

Consolidated Financial Statements

as of

December 31, 2015

UNITED CHURCH FUNDS, INC.

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INDEPENDENT AUDITOR'S REPORT

Board of Directors and Senior Management
United Church Funds, Inc.

We have audited the accompanying consolidated financial statements of United Church Funds, Inc., which comprise the consolidated statement of financial position as of December 31, 2015 and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of United Church Funds, Inc. as of December 31, 2015, and the consolidated changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedules of assets, liabilities and fund balances and schedules of changes in fund balances for the Common Investment Funds and Split-Interest Agreement Funds 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Report on summarized comparative information

We have previously audited United Church Funds, Inc.'s 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 16, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Mitchell Titus, LLP

June 30, 2016

UNITED CHURCH FUNDS, INC.

Consolidated Statements of Financial Position

December 31, 2015 and 2014

	2015	2014
ASSETS		
Cash	\$ 1,370,424	873,020
Investments	761,217,296	791,597,998
Accrued investment income	2,488,158	2,451,858
Receivable from UCF Common Investment Funds	343,687	385,113
Accounts receivable	57,687	79,406
Prepaid expenses	56,959	86,639
Other assets	164,979	271,981
TOTAL ASSETS	<u>\$ 765,699,190</u>	<u>\$ 795,746,015</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accrued expenses	\$ 963,629	\$ 1,023,259
Total	<u>963,629</u>	<u>1,023,259</u>
Funds held for benefit of others		
UCF Common Investment Funds	684,894,080	709,863,542
New Hampshire Conference Consolidated Investment Fund	6,461	6,461
Liabilities under split-interest agreements	21,419,741	23,778,806
Endowments	49,165,614	51,639,924
Total funds held for benefit of others	<u>755,485,896</u>	<u>785,288,733</u>
TOTAL LIABILITIES	<u>756,449,525</u>	<u>786,311,992</u>
Net Assets		
Unrestricted	2,512,171	2,261,752
Temporarily restricted	1,206,423	1,641,200
Permanently restricted	5,531,071	5,531,071
TOTAL NET ASSETS	<u>9,249,665</u>	<u>9,434,023</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 765,699,190</u>	<u>\$ 795,746,015</u>

See notes to consolidated financial statements

UNITED CHURCH FUNDS, INC.

Consolidated Statement of Activities

For the Year Ended December 31, 2015 with
Summarized Financial Information for 2014

	2015			2014	
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Total
REVENUES, GAINS AND RECLASSIFICATIONS					
Contributions	\$ 240	\$	\$	\$ 240	\$ 1,821
Income earned on investments	12,911	70,545		83,456	94,491
Fees earned on managed funds	6,439,894			6,439,894	6,262,960
Reimbursement for services rendered to other entities	167,578			167,578	135,695
Net realized gains on investments sold	3,914	8,342		12,256	1,781,439
Change in unrealized appreciation on investments	(31,305)	(105,649)		(136,954)	(1,579,373)
Net assets released from restriction	408,015	(408,015)			-
TOTAL REVENUES, GAINS AND RECLASSIFICATIONS	7,001,247	(434,777)		6,566,470	6,697,033
EXPENSES AND GRANTS					
Administration of Common Investment Funds	2,293,009			2,293,009	1,986,601
Investment-related expenses	3,057,353			3,057,353	2,492,558
Social responsibility coordination	221,678			221,678	184,946
Marketing program expenses	758,231			758,231	999,585
Grants and other distributions paid from endowments	420,557			420,557	323,705
TOTAL EXPENSES AND GRANTS	6,750,828			6,750,828	5,987,395
INCREASE (DECREASE) IN NET ASSETS	250,419	(434,777)		(184,358)	709,638
BEGINNING OF YEAR	2,261,752	1,641,200	5,531,071	9,434,023	8,724,385
END OF YEAR	\$ 2,512,171	\$ 1,206,423	\$ 5,531,071	\$ 9,249,665	\$ 9,434,023

See notes to consolidated financial statements

UNITED CHURCH FUNDS, INC.

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
(Decrease) Increase in net assets	\$ (184,358)	\$ 709,638
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Change in unrealized appreciation on investments	136,954	1,579,373
Net realized gains on investments sold	(12,256)	(1,781,439)
Depreciation and amortization	126,832	135,359
Contributions to permanently restricted net assets	-	(724)
Changes in operating assets and liabilities:		
Decrease (increase) in assets related to funds held for benefit of others	29,802,837	(11,899,570)
(Decrease) increase in funds held for benefit of others	(29,802,837)	11,899,570
Net decrease (increase) in other assets and liabilities	113,082	(361,670)
Net cash provided by operating activities	<u>180,254</u>	<u>280,537</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from liquidation of units of participation in the UCF Common Investment Funds	408,681	312,926
Purchases of units of participation in the UCF Common Investment Funds and other investments	(71,701)	(84,436)
Purchases of equipment and other capitalized items	(19,830)	(14,200)
Net cash provided by investing activities	<u>317,150</u>	<u>214,290</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions to permanently restricted net assets	-	724
Net cash provided by financing activities	<u>-</u>	<u>724</u>
NET INCREASE IN CASH	497,404	495,551
CASH, BEGINNING OF YEAR	873,020	377,469
CASH, END OF YEAR	<u>\$ 1,370,424</u>	<u>\$ 873,020</u>

See notes to consolidated financial statements

UNITED CHURCH FUNDS, INC.

Notes to the Consolidated Financial Statements Years Ended December 31, 2015 and 2014

1. ORGANIZATION AND PURPOSE

United Church Funds, Inc. (UCF), an associated ministry of the United Church of Christ (UCC), is a tax-exempt, not-for-profit entity established to receive gifts from individuals and organizations, to hold such funds and property as may be entrusted or conveyed to it by UCC-related organizations, and administer and invest such funds. In that respect, UCF provides professional investment management services to local churches, conferences and other entities affiliated with the UCC. UCF is also the designated fiscal agent of the planned giving program of the UCC, which is directed by the Office of Philanthropy and Stewardship of the United Church of Christ. Funds raised through the planned giving programs are managed by UCF in a gift annuity fund, a pooled income fund and in separate trusts. From time to time, UCF is also named as trustee of endowments that benefit other UCC-related entities.

UCF carries out its investment management services through various Common Investment Funds. Investors receive units of participation in the Common Investment Funds based on the determinations of fair values. Units may be issued or redeemed daily. Net investment income is accrued daily and included in the unit value. At the end of each quarter, a dividend is declared and either credited to each account or paid to each account holder based on the units of participation owned on the date of declaration.

Investments are made pursuant to guidelines established by the Investment Committee of UCF, which include parameters requiring exclusion of investment in securities of entities considered unsuitable because of social or moral concerns.

UCF is a not-for-profit organization exempt from income taxes under Section 501(a) of the Internal Revenue Code (the "Code") and, accordingly, is qualified as a tax-exempt organization under Section 501(c)(3) of the Code. As a not-for-profit organization, UCF is exempt from New York State and New York City income and sales taxes. UCF has been classified as an organization which is not a private foundation and has been designated as a publicly supported organization under Section 509(a)(2) of the Code and qualifies for the maximum charitable contribution deduction for donors.

The consolidated financial statements includes the accounts of United Church Funds Services Corporation (UCFSC). All intercompany transactions have been eliminated in the consolidation. UCFSC was created in 2014 to hold funds trusted to it by other faith-based organizations. UCFSC is a wholly owned subsidiary of UCF that is governed by UCF's Board of Directors. Investors of UCFSC invest in the various Common Investment Funds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Net asset classifications

Net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of UCF are classified and reported as follows:

Permanently restricted net assets contain donor-imposed restrictions that stipulate the resources be maintained in perpetuity, but permit UCF to expend part or all of the income derived from the donated assets for either specified or unspecified purposes.

Temporarily restricted net assets contain donor-imposed restrictions that permit UCF to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by actions of UCF.

When a prior year donor restriction expires, the restricted net assets are reclassified to unrestricted net assets and reported in the accompanying consolidated statement of activities as net assets released from restrictions. UCF reports restricted contributions whose stipulations were met in the same year as unrestricted contributions.

Unrestricted net assets represent resources over which the Board of Directors and management of UCF have full discretion with respect to use.

b. Investments

Investments in marketable equity and fixed-income securities are stated at fair value as determined by quoted market prices. For certain thinly-traded fixed-income securities, market prices are obtained from UCF's investment brokers. Mutual funds are carried at fair values based on their published unit values. When marketable securities are acquired by gift or transfer, they are recorded at fair value on the date of receipt.

Investments in commingled funds are valued based on net asset values reported by the investment managers, which are generally calculated based on the last reported sales price of the underlying assets held by the funds.

Investment transactions are accounted for on the date the securities are purchased or sold. Dividend income is recorded on the ex-dividend date. Interest income is accrued as earned. Realized gains and losses on the sale of investments are the differences between proceeds received and the average cost of the securities sold.

In the Common Investment Funds and the Pooled Income Fund, the net realized gains are reinvested, while net

investment income is distributed quarterly to participants in the funds in the form of additional units of participation or a cash payment.

Pursuant to a total return investment policy, UCF uses a spending rate to determine the amount to be made available for spending from some of its endowment funds. The spending rate on these endowments is 5%, which is applied to the funds' average quarterly fair values for the 5 years preceding the fiscal year.

At December 31, 2015 and 2014, UCF holds alternative investments (non-traditional, not readily marketable assets), which represent interests in two funds of hedge funds, a macro index hedge fund and a real estate trust fund. The investments are stated at fair value as estimated in an unquoted market. Fair value is determined by UCF's management based on the net asset values reported to UCF, with consideration of other factors, such as liquidity, that might affect fair value determination in accordance with Accounting Standards Codification 820, *Fair Value Measurements and Disclosures* (ASC 820). Financial information used by UCF to evaluate its alternative investments is provided by the investment funds.

The investees for the funds of hedge funds are "fund of funds", and, therefore, fair values are primarily based on financial data supplied by the underlying investment funds. The investee for the real estate trust fund is a perpetual-life open-ended commingled real estate fund. The underlying real estate investments are carried at estimated fair value. An independent appraisal management firm oversees and administers the appraisal process for the fund. On a quarterly basis, the independent appraisal management firm presents appraised values which are updated by the appraisers based upon financial and leasing updates provided by the general partner of the fund and changes in occupancy levels, lease amendments, overall market conditions and capital improvements.

On November 1, 2014, United Church Funds launched its newest funds, the Beyond Fossil Fuels Fund and the Beyond Fossil Fuels Balanced Fund. Free of investments in US companies exploring for or producing fossil fuels, the funds expand UCF's action to address climate change through investment. The Beyond Fossil Fuels Fund is a broadly diversified enhanced index portfolio that invests primarily in large capitalization common stock of US-headquartered corporations. The Fund avoids investments in exploration and production companies in the oil and gas industries and thermal coal companies.

c. Contributions

UCF records as revenue the following types of contributions when they are received unconditionally at their fair value: cash, securities, and gifts of long-lived and other assets.

d. Cash and cash equivalents

UCF considers all highly liquid investments with an original maturity of three months or less, other than cash held for the benefit of others and those held in the investment portfolio, to be cash equivalents.

e. Other assets

Other assets include the cost of purchased software, computers and leasehold improvements, which are amortized over the estimated useful lives of the assets, typically 3 to 5 years.

f. Use of estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements, the amounts reported in the consolidated financial statements for revenue and expenses during the reporting period and amounts reported in the accompanying notes. Actual results could differ from those estimates.

g. Benefit costs

Pension and medical insurance costs are funded by quarterly payments as determined by The Pension Boards-United Church of Christ (Pension Boards), a related entity of the UCC. Such costs totaled approximately \$404,000 in 2015 and \$371,000 in 2014.

h. Summarized Prior Year Financial Information

The accompanying consolidated financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with UCF's financial statements for the year ended December 31, 2014, from which the summarized information was derived.

3. INVESTMENTS

a. Composition of investments

Investments are comprised of the following types of securities:

	2015		2014	
	Cost*	Fair Value	Cost*	Fair Value
Fixed-income investments				
Short-term investments and cash	\$ 61,760,392	\$ 61,760,392	\$ 30,321,739	\$ 30,321,739
Corporate bonds	111,557,062	112,090,393	127,905,013	131,027,995
U.S. Government and agency bonds	46,370,196	46,333,086	32,402,332	33,126,962
Mortgage-backed securities	5,788,857	5,776,198	5,677,061	5,708,875
International commingled fund - emerging markets debt	11,000,000	11,114,689	15,452,291	13,374,210
Commingled fund - bank loans	21,048,964	21,224,353	26,009,090	27,057,212
Private placement	4,150	4,150	4,150	4,150
Life insurance contracts	75,866	160,381	75,866	154,216
Total fixed-income investments	257,605,487	258,463,642	237,847,542	240,775,359
Equity investments				
Mutual and commingled funds				
Domestic - small cap	7,695,104	8,763,519	9,856,261	12,970,862
International - emerging markets	26,349,681	21,830,130	51,044,788	50,705,108
Common stocks				
Domestic - large cap	157,836,839	178,056,226	173,394,663	212,087,964
Domestic - small cap	23,257,583	25,448,633	26,494,623	32,519,867
International - developed markets	198,513,153	185,103,022	174,065,494	164,505,157
Beyond Fossil Fuels - domestic	26,584,826	26,663,052	22,410,705	22,887,650
Futures	-	25,880	-	76,579
Total equity investments	440,237,186	445,890,462	457,266,534	495,753,187
Alternative investments				
Funds of hedge funds	31,121,000	38,075,155	28,421,000	34,048,951
Macro index hedge fund	7,649,581	9,171,333	10,000,000	12,351,239
Real estate trust fund	6,882,863	9,616,704	6,853,059	8,669,262
Total alternative investments	45,653,444	56,863,192	45,274,059	55,069,452
Total investments	\$ 743,496,117	\$ 761,217,296	\$ 740,388,135	\$ 791,597,998

* For fixed-income securities, cost represents amortized cost

b. Income earned on investments

Income earned on investments in the accompanying consolidated statement of activities excludes that portion attributable to funds held for benefit of others. Including amounts held for the benefit of others, the total investment income earned during 2015 and 2014 was as follows:

UCF assets	\$ 83,456	\$ 94,491
Funds held for benefit of others	15,222,800	16,325,424
TOTAL	\$ 15,306,256	\$ 16,419,915

c. Net realized gains on investments sold

Net realized gains on investments sold in the accompanying consolidated statement of activities exclude gains attributable to funds held for benefit of others. Including amounts held for benefit of others, the net gains on investments sold during 2015 and 2014 were as follows:

UCF assets	\$ 12,256	\$ 1,781,439
Funds held for benefit of others	10,283,679	52,645,397
TOTAL	\$ 10,295,935	\$ 54,426,836

d. Unrealized appreciation on investments

Unrealized appreciation on investments in the accompanying consolidated statement of activities excludes that portion attributable to funds held for benefit of others. Including amounts held for benefit of others, the total unrealized appreciation on investments in 2015 and 2014 was as follows:

	2015	2014
Beginning of year	\$ 51,209,863	\$ 85,462,285
End of year	17,721,179	51,209,863
Change in unrealized appreciation	\$ (33,488,684)	\$ (34,252,422)

The change in unrealized appreciation includes the change in value of investments, or the difference between average cost and current fair value of the portfolio, as follows:

UCF assets	\$	(136,954)	\$	(1,579,373)
Funds held for benefit of others		(33,351,730)		(32,673,049)
TOTAL	\$	<u>(33,488,684)</u>	\$	<u>(34,252,422)</u>

e. Risks and Uncertainties

UCF invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect amounts reported in the consolidated financial statements.

The Investment Committee of UCF establishes guidelines to ensure that the investments in each of UCF's Common Investment Funds meet the ethical, moral and social expectations of the United Church of Christ, and that appropriate diversification within each Fund is maintained. Investment managers retained by UCF are monitored by the Investment Committee to ensure that each manager adheres to these guidelines. Each of UCF's Common Investment Funds spreads investment risk across many securities in the portfolio to minimize potential losses. UCF's funds also diversify across asset classes (stocks and bonds), investment styles (growth and value) and capitalization size (large and small caps). While such broad diversification cannot prevent loss, it can mitigate losses suffered in one part of the market that may be offset by gains realized in another part.

UCF has established diversification guidelines in an effort to achieve an appropriate combination of asset classes within the Total Equity and Balanced Funds. Asset classes are identified based on their appropriateness for UCF's investment program, their long-term return and volatility characteristics and the diversification benefits offered within a multiple manager and a multiple asset class structure. The actual distribution of assets within the Total Equity and Balanced Funds will be allowed to fluctuate within the policy guidelines, and it may be adjusted as deemed appropriate to mitigate risk.

The investment guidelines for cash and cash equivalents or fixed-income portfolios limit the amount of credit concentration by limiting the percentage of a particular manager's portfolio to a maximum of 5% of any one issuer (excluding the US Government or its agencies or instrumentalities). In addition, any manager's portfolio should be appropriately diversified. For equity portfolios, the same 5% limit on any single issuer applies to 75% of the value of each manager's portfolio. For the remaining 25% of the value of the manager's portfolio, a more concentrated risk of up to

8% of the value of the portfolio may be taken on any one issuer.

In addition to the limits on concentration in UCF's portfolio related to a single issuer, no more than 25% of the fair value of each manager's portfolio may be invested in companies in which the combined holdings of the manager's clients constitute 10% or more of the outstanding stock.

There is uncertainty in determining the fair value of the alternative investments, arising from factors such as lack of active markets (primary and secondary), lack of transparency into underlying holdings and the subjective evaluation of liquidity restrictions. As a result, the estimated fair values reported in the accompanying consolidated statements of financial position at December 31, 2015 and 2014 might differ from the values that would have been used had a ready market for the interests in the alternative investments existed. Furthermore, there is at least a reasonable possibility that estimates will change by material amounts in the near term.

The financial statements of all four investees are audited annually by independent auditors.

The alternative investments are two funds of hedge funds, a macro index hedge fund and a real estate trust fund. The underlying investments may indirectly expose UCF to securities lending, short sales of securities, trading in derivative products and other complex investment strategies. While these financial instruments may contain varying degrees of risk, UCF's risk with respect to such transactions is limited to its capital balance in the alternative investments.

The alternative investments have liquidity restrictions under which UCF's capital may be accessed only at specified times. The two funds of hedge funds have quarterly liquidity on the last day of the quarter with prior notice of 60-65 days. UCF's investment in a macro index hedge fund has daily liquidity. Finally, UCF has an investment in a real estate fund; this fund has quarterly liquidity with prior notice of 90 days.

No valuation adjustments have been made related to liquidity restrictions at December 31, 2015 and 2014 because it is not probable that UCF will sell its investments at an amount other than the net asset value per share.

4. FAIR VALUE MEASUREMENTS

Fair Value Hierarchy

UCF classifies and discloses the fair value of financial instruments according to a fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. The three levels of fair value hierarchy are:

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets and liabilities.

Level 2 Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.

Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

A review of fair value hierarchy classifications is conducted annually. Changes in the observability of valuation inputs

may result in a reclassification for certain financial assets or liabilities. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in/out of the Level 3 category as of the beginning of the period in which the reclassifications occur.

The following tables set forth by level within the fair value hierarchy investment assets and liabilities as of December 31, 2015 and 2014 and changes in fair value of UCF's Level 3 investments during the years ended December 31, 2015 and 2014:

FAIR VALUE MEASUREMENTS
AS OF DECEMBER 31, 2015

	Total	Quoted market prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Fixed-income investments				
Short-term investments and cash	\$ 61,760,392	\$ 61,760,392	\$	\$
Corporate bonds	112,090,393		112,090,393	
U.S. Government and agency bonds	46,333,086	20,407,722	25,925,364	
Mortgage-backed securities	5,776,198		5,776,198	
International commingled fund - emerging markets debt	11,114,689		11,114,689	
Commingled fund - bank loans	21,224,353		21,224,353	
Private placement	4,150			4,150
Life insurance contracts	160,381			160,381
Total fixed-income investments	<u>258,463,642</u>	<u>82,168,114</u>	<u>176,130,997</u>	<u>164,531</u>
Equity investments				
Mutual and commingled funds				
Domestic - small cap	8,763,519	8,763,519		
International - emerging markets	21,830,130	21,830,130		
Common stocks				
Domestic - large cap	178,056,226	178,056,226		
Domestic - small cap	25,448,633	25,448,633		
International - developed markets	185,103,022	185,103,022		
Beyond Fossil Fuels - domestic markets	26,663,052	26,663,052		
Futures	25,880		25,880	
Total equity investments	<u>445,890,462</u>	<u>445,864,582</u>	<u>25,880</u>	<u>-</u>
Alternative investments				
Funds of hedge funds	38,075,155		38,075,155	
Macro index hedge fund	9,171,333		9,171,333	
Real estate trust fund	9,616,704		9,616,704	
Total alternative investments	<u>56,863,192</u>	<u>-</u>	<u>56,863,192</u>	<u>-</u>
Total investments	<u>\$ 761,217,296</u>	<u>\$ 528,032,696</u>	<u>\$ 233,020,069</u>	<u>\$ 164,531</u>

CHANGES IN LEVEL 3 INVESTMENTS*
YEAR ENDED DECEMBER 31, 2015

	Beginning Balance	Sales	Unrealized*	Ending Balance
Fixed-income investments				
Private placement	\$ 4,150	\$	\$	\$ 4,150
Life insurance contracts	154,216		6,165	160,381
Total Level 3 fixed-income investments	<u>\$ 158,366</u>	<u>\$ -</u>	<u>\$ 6,165</u>	<u>\$ 164,531</u>

* Unrealized appreciation on Level 3 investments that continue to be held as of December 31, 2015 amounted to \$6,165. Unrealized gains on Level 3 investments are reflected within funds held for benefit of others in the accompanying consolidated statements of financial position.

FAIR VALUE MEASUREMENTS
AS OF DECEMBER 31, 2014

	Total	Quoted market prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Fixed-income investments				
Short-term investments and cash	\$ 30,321,739	\$ 30,321,739	\$	\$
Corporate bonds	131,027,995		131,027,995	
U.S. Government and agency bonds	33,126,962	23,208,906	9,918,056	
Mortgage-backed securities	5,708,875		5,708,875	
International commingled fund - emerging markets debt	13,374,210		13,374,210	
Commingled fund - bank loans	27,057,212		27,057,212	
Private placement	4,150			4,150
Life insurance contracts	154,216			154,216
Total fixed-income investments	<u>240,775,359</u>	<u>53,530,645</u>	<u>187,086,348</u>	<u>158,366</u>
Equity investments				
Mutual and commingled funds				
Domestic - small cap	12,970,862	12,970,862		
International - emerging markets	50,705,108	14,358,424	36,346,684	
Common stocks				
Domestic - large cap	212,087,964	212,087,964		
Domestic - small cap	32,519,867	32,519,867		
International - developed markets	164,505,157	164,505,157		
Beyond Fossil Fuels - domestic markets	22,887,650	22,887,650		
Futures	76,579		76,579	
Total equity investments	<u>495,753,187</u>	<u>459,329,924</u>	<u>36,423,263</u>	<u>-</u>
Alternative investments				
Funds of hedge funds	34,048,951		34,048,951	
Macro index hedge fund	12,351,239		12,351,239	
Real estate trust fund	8,669,262		8,669,262	
Total alternative investments	<u>55,069,452</u>	<u>-</u>	<u>55,069,452</u>	<u>-</u>
Total investments	<u>\$ 791,597,998</u>	<u>\$ 512,860,569</u>	<u>\$ 278,579,063</u>	<u>\$ 158,366</u>

CHANGES IN LEVEL 3 INVESTMENTS*
YEAR ENDED DECEMBER 31, 2014

	Beginning Balance	Sales	Unrealized*	Ending Balance
Fixed-income investments				
Private placement	\$ 4,150	\$	\$	\$ 4,150
Life insurance contracts	145,397		8,819	154,216
Total Level 3 fixed-income investments	<u>\$ 149,547</u>	<u>\$ -</u>	<u>\$ 8,819</u>	<u>\$ 158,366</u>

* Unrealized appreciation on Level 3 investments that continue to be held as of December 31, 2014 amounted to \$8,819. Unrealized gains on Level 3 investments are reflected within funds held for benefit of others in the accompanying consolidated statements of financial position.

5. FUNDS HELD FOR BENEFIT OF OTHERS

UCF is the agent for third-party beneficiaries or the beneficiary of a number of split-interest agreements with donors. Some of these split-interest agreements are gift annuity contracts that provide that UCF shall pay to the designated beneficiaries an annual amount until the death of the designated beneficiaries. The payments continue even if the assets of the gift annuity fund have been exhausted. UCF records the assets received at fair value. UCF issues charitable gift annuity contracts in several states. The highest actuarially determined gift annuity reserve required under applicable state (New York) insurance laws as of December 31, 2015 and 2014 was \$12,842,161 and \$13,801,693, respectively. These gift annuity reserve amounts do not represent liabilities to annuitants as they would be calculated under U.S. GAAP. The U.S. GAAP calculations would involve discount rates, mortality tables and other inputs that differ from inputs used for state insurance requirement calculations. Upon the death of the beneficiaries, the assets of the gift annuity fund are distributed by UCF in accordance with the agreements.

The assets of split-interest agreements related to a pooled income fund and charitable remainder trusts are included in the total assets and the related liabilities to lifetime and remainder third-party beneficiaries are classified as liabilities under split-interest agreements in the accompanying consolidated statements of financial position. Under these agreements, UCF controls the donated assets and distributes to the donor or donor's designee a predetermined amount or percentage or, in the case of pooled income funds, all of the income generated from those assets until such time as stated in the agreement (usually upon the death of the donor or donor's designee). UCF will distribute to any third-party beneficiaries their respective remainder interests upon the death of the respective life income beneficiary and be able to use any portion of the gifts in which it has a beneficial interest.

Some states in which UCF issues charitable gift annuity contracts require UCF to register with the appropriate agencies of that state and to file reports with those agencies annually. In

addition, some states require UCF to hold a certain amount of unrestricted net assets or other reserves. UCF believes it has met all legal requirements in most states and that it has adequate reserves to meet all state requirements.

UCF manages certain investments on behalf of local congregations and other entities affiliated with the UCC and other faith-based organizations. Because UCF has no ownership of or residual interest in these investments, a liability equal to the fair value of the investments is included in the accompanying consolidated statements of financial position as funds held for the benefit of others.

When UCF is named as trustee of an endowment fund to be held for the benefit of another charitable beneficiary, the fair value of the assets received is recorded at fair value and included in the assets of UCF. UCF also records an equal amount as a liability in funds held for benefit of others and the income is paid to the third-party beneficiary in accordance with the instructions of the donor.

6. NET ASSET CLASSIFICATIONS

The State of Connecticut adopted the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) effective October 1, 2007. UCF is registered in the State of Connecticut; however its offices are located and its business conducted in the State of New York. UPMIFA serves as a basis for the primary laws governing the investment and management of donor-restricted endowment funds held by not-for-profit organizations. The Board of Directors, the governing body of UCF, determined that the Richard and Helen Brown Endowment Fund meet the definition of endowment funds under the definition of UPMIFA.

In accordance with UPMIFA, UCF 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 UCF 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 UCF
7. The investment policies of UCF.

Generally, if the corpus of an endowment must be maintained in perpetuity, it is classified as permanently restricted. The portion of the endowment not classified as permanently restricted is classified as temporarily restricted until appropriated for expenditure.

The donors of the Richard and Helen Brown Endowment Fund stipulated that the fund be used for pastoral scholarships. Based on this stipulation, the Board of Directors has designated the principal as permanently restricted net assets. The Board of Directors has set up specific guidelines and policies for the income available for distribution, administrative expenses and annual distributions criteria that would best serve the needs of the United Church of Christ pastoral scholarship support. The amount available for distribution is classified as temporarily restricted net assets. When an appropriation for expenditure occurs, the temporarily restricted net assets are released of the restriction.

Endowment Investment and Spending Policies

UCF has adopted investment and spending policies for endowment assets based on the Board-approved guidelines

and policies 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. UCF's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes.

Effective January 1, 2013, the distribution from the Brown Endowment Fund is calculated as follows:

20% of the distribution is based on 5% of the 5-year moving average value of the endowment fund.

80% of the distribution is based on the prior year distribution indexed by the inflation rate.

The distribution for any year is limited to the prior year distribution indexed by the inflation rate.

All expenses for administration of the endowment fund as well as scholarships are paid from the amount available for distribution. Annual distributions are made in accordance with policy guidelines.

UCF targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk parameters. This is consistent with UCF's objective to maintain the purchasing power of endowment assets.

CHANGES IN ENDOWMENT NET ASSETS
YEAR ENDED DECEMBER 31, 2015

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Endowment assets, beginning of year	\$ -	\$ 1,641,200	\$ 5,531,071	\$ 7,172,271
Income earned on investments		70,545		70,545
Net realized gains on investments sold		8,342		8,342
Change in unrealized appreciation on investments		(105,649)		(105,649)
Endowment assets appropriated for expenditure	408,015	(408,015)		
Grants paid from endowments	(408,015)			(408,015)
Net change in endowment assets	-	(434,777)		(434,777)
Endowment assets, end of year	\$ -	\$ 1,206,423	\$ 5,531,071	\$ 6,737,494

COMPOSITION OF ENDOWMENT NET ASSETS
DECEMBER 31, 2015

Donor restricted endowment funds	<u>\$ -</u>	<u>\$ 1,206,423</u>	<u>\$ 5,531,071</u>	<u>\$ 6,737,494</u>
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CHANGES IN ENDOWMENT NET ASSETS
YEAR ENDED DECEMBER 31, 2014

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment assets, beginning of year	\$ -	\$ 1,692,044	\$ 5,530,347	\$ 7,222,391
Contributions			724	724
Income earned on investments		82,726		82,726
Net realized gains on investments sold		1,777,050		1,777,050
Change in unrealized appreciation on investments		(1,598,359)		(1,598,359)
Endowment assets appropriated for expenditure	312,261	(312,261)		
Grants paid from endowments	<u>(312,261)</u>	<u></u>	<u></u>	<u>(312,261)</u>
Net change in endowment assets	<u>-</u>	<u>(50,844)</u>	<u>724</u>	<u>(50,120)</u>
Endowment assets, end of year	<u>\$ -</u>	<u>\$ 1,641,200</u>	<u>\$ 5,531,071</u>	<u>\$ 7,172,271</u>

COMPOSITION OF ENDOWMENT NET ASSETS
DECEMBER 31, 2014

	<u>Unrestricted</u>	<u>Temporarily</u>	<u>Permanently</u>	<u>Total</u>
Donor restricted endowment funds	<u>\$ -</u>	<u>\$ 1,641,200</u>	<u>\$ 5,531,071</u>	<u>\$ 7,172,271</u>

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for pastoral scholarships. During 2015 and 2014, temporarily restricted net assets were released in the amounts of \$408,015 and \$312,261, respectively, representing payments of pastoral scholarships.

respectively. As of December 31, 2015 and 2014, amounts due to the Pension Boards of approximately \$135,000 and \$211,000, respectively, are included in accrued expenses in the accompanying consolidated statements of financial position.

8. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets represent contributions made into the Richard and Helen Brown Endowment for Pastoral Scholarships.

The Board of Directors includes people who are employed by investing institutions and UCF's President is on the board of other investing institutions.

9. RELATED PARTY TRANSACTIONS

A portion of the operating expenses is incurred and billed to UCF by the Pension Boards, a related entity of the UCC. Such expenses are allocated on the basis of formulae, which are approved by the respective Boards of Trustees/Directors. Rent is allocated based upon square footage occupied. The total of such costs allocated by or paid to the Pension Boards in 2015 and 2014 was approximately \$1,573,000 and \$1,557,000,

10. SUBSEQUENT EVENTS

UCF evaluated events and transactions occurring between January 1, 2016 and June 30, 2016, which is the date that the consolidated financial statements were available to be issued, for disclosure and recognition in the consolidated financial statements.

SUPPLEMENTARY INFORMATION

SCHEDULE A

UNITED CHURCH FUNDS, INC.

COMMON INVESTMENT FUNDS

Schedules of Assets, Liabilities and Fund Balances

December 31, 2015 and 2014

ASSETS	2015	2014
Cash and cash equivalents, net of unsettled investment transactions	\$ 866,552	\$ 1,031,773
Investments	759,327,012	789,538,350
Accrued investment income	2,488,158	2,451,858
TOTAL ASSETS	\$ 762,681,722	\$ 793,021,981
LIABILITIES		
Payable to United Church Funds, Inc.	\$ 343,687	\$ 385,113
Accrued expenses	566,501	646,380
TOTAL LIABILITIES	910,188	1,031,493
FUND BALANCES		
Income account	(237,968)	(211,903)
Investors' principal account	762,009,502	792,202,391
TOTAL FUND BALANCES	761,771,534	791,990,488
TOTAL LIABILITIES AND FUND BALANCES	\$ 762,681,722	\$ 793,021,981

The above schedules reflect the assets, liabilities, and fund balances of the funds held in UCF's Common Investment Funds. The Common Investment Funds hold investments for the funds held under split-interest agreements, endowments held for others and UCF's assets. The total fund balances not included in these categories (\$684,894,080 and \$709,863,542 at December 31, 2015 and 2014, respectively) are included in the Consolidated Statements of Financial Position as funds held for benefit of others-UCF Common Investment Funds. Cash and cash equivalents that UCF holds for the benefit of others are reported as investments in UCF's Consolidated Statements of Financial Position. Changes in fund balances are shown on the following page.

Note: Changes have been made to the 2014 presentation to conform to the current year presentation.

UNITED CHURCH FUNDS, INC.**COMMON INVESTMENT FUNDS****Schedules of Changes in Fund Balances**

For the Years Ended December 31, 2015 and 2014

Income Account	<u>2015</u>	<u>2014</u>
INCOME AND EXPENSES		
Income earned on investments	\$ 15,299,484	\$ 16,414,548
Management fee paid to UCF operating fund	(6,424,249)	(6,341,422)
Net investment income	<u>8,875,235</u>	<u>10,073,126</u>
DISTRIBUTIONS TO INVESTORS		
Income paid to investors	937,732	1,771,963
Income used to purchase additional units	7,963,568	8,863,803
Total distributions to investors	<u>8,901,300</u>	<u>10,635,766</u>
DECREASE IN FUND BALANCES	(26,065)	(562,640)
FUND BALANCES, BEGINNING OF YEAR	(211,903)	350,737
FUND BALANCES, END OF YEAR	<u>\$ (237,968)</u>	<u>\$ (211,903)</u>
Investors' Principal Account		
INVESTORS ACTIVITY		
Purchase of units of participation	\$ 33,420,804	\$ 42,482,677
Income used to purchase additional units	7,963,568	8,863,803
Liquidation of units of participation	(47,846,087)	(58,535,746)
NET DECREASE IN UNITS OF PARTICIPATION	<u>(6,461,715)</u>	<u>(7,189,266)</u>
INVESTMENT ACTIVITY		
Investment expenses charged against principal	(275,270)	(478,612)
Net realized gains on investments sold	10,049,441	54,303,276
Change in unrealized appreciation on investments	(33,505,345)	(34,269,743)
NET INVESTMENT ACTIVITY	<u>(23,731,174)</u>	<u>19,554,921</u>
(DECREASE) INCREASE IN FUND BALANCES	(30,192,889)	12,365,655
FUND BALANCES, BEGINNING OF YEAR	792,202,391	779,836,736
FUND BALANCES, END OF YEAR	<u>\$ 762,009,502</u>	<u>\$ 792,202,391</u>

Note: Changes have been made to the 2014 presentation to conform to the current year presentation.

SCHEDULE B

UNITED CHURCH FUNDS, INC.

SPLIT-INTEREST AGREEMENT FUNDS

Schedules of Assets, Liabilities and Fund Balances

December 31, 2015 and 2014

	2015				2014
	Gift Annuity Fund	Pooled Income Fund	Charitable Remainder Trusts	Total	Total
ASSETS					
Cash	\$ 340,440	\$ 2,665	\$ 118,952	\$ 462,057	\$ 441,076
Investment in UCF Common Investment Funds (CIF)	11,100,075	1,633,282	8,103,944	20,837,301	23,179,686
Other investments	160,381	1	4,790	165,172	181,653
Accrued investment income	18,044	6,266	16,346	40,656	61,837
TOTAL ASSETS	<u>11,618,940</u>	<u>1,642,214</u>	<u>8,244,032</u>	<u>21,505,186</u>	<u>23,864,252</u>
LIABILITIES					
Accrued income payable to participants		6,266		6,266	8,355
TOTAL LIABILITIES		<u>6,266</u>		<u>6,266</u>	<u>8,355</u>
FUND BALANCES	<u>\$ 11,618,940</u>	<u>\$ 1,635,948</u>	<u>\$ 8,244,032</u>	<u>\$ 21,498,920</u>	<u>\$ 23,855,897</u>

The amounts shown above as Fund Balances represent the liabilities payable to life-income and remainder beneficiaries under split-interest agreements. Changes in these balances appear on the following page.

UNITED CHURCH FUNDS, INC.

SPLIT-INTEREST AGREEMENT FUNDS

Schedules of Changes in Fund Balances

For the Year Ended December 31, 2015 with
Summarized Financial Information for 2014

	2015			2014	
	Gift Annuity Fund	Pooled Income Fund	Charitable Remainder Trusts	Total	Total
REVENUES					
Received from participants	\$ 1,666,959	\$ 76	\$ 2,418	\$ 1,669,453	\$ 692,946
Income earned on CIF investments	116,064	29,174	108,765	254,003	332,076
Income earned on other investments					697
TOTAL REVENUES	<u>1,783,023</u>	<u>29,250</u>	<u>111,183</u>	<u>1,923,456</u>	<u>1,025,719</u>
EXPENSES					
Administration of Planned Giving Funds	104,898	15,682	118,383	238,963	251,495
TOTAL EXPENSES	<u>104,898</u>	<u>15,682</u>	<u>118,383</u>	<u>238,963</u>	<u>251,495</u>
DISTRIBUTIONS TO PARTICIPANTS					
Annuities paid	1,600,912			1,600,912	1,664,950
Payments to life income beneficiaries		38,260	557,475	595,735	751,752
Payments to charitable remainder beneficiaries	578,100	115,466	496,380	1,189,946	725,569
TOTAL DISTRIBUTIONS TO PARTICIPANTS	<u>2,179,012</u>	<u>153,726</u>	<u>1,053,855</u>	<u>3,386,593</u>	<u>3,142,271</u>
INVESTMENT GAINS (LOSSES)					
Net realized gains on CIF investments sold	700,007	17,605	232,901	950,513	1,170,467
Net realized gains (losses) on other investments sold	115,113		(29,328)	85,785	119,283
Change in unrealized appreciation on CIF investments	(1,127,104)	(73,901)	(519,266)	(1,720,271)	(754,743)
Change in unrealized appreciation on other investments	6,165		22,931	29,096	7,068
NET INVESTMENT GAINS (LOSSES) (DECREASE) IN FUND BALANCES	<u>(305,819)</u>	<u>(56,296)</u>	<u>(292,762)</u>	<u>(654,877)</u>	<u>542,075</u>
FUND BALANCES, BEGINNING OF YEAR	<u>\$ 12,425,646</u>	<u>\$ 1,832,402</u>	<u>\$ 9,597,849</u>	<u>\$ 23,855,897</u>	<u>25,681,869</u>
FUND BALANCES, END OF YEAR	<u>\$ 11,618,940</u>	<u>\$ 1,635,948</u>	<u>\$ 8,244,032</u>	<u>\$ 21,498,920</u>	<u>\$ 23,855,897</u>
COMPOSITION OF FUND BALANCES					
Held for the benefit of United Church Funds, Inc.				\$ 79,179	\$ 77,091
Held for the benefit of other charitable remainder beneficiaries				21,419,741	23,778,806
TOTAL FUND BALANCES				<u>\$ 21,498,920</u>	<u>\$ 23,855,897</u>