (loss)	482,359	306,913	-	789,272	1,403,142	22,827	-	1,425,969	-	2,215,241	(699,105)
Changes in net assets	(5,346,387)	353,323	713,223	(4,279,841)	2,737,933	1,359	4,475	2,743,767	-	(1,536,074)	(5,857,980)
Net assets, beginning of year, as previously reported	12,413,355	3,491,751	407,941	16,313,047	19,656,963	195,039	657,713	20,509,715	-	36,822,762	44,234,595
Prior period restatements (Note 11)	-	-	-	-	-	-	-	-	-	-	(1,553,853)
Net assets, beginning of year, restated	12,413,355	3,491,751	407,941	16,313,047	19,656,963	195,039	657,713	20,509,715	-	36,822,762	42,680,742
Net assets, end of year	\$ 7,066,968	\$ 3,845,074	\$ 1,121,164	\$ 12,033,206	\$ 22,394,896	\$ 196,398	\$ 662,188	\$ 23,253,482	\$ -	\$ 35,286,688	\$ 36,822,762

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

GENERAL BOARD OF DISCIPLESHIP MINISTRIES OF THE UNITED METHODIST CHURCH
CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2015

	Consolidating Information									
	Board of Discipleship				The Upper Room				Eliminations	Consolidated Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total		
Revenue:										
Sales of literature	\$ 306,632	\$ -	\$ -	\$ 306,632	\$ 13,672,434	\$ -	\$ -	\$ 13,672,434	\$ -	\$ 13,979,066
Cost of goods sold	(176,226)	-	-	(176,226)	(2,776,199)	-	-	(2,776,199)	-	(2,952,425)
Net sales	130,406	-	-	130,406	10,896,235	-	-	10,896,235	-	11,026,641
Allocations through the GCFA:										
World Service	8,469,982	-	-	8,469,982	-	-	-	-	-	8,469,982
National Hispanic Plan	-	75,000	-	75,000	-	-	-	-	-	75,000
Native American Comprehensive Plan (NACP)	-	257,485	-	257,485	-	-	-	-	-	257,485
Strengthening the Black Church (SBC21)	-	452,468	-	452,468	-	-	-	-	-	452,468
Youth Service Fund	16,506	38,513	-	55,019	-	-	-	-	-	55,019
Registration fees/special projects	2,254,761	177,404	-	2,432,165	526,531	146,430	-	672,961	-	3,105,126
Grants and contributions	105,249	604,886	25,200	735,335	477,431	115,336	21,843	614,610	-	1,349,945
Receipts from related organizations	260,066	-	-	260,066	44,631	-	-	44,631	-	304,697
Rental income	120,340	-	-	120,340	63,948	-	-	63,948	-	184,288
Other income	3,067,059	66,209	-	3,133,268	530,021	220	-	530,241	(3,298,837)	364,672
Benefit Trust distribution	1,157,791	-	-	1,157,791	947,283	-	-	947,283	-	2,105,074
Services received from GCFA	31,797	-	-	31,797	-	-	-	-	-	31,797
Net assets released from restrictions	1,509,317	(1,509,317)	-	-	87,665	(87,665)	-	-	-	-
Total Revenue	17,123,274	162,648	25,200	17,311,122	13,573,745	174,321	21,843	13,769,909	(3,298,837)	27,782,194
Expenses:										
Program services:										
Annual/General Conference Relations	1,087,522	-	-	1,087,522	-	-	-	-	-	1,087,522
Existing Churches	3,337,579	-	-	3,337,579	-	-	-	-	-	3,337,579
Young People's Ministries	3,457,590	-	-	3,457,590	-	-	-	-	-	3,457,590
New Church Starts	2,087,695	-	-	2,087,695	-	-	-	-	-	2,087,695
Discipleship Resources International	891,398	-	-	891,398	-	-	-	-	-	891,398
Strengthening the Black Church (SBC21)	547,070	-	-	547,070	-	-	-	-	-	547,070
Native American Comprehensive Plan (NACP)	284,864	-	-	284,864	-	-	-	-	-	284,864
Discipleship Resources	180,236	-	-	180,236	-	-	-	-	-	180,236
The Upper Room	-	-	-	-	16,027,963	-	-	16,027,963	-	16,027,963
Total Program Services	11,873,954	-	-	11,873,954	16,027,963	-	-	16,027,963	-	27,901,917
Support Services:										
General and support services	8,337,989	-	-	8,337,989	-	-	-	-	(3,298,837)	5,039,152
Total Expenses	20,211,943	-	-	20,211,943	16,027,963	-	-	16,027,963	(3,298,837)	32,941,069
Excess (Deficiency) of Revenue Over Expenses	(3,088,669)	162,648	25,200	(2,900,821)	(2,454,218)	174,321	21,843	(2,258,054)	-	(5,158,875)
Nonoperating Items:										
Net investment return (loss)	(91,712)	(226,543)	-	(318,255)	(399,364)	18,514	-	(380,850)	-	(699,105)
Changes in net assets	(3,180,381)	(63,895)	25,200	(3,219,076)	(2,853,582)	192,835	21,843	(2,638,904)	-	(5,857,980)
Net assets, beginning of year, as previously reported	16,878,212	3,555,646	382,741	20,816,599	22,779,922	2,204	635,870	23,417,996	-	44,234,595
Prior period restatements (Note 11)	(1,284,476)	-	-	(1,284,476)	(269,377)	-	-	(269,377)	-	(1,553,853)
Net assets, beginning of year, restated	15,593,736	3,555,646	382,741	19,532,123	22,510,545	2,204	635,870	23,148,619	-	42,680,742
Net assets, end of year	\$ 12,413,355	\$ 3,491,751	\$ 407,941	\$ 16,313,047	\$ 19,656,963	\$ 195,039	\$ 657,713	\$ 20,509,715	\$ -	\$ 36,822,762

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

GENERAL BOARD OF DISCIPLESHIP MINISTRIES OF THE UNITED METHODIST CHURCH
CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ (1,536,074)	\$ (5,857,980)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	998,888	835,970
Net realized gains on investments	(565,317)	(2,638,327)
Net unrealized (gains) losses on investments	(1,649,563)	3,557,240
Loss on disposal of equipment	3,364	12,039
Changes in assets and liabilities:		
Decrease in Due from GCFA short-term pooled investment fund	1,852,970	5,342,194
Accrued World Service Fund allocation	293,514	58,247
Accrued World Service Fund allocation - SBC21	16,094	3,153
Accrued World Service Fund allocation - NACP	8,739	(73,397)
Funds Held in Trust	(713,583)	(240)
Accounts receivable, net	(32,763)	495,421
Accrued income receivable	(74,631)	(32,308)
Inventories	103,330	206,531
Prepaid expenses and other assets	(34,048)	54,026
Accounts payable and accrued expenses	(262,093)	(445,228)
Custodial funds payable	(2,119)	55,571
Accrued royalties	(42,172)	27,591
Deferred income	(149,803)	(43,145)
Net cash flows from operating activities	<u>(1,785,267)</u>	<u>1,557,358</u>
Cash flows from investing activities:		
Purchases of property, buildings, and equipment	(164,992)	(1,343,287)
Proceeds from sale of investments	6,077,953	23,759,836
Proceeds from sale of property, buildings, and equipment	2,125	-
Purchases of investments	(4,077,953)	(23,979,604)
Net cash flows from investing activities	<u>1,837,133</u>	<u>(1,563,055)</u>
Net change in cash and cash equivalents	51,866	(5,697)
Cash and cash equivalents, beginning of year	<u>82,279</u>	<u>87,976</u>
Cash and cash equivalents, end of year	<u>\$ 134,145</u>	<u>\$ 82,279</u>

GENERAL BOARD OF DISCIPLESHIP MINISTRIES OF THE UNITED METHODIST CHURCH

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 1—Organization and nature of operations

The General Board of Discipleship Ministries of The United Methodist Church d/b/a Discipleship Ministries (the "Board") was created to assist the United Methodist conferences, districts, and local churches in their disciple-making ministries. This assistance is provided through program activities and the development and distribution of religious materials and resources. Revenue is derived primarily from fees for special programs and projects and from sales of literature to churches, related organizations, and individuals.

The Upper Room is separately incorporated within Discipleship Ministries and is maintained and presented as a separate fund of Discipleship Ministries in accordance with the Book of Discipline. The same Board of Directors represents both Discipleship Ministries and The Upper Room. Strengthening the Black Church for the 21st Century ("SBC21") and the Native American Comprehensive Plan ("NACP") are special initiatives of The United Methodist Church and are both administratively assigned to Discipleship Ministries but have their own advisory committees separate from the Board of Directors.

The accompanying consolidated financial statements present the consolidated accounts of the Discipleship Ministries, The Upper Room, and the administratively assigned special initiatives for SCB21 and NACP. All material interdivisional accounts and transactions have been eliminated in consolidation.

Note 2—Summary of significant accounting policies

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

Basis of Presentation – The Board maintains its accounts in accordance with the principles and practices of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified into funds that are in accordance with the activities or objectives of the Board. Separate accounts are maintained for each fund.

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

Unrestricted – Net assets that are not subject to donor-imposed restrictions. Funds designated by the Board represent funds for which the Board has set general guidelines for their use and are classified as unrestricted funds.

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

Permanently Restricted – Net assets subject to donor-imposed stipulations that they be maintained into perpetuity by the Board. Generally, the donors of these assets permit the Board to use all or part of the income earned on related investments for general or specific purposes.

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

GENERAL BOARD OF DISCIPLESHIP MINISTRIES OF THE UNITED METHODIST CHURCH

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 2—Summary of significant accounting policies (continued)

Unconditional promises to give cash and other assets to the Board are recognized as revenue at their fair values in the period the unconditional promise is received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

Cash and Cash Equivalents – Cash and cash equivalents include cash on hand or on deposit with banks and highly liquid, short-term investments with original maturities of three months or less.

The Board places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation covers \$250,000 for substantially all depository accounts. The Board from time to time may have amounts on deposit in excess of the insured limits. As of December 31, 2016, the Board had no accounts which exceeded these insured amounts.

Due from GCFA Short-Term Pooled Investment Fund – The amounts presented as due from the General Council on Finance and Administration (“GCFA”) short-term pooled investment fund in the accompanying consolidated financial statements represent the Board’s portion of the short-term investment portfolio managed by GCFA on behalf of certain agencies and related organizations of The United Methodist Church. The amount due from this fund effectively represents the amount of cash deposits that are available to the Board 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 the Board’s name, they are not classified as cash and cash equivalents, but rather are considered an amount due from GCFA. The short-term investment portfolio includes funds invested in demand deposits, corporate bonds, taxable municipal bonds, mutual funds, and notes from other United Methodist organizations. GCFA allocates interest earned on the portfolio to the participating entities. For the years ended December 31, 2016 and 2015, GCFA allocated \$94,900 and \$159,498 of interest income, respectively. While interest income can be earned based on the performance of the pooled investment funds, the Board 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.

World Service Allocation – Funding for the Board’s operations is principally provided by allocations of the World Service Fund received from the General Funds of the United Methodist Church (“Church”), of which \$2,318,869 and \$2,637,216 as of December 31, 2016 and 2015, respectively, was accrued and unpaid. The General Funds of the Church are allocated to the Board based on a four-year budget developed from projections of expected program costs. The Board’s continued existence is dependent upon the Church’s future support. The Church’s future support is dependent upon contributions from its congregations.

Funds Held by Outside Trustees for the Benefit of the Board – These funds are managed by other entities that hold the funds in trust. They are recorded at fair value of the assets held by the third party.

Accounts Receivable – Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Board’s best estimate of the amount of probable credit losses in the Board’s existing accounts receivable. The Board 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.

GENERAL BOARD OF DISCIPLESHIP MINISTRIES OF THE UNITED METHODIST CHURCH

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 2—Summary of significant accounting policies (continued)

Investments – The Board’s investments are in third party investment pools presented at net asset value, which approximates the estimated fair value of the Board’s share of the respective investment pools. Net investment return represents the Board’s pro-rata share of interest and dividends and realized and unrealized gains and losses within respective investment pools.

The Board pays The United Methodist Church Foundation fees based on the asset balance invested. Fees paid amounted to approximately \$0 for 2016 and \$113,044 for 2015 and are recorded within net investment return in the statements of activities.

Inventories – Inventories of printed literature are valued at the lower of cost (first-in, first-out) or market. Cost is determined based on purchase price or production cost.

Property, Buildings, and Equipment – Property, buildings, and equipment are stated at cost, less accumulated depreciation. The Board capitalizes assets with a cost greater than \$2,500. Depreciation is computed by the straight-line method over the estimated useful lives of the assets, which range from three to fifty years. Upon retirement or disposal of assets, the asset and accumulated depreciation are adjusted accordingly and any gain or loss is reflected in non-operating results. Maintenance and repairs are charged to expense as incurred; betterments are capitalized.

Custodial Funds Payable – The Board holds funds for others, representing investment amounts owned by various organizations but administered by the Board as part of the general investment pool. The Board’s responsibilities for these funds are custodial in nature and consist of establishing and monitoring investment policies for these deposits and distributing the income earned or the principal at withdrawal in accordance with the depositor’s instructions.

Deferred Income – Subscriptions to *The Upper Room* and other publications are deferred and recognized as income over the term of the related subscription.

Income Taxes – The Board 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”). The Board 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.

The Board 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 the Board include, but are not limited to, the tax-exempt status and determination of whether income is subject to unrelated business income tax; however, the Board has determined that such tax positions do not result in an uncertainty requiring recognition.

GENERAL BOARD OF DISCIPLESHIP MINISTRIES OF THE UNITED METHODIST CHURCH

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 2—Summary of significant accounting policies (continued)

Revenue Concentration – Funding for the Board’s operations is significantly provided by apportionments received from the General Funds of The United Methodist Church that are allocated to the Board based on a four-year budget developed from projections of expected program costs. The apportionment accounted for approximately 34% of the Board’s total revenue in 2016 and 2015. The Board is dependent upon the Church’s future support as well as sales of literature. The Church’s future support is dependent upon contributions from its congregations (i.e., congregational participation in the apportionment covenant) as well as sales of literature to those congregations.

Use of Estimates – Management of the Board has made a number of estimates and assumptions relating to the reporting of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period to prepare these consolidated financial statements in conformity with U.S. generally accepted accounting principles. Actual results could differ from those estimates.

Services Received from Personnel of an Affiliate – Services received from personnel of an affiliate for which the affiliate does not charge the Board has been measured at the cost recognized by the affiliate in providing those services. The revenue and expense relating to those services received are presented in the related party Note 7 and totaled \$27,624 and \$31,797 for the years ended December 31, 2016 and 2015, respectively.

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

Future Pronouncements – Revenue Recognition – In May 2014, the FASB issued ASU 2014-09. The amendments in this update create Topic 606, *Revenue from Contracts with Customers* (“Topic 606”), 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 annual reporting periods beginning after December 15, 2018. The amendments in this update will be effective for the Board’s fiscal year 2019 with early adoption permitted in certain circumstances. Management is currently evaluating the impact of this standard on the Board’s consolidated financial statements.

GENERAL BOARD OF DISCIPLESHIP MINISTRIES OF THE UNITED METHODIST CHURCH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 3—Investments

The investments at December 31, 2016 and 2015 consist of the following:

	2016		2015	
	Fair Value	Cost	Fair Value	Cost
Multiple Asset Fund (Wespath)	\$ 27,813,532	\$ 25,727,614	\$ 27,598,652	\$ 27,162,297
	<u>\$ 27,813,532</u>	<u>\$ 25,727,614</u>	<u>\$ 27,598,652</u>	<u>\$ 27,162,297</u>

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

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

	2016	2015
Return on investments:		
Interest and dividend income	\$ 361	\$ 332,852
Gains (losses) on investments:		
Realized gains on sale of investments	565,317	2,638,327
Unrealized gains (losses) on investments	1,649,563	(3,557,240)
Net gains (losses) on investments	<u>2,214,880</u>	<u>(918,913)</u>
Return (loss) on investments	2,215,241	(586,061)
Investment expenses	-	(113,044)
Net investment return (loss)	<u>\$ 2,215,241</u>	<u>\$ (699,105)</u>

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

GENERAL BOARD OF DISCIPLESHIP MINISTRIES OF THE UNITED METHODIST CHURCH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 4—Accounts receivable

Accounts receivable at December 31 consist of the following:

	2016		
	Board of Discipleship	The Upper Room	Total
Trade accounts	\$ -	\$ 925,910	\$ 925,910
Due from other agencies	225,370	-	225,370
Other	342,474	-	342,474
	<u>567,844</u>	<u>925,910</u>	<u>1,493,754</u>
Less allowance for doubtful accounts	-	(137,315)	(137,315)
	<u>\$ 567,844</u>	<u>\$ 788,595</u>	<u>\$ 1,356,439</u>
	2015		
	Board of Discipleship	The Upper Room	Total
Trade accounts	\$ -	\$ 1,074,311	\$ 1,074,311
Due from other agencies	234,254	-	234,254
Other	154,667	-	154,667
	<u>388,921</u>	<u>1,074,311</u>	<u>1,463,232</u>
Less allowance for doubtful accounts	-	(139,556)	(139,556)
	<u>\$ 388,921</u>	<u>\$ 934,755</u>	<u>\$ 1,323,676</u>

GENERAL BOARD OF DISCIPLESHIP MINISTRIES OF THE UNITED METHODIST CHURCH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 5—Property, buildings, and equipment

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

	2016		
	Board of Discipleship	The Upper Room	Total
Land and land improvements	\$ 257,318	\$ 223,836	\$ 481,154
Buildings and improvements	1,695,536	7,677,611	9,373,147
Furniture, fixtures, and equipment	1,423,187	750,102	2,173,289
	<u>3,376,041</u>	<u>8,651,549</u>	<u>12,027,590</u>
Less accumulated depreciation	<u>(2,036,925)</u>	<u>(4,881,577)</u>	<u>(6,918,502)</u>
	<u><u>\$ 1,339,116</u></u>	<u><u>\$ 3,769,972</u></u>	<u><u>\$ 5,109,088</u></u>
	2015		
	Board of Discipleship	The Upper Room	Total
Land and land improvements	\$ 257,318	\$ 223,836	\$ 481,154
Buildings and improvements	1,695,537	7,312,482	9,008,019
Furniture, fixtures, and equipment	1,381,726	743,572	2,125,298
Work in progress	-	251,705	251,705
	<u>3,334,581</u>	<u>8,531,595</u>	<u>11,866,176</u>
Less accumulated depreciation	<u>(1,625,875)</u>	<u>(4,291,828)</u>	<u>(5,917,703)</u>
	<u><u>\$ 1,708,706</u></u>	<u><u>\$ 4,239,767</u></u>	<u><u>\$ 5,948,473</u></u>

Depreciation expense was \$998,888 and \$835,970 for 2016 and 2015, respectively. Included in buildings and improvements is the Board's portion of a building jointly owned with the General Board of Higher Education and Ministry ("GBHEM").

Property owned by the Board is presented in Schedule 4.

GENERAL BOARD OF DISCIPLESHIP MINISTRIES OF THE UNITED METHODIST CHURCH

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 6—Employee benefits

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

The Board makes semi-monthly contributions to each eligible employee's account held by Wespath based on 8% of annual employee compensation. Additionally, the Board matches up to 2% of each employee's contribution to their United Methodist Personal Investment Plan (UMPIP). Total contributions made by the Board for both components during 2016 and 2015 were \$1,130,484 and \$1,096,641, respectively.

Health, Life, and Other Employee Benefits – The Board 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 multi-employer plan under Financial Accounting Standards Board Accounting Standards Codification (ASC) 715, *Compensation-Retirement Benefits*. Substantially all retired employees are eligible to participate in the Plan if they have attained normal retirement age while in the employ of the Board. The General Agencies of The United Methodist Church Benefit Plan (the "Plan") provides medical, dental, life, and long and short-term disability defined benefits to participants of the general agencies.

The Plan's unfunded accumulated postretirement benefit obligation ("APBO") was approximately \$91,600,000 and \$94,000,000 as of December 31, 2016 and 2015, respectively, and the Plan's unfunded expected postretirement benefit obligation ("EPBO") was approximately \$127,500,000 and \$134,000,000 as of December 31, 2016 and 2015, respectively. The change is due to an increase in the discount rate used to calculate the APBO and EPBO amounts.

The cost of the benefits is recognized as an expense as premiums are paid. The total cost of benefits for active employees was \$1,725,186 and \$1,629,419 in 2016 and 2015, respectively, and the cost of retired employees was \$454,457 and \$394,222, 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. Annually, the Benefit Trust allows a stated percentage payout, 6% for both 2016 and 2015, of the fair market value of Benefit Trust assets at year-end to be available for distribution in the subsequent year in order to reimburse the participating agencies, through GCFA, for their funding of active and retiree employee benefits. The fair value of the Benefit Trust's assets (not plan assets) was approximately \$149,300,000 and \$147,000,000 as of December 31, 2016 and 2015, respectively. The total amount available for reimbursement in 2016 and 2015 was \$8,822,895 and \$9,631,814, respectively, of which the Board's share, net of retiree health benefits was \$2,008,091 and \$2,105,074, respectively.

GENERAL BOARD OF DISCIPLESHIP MINISTRIES OF THE UNITED METHODIST CHURCH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 7—Related party transactions

The Board receives a portion of its revenue through apportionments from the General Funds of The United Methodist Church, which are administered by GCFA. In addition, GCFA provides various services to the Board, such as general ledger processing, cash management, and group insurance plan administration. The Board had the following transactions with GCFA and related organizations:

	<u>2016</u>	<u>2015</u>
Statement of Financial Position:		
Due from GCFA short-term pooled investment fund	\$ 806,417	\$ 2,659,387
Accrued World Service Fund allocation	2,135,149	2,428,663
Accrued World Service Fund allocation - SBC21	119,062	135,156
Accrued World Service Fund allocation - NACP	64,658	73,397
Accounts receivable from related organizations	225,370	234,254
Funds held by outside trustees for the benefit of the Board	722,427	8,844
Statement of Activities:		
Revenue:		
Net sales - United Methodist Publishing House	523,456	636,441
Allocations through GCFA	7,989,093	8,600,001
Allocations through GCFA - SBC21	445,440	452,468
Allocations through GCFA - NACP	241,900	257,485
Benefit Trust distribution	2,008,091	2,105,074
Receipts from related organizations	348,818	304,697
Services received from GCFA	27,624	31,797
Expenses:		
Group insurance expense	2,179,643	2,023,641
Administration provided by GCFA	27,624	31,797
Nonoperating Items:		
Net investment return - United Methodist Church Foundation	-	73,004

Strengthening the Black Church for the 21st Century (“SBC21”) and the Native American Comprehensive Plan (“NACP”) are special initiatives separate from the Board, funded by a separate World Service allocation. The Board provides telephone, computer network, mail, and building maintenance services on a service fee basis. The Board provides office space, computer equipment, human resources, accounting, financial reporting, auditing, and budget support services on an in-kind basis. SBC21 and NACP financial information are included and identified in these consolidated financial statements and in Schedule 2 and 3, respectively.

GENERAL BOARD OF DISCIPLESHIP MINISTRIES OF THE UNITED METHODIST CHURCH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 8—Net assets

A summary of net assets at December 31, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Board of Discipleship:		
Unrestricted - Undesignated	\$ 3,822,819	\$ 6,776,399
Unrestricted - Board designated for capital expenditures	<u>929,421</u>	<u>61,399</u>
Unrestricted - Board designated for programs:		
New Ministries Fund (NMF)	-	2,568,060
International Translation	343,061	351,188
Ethnic Minority Local Church	213,901	217,376
Older Adult Ministries Committee	29,960	33,835
Older Adult Ministries Plan	45,462	87,227
Division on Ministries with Young People Reserve	233,327	511,466
Division on Ministries with Young People International Scholarship Fund	<u>109,901</u>	<u>97,699</u>
Total Unrestricted - Board designated for programs	<u>975,612</u>	<u>3,866,851</u>
Unrestricted - Board designated for plant facilities	<u>1,339,116</u>	<u>1,708,706</u>
Total Unrestricted Net Assets	<u>\$ 7,066,968</u>	<u>\$ 12,413,355</u>

GENERAL BOARD OF DISCIPLESHIP MINISTRIES OF THE UNITED METHODIST CHURCH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 8—Net assets (continued)

	<u>2016</u>	<u>2015</u>
Board of Discipleship (continued):		
Temporarily Restricted:		
Sidney Redmond Trust Fund & Fund Development Gifts	\$ 80,881	\$ 74,330
Foundation for Evangelism	60,726	57,352
Legacy of Leadership	83,005	52,019
National Hispanic Plan	479,563	395,636
Stewardship Literature Fund	89,463	82,486
O'Neal Memorial	309,583	292,124
Church School Permanent	205,449	188,811
Samuel Taylor Estate Educational Fund	1,233,931	1,405,523
Native American Comprehensive Plan	306,982	293,107
Strengthening Black Church 21st Century	115,941	190,060
Watson Fund	-	3,550
Wesley Pilgrimage	188,305	132,369
United Methodist Church Foundation Short-Term		
Endowment Earnings	1,087	890
E-Reader Project	552,169	233,099
Korean Partner in Mission	112,900	81,688
Division on Ministries with Young People Technology Grant	-	1,782
Vital Congregations Innovative	-	4,968
YP Youth Service Fund	-	1,957
Solomon Cramer	25,089	-
Total Temporarily Restricted Net Assets	<u>\$ 3,845,074</u>	<u>\$ 3,491,751</u>
Permanently Restricted:		
Stewardship Literature Fund	\$ 20,221	\$ 20,221
United Methodist Church Foundation Endowment Fund	3,952	3,952
Church School Permanent	63,262	63,262
Samuel Taylor Estate Endowment	220,494	220,494
O'Neal Memorial	75,012	75,012
Legacy of Leadership Camp Endowment	25,000	25,000
Solomon Cramer Fund	713,223	-
Total Permanently Restricted Net Assets	<u>\$ 1,121,164</u>	<u>\$ 407,941</u>

GENERAL BOARD OF DISCIPLESHIP MINISTRIES OF THE UNITED METHODIST CHURCH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 8—Net assets (continued)

	<u>2016</u>	<u>2015</u>
The Upper Room:		
Unrestricted - Undesignated	\$ 17,519,928	\$ 14,247,706
Unrestricted - Board designated for capital expenditures	821,469	460,583
Unrestricted - Board designated for programs:		
Emmaus Funding Plan	25,000	-
Discover Emmaus Program	25,000	-
Academy Leader Program	50,000	-
CTR Program	70,893	-
Chaplains	50,000	50,000
International Editions	62,634	62,634
Publisher Initiatives	-	596,273
Total Unrestricted - Board designated for programs	<u>283,527</u>	<u>708,907</u>
Unrestricted - Board designated for plant facilities	3,769,972	4,239,767
Total Unrestricted Net Assets	<u>\$ 22,394,896</u>	<u>\$ 19,656,963</u>
Temporarily Restricted:		
United Methodist Church Foundation Endowment Fund	\$ 865	\$ 702
Emergency Distribution Fund	-	1,807
Emmaus Funding Plan	67,727	92,170
Chrysalis Funding Plan	-	802
Crisis Literature Programs	28,011	17,220
Spiritual Academies Endowment Fund	99,795	82,338
Total Temporarily Restricted Net Assets	<u>\$ 196,398</u>	<u>\$ 195,039</u>
Permanently Restricted:		
United Methodist Church Foundation Endowment Fund	\$ 3,300	\$ 3,300
John Mogabgab Academy Leadership Endowment	189,403	186,153
Spiritual Academies Endowment Fund	269,485	268,260
Milton Davis Endowment Fund for International Ministries	200,000	200,000
Total Permanently Restricted Net Assets	<u>\$ 662,188</u>	<u>\$ 657,713</u>

GENERAL BOARD OF DISCIPLESHIP MINISTRIES OF THE UNITED METHODIST CHURCH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 9—Net Assets Released From Restrictions

Net assets released from restrictions during the years ended December 31, consisted of the following:

	<u>2016</u>	<u>2015</u>
Board of Discipleship:		
O'Neal Memorial Fund	\$ 8,283	\$ 3,228
Leadership Ministry Division	471,218	414,773
Korean Partner in Mission	-	5,000
E-Reader Project	67,644	11,827
New Church Starts	1,679	-
Youth Service Fund	35,214	47,523
Young People Technology	1,782	-
NACP	304,597	284,864
SBC21	586,728	547,070
Vital Congregations	41,970	195,032
Board of Discipleship Total	<u>1,519,115</u>	<u>1,509,317</u>
The Upper Room:		
Emmaus Gift Fund	103,966	79,155
Spiritual Academies Fund	28,513	7,819
AIDS Prayer Literature	4,750	691
The Upper Room Total	<u>137,229</u>	<u>87,665</u>
Total Releases from Restriction	<u>\$ 1,656,344</u>	<u>\$ 1,596,982</u>

Note 10—Endowment

The Board's endowment consists of individual donor-restricted funds established for a variety of purposes. As required by Generally Accepted Accounting Principles ("GAAP"), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law – The Board of Directors of the General Board of Discipleship Ministries has interpreted the applicable state laws as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Board classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Board in a manner consistent with the standard of prudence prescribed by applicable state laws. In accordance with applicable state laws, the Board 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 Board and 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 the Board
- The investment policies of the Board

GENERAL BOARD OF DISCIPLESHIP MINISTRIES OF THE UNITED METHODIST CHURCH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 10—Endowment (continued)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, December 31, 2014	\$ -	\$ 2,365,705	\$ 1,018,611	\$ 3,384,316
Investment return:				
Investment income	-	66,878	-	66,878
Net depreciation (realized and unrealized)	-	(152,117)	-	(152,117)
Total investment loss	-	(85,239)	-	(85,239)
Contributions	-	-	47,043	47,043
Appropriation of endowment assets for expenditure	-	(309,931)	-	(309,931)
Endowment net assets, December 31, 2015	-	1,970,535	1,065,654	3,036,189
Investment return:				
Investment income	-	68,583	-	68,583
Net appreciation (realized and unrealized)	-	173,508	-	173,508
Total investment return	-	242,091	-	242,091
Contributions	-	31,119	717,698	748,817
Appropriation of endowment assets for expenditure	-	(378,277)	-	(378,277)
Endowment net assets, December 31, 2016	<u>\$ -</u>	<u>\$ 1,865,468</u>	<u>\$ 1,783,352</u>	<u>\$ 3,648,820</u>

Return Objectives and Risk Parameters – The Board 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 the Board must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of selected markets and comparative indices such as the Russell 1000 indexes, while assuming a moderate level of investment risk. The Board expects its endowment funds, over time, to provide an average rate of return of approximately 7% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives – To satisfy its long-term rate-of-return objectives, the Board 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). The Board targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

GENERAL BOARD OF DISCIPLESHIP MINISTRIES OF THE UNITED METHODIST CHURCH
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

Note 10—Endowment (continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy – The Board has a policy of appropriating up to 4% of the previous 12 rolling quarters’ average quarter-end market values for distribution annually. In establishing this policy, the Board considered the long-term expected return on its endowment. Accordingly, over the long term, the Board expects the current spending policy to allow its endowment to grow at an average rate of 3% annually. This is consistent with the Board’s objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Note 11—Prior Period Restatements

Unrestricted net assets at the beginning of 2015 have been adjusted for the write-off of certain building improvements which should have been retired due to remodeling that occurred in 2014 or prior. The amount of the write-off was \$309,879 for Discipleship Ministries and \$1,347,330 for The Upper Room. Furthermore, the Board allocated to The Upper Room an additional \$1,077,953 of benefit trust distributions received from Wespath in August 2013 that should have been distributed when received. Lastly, Division on Ministries with Young People (“DMYP”) International Scholarship Funds provided to GBHEM in a prior period to administer the awarding of scholarships to qualifying students was expensed when given rather than shown as a due from GBHEM and only expensed when scholarships were made.

	Discipleship Ministries	Upper Room
Unrestricted Net Assets, as originally reported, December 31, 2014	\$ 16,878,212	\$ 22,779,922
Property, buildings and equipment, write-off	(309,879)	(1,347,330)
Share of investment from Wespath	(1,077,953)	1,077,953
DMYP International Scholarship Fund	103,356	-
Unrestricted Net Assets, as restated, December 31, 2014	<u>\$ 15,593,736</u>	<u>\$ 22,510,545</u>
Change in Unrestricted Net Assets, as originally reported, 2015	\$ (3,237,876)	\$ (3,031,866)
Adjustment to depreciation expense for 2015	63,152	178,284
Net Change in DMYP International Scholarship Fund	(5,657)	-
Change in Unrestricted Net Assets, as restated, 2015	<u>\$ (3,180,381)</u>	<u>\$ (2,853,582)</u>

In addition, after a review of the administrative service agreement (“ASA”) between Discipleship Ministries and The Upper Room during the year ended December 31, 2016, the Board of Directors determined to repay \$3,000,000 from Discipleship Ministries to The Upper Room from amounts charged in prior ASA’s. This amount is reflected on the 2016 statement of activities as an adjustment to ASA. The amounts offset to have no impact on the consolidated financial statements.

Note 12—Subsequent events

Management has evaluated subsequent events through July 11, 2017, the date the consolidated financial statements were available for issuance. Management has determined that there are no subsequent events that require disclosure.

SUPPLEMENTAL SCHEDULES

GENERAL BOARD OF DISCIPLESHIP MINISTRIES OF THE UNITED METHODIST CHURCH
SCHEDULE 1 - CONSOLIDATED SCHEDULE OF FUNCTIONAL REVENUES AND EXPENSES

YEAR ENDED DECEMBER 31, 2016

Board of Discipleship													
	Annual/ General Conference Relations	Existing Churches	Young People's Ministries	New Church Starts	Discipleship Resources International	Strengthening the Black Church - 21st Century	Native American Comprehensive Plan	Discipleship Resources	General Secretary and Administration	Total	The Upper Room	Eliminations	Consolidated Total
Revenues and Support:													
Sales of literature	\$ -	\$ -	\$ 967	\$ -	\$ -	\$ -	\$ -	\$ 298,240	\$ -	\$ 299,207	\$ 13,315,017	\$ -	\$ 13,614,224
Cost of goods sold	-	-	-	-	-	-	-	(180,962)	-	(180,962)	(2,645,256)	-	(2,826,218)
Net Sales	-	-	967	-	-	-	-	117,278	-	118,245	10,669,761	-	10,788,006
Allocations through the GCFA:													
World Service	-	185,000	-	-	-	-	-	-	7,685,862	7,870,862	-	-	7,870,862
National Hispanic Plan	-	-	-	75,000	-	-	-	-	-	75,000	-	-	75,000
Native American Comprehensive Plan	-	-	-	-	-	-	241,900	-	-	241,900	-	-	241,900
Strengthening the Black Church	-	-	-	-	-	445,440	-	-	-	445,440	-	-	445,440
Youth Service Fund	-	-	43,231	-	-	-	-	-	-	43,231	-	-	43,231
Registration and project fees	13,495	288,499	-	11,968	-	50,420	50,742	-	2,698	417,822	857,419	-	1,275,241
Grants and contributions	-	885,555	2,954	127,789	397,673	-	-	-	1,063	1,415,034	789,511	-	2,204,545
Receipts from related organizations	-	21,000	1,400	-	-	-	-	-	294,044	316,444	32,374	-	348,818
Rental income	-	-	-	-	-	-	-	-	125,184	125,184	93,230	-	218,414
Other income	100,367	-	12,202	-	19,978	-	-	115	2,497,997	2,630,659	495,726	(3,006,104)	120,281
Benefit Trust distribution	-	-	-	-	-	-	-	-	1,164,693	1,164,693	843,398	-	2,008,091
Services provided by GCFA	-	-	-	-	-	-	-	-	27,624	27,624	-	-	27,624
Adjustment for administrative services agreement	-	-	-	-	-	-	-	-	(3,000,000)	(3,000,000)	3,000,000	-	-
Total Revenues	113,862	1,380,054	60,754	214,757	417,651	495,860	292,642	117,393	8,799,165	11,892,138	16,781,419	(3,006,104)	25,667,453
Expenses:													
Grant distribution	41,968	116,033	134,013	408,140	-	-	5,800	7,233	-	713,187	223,612	-	936,799
Programs and projects	13,312	564,194	170,800	193,496	202,256	345,399	59,473	-	73,065	1,621,995	880,870	-	2,502,865
Personnel expenses	579,104	2,513,006	917,273	1,132,136	330,289	196,340	148,356	87,265	3,181,125	9,084,894	6,252,607	-	15,337,501
Staff travel and expense	43,564	187,145	92,713	172,750	40,425	12,842	13,999	1,561	207,544	772,543	207,221	-	979,764
Contractual services	173,915	11,559	63,143	75,264	31,319	-	-	372	1,693,360	2,048,932	1,686,107	-	3,735,039
Office expenses	14,706	46,065	28,586	21,400	5,186	7,975	20,345	919	648,630	793,812	510,418	-	1,304,230
Fulfillment postage	28,962	10,370	925	2,878	126	1,478	1,535	1,848	25,081	73,203	1,681,060	-	1,754,263
Depreciation expense	-	2,463	2,766	1,196	-	-	-	312	402,402	409,139	589,749	-	998,888
Meetings	130,241	-	86,073	4,679	-	-	20,256	-	157,127	398,376	-	-	398,376
Promotional	13,450	-	1,499	43,010	-	-	11,680	25,262	184,881	279,782	675,994	-	955,776
Insurance and taxes	-	-	-	-	-	-	-	-	157,972	157,972	9,433	-	167,405
Miscellaneous	7,537	55,300	3,974	1,520	-	194	4,153	19	76,524	149,221	171,017	-	320,238
Administration provided by GCFA	-	-	-	-	-	-	-	-	27,624	27,624	-	-	27,624
Interdivisional support	-	-	-	-	-	22,500	19,000	104,106	284,965	430,571	2,575,533	(3,006,104)	-
Total Expenses	1,046,759	3,506,135	1,501,765	2,056,469	609,601	586,728	304,597	228,897	7,120,300	16,961,251	15,463,621	(3,006,104)	29,418,768
Excess (Deficiency) of Revenues													
Over Expenses	(932,897)	(2,126,081)	(1,441,011)	(1,841,712)	(191,950)	(90,868)	(11,955)	(111,504)	1,678,865	(5,069,113)	1,317,798	-	(3,751,315)
Net investment return	-	-	-	-	-	16,749	25,830	-	746,693	789,272	1,425,969	-	2,215,241
Change in Net Assets	\$ (932,897)	\$ (2,126,081)	\$ (1,441,011)	\$ (1,841,712)	\$ (191,950)	\$ (74,119)	\$ 13,875	\$ (111,504)	\$ 2,425,558	\$ (4,279,841)	\$ 2,743,767	\$ -	\$ (1,536,074)

GENERAL BOARD OF DISCIPLESHIP MINISTRIES OF THE UNITED METHODIST CHURCH
SCHEDULE 2 - STRENGTHENING THE BLACK CHURCH FOR THE 21ST CENTURY INFORMATION

DECEMBER 31, 2016 AND 2015

Statements of Financial Position Information

	<u>2016</u>	<u>2015</u>
Assets		
Accrued World Service allocation	\$ 119,062	\$ 135,156
Net Property, plant, and equipment	1,254	1,254
Due from GBOD	-	28,580
Total Assets	<u>\$ 120,316</u>	<u>\$ 164,990</u>
Liabilities		
Due to GBOD	\$ 29,445	\$ -
Net Assets (Deficit)		
Unrestricted	(25,070)	(25,070)
Temporarily restricted	115,941	190,060
Total Liabilities and Net Assets (Deficit)	<u>\$ 120,316</u>	<u>\$ 164,990</u>

Statements of Activities and Changes in Net Assets Information

	<u>2016</u>			<u>2015</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue:						
Allocations through the GCFA:						
World Service	\$ -	\$ 445,440	\$ 445,440	\$ -	\$ 452,468	\$ 452,468
Registration and Project Income	-	50,420	50,420	-	89,075	89,075
Advance Special Contributions	-	-	-	-	793	793
Release of temporary restrictions	586,728	(586,728)	-	547,070	(547,070)	-
Total Revenue	<u>586,728</u>	<u>(90,868)</u>	<u>495,860</u>	<u>547,070</u>	<u>(4,734)</u>	<u>542,336</u>
Expenses:						
Program services	345,399	-	345,399	311,332	-	311,332
Personnel expenses	196,340	-	196,340	186,025	-	186,025
Staff travel	12,842	-	12,842	21,305	-	21,305
Other general and administrative expense	32,147	-	32,147	28,408	-	28,408
Total Expenses	<u>586,728</u>	<u>-</u>	<u>586,728</u>	<u>547,070</u>	<u>-</u>	<u>547,070</u>
Nonoperating Items:						
Net investment return	-	16,749	16,749	-	(13,392)	(13,392)
Change in net assets	-	(74,119)	(74,119)	-	(18,126)	(18,126)
Net asset (deficit), beginning of year	(25,070)	190,060	164,990	(25,070)	208,186	183,116
Net assets (deficit), end of year	<u>\$ (25,070)</u>	<u>\$ 115,941</u>	<u>\$ 90,871</u>	<u>\$ (25,070)</u>	<u>\$ 190,060</u>	<u>\$ 164,990</u>

GENERAL BOARD OF DISCIPLESHIP MINISTRIES OF THE UNITED METHODIST CHURCH
SCHEDULE 3 - NATIVE AMERICAN COMPREHENSIVE PLAN INFORMATION

DECEMBER 31, 2016 AND 2015

Statements of Financial Position Information

	<u>2016</u>	<u>2015</u>
Assets		
Accrued World Service allocation	\$ 64,658	\$ 73,397
Due from GBOD	172,692	150,078
Total Assets	<u>\$ 237,350</u>	<u>\$ 223,475</u>
Net Assets (Deficit)		
Unrestricted	\$ (69,632)	\$ (69,632)
Temporarily restricted	306,982	293,107
Total Liabilities and Net Assets (Deficit)	<u>\$ 237,350</u>	<u>\$ 223,475</u>

Statements of Activities and Changes in Net Assets Information

	<u>2016</u>			<u>2015</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue:						
Allocations through the GCFA:						
World Service	\$ -	\$ 241,900	\$ 241,900	\$ -	\$ 257,485	\$ 257,485
Registration and Project Income	-	50,742	50,742	-	38,507	38,507
Grants and contributions	-	-	-	-	-	-
Fees from other agencies	-	-	-	-	-	-
Release of temporary restrictions	304,597	(304,597)	-	284,864	(284,864)	-
Total Revenue	<u>304,597</u>	<u>(11,955)</u>	<u>292,642</u>	<u>284,864</u>	<u>11,128</u>	<u>295,992</u>
Expenses:						
Distributions and grants	5,800	-	5,800	2,828	-	2,828
Program services	59,473	-	59,473	61,665	-	61,665
Personnel expenses	148,356	-	148,356	147,382	-	147,382
Staff travel	13,999	-	13,999	18,445	-	18,445
Meeting Expense	20,256	-	20,256	7,082	-	7,082
Promotional materials	11,680	-	11,680	4,249	-	4,249
Other general and administrative expense	45,033	-	45,033	43,213	-	43,213
Total Expenses	<u>304,597</u>	<u>-</u>	<u>304,597</u>	<u>284,864</u>	<u>-</u>	<u>284,864</u>
Nonoperating Items:						
Net investment return	-	25,830	25,830	-	(19,385)	(19,385)
Change in net assets	-	13,875	13,875	-	(8,257)	(8,257)
Net asset (deficit), beginning of year	(69,632)	293,107	223,475	(69,632)	301,364	231,732
Net assets (deficit), end of year	<u>\$ (69,632)</u>	<u>\$ 306,982</u>	<u>\$ 237,350</u>	<u>\$ (69,632)</u>	<u>\$ 293,107</u>	<u>\$ 223,475</u>

GENERAL BOARD OF DISCIPLESHIP MINISTRIES OF THE UNITED METHODIST CHURCH
SCHEDULE 4 - REAL ESTATE HOLDINGS (UNAUDITED)

DECEMBER 31, 2016 AND 2015

Identification	Location	Description	County Appraised Value*	Ownership	Notes
Denman Property:					
Main Campus (includes bldg.)	1900, 1902, & 1908 Grand Ave. S & 917 19th Ave. S Nashville, TN	1.73 acres	\$ 6,603,200	The Upper Room	Denman Building & Adjacent Lots
Parking Lots	1901, 1903, 1905, 1907, 1909, 1911 & 1913 Adelia St. Nashville, TN	1.19 acres	2,156,000	The Upper Room	Adjacent to Denman Building
Single Family House	1915 Adelia St. Nashville, TN	0.17 acres	692,700	The Upper Room	Offices adjacent to Denman Bldg.
Single Family House	1001 18th Ave. S Nashville, TN	0.20 acres	822,400	The Upper Room	Offices 1 block from Denman Bldg.
Single Family House	1003 18th Ave. S Nashville, TN	0.20 acres	917,500	The Upper Room	Offices 1 block from Denman Bldg.
Kern Property:					
Main Campus (includes bldg.)	2001 & 2005 Grand Ave. (corner of 19th and Grand Ave.) Nashville, TN	1.19 acres	1,300,850	Joint 50/50** GBOD & GBHEM	Kern Bldg. & Parking Lots
Scarritt Mall (open land)	1008 19th Ave. S (corner of 19th Ave. S and Scarritt Place) Scarritt Place, Nashville, TN	1.83 acres	1,992,900	Joint 50/50** GBOD & GBHEM	Open Space Adjacent to Kern Bldg.
Parking Lots	2009 & 2011 Grand Ave. (adjacent to Main Campus) Nashville, TN	0.73 acres	813,100	Joint 50/50** GBOD & GBHEM	Kern Parking Lots
Parking Lots	2013 Grand Ave (adjacent to Main Campus) Nashville, TN	0.59 acres	650,300	Joint 50/50** GBOD & GBHEM	Under Lease by Central Parking
Leased Parcel	406 21st Ave. Nashville, TN	0.80 acres	1,561,400	Joint 50/50** GBOD & GBHEM	Under Lease by Panera Bread Co.
		8.63 acres	\$ 17,510,350		

* Note that financial statements reflect property at historical costs. Presented above is County Appraised Value effective 1/1/2013.

** Tax Appraised Values for the Leased Parcel and the Kern Property are 50% of the total appraised values because of joint ownership.