MINNESOTA CONFERENCE OF THE UNITED CHURCH OF CHRIST

FINANCIAL REPORT

SEPTEMBER 30, 2016

C O N T E N T S

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Minnesota Conference of the United Church of Christ
Minneapolis, Minnesota

We have audited the accompanying financial statements of Minnesota Conference of the United Church of Christ (a nonprofit Organization), which comprise the statements of financial position as of September 30, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 Minnesota Conference of the United Church of Christ as of September 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Boyum + Barenscheer PLLP

Boyum & Barenscheer PLLP
Minneapolis, Minnesota
January 23, 2017

MINNESOTA CONFERENCE OF THE UNITED CHURCH OF CHRIST

STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30,	2016	2015
ASSETS		
Cash and cash equivalents	$ 342,006	$ 205,234
Certificates of deposit	-	1,765,355
Cornerstone fund	152,218	150,734
Accounts receivable	6,162	44,558
Pledges receivable, net	176,455	163,366
Prepaid expenses	48,996	11,196
Investments	9,217,776	7,401,622
Property and equipment, net	790,377	782,408
Total assets	**$ 10,733,990**	**$ 10,524,473**
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 100,414	$ 128,103
Accrued expenses	36,050	50,516
Long term debt	32,196	29,484
Total liabilities	**168,660**	**208,103**
NET ASSETS		
Unrestricted - undesignated	1,435,834	1,554,466
Unrestricted - board designated	1,470,861	1,474,774
Temporarily restricted	1,084,476	712,971
Permanently restricted	6,574,159	6,574,159
Total net assets	**10,565,330**	**10,316,370**
Total liabilities and net assets	**$ 10,733,990**	**$ 10,524,473**

The Notes to Financial Statements are an integral part of these statements.

MINNESOTA CONFERENCE OF THE UNITED CHURCH OF CHRIST

STATEMENTS OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2016

	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
SUPPORT AND OTHER REVENUES				
Contributions	$ 982,018	$ 22,923	$ -	$ 1,004,941
Program service fees and other	177,615	-	-	177,615
Payments to National Office for OCWM	(245,911)	-	-	(245,911)
Total	**913,722**	**22,923**	**-**	**936,645**
NET ASSETS RELEASED FROM RESTRICTION	**387,240**	**(387,240)**	**-**	**-**
Total support and other revenues	**1,300,962**	**(364,317)**	**-**	**936,645**
EXPENSES				
Program	1,176,725	-	-	1,176,725
Management and general	203,548	-	-	203,548
Fundraising	116,302	-	-	116,302
Total expenses	**1,496,575**	**-**	**-**	**1,496,575**
NON-OPERATING ACTIVITIES				
Interest and dividends	16,681	97,869	-	114,550
Realized gain (loss) on investments	6,772	513,961	-	520,733
Unrealized gain (loss) on investments	57,389	129,410	-	186,799
Interest expense	(1,386)	-	-	(1,386)
Investment management fees	(6,388)	(5,418)	-	(11,806)
Total non-operating activities	**73,068**	**735,822**	**-**	**808,890**
Change in net assets	**(122,545)**	**371,505**	**-**	**248,960**
Net assets, beginning of year	3,029,240	712,971	6,574,159	10,316,370
Net assets, end of year	**$ 2,906,695**	**$ 1,084,476**	**$ 6,574,159**	**$ 10,565,330**

The Notes to Financial Statements are an integral part of these statements.

MINNESOTA CONFERENCE OF THE UNITED CHURCH OF CHRIST

STATEMENTS OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND OTHER REVENUES				
Contributions	$ 1,048,095	$ 29,334	$ 2,000	$ 1,079,429
Program service fees and other	264,651	-	-	264,651
Payments to National Office for OCWM	(225,216)	-	-	(225,216)
Total	**1,087,530**	**29,334**	2,000	**1,118,864**
NET ASSETS RELEASED FROM RESTRICTION	**481,936**	**(481,936)**	**-**	**-**
Total support and other revenues	**1,569,466**	**(452,602)**	**2,000**	**1,118,864**
EXPENSES				
Program	1,298,842	-	-	1,298,842
Management and general	210,001	-	-	210,001
Fundraising	108,889	-	-	108,889
Total expenses	**1,617,732**	**-**	**-**	**1,617,732**
NON-OPERATING ACTIVITIES				
Interest and dividends	-	102,625	-	102,625
Transfer of Pilgrims UCC, Maple Grove	4,943	-	-	4,943
Realized gain (loss) on investments	6,609	7,606	-	14,215
Unrealized gain (loss) on investments	(24,960)	(485,607)	-	(510,567)
Interest expense	(1,255)	-	-	(1,255)
Investment management fees	(2,286)	-	-	(2,286)
Total non-operating activities	**(16,949)**	**(375,376)**	**-**	**(392,325)**
Change in net assets	**(65,215)**	**(827,978)**	**2,000**	**(891,193)**
Net assets, beginning of year	2,966,749	1,638,948	6,601,866	11,207,563
Other transfer	127,706	(97,999)	(29,707)	-
Net assets, end of year	**$ 3,029,240**	**$ 712,971**	**$ 6,574,159**	**$ 10,316,370**

STATEMENTS OF FUNCTIONAL EXPENSES

YEAR ENDED SEPTEMBER 30, 2016

	Total Program Services	Management and General	Fundraising	Total
Salaries, taxes and benefits	$ 576,577	$ 118,707	$ 67,833	$ 763,117
Professional fees	59,127	12,173	6,956	78,256
Insurance	21,561	4,439	2,537	28,536
Occupancy	160,336	33,010	18,863	212,209
Telephone and communications	18,185	3,744	2,139	24,068
Office supplies	46,286	9,529	5,445	61,261
Travel	54,711	11,264	6,437	72,412
Staff development	19,113	3,935	2,249	25,297
Other expenses	944	194	98	1,236
Grants, scholarships and dues	188,056	-	-	188,056
Depreciation	31,829	6,553	3,745	42,127
Total functional expenses	**$ 1,176,725**	**$ 203,548**	**$ 116,302**	**$ 1,496,575**

The Notes to Financial Statements are an integral part of these statements.

STATEMENTS OF FUNCTIONAL EXPENSES

YEAR ENDED SEPTEMBER 30, 2015

	Total Program Services	Management and General	Fundraising	Total
Salaries, taxes and benefits	$ 517,100	$ 108,230	$ 56,119	$ 681,449
Professional fees	117,444	24,581	12,746	154,771
Insurance	22,625	4,735	2,455	29,815
Occupancy	176,961	37,038	19,205	233,204
Telephone and communications	19,188	4,016	2,082	25,286
Office supplies	45,680	9,561	4,957	60,198
Travel	55,887	11,697	6,065	73,649
Staff development	16,892	3,536	1,833	22,261
Other expenses	1,814	380	198	2,392
Grants, scholarships and dues	295,499	-	-	295,499
Depreciation	29,752	6,227	3,229	39,208
Total functional expenses	**$ 1,298,842**	**$ 210,001**	**$ 108,889**	**$ 1,617,732**

The Notes to Financial Statements are an integral part of these statements.

MINNESOTA CONFERENCE OF THE UNITED CHURCH OF CHRIST

STATEMENTS OF CASH FLOWS

YEARS ENDED SEPTEMBER 30,	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 248,960	$ (891,193)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	42,127	39,208
Unrealized (gain) loss on investments	(186,799)	510,567
Realized gain on sale of investments	(520,733)	(14,215)
Net of other assets transferred	-	658,416
Changes in assets and liabilities:		
Accounts receivable	38,396	(12,690)
Pledges receivable	(13,089)	78,674
Notes receivable	-	400
Prepaid expenses	(37,800)	(10,448)
Accounts payable	(27,689)	(32,110)
Accrued expenses	(14,466)	2,571
Net cash provided (used) by operating activities	**(471,093)**	**329,180**
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturities certificates of deposit	20,188,634	12,043,305
Purchases of certificates of deposit	(18,423,279)	(12,126,530)
Purchases of property and equipment	(42,864)	(13,320)
Proceeds from sales of investments	13,607,982	50,885
Purchases of investments	(14,718,088)	(250,527)
Net cash provided (used) by investing activities	**612,385**	**(296,187)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long term debt	(4,520)	(3,949)
Net cash used by financing activities	**(4,520)**	**(3,949)**
Net increase in cash	**136,772**	**29,044**
Cash and cash equivalents, beginning of year	205,234	176,190
Cash and cash equivalents, end of year	**$ 342,006**	**$ 205,234**

The Notes to Financial Statements are an integral part of these statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization description:

Minnesota Conference of the United Church of Christ (the Conference) office is located at the Minnesota Church Center, 122 West Franklin Avenue, Suite 323, Minneapolis, Minnesota 55404. The Minnesota Conference was created by consolidation of the Congregational Conference of Minnesota and the Northern Synod of the Evangelical and Reformed Church. It was incorporated as a not-for-profit corporation under the laws of the State of Minnesota on February 25, 1963. The corporate life is perpetual. The Conference was organized to promote the interest of religion and assist member churches within its organizational boundaries. At times, the Conference may enter into various financial arrangements to support member churches.

Basis of presentation:

Financial statement presentation follows the recommendations of ASC 958, Financial Statements of Not-for-Profit Organizations. Under ASC 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Permanently restricted net assets consist of contributions for endowment purposes that are required to be invested in perpetuity.

Use of estimates:

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

Recently issued accounting pronouncements:

In May 2014, FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 605), which provides guidance for accounting for revenue from contracts with customers. The new guidance outlines a single comprehensive model for organizations to use in accounting for revenue from contracts with customers. The ASU is effective for annual and interim periods beginning after December 15, 2018 with early adoption permitted. It can be adopted using either a retrospective approach or a modified retrospective approach. The Conference is currently evaluating the impact that the adoption of this guidance will have on the Conference’s financial statements and anticipates the new guidance will have minimal impact on its financial statements.

NOTE 1. (CONTINUED)

In February 2016, FASB issued ASU No. 2016-02, Leases (Topic 842), which provides guidance for accounting for leases. The new guidance requires companies to recognize the assets and liabilities for the rights and obligations created by leased assets, initially measured at the present value of the lease payments. The accounting guidance for lessors is largely unchanged. The ASU is effective for annual and interim periods beginning after December 15, 2019 with early adoption permitted. It is to be adopted using a modified retrospective approach. The Conference is currently evaluating the impact that the adoption of this guidance will have on the Conference's financial statements and anticipates the new guidance will have an impact on its financial statements given the Conference has leases.

In August 2016, FASB issued ASU No. 2016-14, Not-for-Profit Entities (Topic 958), which provides guidance for presentation of financial statements of not-for-profit entities. The new guidance requires not-for-profits to include a number of changes in their financial presentation including presenting two classes of net assets, enhanced disclosures on board designations, management of liquid resources for cash flows, and present expenses by their natural and functional classification. The ASU will be effective for financial statements for fiscal years beginning after December 15, 2017, and for interim financial statements for periods after that date with early adoption permitted. The amendments in this update should be applied on a retrospective basis. However, if presenting comparative financial statements, the NFP has the option to omit the following information for any periods presented before the period of adoption: analysis of expenses by both natural classification and functional classification and disclosures about liquidity and availability of resources. The Conference is currently evaluating the impact that the adoption of this guidance will have on the Conference's financial statements and anticipates the new guidance will significantly impact its financial statements.

Subsequent events:

In preparing these financial statements, the Conference has evaluated events and transactions for potential recognition or disclosure through January 23, 2017, the date the financial statements were available to be issued.

Cash and cash equivalents:

For purposes of the statement of cash flows, the Conference considers short-term, highly liquid investments and investments purchased with an original maturity of three months or less to be cash equivalents. The Conference does not consider money market and short-term investments that are included within investments to be cash equivalents as they are not normally used to finance current operations. The Conference maintains its accounts in one commercial bank. At times, the amounts on deposit in the bank might exceed the insurance limit of the Federal Deposit Insurance Corporation.

Certificates of deposit:

The certificates of deposit are recorded at cost plus accrued interest, which approximates fair market value.

NOTE 1. (CONTINUED)

Pledges receivable:

Contributions are recognized when the donor makes a promise to give to the Conference that is, in substance, unconditional and in writing. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value. An allowance is provided for pledges when a significant pattern of uncollectability has occurred. When all collection efforts have been exhausted, the pledges are written off against the related allowance. Pledges receivable as of September 30, 2016 and 2015 are $185,742 and $171,964, respectively, all of which are due within one year. The allowance for doubtful accounts as of September 30, 2016 and 2015 is $9,287 and $8,598, respectively.

Investments:

Marketable securities are recorded at fair market value. Investments in partnerships are recorded at cost unless it is determined that market value is less than cost. Investment income is recorded as unrestricted revenue unless a donor has stipulated how the income is to be used. The Conference provides for investments in a variety of investment funds. In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect the investment balances and the amounts reported in the balance sheets.

Fair value measurements:

ASC 820 ("Fair Value Measurements") establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobserved inputs (level 3 measurement). The three levels of the fair value hierarchy under ASC 820 are described as follows:

Level 1*:* Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Conference has the ability to access.

Level 2*:* Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets and liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means.

NOTE 1. (CONTINUED)

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3*:* Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2016 and 2015.

Actively traded equity funds and bonds: Valued at the daily closing price as reported on the active market.

Inactively traded equity funds, bonds and mutual funds: Valued based on quoted market prices of identical or similar securities.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Conference believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Property and equipment and depreciation methods:

Property and equipment are recorded at acquisition cost or fair market value at date of receipt for donated assets. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted. Improvements and betterments exceeding $3,000 are capitalized, while repairs and maintenance expenditures are expensed in the statement of activities.

Depreciation is computed using the straight-line method over the estimated useful lives as follows:

Land	Indefinite
Buildings and improvements	3 - 27.5 years
Furniture, fixtures and equipment	3 - 10 years

NOTE 1. (CONTINUED)

Revenue recognition:

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

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending upon the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Non-cash donations:

Non-cash donations of assets and services are recorded as contributions at their estimated fair market value at the date of donation. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the year received.

Functional allocation of expenses:

Expenses have been allocated by function among program and supporting services classifications based upon direct expenditures, square footage and estimates of how employees spend their time made by the Conference's management.

Income taxes:

Minnesota Conference of the United Church of Christ is exempt from federal and Minnesota taxation pursuant to the provisions of Section 501(c) (3) of the Internal Revenue Code and Section 290.05 of the Minnesota Statutes and is only subject to federal and state income taxes on net unrelated business income. Since the Organization had no unrelated business taxable income in 2016 and 2015, the accompanying financial statements do not include any provision for federal or state income taxes. Management has evaluated its tax positions and has concluded that they do not result in anything that would require either recording or disclosure in the financial statements based on the criteria set forth in ASC 740.

OCWM payable:

The OCWM payable is based on a Board of Directors elected percentage of OCWM revenue to be paid to National. The percentage is currently 34.75%. This is payable monthly and is determined based on the monthly cash received. It is accrued at year-end based on the OCWM pledges receivable and is included in accounts payable on the statement of financial position.

NOTE 2. CERTIFICATES OF DEPOSIT

Certificates of deposit totaling $0 and $1,765,355 at September 30, 2016 and 2015, respectively, are included in the accompanying financial statements. The certificates bear interest at 0.05% and have maturities of one month with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements. The certificates of deposit are invested in the CDARS program at a financial institution, whereas the underlying individual certificates of deposit are invested at various other financial institutions allowing the balances to stay below the FDIC insured limit. The Conference moved all certificates of deposit to investments in fiscal year 2016.

At September 30, 2016 and 2015, certificates of deposit were as follows:

SEPTEMBER 30,	**2016**	**2015**
Interest rate 0.05%, maturing October 2015	$ -	$ 840,810
Interest rate 0.05%, maturing October 2015	-	576,686
Interest rate 0.05%, maturing October 2015	-	347,859
Total certificates of deposit	**$ -**	**$ 1,765,355**

NOTE 3. CORNERSTONE FUND

The Conference made an investment in The Cornerstone Fund, a financial institution that serves the United Church of Christ. The Cornerstone Fund offers short-term fixed rate investments to individuals and UCC churches and organizations, paying an established rate of interest depending on the selected term of the investment. The Cornerstone Fund loans out the funds invested with them to established UCC churches and related organizations who are borrowing to make improvements to their building and grounds, which in turn helps to strengthen and expand ministry in communities around the United States.

At September 30, 2016 and 2015, the Cornerstone Fund consisted of funds as follows:

SEPTEMBER 30,	**2016**	**2015**
Interest rate 1.250%, maturing November 2016	$ 76,057	$ 75,350
Interest rate 1.375%, maturing November 2017	76,161	75,384
Total	**$ 152,218**	**$ 150,734**

NOTE 4. INVESTMENTS AND FAIR VALUE MEASUREMENTS

At September 30, 2016 , the fair values of the investments are determined as follows:

	Quoted Prices in Active Markets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Equity funds	$ 4,083,168	$ -	$ 1,897,058	$ 5,980,226
Bonds	3,237,550	-	-	3,237,550
	$ 7,320,718	**$ -**	**$ 1,897,058**	**$ 9,217,776**

At September 30, 2015**,** the fair values of the investments are determined as follows:

	Quoted Prices in Active Markets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Cash/money markets	$ 3,774	$ -	$ -	$ 3,774
Equity funds	-	-	5,720,484	5,720,484
Bonds	-	-	1,608,400	1,608,400
Balance mutual funds	-	-	68,964	68,964
	$ 3,774	**$ -**	**$ 7,397,848**	**$ 7,401,622**

The fair value for securities is determined by reference to quoted market prices. The securities in level 3 are invested at the United Church Funds and are considered to be a fund of funds which makes them unobservable. They do, however, tend to fluctuate with the major markets such as S&P 500.

The following is a reconciliation of activity for 2016 for assets measured at fair value based upon significant unobservable (non-market) information.

	Equity Funds	Bonds	Balanced Mutual Funds
Balance, beginning of year	$ 5,720,483	$ 1,608,400	$ 68,965
Realized and unrealized gains (losses) included in earnings	613,445	74,730	5,734
Interest and dividends	82,905	20,109	-
Purchases, issuances and settlements	(4,519,775)	(1,703,239)	(74,699)
Balance, end of year	**$ 1,897,058**	**$ -**	**$ -**

NOTE 4. (CONTINUED)

The following is a reconciliation of activity for 2015 for assets measured at fair value based upon significant unobservable (non-market) information.

	Equity Funds	Bonds	Balanced Mutual Funds
Balance, beginning of year	$ 5,919,993	$ 1,728,097	$ 73,376
Realized and unrealized gains (losses) included in earnings	(445,865)	(19,904)	(5,343)
Interest and dividends	102,625	-	931
Purchases, issuances and settlements	143,731	(99,793)	-
Transfers in/out of Level 3	-	-	-
Balance, end of year	**$ 5,720,484**	**$ 1,608,400**	**$ 68,964**

NOTE 5. PROPERTY AND EQUIPMENT

At September 30, 2016 and 2015, the property and equipment is as follows:

SEPTEMBER 30,	**2016**	**2015**
Land	$ 523,043	$ 523,043
Buildings and improvements	682,298	648,279
Furniture, fixtures and equipment	374,136	358,059
Subtotal	**1,579,477**	**1,529,381**
Less: accumulated depreciation	789,100	746,973
Total property plant and equipment, net	**$ 790,377**	**$ 782,408**

Depreciation expense of $41,645 and $39,208 was recorded for the years ended September 30, 2016 and 2015, respectively.

NOTE 6. LEASE AGREEMENTS

Operating leases:

The Conference leases its office facilities and various office equipment. Total rental expense was $67,018 and $65,286 for the years ended September 30, 2016 and 2015, respectively. Future lease obligations under these leases are as follows:

YEARS ENDING SEPTEMBER 30,		
2017	$	64,048
2018		64,298
2019		65,649
2020		16,342
Total	**$**	**210,337**

NOTE 7. LONG TERM DEBT

Long term debt consists of:

SEPTEMBER 30,		**2016**		**2015**
Special assessment with Douglas County, MN regarding Pilgrim Point, MN of $67,200. Semi-annual payments of $2,259 including interest at 3% through November 2022. No collateral or guarantees.	$	26,305	$	29,484
Special assessment with Douglas County, MN regarding Pilgrim Point, MN of $7,232. Semi-annual payments of $462 including interest at 3% through November 2023. No collateral or guarantees.		5,891		-
Total long term debt	**$**	**32,196**	**$**	**29,484**

The minimum principal payments for each of the years following September 30, 2016 are as follows:

YEARS ENDING SEPTEMBER 30,		
2017	$	5,215
2018		4,895
2019		5,068
2020		5,248
2021		4,799
Thereafter		6,971
Total	**$**	**32,196**

NOTE 8. BOARD DESIGNATED NET ASSETS

The board of directors has designated net assets as follows:

SEPTEMBER 30,	2016	2015
Operating reserve	$ 680,043	$ 654,485
Church Aid earnings	10,265	11,265
UCF/PHP earnings	(29,386)	(46,380)
21st Century Church Fund	717,281	763,284
Leadership Excellence Fund	48,459	49,325
General Synod Fund	13,000	-
Other	31,199	42,795
Total board designated net assets	**$ 1,470,861**	**$ 1,474,774**

NOTE 9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted for the following purposes at September 30, 2016 and 2015:

SEPTEMBER 30,	2016	2015
Pilgrim Point	$ 15,485	$ 33,726
New Church - RTC	17,963	17,963
Seminary Assistance Scholarship	31,252	30,241
Strengthen the Church	33,467	24,512
Disaster Emergency Fund	46,962	45,277
Floyd C. Ashley Endowment	779,774	399,584
Ashley Operations Fund	56,205	55,132
Minneapolis Fund	27,050	31,550
Various program purposes	76,318	74,986
Total temporarily restricted net assets	**$ 1,084,476**	**$ 712,971**

During the year ended September 30, 2016, there were no transfers from temporarily restricted funds. During the year ended September 30, 2015, there were transfers of $93,199 from the Peace UCC – St. Paul Fund to help establish the 21st Century Church Fund, a board designated fund, and of $4,800 from the New Church – RTC Fund to unrestricted Conference Operations.

NOTE 10. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets at September 30, 2016 and 2015:

SEPTEMBER 30,	2016	2015
Floyd C. Ashley Endowment	$ 6,277,979	$ 6,277,979
Minneapolis Fund	16,304	16,304
PHP Endowment	162,876	162,876
Voss Scholarship	10,000	10,000
Pilgrim Point Endowment	102,000	102,000
Small Member Church	5,000	5,000
Total permanently restricted net assets	**$ 6,574,159**	**$ 6,574,159**

During the year ended September 30, 2016, there were no transfers from permanently restricted funds. During the year ended September 30, 2015, there were transfers of $14,707 from the United Church Foundation and $15,000 from the St. Paul Union Grant to establish the Leadership Excellence Fund, a board designated fund. The Conference received permission from the Minnesota Attorney General to unrestrict these monies and use as the board of directors determines necessary.

NOTE 11. ENDOWMENT

The Conference's endowment consists of approximately six individual funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

NOTE 11. (CONTINUED)

Interpretation of Relevant Law

The Board of Directors of the Conference has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Conference classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

The composition of endowment net assets by fund type as of September 30, 2016 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment fund	$ (29,386)	$ 779,774	$ 6,574,159	$ 7,324,547

The composition of endowment net assets by fund type as of September 30, 2015 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment fund	$ (46,380)	$ 399,584	$ 6,574,159	$ 6,927,363

NOTE 11. (CONTINUED)

Changes in endowment net assets for the year ended September 30, 2016 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	$ (46,380)	$ 399,584	$ 6,574,159	$ 6,927,363
Investment return:				
Investment income	16,994	611,830	-	628,824
Net unrealized appreciation (depreciation)	-	129,410	-	129,410
Appropriation of endowment assets for expenditure	-	(361,050)	-	(361,050)
Endowment net assets, end of the year	**$ (29,386)**	**$ 779,774**	**$ 6,574,159**	**$ 7,324,547**

Changes in endowment net assets for the year ended September 30, 2015 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of the year	$ (39,051)	$ 1,136,070	$ 6,601,866	$ 7,698,885
Investment return:				
Investment income	(231)	110,231	2,000	112,000
Net unrealized appreciation (depreciation)	(6,582)	(485,607)	-	(492,189)
Appropriation of endowment assets for expenditure	(516)	(361,110)	(29,707)	(391,333)
Endowment net assets, end of the year	**$ (46,380)**	**$ 399,584**	**$ 6,574,159**	**$ 6,927,363**

NOTE 11. (CONTINUED)

The components of endowment funds classified as temporarily restricted net assets and permanently restricted net assets as of September 30, 2016 and 2015 are as follows:

	2016	2015
Temporarily restricted net assets:		
The portion of perpetual endowment funds subject to a time restriction under SPMIFA:		
With purpose restrictions	$ 779,774	$ 399,584
Permanently restricted net assets:		
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by SPMIFA.	$ 6,574,159	$ 6,574,159

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or SPMIFA requires the Conference to retain as a fund of perpetual duration. These deficiencies can result from unfavorable market fluctuations while the Conference continues appropriation for certain programs as deemed prudent by the Board of Directors. In accordance with accounting principles generally accepted in the United States of America, there were no deficiencies of this nature that are reported in temporarily restricted net assets as of September 30, 2016 and 2015.

Return Objectives and Risk Parameters

The Conference has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is expected to produce results that are similar to the price and yield results of Investment-Grade corporate bonds, laddered out 1-10 years; the S&P 500 Index for large domestic stocks; the MSCI KLD Index for large domestic stocks weighted by ESG; the Russell 2500 Index for mid and small domestic stocks; and the MSCI World ex-US ESG Index for International and Emerging Market Stocks weighted by ESG scores by MSCI while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Conference relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Conference targets a diversified asset allocation that places a greater emphasis on equity-based investments in socially responsible investments to achieve its long-term return objectives within prudent risk constraints.

NOTE 11. (CONTINUED)

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Conference has a policy of appropriating for distribution five percent of its Ashley endowment fund's average fair value over the prior three years through the calendar year end proceeding the fiscal year in which the distribution is planned or distribution of income is approved in the budgeting process, within the fiscal year, at the will of the board of directors. In establishing this policy, the Conference considered the long term expected return on its endowment. This is consistent with the Conference's objective to maintain the purchasing power of the endowment assets held in perpetuity as well as to provide additional real growth through new gifts.

NOTE 12. RELATED PARTY TRANSACTIONS

National Office of the United Church of Christ

The Conference contributes to a multi-employer defined contribution plan administered by the Pension Boards of the United Church of Christ for eligible employees. The Conference's related pension expense for the years ended September 30, 2016 and 2015 was $61,560 and $53,496, respectively.

The Conference also participates in a multi-employer medical and life insurance plan for employees through the Pension Boards of the United Church of Christ. The related expense totaled $85,938 and $72,373 for the years ended September 30, 2016 and 2015, respectively.

The Conference has a discretionary agreement with the National Office to contribute to them a certain percentage of their Our Church's Wider Mission (OCWM) donations received during the year. The Conference board of directors has elected to contribute 34.75% of all OCWM donations received which resulted in an expense of $245,911 and $225,216 for the years ended September 30, 2016 and 2015, respectively.

NOTE 13. SUPPLEMENTAL CASH FLOW INFORMATION

YEARS ENDED SEPTEMBER 30,	**2016**	**2015**
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash payments for interest	$ 1,386	$ 1,255