

**MORAVIAN CHURCH IN AMERICA,
SOUTHERN PROVINCE**

Financial Statements

December 31, 2016 and 2015

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To the Provincial Support Services Board
Moravian Church in America, Southern Province
Winston-Salem, North Carolina

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of Moravian Church in America, Southern Province (a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, 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 U.S. generally accepted accounting principles; 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 U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 qualified audit opinion.

Basis for Qualified Opinion

As explained in Note B to the financial statements, the Moravian Church in America, Southern Province has excluded from the financial statements the real estate used by the individual congregations of the Moravian Church in America, Southern Province. In our opinion, U.S. generally accepted accounting principles require that such information be included in the accompanying financial statements and related notes.

Also, as explained in Note B to the financial statements, the Moravian Church in America, Southern Province has not implemented the financial reporting requirements of FASB ASC 958-205-50 related to net asset classifications and disclosures of the entity's endowment funds. Presentation of such information is required by U.S. generally accepted accounting principles.

Qualified Opinion

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of the Moravian Church in America, Southern Province as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Butler & Burke LLP

Winston-Salem, North Carolina
August 4, 2017

MORAVIAN CHURCH IN AMERICA, SOUTHERN PROVINCE
STATEMENTS OF FINANCIAL POSITION
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 1,191,865	\$ 998,130
Accounts receivable - trade	7,597	5,946
Accounts receivable - other	27,672	20,640
Contributions receivable	50,172	62,392
Prepaid expenses	78,916	53,028
Notes receivable	345,614	396,524
Property and equipment, net	4,030,572	4,154,586
Assets restricted for investment in property and equipment	11,607	11,607
Cash surrender value of life insurance	98,023	93,608
Investments	10,874,922	10,632,380
Other investments	67,980	147,996
Assets held in charitable remainder trusts	278,029	278,966
Beneficial interest in perpetual trusts	755,708	755,959
Other assets	1,153,589	1,153,589
Collections	-	-
	<u> </u>	<u> </u>
<u>TOTAL ASSETS</u>	<u>\$ 18,972,266</u>	<u>\$ 18,765,351</u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 52,892	\$ 52,154
Accrued and other liabilities	171,503	55,008
Due to other Moravian Church entities, net	526,130	444,394
Due to other Moravian Church supported entities	131,573	110,791
Notes payable	847,003	919,461
Charitable gift annuity liabilities:		
Annuity payment liabilities	4,182	4,035
Charitable remainder trust liabilities:		
Liability under unitrust agreements	187,182	189,729
Remainder interests due to other Moravian Church entities	48,889	51,995
Agency funds	24,568	24,015
<u>Total Liabilities</u>	<u>1,993,922</u>	<u>1,851,582</u>
Unrestricted		
Undesignated	3,593,540	3,648,373
Designated	2,722,549	2,811,042
	<u>6,316,089</u>	<u>6,459,415</u>
Temporarily restricted	5,568,949	5,531,368
Permanently restricted	5,093,306	4,922,986
<u>Total Net Assets</u>	<u>16,978,344</u>	<u>16,913,769</u>
	<u> </u>	<u> </u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 18,972,266</u>	<u>\$ 18,765,351</u>

MORAVIAN CHURCH IN AMERICA, SOUTHERN PROVINCE

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
SUPPORT AND REVENUE				
Contributions				
Provincial churches support	\$ 1,160,082	\$ 253,122	\$ -	\$ 1,413,204
Other contributions	806,400	339,408	8,218	1,154,026
Program fees	612,408	-	-	612,408
Gross profit on sales of literature	15,211	-	-	15,211
Treasurer's office - fees	72,088	-	-	72,088
Investment income	66,685	131,723	-	198,408
Net realized and unrealized gains on investments	87,704	253,121	223,961	564,786
Increase in cash surrender value of life insurance policies	-	4,415	-	4,415
Change in value of split-interest agreements	-	3,472	(1,990)	1,482
Change in value of perpetual trusts	-	-	(251)	(251)
Other revenue	<u>22,578</u>	<u>-</u>	<u>-</u>	<u>22,578</u>
	2,843,156	985,261	229,938	4,058,355
Net assets released from restrictions				
Restrictions satisfied by payments	<u>947,680</u>	<u>(947,680)</u>	<u>-</u>	<u>-</u>
<u>Total Support and Revenue</u>	<u>3,790,836</u>	<u>37,581</u>	<u>229,938</u>	<u>4,058,355</u>
EXPENSES				
Program Services				
Provincial Elders' Conference	381,946	-	-	381,946
Board of Cooperative Ministries	1,312,313	-	-	1,312,313
Laurel Ridge Camp, Conference and Retreat Center	1,073,844	-	-	1,073,844
Moravian Archives	256,337	-	-	256,337
Ministerial student aid	72,437	-	-	72,437
Unity causes	58,269	-	-	58,269
Services to ministers and congregations	284,849	-	-	284,849
Other programs and causes	<u>166,149</u>	<u>-</u>	<u>-</u>	<u>166,149</u>
<u>Total Program Services</u>	<u>3,606,144</u>	<u>-</u>	<u>-</u>	<u>3,606,144</u>
Supporting Services				
General and administrative	352,828	-	-	352,828
Capital campaign	<u>34,808</u>	<u>-</u>	<u>-</u>	<u>34,808</u>
<u>Total Supporting Services</u>	<u>387,636</u>	<u>-</u>	<u>-</u>	<u>387,636</u>
<u>Total Expenses</u>	<u>3,993,780</u>	<u>-</u>	<u>-</u>	<u>3,993,780</u>
Change in Net Assets Before Transfers	(202,944)	37,581	229,938	64,575
Transfers	59,618	-	(59,618)	-
Net Assets at Beginning of Year	<u>6,459,415</u>	<u>5,531,368</u>	<u>4,922,986</u>	<u>16,913,769</u>
Net Assets at End of Year	<u>\$ 6,316,089</u>	<u>\$ 5,568,949</u>	<u>\$ 5,093,306</u>	<u>\$ 16,978,344</u>

MORAVIAN CHURCH IN AMERICA, SOUTHERN PROVINCE

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
SUPPORT AND REVENUE				
Contributions				
Provincial churches support	\$ 1,138,286	\$ 209,603	\$ -	\$ 1,347,889
Other contributions	864,810	263,323	15,000	1,143,133
Program fees	521,303	-	-	521,303
Gross profit on sales of literature	(3,030)	-	-	(3,030)
Treasurer's office - fees	62,555	-	-	62,555
Investment income	191,132	138,913	-	330,045
Net realized and unrealized losses on investments	(72,074)	(170,153)	(156,727)	(398,954)
Increase in cash surrender value of life insurance policies	-	4,115	-	4,115
Change in value of split-interest agreements	-	5,693	(3,040)	2,653
Change in value of perpetual trusts	-	-	(67,669)	(67,669)
Other revenue	<u>421,288</u>	<u>-</u>	<u>-</u>	<u>421,288</u>
	<u>3,124,270</u>	<u>451,494</u>	<u>(212,436)</u>	<u>3,363,328</u>
Net assets released from restrictions				
Restrictions satisfied by payments	<u>941,594</u>	<u>(941,594)</u>	<u>-</u>	<u>-</u>
<u>Total Support and Revenue</u>	<u>4,065,864</u>	<u>(490,100)</u>	<u>(212,436)</u>	<u>3,363,328</u>
EXPENSES				
Program Services				
Provincial Elders' Conference	416,353	-	-	416,353
Board of Cooperative Ministries	1,296,216	-	-	1,296,216
Laurel Ridge Camp, Conference and Retreat Center	1,080,135	-	-	1,080,135
Moravian Archives	257,345	-	-	257,345
Ministerial student aid	39,560	-	-	39,560
Unity causes	63,465	-	-	63,465
Services to ministers and congregations	312,367	-	-	312,367
Other programs and causes	<u>102,236</u>	<u>-</u>	<u>-</u>	<u>102,236</u>
<u>Total Program Services</u>	<u>3,567,677</u>	<u>-</u>	<u>-</u>	<u>3,567,677</u>
Supporting Services				
General and administrative	413,504	-	-	413,504
Capital campaign	<u>37,547</u>	<u>-</u>	<u>-</u>	<u>37,547</u>
<u>Total Supporting Services</u>	<u>451,051</u>	<u>-</u>	<u>-</u>	<u>451,051</u>
<u>Total Expenses</u>	<u>4,018,728</u>	<u>-</u>	<u>-</u>	<u>4,018,728</u>
Change in Net Assets	47,136	(490,100)	(212,436)	(655,400)
Net Assets at Beginning of Year	<u>6,412,279</u>	<u>6,021,468</u>	<u>5,135,422</u>	<u>17,569,169</u>
Net Assets at End of Year	<u>\$ 6,459,415</u>	<u>\$ 5,531,368</u>	<u>\$ 4,922,986</u>	<u>\$ 16,913,769</u>

MORAVIAN CHURCH IN AMERICA, SOUTHERN PROVINCE

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 64,575	\$ (655,400)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	270,324	286,237
Loss on disposal of assets	1,176	579
Net realized and unrealized (gains) losses on investments	(564,232)	398,807
Change in value of split-interest agreements	(1,482)	(2,653)
Change in value of perpetual trusts	251	67,669
Non-cash contribution of property and equipment	(2,825)	-
Contributions restricted for long-term purposes	(8,218)	(15,000)
Change in cash surrender value of life insurance policies	(4,415)	(4,115)
(Increase) decrease in operating assets:		
Receivables	1,701	(7,723)
Prepaid expenses	(25,888)	44,289
Notes receivable	50,910	49,747
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities	117,233	(72,972)
Due to other Moravian Church entities, net	81,736	52,495
Due to Moravian Church supported entities	20,782	(20,814)
<u>Net Cash Provided by Operating Activities</u>	<u>1,628</u>	<u>121,146</u>
INVESTING ACTIVITIES		
Sales of investments	623,038	657,391
Purchases of investments	(222,030)	(866,391)
Purchases of property and equipment	(144,661)	(3,961)
Change in cash and cash equivalents restricted for investment in property and equipment	(500)	18,892
<u>Net Cash Provided by (Used in) Investing Activities</u>	<u>255,847</u>	<u>(194,069)</u>
FINANCING ACTIVITIES		
Principal repayments on debt	(72,458)	(139,025)
Proceeds from contributions restricted for investment in property and equipment	500	14,194
Contributions restricted for long-term purposes	8,218	15,000
<u>Net Cash Used in Financing Activities</u>	<u>(63,740)</u>	<u>(109,831)</u>
Change in Cash and Cash Equivalents	193,735	(182,754)
Cash and Cash Equivalents at Beginning of Year	<u>998,130</u>	<u>1,180,884</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,191,865</u>	<u>\$ 998,130</u>
<u>SUPPLEMENTAL INFORMATION</u>		
Interest paid	<u>\$ 34,886</u>	<u>\$ 40,247</u>

MORAVIAN CHURCH IN AMERICA, SOUTHERN PROVINCE

NOTES TO FINANCIAL STATEMENTS

NOTE A: NATURE OF ORGANIZATION

The Moravian Church in America, Southern Province ("MCSP") is a North Carolina corporation formed by an action of the General Assembly of North Carolina in 1877. The corporation serves within the southeastern United States to administer and promote the purposes and activities of the worldwide Moravian Church, formally known as The Unitas Fratrum.

The Provincial Synod is the legislative body composed of representatives from congregations, boards, and agencies. It meets every four years to elect officers of the Province, adopt rules and regulations, and to oversee the affairs of the Province.

The activities of MCSP are carried out by the congregations of the Province located in North Carolina, Virginia, Georgia and Florida and by:

- The Provincial Elders' Conference which establishes and implements the goals and priorities of the Province; and plans and implements all phases of extension work.
- The Provincial Support Services Board which manages the funds of Provincial Boards and congregations.
- Laurel Ridge Camp, Conference and Retreat Center which operates under the direction of the Provincial Elder's Conference to further the purposes of that Board.
- The Board of Cooperative Ministries which serves to develop programs, strategies, and resources for local churches and the Province; plan and implement work undertaken by the Province to meet community and human need in areas served by the Province including the operations of Sunnyside Ministry; and make policy and implement programs in all matters pertaining to Christian education.
- The Archives of the Moravian Church in America, Southern Province which serves as custodian for the archives of the Province.

However, the assets, liabilities and operations of the congregations of the Province are not reflected in these financial statements.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of MCSP have been prepared on the accrual basis in accordance with U.S. generally accepted accounting principles (GAAP), except for the effects of the GAAP departures described below.

Principles of Combination

The financial statements of MCSP include the activities of the following operating agencies:

- Provincial Administration
- Board of Cooperative Ministries
- Laurel Ridge Camp, Conference and Retreat Center
- Moravian Archives

MORAVIAN CHURCH IN AMERICA, SOUTHERN PROVINCE

NOTES TO FINANCIAL STATEMENTS

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

MCSP presents its net assets and its support and revenue based upon the absence or existence of donor-imposed restrictions as follows:

Unrestricted net assets – net assets that are not restricted by donors or for which donor-imposed restricted have expired.

Temporarily restricted net assets – net assets that contain donor-imposed time or purpose restrictions that have not currently been met.

Permanently restricted net assets – net assets that contain donor-imposed restrictions stipulating that amounts be maintained in perpetuity. MCSP may expend part or all of the income earned according to donor stipulations.

Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets (i.e., the stipulated time period has elapsed or purpose was satisfied) are reported as net assets released from restrictions.

GAAP Departures

FASB ASC Subtopic 958-205, Section 50, *Disclosures* (ASC 958-205-50) provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). ASC 958-205-50 also requires additional disclosures about an organization's endowment funds (both donor restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA. The State of North Carolina enacted UPMIFA effective March 23, 2009, the provisions of which apply to endowment funds existing on or established after that date.

MCSP has not implemented ASC 958-205-50 for the years ended December 31, 2016 and 2015. The disclosures and information related to the MCSP's donor restricted and board-designated endowment funds are not included in the financial statements. Disclosure of this information is required to conform to GAAP.

MCSP holds title to certain church property real estate used by various individual congregations of the Province. The exclusion of these assets is due to the fact that the original cost of the assets is not available or practical to attain. However, their exclusion from the accompanying financial statements is not in conformity with GAAP.

Contributions

Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the period received. Contributions of assets other than cash are recorded at their estimated fair value. MCSP determines an allowance for uncollectible accounts based upon management's judgment about such factors as prior collections history, type of contribution, and nature of fundraising activity. No allowance was deemed necessary at December 31, 2016 and 2015.

MORAVIAN CHURCH IN AMERICA, SOUTHERN PROVINCE

NOTES TO FINANCIAL STATEMENTS

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks and highly liquid investments with original maturity dates of less than three months.

Fair Value Measurements

Financial assets and liabilities required to be measured on a recurring basis (at least annually) are classified under a three-tier hierarchy. Fair value is the amount that would be received to sell an asset, or paid to settle a liability, in an orderly transaction between market participants at the measurement date.

The classification of assets and liabilities within the hierarchy is based on whether inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained from independent sources while unobservable inputs reflect estimates about market data. See Note R for assets and liabilities of MCSP measured at fair value on a recurring basis.

Investments

MCSP carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair market values in the statements of financial position. Realized and unrealized gains and losses are included in the change in net assets in the accompanying statements of activities. Net unrealized gains and losses on investments, whose income is unrestricted or temporarily restricted as to use, is reported as unrestricted or temporarily restricted net assets unless such net unrealized activity is permanently restricted by donor or by law.

MCSP maintains investment accounts for its invested funds, most of which have been pooled with other affiliated entities of the MCSP in a pooled investment fund account, the Common Fund, operated by the Moravian Ministries Foundation in America under the direction of a professional investment manager. Realized and unrealized gains and losses from securities in the pooled investment fund account are allocated to the individual funds.

Expenses relating to investment income, including custodial fees and investment advisory fees, have been netted against investment income in the financial statements.

Property and Equipment

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. The cost of maintenance and repairs is expensed as incurred.

MORAVIAN CHURCH IN AMERICA, SOUTHERN PROVINCE

NOTES TO FINANCIAL STATEMENTS

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Collections

MCSP owns significant collections of historical books, materials, manuscripts, and records. In addition, MCSP also serves as custodian for significant collections of historical books, materials, manuscripts and records owned by various other Moravian entities.

The collections, which were acquired since MCSP's inception, are not recognized as assets on the statement of financial position. Purchases of collection items are recorded as decreases in net assets in the year acquired. In accordance with GAAP, MCSP does not capitalize donated collection items or recognize them as revenues or gains. GAAP provides that such donations need not be recognized if they are added to collections that are held for public exhibition, education, or research in furtherance of public service rather than financial gain, are protected, kept unencumbered, cared for, and preserved, and are subject to a policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

Functional Allocation of Expenses

The costs of providing program and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated between the program and supporting services benefited.

Expenses are allocated to program and supporting services by management on the basis of periodic time and expense estimates. General and administrative expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of MCSP.

Tax-Exempt Status

MCSP is a not-for-profit organization and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the organization qualifies for the charitable contribution deduction under Section 170 and is classified as an organization that is not a private foundation under Section 509(a) of the code. Accordingly, income tax expense is limited to activities that are deemed by the Internal Revenue Service to be unrelated to their exempt purpose.

MCSP's primary tax positions relate to its status as a not-for-profit entity exempt from income taxes and classification of activities related to its exempt purpose. It is the opinion of management that MCSP has no uncertain tax positions that would be subject to change upon examination.

MCSP is not required to file a federal exempt organization tax return (Form 990) annually to retain its exempt status. However, MCSP is required to file an exempt organization business income tax return (Form 990-T) for any year gross unrelated business income exceeds \$1,000. MCSP's Form 990 filings are generally subject to examination by the Internal Revenue Service for three years after they are filed.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events

MCSP has evaluated its subsequent events (events occurring after December 31, 2016) through the date of this report, which represents the date the financial statements were available to be issued and determined that all significant events and disclosures are included in the financial statements.

MORAVIAN CHURCH IN AMERICA, SOUTHERN PROVINCE
NOTES TO FINANCIAL STATEMENTS

NOTE C: CONCENTRATION OF CREDIT AND MARKET RISK

Financial instruments that potentially expose MCSP to concentrations of credit and market risk consist primarily of cash, cash equivalents, and investments. MCSP maintains most of its deposited cash balances in one financial institution located in Winston-Salem, North Carolina. Cash equivalents are maintained at local financial institutions and brokerage firms. MCSP has not experienced any losses on its cash equivalents. MCSP's investments are held by local bank trust departments and various brokerage firms. MCSP's investment portfolio is diversified among issuers. MCSP has not experienced any losses in such accounts.

NOTE D: NOTES RECEIVABLE

Notes receivable at December 31, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
MCSP churches	\$ 41,914	\$ 58,969
Other churches	<u>303,700</u>	<u>337,555</u>
	<u>\$ 345,614</u>	<u>\$ 396,524</u>

Notes receivable represent loans made to churches, primarily for the purchase, construction and/or development of church facilities. Requests for loans are evaluated by MCSP to ensure that churches pose little risk. These have varying repayment terms and interest rates ranging from 5% to 7%. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding. Accrued interest on loans is discontinued when the loans enter into default. MCSP closely monitors outstanding balances and evaluates the adequacy of an allowance for doubtful accounts based on past payment history and discussions with debtor churches. Receivables are charged off if it is determined that the churches are no longer viable or financially able to make payments on the loans. Based on payment history and discussions with debtor churches, MCSP has determined that no allowance is necessary at December 31, 2016 or 2015.

NOTE E: PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Land	\$ 177,811	\$ 177,811
Buildings and improvements	6,775,249	6,733,162
Computer equipment	93,342	104,140
Furniture and equipment	727,954	706,709
Vehicles	<u>114,325</u>	<u>108,500</u>
	7,888,681	7,830,322
Less: accumulated depreciation	<u>(3,858,109)</u>	<u>(3,675,736)</u>
	<u>\$ 4,030,572</u>	<u>\$ 4,154,586</u>

Depreciation expense for the years ended December 31, 2016 and 2015 was \$270,324 and \$286,237, respectively.

MORAVIAN CHURCH IN AMERICA, SOUTHERN PROVINCE
NOTES TO FINANCIAL STATEMENTS

NOTE F: ASSETS RESTRICTED FOR INVESTMENT IN PROPERTY AND EQUIPMENT

Assets restricted for investment in property and equipment consisted of the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ (3,910)	\$ (4,410)
Pledges receivable	<u>15,517</u>	<u>16,017</u>
	<u>\$ 11,607</u>	<u>\$ 11,607</u>

Contributions support received and recognized for the years ended December 31, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Cash basis receipts	\$ 500	\$ 14,194
Pledges receivable, beginning of year	(16,017)	(30,211)
Pledges receivable, end of year	<u>15,517</u>	<u>16,017</u>
	<u>\$ -</u>	<u>\$ -</u>

NOTE G: INVESTMENTS

Investments, stated at fair value, consisted of the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Assets held by Moravian Ministries Foundation in America, as agent, in the Moravian Common Fund:		
Mutual funds	\$ 8,535,990	\$ 8,396,168
Money market and short-term reserves	<u>14,891</u>	<u>25,408</u>
	<u>8,550,881</u>	<u>8,421,576</u>
Other investments:		
Equity securities	84,003	80,336
Fixed income securities	<u>2,240,038</u>	<u>2,130,468</u>
	<u>2,324,041</u>	<u>2,210,804</u>
	<u>\$ 10,874,922</u>	<u>\$ 10,632,380</u>

MORAVIAN CHURCH IN AMERICA, SOUTHERN PROVINCE

NOTES TO FINANCIAL STATEMENTS

NOTE H: SPLIT-INTEREST AGREEMENTS

Charitable Remainder Trusts

MCSP administers various charitable remainder trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term. The terms of all charitable remainder trusts administered by MCSP are the lifetimes of the respective distribution recipients. At the end of the respective trusts terms, the remaining assets are available for use by either the MCSP or other Moravian Church entities (as specified in the trust agreements).

Assets held in charitable remainder trusts as reported on the statements of financial position represent those assets, the majority of which are investments (cash, mutual funds, marketable debt and equity securities, etc.), contributed by individuals to establish charitable remainder trusts (as adjusted for investment return and distributions). These assets are carried at fair market value.

Upon receipt of irrevocable interests in charitable remainder trusts, the present value of future payments to lifetime distribution recipients and future payments of remainder interests due to other Moravian Church entities are recognized as liabilities, and the present value of remainder interests due to MCSP are recorded as either a temporarily restricted or permanently restricted contribution (as determined by the trust agreement). On an annual basis, MCSP revalues the trust liabilities and remainder interests due to MCSP based on federal discount and actuarial assumptions. The annual change in the present value of remainder interests due to MCSP is reflected in the statement of activities.

Charitable Gift Annuities

MCSP is also the recipient of various charitable gift annuities. A charitable gift annuity agreement provides that, in exchange for a contribution to the general assets of the organization, the donor will receive a fixed periodic annuity over a specified period of time. The terms of all charitable gift annuities administered by MCSP are the lifetimes of the respective donor/annuitants.

It is the policy of MCSP to maintain a separate account for assets donated under such agreements. Donated assets are invested and an account balance maintained for each charitable gift annuity until the death of the donor/annuitant, with adjustments for investment return and distributions. Investments, as reported on the statements of financial position, include \$180 and \$1,431 at December 31, 2016 and 2015, respectively, attributable to charitable gift annuities (carried at fair market value).

Upon receipt of charitable gift annuities, the present value of future payments to donor/annuitants and future payments of remainder interests due to other Moravian Church entities are recognized as liabilities, and the present value of the remainder interest due to MCSP is recorded as a temporarily restricted contribution. On an annual basis, MCSP revalues the gift annuity liabilities and remainder interests due to MCSP based on federal discount and actuarial assumptions. The annual change in the present value of remainder interests due to MCSP is reflected in the statement of activities.

MORAVIAN CHURCH IN AMERICA, SOUTHERN PROVINCE
NOTES TO FINANCIAL STATEMENTS

NOTE H: SPLIT-INTEREST AGREEMENTS (CONTINUED)

Beneficial Interest in Perpetual Trusts

Beneficial interest in perpetual trusts represents assets held in trust and administered by a local financial institution, from which MCSP has the irrevocable right to receive a share of income from the trust’s assets in perpetuity. These assets are stated at the fair value of MCSP’s share of trust assets, which is an approximation of the present value of estimated future distributions from the respective trusts to MCSP.

Upon receipt of an irrevocable interest in the income of a perpetual trust administered by a third party, MCSP records its share of the fair value of trust assets as a permanently restricted contribution. Over the term of the perpetual trust, income distributions to MCSP are included in investment income. Changes in the fair value of trust assets are reflected in the statement of activities.

NOTE I: OTHER ASSETS

In March 2001, MCSP, through the Board of Evangelism and Home Missions (now known as the Board of Cooperative Ministries), purchased approximately 18 acres of undeveloped land in Wake County, North Carolina at a cost of \$673,585. During the year ended December 31, 2006, MCSP sold approximately two acres of the tract at a gain of approximately \$400,000. The remaining cost of \$601,359 is included in other assets on the statements of financial position at December 31, 2016 and 2015, respectively.

During the year ended December 31, 2011, MCSP received approximately 70 acres of land in Davie County, North Carolina as part of an estate gift. At December 31, 2016 and 2015 the land was valued at \$547,429 and is included in other assets on the statements of financial position.

NOTE J: DUE TO MORAVIAN CHURCH SUPPORTED ENTITIES

	<u>December 31,</u> <u>2015</u>	Allocated to	<u>Remittances</u>	<u>December 31,</u> <u>2016</u>
		<u>Congregations</u>		
Moravian Theological Seminary	\$ 28,395	\$ 109,786	\$ 104,557	\$ 33,624
Salem College Dept of Religion	10,066	36,293	34,340	12,019
Interprovincial Board of Communication	14,326	56,470	53,569	17,227
Board of World Missions	<u>58,004</u>	<u>224,349</u>	<u>213,650</u>	<u>68,703</u>
	<u>\$ 110,791</u>	<u>\$ 426,898</u>	<u>\$ 406,116</u>	<u>\$ 131,573</u>

MORAVIAN CHURCH IN AMERICA, SOUTHERN PROVINCE
NOTES TO FINANCIAL STATEMENTS

NOTE K: NOTES PAYABLE

Notes payable at December 31, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Promissory note, with monthly payments of \$4,157, including interest at 8%, through February 2016, secured by deed of trust.	\$ -	\$ 7,879
Promissory note, with monthly payments of \$8,397, including interest at 4.00%, through June 2028, secured by assets.	<u>847,003</u>	<u>911,582</u>
	<u>\$ 847,003</u>	<u>\$ 919,461</u>

Future maturities of notes payable at December 31, 2016 are as follows:

2017	\$ 66,747
2018	69,467
2019	72,297
2020	75,242
2021	78,308
Thereafter	<u>484,942</u>
	<u>\$ 847,003</u>

Also, MCSP is primarily liable for mortgage loans on various church properties. Since these loans are to be repaid from the resources of the individual congregations, the debt is not considered a liability of MCSP.

MORAVIAN CHURCH IN AMERICA, SOUTHERN PROVINCE
NOTES TO FINANCIAL STATEMENTS

NOTE L: UNRESTRICTED NET ASSETS DESIGNATED FOR SPECIAL PURPOSES

Unrestricted net assets include funds designated by the governing boards within MCSP for certain special purposes. The amounts of such designated net assets at December 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Provincial Administration	\$ 1,937,821	\$ 1,986,783
Board of Cooperative Ministries	548,147	522,295
Laurel Ridge Camp, Conference and Retreat Center	68,625	125,938
Moravian Archives	<u>167,956</u>	<u>176,026</u>
	<u>\$ 2,722,549</u>	<u>\$ 2,811,042</u>

NOTE M: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available to support certain specified activities, programs, and time periods of the following program service categories at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Board of Cooperative Ministries	\$ 117,201	\$ 159,844
Laurel Ridge Camp, Conference and Retreat Center	248,298	298,749
Moravian Archives	12,215	202
Provincial Administration:		
Agency funds	75,438	79,310
Provincial programs and causes	3,175,015	3,077,970
Churches	1,818,736	1,799,852
Ministers' housing equity	2,337	1,879
Other donor-designated funds	<u>119,709</u>	<u>113,562</u>
	<u>\$ 5,568,949</u>	<u>\$ 5,531,368</u>

MORAVIAN CHURCH IN AMERICA, SOUTHERN PROVINCE
NOTES TO FINANCIAL STATEMENTS

NOTE N: PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support certain specified activities and programs of the following program service categories at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Board of Cooperative Ministries	\$ 617,960	\$ 618,350
Laurel Ridge Camp, Conference and Retreat Center	350,189	400,744
Moravian Archives	537,805	511,984
Provincial Administration:		
Agency funds	280,776	262,332
Provincial programs and causes	1,374,608	1,292,870
Churches	1,638,105	1,548,353
Other donor-designated funds	<u>293,863</u>	<u>288,353</u>
	<u>\$ 5,093,306</u>	<u>\$ 4,922,986</u>

NOTE O: AGENCY FUNDS

MCSP acts as an agent, or custodian, for certain assets owned by churches of the Province and other Moravian church-related entities by receiving, investing, and disbursing funds on their behalf. Changes in agency funds for the years ended December 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Beginning balance	\$ 24,015	\$ 24,162
Investment income	126	132
Gains (losses) on investments	<u>427</u>	<u>(279)</u>
	<u>\$ 24,568</u>	<u>\$ 24,015</u>

NOTE P: RELATED PARTY TRANSACTIONS

MCSP received grants from Salem Congregation of \$255,565 in 2016 and \$262,490 in 2015.

The Treasurer's office of MCSP provides general accounting services to Salem Congregation, the Mission Society of the Moravian Church, South, Inc., the Moravian Music Foundation, Inc., and the Moravian Widows Society. General accounting service charges were \$58,745 and \$57,034 for 2016 and 2015, respectively.

MCSP rents various office and retail properties from Salem Congregation on an annual basis. It is expected that the office rental arrangements will continue to be renewed, with reasonable annual increases. Rental payments to Salem Congregation (including amounts for maintenance and utilities) were \$105,042 for the years ended December 31, 2016 and 2015, respectively.

MORAVIAN CHURCH IN AMERICA, SOUTHERN PROVINCE
NOTES TO FINANCIAL STATEMENTS

NOTE Q: RETIREMENT BENEFITS

Defined Benefit Pension Plan

MCSP has a defined benefit pension plan covering all ministers and their surviving spouses. MCSP is required to provide these pension benefits as a result of Synod action. The same Synod action allows MCSP to assess congregations and church agencies for the cost of the benefits. Therefore, no liability for an underfunded status is recorded. The following is for informational purposes only.

	<u>2016</u>	<u>2015</u>
Fair value of plan assets at December 31	\$ 7,524,156	\$ 6,255,472
Benefit obligation at December 31	<u>13,144,521</u>	<u>12,781,161</u>
Funded status	<u>\$ (5,620,365)</u>	<u>\$ (6,525,689)</u>
Weighted-average assumptions as of December 31:		
Discount rate	4.20%	4.46%
Expected return on plan assets	7.50%	7.50%
Benefit costs		
Service cost	<u>\$ 156,034</u>	<u>\$ 159,507</u>
Interest cost	<u>\$ 535,444</u>	<u>\$ 552,724</u>
Employer contributions	<u>\$ 513,579</u>	<u>\$ 508,943</u>
Benefits paid	<u>\$ 710,076</u>	<u>\$ 713,559</u>

Housing Equity Plan

MCSP maintains a housing equity plan for those ministers who live in church-owned parsonages. Churches and agencies of the Province fund this plan. Amounts paid into this plan by MCSP churches and agencies for the years ended December 31, 2016 and 2015 were \$27,120 and \$46,374, respectively.

Health Insurance

MCSP also maintains a plan to provide health insurance for retired and disabled clergy. The Province is required to provide these health insurance benefits to retired and disabled clergy as a result of Synod action. The same Synod action allows MCSP to assess congregations for the cost of the benefits.

MORAVIAN CHURCH IN AMERICA, SOUTHERN PROVINCE

NOTES TO FINANCIAL STATEMENTS

NOTE R: FAIR VALUE MEASUREMENTS

Valuation techniques used to measure fair value are prioritized into the following hierarchy:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that MCSP 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 or 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.

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's 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. The following is a description of the valuation methodologies used by MCSP for assets and liabilities measured at fair value:

- *Investments:* Valued at the closing price reported on the active markets on which the individual securities and mutual funds are traded (Level 1).
- *Assets held in Charitable Remainder Trust:* Mutual funds within the pooled investment fund account (Common Fund) are valued at the closing price reported on the active markets on which the funds are traded (Level 1).
- *Beneficial Interest In Perpetual Trusts:* Valued at the fair value of the trust investments, determined by the closing price reported on the active or observable market on which the individual securities that are held in trust are traded, as reported to MCSP by the Moravian Ministries Foundation (Level 3).
- *Charitable Remainder Trust Liabilities:* Valued by calculating the present value of payments expected to be made, using published life expectancy tables and discount rates ranging from 3.3% to 13.7% (Level 3).
- *Charitable Gift Annuity Liabilities:* Valued by calculating the present value of payments expected to be made, using published life expectancy tables and a discount rate of 13.3% (Level 3).

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while MCSP 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.

MORAVIAN CHURCH IN AMERICA, SOUTHERN PROVINCE
NOTES TO FINANCIAL STATEMENTS

NOTE R: FAIR VALUE MEASUREMENTS (CONTINUED)

The following table sets forth by level, within the fair value hierarchy, MCSP's assets and liabilities measured at fair value on a recurring basis as of December 31, 2016 and 2015:

Assets:	2016				2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Investments								
Money market and short-term reserve funds	\$ 14,891	\$ -	\$ -	\$ 14,891	\$ 25,408	\$ -	\$ -	\$ 25,408
Mutual funds								
Bond funds								
High quality	832,729	-	-	832,729	848,886	-	-	848,886
Investment grade	3,680,247	-	-	3,680,247	3,601,939	-	-	3,601,939
International bond	612,385	-	-	612,385	618,800	-	-	618,800
High yield	201,883	-	-	201,883	199,514	-	-	199,514
	<u>5,327,244</u>	<u>-</u>	<u>-</u>	<u>5,327,244</u>	<u>5,269,139</u>	<u>-</u>	<u>-</u>	<u>5,269,139</u>
Equity funds								
Small company	557,944	-	-	557,944	496,125	-	-	496,125
International small company	175,120	-	-	175,120	161,154	-	-	161,154
Emerging markets	374,214	-	-	374,214	337,012	-	-	337,012
Large company	2,204,300	-	-	2,204,300	2,147,375	-	-	2,147,375
International large company	1,048,544	-	-	1,048,544	963,188	-	-	963,188
	<u>4,360,122</u>	<u>-</u>	<u>-</u>	<u>4,360,122</u>	<u>4,104,854</u>	<u>-</u>	<u>-</u>	<u>4,104,854</u>
Real estate funds	1,088,843	-	-	1,088,843	1,154,076	-	-	1,154,076
	<u>10,776,209</u>	<u>-</u>	<u>-</u>	<u>10,776,209</u>	<u>10,528,069</u>	<u>-</u>	<u>-</u>	<u>10,528,069</u>
Common stocks								
Financial	29,539	-	-	29,539	29,136	-	-	29,136
Healthcare	39,747	-	-	39,747	35,438	-	-	35,438
Industrials	14,536	-	-	14,536	14,329	-	-	14,329
	<u>83,822</u>	<u>-</u>	<u>-</u>	<u>83,822</u>	<u>78,903</u>	<u>-</u>	<u>-</u>	<u>78,903</u>
Total investments at fair value	<u>10,874,922</u>	<u>-</u>	<u>-</u>	<u>10,874,922</u>	<u>10,632,380</u>	<u>-</u>	<u>-</u>	<u>10,632,380</u>
Assets held in charitable remainder trusts	278,029	-	-	278,029	278,966	-	-	278,966
Beneficial interest in perpetual trusts	-	-	755,708	755,708	-	-	755,959	755,959
Total assets at fair value	<u>\$ 11,152,951</u>	<u>\$ -</u>	<u>\$ 755,708</u>	<u>\$ 11,908,659</u>	<u>\$ 10,911,346</u>	<u>\$ -</u>	<u>\$ 755,959</u>	<u>\$ 11,667,305</u>
Liabilities:								
Charitable gift annuity liabilities	\$ -	\$ -	\$ 4,182	\$ 4,182	\$ -	\$ -	\$ 4,035	\$ 4,035
Charitable remainder trust liabilities	-	-	236,071	236,071	-	-	241,724	241,724
Total liabilities at fair value	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 240,253</u>	<u>\$ 240,253</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 245,759</u>	<u>\$ 245,759</u>

The tables below sets forth a summary of changes in the fair value of MCSP's level 3 assets and liabilities for the years ended December 31, 2016 and 2015.

	Assets		Liabilities	
	2016	2015	2016	2015
Balance, beginning of year	\$ 755,959	\$ 823,628	\$ 245,759	\$ 311,055
Payments	-	-	-	(32,770)
Change in value	(251)	(67,669)	(5,506)	(32,526)
Balance, end of year	<u>\$ 755,708</u>	<u>\$ 755,959</u>	<u>\$ 240,253</u>	<u>\$ 245,759</u>