

**NATIONAL COUNCIL OF
THE CHURCHES OF CHRIST
IN THE U.S.A.**

INDEPENDENT AUDITOR'S REPORT

AND

FINANCIAL STATEMENTS

For the Year Ended December 31, 2016



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NATIONAL COUNCIL OF THE CHURCHES OF CHRIST IN THE U.S.A.

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INDEPENDENT AUDITOR'S REPORT

To the Governing Board of the National Council
of the Churches of Christ in the U.S.A.

We have audited the accompanying financial statements of the National Council of the Churches of Christ in the U.S.A. (the Council), which comprise the statement of financial position as of December 31, 2016 and the related statements of activities and cash flows for the year 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 audit. We conducted our audit 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Council as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Mulligan & Company, LLC

Washington, DC
September 19, 2017



NATIONAL COUNCIL OF THE CHURCHES OF CHRIST IN THE U.S.A.

Statement of Financial Position

December 31, 2016

Assets

Current assets:

| | |
|---------------------------|--------------|
| Cash and cash equivalents | \$ 832,557 |
| Royalty receivables | 520,050 |
| Contribution receivable | 28,348 |
| Other receivables | 14,360 |
| Prepaid expenses | 10,276 |
| Deposits | <u>4,000</u> |

Total current assets 1,409,591

Non-current assets:

| | |
|---------------------------------------|---------------|
| Cash and cash equivalents | 39,053 |
| Interest in split interest agreements | 35,450 |
| Long-term investments | 2,569,317 |
| Investments held by others | 626,177 |
| Property and equipment, net | <u>15,052</u> |

Total assets \$ 4,694,640

Liabilities and net assets

Current liabilities:

| | |
|--|---------------|
| Accounts payable and accrued expenses | \$ 119,225 |
| Health insurance for post-retirees - current portion | 132,144 |
| Deferred revenue | <u>47,600</u> |
| Total current liabilities | 298,969 |

Non-current liabilities:

| | |
|--|-------------------------|
| Health insurance for post-retirees - non-current portion | <u>859,304</u> |
| Total liabilities | <u><u>1,158,273</u></u> |

Net assets:

| | |
|------------------------|-------------------------|
| Unrestricted | 2,358,290 |
| Temporarily restricted | 1,091,510 |
| Permanently restricted | 86,567 |
| Total net assets | <u><u>3,536,367</u></u> |

Total liabilities and net assets \$ 4,694,640

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

NATIONAL COUNCIL OF THE CHURCHES OF CHRIST IN THE U.S.A.
Statement of Activities
For the Year Ended December 31, 2016

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Operating revenues | | | | |
| Support: | | | | |
| Grants and Contributions: | | | | |
| Member communions | \$ 582,986 | \$ - | \$ - | \$ 582,986 |
| Others (including individual giving) | 149,669 | - | - | 149,669 |
| Revenues: | | | | |
| Sales, net (literature, film, royalties and rentals) | 1,361,229 | - | - | 1,361,229 |
| Interest and dividend income | 50,534 | 34,895 | - | 85,429 |
| Reclassifications: | | | | |
| Net assets released from restrictions | 30,066 | (30,066) | - | - |
| Total operating revenues | <u>2,174,484</u> | <u>4,829</u> | <u>-</u> | <u>2,179,313</u> |
| Operating expenses | | | | |
| Salaries and related costs | 875,400 | - | - | 875,400 |
| Professional fees | 378,668 | - | - | 378,668 |
| Rent and occupancy | 54,249 | - | - | 54,249 |
| Meetings and conferences | 56,671 | - | - | 56,671 |
| Travel and transportation | 50,884 | - | - | 50,884 |
| Communications | 22,107 | - | - | 22,107 |
| Research and development | 20,561 | - | - | 20,561 |
| Supplies and equipment | 10,499 | - | - | 10,499 |
| Depreciation and amortization | 6,219 | - | - | 6,219 |
| Insurance | 3,083 | - | - | 3,083 |
| Mass incarceration | 24,926 | - | - | 24,926 |
| Bad debt | 10,000 | - | - | 10,000 |
| Miscellaneous | 5,684 | - | - | 5,684 |
| Publication and duplication | 1,307 | - | - | 1,307 |
| Total expenses | <u>1,520,258</u> | <u>-</u> | <u>-</u> | <u>1,520,258</u> |
| Changes in net assets from operations | <u>654,226</u> | <u>4,829</u> | <u>-</u> | <u>659,055</u> |
| Non-operating changes in net assets | | | | |
| Change in accumulated post-retirement benefit obligation | 13,872 | - | - | 13,872 |
| Change in value of split-interest agreements | (5,581) | - | - | (5,581) |
| Net realized and unrealized loss on investments | 48,351 | 40,916 | - | 89,267 |
| Total non-operating changes in net assets | <u>56,642</u> | <u>40,916</u> | <u>-</u> | <u>97,558</u> |
| Changes in net assets | 710,868 | 45,745 | - | 756,613 |
| Net assets at beginning of year | <u>1,647,422</u> | <u>1,045,765</u> | <u>86,567</u> | <u>2,779,754</u> |
| Net assets at end of year | <u>\$ 2,358,290</u> | <u>\$ 1,091,510</u> | <u>\$ 86,567</u> | <u>\$ 3,536,367</u> |

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

NATIONAL COUNCIL OF THE CHURCHES OF CHRIST IN THE U.S.A.
Statement of Cash Flows
For the Year Ended December 31, 2016

| | |
|--|-------------------|
| Cash flows from operating activities: | |
| Total changes in net assets | \$ <u>756,613</u> |
| Adjustments to reconcile total changes in net assets to net cash provided by operating activities: | |
| Depreciation and amortization | 6,219 |
| Bad debt write off | 10,000 |
| Change in accumulated post-retirement benefit obligation | (13,872) |
| Net realized and unrealized loss on investments | (89,267) |
| Interest in split interest agreements | 14,361 |
| Changes in assets and liabilities: | |
| Royalty receivables | (26,697) |
| Contribution receivable | 80,740 |
| Other receivables | (1,807) |
| Deposits | (10,276) |
| Prepaid expenses | 13,457 |
| Accounts payable and accrued expenses | (95,982) |
| Deferred revenue | 42,600 |
| Net cash provided by operating activities | <u>686,089</u> |
| Cash flows from investing activities: | |
| Purchase of property and equipment | (2,763) |
| Proceeds from sale of investments | 481,446 |
| Purchase of investments | (1,073,518) |
| Net cash used in investing activities | <u>(594,835)</u> |
| Net increase in cash and cash equivalents | 91,254 |
| Cash and cash equivalents at beginning of year | <u>780,356</u> |
| Cash and cash equivalents at end of year | <u>\$ 871,610</u> |
| Amounts reported as: | |
| Cash and cash equivalents - current | \$ 832,557 |
| Cash and cash equivalents - non-current | 39,053 |
| | <u>\$ 871,610</u> |

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

NATIONAL COUNCIL OF CHURCHES OF CHRIST IN THE U.S.A.

Notes to Financial Statements For the Year Ended December 31, 2016

1. **Organization**

The National Council of Churches of Christ in the U.S.A. (the Council), since its founding in 1950, has been the leading force for ecumenical cooperation among Christians in the United States. The Council's member communions—from a wide spectrum of Protestant, Anglican, Orthodox, Evangelical, historic African-American, and Peace churches—include 45 million people in more than 100,000 local congregations in communities across the nation.

The Council has worked for over half a century toward the unity of the Christian church, peace and understanding among people of all faiths, and justice for all of God's people. It continues to be the voice of the faith community on Civil Rights, justice for women, an end to poverty, affordable health care, quality education, reformed immigration laws, and the stewardship of God's creation. It also sponsors the New Revised Standard version of the Holy Bible, leadership development opportunities, and expanded young adult ministries and ecumenical formation.

The Council merged with the U.S. Conference for the World Council of Churches (U.S. Conference). The Council then created a new committee within its Governing Board structure entitled the "World Council of Churches Relations Committee" or WCCRC. The WCCRC focuses on relationships of the member churches of the World Council of Churches (WCC) within the United States and their engagement with initiatives of the WCC, which is based in Geneva.

The Council focuses on four integrated areas of work:

- Theological study and dialogue
- Inter-religious relations and dialogue
- Joint action and advocacy for justice and peace
- Christian Education, Ecumenical Faith Foundation, and Leadership

The Council is a convener of the churches that together work toward visible unity in Christ and galvanize prophetic public witness through joint action and advocacy of the churches. The Council's work is organized at overlapping tables that integrate the three-pronged focus and draws upon synergies with partners, especially local and regional ecumenism. The Council's staff is a small group of theologically trained community organizers who facilitate the work and serve as hubs and connectors, linking people, ideas, and resources.

Given the restructure from a program oriented Council to a convening table Council, many of the programs that had remaining funds were transferred into separate companies. The Council's revenue stream currently includes member communion's contributions, royalties and investment income.

The Council is a not-for-profit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

NATIONAL COUNCIL OF CHURCHES OF CHRIST IN THE U.S.A.

Notes to Financial Statements

For the Year Ended December 31, 2016

2. Summary of Significant Accounting Policies

Basis of Presentation

Assets, liabilities, revenues and expenses are recognized on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Net Asset Classification and Fund Accounting

In the accompanying financial statements, the Council has combined its financial resources into the following three classes of net assets:

Unrestricted net assets represent funds that are fully available, at the discretion of management and the Governing Board of the Council, for the Council to utilize in any of its programs or supporting services.

Temporarily restricted net assets are comprised of funds with donor stipulations that limit their use either through purpose or time restrictions.

Permanently restricted net assets include contributions that donors have specified must be maintained in perpetuity. The related income may be expended for such purpose as specified by the donor or at the discretion of the Council in the absence thereof.

Operating and Non-operating

The Council defines operating revenue and expense as revenue/expenses from its primary business activities. Non-operating is defined as revenues/expenses from non-primary business activities. The Council's treatment of interest and dividend income is included in operating revenues because it is included in the Council's annual budget. The realized and unrealized gain or loss investment activity is included in non-operating as a result of the gain or loss not being related to primary business operations.

NATIONAL COUNCIL OF CHURCHES OF CHRIST IN THE U.S.A.

Notes to Financial Statements

For the Year Ended December 31, 2016

2. Summary of Significant Accounting Policies, continued

Cash and Cash Equivalents

The Council considers all highly liquid financial instruments, excluding mutual funds held by others, purchased with maturities of three months or less, to be cash equivalents. Cash that is restricted for Ecumenical Ministries Mass Incarceration Fund is reported in non-current assets, since it is not readily available for current operations.

Royalty Receivables

Royalty receivables represent amounts due from publishers for royalties earned on publications of the Bible and Sunday school study guides. They are recorded at net realizable value. Based on historical collections, there is no provision for uncollectible amounts.

Interest in Split Interest Agreements

The Council has an interest in certain irrevocable charitable gift annuities administered by third parties, which have an estimated residual value (fair value of gift less present value of annuity obligation) of \$35,450 as of December 31, 2016. A discount rate of 7.5% and the 2000 CM Mortality table were used for the fiscal 2016 calculation.

Investments and Investment Income

The fair values of common stocks and debt securities are based on quoted market prices. The fair values of mutual funds are based on published unit values. Investment income, net of fees, and any resulting realized and unrealized gains and losses are recorded in the appropriate net asset class based on donor restrictions or the absence thereof.

Property and Equipment

Computer equipment, furniture and fixtures, machinery and equipment, and leasehold improvements with an original cost exceeding \$500 are recorded net of accumulated depreciation and amortization. Property and equipment are depreciated on the straight-line basis, using the half-year convention method, over their estimated useful lives of three to five years. Amortization of leasehold improvements is recorded over the shorter of their useful life or remaining term of the respective lease.

Endowment Funds

Accounting standards require an organization to disclose information about the net asset classification, net asset composition, changes in net asset composition, spending policies and related investment policies of its donor-restricted endowment funds. Certain Council gifts are subject to donor restrictions requiring that the principal be invested in perpetuity and only the resulting income be utilized.

NATIONAL COUNCIL OF CHURCHES OF CHRIST IN THE U.S.A.

Notes to Financial Statements

For the Year Ended December 31, 2016

2. Summary of Significant Accounting Policies, continued

Endowment Funds, continued

Endowment funds are supervised and monitored by respective administrative committees or governing bodies. An administrative committee or governing body may appropriate for expenditures and for the uses and purposes for which an endowment fund is established. The date and amount to draw the appropriation is determined by the committee or governing body unless otherwise regulated by the endowment.

Endowment funds are maintained in the Council's long-term investment portfolio and subject to the general provisions of the Council's investment policies and procedures. The spending policy for endowment funds is administrated in accordance with the terms of the donor endowment. Unless otherwise restricted by the endowment, upon approval of the governing body of the fund, distribution from the fund each fiscal year will be 4.75% of the average fair value for the 12 quarters ending December 31. Realized and unrealized gains and losses are calculated based on investment allocation and recorded to each fund accordingly on a quarterly basis.

Contributions

Contributions are recognized as revenue when awarded and are considered to be unrestricted unless they are received with donor stipulations that limit their use either through purpose or time restrictions. Contributions with donor stipulations that limit their use are considered to be temporarily restricted until the donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled. Upon the expiration of donor stipulations, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions. Temporarily restricted contributions received and expended in the same accounting period are classified as unrestricted support.

Royalties

The Council receives royalties from various license agreements for the rights owned by the Council for curriculum and a revised standard version of the Bible. Royalties are recognized as revenue ratably over the terms of the respective agreements or based on a percentage of sales, depending on the specific terms of each royalty agreement. Royalty income for 2016 of \$1,355,704 is included in the Statement of Activities in "Sales, net (literature, film, royalties and rentals)." The royalty income is expected to decline in the next year, as a result, the Council is in discussions to update and remarket their products.

NATIONAL COUNCIL OF CHURCHES OF CHRIST IN THE U.S.A.

Notes to Financial Statements

For the Year Ended December 31, 2016

3. Fair Value Measurements

The fair value of investments is categorized into a three-tier hierarchy, which assigns priorities to inputs of valuation techniques used to measure fair value. Inputs refer to assumptions market participants would use when pricing an asset, and are classified as observable (i.e. assumptions based on market prices obtained from independent sources) and unobservable (i.e. assumptions based on best information available or the reporting entity's own assumptions). The hierarchy of inputs is summarized below:

- Level 1 – observable, represents assets with quoted market prices for identical assets (registered securities).
- Level 2 – other observable, not quoted market prices for identical assets. Inputs that are obtained from the utilization of models or other valuation methodologies.
- Level 3 – unobservable, reflects reporting entity's own assumptions and significant management judgments that would be made by market participants.

The fair value of the Council's long-term investment portfolio as of December 31, 2016 consisted of the following:

| | Fair Value Measurement at Reporting Date Using: Observable Inputs (Level 1) |
|-----------------------------|--|
| Equity securities | \$ 944,452 |
| Corporate bonds | 571,840 |
| U.S. government obligations | 280,576 |
| Other fixed income | <u>772,449</u> |
| Total long-term investments | <u>\$ 2,569,317</u> |

4. Investments Held by Others

The Ecumenical Trust (the Trust) is a not-for-profit organization that was formed for the purpose of receiving and managing assets on behalf of WCC, Church World Service, Inc. (CWS) and the Council to support the ecumenical ministries of these entities. Investments held by others, reported in the accompanying statement of financial position consist primarily of mutual fund investments held by the Trust for the WCC, CWS and the Council. As member organizations of the Ecumenical Trust, these entities are related through common Board membership.

NATIONAL COUNCIL OF CHURCHES OF CHRIST IN THE U.S.A.

Notes to Financial Statements

For the Year Ended December 31, 2016

5. Property and Equipment

As of December 31, 2016 property and equipment, net, consisted of:

| | | |
|--|----|---------------|
| Computer equipment | \$ | 63,212 |
| Furniture and fixtures | | 5,433 |
| Leasehold improvements | | 21,480 |
| Machinery and equipment | | 4,421 |
| | | <u>94,546</u> |
| Less accumulated depreciation and amortization | | <u>79,494</u> |
| Property and equipment, net | \$ | <u>15,052</u> |

Depreciation expense was \$4,755 and amortization expense was \$1,464 for 2016.

6. Post-Retirement Health Care and Pension Benefits

Post-Retirement Health Care

The Council provides certain health care benefits for retired employees. Employees hired prior to January 1, 2000 are eligible to participate upon reaching age 62 with at least five years of service or age 55 with at least 15 years of service. Employees hired on January 1, 2000 and thereafter are not eligible for post-retirement health care benefits. The measurement date for the post-retirement health care obligations is December 31, 2016; however, the valuation date is as of January 1, 2017.

Prior to January 1, 2012, the Council provided eligible retired employees and their spouse's post-retirement health care through its various fee-for-service and health maintenance organization health insurance plans for active employees. Effective November 1, 2011 for non-union employees and January 1, 2012 for union employees, the Council began providing eligible retired employees and their spouses' post-retirement health care through Medicare Supplemental and Medical Advantage plans with the assistance of a private Medicare exchange manager. The Council pays a fixed amount per month for each eligible retired employee and spouse into a Health Reimbursement Arrangement for each. Retirees and spouses then purchase individual Medicare Supplemental and Medicare Advantage health plans that best meet their health insurance needs with the assistance of the Medicare exchange manager. This change results in a fixed amount that the Council contributes to health care for each retiree and spouse.

NATIONAL COUNCIL OF CHURCHES OF CHRIST IN THE U.S.A.

Notes to Financial Statements

For the Year Ended December 31, 2016

6. Post-Retirement Health Care and Pension Benefits, continued

Post-Retirement Health Care, continued

The Council is required to recognize the over-funded or under-funded status of its retirement plans in the Statement of Financial Position and to recognize changes in funded status in the year in which they occur. The funded status represents the difference between the fair value of plan assets and the actuarially-determined benefit obligation as of the measurement date. The under-funded status of the Council's plan is shown as a liability under "Health insurance for post-retirees" on the accompanying Statement of Financial Position. Changes in the funded status are shown within "Non-operating changes in net assets" on the accompanying Statement of Activities.

| | |
|--|-------------------|
| Accumulated post-retirement benefit obligation at beginning of year | \$ 1,122,799 |
| Interest cost | 32,904 |
| Actuarial loss | (20,775) |
| Retiree benefit payments | <u>(143,480)</u> |
| Accumulated post-retirement benefit obligation at end of year | <u>\$ 991,448</u> |
| Fair value of plan assets | <u>\$ -</u> |
| Health insurance for post-retirees reflected in the statements of financial position | \$ 991,448 |
| Less: current portion | <u>(132,144)</u> |
| Non-current portion | <u>\$ 859,304</u> |

Cumulative amounts recognized in unrestricted net assets:

| | |
|--------------------|--------------------|
| Prior service cost | \$ (302,999) |
| Net loss | <u>280,372</u> |
| Total | <u>\$ (22,627)</u> |

The expected amortization to be included in net periodic post-retirement benefit cost for fiscal year 2017 is as follows:

| | |
|--------------------|--------------------|
| Prior service cost | \$ (62,218) |
| Net loss | <u>21,122</u> |
| Total | <u>\$ (41,096)</u> |

NATIONAL COUNCIL OF CHURCHES OF CHRIST IN THE U.S.A.

Notes to Financial Statements

For the Year Ended December 31, 2016

6. Post-Retirement Health Care and Pension Benefits, continued

Post-Retirement Health Care, continued

Net periodic post-retirement benefit cost for the year ended December 31, 2016 includes the following components:

| | |
|---|-------------------|
| Interest cost | \$ 32,904 |
| Net amortization and deferral | (39,043) |
| Total net periodic post-retirement benefit cost | <u>\$ (6,139)</u> |

Weighted-average assumptions:

| | |
|---|--------------|
| Discount rate as of December 31 – obligation | <u>3.22%</u> |
| Discount rate for the year ended December 31 – cost | <u>3.22%</u> |

The weighted-average annual assumed rates of increase in the per capita cost of the covered benefits (i.e., health care cost trend rate) began at an initial rate of 8% and decreased gradually to 5% over six years.

Assumed health care cost trend rates have a significant effect on the amounts reported for the plan. A 1% change in assumed health care cost trend rates would have the following effects as of December 31, 2016:

| | <u>1% Increase</u> | <u>1% Decrease</u> |
|--|--------------------|--------------------|
| Total interest and service cost components | \$ 32,907 | \$ 32,903 |
| Accumulated post-retirement benefit obligation | \$ 991,448 | \$ 991,448 |

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the “Act”) introduced a prescription drug benefit under Medicare. The employee obligations and the net periodic post-retirement benefit cost for the year ended December 31, 2016 reflect the effects of the Act.

Benefits expected to be paid are as follows:

| | <u>Gross Benefit Payments</u> | <u>Gross Subsidy Receipts</u> | <u>Net Benefit Payments</u> |
|--------------|-----------------------------------|-----------------------------------|---------------------------------|
| Year ending: | | | |
| 2017 | \$ 132,144 | \$ - | \$ 132,144 |
| 2018 | 116,708 | - | 116,708 |
| 2019 | 107,043 | - | 107,043 |
| 2020 | 97,747 | - | 97,747 |
| 2021 | 88,886 | - | 88,886 |
| 2022 to 2026 | 329,154 | - | 329,154 |

NATIONAL COUNCIL OF CHURCHES OF CHRIST IN THE U.S.A.

Notes to Financial Statements

For the Year Ended December 31, 2016

6. Post-Retirement Health Care and Pension Benefits, continued

Pension Plan

The Council had sponsored a defined contribution retirement plan covering substantially all employees. The plan required the Council to deposit with the trustee an amount equivalent to (a) 11% of the employee's annual compensation for certain eligible employees and (b) 18.65% of annual compensation for ordained employees who were considered self-employed, as defined in Article IV of the Federal Social Security Act. This plan was frozen effective December 31, 2002.

403(b) Defined Contribution Retirement Plan

The Council sponsors a defined contribution retirement plan under Section 403(b) of the Internal Revenue Code. Benefits are based solely on the amounts of plan contributions and related earnings, if any. Employer contributions to the plan for the year ended December 31, 2016 were \$68,555.

7. Commitments

The Council leases office space in Washington, DC and is obligated under an operating lease for space expiring on March 31, 2020.

Future minimum lease payments under the operating lease are as follows:

| Year ending December 31: | |
|--------------------------|-------------------|
| 2017 | \$ 53,315 |
| 2018 | 55,445 |
| 2019 | 57,666 |
| 2020 | <u>14,556</u> |
| Totals | <u>\$ 180,982</u> |

Rent expense was \$54,249 for the year ended December 31, 2016.

8. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for programs for a specific time period or purpose and are as follows as of December 31, 2016.

| | |
|-------------------------------|---------------------|
| Mass Incarceration | \$ 402,216 |
| M. A. Magnuson Memorial Fund | 114,002 |
| Department of Children's Work | 282,299 |
| Athern Scholarship | 103,766 |
| Responsible Parenthood | <u>189,227</u> |
| Total | <u>\$ 1,091,510</u> |

NATIONAL COUNCIL OF CHURCHES OF CHRIST IN THE U.S.A.

Notes to Financial Statements

For the Year Ended December 31, 2016

9. Permanently Restricted Net Assets

Permanently restricted net assets consist mainly of donations received for the Education and Leadership Ministries Commission. Earnings on these net assets may be used for the Council's operations.

10. Functional Classification of Activities

The Council is required to present expenses on a functional basis if natural classifications are presented in the Statement of Activities. The functional allocation of expenses is based primarily on the amount of direct cost spent on the programs or activities and is presented below.

| | | |
|----------------------------|----|------------------|
| Education and leadership | \$ | 475,571 |
| Joint advocacy and justice | | 234,485 |
| Faith and order | | 103,213 |
| Interfaith relations | | <u>103,213</u> |
| Total program expenses | | 916,482 |
| Management and general | | <u>603,776</u> |
| Total operating expenses | \$ | <u>1,520,258</u> |

11. Income Taxes

The Council is a not-for-profit organization exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. Since its initial filing for tax-exempt status, the Council has not received any notice from the Internal Revenue Service (IRS) that such tax-exempt status has been challenged or changed. There was no taxable income as of December 31, 2016; therefore, no provision for income taxes has been included in the financial statements.

The preparation of financial statements in conformity with GAAP requires the Council to report information regarding its exposure to various tax positions taken by the Council. The Council has determined whether any tax positions met the recognition threshold and has measured the Council's exposure to those tax positions. Management believes the Council has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. The Council is subject to routine audits by the taxing jurisdiction; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2013.

12. Concentration of Credit Risk

The Council is required to disclose significant concentrations of credit risk, regardless of the degree of such risk. Periodically throughout fiscal year 2016, the Council maintained bank deposits that exceeded the limit of insurability under the Federal Deposit Insurance Corporation.

NATIONAL COUNCIL OF CHURCHES OF CHRIST IN THE U.S.A.

Notes to Financial Statements

For the Year Ended December 31, 2016

12. Concentration of Credit Risk, continued

The Council has significant investments in stocks, bonds, and mutual funds, and is therefore subject to normal risks inherent with investing activity. Though the market value of investments is subject to fluctuations on a year-to-year basis, management believes the investment policy is prudent for the long-term welfare of the Council.

13. Subsequent Events

The Council has evaluated subsequent events that occurred after the statement of financial position date but before September 19, 2017, the date the financial statements were available to be issued.