

UNITED CHURCH OF GOD,
an INTERNATIONAL ASSOCIATION

Financial Statements and
Additional Financial Information
June 30, 2015 and 2014
With Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

Council of Elders
United Church of God, *an International Association*:

Report on the Financial Statements

We have audited the accompanying financial statements of United Church of God, an International Association (a not-for-profit organization), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of United Church of God, an International Association as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Functional Expenses on pages 12 and 13 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedules of Functional Expenses are fairly stated in all material respects in relation to the financial statements as a whole.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
October 13, 2015

UNITED CHURCH OF GOD, an International Association
Statements of Financial Position
June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets:		
Cash and cash equivalents	\$ 6,881,720	4,119,009
Prepaid expenses	375,774	309,876
Property and equipment, net	<u>3,819,242</u>	<u>5,347,292</u>
Total assets	\$ <u>11,076,736</u>	<u>9,776,177</u>
Liabilities and net assets:		
Liabilities:		
Accounts payable	\$ 161,353	152,895
Accrued payroll and vacation pay	410,433	378,717
Accrued insurance obligations	57,194	63,527
Accrued other	7,475	14,300
Mortgage payable	<u>381,699</u>	<u>324,323</u>
Total liabilities	<u>1,018,154</u>	<u>933,762</u>
Net assets:		
Unrestricted	9,953,338	8,765,192
Temporarily restricted	<u>105,244</u>	<u>77,223</u>
Total net assets	<u>10,058,582</u>	<u>8,842,415</u>
Total liabilities and net assets	\$ <u>11,076,736</u>	<u>9,776,177</u>

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

UNITED CHURCH OF GOD, an International Association
Statements of Activities
Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Unrestricted net assets:		
Revenues, gains and other support:		
Contributions - individuals	\$ 12,698,964	11,922,785
Contributions - local congregations	538,128	327,998
Holy day offerings and festival fund contributions	4,689,286	4,495,043
Estate/personal property donations	388,179	186,337
Dividend and interest income	15,936	2,852
Other income	159,398	183,223
Net assets released from restrictions:		
Satisfaction of restrictions	<u>77,223</u>	<u>16,304</u>
Total revenues, gains and other support	<u>18,567,114</u>	<u>17,134,542</u>
Expenses:		
Program services:		
Field Ministry / Local Congregations	7,342,668	7,036,956
Festivals	377,358	471,236
International	1,580,183	1,427,721
Public Proclamation	<u>4,562,013</u>	<u>5,025,222</u>
Total program services	<u>13,862,222</u>	<u>13,961,135</u>
Management and general:		
Council of Elders / Home Office /		
Insurance & Benefit Plans	2,516,145	2,200,521
General Conference	33,120	30,944
Executive Reserve	<u>346,995</u>	<u>145,000</u>
Total management and general	<u>2,896,260</u>	<u>2,376,465</u>
Total expenses	<u>16,758,482</u>	<u>16,337,600</u>
Loss on sale of land	<u>(620,486)</u>	<u>-</u>
Increase in unrestricted net assets	<u>1,188,146</u>	<u>796,942</u>
Temporarily restricted net assets:		
Contributions	105,244	77,223
Net assets released from restrictions:		
Satisfaction of restrictions	<u>(77,223)</u>	<u>(16,304)</u>
Increase in temporarily restricted net assets	<u>28,021</u>	<u>60,919</u>
Change in net assets	1,216,167	857,861
Net assets at the beginning of period	<u>8,842,415</u>	<u>7,984,554</u>
Net assets at the end of period	<u>\$ 10,058,582</u>	<u>8,842,415</u>

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

UNITED CHURCH OF GOD, an International Association

Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ 1,216,167	857,861
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	163,356	151,814
Loss on sale of land	620,486	-
Effect of change in operating assets and liabilities:		
Prepaid expenses	(65,898)	(140,826)
Accounts payable	8,458	(52,835)
Accrued payroll and vacation pay	31,716	39,940
Accrued insurance obligations	(6,333)	25,421
Accrued other	<u>(6,825)</u>	<u>14,300</u>
Net cash provided by operating activities	<u>1,961,127</u>	<u>895,675</u>
Cash flows from investing activities:		
Proceeds from sale of land	979,971	-
Purchases of property and equipment	<u>(235,763)</u>	<u>(154,649)</u>
Net cash provided (used) by investing activities	<u>744,208</u>	<u>(154,649)</u>
Cash flows from financing activities:		
Proceeds from mortgage payable	100,000	325,000
Principal payments on mortgage payable	<u>(42,624)</u>	<u>(277,125)</u>
Net cash provided by financing activities	<u>57,376</u>	<u>47,875</u>
Net increase in cash and cash equivalents	2,762,711	788,901
Cash and cash equivalents, beginning of year	<u>4,119,009</u>	<u>3,330,108</u>
Cash and cash equivalents, end of year	\$ <u><u>6,881,720</u></u>	<u><u>4,119,009</u></u>
 <u>Supplemental Cash Flow Disclosures:</u>		
Interest paid	\$ <u><u>8,541</u></u>	<u><u>17,575</u></u>

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

UNITED CHURCH OF GOD, *an International Association*

Notes to the Financial Statements

June 30, 2015 and 2014

1. CHURCH AND ACTIVITIES:

The United Church of God, *an International Association*, (herein referred as the "Church") is a worldwide religious association. In the United States of America, the Church is a California Nonprofit Religious Corporation (incorporated on May 10, 1995). Affairs of the Church are coordinated through the Home Office located in Milford, Ohio, where the state of Ohio has the Church officially registered.

The Church is not affiliated with other religious churches, nor does it publicly appeal for funds or involve itself in politics. The mission of the United Church of God, *an International Association*, is to preach the gospel of Jesus Christ and the Kingdom of God in all the world, make disciples in all nations and care for those disciples.

The Church is overseen by a General Conference of Elders, which, in turn, appoints a 12-member Council of Elders to function as a board of directors that establishes operations policies for the Church. The officers and employees of the Church are responsible for operation of the Church in conformance with Council policies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of presentation

The accompanying financial statements include only the activity of the Home Office for the Church.

The Church has associated organizations, operating in other countries, which have resources that are principally derived and expended locally. The Church provides grants-in-aid and other services to some of these organizations. The accounts of these organizations are not included in the accompanying financial statements.

The financial statements have been prepared on the accrual basis in accordance with the AICPA Audit and Accounting Guide, "Not-for-Profit Organizations." The significant accounting policies followed are described below.

Revenue recognition

Unrestricted net assets represent those resources of the Church that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by actions of the Council of Elders or may otherwise be limited by contractual agreements with outside parties.

Temporarily restricted net assets represent contributions that are subject to donor-imposed restrictions that can be fulfilled by actions of the Church pursuant to those stipulations or that expire by the passage of time. Temporarily restricted contributions received and expended in the same fiscal year are recorded as unrestricted revenues.

Church support

Members of the Church practice tithing (which is the donation of ten percent of one's "net" income for the Church's unrestricted use). The majority of Church support and revenue consist of such unrestricted donations, whether from individuals directly to the Home Office or from monies received by local congregations and subsequently given to the Home Office.

Members also save an additional ten percent of their annual "net" income for personal use in attending biblically mandated festivals or holy days. This is commonly referred to as the second tithe. Members also contribute to the Church a portion of the second tithe that they save for use at the annual festivals. These contributions, known as the "Festival Fund," are used to pay for expenses involved in festival operations and to assist needy members and their families so they can attend the Feast of Tabernacles. Funds are also sent internationally to assist members.

Those members who are financially able contribute to the "Assistance Fund." Monies contributed to the fund are used to assist the needy.

Members may designate that their contributions be used to support the Church internationally. This fund is known as the "International Fund."

Use of estimates

The financial statements are prepared in conformity with generally accepted accounting principles which require management to make estimates and assumptions that affect the amounts of assets and liabilities, the disclosure of contingent liabilities as of the financial statement date, and the amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income taxes

The Church is exempt from Federal income tax under Internal Revenue Code (IRC) Section 501(c)(3). Donations to the Church are, therefore, tax-deductible under IRC Section 170(b)(1)(A). However, income from certain activities not directly related to the Church's tax-exempt purpose would be subject to taxation as unrelated business income. The Church has been granted tax-exempt status in the states in which it operates that provide exemptions from taxes.

The Church follows Financial Accounting Standards Board (FASB) guidance related to accounting for uncertainty in income taxes. Those provisions clarify the accounting and recognition for income tax positions taken or expected to be taken in the Church's income tax returns. The Church is not required to file an annual information return due to its religious origins but would be subject to tax on any unrelated business income. The Church believes it has not earned any unrelated business income and has estimated no tax is due based on current facts and circumstances. Thus, the Church has determined that an accrual for taxes is not needed for the year ended June 30, 2015.

Cash and cash equivalents

Cash and cash equivalents consist of cash and investments with initial maturities of three months or less.

Concentration of credit risk

The Church maintains its cash and certificates of deposit at several commercial and savings banks which, at times, exceed federally insured limits. The Church has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Property and equipment

Purchased property and equipment are recorded at cost. Donations of property and equipment are recorded as support at their estimated fair value on the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to be used for a specific purpose. Major improvements to real property are capitalized and normal repair and maintenance costs are expensed as incurred.

Property and equipment owned by the Church are depreciated using the straight-line method over their estimated useful life as follows:

Computer/Information Systems	3 years
Office Equipment	5 years
Office Furniture and Fixtures	7 years
Land Improvements	10 years
Buildings	40 years

Components of programs and supporting services

Field Ministry/Local Congregations: This function includes expenses pertaining to the field ministry, local congregations and youth camps.

International: This function includes expenses pertaining to the support of international congregations and offices.

Public Proclamation: This area contains all media related expenses.

Festivals: This function includes costs that are directly involved in the fall Festival of Tabernacles and the other annual festivals.

Home Office: This function includes administrative and other expenses for the Home Office.

Council of Elders: The expenses in this function are those that pertain to the Council of Elders, including phone and face-to-face conferences.

General Conference: Expenses in this function include any expenses relating to the Cincinnati, Ohio, General Conference held in May.

Executive Reserve: This function includes funds set aside for special projects, capital expenditures, employee benefits, or other expenditures that may occur during the year.

Subsequent events

The Church evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements. The accompanying financial statements consider events through October 13, 2015, the date on which the financial statements were available to be issued.

3. PROPERTY AND EQUIPMENT:

Property and equipment consisted of the following at June 30:

	<u>2015</u>	<u>2014</u>
Buildings	\$ 4,447,695	4,288,142
Land	402,952	402,936
Land held for resale	-	1,600,457
Land improvements	396,551	396,551
Furniture and fixtures	16,125	16,125
Office equipment	587,880	553,225
Vehicles	<u>58,973</u>	<u>28,438</u>
Total property and equipment	5,910,176	7,285,874
Less: accumulated depreciation	<u>2,090,934</u>	<u>1,938,582</u>
	<u>\$ 3,819,242</u>	<u>5,347,292</u>

During the year ended June 30, 2015, the land held for resale was sold at a loss of \$620,486.

4. OBLIGATIONS UNDER OPERATING LEASES:

The Church leases automobiles pursuant to operating lease agreements. The Church's future minimum lease payments for all non-cancelable operating leases are as follows:

<u>Years Ending June 30,</u>	
2016	\$ 152,937
2017	101,982
2018	61,990
2019	<u>10,354</u>
Total future minimum lease payments	<u>\$ 327,263</u>

Rent and lease expenses for the years ended June 30, 2015 and 2014 were \$449,084 and \$477,142, respectively.

5. DEFINED CONTRIBUTION PENSION PLAN:

Effective April 1, 1999 the Church established a 403(b) thrift plan for all full time employees. In February 2011, the Church elected to suspend contributions to the plan for the year ended June 30, 2012. A matching contribution was reinstated for the year ended June 30, 2015. The matching expense was \$41,284 at June 30, 2015.

6. MORTGAGE PAYABLE:

In November 2008, the Church signed a \$350,000 mortgage with Prosperity Bank, secured by a church building. The mortgage was to be repaid in monthly installments over fifteen years, with an interest rate at 6.526%. In June 2014, the note with Prosperity Bank was refinanced and a new mortgage was issued through a member of the church. The new note has a principal amount of \$260,000 and will be repaid in monthly installments over 8 years, with an interest rate of 3.00%. The balance at June 30, 2015 was \$230,805.

In June 2014, the Church signed a \$65,000 mortgage with Church of Christ, secured by a church building. The mortgage will be repaid in monthly installments over 8 years, with an interest rate of 0.00%. The balance at June 30, 2015 was \$56,198.

In December 2014, the Church signed a \$25,000 mortgage with United Church of God, Fort Wayne, secured by a church building. The mortgage will be repaid in monthly installments over 10 years, with an interest rate of 0.50%. The balance at June 30, 2015 was \$23,576.

In December 2014, the Church signed a \$75,000 mortgage with United Church of God, Indianapolis, secured by a church building. The mortgage will be repaid in monthly installments over 10 years, with an interest rate of 2.50%. The balance at June 30, 2015 was \$71,120.

The future minimum payments on the mortgage payables are as follows:

Years Ending June 30,

2016	\$ 45,990
2017	48,527
2018	49,657
2019	50,822
2020	52,019
Thereafter	<u>134,684</u>
Total	\$ <u>381,699</u>

7. COMMITMENTS AND CONTINGENCIES:

The Church is currently making discretionary payments to certain individuals. The payments totaled approximately \$749,000 and \$778,000 for the years ended June 30, 2015 and 2014, respectively. These discretionary payments are provided, in part, based upon the individual's needs and, accordingly, could be discontinued in the future. No amounts have been accrued in the accompanying financial statements for future payments relating to these arrangements.

The Church is self-insured for medical and dental insurance and maintains a stop-loss coverage policy covering individual claims in excess of predetermined amounts. Aggregate annual claims are also capped at a fixed rate. Self-insurance costs are accrued based upon the aggregate of the liability for reported claims and an estimated liability for claims incurred but not reported.

8. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets are available for the following purposes at June 30:

	<u>2015</u>	<u>2014</u>
Good Works Program	\$ 80,744	77,223
Building Fund	<u>24,500</u>	<u>-</u>
	\$ <u>105,244</u>	<u>77,223</u>

Net assets of \$77,223 and \$16,304 were released during 2015 and 2014, respectively, from donor restrictions by incurring expenses satisfying the restricted purposes specified by the donors within the Good Works Program.

UNITED CHURCH OF GOD, an International Association
Schedule of Functional Expenses
Year Ended June 30, 2015

	Program Services				Management and General			Totals
	Ministerial Services/Field Ministry/Local Congregations	Festivals	International	Public Proclamation	Council of Elders/Home Office/Insurance & Benefit Plans	Executive Reserve	General Conference	
Salaries and related benefits	\$ 4,368,265	-	-	1,377,821	746,847	244,600	-	6,737,533
Contracted services and fees	43,051	1,579	-	250,143	150,781	31,000	6,803	483,357
Broadcast media and advertising	-	-	-	1,155,188	-	-	-	1,155,188
Print media and advertising	10,567	15,503	-	610,398	15,177	-	2,514	654,159
Postage and shipping	16,116	11,285	-	749,836	42,348	47	3,428	823,060
Building and equipment lease/rental	11,959	162,426	-	795	4,472	-	-	179,652
Telephone and utilities	35,434	884	1,427	2,415	93,631	-	-	133,791
Supplies	44,961	11,131	-	21,707	48,675	7,772	3,841	138,087
Travel, mileage, meals, and lodging	777,278	24,149	129,590	7,061	91,493	18,276	16,534	1,064,381
Depreciation	-	-	-	-	163,356	-	-	163,356
Grants and charitable support:								
International support	-	3,480	1,447,693	383,291	559	-	-	1,835,023
Domestic support:								
Assistance to the needy	566,685	146,246	-	-	35,737	-	-	748,668
Allocations to local congregations	1,442,859	-	-	-	-	-	-	1,442,859
Insurance and health care	-	-	-	-	1,077,743	-	-	1,077,743
Other	25,493	675	1,473	3,358	45,326	45,300	-	121,625
Total expenses	\$ 7,342,668	377,358	1,580,183	4,562,013	2,516,145	346,995	33,120	16,758,482

UNITED CHURCH OF GOD, an International Association
Schedule of Functional Expenses
Year Ended June 30, 2014

	Program Services				Management and General			Totals
	Ministerial Services/Field Ministry/Local Congregations	Festivals	International	Public Proclamation	Council of Elders/ Home Office/Insurance & Benefit Plans	Executive Reserve	General Conference	
Salaries and related benefits	\$ 4,099,885	91,626	-	1,425,148	721,593	145,000	-	6,483,252
Contracted services and fees	33,059	67	232	226,223	151,211	-	5,963	416,755
Broadcast media and advertising	-	-	-	1,317,106	-	-	-	1,317,106
Print media and advertising	5,358	12,968	-	721,466	7,379	-	1,838	749,009
Postage and shipping	12,903	9,582	-	788,340	7,013	-	2,338	820,176
Building and equipment lease/rental	18,775	164,997	-	2,276	14,164	-	-	200,212
Telephone and utilities	38,849	844	986	2,142	88,420	-	-	131,241
Supplies	38,146	12,049	-	27,024	59,843	-	2,407	139,469
Travel, mileage, meals, and lodging	786,259	30,020	88,710	7,087	80,376	-	18,382	1,010,834
Depreciation	-	-	-	-	151,814	-	-	151,814
Grants and charitable support:								
International support	-	4,030	1,337,463	487,648	493	-	-	1,829,634
Domestic support:								
Assistance to the needy	569,174	141,139	-	-	49,909	-	-	760,222
Allocations to local congregations	1,406,181	-	-	280	-	-	-	1,406,461
Insurance and health care	-	-	-	-	827,571	-	-	827,571
Other	28,367	3,914	330	20,482	40,735	-	16	93,844
Total expenses	\$ 7,036,956	471,236	1,427,721	5,025,222	2,200,521	145,000	30,944	16,337,600



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