

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

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**INDEPENDENT AUDITOR'S REPORT**

**AND**

**FINANCIAL STATEMENTS**

**For the Year Ended December 31, 2018**

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, 2018 and the related statements of activities, functional expense 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, 2018, 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.

*Milligan & Company, LLC*

Washington, DC  
November 27, 2019



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

Statement of Financial Position

December 31, 2018

**Assets**

Current assets:

|                           |                |
|---------------------------|----------------|
| Cash and cash equivalents | \$ 163,985     |
| Royalty receivables       | 477,551        |
| Contributions receivable  | 46,826         |
| Other receivables         | 14,399         |
| Prepaid expenses          | 2,703          |
| Total current assets      | <u>705,464</u> |

Non-current assets:

|                                       |                     |
|---------------------------------------|---------------------|
| Cash and cash equivalents             | 38,442              |
| Interest in split interest agreements | 14,220              |
| Long-term investments                 | 3,150,011           |
| Investments held by others            | 585,975             |
| Investment in NRSV                    | 200,000             |
| Property and equipment, net           | <u>12,319</u>       |
| Total assets                          | <u>\$ 4,706,431</u> |

**Liabilities and net assets**

Current liabilities:

|  |                |
|--|----------------|
| Accounts payable and accrued expenses                | \$ 112,790     |
| Health insurance for post-retirees - current portion | 119,364        |
| Deferred revenue                                     | 30,000         |
| Total current liabilities                            | <u>262,154</u> |

Non-current liabilities:

|  |                |
|--|----------------|
| Health insurance for post-retirees - non-current portion | <u>719,663</u> |
| Total liabilities  | <u>981,817</u> |

Net assets:

|                                  |                     |
|----------------------------------|---------------------|
| Without Donor Restrictions       | 2,736,789           |
| With Donor Restrictions          | 987,825             |
| Total net assets                 | <u>3,724,614</u>    |
| Total liabilities and net assets | <u>\$ 4,706,431</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 Activities  
For the Year Ended December 31, 2018

|  | Without Donor<br>Restrictions | With Donor<br>Restrictions | Total        |
|--|-------------------------------|----------------------------|--------------|
| <b>Operating Activities:</b>                             |                               |                            |              |
| Revenues:  |                               |                            |              |
| Sales, net (royalties and other)                         | \$ 1,152,057                  | -                          | \$ 1,152,057 |
| Miscellaneous income                                     | 100,000                       | -                          | 100,000      |
| Contributions:   |                               |                            |              |
| Member communions  | 608,798                       | -                          | 608,798      |
| Others (including individual giving)                     | 157,245                       | -                          | 157,245      |
| Total revenue and support before releases                | 2,018,100                     | -                          | 2,018,100    |
| Net assets released from restrictions                    | 220,802                       | (220,802)                  | -            |
| Total revenue and support                                | 2,238,902                     | (220,802)                  | 2,018,100    |
| <b>Expenses and losses:</b>                              |                               |                            |              |
| Education and leadership formation                       | 175,221                       | -                          | 175,221      |
| Joint advocacy and justice                               | 266,039                       | -                          | 266,039      |
| Faith and order  | 118,061                       | -                          | 118,061      |
| Interfaith relations                                     | 118,061                       | -                          | 118,061      |
| Friendship press   | 465,071                       | -                          | 465,071      |
| Management and general                                   | 681,974                       | -                          | 681,974      |
| Total expenses   | 1,824,427                     | -                          | 1,824,427    |
| Changes in net assets from operating activities          | 414,475                       | (220,802)                  | 193,673      |
| <b>Nonoperating Activities:</b>                          |                               |                            |              |
| Special events, net                                      | (448,515)                     | -                          | (448,515)    |
| Net realized and unrealized loss on investments          | (183,091)                     | (54,924)                   | (238,015)    |
| Change in accumulated post-retirement benefit obligation | (4,324)                       | -                          | (4,324)      |
| Interest income  | 86,327                        | 35,016                     | 121,343      |
| Change in value of split-interest agreements             | (2,978)                       | -                          | (2,978)      |
| Change in net assets from nonoperating activities        | (552,581)                     | (19,908)                   | (572,489)    |
| Changes in net assets                                    | (138,106)                     | (240,710)                  | (378,816)    |
| Net assets at beginning of year                          | 2,874,895                     | 1,228,535                  | 4,103,430    |
| Net assets at end of year                                | \$ 2,736,789                  | \$ 987,825                 | \$ 3,724,614 |

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 Functional Expenses  
For the Year Ended December 31, 2018

|                               | Education and<br>Leadership<br>Formation | Joint<br>Advocacy and<br>Justice | Faith and Order   | Interfaith<br>Relations | Friendship<br>Press | Total Program<br>Services | Management<br>and General | Total<br>Supporting<br>Expenses | Total<br>Operating<br>Expenses |
|-------------------------------|--|----------------------------------|-------------------|-------------------------|---------------------|---------------------------|---------------------------|---------------------------------|--------------------------------|
| Salaries and related costs    | \$ 143,764                               | 226,821                          | 113,313           | 113,313                 | 225,858             | 823,069                   | 142,745                   | 142,745                         | 965,814                        |
| Professional fees             | 16,453                                   | 27,500                           | -                 | -                       | 195,204             | 239,157                   | 364,798                   | 364,798                         | 603,955                        |
| Rent and occupancy            | -  | -                                | -                 | -                       | -                   | -                         | 57,848                    | 57,848                          | 57,848                         |
| Supplies and equipment        | -  | -                                | -                 | -                       | 2,066               | 2,066                     | 7,360                     | 7,360                           | 9,426                          |
| Communications                | -  | 300                              | -                 | -                       | -                   | 300                       | 22,184                    | 22,184                          | 22,484                         |
| Meetings and conferences      | 13,847                                   | -                                | -                 | -                       | 5,941               | 19,788                    | 40,532                    | 40,532                          | 60,320                         |
| Travel and transportation     | 1,157                                    | 11,418                           | 4,748             | 4,748                   | 15,088              | 37,159                    | 31,357                    | 31,357                          | 68,516                         |
| Insurance                     | -  | -                                | -                 | -                       | -                   | -                         | 4,059                     | 4,059                           | 4,059                          |
| Publication and duplication   | -  | -                                | -                 | -                       | -                   | -                         | 2,229                     | 2,229                           | 2,229                          |
| Research and development      | -  | -                                | -                 | -                       | 20,914              | 20,914                    | -                         | -                               | 20,914                         |
| Miscellaneous                 | -  | -                                | -                 | -                       | -                   | -                         | 1,977                     | 1,977                           | 1,977                          |
| Depreciation and amortization | -  | -                                | -                 | -                       | -                   | -                         | 6,885                     | 6,885                           | 6,885                          |
| Total expenses                | \$ <u>175,221</u>                        | \$ <u>266,039</u>                | \$ <u>118,061</u> | \$ <u>118,061</u>       | \$ <u>465,071</u>   | \$ <u>1,142,453</u>       | \$ <u>681,974</u>         | \$ <u>681,974</u>               | \$ <u>1,824,427</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, 2018

|  |                   |
|--|-------------------|
| Cash flows from operating activities:  |                   |
| Total changes in net assets  | \$ (378,816)      |
| Adjustments to reconcile total changes in net assets to net cash used in operating activities: |                   |
| Depreciation and amortization  | 6,885             |
| Change in accumulated post-retirement benefit obligation                                       | 4,324             |
| Net realized and unrealized loss on investments  | 238,015           |
| Interest in split interest agreements  | 7,137             |
| Changes in assets and liabilities:   |                   |
| Royalty receivables  | 86,478            |
| Contribution receivable  | (33,473)          |
| Other receivables  | (3,024)           |
| Deposits   | 1,360             |
| Prepaid expenses   | 3,824             |
| Accounts payable and accrued expenses  | (56,478)          |
| Net cash used in operating activities  | <u>(123,768)</u>  |
| Cash flows from investing activities:  |                   |
| Purchase of property and equipment   | (1,429)           |
| Proceeds from sale of investments  | 1,475,083         |
| Purchase of investments  | (1,490,602)       |
| Net cash used in investing activities  | <u>(16,948)</u>   |
| Net decrease in cash and cash equivalents  | (140,716)         |
| Cash and cash equivalents at beginning of year   | <u>343,143</u>    |
| Cash and cash equivalents at end of year   | <u>\$ 202,427</u> |
| Amounts reported as:   |                   |
| Cash and cash equivalents - current  | \$ 163,985        |
| Cash and cash equivalents - non-current  | <u>38,442</u>     |
|  | <u>\$ 202,427</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, 2018

### 1. **Nature of Operations:**

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 focuses on five integrated areas of work:

- **Education and Leadership Formation** - The Council is proud, through its work in Christian Education, to have produced the Revised Standard Version (1952) and New Revised Standard Version (1989) Bible translations. Through the Bible Translation and Utilization Committee, the Council works to provide contemporary, ecumenical, accurate English translations of the Bible, and to promote the use of the Bible in public worship and education, and in private study and devotion. The latter ministry includes programs on Biblical literacy, translation, and interpretation, and supporting emerging scholars. The International Sunday School Lessons Uniform Series (ISSL) offers a systematic study of the Bible.
- **Joint Advocacy and Justice**- At the core of Christian faith is a commitment to work on behalf of and with those marginalized by our society; the hungry, sick, poor, prisoners, strangers and powerless people (Matt. 25:44). The Council has been a prophetic voice for justice and peace for its entire existence. The Council continues to advocate with those who seek justice through the Joint Action and Advocacy for Justice and Peace Convening Table.
- **Faith and Order**- Faith and Order affirms the oneness of the Church of Jesus Christ and keeps before the churches the Gospel call to visible unity in one faith and one Eucharistic communion, expressed in worship and in common life in Christ, in order that the world may believe.
- **Interfaith Relations**- The Interreligious Relations and Collaboration work of the Council exercises special responsibility within the life of the Council for programs, resources and communication integral to the building and maintenance of interfaith relationships, and to theological reflection of these relationships. The Council works with and on behalf of the churches to strengthen relationships between Christians and people of other faiths through study, dialogue, the development of cooperative programs and the sharing of resources and information. It provides an ecumenical forum for sharing, common counsel and theological reflection regarding interfaith relations, and coordinates its work with other entities of the Council as appropriate.

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

Notes to Financial Statements

For the Year Ended December 31, 2018

**1. Nature of Operations, continued:**

- Friendship Press - Friendship Press began its publishing efforts on June 27, 1935. The editorial and publishing team produced a variety of works that expressed its value commitments and support for the health and welfare of children, constructive race relations, church missions, vibrant culture, and peace among nations. The Friendship Press was inactive for many years; however in January of 2018, the Board of Directors reactivated its operations.

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 Council's focus areas 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.

**2. Summary of Significant Accounting Policies:**

Basis of Presentation:

The financial statements of the Council have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 dated August 2016, and the provisions of the American Institute of Certified Public Accountants (AICPA) "Audit and Accounting Guide for Not-for-Profit Organizations." ASC 958 was effective for fiscal years beginning after December 2017, and it requires that net assets, revenues, and gains and losses, be classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Council and changes therein are classified as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Council. The Council's board may designate assets without restrictions for specific purposes from time to time.

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

Notes to Financial Statements

For the Year Ended December 31, 2018

**2. Summary of Significant Accounting Policies, continued:**

Basis of Presentation, continued

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

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.

Contributions:

Unconditional contributions are recognized when received and recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Gifts of cash and other assets are reported with donor restricted support if they are received with donor stipulations that limit the use of the donated assets. When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restriction. Donor-restricted contributions whose restrictions are met in the same reporting period that they are received are reported as net assets without donor restriction support.

Measure of Operations:

The statements of activities reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Council's ongoing activities that are core to its mission. Non-operating activities are limited to resources that generate return from investments, endowment contributions, and other activities considered to be of a more unusual or nonrecurring nature.

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.

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

Notes to Financial Statements

For the Year Ended December 31, 2018

**2. Summary of Significant Accounting Policies, continued:**

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 \$14,220 as of December 31, 2018. Assumptions used in 2018 included the 10 year average consumer price index (CPI) which was 1.56% and the 2000 CM Mortality table.

Investments and Investment Income:

Investments are stated at fair value. Net appreciation (depreciation) in the fair value of investments, which consists of the realized gains or losses and the unrealized appreciation (depreciation) on those investments, is presented in the statement of activities in accordance with donor restrictions. Investment return is presented net of investment fees. The cost method is primarily used to determine the basis for computing realized gains or losses.

New Revised Standard Version Cost:

The balance represents cost incurred by the Council to update and enhance the copyrighted New Revised Standard Version (NRSV) of the Bible, owned by the Council. Once the updated NRSV is complete (anticipated to be completed and released in 2021) and available for sale, the Council will amortize the cost over the period of expected sales.

Property and Equipment:

Computer equipment, furniture and fixtures, machinery and equipment, and leasehold improvements exceeding \$500 are recorded at cost. 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, 2018

**2. Summary of Significant Accounting Policies, 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. Management's policy is to maintain the original endowment amount intact.

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 2018 of \$1,144,225 is included in the Statement of Activities in "Sales, net."

Functional Expenses:

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

| <u>Expense</u>                       | <u>Method of Allocation</u> |
|--------------------------------------|-----------------------------|
| Administrative Salaries and Benefits | Time and Effort             |

New Accounting Standard:

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Council has adjusted the presentation of these statements accordingly.

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

Notes to Financial Statements

For the Year Ended December 31, 2018

**3. Net Assets – With Donor Restrictions:**

Donor restricted net assets consist of the following purposes:

Subject to expenditure for specified purpose:

|   |                |
|---|----------------|
| Mass Incarceration: Support for individuals that are<br>or have been incarcerated | \$ 400,612     |
| Department of Children’s Work: General  | 214,095        |
| Athern Scholarship: Scholarships for<br>ministers/seminary students               | 78,135         |
| Responsible Parenthood: Christian Education                                       | <u>208,416</u> |
|   | <u>901,258</u> |

Subject to the Council’s spending policy and appropriation:

Investments in perpetuity:

|  |                   |
|--|-------------------|
| M. A. Magnuson Memorial Fund             | 10,000            |
| Responsible Parenthood                   | 19,867            |
| Athern Scholarship                       | 6,700             |
| Faye Campbell Fund                       | <u>50,000</u>     |
|  | <u>86,567</u>     |
| Total net assets with donor restrictions | <u>\$ 987,825</u> |

Releases from Donor Restricted Net Assets for the year ended, are as follows:

Subject to expenditure for specified purpose:

|                               |                   |
|-------------------------------|-------------------|
| Mass Incarceration            | \$ 29,034         |
| Responsible Parenthood        | 1,164             |
| M.A. Magnuson Memorial Fund   | 74,034            |
| Department of Children’s Work | 95,218            |
| Athern Scholarship            | <u>21,352</u>     |
|                               | <u>\$ 220,802</u> |

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

Notes to Financial Statements

For the Year Ended December 31, 2018

**4. Net Assets – Endowment Funds:**

The Council’s endowment consists of four funds held with an institutional investment company. The endowment funds are donor-restricted funds which are classified and reported based on the type of donor-imposed restrictions.

The Council is subject to the New York State Prudent Management of Institutional Funds Act (NYSPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are purpose restricted.

Endowment Net Asset composition by Type of Fund:

|  | <u>With Donor<br/>Restrictions</u> |
|--|------------------------------------|
| Donor-Restricted Endowment Funds:  |                                    |
| Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor | \$ <u>86,567</u>                   |
| Total  | \$ <u>86,567</u>                   |

As of December 31, 2018, the endowment fund is comprised of:

|             |          |
|-------------|----------|
| Investments | \$86,567 |
|-------------|----------|

Changes in Endowment Net Assets for the Year Ended December 31, 2018:

|   | <u>With Donor<br/>Restrictions</u> |
|---|------------------------------------|
| Endowment Net Assets, Beginning of Year | 86,567                             |
| Investment return, net                  | ( 4,467)                           |
| Interest and dividend income            | 2,654                              |
| Other changes                           | <u>1,813</u>                       |
| Endowment Net Assets, End of Year Total | \$ <u>86,567</u>                   |

**5. Liquidity**

The Council’s financial assets available within one year of the balance sheet date for general expenditures are as follows:

|                           |                   |
|---------------------------|-------------------|
| Cash and cash equivalents | \$ 163,985        |
| Royalty receivable        | 477,551           |
| Contribution receivable   | 46,826            |
| Other receivable          | 14,399            |
| Prepaid expenses          | <u>2,703</u>      |
|                           | <u>\$ 705,464</u> |

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

Notes to Financial Statements

For the Year Ended December 31, 2018

**5. Liquidity, continued**

As part of the Council's liquidity management rule its financial assets are structured to be available as the general expenditures, liabilities, and other obligations come due.

The Council's endowment funds consist of donor-restricted endowments. Income from donor-restricted endowments is restricted for specific purposes and, therefore, is not available for general expenditure.

**6. Special Events, net**

In 2018, a special event was held to raise awareness about the organizations mission. This was an incidental event to the Council's central activities which does not happen regularly. Incidental events are recorded net in the accompanying Statement of Activities.

**7. Fair Value Measurements**

The fair value of investments are 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, 2018 consisted of the following:

|                               | Observable<br>Inputs<br>(Level 1) | Other<br>Observable Inputs<br>(Level 2) | Total               |
|-------------------------------|-----------------------------------|---|---------------------|
| Mutual funds                  | \$ 745,154                        | \$ -                                    | \$ 745,154          |
| Common Stocks                 | 1,282,050                         | -                                       | 1,282,050           |
| Fixed income:                 |                                   |   |                     |
| Corporate bonds               | -                                 | 471,843                                 | 471,843             |
| U.S. government obligations   | -                                 | 409,417                                 | 409,417             |
| Real estate investment trusts | 27,899                            | -                                       | 27,899              |
| Exchange traded products      | 213,648                           | -                                       | 213,648             |
| Total long-term investments   | <u>\$ 2,268,751</u>               | <u>\$ 881,260</u>                       | <u>\$ 3,150,011</u> |



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

Notes to Financial Statements

For the Year Ended December 31, 2018

**7. Fair Value Measurements, continued**

The following is a description of the valuation methodologies used to measure assets at fair value. There have been no changes in the methodologies used during the year ended December 31, 2018.

Mutual funds – Shares of mutual funds are valued at the quoted net asset value (“NAV”) of shares held at year-end.

Common stocks – Stated at quoted prices based on an active market.

Fixed income – May be valued based on quoted prices or by the pricing vendor using a variety of techniques to estimate value.

Real estate investment trusts – Stated at quoted prices based on an active market.

Exchanged traded products – Stated at quoted prices based on an active market.

**8. Investment 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 common stock and fixed income investments held by the Trust for the Council. As member organizations of the Trust, these entities are related through common Board membership.

**9. Property and Equipment**

As of December 31, 2018 property and equipment, net, consisted of:

|  |    |                |
|--|----|----------------|
| Computer equipment                             | \$ | 65,677         |
| Furniture and fixtures                         |    | 8,077          |
| Leasehold improvements                         |    | 21,480         |
| Machinery and equipment                        |    | 10,215         |
|  |    | <u>105,449</u> |
| Less accumulated depreciation and amortization |    | (93,130)       |
| Property and equipment, net                    | \$ | <u>12,319</u>  |

Depreciation expense was \$5,967 and amortization expense was \$918 for 2018.

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

Notes to Financial Statements

For the Year Ended December 31, 2018

**10. 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, 2018.

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.

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                  | \$ 938,892               |
| Interest cost  | 24,521                   |
| Actuarial gain   | (150)                    |
| Retiree benefit payments   | <u>(124,236)</u>         |
| Accumulated post-retirement benefit obligation at end of year                        | <u>\$ 839,027</u>        |
| Fair value of plan assets  | <u>\$ -</u>              |
| Health insurance for post-retirees reflected in the statements of financial position | \$ 839,027               |
| Less: current portion  | <u>(119,364)</u>         |
| Non-current portion  | <u><u>\$ 719,663</u></u> |

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

Notes to Financial Statements

For the Year Ended December 31, 2018

**10. Post-Retirement Health Care and Pension Benefits, continued**

**Post-Retirement Health Care, continued**

Cumulative amounts recognized in unrestricted net assets:

|                    |                     |
|--------------------|---------------------|
| Prior service cost | \$ (178,563)        |
| Net loss           | <u>284,617</u>      |
| Total              | <u>\$ (106,054)</u> |

The expected amortization to be included in net periodic post-retirement benefit cost for calendar year 2019 is as follows:

|                    |                    |
|--------------------|--------------------|
| Prior service cost | \$ (62,218)        |
| Net loss           | <u>25,375</u>      |
| Total              | <u>\$ (36,843)</u> |

Net periodic post-retirement benefit cost for the year ended December 31, 2018 includes the following components:

|   |                    |
|---|--------------------|
| Interest cost                                   | \$ 24,521          |
| Net amortization and deferral                   | <u>(35,817)</u>    |
| Total net periodic post-retirement benefit cost | <u>\$ (11,296)</u> |

Weighted-average assumptions:

|   |              |
|---|--------------|
| Discount rate as of December 31 – obligation        | <u>3.71%</u> |
| Discount rate for the year ended December 31 – cost | <u>3.71%</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, 2018:

|  | <u>1% Increase</u> | <u>1% Decrease</u> |
|--|--------------------|--------------------|
| Total interest and service cost components     | \$ 24,521          | \$ 24,521          |
| Accumulated post-retirement benefit obligation | \$ 839,027         | \$ 839,027         |

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, 2018 reflect the effects of the Act.

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

Notes to Financial Statements

For the Year Ended December 31, 2018

**10. Post-Retirement Health Care and Pension Benefits, continued**

**Post-Retirement Health Care, continued**

Benefits expected to be paid are as follows:

|              | <u>Gross Benefit<br/>Payments</u> | <u>Gross Subsidy<br/>Receipts</u> | <u>Net Benefit<br/>Payments</u> |
|--------------|-----------------------------------|-----------------------------------|---------------------------------|
| Year ending: |                                   |                                   |                                 |
| 2019         | 119,364                           | -                                 | 119,364                         |
| 2020         | 107,983                           | -                                 | 107,983                         |
| 2021         | 97,306                            | -                                 | 97,306                          |
| 2022         | 87,374                            | -                                 | 87,374                          |
| 2023         | 78,211                            | -                                 | 78,211                          |
| 2024 to 2028 | 279,880                           | -                                 | 279,880                         |

**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, 2018 were \$83,449.

**11. 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: |                  |
| 2019                     | 57,666           |
| 2020                     | 14,556           |
| Totals                   | \$ <u>72,222</u> |

Rent expense was \$57,850 for the year ended December 31, 2018.

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

Notes to Financial Statements

For the Year Ended December 31, 2018

**12. 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, 2018; 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 2015.

**13. 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 2018, the Council maintained bank deposits that exceeded the limit of insurability under the Federal Deposit Insurance Corporation. 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.

**14. Subsequent Events**

The Council has evaluated subsequent events that occurred after the statement of financial position date but before November 27, 2019, the date the financial statements were available to be issued.